Nicaragua calls for debt moratorium

Addressing the United Nations on Sept. 28 on behalf of the Reconstruction Government of Nicaragua, Commander Daniel Ortega called on the international community to provide unconditional aid to Nicaragua for its efforts to leave behind the "bondage" in which the country had been left by Anastasio Somoza. Ortega specified aid to relieve the tremendous debt burden—$1.6 billion of which $600 million is due this year.

Nicaragua "cannot pay that debt," Ortega said, "nor will it indebt itself anew to pay that debt. ... It is our opinion that the external debt which Somoza left in Nicaragua must be taken over internationally, particularly by the developed countries, by the economically powerful countries, and in the first place by those countries which routinely fed Somoza with financing."

At a press conference later that day, Sergio Ramirez, also a member of the governing five-man junta, said:

"Those who loaned (to Somoza) knew to whom they were lending ... and were perfectly aware at the time of Somoza's incapacity to repay," said Ramirez. "That is why we say the foreign debt is an international responsibility and why we require a moratorium to deal with these debts. The terms of the moratorium are what we are now ready to negotiate."

Nicaragua's announcement provides a backdrop to the ongoing discussions at the International Monetary Fund meeting in Belgrade. Behind the question of Nicaragua's debt renegotiation is the question of the IMF's "conditionality" policy generally.

Wall Street flips

Ortega and Ramirez's statements reflect no change in the government's strategy since the Reconstruction Government's victory on July 19: the reconstruction and development of Nicaragua comes first—even before international obligations.

Loans made for arms purchases by Somoza and loans which went straight to the international bank accounts of Somoza and his cronies have been declared illegitimate and will not be recognized by the government.With all other debts, the government has done the only possible and sane thing: declared a moratorium on payments until the country's productive capacity is rebuilt.

Turmoil and "confusion" broke out immediately in the international financial community. The *New York Times* called Ortega's statement a "repudiation" of the debt. Rumors began flying. One banker told an inquirer that Nicaragua had definitively repudiated all its debts. "It says it right here in the *New York Times,*" he claimed, "they repudiated their debts."

Said the U.S. State Department: Mr. Ortega's comments could not be taken as a "trustworthy" representation of Nicaraguan policy. "They're really amateurs at running a government." Now teams of bankers are rushing to Managua to get assurances that all the debt will be paid...sooner, rather than later.

A Hamiltonian credit policy

No one expects payment on the $600 million due this year. And with a total of $3.5 million in reserves left by Somoza, there is simply no money to pay. So what is at issue here?

The Nicaraguans have been told that if they want significant aid they must sign an agreement with the IMF and accept its conditionalities. As the *Baltimore Sun* put it: "An IMF loan would be a crucial step, since it would impose on the new government fiscal restraints so important for its long-term survival."

The Nicaraguan's think differently. New debt, said Ortega, will not be thrown after bad. Resources earned as the country gets back on its feet will not be sent straight to the banker's coffers, but reinvested in building the productive capacity and raising the standard of living that in the longer term will make even Somoza's bad debts a valuable investment for those with the foresight to wait for their return.

The solution to the debt problem was detailed by junta member Alfonso Robelo at an early August meeting of the Latin American Economic System's directorate in Caracas, Venezuela. Robelo proposed a $2.5 billion Reconstruction Fund to, in the short term stave off the likely 15-20 percent collapse in the country's GNP by the end of this year. If that money comes through, then within 10 years Nicaragua can become a "miracle" economy, said Robelo.

Robelo specified that the $2.5 billion does not include the present debt and that in all cases the money must be unconditional. Calling for the "softest terms possible" on this credit, Robelo suggested five ways of investing in the fund: direct central bank deposits, in the form of foreign exchange; soft loans, with a high concessional content, for the financing of imports; short and medium term credit lines for the acquisition of basic necessities; and floating Reconstruction Bonds , an idea being coordinated internationally by the Nicaraguans with the Mexican government. Because these bonds would be a direct investment in the future productivity of the nation, the latter approach follows the methodology of Alexander Hamilton in putting the credit of the U.S. on a sound basis. It is a useful innovation for the general problem of recapitalizing bad Third World debt.

—Gretchen Small