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Debt Cancellation, Structural Adjustment Debated in Countries Hit by Storm

by LADB Staff
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International creditors have been slow to commit to massive debt cancellation for the countries hardest hit by Hurricane Mitch. Storm damage has all but eliminated export income for Honduras and Nicaragua for at least the next year, making debt service impossible (see EcoCentral, 11/05/98, 11/12/98). Closely related to the debt are the structural-adjustment policies of the International Monetary Fund (IMF) and World Bank, which these countries must maintain to remain eligible for new loans.

Soon after the storm struck Honduras, the Catholic Church and other organizations belonging to the Foro Social de la Deuda Externa de Honduras (FOSDEH) said the debt payments equaling 40% of the national budget were no longer sustainable in light of the cost of reconstruction. The Foro called for debt cancellation in all of Central America, but especially in the countries most affected by the storm. The Colegio de Economistas de Honduras (CEH) argued that the debt was incurred largely to build the country's infrastructure that is now destroyed and said the debt "has no legitimacy before the world community."

Finance Minister Gabriela Nunez asked the IMF and World Bank for "expeditious preferential treatment" in alleviating the multilateral-debt burden, which constitutes 60% of Honduras' foreign obligation. Several creditor countries have announced they would cancel or restructure Honduras' bilateral debts (see Noticen, 11/19/98), and the Paris Club will meet in December to consider across-the-board reductions. But the multilateral lenders have yet to commit to a concrete debt-alleviation policy.

On a tour through Central America, International Monetary Fund (IMF) director Michel Camdessus startled Honduran officials Nov. 19 when he advised them to stop worrying about the debt and worry instead about how to reconstruct the devastated country. He told reporters in Tegucigalpa that Honduras should get its priorities straight. "If the debt were canceled and nothing else were done, the country would surely die," said Camdessus. "It seems to me there are more important things to do such as seeing what resources are on hand." But Camdessus quickly changed course the following day, saying he would recommend cancellation of 80% of Honduras' US$4.3 billion foreign debt.

While groups in both Honduras and Nicaragua have been pressing for total debt cancellation, Camdessus said a 50% cancellation is the norm in such situations but he would work to get the 80% reduction at the Inter-American Development Bank (IDB) meeting in Washington Dec. 10-11. "I don't want to promise anything," he said. "I'm just saying that we will intercede and that the IMF will have to recommend or come up with something."
Camdessus says Honduras must strengthen austerity measures
While offering to work for debt reduction, Camdessus warned Honduras it will have to adopt even more rigorous structural-adjustment policies to attract the foreign investment it needs. The pressure for greater adherence to IMF austerity was challenged by the press. In response to reporters' questions about the connection between structural adjustment and poverty which affects 80% of Hondurans Camdessus said the IMF was not responsible for poverty in Honduras and called any suggestion that it was "frivolous and superficial." Honduran campesino leader Marvin Ponce told the news agency Notimex that new economic adjustments would mean more taxes and more poverty. He linked the increase in poverty since 1990 to the adoption of IMF policies that required drastic reductions in spending on social programs.

Central Bank says Nicaragua can manage only fraction of debt
A Central Bank official said Nicaragua can make payments on only US$1.8 billion of its immense foreign debt. Basing the estimate on projected export figures, Jose Marquez, manager of the bank's international section, said that, because of storm damage, export earning would not permit debt service on the entire US$6.5 billion debt. He called for creditors to forgive 80% of the total, leaving approximately US$1.3 billion. Currently, debt service costs Nicaragua 34% of the budget and the debt is 641 times export earnings, more than three times the threshold where debt forgiveness should be considered.

The Central Bank's policy is to secure new soft loans such as the US$187 million in emergency funds promised by the IMF and other multilateral lenders. To remain eligible for these new loans, President Arnoldo Aleman's administration has announced its intention to stick with structural-adjustment policies. Central Bank president Noel Ramirez said structural adjustment will continue, with some "marginal modifications," to have access to new soft loans. "Nicaraguan access to soft loans is more important than pardoning the foreign debt, and we will be working to get more [loans]," said Ramirez.

By maintaining the structural-adjustment policies for the next two years, Nicaragua could become eligible for an 80% reduction in its multilateral debt under the World Bank's Initiative for Highly Indebted Poor Countries (see Noticen, 11/05/98). Of the US$6.5 billion foreign debt, only about US $1.8 billion is with multilateral lenders. The rest is bilateral and commercial-bank debt. During a visit to Nicaragua, Camdessus said he was encouraged by Aleman's decision to stick with structural adjustment, "a program that is essential to preparing a better future for the country."

But the Frente Sandinista de Liberacion Nacional (FSLN) opposes any such policy and wants the entire foreign debt canceled and all administration economic policies revised. Orlando Nunez, an FSLN economic advisor, said the economy needs to change "from an oligarchic, urban market economy to an agricultural economy, especially for the impoverished small holders." Several business and professional organizations have called for a sharp departure from IMF free-trade policies. Among other things, they want temporary customs duties on imported industrial and agricultural goods to allow these sectors to recover from storm damage. EU committee refuses to invest in debt-reduction fund In Brussels, the European Union's (EU) Monetary Committee refused
to promise any specific amount of money for a newly created international fund for paying down the foreign debts in Central America.

The fund, created Nov. 23 by finance ministers from EU member countries, was to be capitalized at US$220 million. The proposal for the fund came from French Finance Minister Dominique Strauss Khan with support from French President Jacques Chirac. It raised objections within the EU as Spanish authorities criticized the French for "seeking a leading role" in the debt question. They also said Chirac's cancellation of US$92 million owed by Honduras and Nicaragua (see Noticen, 11/19/98) was a "publicity stunt" since he only offered to defer payments.

While the monetary committee said the hurricane damage required assistance from the international community, it made no concrete proposal. The only resolution concerning debt reduction was a request from the committee that the Paris Club grant Central American nations a three-year moratorium on debt payments. The committee also asked private bankers to consider some debt reduction and asked the IMF and World Bank to evaluate the capacity of Honduras and Nicaragua to sustain their multilateral debts.

The committee appeared to disregard the advise of Manuel Marin, vice president of the European Commission, who said that, "in situations of natural disasters...that affect poor countries like those in Central America, the IMF and the World Bank should reexamine the sacrosanct principle that debts may be rescheduled but not pardoned."

**El Salvador will not ask for debt cancellation**

In El Salvador, Treasury Minster Enrique Hinds announced Nov. 20 that his government would not seek cancellation of its US$639 million bilateral foreign debt. El Salvador's total foreign debt is US$2.827 billion. While President Armando Calderon Sol supports his neighbors' request for debt relief, his administration has not asked for it.

The IMF says the Salvadoran government has met its structural-adjustment goals. "Cancellation is for other countries that are poorer and have more debt," Camdessus said during the final stop in his Central American tour. He praised the administration for reducing inflation and the fiscal deficit and said the country was on the "correct path." [Sources: Inter Press Service, 11/18/98, 11/20/98; El Diario de Hoy (El Salvador), 11/22/98; Notimex, 11/19/98, 11/20/98, 11/22/98, 11/23/98, 11/24/98; La Prensa (Nicaragua), 11/25/98]

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