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TO

NAME Lic. Armando Navarrete  
Gerente  
AGENCY Banco Central de Nicaragua

CITY/COUNTRY Managua, Nicaragua

FACSIMILE TELEPHONE NO. 505 2 651246  
Country Code (city code) (Number)

'EXT

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Table 1. Nicaragua: Limits on Central Government Expenditures 1/2/3/  
(In millions of cordobas)

Period	Limits
<b>Cumulative change from December 31, 1993</b>	
Through March 31, 1994	646 (projected)
Through June 30, 1994	1,227 (projected)
Through September 30, 1994	1,827
Through December 31, 1994	2,521
<b>Cumulative change from December 31, 1994</b>	
Through March 31, 1995	690
Through June 30, 1995	1,323

1/ Defined to include budgetary and extrabudgetary operational expenditures (including severance payments related to the employment reduction program), current transfers, and domestic and external interest payments. These limits will be adjusted upward/downward by the amount by which current external interest payments exceed/fall short of the amounts shown in column (3) of the attached Schedule II. The upward adjustments will be limited to US\$7 million.

2/ The September 30, 1994 and the December 31, 1994 ceilings will be adjusted downward by the full amount by which domestic interest payments fall short of the amounts contemplated in the program, which are C\$5 million through end-September 1994, and C\$48 million through end-1994.

3/ The ceiling for December 31, 1994 constitutes a performance criterion of the program. All other ceilings are quantitative benchmarks.

Table 2, Nicaragua: Limits on the Net Domestic  
Financing of the Combined Public Sector 1/2/3/

(In millions of oordobas)

Period	Limits
<b>Cumulative change</b> from December 31, 1993	
Through March 31, 1994	-50 (actual)
Through June 30, 1994	164 (projsted) 4/
Through September 30, 1994	<b>-287</b>
Through December 31, 1994	<b>-621</b>
<b>Cumulative change</b> from December 31, 1994	
Through March 31, 1995	<b>125</b>
Through June 30, 1995.	<b>72</b>

1/ Includes bank and nonbank financing of the nonfinancial public sector as well as the operational losses of the Central Bank of Nicaragua. Nonbank financing of the nonfinancial public sector includes domestic bond placements outside the financial system and any change in outstanding domestic obligations, including suppliers' credits. The nonfinancial public sector is defined to include the Central Government, the Municipality of Managua, the Social Security Institute (INSSBI), the Nicaraguan Electricity Institute (INE), the Water and Sewerage Institute (INAA), and the Telecommunications Company (TELCOR) (telephone operations will be included until end-September 1994). Disbursements and amortization payments in foreign currency will be converted to cordobas at C\$6.8 per U.S. dollar during 1994, and at C\$7.6 per U.S. dollar from January 1 through June 30, 1995.

2/ These limits will be adjusted: a) upward/downward by the full amount by which non-project grants and loans fall short/exceed, or actual debt service payments exceed/fall-short, of the amounts shown in columns (1) and (2) of the attached Schedule II (the combined upward adjustment will be limited to US\$15 million); b) downward by the full difference between the net proceeds obtained from TELCOR's partial privatization and the amount of such proceeds used to redeem compensation bonds; and c) upward/downward by the full amount by which non-project grants and loans assumed in the program to be disbursed to the nonfinancial public sector/the Central Bank are disbursed to the Central Bank or viceversa.

3/ The ceiling for December 31, 1994 constitutes a performance criterion of the program. All other ceilings are quantitative benchmarks.

4/ The outcome for June 30, 1994 could be up to C\$109 million higher than this projection depending on the result of negotiations with the Central American Bank for Economic Integration (CABEI) and other external creditors regarding the distribution of payments between the second and third quarters.

Table 3. Nicaragua: Ceilings on the Cumulative Change in the Net Domestic Assets of the Central Bank 1/2/3/4/

(In millions of cordobas)

Period	Limits
December 31, 1993-March 31, 1994	-226 (actual)
December 31, 1993-June 30, 1994	-33 (projected) <u>5/</u>
December 31, 1993-September 30, 1994	-146
December 31, 1993-December 31, 1994	-255
December 31, 1993-March 31, 1995	-85
December 31, 1993-June 30, 1995	-179

1/ Net domestic assets are defined as the difference between currency in circulation and the net international reserves of the Central Bank (as defined in Table 4).

2/ Amounts denominated in foreign currency will be converted to cordobas at C\$ 6.8 per U.S. dollar during 1994, and at C\$ 7.6 per U.S. dollar from January 1 through June 30, 1995.

3/ These limits will be adjusted: a) upward/downward by the full amount by which nonproject grants and loans fall-short/exceed, or actual debt service payments exceed/fall-short, of the amounts shown in columns (1) and (2) of the attached Schedule I (the combined upward adjustment will be limited to US\$15 million, while the combined downward adjustment will be limited to US\$20 million); and b) downward by the full difference between the net proceeds obtained from TELCOR's partial privatization and the amount of such proceeds used to redeem compensation bonds, Additional disbursements and/or lower debt service payments in excess of the US\$20 million referred to in (a) will be used only to finance credit to the private sector through the private banks.

4/ The ceiling for December 31, 1994 constitutes a performance criterion of the program. All other ceilings are quantitative benchmarks.

5/ The outcome for June 30, 1994 could be up to C\$143 million higher than this projection depending on the result of negotiations with the Central American Bank for Economic Integration (CABEI) and other external creditors regarding the distribution of payments between the second and third quarters.

Table 4. Nicaragua: **Targets** for the Stock  
of Net International Reserves of the Central Bank 1/2/3/

(In millions of U.S. dollars)

Period	Floors
December 31, 1993	5.5 (actual)
<b>March 31, 1994</b>	40.9 (actual)
<b>June 30, 1994</b>	10.2 (projected) <u>4/</u> <i>slip 4.7</i>
September 31, 1994	27.9
December 31, 1994	50.5
<b>March 31, 1995</b>	
June 30, 1995	40.5

1/ Defined as the difference between the gross foreign assets and the short term foreign liabilities including the net IMF position. The SDR is to be converted at US\$1.35-SDR 1 and gold holdings of the Central Bank are to be valued at US\$360 per troy ounce. These targets will be adjusted in case that the figure for the net international reserves of the Central Bank as of December 31, 1993 is revised, in order to maintain the quarterly flows during the program period.

2/ These targets will be adjusted: a) upward/downward by the full amount by which non-project grants and loans exceed/fall-short, or actual debt service payments fall-short/exceed, the amounts shown in columns (1) and (2) in the attached Schedule 1 (the combined upward adjustments will be limited to US\$20 million, while the combined downward adjustment will be limited to US\$15 million); and b) upward for the full difference between the net proceeds obtained from TELCOR's partial privatization and the amount of such proceeds used to redeem compensation bonds.

3/ The target for December 31, 1994 constitutes a performance criterion of the program. All other targets are quantitative benchmarks,

4/ The level of NIR for June 30, 1994 could be up to US\$21 million below this projection depending on the outcome of negotiations with the Central American Bank for Economic Integration (CABEI) and other external creditors regarding the distribution of payments between the second and third quarters.

Tabla 5. Nicaragua : Limits on Net Disbursements of External Loans Contracted or Guaranteed by the Public Sector 1/

(In million of U.S. dollars)

Period	Limits
Cumulative from December 31, 1993	
a) Debt with a maturity of 1-12 years:	
Through June 30, 1994	50
Through September 30, 1994	65
Through December 31, 1994	75
Through March 31, 1995	95
Through June 30, 1995	110
b) Debt with a maturity of 1-5 years:	
Through June 30, 1994	10
Through September 30, 1994	15
Through December 31, 1994	15
Through March 31, 1995	20
Through June 30, 1995	25
c) Debt with a maturity of less than 1 year <u>2/</u>	
Through June 30, 1994	--
Through September 30, 1994	--
Through December 31, 1994	--
Through March 31, 1995	--
Through June 30, 1995	--

1/ The limits for December 1994 constitute a performance criterion of the program. All other targets are quantitative benchmarks.

2/ Excluding normal import-related credits and short-term liabilities of the Central Bank.

Table 6. Nicaragua: Limits on the Stock of External Payments Arrears 1/2/3/

(in millions of U.S. dollars)

Period	Limits
December 31, 1993 (estimate)	23 - <i>EROSMO 6</i> <i>(Jan 17)</i> <i>Alman</i>
March 31, 1994 (estimate)	47
June 30, 1994	42 (projected) <i>4/</i>
September 30, 1994	10
December 31, 1994	--
March 31, 1995	--
June 30, 1995	--

**1/** No new arrears will be incurred within the program period.

**2/** Exclude arrears assumed to be rescheduled under the program (including arrears on private suppliers' obligations) and arrears on commercial bank debt.

**3/** The limits for December 31, 1994 constitute a performance criterion of the program. All other targets are quantitative benchmarks.

**4/** The outcome for June 30, 1994 could be up to US\$21 million lower than this projection depending on the result of negotiations with the Central American Bank for Economic Integration (CABEI) and other external creditors regarding the distribution of payments between the second and third quarters.

Table 7. Nicaragua: Structural Benchmarks for the First Annual Arrangement Under the Enhanced Structural Adjustment Facility (Continued)

Benchmarks	Timetable
<b>4. <u>Financial Sector Reform</u></b>	
(i) Avoid any recapitalization of BANADES or BANIC with government resources. Any revaluation of the banks' assets will be limited to cover a deficit in loan provision requirements and/or indemnization expenses to personnel, and their continued compliance with the prudential norms of the Superintendency will be enforced.	Throughout program period
(ii) Reduce BANIC's operating losses (excluding gains from exchange rate corrections) by at least half of the 1993 level (estimated at C\$ 12-13 million).	January 1st, 1994-December 31, 1994
<b>5. <u>Privatization</u></b>	
(i) Bring to the point of sale at least 40 percent of the shares of the state-owned telecommunications company (TELGOR) and a management concession.	End-October 1994 1/
(ii) Bring to the point of sale, liquidate, or divest 62 enterprises still managed by CORNAP.	End-1994 1/
(iii) Present draft legislation to the National Assembly allowing private sector participation in the hydrocarbon and electricity sectors.	End-1994
<b>6. <u>Exchange and Trade Policy</u></b>	
(i) Lift existing restrictions on the making of payments for education, health, and travel expenses through the official market.	February 28, 1995
(ii) Eliminate multiple currency practice through full unification of the exchange markets (including capital transactions).	June 30, 1995
(iii) Refrain from introducing any non-tariff barriers on exports or imports not justified by health or security reasons.	Through June 30, 1995

1/ Constitute structural performance criteria of the program.



Table 7. Nicaragua: Structural Benchmarks for the First Annual Arrangement Under the Enhanced Structural Adjustment Facility

Benchmarks	Timetable
<b>1. <u>Public Sector</u></b>	
(i) Implement the voluntary employment reduction program to reduce the number of public sector employees by 7,000.	Through-end 1994
(ii) Implement the voluntary employment reduction program to reduce the number of public sector employees by an additional 2,000.	January 1st, 1995- June 30, 1995
<b>2. <u>Credit Policy</u></b>	
(i) Eliminate central bank financing of the state-owned banks on a net basis (financing could change during the year because of seasonal reasons). 2/	Throughout program period 1/
(ii) Limit central bank financing of the FNI to the onlending of the external resources provided by regional institutions and external donors for specific programs, net of programmed repayments to the Central Bank. 3/	Throughout program period 1/
<b>3. <u>Interest Rates</u></b>	
Maintain all central bank interest rates (short and long-term) above the 30-day deposit rate plus a spread of 1/4 of one percentage point.	Throughout program period 4/

1/ Constitutes a structural performance criterion for the period January 1st, 1994 through December 31, 1994.

2/ Central bank financing of the state-owned banks will be zero in calendar year 1994. This limit will be adjusted downward for any sale of portfolio of the state-owned banks to the private banks that could result in a reduction of central bank claims vis-a-vis the state-owned banks.

3/ Repayments to the Central Bank are programmed at C\$35 million a year in 1994-95.

4/ Constitutes a structural performance criterion for the period through December 31, 1994.

SCHEDULE I

Cumulative disbursements of non-project related  
grants and loans <sup>1/</sup>

(In millions of U.S. dollars)

	Total Public Sector (1)
December 31, 1993-June 30, 1994	73
December 31, 1993-September 30, 1994	146
December 31, 1993-December 31, 1994	224
December 31, 1993-March 31, 1995	236
December 31, 1993-June 30, 1995	289

*1993 LOANS (including) TABLE B*

Programmed cash debt service payments  
(including debt service arrears)

(In millions of U.S. dollars)

	Total Public Sector (2)
December 31, 1993-June 30, 1994	95
December 31, 1993-September 30, 1994	175
December 31, 1993-December 31, 1994	249
December 31, 1993-March 31, 1995	301
December 31, 1993-June 30, 1995	371

*- TABLE 3 (EXCLUDED)*

<sup>1/</sup> Excludes disbursements by BCIE and FIV and the non-conventional credit line from the IDB.

SCWEDULE II

Cumulative disbursements of non-project related grants and loan<sup>1/</sup>

(In millions of U.S. dollars)

	Total Nonfinancial Public Sector (1)
December 31, 1993-June 30, 1994	16
December 31, 1993-September 30, 1994	89
December 31, 1993-December 31, 1994	167
December 31, 1994-March 31, 1995	0
December 31, 1994-June 30, 1995	29

TAB 3 { 127.3 GC  
39.5 GC

Programmed cash debt service payments

(In millions of U.S. dollars)

	Total Debt Service of Nonfinancial Public Sector plus Central Bank Interest Payments (2) 2/	Central Government Interest Payments ( 3 )
December 31, 1993-June 30, 1994	85	37
December 31, 1993-September 30, 1994	149	59
December 31, 1993-December 31, 1994	204	80
December 31, 1994-March 31, 1995	47	24
December 31, 1994-June 30, 1995	105	46

TAB 3  
154.5 GC  
22.8 BCN  
13.3 SEC.  
14.0 HONA

<sup>1/</sup> Excludes disbursements by BCIE and FIV.

<sup>2/</sup> Includes debt service arrears.