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Nicaragua Helps IMF See The Errors Of Its Ways And Accepts A US$107 Million Loan

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A months-long staredown between Nicaragua's President Daniel Ortega and the International Monetary Fund (IMF) is over, and it looks like Ortega won. Nicaragua and the fund have agreed to a new loan on what Central Bank President Antenor Rosales is calling the government's own terms.

Rosales said on July 29 that an agreement would be signed in September on a US$107 million loan. The banker said that even the amount represents a victory for the Nicaraguans; the fund wanted to hold it to US$90 million. He also said this is the first IMF loan to emphasize social concerns. Many in the international financial community were betting against a successful conclusion to the marathon negotiations, recalling that Ortega came into office in January promising he would free the country from the IMF within five years (see NotiCen, 2007-04-26).

The probability of a loan looked particularly slim in June, when the fund's mission arrived in Managua for a 15-day negotiating session. Ortega used the occasion, which coincided with the 71st anniversary of the birth of Carlos Fonseca, to tell a celebratory crowd of supporters that he would not accept an IMF condition that Nicaragua declare how much aid was coming from Venezuela. Fonseca was the founder of the Frente Sandinista para la Liberacion Nacional (FSLN).

The opposition Alianza Liberal Nicaraguense (ALN) had been pressing for the information, and saw the IMF as a way to force an opening of the books. The provision of crude oil on favorable terms from Venezuela, for instance, would free up an estimated US$85 million (see NotiCen, 2007-03-01, 2007-04-19 and 2007-05-10). The government chose to keep to itself where that money was going, except to say it would be used for social initiatives. Ortega closed the door to demands for such revelations and reportedly told Rosales, Minister of Finance Alberto Guevara, and presidential economic advisor Bayardo Arce not to cave in to "IMF conditions.".

Mission officials called for "transparency" on the arrangements. This chestiness does not mean, however, that the government could easily walk away from a Breton Woods infusion. The country's domestic debt was weighing heavily. That debt included compensation paid to people who lost property during the Sandinista confiscations of the 1980s and for losses related to the government takeover of four failed banks between 1997 and 2002.

In February, the government paid off US$100 million of bonds issued to compensate the confiscation sufferers and another US$20 million in certificados negociables de inversion (Cenis) issued to depositors in the broken banks. In June, before the mission came to Managua, Rosales had led a delegation to IMF headquarters in Washington, DC, to argue that easing the internal debt, still weighed down by a remaining US$750 million for the confiscations and another US$350-US$400
million for the defrauded depositors, would be a precondition to IMF-required reforms. It would also be structurally a precondition for the kind of social spending Ortega campaigned on.

By late July, the IMF had come around to Nicaragua's way of thinking on several issues, boosting the total loan above the amount the mission wanted to lend and allowing for a novel approach to spending. In the past, said Rosales, loans were aimed at macroeconomic stability and growth. This one, by contrast, seeks to improve social conditions directly. He said that stability must be seen "only as a way of reducing poverty." There are growth targets in the IMF requirements, and the government agreed to them. "But," said Rosales, "we are going to manage the loan in our own way."

Helping the IMF improve its standing

Crucial to the success of the deal, the IMF accepted Nicaragua's handling of the Venezuelan aid and specifically aspects of the deal by which Nicaragua's state oil company Petronic will sell Venezuelan oil and manage profits separate from the national budget. Now, said Rosales, those profits, which amount to 2% of GDP, will be used for poverty reduction and infrastructure improvement. "The IMF showed that it is interested in learning," said the bank chief. "Governments like ours can help the IMF improve its standing in Latin America and other parts of the world, where its programs have not been very successful."

The picture of a chastened IMF being led out of its difficulties in the third world by Daniel Ortega is unexpected but not far-fetched. Ortega is alone among his cohorts in the Alternativa Bolivariana para las Americas (ALBA) to have an IMF loan and was alone in saying his country needed one while his fellow leaders, Venezuela's President Hugo Chavez and Bolivia's President Evo Morales, excoriated the fund and its neoliberal policies. Nicaragua's last IMF loan expired in December 2006, scarcely a month before Ortega took office.

The IMF's diminished reputation and the fact that it is no longer the only game in town may have softened the institution and, as Rosales intimates, the fund may need Ortega as much as Ortega needs the fund. There are now a number of international financial institutions able to compete favorably with the fund, both in cost and in conditions imposed. The Central American Bank for Economic Integration (CABEI) issues virtually conditions-free loans at competitive rates and is not the region's largest lender.

Before IMF money actually cascades into the national coffers, some requirements must be met. The government must report to the World Bank on its poverty-reduction efforts and on the 2006 National Development Plan progress. The bank will then forward the report to the IMF for review. The IMF must also review Nicaragua's letter of intent and confirm the country's economic growth. Rosales did not expect any hitches. He said economic growth is projected at a healthy 4.2%, and the Banco Nacional de Nicaragua's foreign reserves are at a record US$1.4 billion.

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