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Honduras Accepted in High-Debt Program; Nicaragua Out for Now

by LADB Staff

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The World Bank and the International Monetary Fund (IMF) have agreed to help Honduras reduce its foreign debt by including it in the Initiative for Heavily Indebted Poor Countries (HIPC). Nicaragua, with a larger foreign debt, has been kept in the first stage of the qualification process for HIPC debt relief. The initiative restructures and reduces foreign debts that the bank and IMF consider unsustainable. A study by the UN Development Program (UNDP) issued in May said that Honduras was unable to keep up payments on its foreign debt and at the same time invest in human development.

The study showed that, despite reductions in military spending and the market openings of the 1990s, Honduras was unable to generate sustainable growth sufficient to improve the quality of life for its people. In early July, the World Bank announced that Honduras had been accepted for inclusion in the HIPC. A World Bank news release said Honduras' foreign debt of US\$3.1 billion equals 135% of the value of its exports and 300% of its government revenues.

The release said HIPC assistance would bring the indebtedness down to 250% of revenues. The announcement also explained that inclusion in HIPC was in recognition of the "implementation of reforms in the country's social, structural, and macroeconomic policies." Honduras reduced inflation from 23% in 1990 to 11% in 1999, and reduced its fiscal deficit from 7.7% of GDP to 2.3% during the same period, said the announcement.

The HIPC program will save the country some US\$900 million in debt service over the next 20 years. That amount is about US\$555 million in net present value (NPV). Bilateral creditors will provide US\$215 million in debt reductions, while the multilateral creditors will provide US\$340 million.

Honduras must have plan for poverty reduction

Before HIPC benefits are in place, Honduras will have to present the World Bank with a strategy for controlling corruption, strengthening the Instituto Hondureno de Seguridad Social (IHSS), and improving health and educational services, the financial sector, and the efficiency of the social safety nets.

HIPC rules also prohibit Honduras from transferring the savings from debt service to salary increases or similar government expenditures. Finance Minister Gabriela Nunez told a press conference that the savings would strengthen international reserves and stabilize the currency.

With the payment reductions, the annual cost of servicing the debts will drop from as much as 35% of the budget to around 20%. US Ambassador in Tegucigalpa Frank Almaguer explained that the bilateral debt still has to be paid, but Honduras will get help through annual contributions from

the industrialized countries. The US contribution will be US\$400 million per year. Since, in the end, debt reduction depends on donor countries, Honduras hoped the G-8 nations, meeting in Okinawa, Japan, in July, would pledge funds to support the reduction.

Nunez said that, while the US and France are committed to providing funds, Japan—Honduras' largest bilateral creditor—has been noncommittal. In their final communique, the G-8 countries promised help with debt alleviation as they did in 1999, but pledged no money. UN Secretary-General Kofi Annan said he was disappointed by the G-8's lack of progress on debt relief. "I recognize that there are no simple solutions to the debt problem," said Annan. "But clearly more must be done."

Nicaragua still outside HIPC

Both Honduras and Nicaragua have been under serious consideration for inclusion in HIPC since the Hurricane Mitch disaster of 1998, but Nicaragua has not advanced beyond the first of the three levels of consideration. When the IMF announced in September 1999 that Nicaragua was eligible "in principle" for inclusion, President Arnaldo Aleman and central bank president Noel Ramirez became euphoric. Ramirez predicted inclusion within months and said the reduction would be 99% of Nicaragua's US\$6.5 billion foreign debt (see NotiCen, 1999-09-23).

But donor nations represented in the Consultative Group (Grupo Consultivo para la Reconstrucción de Centroamerica) have repeatedly warned they would suspend aid unless Aleman reduced corruption in his government and took significant steps to reform the financial system. At the group's meeting in Washington in May, Aleman promised to comply with the demands for fundamental changes as a condition for continued aid and inclusion in the HIPC.

Among the group's concerns was the dismantling of some of Aleman's constitutional reforms, including changes in the electoral system worked out in deals with the opposition Frente Sandinista de Liberación Nacional (FSLN). Since the electoral reforms still stand (see other article in this issue), the Consultative Group could decide to recommend against HIPC admission when it meets again next year to evaluate Nicaragua's progress.

US Ambassador in Managua Oliver Garza cited as one obstacle to HIPC membership the corruption case of former tax director Byron Jerez (see NotiCen, 2000-06-15 and other article in this issue). He said Nicaragua had to satisfy the donor countries that it is on the right track. Aleman is optimistic. He said Nicaragua would probably be admitted to the program in September. [Sources: La Prensa (Nicaragua), 07/08/00; Notimex, 05/14/00, 07/10/00; World Bank news release, 07/10/00; La Prensa (Honduras), 07/19/00; El Tiempo (Honduras), 07/09/00, 07/18/00, 07/19/00; Associated Press, 07/23/00]

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