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DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

NICARAGUA

DEBT REDUCTION PROGRAM
(NI-0082)

LOAN PROPOSAL

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NICARAGUA

DEBT REDUCTION PROGRAM

NI-0082

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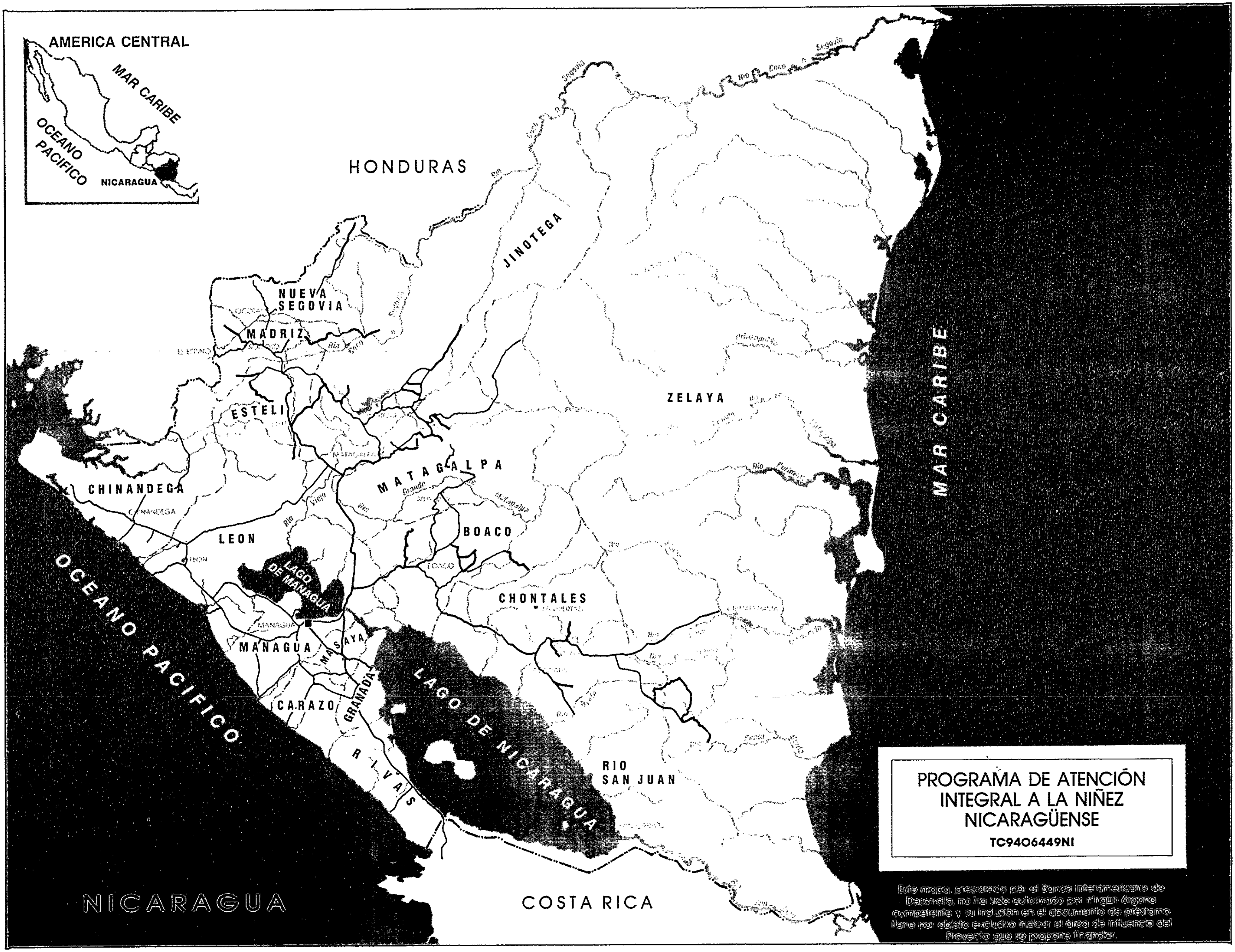
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COSTA RICA
PROGRAMA DE ATENCIÓN
INTEGRAL A LA NIÑEZ
NICARAGÜENSE
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Este mapa, preparado por el Banco Interamericano de Desarrollo, no ha sido autorizado por ningún órgano competente y su inclusión en el documento de préstamo tiene por objeto exclusivo indicar el área de influencia del Proyecto que se propone financiar.

NICARAGUA

Basic Socio-Economic Data
Statistics and Quantitative Analysis
Integration and Regional Programs Department

Executive Summary

Social Statistics

Land Area (Km2)	1994	118,358
Population (Thousands)	1994	4,275
Population (Average Annual Growth Rate)	1985-1994	3.1
Rural (Percent)	1994	33.1
Density (Population per Km2)	1994	36.1
Vital Statistics		
Crude Birth (Rate per 1,000 Population)	1992	39.0
Infant Mortality (Rate per 1,000 Live Births)	1993	50.6
Crude Death (Rate per 1,000 Population)	1992	6.3
Life Expectancy at Birth (Years)	1993	67.0
Illiteracy (Percent)	1985	13.0
Primary School Enrollment Ratio	1992	101.8

Economic Statistics

Exchange Rate (Gold Cordobas/US$)	2-1995	7.2
GDP per Capita (Average Annual Growth Rate)	1985-1994	-4.8
Labor Force (Thousands)	1993	1,490
Unemployment Rate (Percent)	1994	23.5
Consumer Prices (Twelve Month Variation)	1994	7.8
NF Public Sector Overall Balance (% of GDP)	1994	-5.5
Domestic Credit (% of GDP)	1994	38.0
Balance of Payments (Millions of US$)		
Current Account Balance	1994	-485
Trade Balance	1994	-375
Capital Account Balance	1994	363
Change in Reserves (- Increase)	1994	-68
Total External Debt (Millions of US$)	1994	10,704
Total Debt Service (Millions of US$)	1994	169
Debt to GDP Ratio (Percent)	1994	557.3
Debt Service Ratio (Percent)	1994	38.1

19 June 1995

NICARAGUA
Basic Socio-Economic Data

1. Exchange Rates

Gold Cordobas/US$, End of Period
Index 1990=100

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Exchange Rate	0.0	0.0	0.0	0.0	0.0	0.6	5.0	5.0	6.4	7.1
Real Effective Index	158.6	133.5	91.6	91.5	149.5	100.0	104.5	107.3	110.6	118.0

2. Prices

Average Annual Growth Rates in Percent

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Consumer Price Index	219.5	681.4	911.9	10215.2	4770.3	7485.2	2742.3	20.3	20.4	7.8
Wholesale Price Index	...	...	...	...	...	...	...	...	...	...

3. International Liquidity

Millions of US$

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Reserves	...	...	17	38	116	107	134	130	55	141
Reserves minus Gold	...	...	17	38	116	107	134	130	55	141
Special Drawing Rights (SDRs)	...	...	0	...	...	0	0	0	0	0
Reserve Position in the IMF	...	...	...	...	...	...	...	...	...	...
Foreign Exchange	...	...	17	38	116	107	134	130	55	141
Gold (National Valuation)	...	...	...	...	...	...	...	...	...	...

4. National Accounts

Millions of 1990 US$
1990 US$

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Gross Domestic Product	2806	2753	2726	2388	2372	2370	2369	2391	2381	2475
GDP Per Capita	869	831	804	687	665	645	622	604	578	579

Annual Growth Rates in Percent - Constant Prices

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
GDP Per Capita	-6.7	-3.5	-3.0	-14.5	-4.3	-3.0	-3.6	-3.4	-4.3	-0.6
GDP by Type of Expenditure (MP)	-4.1	-1.0	-0.7	-12.4	-1.7	0.0	-0.2	0.4	-0.4	3.2
Consumption	-1.6	-2.5	1.1	0.1	-13.3	-3.8	8.0	-3.5	-4.8	1.4
Gross Domestic Investment	-0.6	-1.2	-1.5	-29.4	-14.9	-14.0	14.2	-1.3	-10.9	14.3
Exports of Goods and Services	-11.7	-17.6	-2.2	-1.1	32.4	18.2	-15.2	20.2	3.7	3.2
Imports of Goods and Services	0.6	-14.3	3.5	19.4	-22.9	-4.5	16.4	1.9	-12.9	2.1
GDP by Sector of Origin (MP)										
Agriculture, Forestry and Fishing	-4.8	-8.8	-3.2	-10.2	9.2	0.2	-3.9	3.1	1.8	11.3
Mining and Quarrying	-21.3	31.5	-7.9	-8.7	41.0	-22.1	-1.4	17.1	2.7	5.9
Manufacturing	-4.7	2.1	-1.6	-25.3	-1.9	-1.5	6.4	-5.1	0.0	1.0
Electricity, Gas and Water	8.0	11.5	7.2	-4.9	4.4	7.9	0.3	3.1	1.4	3.4
Construction	10.0	0.0	7.0	-7.0	-15.0	-5.9	-8.1	8.3	1.5	11.0
Wholesale and Retail Trade	-5.5	0.4	-0.4	-12.6	-2.8	0.4	4.9	1.4	-2.5	0.8
Transport and Communications	-14.8	0.4	1.4	-15.5	-2.8	0.4	4.9	1.4	-4.0	-0.7
Financial Services	-2.3	0.1	2.6	-3.9	-0.9	-2.2	-0.4	0.3	-0.3	0.9
Government	1.3	2.0	-0.5	7.2	-16.3	3.5	-12.5	0.1	-1.8	-5.5
Other Services	-5.2	-2.5	-0.4	-17.6	-0.3	1.6	4.3	2.5	-1.7	2.4

NICARAGUA
Basic Socio-Economic Data

4. National Accounts (cont.)

Composition in Percent - Current Prices

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
GDP by Type of Expenditure (MP)										
Consumption	83.9	91.2	86.2	113.5	105.1	99.2	109.7	113.8	109.0	103.5
Gross Domestic Investment	23.1	16.9	15.8	26.8	27.5	19.3	20.2	19.3	17.5	18.4
Exports of Goods and Services	14.8	12.8	11.8	18.0	32.6	24.9	21.2	16.8	19.7	23.6
Imports of Goods and Services	21.8	20.8	13.8	58.3	65.2	43.4	51.0	49.8	46.2	45.6
GDP by Sector of Origin (MP)										
Agriculture, Forestry and Fishing	23.7	20.8	28.9	28.8	32.0	31.0	29.9	30.4	30.5	32.8
Mining and Quarrying	0.5	0.6	0.4	0.5	0.7	0.5	0.5	0.6	0.6	0.6
Manufacturing	27.6	27.7	18.7	17.7	17.6	16.8	17.4	16.6	17.0	16.5
Electricity, Gas and Water	1.9	1.7	0.9	1.0	1.1	1.1	1.1	1.2	1.2	1.2
Construction	5.0	3.5	3.0	3.4	2.9	2.8	2.3	2.3	2.4	2.8
Wholesale and Retail Trade	17.2	23.9	28.1	29.2	25.5	23.2	25.3	23.8	24.9	24.2
Transport and Communications	4.5	4.2	3.8	4.0	4.0	3.9	3.9	3.9	3.8	3.7
Financial Services	6.0	5.6	5.6	5.8	5.9	5.6	5.6	5.5	5.5	5.4
Government	9.2	7.3	5.2	4.3	4.9	9.6	8.3	9.9	8.3	7.2
Other Services	4.4	4.6	5.4	5.4	5.4	5.4	5.7	5.8	5.7	5.7

5. Non-Financial Public Sector

As a Percent of GDP

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Current Revenues	36.3	35.2	29.0	21.6	27.5	17.6	24.3	27.7	28.4	28.8
Current Expenditures	48.1	44.7	41.7	40.0	29.4	35.7	26.8	26.3	25.3	26.0
Current Savings	-11.7	-9.5	-12.8	-18.4	-1.9	-18.1	-2.5	1.4	3.2	2.8
Capital Expenditure	11.6	7.0	5.0	9.6	6.2	2.3	5.5	9.9	12.4	15.1
Overall Balance (- Deficit)	-22.4	-14.9	-17.2	-27.4	-4.5	-18.4	4.1	-3.4	-0.2	-5.5
Domestic Financing	22.0	14.9	17.2	25.0	-0.2	10.3	-4.5	-6.8	-1.2	-2.0

6. Monetary Survey

As a Percent of GDP

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Domestic Credit	55.5	32.3	19.1	6.5	9.4	8.2	39.4	36.1	37.7	38.0
Public Sector	32.1	16.9	7.7	1.2	-1.0	3.6	10.1	3.5	2.8	6.4
Private Sector	23.4	15.3	11.3	5.3	10.4	4.6	29.3	32.6	34.9	31.6
Money (M1)	29.3	23.6	19.4	4.5	4.4	1.7	7.5	8.4	7.1	6.8

7. External Trade

Direction in Percent - Customs Basis
Index 1980=100

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Exports of Goods (fob)										
Developed Countries	76.9	75.2	74.3	73.4	58.9	65.7	70.1	66.2	76.0	77.4
Developing Countries	23.1	24.8	25.7	26.6	41.1	34.3	29.9	33.8	24.0	22.6
Latin America	9.8	8.2	8.4	11.4	25.1	22.8	27.0	29.3	18.1	16.6
Imports of Goods (cif)										
Developed Countries	29.1	38.7	39.2	35.8	35.5	41.6	51.1	43.1	40.5	40.5
Developing Countries	70.9	61.3	60.8	64.2	64.5	58.4	48.9	56.9	59.5	59.5
Latin America	27.5	15.8	16.3	19.0	27.4	37.5	37.7	49.4	51.2	49.5
Terms of Trade Index	90.8	93.2	97.9	89.1	97.3	80.9	69.6	48.1	51.1	54.6

NICARAGUA
Basic Socio-Economic Data

7. External Trade (cont.)

Millions of US$ - Customs Basis
Composition in Percent

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Exports of Goods (fob)	274.6	233.6	...	220.9	253.8	325.6	257.7	227.5	...	...
All Food	58.1	74.4	...	66.6	70.4	77.0	69.0	77.1	...	...
Agricultural Raw Materials	34.7	19.6	...	22.7	12.2	13.7	19.6	13.3	...	...
Fuels	0.1	0.0	...	0.1	1.8	0.3	1.2	1.0	...	...
Ores and Metals	1.7	1.5	...	2.7	4.6	3.0	3.7	2.6	...	...
Manufactured Goods	5.5	4.5	...	8.0	11.0	6.0	6.5	6.1	...	...
Chemicals	3.2	2.5	...	4.5	5.4	3.5	3.3	2.9	...	...
Machinery and Transport Equipment	0.0	0.0	...	0.1	0.3	0.1	0.3	0.2	...	...
Other Manufactured Goods	2.3	1.9	...	3.4	5.3	2.4	3.0	2.9	...	...
Imports of Goods (cif)	1066.5	774.5	...	780.9	605.7	635.4	667.5	906.8	...	...
Capital Goods	34.4	34.3	34.4	38.8	38.4	38.3	29.9	29.0	...	...
Consumption Goods	22.3	18.9	17.6	21.5	20.7	30.9	35.1	39.4	...	...
Intermediate Goods	43.3	46.0	47.9	39.7	40.9	30.8	35.0	31.5	...	...
Fuels	22.6	20.4	17.8	17.7	18.2	23.9	18.0	17.2	...	...
Other	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.1	...	...

8. Balance of Payments

Millions of US$

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Current Account Balance	-726	-688	-679	-715	-362	-305	-5	-716	-457	-485
Trade Balance	-489	-420	-439	-483	-229	-237	-420	-548	-392	-375
Exports of Goods (fob)	305	258	295	236	319	332	268	223	267	344
Imports of Goods (fob)	794	677	734	718	547	570	688	771	659	718
Service Balance	-364	-383	-375	-363	-302	-269	-429	-557	-485	-499
Freight and Insurance	-67	-70	-77	-75	-49	-51	-42	-63	-49	-48
Travel	1	4	3	4	3	-3	-11	-7	10	3
Investment Income	-273	-254	-244	-262	-205	-217	-363	-495	-429	-466
Other Services	-25	-63	-57	-29	-51	1	-19	16	-9	11
Unrequited Transfers	127	115	135	130	169	202	844	389	421	389
Private	14	0	0	0	0	0	0	10	25	30
Official	113	115	135	130	169	202	844	379	396	359
Capital Account Balance	929	660	764	707	495	447	6	656	249	363
Non-Monetary Sector	927	659	757	718	494	442	10	657	264	385
Private Sector	-44	-16	-5	-11	25	20	-152	18	38	160
Direct Investment	0	0	0	0	0	0	0	15	39	40
Portfolio Investment	0	0	0	0	0	0	0	0	0	0
Other Long-Term	-2	-3	7	2	-5	-16	-37	2	-58	...
Other Short-Term	-41	-13	-13	-13	30	36	-115	1	57	120
Government Sector	970	675	762	729	469	422	162	639	227	225
Long-Term	786	391	73	202	-88	-135	240	-470	-363	-107
Short-Term	185	285	689	527	557	557	-78	1109	590	331
Monetary Sector	2	1	7	-10	1	6	-3	-1	-15	-22
Long-Term	0	0	0	0	-5	-17	-13	-4	-8	...
Short-Term	2	1	7	-10	7	22	10	4	-7	...
Change in Reserves (- Increase)	-17	211	-6	-44	-64	39	-86	-1	79	-68
Errors and Omissions	-187	-184	-79	52	-69	-181	85	60	128	190

NICARAGUA
Basic Socio-Economic Data

9. External Debt

Millions of US$
Ratios in Percent

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Total Debt	5821	6821	7976	8741	9743	10692	10642	11133	10445	10704
Long-Term Debt	4971	5807	6447	7020	7661	8245	8763	8991	8773	8869
Public and Publicly Guaranteed	4971	5807	6447	7020	7661	8245	8763	8991	8773	8869
Bilateral	2860	3632	4181	4698	5316	5828	5852	5961	5714	5773
Multilateral	742	786	863	918	928	977	991	1127	1162	1203
Bond Holders	0	0	0	0	0	0	524	524	524	524
Banks	1319	1288	1303	1305	1305	1306	1305	1300	1299	1298
Suppliers	30	69	69	69	79	99	57	47	42	39
Other Creditors	20	31	31	30	33	35	34	32	32	32
Private Non-Guaranteed	0	0	0	0	0	0	0	0	0	0
Use of IMF Credit	0	0	0	0	0	0	24	23	23	21
Short-Term Debt	850	1014	1529	1721	2083	2447	1855	2119	1648	1814
Interest Arrears on Debt	303	465	824	1056	1365	1713	1298	1441	1335	1482
Total Debt Service	64	40	44	21	11	16	530	83	116	169
Public and Publicly Guaranteed	50	36	42	17	9	10	525	77	110	160
Bilateral	27	14	27	4	4	3	179	20	41	50
Multilateral	6	16	11	8	0	2	341	54	65	31
Private Non-Guaranteed	0	0	0	0	0	0	0	0	0	0
IMF Repurchases and Charges	10	0	0	0	0	0	0	2	1	4
Short-Term Debt (Interest only)	5	4	2	4	2	6	5	3	4	5
Debt to GDP Ratio	226	268	320	431	511	451	606	622	574	557
Debt Service Ratio	19	14	13	7	3	4	152	26	31	38

... Not Available
0.0 Indicates that the amount is nil or negligible

NICARAGUA
Basic Socio-Economic Data

Sources and Notes

Executive Summary

Social Statistics:

Land Area: Organization of American States (OAS), América en Cifras 1974.

Population: IDB estimates based on data from Latin America Demographic Center (CELADE) and United Nations Population Division.

Vital Statistics:

World Bank, Social Indicators of Development - 1994 Edition and Economic Commission for Latin America and the Caribbean (ECLAC), Statistical Yearbook - 1994 Edition.

Economic Statistics:

Labor Force: World Bank, Social Indicators of Development - 1994 Edition.

Unemployment: Programa Regional del Empleo para América Latina y El Caribe (PREALC).

1. Exchange Rates:

International Monetary Fund (IMF), International Financial Statistics (IFS). Official rate.

Real Effective Index: IDB estimates based on data from the IMF, IFS.

2. Prices:

IMF, IFS. Annual figures are expressed as average annual growth rates; monthly figures as a twelve month variation.

3. International Liquidity:

IMF, IFS.

4. National Accounts:

GDP in 1990 US Dollars: IDB estimates.

GDP by Type of Expenditure and Sector of Origin: Secretaría de Planificación y Presupuesto de la Presidencia de la República.

5. Non-Financial Public Sector:

Ministerio de Finanzas and Banco Central de Nicaragua.

6. Monetary Survey:

Banco Central de Nicaragua (annual average). Private Sector credit includes Area de Propiedad del Pueblo (APP).

7. External Trade:

Trade by Direction: IMF, Direction of Trade Statistics (magnetic tapes).

Terms of Trade: ECLAC, Balance Preliminar de la Economía de America Latina y el Caribe, 1993.

Export Composition: United Nations Statistical Division (UNSTAT) Commodity Trade (COMTRADE) Data Base; Exports include Re-Exports.

Import Composition: Banco Central de Nicaragua, Dirección General de Aduanas, Instituto Nacional de Energía and PETRONIC.

8. Balance of Payments:

Banco Central de Nicaragua and IMF, Balance of Payments Statistics (magnetic tapes).

9. External Debt:

World Bank, World Debt Tables (magnetic tapes) and estimates.

NICARAGUA

REGIONAL SUPPORT SERVICES

ITC/IRO

TENTATIVE LENDING PROGRAM

		US$ Millions
1995		
NI0068	ROADS MAINTENANCE AND IMPROVEMENT PROG.	80.0
NI0085	PUBLIC ADMINISTRATION REFORM-RAP	40.0
NI0024	REHABILITATION OF THE HEALTH SECTOR	40.0
	TOTAL A	**160.0**
NI0025	FORESTRY RESOURCES MANAG./ CONSERV.PROG.	30.0
NI0087	RTC STRENGTHENNING OF THE CENTRAL BANK	2.7
NI0088	NO CONVENSIONAL CREDIT PROGRAM II	20.0
NI0027	MANAGEMENT OF LAKE MANAGUA BASIN PROGRA	40.0
	TOTAL B	**92.7**
	TOTAL YEAR	**252.7**
1996		
NI0081	JUDICIARY REFORM	10.0
NI0067	INVESTMENT SECTOR LOAN	60.0
NI0069	REHABIL. ELECTRICAL DISTRIBUCION SYSTEMS	65.0
NI0064	HOUSING PROGRAM	30.0
	TOTAL A	**165.0**
	TOTAL YEAR	**165.0**

NICARAGUA
REGIONAL SUPPORT SERVICES
RSS/ITC/IRO

IDB LOANS

APPROVED AS OF APRIL 30, 1995

	US$Thousand	Percentage
TOTAL APPROVED *	1,050,470	100.0%
DISBURSED	801,947	76.3%
CANCELLATIONS	21,731	2.1%
UNDISBURSED BALANCE	248,523	23.7%
PRINCIPAL COLLECTED	212,301	20.2%
APPROVED BY FUND		
ORDINARY CAPITAL	290,048	27.6%
FUND FOR SPECIAL OPERATIONS	709,538	67.5%
SOCIAL PROGRESS TRUST FUND	13,035	1.2%
VENEZUELAN TRUST FUND	34,440	3.3%
OTHER FUNDS	3,409	0.3%
APPROVED BY SECTOR		
AGRICULTURE AND FISHERY	306,544	29.2%
INDUSTRY, MINING AND TOURISM	42,500	4.0%
ENERGY	83,343	7.9%
TRANSPORTATION AND COMMUNICATIONS	110,844	10.6%
EDUCATION SCIENCE AND TECHNOLOGY	9,000	0.9%
HEALTH AND SANITATION	100,671	9.6%
ENVIRONMENT	1,050	0.1%
URBAN DEVELOPMENT	22,514	2.1%
SOCIAL INVESTMENT AND MICROENTERPRISE	83,598	8.0%
REFORM & PUBLIC SECTOR MODERNIZATION	256,564	24.4%
EXPORT FINANCING	1,826	0.2%
PREINVESTMENT AND OTHER	32,016	3.0%

* Net of cancellations with monetary adjustments and export financing loan collections.

DEBT REDUCTION PROGRAM

NI-0082

EXECUTIVE SUMMARY

BORROWER:	Republic of Nicaragua
EXECUTING AGENCY:	Central Bank of Nicaragua
AMOUNT AND SOURCE:	US$40 million (SF)

FINANCIAL TERMS AND CONDITIONS:	Amortization period:	40 years, including 10 years grace
	Disbursement period:	1 year
	Interest rate:	1% for the first 10 years, 2% for the next 30 years
	Inspection and supervision:	1.0%
	Commitment fee:	0.50%

OBJECTIVES: The basic purpose of the program is to contribute to Nicaragua's economic development through support for debt reduction, in the context of the agreement to be reached with the commercial banks.

Although the commercial debt represents only 12% of Nicaragua's total external debt, this operation is essential to facilitate normalization of relations with the international capital markets and to lessen the risk associated with the country in the minds of external lenders and investors. In addition, one of the prerequisites for a possible meeting of the Paris Club in mid-1997 to discuss reducing the debt is that similar agreements must have been reached with other external creditors. The operation will also facilitate the execution of the stabilization, adjustment and structural reform programs that the government is carrying out and of those that it plans to implement with the assistance of international financing agencies.

DESCRIPTION: The program will be part of a concerted effort by the Bank, the World Bank and bilateral donors to help Nicaragua buy back a significant portion of its external debt to commercial banks. The probable amount of financing needed would be approximately US$110 million. Financing for the package would consist of a concessional loan for US$40 million from the Bank, a nonreimbursable World Bank operation in a

similar amount, and grants from bilateral donors for US$30 million.

The Bank loan would come under the operational guidelines of the debt and debt-service reduction facility (document GN-1686-7 of March 22, 1991), as well as the Report on the Eighth General Increase in the Resources of the Bank (document AB-1704 of July 18, 1994), which provides for continued lending for debt and debt service reduction.

SPECIAL RECOMMENDATION: For this operation, it is recommended that an extension be granted in the deadline for allocation of Bank funds stipulated in the operational guidelines for the debt and debt-service reduction facility (document GN-1686-7 of March 22, 1991).

ENVIRONMENTAL CLASSIFICATION: The Environment Committee, at its meeting of May 16, 1995, classified this as a Category II operation.

SPECIAL CONTRACTUAL CONDITIONS: Prior to disbursement of the financing, the borrower will be required to submit evidence to the Bank that: (a) the macroeconomic context prevailing in the country is consistent with the objectives of the debt reduction program (see paragraph 4.6 of the document); (b) the contributions of the donors participating in the financing of the program are eligible for disbursement (see paragraph 3.7 of the document); (c) an agreement has been signed with the executing agency under which the latter undertakes to execute the program (see paragraph 4.3 of the document); and (d) contracts have been concluded with commercial bank creditors for the purchase of at least 70% of the country's commercial debt on highly concessional terms, preventing any further claims on their part (see paragraphs 3.6 and 4.6 of the document).

RISKS: The main risk associated with the operation is that the country may not be able to generate the external resources necessary to make timely payments on external commitments assumed vis-à-vis the governments and the multilateral agencies, including the Bank, particularly on account of the excessive level of indebtedness and the Nicaraguan economy's high degree of vulnerability to external events.

In addition, there is a risk that the operation may not be finalized on terms satisfactory to the Bank, in the sense that the price and other conditions set in the buyback offer are not sufficiently attractive for the holders of the debt.

Regarding the main risk, it is expected that, as a result of the implementation of the economic measures agreed on under the adjustment operations with the Bank, the enhanced structural adjustment operation negotiated with the IMF, and the economic recovery program funded by the World Bank – entered into in order to ensure the country's stabilization and economic recovery and to lay the foundations for sustainable growth – Nicaragua's creditworthiness will increase, along with the likelihood that it will be able to meet the commitments assumed vis-à-vis the Bank and other creditors.

The risk that a satisfactory agreement may not be reached with creditor banks has been lessened in that the buyback operation has been planned jointly with the Nicaraguan authorities and other financial entities and with the benefit of advice from consultants with extensive experience in operations of this type. In addition, the loan contract that will be signed with Nicaragua will include special conditions such that, in the event a satisfactory agreement is not reached with the banks, the funds will not declared eligible for disbursement. In the event that the creditor banks fail to express interest in participating in the repurchase operation, the operation will not take place.

THE BANK'S COUNTRY AND SECTOR STRATEGY: The Bank's strategy for Nicaragua is aimed at preserving economic stability, consolidating the economic reforms begun and achieving sustainable economic growth, all within a context that promotes private sector participation and supports the Government's efforts to modernize public sector administration while furthering poverty reduction by means of projects to rehabilitate low-income neighborhoods and to better attend to basic social needs such as health care and education. The program to reduce Nicaragua's indebtedness to commercial banks is compatible with the Bank's strategy for the country.

IMPACT ON POVERTY: Not applicable.

I. INTRODUCTION

1.1 For just over two years Nicaragua has been conducting discussions with the banks holding its commercial external debt with a view to negotiating a buyback operation on highly concessional terms. The latest meeting with the banks concerned, held in February 1995, revealed a positive attitude on their part toward participating in a buyback operation provided the price offered was acceptable.

1.2 The operation must be considered in the context of the efforts the present government is making to implement structural reforms that will foster economic transformation. Buying back the commercial debt would enable Nicaragua to continue moving ahead with restructuring the country's external debt (in March 1995 the bilateral debt with the Paris Club member countries was renegotiated, with satisfactory results) and would have the following specific aims: to regularize relations with the international financial community, which are currently suspended because of failure to meet debt service obligations on time; to ease the burden that debt service presently represents for the country; and to free up resources for use in accomplishing the fundamental objectives of the economic transformation plan.

1.3 The Nicaraguan authorities have requested the Bank's technical and financial assistance in carrying out the commercial debt buyback operation. The Bank's support would form part of a concerted effort in which the World Bank and bilateral donors would also participate. The total cost of the operation would be approximately US$110 million. Financing would be provided in the form of the present Bank loan for US$40 million, a World Bank grant in a similar amount, and grants from bilateral donors for the remaining US$30 million.

1.4 Based on experience with similar operations for other countries carried out by the World Bank, and taking into account the recommendations made by the Nicaraguan government's financial advisers, who have extensive experience in such operations, the commercial debt buyback would be effected by means of a formal offer by the Nicaraguan government to the creditor banks which would set the following conditions, among others: (i) the discounted price at which the debt would be purchased; (ii) the percentage of the offer accepted in relation to the total debt; and (iii) the acceptors' renunciation of any other subsequent claim. A deadline would also be set for acceptance or rejection by the creditor banks of the Nicaraguan government's offer, after which no further transactions would take place.

1.5 The loan proposed in the document complements other Bank programs, including sector adjustment and reform operations (trade, finance and agriculture), programs to improve public enterprise management and

modernize the State, the investment sector program and the program to modernize the health care system, as well as World Bank operations promoting economic recovery and IMF assistance to support stabilization and lay the foundations for sustainable development.

II. FRAME OF REFERENCE

A. Macroeconomic context

2.1 Nicaragua is one of the poorest countries in Latin America, with an annual per capita income of around US$450, high birth and infant mortality rates and inadequate education and health care services. Agriculture is the main economic activity, contributing about 25% of GDP.

2.2 As in other Latin American countries, economic growth in Nicaragua was formerly based on expansion of its traditional exports, especially cotton, and on import substitution under the protectionist policies of the Central American Common Market. By the end of the 1960s the protectionist export-driven model began to show signs of exhaustion and a policy of borrowing to finance the trade deficit was adopted. During the 1980s the Nicaraguan economy was hard hit by civil war, economic mismanagement, unfavorable external conditions and natural disasters. Average monthly inflation during the decade soared to 60%, the fiscal deficit swelled to uncontrollable proportions, and the economy began to be largely dependent on concessional external assistance while, as a result, the country ceased to meet its debt service obligations.

1. The economic stabilization program

2.3 In April 1990, at the time of the change of government, the economy was in chaos, with an oversized public sector that handled practically all economic management and a very small and overregulated private sector; a small number of private importers; public enterprises managing foreign trade, under a multi-tier exchange rate system, with many controls; financial intermediation in the hands of the State, with credit being allocated on political grounds, without appropriate regulations or supervision; the bulk of the country's enterprises owned by the State and operating in a noncompetitive market, receiving subsidized loans from the state banking system and the Central Bank. The infrastructure was extremely run down, owing to lack of adequate maintenance. Between 1980 and 1990 the value of exports fell from US$450 million to US$267 million, or a little over half.

2.4 After having made various attempts to stabilize the economy, in March 1991, with the support of the Bank's adjustment operations, special drawing rights from the IMF and economic restructuring loans from the World Bank, as described in paragraphs 2.16 and 2.17, the government undertook a stabilization program designed to reduce the fiscal deficit, eliminate distortions in domestic prices, reform the financial system, reduce state intervention in the economy, and promote the development of the private sector through measures to deregulate and liberalize foreign trade. The program called for

devaluating the córdoba, from one to five córdobas to the U.S. dollar. In addition, at the end of 1993 the government took further steps, including a new package of measures to narrow the fiscal deficit and a further substantial devaluation of the córdoba.

2.5 These measures enabled the government to take several important steps forward, such as: (i) restoring fiscal discipline by reducing the fiscal deficit as a percentage of GDP from 27.4% in 1980 to 5.5% in 1994; (ii) undertaking foreign trade liberalization by reducing tariffs and eliminating restrictions on imports, and establishing a framework for export promotion; (iii) bringing inflation under control, from the hyperinflation prevailing during the period from 1984 to 1991 to the relatively small price increases of 20% in 1992/93 and less than 10% in 1994; and (iv) reforming the financial system by taking steps to eliminate the state credit monopoly. As a result, for the first time after extended periods of stagnation and recession, GDP growth of 3.2% was posted in 1994 and 4.5% growth is expected for 1995, ushering in more promising prospects for the future.

2.6 Notwithstanding these advances during the 1991-1994 period, the picture remains one of an economy highly dependent on concessional external financing and a public sector that continues to be oversized and absorb a large volume of financial resources, while the climate for private investment remains beset by uncertainty because of, *inter alia*, the high level of external indebtedness and the difficulties involved in resolving property ownership problems.

2. The medium-term program for 1994-1997

2.7 To consolidate the gains made, set the stage for sustainable growth, reinforce the operation of the market economy and move forward toward external viability, the government has drawn up a medium-term program for the period from 1994 to 1997. This program is consistent with the Bank's adjustment programs, the IMF enhanced structural adjustment operation, and the second World Bank economic restructuring program, details of which are given in paragraphs 2.16 and 2.17. The 1994-1997 program places emphasis on continued macroeconomic stability and preparation of conditions for sustainable economic growth by creating a macroeconomic environment conducive to private investment, reducing external debt service, solving the property ownership problem, and improving the living conditions for the poorest segments of the population. The program also considers it fundamental to continue reducing the public sector, with a view to generating domestic savings, improving the international reserves position and expanding credit to the private sector for financing productive activities.

B. The external debt

2.8 As of the end of 1994, Nicaragua's public debt amounted to approximately US$11.3 billion; 1/ 96% of this figure was accounted for by medium and long-term commitments. This volume of debt was equivalent to about six times the country's GDP, and its service absorbed more than three times the value of annual exports. Seventy-four percent of the total was owed to bilateral creditors (Eastern Europe 36%, Latin America 21%, Paris Club 15%), and to "other official creditors" such as India, Taiwan, the Nordic Fund, and suppliers paid with Central Bank bonds (2%)). Thirteen percent was accounted for by commitments to multilateral agencies (IDB 5%, CABEI 4%, World Bank 3%, and others 1%). Public indebtedness to foreign commercial banks totaled US$1,312 million (12%). The rest consisted of debts owed to suppliers and amounted to some US$160 million (1%).

2.9 Nicaragua's external debt service problems date back to the late 1970s, when international liquidity and the prevailing low interest rates made it possible to borrow to deal with persistent current account deficits. In 1979 the bulk of the debt was owed to commercial banks and amounted to US$1,560 million, which represented 75% of GDP and 3.5 times the FOB value of annual exports. Between 1980 and 1989 external indebtedness rose to US$6.5 billion, this time including borrowings from the Eastern European countries, and the amount overdue including capitalized interest totaled US$3 billion, which aggravated the service problem still further because of the failure to pay the amount owed. Over the past four years, the present government has acquired new commitments of US$1.5 billion equivalent.

2.10 Nicaragua has taken steps on several occasions to renegotiate its external debt. However, its own efforts and those of its international creditors have been insufficient to reduce the amount of the debt and to ease the burden of its servicing. Negotiations to date have been principally as follows:

a. Debt to the commercial banks and the country's major suppliers was renegotiated, in 1982, when service was rescheduled to 1989. However, the terms of the agreement were only observed up to the end of 1984, when payments were suspended. At the present time this debt, including US$61 million to suppliers but not including interest due and penalty interest, amounts to US$1,373 million and has been due since 1989.

b. Debt to the Eastern European countries has been restructured on several occasions, most recently in 1988 when agreement was reached (for the greater part) on a single payment to be made at the end of 1993 – which however was not done. The debt to these

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1/ Excluding interest due and penalty interest. Details on this debt are presented in Annex III.

countries currently stands at US$4,032 million and has technically been outstanding since 1988. In July 1994 discussions were reopened with the Russian Federation to obtain a significant reduction in the debt outstanding.

c. There have been two rounds of talks with the Paris Club: the first at the end of 1991, when the debt due as of that date was restructured and total and/or partial remissions and refinancings of up to 40 years including grace periods were obtained; the second round took place in March 1995, when agreements were reached on relief of eligible debt (i.e. debt not renegotiated in the first round), covering the period 1995-2000, by over 70%, depending on the interest agreed on bilaterally later. It was also agreed that another meeting would be held in mid-1997 to discuss the possibility of a remission of the debt overhang, which is expected to amount to around 80%, provided Nicaragua obtains similar reductions on other negotiating fronts. The debt currently stands at around US$1,670 million. The agreement reached during the second round of talks with the Paris Club in March 1995 is presented in Annex I.

d. The greater part of the debt to Latin America and other countries was renegotiated in 1991 with U.S. treasury zero-coupon bonds and a small proportion was forgiven. In 1994, restructuring agreements were reached on the debt owed to Argentina, Mexico and Venezuela. The debt presently totals US$2,587 million and discussions have been under way lately to obtain further remissions and/or refinancings.

2.11 The debt service projections presented below were prepared on the basis of the current agreements and contracts, valued as of their due dates. They do not include service on the commercial debt, which has been due since 1989. This exercise shows that, under the present conditions, debt service is a burden that Nicaragua cannot handle, and stands in the way of achieving the aim of reinstating Nicaragua in international capital markets and attracting foreign investment to complement domestic savings. Accordingly, Nicaragua must concentrate on restructuring its external debt, focusing primarily on reducing its amount, which would have the effect of lowering the service requirements, and also on renegotiating due dates, including grace periods, for the coming years.

Table I. Projected Service of Medium and Long-Term Public Debt in Present Conditions (in US$ millions)

	1995	1996	1997	1998	1999	2000
1. Multilateral (1)	168.8	149.4	140.8	146.6	147.0	147.0
2. Bilateral	599.2	517.3	545.9	411.9	415.1	415.1
- Paris Club (2)	38.6	58.9	37.5	45.1	45.1	45.1
- Other bilateral (3)	560.6	458.4	508.4	366.8	370.9	370.0
3. Commercial (4)						
4. Suppliers	5.9	4.4	2.9	0.9	-	-
5. Miscellaneous	3.1	3.0	6.7	2.7	2.7	1.1
T O T A L	777.0	674.1	696.3	562.1	564.8	563.2

Source: Central Bank of Nicaragua and own calculations.
(1) Assumes no further indebtedness with CABEI.
(2) Includes the March 1995 agreements and the remission negotiated bilaterally with the Netherlands.
(3) Includes the 1994 agreements with Argentina, Mexico and Venezuela.
(4) Service of the commercial debt has not been included since it has been due since the end of 1989. This debt is US$1,373 million (not including interest due and penalty interest, which are not recognized by the Government).

C. The external debt restructuring plan

2.12 As part of the program for 1994-1997 described in paragraph 1.7, the government, with the Bank's support, has drawn up a plan for restructuring the external debt, with a view to reducing its amount and the level of the service requirements to make it consistent with the country's payment capacity and with sustainable levels of socioeconomic growth and a viable balance of payments. The debt restructuring plan is part of an external financing plan which Nicaragua has submitted to the international community, including the Bank, and which is considered to be viable and flexible enough to achieve the financing goals envisaged in the adjustment program. Accordingly, the proposed operation is deemed to be consistent with the operational guidelines for the debt and debt-service reduction facility (document GN-1686-7).

2.13 In quantitative terms, the intention is to reduce the level of the external debt from US$11.3 billion to US$2.54 billion (see Table III in Chapter III), in order to lower the present service requirements to approximately US$228 million per year (see Table II).

2.14 The strategy adopted involves simultaneous negotiations with the different creditors, in the following manner:

a. As mentioned, in March 1995 a second round of talks was held with the Paris Club, at which significant reductions were achieved in the service of debt not renegotiated in the 1991 round. It was also agreed that a further meeting would be held, probably in June 1997, to discuss a possible remission of the debt overhang. It should be noted that although the debt to the Paris Club represents only a fraction of Nicaragua's total external debt, the favorable attitude of the Club's members sends an important signal to the remaining creditors.

b. The buyback operation with the banks holding the commercial debt would be effected on highly concessional terms. The Bank would assist in its financing by means of this loan, and the World Bank would furnish a grant in a similar amount. Bilateral donors would also take part. Once the availability of the financing is assured, the Nicaraguan government would issue a formal buyback offer to the creditor banks, which would lay down the conditions of the operation and set time limits within which the banks would be required to accept or reject the offer. In preliminary contacts the banks have expressed interest in the operation.

c. In the course of the current year, reductions would be agreed on with the Eastern European countries of some 95%, bringing debt to these countries down to US$201 million. The balance would be renegotiated over a seven years, including two years grace, at an interest rate of 4% per annum.

d. The total amount of unrenegotiated debt to Latin America, amounting to US$1,697 million, would be renegotiated using U.S. Treasury 40-year zero-coupon bonds. This would not include the portion already renegotiated with Colombia, Venezuela, Argentina and Mexico, amounting to US$606 million.

Table II. Projected Service on Medium and Long-Term Public Debt Including Debt Restructuring (in US$ millions)

	1995	1996	1997	1998	1999	2000
1. Multilateral (1)	168.8	149.4	140.8	146.6	147.0	147.0
2. Bilateral	34.5	56.7	98.0	80.1	84.7	83.7
- Paris Club (2)	-	4.5	20.3	15.4	24.7	25.7
- Other bilateral (3)(4)	34.5	52.2	77.7	64.7	60.0	58.0
3. Commercial (5)						
4. Suppliers	5.9	4.4	2.9	0.9	-	-
5. Miscellaneous	3.1	3.0	6.7	2.7	2.7	1.1
TOTAL	212.3	213.5	248.4	230.3	234.4	231.8

Source: Central Bank of Nicaragua.
(1) Assumes no new indebtedness with CABEI.
(2) Includes remission of 80%, as of second half of 1997.
(3) Includes remission of 95% of debt to Eastern Europe. The remaining 5% is renegotiated over seven years term, with two years grace and interest at 4% p.a.
(4) The unrenegotiated portion (US$1,697 million) of the debt to Latin America will be renegotiated with zero-coupon bonds.
(5) Service is not included because it has been due since the end of 1989. Commercial debt is US$1,312 million (excluding interest due and penalty interest, which are not recognized by the government).

D. Bank strategy

2.15 The Bank's strategy for Nicaragua aims at preserving economic stability, consolidating the economic reforms undertaken and achieving sustainable long-term economic growth, all within a framework that promotes private-sector participation and supports the government's efforts to modernize the administration of the public sector and reduce poverty by means of projects to rehabilitate low-income neighborhoods and to better meet basic social needs such as health care and education. The program to reduce Nicaragua's debt to commercial banks is compatible with the Bank's country strategy.

E. Operations with international agencies

2.16 As regards sector programs, the Bank has granted Nicaragua three loans aggregating US$302 million equivalent, including the respective technical assistance components: (i) a trade and finance adjustment program for US$132 million to carry out reforms aimed at fostering private-sector participation in economic activities, increasing the competitiveness of domestic production, and improving financial intermediation; (ii) an agricultural adjustment program for US$55 million to establish a financial and policy institutional framework for the sector; (iii) a program of public utility reforms for US$114 million in the energy, water supply, sewerage and communications areas, to expand coverage, eliminate deficits and

improve the efficiency of their operations; and (iv) a program to establish a new legal and policy framework with the aim of increasing private-sector participation and decentralizing services to municipal governments. The first two loans have been completed and their objectives were satisfactorily met. The public utility sector program, approved in November 1994, is now in execution and steps are being taken to meet the conditions for the second tranche. In addition to the present operation, the Bank's program for Nicaragua includes another three sector operations aggregating US$140 million equivalent: one to modernize the state institutions, for US$40 million, to rationalize the public administration and continue reforms in the financial system (this operation would be carried out jointly with the World Bank and with other possible donors); one for an investment sector program, for US$60 million, to promote changes in economic policy with a view to increasing private-sector participation in economic management; and a third, for US$40 million, for a hybrid program that would include health care reforms.

2.17 As noted, the World Bank has approved two sector adjustment operations, for US$186 million, in support of economic recovery and the structural reforms of the State and to improve conditions for development of the private sector. The first of these economic restructuring operations, for US$120 million, was extended to cofinance the trade and finance adjustment loan granted by the Bank. The IMF concluded an agreement to provide special drawing rights for 18 months to support the stabilization program, and is implementing an Enhanced Structural Adjustment Facility operation to lay the foundations for sustainable growth, gradually bring down inflation and strengthen the Central Bank's reserves position.

III. THE DEBT REDUCTION PROGRAM

A. Objectives

3.1 The basic objective of the program is to contribute to Nicaragua's economic development by providing support for the debt reduction program, in the context of the agreement to be reached with the commercial banks.

3.2 Although the commercial debt represents only 12% of Nicaragua's total external debt, this operation is fundamental to facilitate normalization of relations with international capital markets and to reduce the perceived risk associated with Nicaragua abroad. In addition, one of the prerequisites for a possible meeting with the Paris Club in mid-1997 to discuss a reduction of the debt overhang is that similar agreements must have been reached with other external creditors. The operation will also make it possible to free up resources that are currently used for debt service and facilitate the execution of the stabilization, adjustment and structural reform programs that the government is carrying out and those that it plans to undertake with support from international financing agencies.

B. Program elements

1. Eligible amount and nature of the debt

3.3 The amount eligible for the operation would be US$1,373 million and would comprise: (a) direct debt to commercial banks totalling US$1,312 million equivalent; and (b) debt to suppliers totalling US$61 million.

3.4 The categories of commercial debt that would be covered by the operation would be: (i) obligations contracted directly by the government of Nicaragua (72%); (ii) obligations of Nicaraguan enterprises that were substantially taken over by the country's banking system (26%); and (iii) obligations of private Nicaraguan entities whose external liabilities were subsequently taken over by the Central Bank of Nicaragua (2%).

3.5 To reduce the number of suppliers involved and to speed the transaction, the operation would cover only obligations to suppliers incurred since 1980, in amounts exceeding US$100,000.

2. Agreements with creditors

3.6 The agreement with creditors would cover an option to buy back, on highly concessional terms, eligible debt amounting to approximately US$1,370 million. The discounted price of the debt and the other conditions of the operation would be laid down in a formal offer to repurchase the commercial debt which the Nicaraguan government would

send to the holders of the debt. 2/ Each of the holders (banks and suppliers) would have the option to accept or reject the government's offer within the time limit(s) of two to three months set in the offer, after which creditors not having indicated their acceptance would be excluded from the buyback operation. Bearing in mind that the government's purpose is to purchase a significant portion of the debt, the offer made to the creditors would stipulate that the transaction must cover at least 70% of the eligible debt. The agreement with creditors would also include a commitment on the creditors' part that any other obligations will be canceled, including payments in respect of interest due and penalty interest. Nevertheless, given market conditions, the operation would be attractive for creditors, since it would provide an opportunity to collect part of a debt that has been outstanding since 1989. As a condition precedent to disbursement of the financing, the borrower will be required to demonstrate to the Bank that it has reached an agreement with the creditor banks to buy back at least 70% of the country's commercial debt on highly concessional terms.

3.7 However, in order to prepare the offer to the creditor banks, the Nicaraguan government needs to be certain that it will have access to the funds for financing the buyback operation (to come from the Bank, the World Bank, and bilateral donors), which means that the operation proposed herein should be approved prior to the formal offer that the government would make to the banks holding the commercial debt.

3. Needs and probable sources of financing

3.8 Based on information furnished by the Nicaraguan government's financial advisors, the amount required to finance the buyback operation is estimated at about US$110 million. This amount is the result of the discounted price of the debt at which the transaction would be carried out (estimated at approximately 8%). The discounted price will be set as a condition of the formal offer to be made to creditor banks by the Nicaraguan government.

3.9 The financing for the buyback operation would be derived from the concessional Bank loan of US$40 million proposed in this document, from a special nonreimbursable operation with the World Bank for US$40 million, and from bilateral grants for the remaining US$30 million. The operation with the World Bank is contingent upon the granting of a loan for a more or less similar amount by the Bank. The bilateral donors' participation in the financing of the operation would be formalized through the mechanisms established by the International Development Association (IDA) and bilateral donors for debt reduction operations.

3.10 In accordance with the operational guidelines of the debt and debt-service reduction facility (document GN-1686-7 of March 22, 1991),

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2/ The discounted price would be about US$0.08.

which would be used in the proposed operation, up to 25% of the quick-disbursing loan program, or up to 10% of the value of the Bank's lending program with the country, can be allocated for these purposes.

3.11 The Bank's updated lending program for Nicaragua for 1995/96 contains 12 loan operations for a total of US$467 million. The program envisages four quick-disbursing sector loans aggregating US$185 million equivalent. Accordingly, the debt reduction program proposed here falls within the guidelines of the facility referred to in the preceding paragraph.

4. Evaluation of the debt restructuring agreements

3.12 Although the proposed buyback operation would affect only 12% of the country's total external debt, it is a key component in a series of actions considered in the plan for restructuring the country's total public debt, which has received national support and is also backed by the international community. It would also enable Nicaragua to be reinstated in international capital market, which is essential for attracting the investment necessary for harnessing the country's potential and resources in the interests of sustained growth. Execution of the debt restructuring program, which would be supported by this debt reduction program, would lead to:

a. Reduction of the amount of the total external debt by around US$8.75 billion, a reduction that would materialize over the course of the next three years, once the negotiations are concluded with the bilateral creditors. As shown in the following, this substantial reduction would represent a lowering equivalent to 78% of the amount of eligible debt. If the debt owed to the multilateral agencies is excluded, the percentage reduction would reach 90%.

Table III. Projected Service of Medium and Long-Term Public Debt in Present Conditions (in US$ millions)

	Debt as of December 1994	Restructured debt
T O T A L	11,284.8	2,538.1
1. Multilateral	1,472.0	1,512.0
2. Bilateral	8,342.3	867.6
- Paris Club	1,672.2	334.0 1/
- Other bilateral	6,670.1	533.6 2/
3. Commercial	1,373.0	- 3/
4. Suppliers and others	158.5	158.5

1/ Includes the renegotiation of interest and principal in March 1995 and the remission granted bilaterally by the Netherlands outside of the Paris Club.
2/ Presumes a 95% reduction for the debt to Eastern Europe and renegotiation with zero-coupon bonds of the debt to Latin America.
3/ Assumes buyback of the full amount of the commercial debt.

b. Reduction of scheduled interest payments in the period 1995-2000 to approximately US$228 million per annum on average, as a result of the smaller volume of debt, lower interest rates and more favorable terms and grace periods, which wold make it possible to limit debt service to levels compatible with the forecast GDP growth and the balance-of-payments position.

c. Accomplishment of the buyback of debt to commercial banks, amounting to approximately US$1.37 billion, at a cost to the country of US$40 million (considering only the Bank loan, since the funding from the World Bank and the bilateral donors will be nonreimbursable), is an indicator that the financing is being used efficiently, particularly considering that the buyback is on highly concessional terms.

d. Clearing of debt service arrears with the international creditors, which wold have the effect of normalizing the country's relations with the international capital markets.

e. Fulfillment of one of the requirements for arrangement of a possible meeting with the Paris Club in mid-1997, to discuss a reduction of the debt overhang, namely that similar agreements must have been reached with other external creditors.

5. Financial sustainability

3.13 On the assumption that the interest rate would be 7% (except in the case of the multilateral and ODA operations, which are on concessional terms for the greater part), external debt service for

the 1995-2000 period would be maintained at relatively constant levels and would run at an annual average of approximately US$228 million.

3.14 As a percentage of exports of goods and services, 3/ service of the restructured debt would decline gradually from 39% in 1995 to around 30% by the year 2000 which, while still a sizable burden for the economy, would no longer be one of the major obstacles to Nicaragua's economic growth.

3/ The assumed growth in exports is as stated in the agreement on the enhanced structural adjustment operation with the IMF.

IV. PROGRAM FINANCING AND EXECUTION

A. Program financing

4.1 Taking into account the program's financing needs, it is proposed that fast-disbursing funds be provided under this operation in the amount of up to US$40 million equivalent, to be made available using concessional resources from the Bank's Fund for Special Operations. Bearing in mind the volume of fast-disbursing loans planned for 1995-1996 and the limited availability of resources made available under the Eighth Replenishment, financing for this operation would fall within the sphere of that replenishment.

4.2 Taking into account the Bank's limitations on financing for operations of this type, the financing would be used to buy back Nicaragua's commercial debt at the discounted price set in the offer to the creditor banks. The agreement to be concluded with the banks will establish their undertaking to renounce all other claims, including interest due and penalty interest.

B. Program execution

1. Borrower and executing agency

4.3 The borrower for the operation would be the Republic of Nicaragua and the executing agency would be the Central Bank of Nicaragua. The executing agency wold be responsible for keeping the loan accounts, preparing and submitting the disbursement requests, and keeping all records concerned with execution of the program. To this end, the borrower would sign an agreement with the executing agency, as a condition precedent to disbursement.

2. Disbursement

4.4 Since the Bank financing would be used for a buyback operation to be carried out simultaneously with each of the creditor banks, the loan would be disbursed by the Bank to the creditors, by order and for the account of the executing agency, through a bank acting as the Nicaraguan government's agent, once the conditions precedent set in the loan contract have been met. The IDB's policy guidelines authorize this procedure if warranted by the characteristics of the operation.

4.5 The executing agency will present the following by way of supporting documents: (i) the list of creditors, stating the amount of the buyback from each of the creditor banks; (ii) the discounted price of the debt; (iii) a statement from the creditor bank renouncing any other claim, including payments in respect of interest due and penalty interest; and (iv) a statement from the creditor bank accepting such other conditions as are stipulated in the offer. The

disbursement requests would be prepared by the executing agency, including the required supporting documents, and would be forwarded through the Bank's country office in Nicaragua.

4.6 Plans call for the buyback operation, including the exchange of debt instruments, to take place in the third quarter of 1995, once the banks have responded to the Nicaraguan government's offer. The agreement reached with the commercial banks will be a prerequisite for disbursement of the financing. Another prerequisite for disbursement will be that the prevailing macroeconomic context be consistent with the objectives of the debt reduction program.

4.7 Since the debt buyback operation would be financed with the Bank loan and with nonreimbursable funds from the World Bank and from bilateral donors, the Nicaraguan authorities have requested that the initial disbursements be made with the grant funds and that the loan proceeds be used only once these are depleted. To accede to this request, which the Bank considers acceptable, the disbursement of funds will not be subject to pari passu requirements.

3. Inspection, supervision and audit

4.8 The executing agency will be required to keep separate records of the disbursement transactions, so as to facilitate timely preparation of the statements of account and reports on the operation. It will also be required to submit to the Bank, within 90 days of disbursement of the financing, a statement of account pertaining to each tranche, duly certified by a firm of independent auditors acceptable to the Bank and in accordance with the terms of reference to be agreed on at the proper time. The inspection and supervision fee will be 1% of the Bank loan (US$400,000). The supervision of the program will be the responsibility of Region 2, Division 3, and of the country office in Nicaragua.

4. Ex post evaluation

4.9 Given the nature of the operation, the Nicaraguan authorities do not consider it necessary to perform a specific ex post evaluation of the program.

C. Environmental impact

4.10 The actions that will be carried out with the present operation are not expected to have any significant environmental impact. The Environment Committee has classified the program in Category II.

V. FEASIBILITY AND RISKS

5.1 The main risk associated with the operation is that the country may not be able to generate the external resources necessary to make timely payments on external commitments assumed vis-à-vis the governments and the multilateral agencies, including the Bank, particularly on account of the excessive level of indebtedness and the Nicaraguan economy's high degree of vulnerability to external events.

5.2 In addition, there is a risk that the operation may not be finalized on terms satisfactory to the Bank, in the sense that the price and other conditions set in the buyback offer are not sufficiently attractive for the holders of the debt.

5.3 Regarding the main risk, it is expected that, as a result of the implementation of the economic measures agreed on under the adjustment operations with the Bank, the enhanced structural adjustment operation negotiated with the IMF, and the economic recovery program funded by the World Bank — entered into in order to ensure the country's stabilization and economic recovery and to lay the foundations for sustainable growth — Nicaragua's creditworthiness will increase, along with the likelihood that it will be able to meet the commitments assumed vis-à-vis the Bank and other creditors.

5.4 The risk that a satisfactory agreement may not be reached with creditor banks has been lessened in that the buyback operation has been planned jointly with the Nicaraguan authorities and other financial entities and with the benefit of advice from consultants with extensive experience in operations of this type. In addition, the loan contract that will be signed with Nicaragua will include special conditions such that, in the event a satisfactory agreement is not reached with the banks, the funds will not declared eligible for disbursement. In the event that the creditor banks fail to express interest in participating in the repurchase operation, the operation will not take place.

VI. RECOMMENDATIONS

6.1 It has been demonstrated in the preceding sections that Nicaragua is eligible for financing under the debt and debt-service reduction facility in respect of its debt to commercial banks, for the reasons set forth below: (i) the country has a viable and flexible external financing plan that includes an external debt restructuring plan that the Bank finds acceptable; (ii) reduction of Nicaragua's public debt service is essential to the accomplishment of the medium and long-term economic objectives being supported by the IDB and other multilateral financing agencies; (iii) grant funding is available in principle from the World Bank, to take part in financing the debt reduction program; (iv) bilateral donors have expressed interest in contributing for similar purposes; and (v) the external financing plan is feasible and would contribute to securing economic and social benefits for the country.

6.2 In accordance with the objectives and the description of the elements of the operation presented in Chapter II, the debt reduction program set forth in this document is considered to be consistent with the Bank's country strategy and with the Agreement Establishing the Bank.

6.3 This operation would come under the operational guidelines for the debt and debt-service reduction facility (document GN-1686-7, approved by the Board of Executive Directors on December 13, 1991), even though these regulations specify that the facility's resources would be available during the three-year period running from January 1, 1991 through December 31, 1993. It should be noted that: (a) the term set was consistent with that originally proposed for sector loans under the Seventh Replenishment and with the amount of time then thought to be needed to complete negotiation of the debt-reduction programs of the countries in the region; (b) a number of countries, including Nicaragua, have not yet completed the debt-reduction process, which has now extended beyond the above-mentioned time limit; and (c) the report on the Eighth General Increase in the Resources of the Bank (document AB-1704, paragraphs 2.45, 2.51 and 2.55) provides for the Bank to continue to grant loans for policy reforms who proceeds are intended to provide balance-of-payments support and assist in the implementation of public debt reduction agreements. On the basis of the foregoing, it is recommended that the time limit for allocation of Bank resources from the debt and debt-service reduction facility, as set in paragraph 2.03 of said guidelines, be extended for this operation.

AGREED MINUTE
ON THE CONSOLIDATION OF THE DEBT
OF THE REPUBLIC OF NICARAGUA

I-A/ PREAMBLE

1. The representatives of the Governments of Finland, France, Germany, Italy, the Netherlands, Spain and the United States of America, hereinafter referred to as "Participating Creditor Countries", met in Paris on March 21 and 22, 1995 with representatives of the Government of the Republic of Nicaragua in order to examine the request to alleviate the Republic of Nicaragua's external debt service obligations. Observers of the Governments of Australia, Austria, Belgium, Brazil, Denmark, Israel, Japan, Norway, Sweden and the United Kingdom as well as the International Monetary Fund, the International Bank for Reconstruction and Development, the Interamerican Development Bank, the Secretariat of the UNCTAD and the Organization for Economic Cooperation and Development also attended the meeting.

2. The delegation of the Republic of Nicaragua described the serious economic and financial difficulties faced by its country and its strong determination to reduce the economic and financial imbalances and to attain the targets of the program supported by arrangements under the Enhanced Structural Adjustment Facility with the International Monetary Fund.

3. The representatives of the International Monetary Fund described the Republic of Nicaragua's economic situation and the major elements of the adjustment program adopted by the Government of the Republic of Nicaragua and supported by arrangements under the Enhanced Structural Adjustment Facility with the International Monetary Fund. The first annual arrangement approved by the Executive Board of the International Monetary Fund on June 24, 1994 covers the period ending on June 23, 1995 and involves specific commitments in both the economic and financial fields.

4. The representatives of the Governments of the Participating Creditor Countries noted the strong measures of adjustment in the economic and financial program undertaken by the Government of the Republic of Nicaragua and stressed the importance they attach to the continued and full implementation of this program and, in particular, the revitalization of the productive sector of the economy and the improvement of public finances and foreign exchange management.

They took note of the Republic of Nicaragua's chronic balance of payments problems and very heavy debt service obligations, in conjunction with very low per capita income, which were deemed, given the strong adjustment program noted above, to warrant exceptional treatment of the debt.

B/ DEFINITIONS

1. For the purpose of the present Agreed Minute, **"the Appropriate Market Rate"** means the rate, rounded to the nearest 1/16th of a point, and conditions of interest which will be determined bilaterally between the Government of the Republic of Nicaragua and the Government or the appropriate institutions of each Participating Creditor Country.

2. The authenticated tables attached to the present Agreed Minute and referred to hereafter form an integral part of the present Agreed Minute. As concerns the repayment schedules indicated in Tables A1, C2 and D2, it is understood that "semester" means a period of six successive months. The first semester referred to in the Tables is the period beginning on November 15, 1996. For each semester it is understood that the due date is the first day of the corresponding semester.

3. Late interest charges are those interest charges accruing between the contractual payment date of principal and interest due and not paid, and a date to be fixed in the bilateral agreements concluded for the implementation of the present Agreed Minute.

II- RECOMMENDATIONS ON TERMS OF THE REORGANIZATION

In view of the serious payment difficulties faced by the Republic of Nicaragua, the representatives of the Participating Creditor Countries agreed to recommend to their Governments or their appropriate institutions that they provide, through rescheduling or refinancing, debt relief for the Republic of Nicaragua on the following terms :

1. Debts concerned

The debts to which this reorganization will apply are the following :

a) commercial credits guaranteed or insured by the Governments of the Participating Creditor Countries or their appropriate institutions, having an original maturity of more than one year, and which were either extended to or guaranteed by the Government of the Republic of Nicaragua, or its public sector, or the Central Bank of Nicaragua, pursuant to an agreement or other financial arrangement concluded before November 1, 1988 ;

b) loans from Governments or appropriate institutions of the Participating Creditor Countries, having an original maturity of more than one year, and which were either extended to or guaranteed by the Government of the Republic of Nicaragua, or its public sector, or the Central Bank of Nicaragua, pursuant to an agreement or other financial arrangement concluded before November 1, 1988 ;

c) repayments of principal and interest due as a result of the consolidation agreements concluded or to be concluded pursuant to Article II paragraphs 2.A/, 2.B/, 2.C/ and 2.D/ of the Agreed Minute dated December 17, 1991 on credits and loans mentioned in Article II paragraphs 1.a) (i) and 1.b) (i) of the Agreed Minute dated December 17, 1991.

It is understood that debt service, due as a result of debts described above in the present Agreed Minute and effected through special payment mechanisms or other external accounts, is included in the present reorganization. Participating Creditor Countries will reschedule, refinance or take other appropriate measures to ensure that this category of debt is treated in a manner comparable to other debt subject to this Agreed Minute.

It is understood that repayments of principal and interest due as a result of the consolidation agreements concluded or to be concluded pursuant to Article II paragraphs 2.E/ and 2.F/, as well as repayments of principal and interest due as a result of the reorganization of the debts mentioned in Article II paragraph 1.c) of the Agreed Minute dated December 17, 1991 are not affected by the present rescheduling.

2. Terms of the consolidation

The debt relief will apply as follows :

A/ As regards credits or loans granted or guaranteed by the Governments of France and Germany or their appropriate institutions

a) 67% of the amounts of principal and interest (including late interest) due as at March 31, 1995 inclusive and not paid and 67% of the amounts of principal and interest (excluding late interest) due from April 1, 1995 up to June 30, 1997 inclusive and not paid on credits and loans mentioned in paragraphs 1.a) and 1.b) above and not covered by paragraph B/ below will not need to be repaid by the Government of the Republic of Nicaragua. The remaining 33% will be rescheduled or refinanced. Repayment by the Government of the Republic of Nicaragua of the corresponding sums will be made as described in Table A1 attached to the present Agreed Minute ;

b) the rates and the conditions of interest on the rescheduling or refinancing arrangements covered by paragraph a) above will be determined bilaterally between the Government of the Republic of Nicaragua and the Government or appropriate institutions of the Participating Creditor Countries on the basis of the Appropriate Market Rate.

B/ <u>As regards Official Development Assistance loans (ODA) granted by the Governments of the Participating Creditor Countries listed in paragraph A/ above, or their appropriate institutions, as well as by the Governments of Finland, the Netherlands and Spain or their appropriate institutions</u>

a) The present paragraph applies to Official Development Assistance (ODA) loans, according to OECD definition, extended to the Government of the Republic of Nicaragua by the Governments or appropriate institutions of the Participating Creditor Countries concerned by paragraph A/ above, as well as by the Governments of Finland, the Netherlands and Spain or their appropriate institutions, pursuant to an agreement concluded before November 1, 1988 ;

b) recognizing the great value of contributions already made by the Participating Creditor Countries through various means in order to alleviate further the burden of servicing these debts, 100% of the amounts of principal and interest (including late interest) due as at March 31, 1995 inclusive and not paid and 100% of the amounts of principal and interest (excluding late interest) due from April 1, 1995 up to June 30, 1997 inclusive and not paid on loans mentioned in paragraph a) above will be rescheduled or refinanced.

Repayment by the Government of the Republic of Nicaragua of the corresponding sums will be made as described in Table D2 attached to the present Agreed Minute.

c) The rates and the conditions of interest on the rescheduling or refinancing arrangements covered by paragraph b) above will be determined bilaterally between the Government of the Republic of Nicaragua and the Government or appropriate institutions of the concerned Participating Creditor Countries. These rates and conditions of interest should be at least as favourable as the concessional rate applying to those loans.

C/ <u>As regards credits or loans granted or guaranteed by the Governments of Italy and the United States of America or their appropriate institutions</u>

a) 100% of the amounts of principal and interest (including late interest) due as at March 31, 1995 inclusive and not paid and 100% of the amounts of principal and interest (excluding late interest) due from April 1, 1995 up to June 30, 1997 inclusive and not paid on credits and loans mentioned in paragraphs 1.a) and 1.b) above will be rescheduled or refinanced.

Repayment by the Government of the Republic of Nicaragua of the corresponding sums will be made as described in Table C2 attached to the present Agreed Minute.

b) The rates and the conditions of interest applying on the rescheduling or refinancing arrangements covered by paragraph a) above will be determined bilaterally between the Government of the Republic of Nicaragua and the Government or appropriate institutions of the concerned Participating Creditor Countries on the basis of an Appropriate Market Rate. As concerns the Official Development Assistance loans, it is understood that the rates and the conditions of interest should be at least as favourable as the concessional rates applying to those loans.

D/ Interest accrued from April 1, 1995 up to December 31, 1996 inclusive on consolidated amounts referred to in paragraphs A/, B/ and C/ above will be paid in 8 equal and successive semi-annual instalments, the first payment to be made on March 31, 1997 and the final payment to be made on September 30, 2000.

It is understood that these amounts will not be subject to any further reorganization.

Interest will be charged on those amounts.

E/ <u>As regards consolidation agreement mentioned in paragraph 1.c) above</u> :

a) 100% of the amounts of principal and interest (excluding late interest) due from August 1, 1995 up to December 31, 1996 inclusive and not paid will be rescheduled or refinanced. Repayment by the Government of Nicaragua of the corresponding sums will be made in 8 equal and successive semi annual payments, the first payment to be made on March 31, 1997 (end of the grace period) and the final payment to be made on September 30, 2000 (end of the repayment period) ;

b) the rates and the conditions of interest on the rescheduling or refinancing arrangement covered by paragraph a) above will be determined bilaterally between the Government of the Republic of Nicaragua and the Government or appropriate institutions of each Participating Creditor Country on the basis of an Appropriate Market Rate. As concerns the Official Development Assistance loans, it is understood that the rates and the conditions of interest should be at least as favourable as the concessional rates applying to those loans.

3. Debt swaps

On a voluntary and bilateral basis, the Government of each Participating Creditor Country or its appropriate institutions may sell or exchange, in the framework of debt for nature, debt for aid, debt for equity swaps or other local currency debt swaps :

(i) the amounts of outstanding loans mentioned in paragraph 1. above as regards official development aid loans and direct Government loans ;

(ii) the amounts of other outstanding credits mentioned in paragraph 1. above, up to 10% of the amounts of outstanding credits as of December 31, 1991 or up to an amount of 20 million US dollars, whichever is higher.

III- GENERAL RECOMMENDATIONS

1. In order to secure comparable treatment of its debt due to all its external public or private creditors, the Government of the Republic of Nicaragua commits itself to seek from all its external creditors debt reorganization arrangements on terms comparable to those set forth in this Agreed Minute for credits of comparable maturity.

Consequently, the Government of the Republic of Nicaragua commits itself not to accord any category of creditors -and in particular creditor countries not participating in this Agreed Minute, commercial banks and suppliers- a treatment more favourable than that accorded the Participating Creditor Countries.

2. The Government of the Republic of Nicaragua will seek to secure, from each of its creditor countries not participating in this Agreed Minute, rescheduling or refinancing arrangements on terms comparable to those set forth in this Agreed Minute. The Government of the Republic of Nicaragua agrees not to accord any such creditor country repayment terms more favourable than those accorded to the Participating Creditor Countries.

3. The Government of the Republic of Nicaragua agrees that it will promptly negotiate rescheduling or refinancing arrangements with all other creditors on credits of comparable maturity.

The Government of the Republic of Nicaragua will inform in writing the Chairman of the Paris Club not later than October 31, 1995 of the progress made for this purpose in negotiations with other creditors.

4. The provisions set forth in this Agreed Minute do not apply to creditor countries with principal and interest falling due during the reorganization period on debts specified in Article II, paragraph 2., of less than SDR 500,000. The payments owed to these countries should be made on the original due dates. Payments already due and not paid should be made as soon as possible and, in any case, not later than October 31, 1995. Interest will be charged on those amounts.

5. Each of the Participating Creditor Countries agrees to make available, upon the request of another Participating Creditor Country, a copy of its bilateral agreement with the Government of the Republic of Nicaragua which implements this Agreed Minute. The Government of the Republic of Nicaragua acknowledges this arrangement.

6. Each of the Participating Creditor Countries agrees to inform the Chairman of the Paris Club of the date of the signature of its bilateral agreement, of the interest rates, of the amounts of debts involved and of any implementation of debt conversions in application of paragraph II-3. above. The Government of the Republic of Nicaragua acknowledges this arrangement.

7. The Government of the Republic of Nicaragua will inform the Chairman of the Paris Club of the content of its bilateral agreements with creditors mentioned in paragraphs 1., 2. and 3. above.

8. The Government of the Republic of Nicaragua undertakes to pay all debt service due and not paid as at the date of the present Agreed Minute on consolidations, on loans, on credits or pursuant to contracts or other financial arrangements payable on cash terms, extended or guaranteed by the Governments of the Participating or Observer Creditor Countries or their appropriate institutions, and not covered by the present Agreed Minute as soon as possible, and in any case not later than October 31, 1995.

Late interest will be charged on those amounts.

9. The Government of the Republic of Nicaragua guarantees the immediate and unrestricted transfer of the foreign exchange counterpart of all amounts paid in local currency by the private debtors in Nicaragua for servicing their foreign debt owed to or guaranteed by the Participating or Observer Creditor Countries or their appropriate institutions, for which the corresponding payments in local currency have been deposited in the Central Bank of Nicaragua on or after December 31, 1991.

IV - IMPLEMENTATION

The detailed arrangements for the rescheduling or refinancing of the debts will be accomplished by bilateral agreements to be concluded by the Government or the appropriate institutions of each Participating Creditor Country with the Government of the Republic of Nicaragua on the basis of the following principles :

1. the Government or the appropriate institutions of each Participating Creditor Country will :

- either refinance debts by placing new funds at the disposal of the Government of the Republic of Nicaragua, according to existing payment schedules, during the reorganization period and for the above mentioned percentages of payment. These funds will be repaid by the Government of the Republic of Nicaragua according to the terms and conditions set out in Article II, paragraph 2. above ;

- or reschedule the corresponding payments.

2. All other matters involving the rescheduling or the refinancing of the debts will be set forth in the bilateral agreements which the Government of the Republic of Nicaragua and the Governments or the appropriate institutions of the Participating Creditor Countries will seek to conclude with the least delay and in any case before October 31, 1995.

3. a) The provisions of the present Agreed Minute will continue to apply until December 31, 1995 inclusive provided that the Government of the Republic of Nicaragua continues to have an appropriate arrangement with the International Monetary Fund ;

b) they will also continue to apply from January 1, 1996 up to December 31, 1996 provided that the Executive Board of the International Monetary Fund has approved before December 31, 1995 a second annual arrangement under the Enhanced Structural Adjustment Facility with the Government of the Republic of Nicaragua and provided that the Republic of Nicaragua has made on due dates the payments referred to in this Agreed Minute ;

c) they will also continue to apply from January 1, 1997 up to June 30, 1997 provided that the Executive Board of the International Monetary Fund has approved before December 31, 1996, a third annual arrangement under the Enhanced Structural Adjustment Facility with the Government of the Republic of Nicaragua and provided that the Republic of Nicaragua has made on due dates the payments referred to in this Agreed Minute ;

d) for this purpose, the Government of the Republic of Nicaragua agrees that the International Monetary Fund will inform the Chairman of the Paris Club regarding the status of the Republic of Nicaragua's relations with the International Monetary Fund.

4. In response to the request of the representatives of the Government of the Republic of Nicaragua, the Participating Creditor Countries agreed in principle to a meeting to consider the matter of the Republic of Nicaragua's debt service payments falling due after June 30, 1997 and relating to loans or credits pursuant to a contract or other financial arrangement concluded before November 1, 1988 provided :

- that the Republic of Nicaragua continues to have an appropriate arrangement with the International Monetary Fund ;

- that the Republic of Nicaragua has reached with other creditors effective arrangements meeting the conditions described in Article III paragraphs 1., 2. and 3. above and has reported in writing to the Chairman of the Paris Club, pursuant to Article III paragraphs 3. and 7. above ;

- and that the Republic of Nicaragua has complied with all conditions set out in this Agreed Minute.

5. If as at June 30, 1997, the Government of the Republic of Nicaragua has maintained satisfactory relations with the Participating or Observer Creditor Countries, and notably has fully implemented all agreements signed with them as from December 17, 1991 and continues to have an appropriate arrangement with the International Monetary Fund, the Participating Creditor Countries agree in principle to hold a meeting to consider the matter of the Republic of Nicaragua's stock of debt.

6. The representatives of the Government of each of the Participating Creditor Countries and of the Government of the Republic of Nicaragua agreed to recommend to their respective Governments or appropriate institutions that they initiate bilateral negotiations at the earliest opportunity and conduct them on the basis of the principles set forth herein.

Done in Paris, on March 22, 1995
in two versions, English and French,
both texts equally authentic,

The Chairman
of the Paris Club

The Head of the Delegation
of the Republic of Nicaragua

Delegation of Finland

Delegation of Italy

Delegation of France

Delegation of the Netherlands

Delegation of Germany

Delegation of Spain

Delegation of the United States of America

TABLE A 1

DEBT REDUCTION OPTION

REPAYMENT SCHEDULE

Year	Semestr	Principal Instalments (in %)
	1	0.00
1	2	0.00
	3	0.00
2	4	0.00
	5	0.00
3	6	0.00
	7	0.00
4	8	0.00
	9	0.00
5	10	0.00
	11	0.00
6	12	0.00
	13	0.12
7	14	0.20
	15	0.28
8	16	0.38
	17	0.48
9	18	0.58
	19	0.70
10	20	0.82
	21	0.94
11	22	1.08
	23	1.22
12	24	1.36
	25	1.52
13	26	1.70
	27	1.86
14	28	2.06
	29	2.26
15	30	2.46
	31	2.68
16	32	2.92
	33	3.18
17	34	3.44
	35	3.70
18	36	4.00
	37	4.30
19	38	4.64
	39	4.98
20	40	5.34
	41	5.72
21	42	6.12
	43	6.54
22	44	7.00
	45	7.46
23	46	7.96

SECRETARIAT
CLUB DE PARIS

ODA
67 % MATURITIES AND STOCK

ANEXO I
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REPAYMENT SCHEDULE

Year	Semestr	Principal Instalments (in %)
	1	0.00
1	2	0.00
	3	0.00
2	4	0.00
	5	0.00
3	6	0.00
	7	0.00
4	8	0.00
	9	0.00
5	10	0.00
	11	0.00
6	12	0.00
	13	0.00
7	14	0.00
	15	0.00
8	16	0.00
	17	0.00
9	18	0.00
	19	0.00
10	20	0.00
	21	0.00
11	22	0.00
	23	0.00
12	24	0.00
	25	0.00
13	26	0.00
	27	0.00
14	28	0.00
	29	0.00
15	30	0.00
	31	0.00
16	32	0.00
	33	0.53
17	34	0.56
	35	0.59
18	36	0.62
	37	0.65
19	38	0.68
	39	0.71
20	40	0.75

REPAYMENT SCHEDULE

Year	Semestr	Principal Instalments (in %)
	41	0.79
21	42	0.83
	43	0.87
22	44	0.91
	45	0.96
23	46	1.00
	47	1.05
24	48	1.11
	49	1.16
25	50	1.22
	51	1.28
26	52	1.34
	53	1.41
27	54	1.48
	55	1.56
28	56	1.63
	57	1.72
29	58	1.80
	59	1.89
30	60	1.99
	61	2.08
31	62	2.19
	63	2.30
32	64	2.41
	65	2.53
33	66	2.66
	67	2.79
34	68	2.93
	69	3.08
35	70	3.23
	71	3.40
36	72	3.57
	73	3.74
37	74	3.93
	75	4.13
38	76	4.33
	77	4.55
39	78	4.78
	79	5.02
40	80	5.26

SECRETARIAT CLUB DE PARIS

TABLE C2

COMMERCIAL OPTION

67 % MATURITIES AND STOCK

REPAYMENT SCHEDULE

Year	Semestr	Principal Instalments (in %)
	1	0.00
1	2	0.00
	3	0.00
2	4	0.00
	5	0.00
3	6	0.00
	7	0.00
4	8	0.00
	9	0.00
5	10	0.00
	11	0.00
6	12	0.00
	13	0.00
7	14	0.00
	15	0.00
8	16	0.00
	17	0.00
9	18	0.00
	19	0.00
10	20	0.00
	21	0.00
11	22	0.00
	23	0.00
12	24	0.00
	25	0.00
13	26	0.00
	27	0.00
14	28	0.00
	29	0.00
15	30	0.00
	31	0.00
16	32	0.00
	33	0.00
17	34	0.00
	35	0.00
18	36	0.00
	37	0.00
19	38	0.00
	39	0.00
20	40	0.00

REPAYMENT SCHEDULE

Year	Semestr	Principal Instalments (in %)
	41	1.18
21	42	1.23
	43	1.28
22	44	1.34
	45	1.39
23	46	1.44
	47	1.50
24	48	1.56
	49	1.62
25	50	1.68
	51	1.74
26	52	1.80
	53	1.86
27	54	1.93
	55	2.00
28	56	2.06
	57	2.13
29	58	2.21
	59	2.28
30	60	2.35
	61	2.43
31	62	2.51
	63	2.59
32	64	2.67
	65	2.75
33	66	2.84
	67	2.92
34	68	3.01
	69	3.10
35	70	3.19
	71	3.29
36	72	3.38
	73	3.48
37	74	3.58
	75	3.68
38	76	3.79
	77	3.89
39	78	4.00
	79	4.11
40	80	4.21

SECRETARIAT CLUB DE PARIS

NICARAGUA

DEBT REDUCTION PROGRAM

POLICY LETTER

Managua, May 8, 1995

His Excellency
Enrique V. Iglesias
President,
Inter-American Development Bank

Dear Mr. Iglesias:

I would like to outline for your benefit the principal policy initiatives undertaken by the Government of Nicaragua, and to request the Bank's support for a debt reduction program in the form of financing for US$40 million to complement a grant to be approved by the World Bank.

The debt reduction program forms part of a wide-ranging series of reforms that the Government is carrying out, which include those supported by the Inter-American Development Bank under the adjustment programs in the areas of trade, finance, agriculture, and public utilities, as well as programs to modernize State institutions, and the investment sector program and health care reform program now under study by the Bank. As you are aware, these reform operations complement those included in the economic recovery programs funded by the World Bank and the special drawing rights and enhanced structural adjustment facility operation granted by the International Monetary Fund.

At the end of March 1995, Nicaragua, with the support of the Inter-American Development Bank, successfully concluded the second round of negotiations with the member countries of the Paris Club. Considerable reductions in public debt service were obtained from those creditors, together with a commitment on their part to hold a further meeting, in June 1997, for the purpose of granting a significant reduction of this debt. The results of the negotiations with the Paris Club will set an important precedent for the efforts the Government is currently engaged in to secure restructuring of the country's public debt, to secure the rapid reinstatement of Nicaragua in international capital markets.

As you are aware, the medium-term objectives of the program for 1994-1997, which enjoys the support of the multilateral agencies and the international community, include consolidation of the progress made toward economic stability, continued enhancement of the market economy, and establishment of conditions for sustainable economic growth.

The medium-term program calls for a restructuring of the country's public debt as an essential measure with the stated purpose of reinstating Nicaragua in international capital markets and thereby attracting the necessary external investment to complement domestic savings, in order to harness the country's potential and abundant resources to achieve sustained economic growth.

One important component of the measures being taken in the direction noted is the debt reduction operation, which would be carried out through the buyback of Nicaragua's commercial debt from creditor banks. However, to initiate the buyback operation with these banks the country will need to be certain that it will have access to sufficient resources to back the offer that will be made to the creditor banks.

Thanking you in advance for your attention to this matter, I take this opportunity to reiterate to you the assurance of my highest consideration and esteem.

Yours most sincerely,

Signed: Erwin J. Kruger
Minister of External Cooperation

NICARAGUA. MEDIUM AND LONG-TERM EXTERNAL DEBT as of December 31, 1994 (in US$ millions)				
CATEGORY/CREDITOR		**SUBTOTAL**	**GROUPS**	**TOTAL**
I. MULTILATERAL DEBT				1,472.0
1. IDB	554.0			
2. World Bank	300.5			
3. CABEI	467.6			
4. IMF and others	149.9			
II. BILATERAL DEBT				8,342.3
1. Paris Club			1,672.2	
Renegotiated		577.0		
a. Germany	91.0			
b. USA	76.6			
c. Spain	203.8			
d. Italy	104.5			
e. Other	101.1			
Unrenegotiated		1,095.1		
a. Germany	675.0			
b. France	87.1			
c. Japan	117.8			
d. Other	215.3			
2. Eastern Europe			4,093.2	
a. Russian Federation	3,390.7			
b. Bulgaria	224.6			
c. Libya	203.6			
d. Other	274.3			
3. Latin America			2,331.1	
a. Mexico	1,104.1			
b. Costa Rica	403.0			
c. Guatemala	346.0			
d. Venezuela	178.2			
e. Brazil	115.7			
f. Honduras	184.1			
4. Other Official Sources			245.8	
III. COMMERCIAL DEBT				1,312.0
IV. DEBT TO SUPPLIERS AND OTHERS				158.5
T O T A L				**11,284.8**

RGII-NI049P
NI-0082
Original: Spanish

APENDICE

PROPOSED RESOLUTION

NICARAGUA. LOAN____/SF-NI. TO THE REPUBLICA DE NICARAGUA
(Debt Reduction Program)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the República de Nicaragua, for the purpose of granting it a financing to cooperate in the execution of a debt reduction program. Such financing will be for the amount of up to US$40,000,000, or its equivalent in other currencies, except that of Nicaragua, which are part of the resources of the Fund for Special Operations and will be subject to the "Terms and Financial Conditions" and the "Special Contractual Conditions" of the Executive Summary of the Loan Proposal.

Corr.

INFORMATION OUTSIDE THE BANK

1. For just over two years Nicaragua has been conducting discussions with the banks holding its commercial external debt with a view to negotiating a buyback operation on highly concessional terms. The latest meeting with the banks concerned, held in February 1995, revealed a positive attitude on their part toward participating in a buyback operation provided the price offered was acceptable.

2. The operation must be considered in the context of the efforts the present government is making to implement structural reforms that will foster economic transformation. Buying back the commercial debt would enable Nicaragua to continue moving ahead with restructuring the country's external debt (in March 1995 the bilateral debt with the Paris Club member countries was renegotiated, with satisfactory results) and would have the following specific aims: to regularize relations with the international financial community, which are currently suspended because of failure to meet debt service obligations on time; to ease the burden that debt service presently represents for the country; and to free up resources for use in accomplishing the fundamental objectives of the economic transformation plan.

3. The Nicaraguan authorities have requested the Bank's technical and financial assistance in carrying out the commercial debt buyback operation. The Bank's support would form part of a concerted effort in which the World Bank and bilateral donors would also participate.

4. Based on experience with similar operations for other countries and taking into account the recommendations made by the Nicaraguan Government's financial advisers for this operation, the commercial debt buyback would be effected by means of a formal offer by the Nicaraguan Government to the creditor banks setting out the terms of the operation. A deadline would be set for acceptance or rejection of the offer by creditor banks. Those banks not having accepted the offer by the deadline would be excluded from the buyback operation.

5. The loan proposed in the document complements other Bank programs, including sector adjustment and reform operations (trade, finance and agriculture), programs to improve public enterprise management and modernize the State, the investment sector program and the program to modernize the health care system, as well as World Bank operations promoting economic recovery and IMF assistance to support stabilization and lay the foundations for sustainable development.