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Nicaragua: On Economic Situation, Austerity Policies

by Deborah Tyroler

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On Dec. 31, in a year-end message to the nation, President Daniel Ortega said that over the last eight years, Nicaragua paid a total of \$1.22 billion on its foreign debt. Of the total, principal payments accounted for \$777.9 million, and interest, the remaining \$442.9 million. Ortega said the government was cutting the 1989 defense budget by 29%, which includes a 40% cut for police and other security forces. Government spending on public works projects and other essential investments are being reduced in 1989 by 56%, Ortega said. Imports in 1988 totaled \$800 million, while exports earned only \$200 million. President Ortega has said the trade embargo alone cost Nicaragua \$315 million in income since the US imposed it in 1985, and another \$422 million in credits which the Nicaraguan government was refused because of US pressure on international financial institutions. According to an article published in *Barricada*, defense spending in 1988 accounted for 52% of the national budget. On Jan. 4, the Nicaraguan government devalued the cordoba by 117% from 920 cordobas to the dollar to 2,000 per dollar. The exchange rate applies to essential imports such as crude oil. A parallel exchange rate, at which most transactions such as paying hotel bills are carried out, remained at 4,500 to the dollar. The black market rate is approximately 5,500 to the dollar. Bus fares were raised 20,000%, from half a cordoba to 100 cordobas, or one 9,000th of a US cent to a little over two cents. The government has been heavily subsidizing bus fares. Fuel prices were increased about 120%, from 1,900 to 4,200 cordobas per gallon, or from about 42 cents to 95 cents a gallon. Last year inflation totaled 20,742%, according to official figures. The new austerity measures were published in the FSLN's official newspaper, *Barricada*. A Central Bank source told *Barricada* that the devaluation occurs at a time when major export crops coffee, cotton and sugarcane are in "full harvest." When the Nicaraguan government commenced its far-reaching monetary reform in February 1988, the official exchange rate was 10 cordobas per dollar. (Basic data from Xinhua, 01/02/89; DPA, AP, Notimex, 01/04/89)

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