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## **Nicaragua, Honduras in Final Stages WB Debt-relief**

by LADB Staff

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In a press release Dec. 22, the World Bank announced a US\$34 billion debt-relief package under its Initiative for Heavily Indebted Poor Countries (HIPC). The program will benefit 22 countries, including Honduras and Nicaragua. The bank estimates that the HIPC program will reduce debt in the countries on the list by half and, considering other debt-relief programs such as that of the Paris Club, the debt burden should eventually be cut by two thirds on average. The announcement refers to advancement of the 22 countries to the "point of decision," which means they will receive some immediate reduction in debt-service payments. The recipient states must now show compliance with HIPC requirements, which include concrete poverty-reduction plans, before advancement to the final stage and full acceptance in the program.

In Nicaragua's case, the reduction will be worth about US\$4.5 billion or 72% of its US\$6.5 billion foreign debt, after other, traditional relief mechanisms are considered. This is the largest relief package ever granted in the HIPC program. Honduras, with a debt of US\$4.2 billion, will receive an 18% reduction. Nicaragua must negotiate US\$1.1 billion with the Paris Club representing creditor nations. Another US\$1.2 billion in multilateral debt will be negotiated with the World Bank, the IMF, and the Inter-American Development Bank (IDB).

To meet World Bank eligibility requirements, Honduras and Nicaragua had to comply with World Bank and International Monetary Fund (IMF) structural-adjustment rules. To advance to the final stage of eligibility, they must guarantee that the money that otherwise would have gone to debt service will be spent on poverty reduction, and they must "design and implement nationally owned poverty-reduction strategies." Nicaragua's poverty-reduction strategies include construction of 10 hospitals, 977 health centers, 1,898 schools, 521 km of paved roads, 3,309 km of sewers, and 10,712 km of potable-water pipes.

### ***World Bank says international community must increase aid***

To ensure that donor countries do not allow HIPC assistance to substitute for their own aid programs, the World Bank called on creditor and donor nations to follow through on their debt-relief programs and to increase their assistance to levels already agreed on. The bank also asked that the industrial nations open their markets to exports from poor and indebted countries. Announcing the news in Nicaragua, Treasury and Public Credit Minister Esteban Duque Estrada said Nicaragua's advancement to the point of decision means a US\$112 million savings this year in debt service. Currently, Nicaragua pays 40% of its export earnings for debt service, whereas the World Bank considers payments above 20% or 25% unsustainable. Considering the debt as a percentage of government revenues, the payments should drop from the current 20% to 9% by 2007.

The newly approved budget for 2001 includes US\$262 million for debt service. The payments will now drop to US\$150 million, Duque Estrada said. He considers the new level of payments

sustainable. News of Honduras' advancement to the point of decision came none too soon since debt service takes about 46% of the annual budget. Without the reduction, Honduras would have faced a major financial crisis as debt service this year is more than it can pay. Furthermore, like Nicaragua, the debt-payment moratorium, granted Honduras by the Paris Club after Hurricane Mitch, expires in March 2002, and debt payments were expected to more than double next year.

Honduras was admitted to the first stages of HIPC earlier this year (see NotiCen, 2000-07-27). The World Bank said at the time that Honduras was meeting its obligation to implement social, structural, and other required reforms. In Nicaragua's case, though admission to the program came in 1999, advancement to the point of decision has taken longer and was more problematic primarily because Nicaragua has been slow to meet HIPC requirements regarding economic and constitutional reforms (see NotiCen, 2000-09-28). Economist Nestor Avendano predicted in December that the wait to reach the final stage could be a long one because Nicaragua has yet to make some required reforms, such as the privatization of its Empresa Nicaraguense de Telecomunicaciones (ENITEL). Nicaragua has also been hampered by a decline in its monetary reserves and by recent bank scandals.

In September, the World Bank pressed the government for an explanation of the Banco Internacional (INTERBANK) collapse. The government's handling of the scandal may have delayed advancement to the second stage of admission to the HIPC program from September to December.

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