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Nicaragua: Economic Notes

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According to a recent study summarized by the New York Times (07/06/89), per capita output has dropped 25% since 1980, while average living standards have declined by over 60%. The study was prepared by foreign economists and financed by Sweden. GDP fell by about 30% from 1976 to 1979. Growth during the 1980-82 period compensated in part for the loss. Beginning in 1983, GDP has declined every year. Output in 1988 was below 1979 levels. Compared to 1979, production of traditional exports coffee, cotton, meat, and bananas was down 40%, and manufactured goods for the Central American market had dropped 84%. Import value was 400% that of export revenue. Last year's foreign trade deficit of $579 million was financed in large part by loans received from the Soviet bloc. The deficit was equivalent to one-third of national income. The report stated that 1988 per capita income was $300, not including the "social wage," or goods and services provided by the public sector. The authors predicted an 8% decline in 1989. Government spending, much of it for health and education programs, rose from the pre-1979 level of 11% of national output to 32% in 1982. Illiteracy was cut from 88% to 50%, while the infant mortality rate was reduced by half. A US-sponsored cutoff of access to loans from the International Monetary Fund deprived Nicaragua of liquid assets and short-term trade credits. According to the report, half of prospective exports for 1989 are already pledged as collateral against the year's imports. According to Xabier Gorostiaga Achalandavaso, an economist and former planning minister under the revolutionary government, the immediate crisis of shortages and inflation is linked to credits provided by the government to cover the costs of spring planting. Some of the loan monies received by farmers to purchase supplies was used to purchase dollars, resulting in a run on the cordoba. Gorostiaga said that rather than try and fight the black market, Managua slashed the legal exchange value of the cordoba by 61%. In 1988, said Gorostiaga, Hurricane Joan did $800 million damage to an economy with only a billion-dollar domestic product. Francisco Mayorga Balladares, an economist at Managua's private business school and former adviser to the Sandinista directorate, said that the burden of draconian budget cuts introduced in January was shifted to consumers. Currency devaluation was a tactic to reduce private purchasing power, notably that of coffee growers, who had recently been paid for their last crop. Since 1983, Gorostiaga said, the war with the US-financed contras forced the government to divert about 20% of national output to the military. In other circumstances, most of these resources would have gone into productive investment. A US trade embargo imposed in May 1985 cut Nicaragua off from traditional export markets and forcing it to use expensive smuggling operations through Panama and Canada to obtain spare parts for US-made machinery. Ramior Gurdian Ortiz, an economist for the private producers' trade association, said farmers were ordered to convert cotton land to corn and beans. Relatively little was gained in food output, he said, but cotton exports, worth $136 million in 1979, fell to $30 million in 1980.

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