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El Salvador's conservative Alianza Republicana Nacional (ARENA) government has come to a rare agreement with the opposition Farabundo Marti para la Liberacion Nacional (FMLN). The parties have agreed to negotiate approval of international loans that President Antonio Saca needs to avert a financial crisis. Some believe the crisis has already begun, others, that there is still time to head it off. But most agree that what is in the offing is something similar to what happened in Argentina four years ago, an epic economic meltdown.

Saca responded to the FMLN agreement to talk with uncharacteristic enthusiasm. "I appreciate that we are going down a good road," he said. "Just the fact that we will sit and talk is good news." But just talk could be all he ends up with. The FMLN's president of the legislative treasury committee, Gerson Martinez, warned that the road would be a bumpy one and that the fiscal situation in the country "is already taking us to a process of Argentinization. That is to say, a Salvadoran corralito, with the disadvantage that our recovery will not be as immediate as Argentina's." Corralito was the name given to restrictions in Argentina placed on withdrawing money from savings and other accounts in December 2001 to avoid a collapse of the banking system. Like El Salvador, Argentina had its currency pegged to the US dollar (see NotiSur, 2004-11-12).

Saca's unusual approval of FMLN behavior, however tentative, comes because, unlike ordinary legislation, this loan package requires passage by 56 of the legislature's 84 deputies. ARENA has 34, the FMLN 32, the Partido de Conciliacion Nacional (PCN), 10, the Partido Democrata Cristiano (PDC) 6, Cambio Democratico (CD), 2. Martinez's estimate of the situation was that "the government is stuck in a liquidity crisis. It doesn't have money to finance current expenditure; there is a crisis of insolvency because there is no way to pay the debt. So it contracts debt to pay debt." The Banco Central de Reserva said El Salvador's external debt stood at US$9.2 billion as of March 2006.

Saca promises transparency

Saca has been seeking a meeting with the opposition for weeks, while the FMLN has criticized the government for a lack of transparency about the debt. Weeks ago, the president promised they would have all the information they needed to approve a loan package that has been stalled in the legislature since 2005. It was the FMLN, leading minor parties, that stalled the bill in the last congress, whose term ended April 30. The current legislature's three-year term began May 1.

The FMLN had asked for a full accounting of the impact of the loans. Saca promised they would get whatever they wanted and announced the launching of an "offensive" to convince them of the need for a loan package totaling US$376 million. Saca assigned a group of ARENA deputies the task of working with the opposition to bring them to the table.

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The FMLN appointed a committee to negotiate with the ARENA deputies. Martinez was one of the negotiators, and he was joined by Deputies Humberto Centeno, Salvador Arias, and Calixto Mejia. Centeno explained that the committee "is to construct a mechanism that satisfies demands for transparency in loans already taken and pending."

As soon as they were named, the members of the FMLN group received an invitation to meet with the ARENA committee, Julio Gamero, Guillermo Gallegos, and Rolando Alvarenga. Centeno responded immediately. "If it is really true that the loans are important for the government, these two committees must tackle the subjects of debt, the budget, and previous loans."

FMLN standing up for citizens, wants full disclosure

The FMLN's concerns are manifold. They want to make sure that the conservative government can be held to a plan of repayment that does not fall back unfairly on citizen interests high among them, the pension funds. Martinez noted the country is already paying on 176 different loans, with the result that this year, "just in interest and all the debt service, US$721 million is being paid, which is more than the budget for education, health, and all the budgets in the state portfolio."

Approval of the new debt package will depend, said Martinez, on the government's making public the impact and benefit of the 170 international loans already contracted during ARENA's rule, which has been unbroken since 1989. There is to be a detailed discussion of how the new loans are to be used in the context of the current crisis, and there is to be a discussion leading to agreements on a tax reform to support human development in the country.

According to Martinez' information, the total country debt for this nation of 6.5 million souls surpasses US$12 billion. In asking for this accounting, Martinez appears to be seeking to uncover backfired neoliberal policies at the root of the crisis. He pointed to this example: "The problem," he said, "is that the privatized pension system very rapidly went into crisis and now the state has to pay both the high service on the external and internal debt, but is admittedly incapable of paying it. That is to say, it is necessary to increase El Salvador's debt by more than US$400 million to pay the pensioners."

Situation delicate, El Salvador on the brink

One who believes that circumstances have not yet reached crisis proportions is economist Roberto Rubio of the Comision del Plan de Nacion. He noted that the country is on the brink, however, with its debt at the very edge of limits allowable by international finance institutions, 40% of GDP. Nevertheless, he says, the situation is severe because of stagnant growth, high tax evasion, reduced taxes, and growing debt. For the negotiating parties, "The scenario is delicate because there are obstacles that both parties must overcome. The FMLN must bring realistic and doable proposals to start a process of deepening reforms that would bring us debt reduction by combating tax avoidance and evasion at the same time that ARENA has to confront powerful interests, some of which have no desire whatsoever to comply."

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He said he believes that the solution lies beyond this negotiation between the two political powers; there must be a negotiation that involves all sectors. "A national pact is absolutely indispensable," he said. Indispensable though it may be, a concerted effort involving all sectors is probably a long way off.

For many observers, the two-party sit-down is a watershed event. In cooperating in this way, the FMLN has already broken with a policy first voiced by its deceased leader Shafik Handal to obstruct at any cost. In announcing that the leftists would get whatever they needed to come their way on the loan question, ARENA has broken with the practice of shutting out the left at any opportunity. Holding to their commitments, however, is another question.

Calixto Mejia told the media that his side wants to go further in the negotiations than a discussion of loans. He wants the talks to include the pensions, tax reform, and budgets, while ARENA has said the discussions are limited to debt. "If they have taken that position, this will be a point we have to take up in the next meeting, because that is not the spirit of the conversations we have already initiated," said Mejia.

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