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Nicaragua: Notes On Economic Austerity Program

by John Neagle

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On Jan. 30, in a speech to the National Assembly broadcast on national television, Nicaraguan President Daniel Ortega announced a 44% cut in government spending for 1989 and plans to sell government-owned property in an attempt to lower inflation to under 125% per month. Ortega indicated that the austerity measures would likely intensify the country's economic recession: "While these measures won't cost us our lives, they will cost us jobs and producers will be affected by the cut in credit and investments." The president described the austerity program as temporary. He added that the government would provide foodstuffs to unemployed workers for two months, and offer job opportunities in rural areas. Ortega said the government will implement capitalist techniques to control the economy and encourage a mixed economy of state and private enterprises in the context of a "socialist orientation." Government and private economists alike agree that the economy is in dire straits. In 1988, inflation reached 20,742%, and 650% in January alone. The budget for 1989 will be cut by about 461 billion cordobas. At the varying official rates, the reduction amounts to between \$100 million and \$200 million. The official rate, 2,300 cordobas per dollar, is used to calculate payment for exports. The parallel rate, at 4,000 cordobas, is used for those selling dollars. On the black market the dollar now sells for about 5,500 cordobas. Some officials said the budget reduction would require the layoff of up to 35,000 public employees and military personnel. Others said the cuts would include the discharge of as many as 12,000 government employees, and up to 10,000 army troops and 13,000 members of the Interior Ministry's security police. Ortega stated that the budget deficit will be reduced from 52% in 1988 to 11% this year. The 1989 deficit, he added, will be financed in part by sales of state property, originally confiscated by the Sandinistas after coming to power in 1979. The president continued by asserting that no more land will be expropriated by the government. He called on employers and employees in the public and private sectors to cooperate in implementing the economic reforms. In closing, Ortega summarized the last eight years marked by constant antagonism from the US. He said he hoped that a new age of economic reconstruction would begin with the end of the Reagan administration. Ortega said that Nicaraguan export revenues had been virtually wiped out in the 1980-1988 period. In 1981, exports totaled \$490 million, compared to \$244 million in 1986. On Feb. 1 at a press conference, Planning and Budget Minister Alejandro Martinez Cuenca said that inflation in January totaled 91.77%, compared to 126% in December. The minister remarked that if inflation continues to top 100% per month despite the government's draconian austerity measures, within the next three months "we could impose a war economy." Martinez Cuenca did not provide details of "war economy" measures, and added that the ministry has not yet elaborated a contingency plan. But he mentioned that in response to hyperinflation after WWII, German authorities had recourse to rationing and wealth redistribution measures. The minister said that some 30,000 public employees will be affected by the budget cuts, including some 10,000 soldiers, 13,000 security agents under the Interior Ministry. Leaders of the Superior Council of Private Enterprise (COSEP), some labor unions, and certain opposition parties, including the Communist Party, argue that economic improvements are not possible until the country's political crisis has been resolved. (Basic data from Notimex, New York Times, Xinhua, 01/31/89; AP, 02/01/89)

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