FOR AGENDA

EBD/98/18

March 4, 1998

To: Members of the Executive Board

From: The Secretary

Subject: **Nicaragua-Enhanced Structural Adjustment Facility-**
/ **Economic Policy Framework Paper for 1998-2000**

Attached for consideration by the Executive Directors is the policy framework paper for Nicaragua for the period 1998-2000. This subject, together with the staff report for the 1997 Article IV consultation with Nicaragua and Nicaragua's request for arrangements under the Enhanced Structural Adjustment Facility (EBS/98/7, Supplement 1, 3/4/98), is tentatively scheduled for discussion on Wednesday, March 18, 1998.

Mr. Kalter (ext. 38501) or Mr. Gudac (ext. 38619) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Unless the Documents Preparation Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the European Investment Bank (EIB), the Food and Agriculture Organization (FAO), the Inter-American Development Bank (IDB), and the United Nations Development Programme (UNDP), following its consideration by the Executive Board.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

NICARAGUA

Enhanced Structural Adjustment Facility
Economic Policy Framework Paper for 1998-2000

Prepared by the Nicaraguan Authorities in Collaboration with
the Staffs of the International Monetary Fund and the World Bank

March 3, 1998

I. INTRODUCTION

1. By 1990, following a decade of civil war and economic decline, large public sector imbalances and hyperinflation, real GDP in Nicaragua had dropped to two-thirds and export volume to one half of pre-1980 levels with per capita income falling to the same level as in the 1920s. At the same time, external debt multiplied tenfold to US$1 1 billion (700 percent of GDP). The extent of the deterioration was reflected in the country's social indicators, with infant and maternal mortality and birth weight the poorest in the Western Hemisphere.

2. Subsequently, Nicaragua changed its course drastically. Peace was re-established and democracy restored, while substantial progress was made in reducing macroeconomic imbalances and transforming Nicaragua's economy toward a market-based system. Financial policies were strengthened, most price controls eliminated, and the foreign exchange and trade systems were liberalized. A program of public asset divestment was implemented, and public employment and military outlays were cut substantially. Private banks were allowed to operate again and the Superintendency of Banks was created. However, economic conditions have remained fragile and poverty widespread.

3. In early 1997, a new administration took office. The change of administration provided an opportunity for Nicaragua to resume the path toward economic stabilization and structural reform to achieve sustainable economic growth and improve social conditions. In this context, the government has prepared a medium-term economic and structural reform program, covering the 1998-2000 period. This paper outlines the government objectives and policies for the period to 2000, and assesses the likely external financing requirements in that period, together with available sources of such financing; the paper also outlines policies that the authorities took in 1997 as they finalized their economic program.

II. Economic Developments and Issues

4. Performance of Nicaragua's economy has improved substantially since 1994. After more than a decade of decline, real GDP grew by 4.8 percent annually in 1996-97. Domestic investment rose from 18 percent of GDP in 1992 to 29 percent of GDP in 1996-97, and national savings recovered from a negative 18 percent of GDP to 4.7 percent of GDP during the same period. Private investment and private capital inflows increased noticeably, and unemployment declined from 23 percent in 1993 to 15 percent in 1997. The rate of inflation fell from 20 percent during 1993 to 7 percent during 1997.

5. **The public finances** remained weak in 1994-95 and deteriorated in 1996, reflecting central government expenditure overruns in the period leading up to the presidential elections, and a weak performance of the public enterprises and the social security institute (INSS). While the fiscal position improved in 1997, a substantial strengthening of public finances is the principal macroeconomic challenge and central element of the government's economic program'

6. The conduct of **monetary policy** has been complicated in 1996-97 by the central bank financing of government deficits. To reverse the decline in international reserves resulting from credit expansion associated with these operations, the central bank sold U.S. dollar indexed securities in a substantial amount.* In combination with the financial impact of a major debt forgiveness granted to debtors of the largest state bank (BANADES), this resulted in higher central bank losses.

7. Major **structural reforms** implemented since 1992 helped transform the Nicaraguan wartime command society into a peaceful democracy, and replace the legislation and institutions of a centrally planned economy by those of a market economy. The government drastically reduced the armed forces and their budgets, sold virtually all the state holdings of productive firms, and introduced a public sector reform program. New legislation in commercial, financial, fiscal, and labor relations areas as well as progress toward macroeconomic stability have improved the environment for private sector activity and the efficiency of resource allocation.

---

[1] Public sector savings (including the losses of the central bank (BCN)) rose from 1% percent of GDP in 1996 to estimated 3½ percent of GDP in 1997, and the combined public sector deficit (before grants) declined from 15 ½ percent of GDP to 9½ percent of GDP during the same period.

[2] During 1997 the central bank placed the exchange rate indexed instruments (CENIS) equivalent to US$210 million net (11 percent of GDP), while its net international reserves increased by US$53 million.

8. Half of Nicaragua's population has income below the **poverty** line and one-fifth is extremely poor. **In** rural communities, about three-quarters of dwellers are poor and seventy five percent of them are extremely poor. Nicaragua has the highest or second highest illiteracy, malnutrition, infant mortality, and fertility rates in the Western Hemisphere, and per capita expenditures in education and health are well below regional **average**.[3] Poor quality of education and health services partly account for low productivity. Investment in **human capital** of the poor through improvements in quality and coverage of health protection and education, especially in rural areas is therefore central to ensuring sustained and equitable economic growth. A social safety net will continue to be important in safeguarding minimum welfare levels of the poorest. The recovery of economic activity since 1994, particularly in the agricultural sector, is improving conditions for the reduction of poverty, but better targeting and increased efficiency of social spending are needed, combined with efforts to reduce the high rate of annual population growth. In view of constraints on resources and limited implementation capabilities of its institutions, the government welcomes international financial and technical assistance to help develop and implement carefully targeted **social policies and programs.**

9. Nicaragua received substantial external debt relief through **restructuring and debt-reduction agreements** with its official and private bilateral creditors and the Central American Bank for Economic Integration (CABEI) in 1995-97. Notwithstanding the improvements, Nicaragua's public external debt-estimated at US$5.9 billion (equivalent to 290 percent of GDP) at end-1997, and scheduled external debt-service obligations the equivalent of 40 percent of exports of goods and nonfactor services in 1997 constituted a heavy burden on the balance of payments and public finances. Lowering of external debt and debt service in relation to GDP and exports will be pursued by sound macroeconomic policies, prudent external borrowing, and efforts to achieve further debt relief, including debt-reduction under the Initiative for Heavily Indebted Poor Countries (HIPC).

III. OBJECTIVES AND POLICIES OF THE PROGRAM FOR 1998-2000

10. *The main objective of the government's economic program for 1997-2000 is to alleviate poverty and reduce unemployment through sustained high rates of economic growth, focused social policies, and progress toward macroeconomic stability.* The program includes measures that aim at restoring the sustainability of the public sector finances and balance of payments, and structural reforms to increase efficiency and foster private investment. The government will focus its efforts on improving public and social services and developing the rural areas. Under the program real GDP is projected to grow by 5 percent a year (2 percent in per capita terms) on the basis of increased private sector investment and the strength of agricultural and nontraditional exports. Most of Nicaragua's short-term growth

---

[3] In the rural areas where 46 percent of total population lives, 75 percent are poor, 40 percent are illiterate, 70 percent of households do not have access to potable water, and 80 percent of households have no access to sanitation. Forty percent of the children of extremely poor households suffer from malnutrition.

potential lies in agriculture and sustainable use of other natural resources, and the government's development strategy attaches highest priority to rural development through revitalization of agriculture. Gross domestic investment is projected to remain at about 28 percent of GDP, but the increase in the share of private investment and the planned improvements in public investment will raise its efficiency. National savings are projected to increase from about 5½ percent of GDP in 1997 to 12 percent of GDP in 2000, with about half of the increase generated by the public sector. Inflation would decline to 5 percent by 2000. External current account (excluding interest obligations) is projected to decline from 19 percent of GDP in 1997 to 11 percent of GDP in 2000, and the financial program targets an increase in net official reserves by a cumulative US$160 million during 1997-98; and an additional US$60 million a year in 1999-2000. Gross reserves (adjusted for outstanding CENIS) would reach the equivalent of 3 months of imports by end-2000.

A. Macroeconomic Policies

Fiscal policy

11. The fiscal program aims at putting the public finances on a sustainable path given the projected external financing and the likelihood of external debt relief under the HIPC Initiative. The combined public sector balance (after grants) would reach a small surplus by 2000. Public savings (before grants) are expected to rise from 3% percent of GDP in 1997 to 8 percent of GDP in 2000, with an important part of the improvement to be achieved in 1998. Public sector investment is projected to decline in relation to GDP as investment in public utilities is taken over by the private sector. The government is committed to further improving the transparency of the public sector operations by broadening the budget coverage to include revenue and expenditure operations not previously reported.

Revenue policies

12. The program includes a number of actions to raise central government revenue by a total of 2½ percentage points of GDP through 2000 (compared with 1996), with all of the increase coming in 1997-98. Some elements of the tax reform passed in May 1997 will be implemented in stages through 2000, but after 1998 their effect on total revenue will be slightly negative. The reform corrects structural deficiencies of the tax system and expands the tax base by reducing or eliminating discretionary and other exemptions to the VAT and customs duties, and introducing a land tax while simplifying and reducing import tariffs to two tiers (5 and 10 percent) by end-999. Moreover, in September 1997 the government initiated a process to correct the distortion in the relative prices of gasoline and diesel, increasing the price of diesel and decreasing that of gasoline, and took measures to improve the control mechanism of the retention of the coffee income tax.

Public expenditure policy

13. **Current outlays** of the central government are programmed to decline by 4 percentage points of GDP by 2000 compared with 1996 (one-half of this reduction is to take place in 1997-98) reflecting a freeze in these expenditures (excluding interest payments and transfers mandated by the constitution but including wages) and a reduction in export subsidies. The decline in current outlays will be achieved, in part, through a civil service reform program consistent with the restructuring of the government (public sector employment is expected to decline by an additional 3,000 positions during 1998-99). Technical assistance from the Fund will help establish mechanisms of expenditure control to implement this policy.

14. The government will continue to shift current expenditures toward **social expenditure,** particularly health and education, and will emphasize programs to alleviate poverty. Social expenditure would be increased beyond projected in current fiscal program (in consultation with the IDA and IMF), as financing becomes available from privatization of the telephone company (ENITEL) and increased contributions by donors mobilized through a support'group that will be formed for this purpose and the Consultative Group meeting for Nicaragua scheduled for April 1998.

15. **Capital outlays** and net lending of the public sector are estimated to have declined by 4 percentage points of GDP in 1997 to 13% percent of GDP and to be on average about **12½** percent of GDP through 2000. As mentioned, private sector participation in the provision of infrastructure services formerly reserved to the public sector (energy, telecommunications, ports, and roads) is expected to increase substantially after the passing of a set of new laws in late 1997. The public investment program will give priority to investment in the social sectors and in basic infrastructure and will aim at greater medium-term sustainability in the services provided. The institutional capacity for the selection, formulation, evaluation, execution, and follow-up of investment projects shall be upgraded, so that the public investment program better reflects the short- and medium-term expenditure capacity of the government, and ensures more efficient allocation of resources;

Public enterprises

16. The strengthening of the financial position of the state enterprises through revenue increases and cost containment is an important component of the fiscal program. To improve the financial situation of the state power company (ENEL), beginning in April 1997 ENEL was permitted to increase its monthly rate adjustments from 1 percent to 1.5 percent. As this has not been **sufficient** to compensate for recent cost increases that have been driven, in part, by drought conditions associated with *El Niño*, ENEL instituted a step rate adjustment of 5 percent in October 1997 (1.5 percent a month rate increases will be continued). In addition, the government has approved the introduction of a thermal factor in the pricing structure of ENEL to help offset the increase in costs attendant to the use of thermal energy during drought situations (low income consumers have been exempted from these tariff increases). ENEL also will strengthen its collection procedures, and enforce a tight rein on current

outlays. To protect the financial results of the state water company (INAA) from energy cost increases, tariff rates will be increased by 1.5 percent a month in line with the recommendations of a recent study undertaken with technical assistance from the IDB.

Monetary and credit policies

17. The monetary program will be consistent with the inflation and external objectives of the program and will be based on an increase in currency issue broadly in line with the growth of nominal GDP. The net domestic assets of the central bank (NDA) are projected to decline by about 2 percent of GDP on average in 1998-2000, compared with about 1 percent of GDP in 1997. The contraction of NDA will reflect the planned reductions in central bank (BCN) net credit to the nonfinancial public sector, and beginning in 1999 the expected decline of BCN losses (after a projected marked increase in 1997–98), resulting from lower interest payments on CENIS following net redemption beginning in 1998, and higher interest earnings on (increased) international reserves.

18. The BCN will conduct a tight credit policy while the fiscal position strengthens. To eliminate distortions in credit allocation, direct credit allocation (in favor of agriculture) was eliminated and will not be reintroduced. Also, the reserve requirements were unified at 17 percent across deposit maturities as well as currency denomination and were extended to all bank liabilities with the private sector in October 1997. The BCN increasingly will use open market operations as the main instrument of monetary control. To improve the conduct of these operations, BCN recently replaced the system of selling an open quantity of CENIS at a pre-set interest rate with a system where the amount of CENIS offered is determined on the basis of the need to control liquidity in line with the monetary program, and interest rate is determined in an auction. The strengthening of fiscal position is expected to permit a reduction in the stock of CENIS by at least the equivalent to US$130 million during 1998-2000, and growth in credit to the private sector to accommodate the projected growth of real sector activity.

External sector policies

19. The **external current account deficit** (excluding interest obligations) is projected to decline from 19 percent of GDP in 1997 to 16 percent of GDP in 1998 and 11 percent of GDP in 2000. Export volume is projected to grow at 12 percent a year on average during 1998-2000, on the strength of agriculture, agro-industry, and other nontraditional exports. The growth of import volume is expected to moderate to a rate a little above that of real GDP. Assuming debt rescheduling (described below), debt service obligations are projected to decline from 40 percent of exports of goods and nonfactor services in 1997 to 19½ percent in 2000. Based on current commitments, official transfers are likely to decline in importance (from 5.1 percent of GDP in 1997 to 4.6 percent of GDP in 1999).

Exchange system

20. The exchange system has been unified since January 1996. The central bank will continue to buy or sell any amount of foreign exchange from the financial institutions at an exchange rate determined by a crawling peg system. While Nicaragua has maintained its external competitiveness as evidenced by the strong growth of exports and improvement in the trade balance in the past several years, its external position remains fragile. As inflationary pressures abate, as a result of strengthened fiscal and monetary policies, the rate of crawl is expected to be gradually reduced.

Trade policy

21. *The government is committed to maintain a trade system free of nontariff restrictions and to continue the process of reducing import duties and export subsidies.* For the vast majority of import items, the recently approved tax reform law reduced the maximum tariff to 30 percent as of July 1997. The maximum tariff will be reduced further to 20 percent in July 1998 and 10 percent in July 1999. However, the reform excludes a set of goods exempt from the Central American Common Market agreement-the “fiscal goods”-alcoholic beverages, cigarettes, and carbonated soft drinks for which a maximum tariff of 55 percent as of July 1997 is to be reduced to 30 percent by January 2000. The income tax rebates and tax benefits for some exports in the form of negotiable tax certificates (CBT), was phased out by December 1997. The firms producing for exports will continue to have duty free access to imported machinery, equipment, and intermediary goods through the regimes of either temporary entry or export processing zones.

External debt management

22. To advance toward external viability, the government’s debt management policy will rely on securing grants and highly concessional loans to cover its external financing requirements, and the government will not contract or guarantee any new loans on nonconcessional terms. The government will request a comprehensive rescheduling of the eligible debt on Naples terms from Paris Club creditors in mid-1998, and will actively continue to pursue agreements with remaining creditors on debt and debt-service reduction on terms at least comparable to those granted by Paris Club creditors. In order to enhance the effectiveness of its debt management, the Ministry of Finance will coordinate all external debt functions with the BCN ensuring on a continual basis that no new external arrears are incurred during the program period, except for obligations which are the subject of ongoing negotiations with creditors, or which were considered under the program to be potentially eligible for refinancing or rescheduling, or other debt relief mechanisms.

B. Structural Reforms

23. Nicaragua is implementing an ambitious structural reform program that will complete the transition to a market economy. To this end, the government intends to broaden the scope for private sector activity through privatization of public enterprises, and to further improve

business environment by providing firm protection of property rights, building confidence in the judicial process, improving the quality of other public services, and further strengthening of the financial system. Government's plans to reform the public sector, judiciary and legal systems, to privatize public enterprises and utilities, reform social security, resolve outstanding problems of property rights, reform the financial system, and improve the functioning of labor market are described below and in Table 1.

Public sector reform

24. *The Government plans to continue the institutional reform of the public sector aimed at improving services and increasing efficiency.* The Public Sector Reform Program initiated in late 1994 (with technical and financial support from IDA, IDB, U.S.AID, and UNDP) will be concluded in 1999. The program includes the streamlining and rationalization of the functions of some 16 ministries and 20 government agencies and the reform of the civil service. During 1998 the government will implement a law for the **restructuring of the executive branch** (submitted to the National Assembly in December 1997), which will increase its efficiency by reducing significantly the number of government ministries and agencies that report directly to the president. At the same time, the government will strengthen the National System of Public Investment (SNIP), with the Office of the Presidency empowered to oversee public investment across ministries to provide greater cohesion to the country's development strategy.

25. Implementation of a new **labor mobility program** that started in 1997 aims at reducing the number of public sector positions-in addition to those that result from the privatization of public enterprises—by about 4,800 (5 percent of the total) during 1997–99. About 1,800 were closed by end-1997, an additional 1,500 positions will be closed in 1998, with the remaining positions expected to be closed in 1999. The government is developing a comprehensive civil service reform to be introduced by a new **civil service law and regulations** expected to be passed in 1999. The reform will establish a system of job selection, evaluation, remuneration and incentives, and training programs to improve the efficiency and quality of public services.

Governance and public accountability

26. *The government is preparing a comprehensive judicial reform that aims at improving legal procedures and enhancing the enforcement of contracts and property rights. The reform is being developed and will be implemented with the support of the IDA, IDB, U.S.AID, UNDP, and the European Union during* 1997-2001. To reorganize and simplify court procedures and facilitate the resolution of administrative claims the government will propose an administrative dispute settlement law by end-1999 and a reform of the penal code in year 2000. The program will also help strengthen the judicial body through training, introduction of new technology, and strengthening of the information and statistics systems.

27. To further improve the environment for private sector activity, the government plans to make appropriate revisions to the foreign investment law and regulations by end-1998,

modernize the bankruptcy law and the intellectual property law by end-1999, and the commercial code by end-2000. The foreign investment law will ensure a level playing field for domestic and foreign investors, and the provisions on capital repatriation and export proceeds will seek to establish conditions that are competitive with those prevailing in the region.

28. In order to strengthen accountability and improve transparency of the public finances, during the first quarter of 1998 the government will submit to the Assembly legislation establishing a new system of financial administration for the central government (*Sistema de Evaluación Financiera del Estado-SEIF*). Pilot projects for local **SEIF** representative offices will also be developed.

Privatization

29. *The government plans to privatize public utilities, the state oil distribution company, and services of the major ports.* [4] To establish the relevant legal framework, the National Assembly approved legislation on electricity (in October 1997), on water and sewerage sectors (in November 1997). Laws on commercialization and exploration of hydrocarbons are expected to be approved in March 1998. The government is reforming the tariff structure for utilities, and will ensure that the privatization process is transparent. The sectoral laws also have established regulatory agencies to supervise tariffs and quality of services of the utility companies.

30. A revised law enabling **privatization of ENITEL** was submitted to the Assembly in December 1997 and is expected to be approved by June 1998. At least 40 percent of ENITEL will be offered for sale by September 1998.

31. The **electricity** law approved in October 1997 provides for a split of ENEL's assets and activities into a generation and distribution unit in preparation for the participation of the private sector in these activities. By end-1999 the generation and distribution assets will be sold or given in concession to the private sector.

32. With the support of the IDB, the Government plans to decentralize the services of INAA and involve the private sector. To this end, the recently approved **water and sewerage** laws established INAA as a regulatory entity, and created a new water company (ENACAL). Water and sewerage operations will be split into urban and rural systems during 1998-99. The rural systems will be linked to municipalities and local management, while urban systems will be prepared for future concessions.

---

[4] By the end of 1996, the government holding company (CORNAP) had privatized, returned to former owners or liquidated all but 5 of the 35 1 formerly state-owned enterprises under its control.

33. Imports of hydrocarbons have been free since 1995, and the two **hydrocarbon laws** allowing exploration and production of hydrocarbons by private companies are expected to be approved by June 1998. The privatization of the state oil distribution company (PETRONIC) is expected to be completed in 1999.

34. The government has embarked on a program of privatizing all port services (stevedoring, piloting, and storage) and giving private sector concessions to expand terminal facilities. The major ports need rehabilitation and modernization. To the extent possible, these improvements will be funded by granting concessions to the private sector. The government plans also to transform the state port authority (ENAP) into a regulatory agency by end-1999.

35. The government will rehabilitate the road system, especially the major export corridors, by implementing projects supported by IDA and IDB. The feeder and rural roads also will be improved. The government plans to contract out maintenance to the private sector and sell the state-owned road maintenance units (CERCs).

Social security reform

36. A study to develop options for the reform of the social security system will be prepared with technical assistance from IDA and the IDB and is expected to be concluded by mid-1999. In the meantime, the government till submit to the National Assembly a draft Social Security Law to strengthen the current system by further promoting the participation of the private sector in the supply of health services and ensuring actuarial viability of the pension system. In order to improve the finances of the social security system, the law expected to be approved by mid-1998 will revise contribution rates, pensions, retirement age, and include measures to improve the financial management of the social security institute (INSS).

Property Rights

37. *The government is committed to resolving the outstanding problems ofproperty rights, and considers it crucial for establishing the basis for sustained growth of private sector activity and investment.* In November 1997, the National Assembly approved a new **property rights law** *(Ley de la Propriedad Reformada Urbana y Agraria)* to facilitate the resolution of pending claims and speed up the issue of property titles. According to the new law, disputes over the ownership of large properties will be resolved either in the courts or by mutual agreement between the parties involved, while the rights to land now in hands of urban poor and the beneficiaries of the agrarian reform would be legally upheld. The government plans to issue 90,000 titles to small urban and rural plot holders in the next two years.’

[5] Of a total of 150,000 urban and rural properties, property titles for about 20,000 were issued by end- 1997.

38. The new property rights law enables the former owners whose claims had not been resolved by administrative procedures to take their claims to the courts.[6] The law also allows the government to settle disputes by issuing securities, including other than the indemnization bonds *(Bonos de Pago de Indemnización*—BOPAI), and the National Assembly approved the issue of additional BOPAIs for US$200 million.[7]

Financial sector reforms

39. *The government aims at further developing a sound and competitive financial system by strengthening prudential regulations and supervision, and solving the problem of financially weak state-owned banks by either closing or privatizing.* The prudential requirements, bank regulation and supervision have been strengthened by a banking law approved in 1996, which increased the minimum capital-to-assets requirement from 6 percent to 10 percent to be achieved in steps by the year 2000 (currently 8 percent), and raised the ceiling on fines for noncompliance of prudential norms. Based on the law, the Superintendency of Banks issued revised prudential norms on capital adequacy, asset classification and provisioning, and loan concentration. The Superintendency of Banks has adopted a comprehensive Bank Supervision Action Plan to be implemented with IDA and IDB assistance. The Plan includes measures to strengthen the Superintendency's capacity to evaluate the solvency of the banks, to reinforce the banking safety network, to introduce improvements in bank regulations to enhance bank competition, limit related party lending, reduce the scope for discretional decisions, and increase bank solvency by improving the definition of the capital base. Beginning in June 1999, banks will no longer be able to count development bonds (BOFOS) as secondary capital. The government will support the strengthening of the Superintendency's personnel and technology to ensure that it is able to successfully carry out its duties.

40. The government plans to reduce state participation in the banking sector while ensuring that financial services remain available to small farmers. The government is taking steps to cease the banking functions of the largest state bank (BANADES) and sell *to* the private sector its controlling interest in Banco Nicaraguense (BANK). All BANADES

---

[6] By end-1997, the administrative review process had been completed for about 97 percent of a total of about 125,000 cases (12,415 urban houses, 105,586 urban lots and 7,654 agrarian lots). In about 70 percent of the cases reviewed the owners have received provisional titles.

[7] By end-1997, the government completed the review and offered compensation in about 50 percent of cases submitted by past owners of confiscated properties. Compensation was in BOPAI denominated in cordobas and indexed to the U.S. dollar. During 1993-97, US$580 million in compensation bonds were issued, and US$134 million were redeemed. (The bonds have a maturity of 15 years and interest rates of 3 to 5 percent, and can be used to settle past due obligations to public entities and taxes owed before June 1993.)

branches have been sold or closed.[8] By May 1998, BANADES will cease to operate as a financial intermediary as the Superintendency of Banks will withdraw its licence to operate. The government has submitted legislation to the Assembly authorizing the sale of BANK shares in an amount sufficient to transfer majority control to private concerns. The government will call for bids for a majority of shares of BANIC by June 1998. In addition, the government intends to privatize a second-tier financial institution (FNI), which on lends to commercial banks funds from government-guaranteed external loans.

Labor market reform

41. *The government-will contribute to labor productivity by reducing labor market rigidity both in the public and private sectors.* The new **Labor Code** approved in 1996 set the legal basis for the pursuit of more efficient and flexible operation of the labor market. The new Code allows temporary contracts to help reduce entry/exit barriers, reduce severance payments, establishes more balanced regulations on strikes that protect the interests of workers, and owners, and gives power to the Ministry of Labor to pronounce on the legality of strikes. As mentioned above, the government is also implementing a reform to modernize the civil service and its salary structure.

C. Social Sectors and Poverty Alleviation

42. *The government is determined to reduce poverty and gradually improve living conditions and human capital, based on the principles of equity, efficiency, and accountability.* Expenditures on social sectors, anti-poverty programs and rural development are projected to increase from about 10% percent of GDP in 1997 to about 11% percent of GDP in 2000.[9] This would imply an increase in the share of the broadly defined social expenditure from 33 percent of government expenditures in 1997 to almost 45 percent in 2000. The government's social strategy will continue to rely on two main fronts: (i) programs to improve the quality and efficiency of basic social services, particularly primary health care and primary education; and (ii) investments in social infrastructure in the poorest regions through the Social Investment Fund (FISE). To improve coordination and monitor the effectiveness of the social policies and safety net programs, by mid-1998 the government will establish a technical secretariat for the social sector under the Office of the Presidency. A review of ongoing projects and programs that is underway will propose their consolidation as appropriate.

---

[8] By January 30, 1998, a total of 36 branches were sold to private banks and 5 branches were closed, and BANADES' assets had been reduced by almost 90 percent. IDA and IDB will provide support to finance the losses resulting from the negative net worth of BANADES.

[9] Under the E&W-supported program, the international community can provide grants for social programs in addition to those identified so far, which would result in a further increase in social expenditures.

43. A redefinition of the role of government and decentralization of services also are central to the social sector strategy. Programs for the decentralization of functions in the ministries of Health (MINSA) and Education (MED), initiated in 1994 will continue and are expected to be completed during 1999. MINSA is transferring decisions on budget execution (except for payroll) to Integrated Local Health Districts (SILAIS) and to municipalities. MED launched a reform in 1994 with support of U.S.AID and IDA that transfers school administration and financial management to local councils at the school or municipal levels. By mid-1997, about 450 primary and secondary schools (20 percent of total) were operating under decentralization agreements and the authorities expect 2000 schools (90 percent) to be decentralized by 1999. The FISE is supporting municipal governments to build their capacity to manage projects and to maintain infrastructure.

Health and nutrition

44. *The health policy will focus on strengthening primary and preventive care services and epidemiological control by extending the integrated model of public care at the national level.* The primary health facilities will be provided with essential pharmaceuticals and medical supplies. The government also will increase the availability of reproductive health services and implement a nutritional strategy emphasizing mothers and their young children. School feeding programs in the poorest areas will be extended, and a program of targeted delivery of nutritional supplements to the most needy will be implemented. Essential secondary level services will also be strengthened, and primary and secondary level basic infrastructure will be rehabilitated. MINSA will continue cost recovery practices while preserving equity. Public expenditure in health increased from 4 percent of GDP in 1993 to 5-6 percent ‘of GDP in 1995-96, and the government is committed to maintain expenditures in health at 5-6 percent of GDP during 1998-2000.

Water and sanitation

45. The provision of potable water and basic sanitation is an essential complement to the health and nutrition strategies, which aim at reducing water-borne diseases. The government plans to continue to improve and expand water systems and services in urban areas and, with the help of FISE, to accelerate the expansion of water services in dispersed rural communities. These efforts will be carried out in collaboration with local governments and will include efforts to strengthen the capacities of municipalities to plan, operate and maintain these systems once installed.

Education

46. *During 1998-2000, the government plans to raise school completion rates by increasing the retention of students in the school system. This will be pursued by improving the quality and relevance of primary education, rehabilitating education infrastructure, and improving student and teacher incentives.* Quality improvements are expected from intensifying teacher training, more textbooks, more appropriate curricula, and increasing the number of schooling days. Incentives for students to remain in schools will include the provision of school materials and clothing as well as school feeding programs. The government also will expand its pre-school program and secondary education services in 1998. Public expenditure in education reached 3–4 percent of GDP in 1995-96 and will exceed 4 percent of GDP by 2000. The administrative structure and resource allocation will be improved to increase resources per student at the primary level and equity in allocations per student across schools.

Poverty alleviation programs

47. *During 1998-2000 the government will continue to implement the short-term poverty alleviation programs, which were initiated in 1991–93 and expanded in 1995-97.* The government is reviewing its safety net programs implemented by the Ministry of Social Action (MAS), the National Program for Rural Development (PNDR) and the National Fund for Children and Families (FONIF), and intends to consolidate the programs by type of assistance and improve the targeting mechanisms. The job conversion and temporary job generation (Food for Work) programs will be important in lowering the risks of transitional poverty. The poverty alleviation programs that are financed partly by the FISE and executed by line ministries, municipalities, and NGOs concentrate on special works on infrastructure, employment creation in poor areas, integrated rural development (targeting former conflict areas and displaced families), and assistance in nutrition. During 1995-96, expenditures for poverty alleviation increased to 2% percent of GDP (from less than 1 percent a year in 1991–93), mostly financed from external grants and concessional loans. In 1998-2000, these expenditures are expected to remain at 2-3 percent of GDP on average.

D. Rural Sector Policy

48. *The government attaches the highest priority to improving living conditions in rural areas, and its strategy focuses on the promotion of sustained growth in the agricultural sector. This objective will be pursued by removing distortions in the land markets, in access to credit, developing infrastructure, and helping improve technology andpreserve the environment.* The government will take measures to remove insecurity of land tenure for small farmers, increase its capacity to disseminate technical research and provide extension services and improve the conditions for small farmers' access to markets.

49. Improving the functioning of **land markets** and resolving **property rights** issues are essential to promote investment in the rural sector. The government is preparing a major initiative to reform land cadastring, titling and registration in a comprehensive manner that will improve efficiency, reliability, and transparency of these processes, The initiative includes institutional strengthening, modernization of the national and provincial registries, and addresses the issue of communal lands in the Atlantic Coast. To increase agricultural yields, which are currently only a fraction of those in developed countries, and improve human capital, the **Institute of Agricultural Technology** (INTA) will be modernized and private sector participation in extension will be promoted.

50. The government intends to develop **rural financial markets** by reducing state banking activities in general and rural banking in particular. The development of the incipient rural private banking network and of sustainable **nonbank** intermediaries (**NGOs**, rural cooperatives) will be promoted by titling land, and by changing financial regulations and supervisory practice to allow other types of collateral in addition to real estate. The unavailability of post-harvest storage facilities and limited **marketing channels** are partly responsible for farmers selling their products at depressed prices and will be addressed by improving communications (rural feeder roads), privatizing state-owned grain storage facilities, providing information on harvest volumes and crop prices through mass communication, and constructing new storage bins for small holders.

51. The government also will design policies and programs to reduce encroachment into watersheds, national parks and indigenous reserves. The strategy to arrest environmental degradation includes: (a) promoting the adoption of technologies that conserve natural resources; (b) improving the legal framework by preparing laws governing forestry, fisheries, mining,,biodiversity, protected areas and indigenous land; (c) implementing the national **forestry plan;** (d) strengthening **MARENA's** capacity to formulate and implement policies **as** well as the **Office of Environmental Affairs** in the General Attorney's **Office** to enforce environmental and natural resource legislation; and (e) protecting biodiversity by strengthening the protected areas system. The government also plans to take actions to address the issue of indigenous groups rights to land and natural resources, the first step of which will be the adoption of a procedure for the demarcation of indigenous land.

E. Technical Assistance Requirements

52. In the last several years, extensive technical assistance has been provided by the Fund, IDA, IDB, UNDP, and **U.S.AID** in the areas of macroeconomic and social policies, public sector and institutional reforms, and the methodology and compilation of statistics in a number of different areas. During 1998-2000 technical assistance is expected to continue in these areas, with special emphasis on: (i) public sector reform, including the institutional reform, the investment program, privatization, and the strengthening of tax and customs administration; (ii) financial sector, including the supervisory functions of the Superintendency of Banks, central bank functions and operations, development of capital markets and reform of the pension system; (iii) social policies, including health, education, and poverty alleviation programs; and (iv) statistics, including public finance, balance of payments and price statistics, and national accounts estimates. A list of identified technical assistance plans is attached as Table 2.

IV. External Financing Requirements

53. Economic policies of the program aim at strengthening national savings to help maintain the level of domestic investment and gradually reduce Nicaragua's dependence on official external flows. However, the external financing requirements remain large over the

next several years because of the country's still low export base and high debt service obligations.

54. Gross capital inflows from official sources are projected to amount to about US$460 million (22 percent of GDP) in 1998 and US$3 10 million (14 percent of GDP) a year in 1999-2000, 30 percent of which in the form of grants. Combined disbursements by the IDA and IDB in this period are expected at about US$180 million a year, including both project-related and balance of payments support. Subsequently, gross offkial inflows (including from IDA and the IDB) are assumed to decline somewhat in nominal U.S. dollar terms and would fall to about 10 percent of GDP a year in 2001-2005. Net private sector capital inflows, excluding transfers but including direct investment, are projected at about US$200–260 million a year (10–12 percent of GDP) in 1998-2000; private inflows could be expected to remain at around 10 percent of GDP a year during 2001-2005 (the period leading up to full output capacity utilization) and then gradually decline in relation to GDP.

55. The residual financing gap, estimated at US$1.7 billion in 1998, is projected to drop to US$100 million in 1999 and US$80 million in 2000, and would be eliminated thereafter. Those financing gaps could be filled by a comprehensive flow rescheduling from Paris Club creditors and treatment on at least comparable terms from non-Paris Club offkial bilateral and commercial creditors.

56. The results of the latest debt sustainability analysis suggest that the country's external debt situation would remain vulnerable over the next decade even after the full application of traditional debt relief mechanisms as a result of the large debt service obligations and relatively low national income and export base. A sustained improvement in Nicaragua's external debt situation would require the strict adherence to a strong adjustment program, eschewing non-concessional borrowing, and recourse to debt relief Furthermore, provision of substantial concessional assistance for several years to come would be needed in order to support Nicaragua's reform efforts.

Table 1. Nicaragua: PFP Policy Matrix
Macroeconomic and Structural Adjustment Policies

Policy Measure	Program Schedule 1/	Implementation Status
1. **Macroeconomic Policies**		
a. Fiscal policy		
Approval by the National Assembly of the 1998 budget consistent with the 1998-2000 program.	December 1997	Approved
b. Monetary policy		
Unify bank's minimum reserve requirement across deposit maturities as well as currency denominations.	October 1997	Implemented
Use open market operations as the main instrument of monetary control.	1998-2000	
No use of directed credit policies.	1998-2000	
c. **Exchange and trade policies**		
Keep exchange policy under close review to achieve the balance of payments and inflation objectives of the program.	1997-2000	
End tax incentives to promote nontraditional exports in the form of negotiable tax certificates (CBTs).	December 1997	Implemented
Reduce maximum tariff to:		
20 percent	July 1998	
10 percent	July 1999	

Table 1. Nicaragua: PFP Policy Matrix
Macroeconomic and Structural Adjustment Policies

Policy Measure	Program Schedule, 1/	Implementation Status
2. Structural Reforms		
a. Public sector reform		
Approval by the National Assembly of the law for restructuring the executive branch consistent with the public sector reform program.	March 1998	
Implement a **labor mobility program** aiming at reducing public sector positions by a minimum of		
- 1,800 employees	Thru end-Dec. 1997	Implemented
-2,550 employees	Thru end-Jun. 1998	
-3,300 employees	Thru end-Dec. 1998	
-4,800 employees	Thru end-Dec. 1999	
These figures are cumulative from January 1997 and do not include reductions resulting **from** privatization of public enterprises.		
Introduce legislation to implement the new system of financial administration for the central government (SEIF).	March 1998	
Strengthen the capacity of the National System of Public Investment (SNIP) for selection, execution, evaluation, and follow up of investment projects; incorporate the SNIP into the Ministry of Finance.	End-1998	Ongoing
Approval by the National Assembly of a **new civil service law** aiming at establishing a system of job evaluation, remuneration, incentives and training to improve the efficiency and quality of public services.	End-1999	

Table 1. Nicaragua: PFP Policy Matrix
Macroeconomic and Structural Adjustment Policies

Policy Measure	Program Schedule 1/	Implementation **Status**
b. Privatization and Public Sector Tariffs		
Approval by **the** National Assembly of **the electricity law and regulations** as agreed with the IDB. This law will allow to divide ENEL's operations into transmission, generation and distribution. In addition, it would enable to divest ENEL's assets or grant concessions to the private sector for generation and distribution.	December 1997	Approved in November 1997
Approval by the National Assembly of two laws needed to reorganize the water and sewerage sector as agreed with the IDB. The laws transform INAA into a regulatory agency and create a new water and sewerage company (ENACAL).	December 1997	Approved in November 1997
Approval by the National Assembly of the **two hydrocarbons laws** to regulate the commercialization and exploration of hydrocarbons.	March 1998	
Continue adjusting **electricity rates** by 1.5 percent a month.	1998–2000	Ongoing
Continue adjusting water and sewerage tariffs by 1.5 percent a month.	June 1998	Ongoing
Commission a study to establish a new system of adjusting electricity rates based on long term marginal costs as agreed with the IDB.	June 1998	
Approve the new water and sewerage tariff structure as agreed with IDB.	March 1998	
Approval by the National Assembly of a new law to privatize the telecommunications company (ENITEL).	June 1998	
Offer for sale at least 40 percent of ENITEL's capital.	September 1998	
Divest ENEL's assets or grant concessions to the private sector for generation and distribution.	December 1999	
Privatization of port services.	December 1999	Ongoing
Transform the state port authority (ENAP) into a regulatory agency.	December 1999	

Table 1. Nicaragua: PFP Policy Matrix
Macroeconomic and Structural Adjustment Policies

Policy Measure	Program Schedule 1/	Implementation Status
Approval by the National Assembly of the **hydrocarbon laws** allowing exploration and production of hydrocarbons by private companies.	March 1998	
Privatize the state oil distribution company (PETRONIC).	1999	
c. **Social security reform**		
Present to the National Assembly a draft law to improve the finances and management of the social security institute (INSS).	May 1998	
Commission a study of the social security with support of the World Bank.	June 1998	
Separate the pension and health insurance accounts.	December 1998	
d. Property rights and legal reform		
Approval by the National Assembly of the property rights law to facilitate the resolution of remaining property claims.	June 1998	Approved December 1997
Continue judiciary and legal reforms aiming at improving legal procedures and enforcing legal contracts and property rights.	December 1999	Ongoing
Modernize the commercial code, the bankruptcy law, the intellectual property law and make appropriate revisions to the foreign investment law and regulations.	December 1999	Ongoing
e. **Financial system reform**		
Sale of at least 80 percent of BANADES's assets.	November 1997	Implemented
Superintendence of Banks will withdraw BANADES's license to operate as a financial intermediary.	May 1998	
The government will sell a controlling share of BANK's equity to the private sector, and retain a minority participation.	December 1998	
Sell 49 percent of FNI's capital.	December 1998	
Exclude BOFOS (development bonds) from secondary capital.	June 1999	
Strengthen the functioning of the Superintendency of Banks, increase banks' capital adequacy ratio from 8 to 10 percent.	End-2000	

Table 1. Nicaragua: PFP Policy Matrix
Macroeconomic and Structural Adjustment Policies

Policy Measure	Program Schedule 1/	Implementation Status
3. Social Sectors and Poverty Alleviation		
a. Health and nutrition		
Priority to strengthen primary and preventive care.	1998-2000	
Increase reproductive health services, with at least five centers operational.	2000	
Develop a national nutritional strategy emphasizing mothers and their young children.	1999	
b. Water and sanitation		
Continue to improve and expand water systems and services in urban areas and accelerate the expansion of water services in dispersed rural communities.	1998-2000	
Strengthen the capacities of local governments to plan, operate and maintain water systems once installed.		
c. Education		
Improve quality and relevance of primary education by intensifying teacher training, reforming curricula and increasing the number of schooling days; 90 percent of primary and secondary schools to be managed by local school boards. Create incentives to maintain students in schools, including provision of school material, clothing, and food.	1998-2000	
Expand pre-school program to reach at least 70 percent of age cohort.	1999	
4. Rural Sector Policy		
Improve the operation of land markets by resolving the pending property claims and improving land cadastring, titling and registration.	1998-2000	
Modernize the Institute of Agricultural Technology to help to increase agricultural yields and improve human capital. Increase by 40 percent the number of farmers assisted by public/private extension services.		2000
Implement a program to promote rural financial markets.		1998-99

Table 1. Nicaragua: PFP Policy Matrix
Macroeconomic and Structural Adjustment Policies

Policy Measure	Program Schedule 1/	Implementation Status
Privatize ENABAS .	1999	
Develop an appropriate legal framework and enforcement capacity to arrest environmental degradation, Pass new forestry, fisheries, mining, and water laws.	1999	

1/ Several structural measures were implemented in 1997 in the context of the authorities' 1997-2000 program.

Table 2. Nicaragua: Technical Assistance Programs and Requirements

Subject	Objectives and Comments	Provider	Timing 1/
1. Macroeconomic Policy			
a. Public finances	Comprehensive public sector reform, including privatization, decentralization, and implementation of an integrated financial management system.	IDA/IDB/ U.S.AID/ UNDP	1997-98
	Strengthen the custom and tax administration units.	IMF/IDB/ U.S.AID	1997-98
	Improve efficiency and financing of public services.	IDB/U.S.AID	1997-98
	Help design public investment program and establish a system for its periodic monitoring.	IDA/IDB/ UNDP	1997-98
b. Financial system	Strengthen the autonomy and technical capacity of the central bank in economic programming and policy implementation.	IDB/IMF	1997-98
	Assist in reform and downsizing of state banks.	IMF/IDB/ IDA/IFC	1997-98
	Strengthen the supervisory functions of the superintendency of banks.	IDB/IDA	1997-99
	Assist develop nonconventional credit programs.	IDB/IDA	1997-99
	Assist in promoting rural financial services.		1997-99
	Help change the legal and institutional framework for secured lending.		1997-98
c. Statistics	Help develop new national account estimates and a methodology for quarterly monitoring.	IDB/IMF/ U.S.AID	1996-98
	Help improve public financial statistics: classification of government expenditures, public enterprise and social security finances, reconciliation of information from "below" and "above" the line.	IMF	1998-99

Table 2. Nicaragua: Technical Assistance Programs and Requirements

Subject	Objectives and Comments	Provider	Timing 1/
	Help improve balance of payments statistics: improve recording of services items and workers' remittances, recording of private capital flows, incorporate exports of free trade zones into exports.	IMF	1998-99
	Price statistics: help broaden coverage of the CPI to cities outside Managua, help create wholesale price index	IMF	1999
2. Social Policy	Improve water sanitation.	IDB	1996-97
	Improve targeting of Social Emergency Investment Fund and other special programs	IDB/IDA	1997-99
	Improve nutrition program.	IDA	1997-99
	Expand coverage of primary health and education.	IDA/IDB	1997-99
	Help establish comprehensive health reform program.	IDA	1997-99
	Help conduct second living standard measurement survey with rural module.	IDA	1997-98
	Assistance to protect biodiversity and clarify indigenous property rights.	IDA/GEF	1998-2000
3. Structural/Private Sector	Help develop small private sector enterprises.	IDB/GTZ	1996-98
	Help privatization of telecommunications to help develop policies to attract foreign investment.	IDA/IFC	1996-98

1/ Technical assistance programs implemented or started in 1997 constitute a part of the authorities' 1997-2000 program.

Table 3. Nicaragua: Selected Economic and Financial Indicators

	1994	1995	1996	Proj. 1997	Est. 1997	Projections 1998	1999	2000
(Anlluol percentage change, unless otherwise stated)								
National income, prices, and unemployment								
GDP at constant prices	3.3	4.3	4.5	4.3	5.0	4.8	5.3	5.7
Consumer prices (end of period)	12.4	11.1	12.1	10.0	7.3	8.0	6.5	5.0
Consumer prices (period average)	7.8	11.2	11.6	10.1	9.2	9.9	7.3	5.8
Unemployment rate (percent)	20.7	16.2	14.8	...	13.9	...	...	...
External sector								
Exports, f.o.b.	31.6	49.9	27.3	18.9	18.1	16.8	9.0	8.0
Export volume	5.2	28.9	34.9	9.9	9.1	17.3	13.0	6.8
Imports, f.o.b.	17.2	10.2	21.7	18.7	17.3	9.9	4.6	6.8
Import vohllne	21.5	6.1	20.5	18.1	16.7	8.4	3.1	5.2
Terms of trade (deterioration -)	29.2	12.2	-5.7	6.8	6.8	-1.8	-5.0	-0.4
Nominal effective exchange rate								
End of period (depreciation -)	-4.7	-10.6	-7.4	...	-2.3	...	...	...
Real effective exchange rate								
End of period (depreciation -)	-7.8	-5.7	-0.3	...	0.1	...	...	...
Money and credit								
Net domestic assets of the central bank 1/2/	-36.8	98.1	15.5	46.2	-36.9	-81.2	-41.3	-38.8
Nonfinancial public sector (net) 1/2/	15.8	102.3	18.7	96.0	126.5	-166.3	-80.8	-98.4
Financial institutions (net) 1/	31.8	-37.3	-62.5	16.1	-22.6	-28.4	-26.9	-27.5
Currency in circulation	35.3	12.0	13.0	11.0	26.2	7.9	6.7	6.2
Financial system liabilities to private sector 3/	55.7	29.8	32.4	42.8	44.4	21.3	19.5	18.3
Financial system credit to private sector	21.3	13.7	9.9	18.3	16.6	15.9	13.7	13.2
Money income velocity (GDP/M3)	2.8	2.5	2.2	1.8	1.8	1.7	1.6	1.5
Interest rate on deposits (percent per annum)	11.1	11.5	12.6	...	11.5		.	...
(In percent of GDP)								
Public sector								
Combined public sector saving 4/	0.5	2.6	1.7	2.6	3.7	4.3	7.4	8.1
Combined public sector overall balance (before grants) 4/	-14.4	-12.4	-15.7	-9.6	-9.7	-9.0	-5.1	-3.7
Nonfinancial public sector saving	1.1	2.5	1.9	3.4	4.5	6.5	8.7	8.7
Nonfinancial public sector overall balance (before grants)	-13.8	-12.5	-15.5	-8.8	-8.9	-6.7	-3.9	-3.1
Central bank operational results (- deficit)	-0.6	0.1	-0.2	-0.8	-0.8	-2.2	-1.3	-0.6
Savings and investment								
Gross domestic investment	22.2	24.1	27.7	29.9	30.9	28.0	27.8	27.8
Public	14.9	15.0	17.4	12.1	13.4	13.3	12.5	11.8
Private	7.3	9.1	10.3	17.8	17.5	14.7	15.3	16.0
National savings	-7.3	1.8	3.7	4.6	5.8	7.2	10.6	11.8
Public	0.5	2.6	1.7	2.6	3.7	4.3	7.4	8.1
Private	-7.8	-0.8	2.0	2.0	2.1	2.9	3.2	3.7
External savings 5/	29.5	22.3	24.0	25.4	25.1	20.8	17.2	16.0
External sector								
External current account balance	-53.0	-34.9	-32.6	-26.8	-26.8	-23.2	-19.3	-17.8
(excluding interest obligations)	-23.4	-17.1	-17.9	-19.1	-19.1	-15.9	-12.0	-10.9
Trade balance (deficit -)	-23.8	-17.9	-19.4	-22.4	-22.0	-20.5	-18.5	-18.1
Outstanding external public debt (end of year) 6/	641.2	635.1	310.0	305.6	291.7	278.7	273.5	261.2
(In percent of exports of goods and nonfactor services)								
Contractual debt service, before future debt relief	345.0	140.4	91.7	40.2	40.5	30.1	28.3	25.6
Contractual interest obligations, before future debt relief	118.9	52.2	35.8	16.1	16.6	14.2	13.8	12.5
Adjusted official reserves (in months of imports) 7/	1.8	1.6	1.4	0.1	0.2	1.8	2.4	3.0

Sources: Central Bank of Nicaragua; Ministry of Fii; and Fund staff estimates.

1/ In relation to currency in circulation at the beginning of the year.
2/ In 1997 includes a credit to the central government (C$617 million) to finance the closing of BANADES. In 1998 includes the repayment of that credit with the proceeds of an US$65 million loan from the IDB.
3/ Starting in 1995, thii includes central bank certificates (CENIS) held by the private sector.
4/ Includes operational results of the central bank.
5/ External current account deficit, excluding interest not paid.
6/ Before future debt relief.
7/ Gross reserves net of outstanding stock of CENIS.

Table 4. Nicaragua: External Financing Requirement and Sources, 1993-2000

	1993	1994	1995	1996	1997	Program 1998	1999	2000
Current Account	-877	-966	-658	-641	-540	491	431	-420
Exports of GNFS	361	453	644	807	936	1091	1195	1291
Imports of GNFS	-86 1	-957	-1083	-1300	-1481	-1625	-1696	-1813
Non-interest current account (excluding official transfers)	465	428	-322	-352	-385	-336	-267	-259
Scheduled interest	412	-538	-336	-289	-155	-155	-165	-161
Capital account	494	-864	438	-276	116	34	90	85
Scheduled amortization	-562	-1020	-560	451	-224	-173	-174	-169
IMF repayments								
Other capital	68	156	123	175	340	208	264	254
Increase in net official reserves	100	-69	63	8	-58	-103	-60	-60
Changes in arrears	779	1273	-1109	-3157	-41	-1570	0	0
External financing requirements	492	-626	-2143	-4065	-524	-2129	401	-394
Disbursements	400	583	421	383	316	458	304	312
Grants	243	245	177	168	102	107	103	117
Loans	157	338	244	215	215	351	201	195
IDA	15	53	19	59	44	113	40	30
Multilateral development banks	82	187	116	71	71	151	61	41
Bilateral creditors	61	98	109	85	100	87	100	125
IMF								
Debt rescheduling	92	43	1722	3682	207	0	0	0
Residual financing gap	0	0	0	0	0	-1671	-97	-83

Sources: Nicaragua authorities; and Fund staff estimatives and projections.

Table 5. Nicaragua: Key Indicators of External Indebtedness, 1997-2016

	Debt stock including Arrears at end-1997	Arrears end-1991	Est. 1997	Projections								Outer Years		Averages	
				1998	1999	2000	2001	2002	2003	2004	2005	2010	2016	1998-2007	2008-16
						(In millions of U.S. dollars)									
Total debt service			378.8	313.9	318.5	309.4	294.6	322.7	325.8	328.6	309.8	321.0	279.1	318.4	298.8
Principal			223.9	173.1	176.5	174.4	160.8	190.6	197.5	204.4	188.1	213.6	196.1	189.4	199.7
Interest			155.0	140.8	142.0	135.0	133.8	132.1	128.3	124.1	121.7	107.4	83.0	129.0	99.0
Scheduled debt service on existing contracted debt			378.8	308.7	307.1	286.9	262.4	282.2	276.2	263.9	230.2	217.5	160.4	269.1	188.8
Principal			223.9	173.1	176.5	167.7	147.9	172.2	172.5	166.5	137.3	146.1	117.0	161.6	126.7
Medium-and long-term	5886.5	1570.0	223.9	173.1	176.5	167.7	147.9	172.2	172.5	166.5	137.3	146.1	117.0	161.6	126.7
Multilateral	1591.3		71.9	40.6	41.1	41.3	41.3	39.9	46.7	44.7	49.7	38.1	43.8	46.4	38.7
Official bilateral	3839.3	1570.0	111.0	91.4	90.7	93.0	103.0	129.6	124.4	120.7	87.2	108.1	73.2	102.3	88.1
Paris Club	1576.4	38.6	33.5	34.4	34.0	38.3	38.2	65.0	67.4	70.0	70.3	92.0	70.7	57.1	78.9
Post-cut-off date	318.9		1.7	4.3	4.3	4.6	7.3	10.2	11.1	11.9	10.5	12.3	11.8	8.7	12.2
Pre-cut-off date	1238.0		31.7	30.0	29.6	33.7	30.9	54.8	56.3	58.1	59.9	79.7	58.9	48.4	66.7
Of which: PRD on London terms	499.5		7.2	6.9	7.5	8.3	9.5	10.5	11.6	12.9	14.3	30.9	39.1	11.9	35.5
PRD on Naples terms	246.3		9.7	10.4	10.4	10.4	0.0	0.2	0.8	1.5	2.2	7.2	19.0	4.3	11.0
Other official	2262.9	1531.4	17.5	57.0	56.7	54.7	64.8	64.5	57.0	50.7	16.8	16.1	2.5	45.2	9.2
Commercial	443.6		41.0	41.1	44.7	33.4	3.7	2.8	1.3	1.1	0.4	0.0	0.0	12.8	0.0
Interest			155.0	135.6	130.6	119.2	114.5	110.0	103.7	97.3	92.9	71.4	43.4	107.5	62.1
Medium-and long-term			155.0	135.6	130.6	119.2	114.5	110.0	103.7	97.3	92.9	71.4	43.4	107.5	62.1
Multilateral			51.9	47.4	45.0	42.3	40.2	39.8	38.8	37.1	36.6	37.1	31.8	39.5	35.3
Official bilateral			99.2	83.6	80.6	73.7	13.7	69.9	64.7	60.1	56.3	34.3	11.6	66.5	26.8
Paris Club			59.8	59.6	58.0	59.3	63.5	61.4	58.4	55.3	52.0	32.6	11.5	56.2	25.7
Pod-cut-off date			5.5	5.4	5.2	5.1	4.9	4.6	4.3	4.0	3.8	2.7	1.8	4.5	2.6
Pre-cut-off date			54.3	54.2	52.7	54.2	58.6	56.8	54.1	51.3	48.2	29.9	9.7	51.7	23.0
Of which: PRD on London terms			24.0	20.4	20.0	21.0	20.7	20.4	20.0	19.7	19.2	14.4	3.3	19.8	10.8
PRD on Naples terms			14.7	14.2	13.6	12.5	12.6	12.5	12.6	12.5	12.4	11.0	6.2	12.7	9.5
Other official			39.4	24.0	22.6	14.3	10.3	8.5	6.4	4.8	4.2	1.7	0.1	10.3	1.2
Commercial			3.9	4.6	5.0	3.2	0.6	0.3	0.1	0.1	0.0	0.0	0.0	1.4	0.0
Debt service on new borrowing			0.0	5.2	11.4	22.5	32.2	40.5	49.6	64.7	79.5	103.5	118.7	49.3	109.9
Principal			0.0	0.0	0.0	6.7	12.9	18.4	25.1	37.9	50.7	67.5	79.2	27.8	73.0
Interest			0.0	5.2	11.4	15.8	19.3	22.1	24.6	26.8	28.8	36.0	39.6	21.5	36.9
Memorandum items															
Total scheduled debt service			378.8	313.9	318.5	309.4	294.6	322.7	325.8	328.6	309.8	321.0	279.1	318.4	298.8
In percent of XGNFS			40.5	28.8	26.7	24.0	21.2	21.7	20.6	19.3	16.9	12.0	6.6	21.1	9.9
After debt rescheduling 1/			378.8	226.8	243.6	254.0	310.2	355.4	358.0	360.0	341.4	342.8	315.6	317.4	327.2
In percent of XGNFS			40.5	20.8	20.4	19.7	22.4	23.9	22.6	21.1	18.6	12.8	7.5	20.5	10.8
Total debt stock (In millions of U.S. dollars)			5886.5	6103.5	6174.1	6242.4	6274.5	6273.9	6266.4	6244.9	6216.9	5942.4	5531.0	6207.6	5842.5
In percent of XGNFS			628.9	559.4	516.7	483.5	452.4	421.4	395.4	366.1	338.6	222.7	131.2	413.2	192.5
After debt rescheduling (In millions of U.S. dollars)			5886.5	4362.6	4484.0	4599.7	4669.0	4597.1	4599.3	4596.1	4583.1	4294.3	3821.5	4551.7	4178.4
In percent of XGNFS			628.9	399.9	375.2	356.3	336.6	308.7	290.2	269.4	249.6	161.0	90.6	302.6	138.1
Total debt stock (NPV)			4783.4	4907.8	4919.5	4893.5	4882.0	4840.6	4795.8	4751.9	4713.4	4338.1	3910.2	4793.4	4209.6
In percent of XGNFS			511.0	449.8	411.7	379.0	352.0	325.1	302.6	278.5	256.7	162.6	92.7	320.5	139.2
After debt rescheduling			4783.4	3110.9	3172.8	3195.0	3222.1	3134.8	3093.8	3053.3	3017.6	2640.3	2144.4	3084.3	2491.6
In percent of XGNFS			511.0	285.1	265.5	247.5	232.3	210.5	195.2	179.0	164.4	99.0	50.9	206.4	83.0
In percent of XGNFS (three-year average)			601.2	329.3	295.4	268.0	249.6	225.7	208.1	191.6	176.6	106.5	54.8	225.1	89.3
NPV of debt to fiscal revenue ratio			925.9	562.2	557.9	532.5	497.7	449.4	411.8	377.3	346.2		...	...	
GDP (In millions ofU.S. dollars)			2018.0	2112.0	2230.1	2362.0	2549.0	2746.0	2958.0	3186.0	3432.0	4976.0	7554.0	2925.3	5804.9
XGNFS (In millions ofU.S. dollars)			936.0	1091.0	1195.0	1291.0	1387.0	1489.0	1585.0	1706.0	1836.0	2668.0	4217.0	1568.9	3168.2

Source: Nicaraguan authorities and staff estimates and projections.

1/ A comprehensive flow rescheduling from Paris Club creditors under Naples terms (67 percent NPV reduction) is assumed during the ESAF arrangement Non-Paris Club bilateral and commercial creditors are assumed to provide treatment on at least comparable terms, For illustrative purposes, a stock-of-debt operation on Naples terms (67 percent NPV reduction) at end-2000 is also assumed.