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Nicaraguan President Predicts Growth Despite Current Economic Turmoil

by LADB Staff
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Prior to the recent destruction from Hurricane Mitch, Nicaragua's President Arnoldo Aleman said inflation this year will be held to 10% despite a substantial jump in consumer prices, and he predicted a decrease in prices toward year's end. Since inheriting a nation that "had practically collapsed," Aleman said the economy under his administration has rebounded and his economic program has stabilized prices, increased reserves, and created a dynamic economic environment.

Aleman said the US$400 million reserves in the Central Bank of Nicaragua (BCN) is unprecedented and would lead to a favorable climate for investment and increased growth in the upcoming year. "We were the country with the most dynamic economy in the Isthmus," Aleman said of 1998. Aleman's comments are in stark contrast, however, to reports released by the Central Bank, even before the devastation caused by Hurricane Mitch had been assessed. BCN figures show that inflation had reached 10% by June and could go to 15% by year's end, while some private-sector economists say inflation could approach 20%.

Minister of Economy and Development Noel Sacasa admitted that the economy has heated up in recent months but insisted inflation is under control. He attributed the recent upsurge in prices to technical adjustments, adding that economic prospects appear healthy and have been viewed positively by the International Monetary Fund (IMF).

Steadily outpacing the rise in inflation has been the cost of the basic basket of consumer goods. During the last seven years, the cost of the basic basket has risen 100% while the minimum wage has not budged. Economists say in addition to weather-related damage, the drastic rise in food prices has been caused by the increasing cost of farming inputs as well as a by a lack of available financing in the agricultural sector from state-run banks.

In addition to consumer goods, Nicaragua's exports have suffered. BCN figures show a decrease in the export of sugarcane, beans, rice, and corn as well as a contraction in the fishing industry. In the first five months of the year, milk production fell by almost 760,000 liters and cattle sales have fallen 33% compared to the same period last year. Economists say that in addition to a mild winter, the agriculture and livestock sectors require increased financing and more incentives to producers. Also, farmers need protection from the rearmados former combatants in the armed conflict of the 1980s particularly in northern Nicaragua.

The regional director of the United Nations World Hunger Program, Francisco Roque Castro, estimates that 70% of the population is living in poverty and 28% suffer from malnutrition. Roque said his organization is caring for 12,000 families that have been affected by severe weather.
Nicaragua receives international debt relief

The US agreed to a debt-relief package after Aleman asked for relief from "asphyxiating" debt that he said was weighing down the Nicaraguan economy. Nicaragua's foreign debt is $6.16 billion. US Ambassador to Nicaragua Lino Gutierrez informed BCN president Noel Ramirez that the US has agreed to forgive US$13 million of Nicaragua's bilateral debt with the US and to restructure payments for the remaining US$12 million over a 23-year period.

In September, at the UN General Assembly, Aleman asked for "understanding and support" from the international community concerning Nicaragua's foreign debt. Before the session, Holland agreed to forgive a US$4.6 million loan and Spain agreed to restructure a US$31 million obligation. Canada has also been involved in negotiations with Nicaragua to rework payment schedules. So far, Nicaragua has been granted US$87.5 million in debt relief. The negative side of this debt relief is that it may help maintain Nicaragua's foreign debt at a level that would prevent it from being classified by the World Bank as a Heavily Indebted Poor Country (HIPC).

Under the HIPC Debt Initiative program, countries so designated may apply for cancellation of up to 80% of their entire foreign debt. Eligibility depends on guidelines that measure the country’s ability to sustain the debt and its track record in making structural adjustments under World Bank- and IMF-supported programs. Currently among Latin American nations, only Bolivia is in the HIPC program. [Sources: La Prensa (Nicaragua), 07/28/98, 08/21/98, 08/31/98, 10/14/98, 10/22/98, 08/21/98, 08/21/98; Notimex, 08/03/98, 09/09/98, 10/20/98, 10/22/98]

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