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Nicaragua: Notes On Economy

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According to a recent study prepared by an international team of experts at the request of President Daniel Ortega, economic recovery is possible only if the government reverses priorities, including land redistribution, emphasis on private sector production, and major reductions in spending for defense, and education and medical programs. However, implementation of these measures has produced recession and unemployment. Mark Uhlig of the New York Times describes the report as "confidential," using "formerly secret data." The report recommends reducing inflation by imposition of a broad new tax of 20 to 30%. Government officials note that they inherited a severely damaged economy, the result of civil war which deposed the dictator Anastasio Somoza Debayle, and a nearly empty treasury since Somoza and his cronies cleaned it out before leaving the country. Recovery in the 1980s, they said, was made virtually impossible result of the US-financed war with the contras, the US trade embargo, and US influence resulting in a virtual boycott on lending from multilateral organizations and many governments. Some opposition economists lay all the blame for the economic disaster on the government. They argue government policies drove away many of Nicaragua's most knowledgeable businesspersons through taxes, arbitrary regulations and confiscation. They say those conditions helped bring on the war that was as much a reflection of the crisis as a cause and have subsequently prevented any economic rebirth. The new report does not completely support either view. Since the beginning of the revolution, the study reports, the size of the Nicaraguan economy has shrunk by nearly one-third. Export revenues are now adequate to pay for only one-fourth of the country's imports. Over half of total export earnings for 1989 were already spent through borrowing by year-end 1988. Since 1981, according to the study, real wages excluding non-cash payments in food and other goods dropped by more than 92%. Based on official population statistics and data presented in the report, Nicaragua's per capita gross domestic product has fallen to roughly $300 a year, or below Haiti's per capita GDP. The study predicts that Nicaragua's overall economic output, which dropped by 8% last year, will fall by at least that much again in 1989. Industrial production in 1989 is predicted to shrink by about 20%. The report's predictions were made before a new round of devaluations and inflation this month that cut the remaining value of the Nicaraguan cordoba by more than two-thirds against the US dollar. The report notes that the process of economic recovery has been greatly hindered by the continued US trade embargo, as well as US diplomatic pressure aimed at discouraging lending or aid from multilateral institutions. The report asserted that the new austerity measures would almost certainly earn Nicaragua "an IMF standby loan plus additional international support, under normal circumstances." In addition to guiding government policy, the report's findings were presented last month to a special meeting of potential aid donor countries in Stockholm and were reportedly presented by Ortega on a recent trip seeking new aid from European countries. According to the report, after reaching a high of $1.197 billion in 1985, foreign aid and credits to Nicaragua dropped to only $385 million in 1987. Of the 1987 amount, about 81% of credits and 51% of foreign aid came from the socialist bloc nations. (Basic data from New York Times, 06/26/89)