12-20-2001

Guatemalan Opposition Parties Reject IMF Agreement

LADB Staff

LADB Article Id: 53235
ISSN: 1089-1560

Guatemalan Opposition Parties Reject IMF Agreement

by LADB Staff
Category/Department: Guatemala
Published: 2001-12-20

Guatemalan President Alfonso Portillo's administration hopes to sign a letter of intent with the International Monetary Fund (IMF) for new loans contingent upon passage of financial-reform legislation. The agreement would pave the way for US$1.4 billion in private investment and multilateral loans. Nevertheless, the administration is up against unusually strong opposition from political parties that reject further indebtedness. The opposition Farabundo Marti para la Liberacion Nacional (FMLN) and smaller opposition parties have balked at taking on more debt when they do not trust the government to use the money wisely. While the debt revolt has not become a full-fledged repudiation of multilateral loan practices, the opposition is firmly tying the issue to government corruption.

The daily Siglo Veintiuno said the question of signing an agreement with the IMF "has put the country on the edge of a social crisis with political consequences that we can scarcely imagine." Once the letter of intent is signed, the IMF would back the emission of US$425 million in government bonds to be used to convert foreign to internal debt and to assist producers in the depressed coffee industry to restructure their debts. The Inter-American Development Bank (IDB) is ready to loan Guatemala US$1 billion at low interest rates for 23 projects. The World Bank is also prepared to offer sizable loans once the IMF is satisfied with the government's seriousness in instituting the require reforms.

This flurry of financial negotiation comes after four years in which Guatemala could not meet IMF expectations on making its fiscal and other reforms. What has held up the agreement until now is mostly the battle over IMF-required tax measures, especially an unpopular increase in the value-added tax (impuesto al valor agredado, IVA). The IMF insists that the government bring tax collection up to 12% of GDP. This goal was set by the 1996 peace accords and was supposed to have been reached in 2000 (see EcoCentral, 1997-10-30).

IMF finds banking system fragile

A team of IMF experts visited Guatemala in August to evaluate the country's financial system, which the IMF says is badly in need of reform. Looking at the first quarter of 2001, the team found weaknesses in the system's loan portfolios, including a lack of loan guarantees, as well as overdependence on state resources and inadequate state supervision. Many in the financial community believe the problems stem from bad monetary policy and a generally weak economy, and they argue that the survey exaggerated the faults found in a few banks. But they also agree that the system needs more structure, especially in bank oversight.

Pending in Congress is a reform package to overhaul the financial system that the IMF, IDB, and World Bank want as a condition for agreeing on a letter of intent. Once Congress passes the reforms, the IMF approval will allow the immediate disbursement of a US$350 million loan, US$150 million of

LADB Article Id: 53235
ISSN: 1089-1560

which would go to help fix the financial system and the rest would go to an anti-poverty program. In early December, representatives from the IMF, IDB, and World Bank spent three hours in Congress trying to overcome the resistance of opposition parties to the reform package, but failed. The representatives warned that, if the financial package were not approved, Guatemala would lose the multilateral assistance, which would worsen the current economic crisis.

Finance Minister Eduardo Weymann also warned that, without the reforms, Guatemala could remain on the list of noncooperating countries in the war against money laundering (see NotiCen, 2001-06-28). That is because the reforms include tighter controls on the movement of money through the system. Besides the FMLN, the Bloque Unionista and the Partido de Avanzada Nacional (PAN) oppose the reforms.

Unionist Deputy Mariano Rayo said his party resented the tactics used by leaders of the governing Frente Republicano Guatemalteco (FRG) to get passage of the reform package. Voicing a complaint common to most of the opposition, Rayo said, "We don't support any loan for the FRG government because it will misuse it."

Carlos Mejia of the Alianza Nueva Nacion (ANN) said his party did not accept the premise that loans would help achieve development. "Furthermore," he said, "if Guatemala wants credits, we will ask, but don't come here offering money and imposing conditions." The FRG has 63 deputies in Congress but needs 75 votes to pass the reform package. It can count on four more votes from minor parties Democracia Cristiana Guatemalteca (DCG), Partido Libertador Progresista (PLP), and Union Democratica (UD). But the only way it can outvote a determined opposition is to support a package of anti-corruption bills demanded by the seven deputies of the Unidad Nacional de la Esperanza (UNE).

Maria Castro of the Asociacion de Investigacion y Estudios Sociales (ASIES) also focused on government corruption as a reason to reject further indebtedness. "The possibility of receiving financing to eliminate fiscal pressures relieves authorities of their responsibility to seek changes in the transparency of expenditures, the fight against corruption, and other important matters." Instead of conditioning loans on tax measures, she said, the IMF should base its judgment on actions that guarantee correct government behavior.

-- End --