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Honduras Unable to Reach Agreement on Letter of Intent with IMF

by LADB Staff

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President Carlos Roberto Reina's Economic Cabinet failed to reach an understanding with the International Monetary Fund (IMF) on economic plans for 1997. Without IMF support, the Honduran government will be unable to secure all of the new international loans that it has worked into its forecasts. A team from the IMF visited Tegucigalpa in early March to review economic indicators for 1996 and government plans for 1997. But for the second year in a row, the IMF would not agree to sign a letter of intent because the government had not met goals set out in earlier agreements. At best, the IMF would only grant more time to meet the goals.

Guillermo Bueso, advisor to the Economic Cabinet, explained that monetary policy was "irregular" in 1996 because there was no agreement with the IMF in that year either, which meant that the government could not get the necessary loans. The IMF insists on passage of a new labor code, relaxation of price controls on gasoline, privatization of the telecommunications firm Empresa Hondurena de Telecomunicaciones (HONDUTEL) and the electric company Empresa Nacional de Energia Electrica (ENEE), establishment of rural credit outlets, and a cap on salary increases for government workers.

Unofficial reports indicate that government negotiators were able to get clearance from the IMF for a US\$46 million loan from the World Bank. This is far from the US\$160 million the administration had projected. Overall, the government now expects only about US\$50 million in international loans out of the US\$350 million it hoped to receive in 1997. In addition, the IMF agreed to support a Honduran request for a 50% reduction in its debt to the Paris Club creditors. Street protest mounted against IMF austerity measures. The exact terms of the agreements made with the IMF delegation were not made public. This has contributed to growing resentment over IMF policies.

On the eve of the IMF's arrival, members of the social action group *Comite Hondureno Accion por la Paz* (COHAPAZ) criticized the IMF and its policies, calling the IMF visitors "messengers of death" and "exploiters of the poorest peoples on the planet." On March 10, some 500 people, mostly women and children from poor neighborhoods, assembled in front of the Central Bank where the negotiations were being held and protested what they called a "diabolic pact" with the IMF. The protest followed an assertion by Juan Bendeck, president of the private enterprise association *Consejo Hondureno de la Empresa Privada* (COHEP), that the IMF had insisted on total elimination of government subsidies to the private sector. But among the subsidies are those that go to public transit companies and the ENEE to help keep prices down. Indirectly, these are subsidies to consumers, especially important to the poorer households.

Contradicting published reports that the government had agreed to stop subsidies, Finance Minister Juan Ferrera said subsidies to transport and the ENEE would not end in 1997. The Reina administration also faces reprisals from organized labor if it agrees to unpopular IMF targets.

Unions have threatened a new wave of protests if the government does not follow through on promises to stabilize consumer prices for the basket of basic goods and services, which includes transportation and electricity. While the economy grew by 3.5% in 1996, 40% of the economically active population (EAP) is still unemployed or underemployed and poverty affects some 80% of the population.

The proposed cap on salary increases for government workers touches a sensitive nerve, since they, health workers, and others have recently been mounting strikes and protest demonstrations against the government's wage policy (see NotiCen, 02/20/97). The government argued that any additional wage concessions would dash all hope of meeting IMF goals in 1997. Ferrera repeated the argument during the March 10 protest, saying that finance ministers are not magicians. Even though the salary demands are just, they cannot be met as long as devaluation and inflation are not under control, he said.

Government claims of helplessness in the face of rising wage demands did not satisfy Rolando Cardenas Paz, president of the legislature's Money and Banking Committee, who called the IMF accords a violation of Honduran sovereignty. According to Cardenas, the IMF's insistence on imposing a neoliberal economic model concentrates wealth in too few hands, which could well lead to social upheaval. "The problem is that IMF representatives do not know Honduras," he said. "They sit with their neckties on in luxurious, air-conditioned salons, well-attended with banquets, and they think that this is Honduras." [Sources: El Tiempo (Honduras), 02/25/97, 02/26/97, 02/28/97, 03/03/97, 03/10/97; Reuter, 03/10/97, 03/11/97]

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