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El Salvador's New Leftist President Faces Daunting Economic Tasks; No Help Expected From A Battered Right Wing

by LADB Staff

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June 2 marks the spot where the march of history in El Salvador turns left. As it leaves the once-inexorable rightward parade route laid out by the Alianza Republicana Nacionalista (ARENA), the country is headed for a good dousing in uncharted waters. El Salvador owes its creditors money, the outlook is for continued economic contraction, and tax receipts are likely to be skimpy until citizens once again have something to pay taxes on. If incoming President Mauricio Funes and his Farabundo Marti para la Liberacion Nacional (FMLN) have anything favorable to look forward to, it is that the opposition is also, for the moment, in a state of diminished capacity. With just a few days to go until his turn starts, President-elect Funes has found it necessary to warn that the economy is going to keep contracting, and, if nothing is done, the treasury will not even be able to come up with government salaries for June, his inaugural month. "The IMF [International Monetary Fund] informed us two or three days ago," Funes said May 22 on national TV, "that not only was there not going to be growth but there was going to be a negative rate of 1%." The IMF estimate contradicted a recent projection by President Antonio Saca of 0.5% growth for the coming year. This will mean, Funes pointed out, less income for government spending, because "if economic activity is going to grow less than expected, tax collections are going to be less, and, therefore, expected income will not be what was in the budget." Funes appears, with regard to the economy, to have had to step into the presidential void left by a predecessor who has run out of options. He has called upon the Asamblea Legislativa (AL) to revise Saca's budget so that funds from international loans can be used to pay salaries and vendors' invoices. "We are going to find, if nothing is done, a totally broke government," said Funes. The revision Funes seeks would reorient some US\$950 million in loans from the Inter-American Development Bank (IDB) and the World Bank. This would require a two-thirds majority, or 56 of the legislature's 84 votes. To get them, he will need a lot of help from the vanquished ARENA, and, to get that, he has been meeting with Saca and the other ex-presidents, who now comprise the party leadership. Of the money he needs to turn into operating capital, US \$650 million was budgeted for the retirement of eurobonds set to mature in 2011. How that debt will be dealt with has descended many rungs on the priorities ladder. In addition to lower tax receipts, Funes can anticipate decreases in remittances, lower exports, and less internal consumption. Saca dispatched Minister of the Treasury William Handal to the legislature to request the change in disposition of the loans Funes asked for. Handal met with the treasury committee, where he said he presented a number of proposals for "a very positive solution so that the new government won't have any [fiscal problem]." ARENA is at very low ebb for a party with an unbroken record of rule going back to the end of the Civil War. This is not a good time for ARENA to be handing over a bankrupt government. "It must be recognized that there have been arrears in payments, and we don't want the new government to arrive and just get arrears without a solution," said the minister. Handal did not say so, but it was widely believed and reported that he specifically requested the loan-disposition change as Funes described and that he requested authorization for a US\$300 million treasury-note offering (Letras del Tesoro, LETES). FMLN Deputy Lorena Pena told the

media that there was agreement among the parties in the legislature to pass these measures and thereby hand over a government with no overdue bills. ARENA struggles to remain upright But if it is leaving behind a fiscal mess, ARENA is taking with it a party structure in even greater disrepair, a once-invincible political machine dented and broken by the last election. Part of picking up the pieces involves reconstituting the Consejo Ejecutivo Nacional (COENA), the 12-member party board of directors. Party president and former President Alfredo Cristiani (1989-1994) is charged with assembling a new COENA after consultations with the bases and various sectors. It will be the first Consejo to lead an opposition party rather than a governing party. It is in need of modernization on a number of fronts, say analysts, who have commented that ARENA is showing no signs of changing. Amid the internal strife, Cristiani has been the only high official to be named to office. Former minister of economy Miguel Lacayo said the nomination characterizes the internal split. "The nomination of Alfredo Cristiani as president of COENA and the announcement [from Saca] that it will be 100% renovated has been reason for optimism for Areneros, except for those who see their possibilities of staying in power vanishing," said Lacayo. Throughout the party, many jockeying for position have been thrown from their mounts. Alberto Romeo was set to become minority leader in the congress but ended up being vetoed by the political committee, which is now calling for the new leader to be elected by the 32-member delegation. An analysis by the Universidad Centroamericana (UCA), a Jesuit institution, read, "There are no winds of change on the right, there are no signs of modernization. In other words, there is no progress, only regression. They still haven't comprehended the historic dimension of March 15 [the election]." The UCA analysis goes on to suggest that continued resistance to change and allow for new leadership would provide the left with an opportunity to expand and consolidate gains. The political committee that blocked Romeo was originally composed of former ARENA Presidents Cristiani, Armando Calderon Sol (1994-1999), and Francisco Flores (1994-2004). President Saca and losing presidential candidate Rodrigo Avila were later added after some internal scuffling. The committee was formed in April, taking over the functions of COENA, whose members resigned en masse after the election. The committee named Cristiani party president. No goodwill offerings FMLN spokesman Sigfredo Reyes has been pleased to see the disunity and continued blaming going on among his opponents. He says the mutual savaging is mostly about internal interest groups trying to hang on to power after having failed to win an election. Reyes may also be delighted that naming Cristiani ARENA president is generally regarded as a 'returning-to-its-roots' indicator rather than a sign of change. This perception was etched in stone when Cristiani supported Ciro Cruz Cepeda of the right-wing Partido de Conciliacion Nacional (PCN) as Asamblea Legislativa president. That very nearly guarantees there will be no accommodation with the FMLN block or with the new administration. It also killed an FMLN proposal that the AL presidency be split during its three-year period between the major parties, so that each would preside for one and a half years. With little cooperation to look forward to, Funes announced the composition of his economic team a week before his investiture. The move might give a hitting-the-ground-running air to counter the national anxiety. There were no surprises in the choices; the team is stocked with members of the Friends of Mauricio Funes nonpartisan group that supported him in the campaign. Funes presented them as highly qualified experts capable of dealing with the "serious difficulties" of the financial crisis. Economist Alexander Segiovia will be the Cabinet technical secretary, Carlos Caceres will be treasury minister, Hector Dada Hirezi will be minister of economy, and Carlos Acevedo will be president of the Banco Central de Reserva (BCR). All are economists with deep experience. Said Funes, "We are going to inherit a government with serious financial difficulties," but these people "are going to allow us to exit the crisis we are inheriting and allow us to reactivate the national economy." He also announced that

the inheritance amounts to a US\$1.2 billion deficit, or 5.4% of GDP. The appointments were meant to reassure the private sector and probably will. Caceres is a former director of the banking association, Dada Hirezi is a former foreign minister. Another reassuring appointment to the economic team was Guillermo Lopez as head of ports and airports. He was Saca's finance minister. Gerson Martinez, who will head up public works, is the only real FMLN member on the team. The new economics people are already at work. Dada Hirezi and Acevedo have hit the airwaves to assure the populace that El Salvador will not abandon the US dollar as its national currency. "We're making clear there will be no de-dollarization. It is a straitjacket we will have to live with because to take it off could set off a bigger crisis than the one we already have," said the incoming minister of economy. Acevedo acknowledged that dollarization leaves the central bank with no way of implementing monetary policy but said the new administration would find other ways of reactivating the economy. He said he would seek to create a development bank similar to the Banco Multisectorial de Inversiones (BMI), which extends credit to the business sector. To the left, Funes, who was not even a member of the party prior to becoming its candidate, may have gone a bit far with these appointments. There is some wondering why holdovers are a good idea. Saca leaves office with poor marks, according to a survey done by UCA's Instituto Universitario de la Opinion Publica (IUDOP). IUDOP breaks out a term score for presidents at the end of their five-year mandate, and Saca did worse than those in the decade before him. His score was 5.85. Francisco Flores' was 6.45, and even Calderon Sol managed 5.89 with a fraud-tainted regime. The weakened almost-former leader is falling behind the herd now, and the wolves are at his heels. The struggling ARENA is showing signs of willingness to make a meal of one of its own. Upon taking the party presidency, Cristiani alluded to problems caused by failure to adhere to party bylaws and other causal factors for the present party condition, including loss of the presidency. There was no mistaking that Saca was being fingered. Calderon Sol, too, has nipped at the faltering Saca's underbelly saying that the party has been damaged by clientelism, meting out favors to powerful private interests. This last charge is disingenuous. Clientelism built ARENA, and Cristiani has been credited with employing it to great advantage. Analyst Edgardo Ayala wrote, "Cristiani was one of those who encouraged this mode of governance for the few. One of his first acts as president was to privatize banking." He then used state funds to clean up the banks and sold them back into private hands. Cristiani's support of Cruz Cepeda for the AL presidency has been held up as evidence that clientelism will continue to gird conservative loins.

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