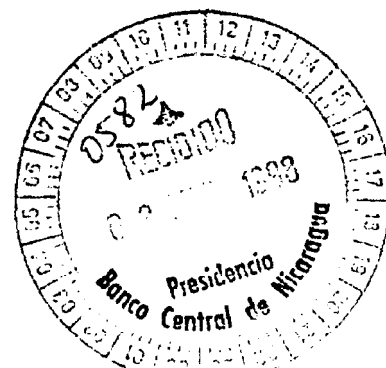


Preliminary

**EXTERNAL DEBT IN CENTRAL AMERICA:
THE URGENCY OF DEBT RELIEF FOR
HONDURAS AND NICARAGUA**

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CENTRAL AMERICA PROJECT

1. Introduction

Over the last several years Central America has gone through a substantial process of adjustment and modernization. After years of social unrest, the entire region is finally at peace and has begun to establish conditions for rapid and sustainable economic growth. However, despite the fact that all the countries in the region have made important structural reforms not all of them have yet started to reap the benefits of their adjustments.

Costa Rica, El Salvador and Guatemala achieved important gains in per capita output from 1990 to 1996 while Honduras and Nicaragua remained practically stagnant. Since the latter two countries are also the poorest in the region, these growth levels have implied a widening of the inequality within Central America. Moreover, Honduras and Nicaragua are the two countries in the region with large external debt and this may seriously affect their capacity to grow.

As Krugman (1988) and Sachs (1989a) have argued, an excessive debt burden acts as a high marginal tax rate that discourages investment and economic adjustment. This argument, also known as the foreign debt Laffer curve, implies that it may be in the best interest of *both* creditors and debtors to reduce the debt because a large foreign debt imposes severe constraints to the development of debtor countries and limits their ability to service foreign obligations. Achieving deep debt reduction is then a prerequisite to start a sustained process of economic growth.

Several indicators suggest that the debt of both Honduras and Nicaragua severely limits their growth perspectives. In this respect, the challenge that these countries face is tremendous. The per capita income of each Nicaragua and Honduras is about one-fourth that of Costa Rica, the richest country in the region, whose income is in turn about one-fourth that of the United States. Assuming a conservative population growth rate of 2.5 percent per year, the GDP in Honduras and Nicaragua will have to grow at a constant rate of about 6 percent per year during the next forty years simply to reach the income per capita that Costa Rica has today.

In this paper we briefly review the foreign debt burden in Central America with special emphasis on the cases of Honduras and Nicaragua. We argue that if Honduras and Nicaragua are going to grow at satisfactory rates during the next decades, they will require substantial debt relief. Achieving deep debt reduction for these two countries, however, is not only a matter of great significance for them, but for the whole Central American region as well. We also discuss the main characteristics of the foreign debt of these two countries and we evaluate their prospects to qualify for the new initiative aimed at reducing the debt burden of the highly indebted poor countries (the so-called HIPC Initiative).

2. External Debt and Growth in Central America

In this section we discuss the external debt burden in Central America and the recent patterns of growth in the region.

The Burden of Foreign Debt

The Central American countries, as almost all the rest of the developing world, have made extensive use of some form of external savings to finance domestic investments. As a result of the combination of inadequate infrastructure, low levels of human capital, inward-oriented policies, political instability, and a strong comparative advantage in certain agricultural products (mainly coffee and bananas), the region as a whole has been relatively unsuccessful in attracting foreign direct investment into areas other than agriculture.¹ Because of this, Central American countries have had to resort to external debt as an important means of financing development.

All Central American countries have used foreign resources to fill their savings-investment gaps. Yet, they attained very different levels of foreign indebtedness. Table 1 shows some of the key indicators of the foreign debt burden in each one of the five Central American countries for 1995 and/or 1996.² As the table makes clear, the foreign debt burden differs widely across the Central American countries regardless of the indicator that we choose to measure it.

Table 1 shows the seriousness of the foreign debt problem in Honduras and Nicaragua. The first four rows of the table show that the magnitude of the stock of external debt in Nicaragua is excessive, more than three times its GNP in 1996. The burden of foreign debt in Honduras, at one hundred percent of GNP, although lower than Nicaragua's, is also excessive. The external debt of Costa Rica, El Salvador and Guatemala, between twenty and forty percent of their annual GNP, is more moderate and appears manageable with sound budgeting and macroeconomic policies.

Rows 5 to 7 in Table 1 present indicators of the cost of servicing the foreign debt, thus giving a clear idea of the magnitude of the resources used by these countries to serve their external obligations. Not surprisingly, this cost is much higher in Honduras and Nicaragua than in the rest of the region. According to the figures in row 6 both Honduras and Nicaragua have to forgo roughly two months of their annual GNP in servicing their external debt. It is clear that no country will grow sustainably while devoting so much resources to the service of their external debt.

¹ This **trend however**, is changing with the recent adoption of es-port processing zones regimes throughout Central America. See **Jenkins**, Esquivel and **Larrain** (1998).

² We use data for the latest year for which comparable and reliable information is available. Unless otherwise stated the main sources of debt **data** that we use throughout the paper are World Bank (1997a and 1997b).

Table 1 clearly shows that within Central America only Honduras and Nicaragua have a serious foreign debt problem. This conclusion is also supported by the World Bank classification, listed in the last two rows of Table 1. According to these criteria, both Honduras and Nicaragua are classified as severely indebted low-income countries, whereas Costa Rica, El Salvador and Guatemala are classified as lower-middle income countries with a relatively low level of indebtedness.

Table 1. Central America: Key Indebtedness Ratios

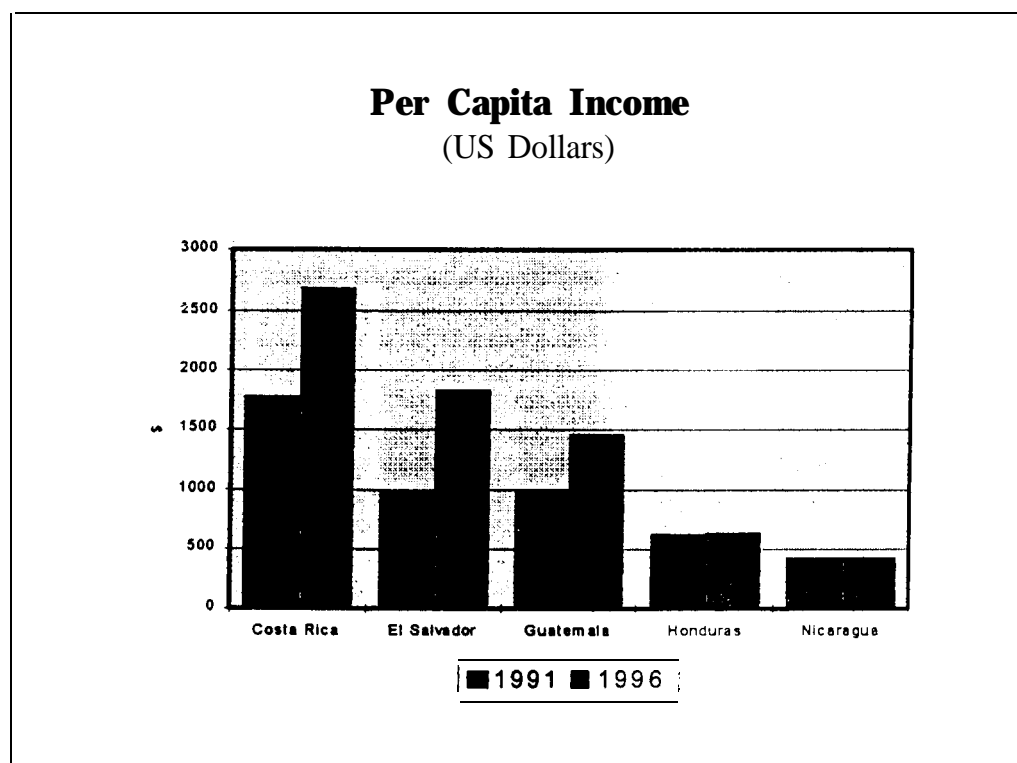
	Costa Rica		El Salvador		Guatemala		Honduras		Nicaragua	
	1995	1996	1995	1996	1995	1996	1995	1996	1995	1996
External Debt (percent of GNP)		49.0	--	24.7	--	213	--	118.2	589.7	306.2
Present Value of External Debt (percent of GNP)	39.6	--	22.0	--	19.0	--	1012	--	520.3	--
External Debt (percent of exports of goods and services)		143.3	--	187.4	116	--	--	263.6	--	960.5
Present Value of External Debt (percent of exports of goods and services)	89.6	--	66.5	--	86.7	--	207.4	--	1,122.9	--
Total External Debt Service (percent of exports of goods and services)		20.1	a.9	--	10.6	--	--	31.0	38.6	34.0
Total External Debt Service (percent of GNP)	7.1	--	3.0	--	2.3	--	15.1	--	17.9	12.0
Interest Payments (percent of exports of goods and services)	6.3	--	3.9	--	4.6	--	12.1	--	11.9	--
Classification by Income	Lower-Middle		Lower-Middle		Lower-Middle		Low		Low	
Classification by Indebtedness	Less-Indebted		Less-Indebted		Less-Indebted		Severely Indebted		Severely Indebted	

Source: The World Bank (1997a,b).

Growth in Central America

Figure 1 shows the per capita GNP in U.S. dollars for the five Central American countries in 1991 and 1996. It clearly illustrates a worrisome feature of the recent pattern of growth in the region: the poorest countries in the area have remained practically stagnant during the 1990s while the relatively wealthier countries have grown steadily. These trends imply that regional inequalities have increased in the recent past and that there is a serious trend towards divergence within the region.

Figure 1



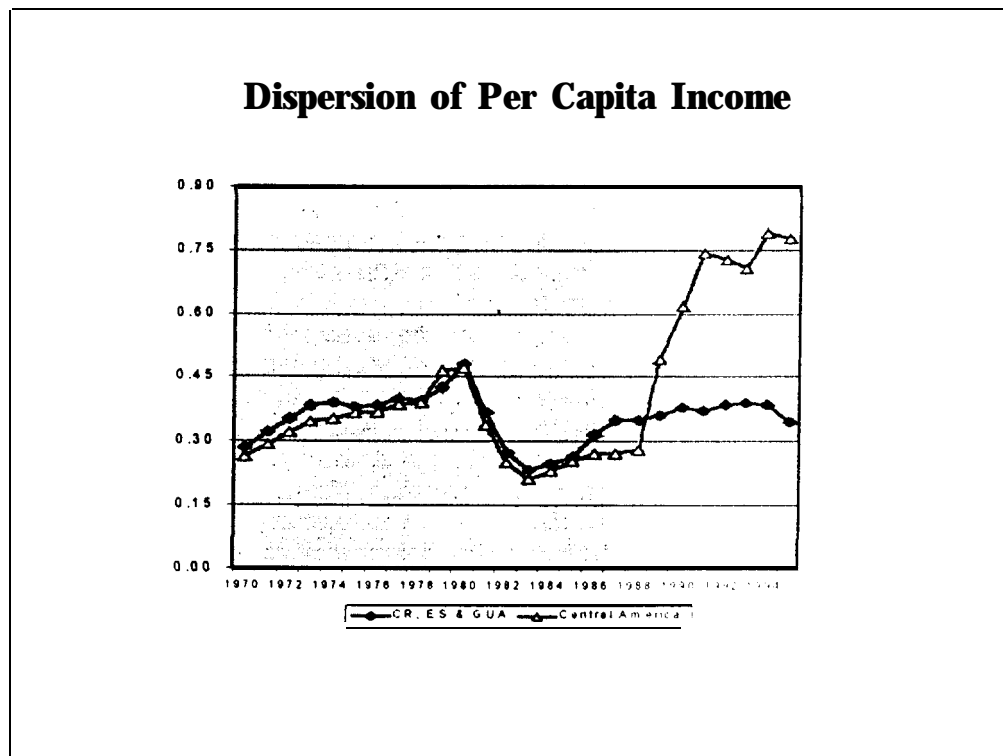
To investigate whether the trend towards divergence is a recent phenomenon or whether it has been taking place for a long period, we computed the dispersion of per capita income in the area since 1970. Figure 2 shows the dispersion of (the log of) per capita income for two groups of Central American countries for the 1970-95 period. The first group consists of the three less-indebted countries of the region: Costa Rica, El Salvador and Guatemala. The second group includes all five nations, that is, it adds Honduras and Nicaragua to the first group. As the figure shows, there has been no major variation in the cross-country dispersion of per capita income within the group of three less-indebted Central American countries for the past twenty-five years. The dispersion of per capita income across the whole region, however, has increased dramatically since 1989.

Although there is no obvious causality between debt burden and growth, it is certainly suggestive that the two most indebted countries in Central America are also the countries that are lagging behind within the region. The fact that Honduras and Nicaragua are also the poorest in the region implies that their stagnation has led to a sharp divergence within the region in the recent past. Such trend is even more intriguing since Honduras and Nicaragua, like the rest of the region, have achieved important progress in their structural reform, mainly in trade and financial liberalization. Nicaragua has also

made progress in tax reform and has even experienced an incipient process of privatization.³

There are certainly other factors that explain slow growth in Honduras and Nicaragua such as lack of infrastructure, political conflicts, property rights problems, etc, but they do not provide an adequate explanation for the trend just described since they are not particular to these countries. Rather, they tend to afflict the whole region; thus, these factors may have a negative impact on the growth rate of the region and not just on that of specific countries. The evidence strongly suggests that slower growth in Honduras and Nicaragua is related to a large external debt burden.

Figure 2



3. A Brief Look at the Evolution of Foreign Debt in Honduras and Nicaragua

Honduras

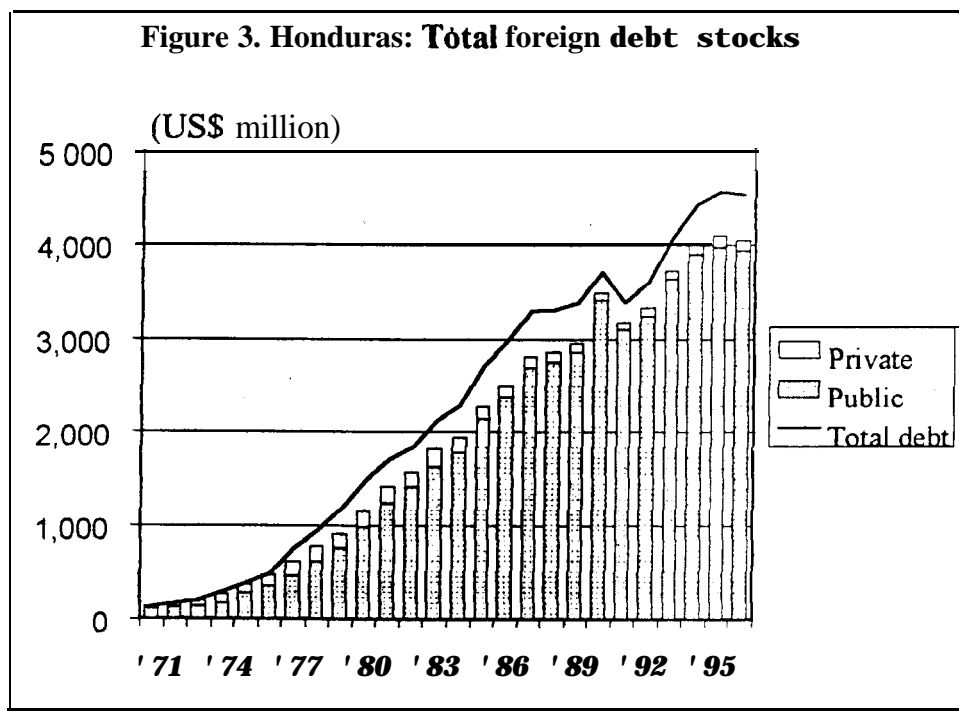
At the end of 1996 Honduras' foreign debt reached US\$ 4,532 million, of which almost 90 percent' was long-term (L-T) obligations and 87 percent was public or publicly-guaranteed obligations. Figure 3 shows the most important features of the external debt of

³ See Inter-American Development Bank (1996, 1997).

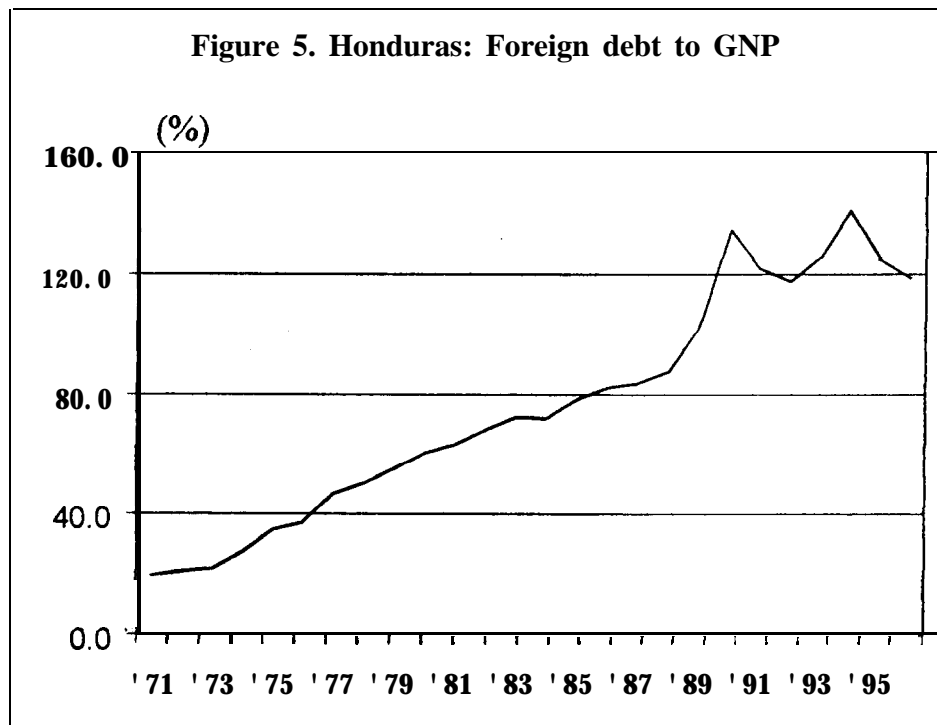
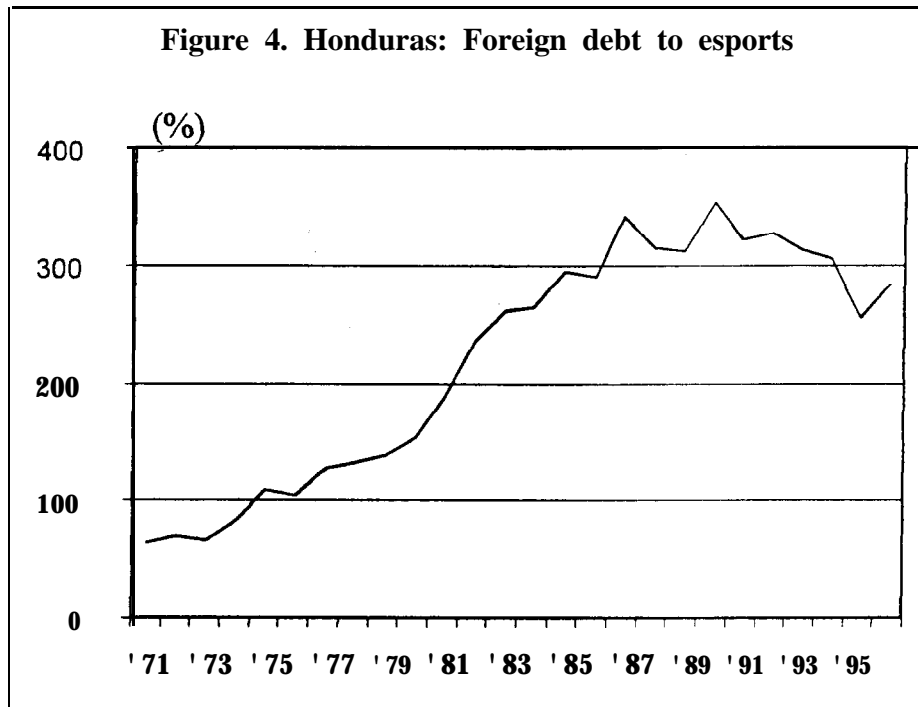
Honduras as well as its main components. Public or publicly guaranteed debt has steadily increased over the past twenty-five years. From 1972 to 1996, it grew in nominal dollars at a compounded rate of 14.8 percent per year, mostly due to long-term net flows from official creditors.

Standard measures of the degree of indebtedness of a nation are given by the debt-to-exports and debt-to-output ratios. By the end of 1996, the ratio of foreign debt to exports of goods and services in Honduras was 284 percent, while the foreign debt-to-GNP ratio was 118 percent.⁴ By comparison, the same indicators for all the countries of Latin America and the Caribbean during 1995 were 212 and 41 percent, respectively.

Figures 4 and 5 present the historical trend of the two stock-of-debt ratios for Honduras during the 1970-95 period. Both figures show a well defined rising trend during most of the period and, interestingly, both ratios continued rising even during the most critical part of the 1980s debt crisis. By 1990 both indicators seemed to have reached a peak and they have remained relatively stable in the 1990s

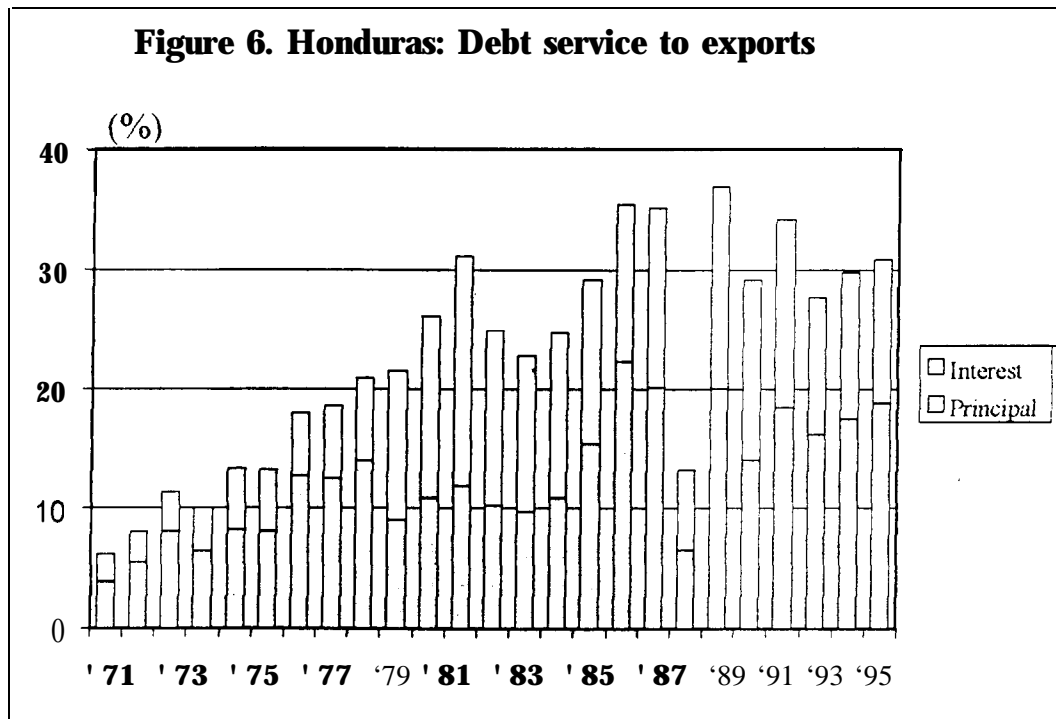


⁴ Note that in this section we use the nominal value of the debt, whereas in other sections we use the net present value equivalent. This is in part due to the lack of historical information for the variable in present value terms, since the World Bank started to compute this variable just recently. The debt in present value terms is usually lower than the nominal value since the former takes into account the concessional

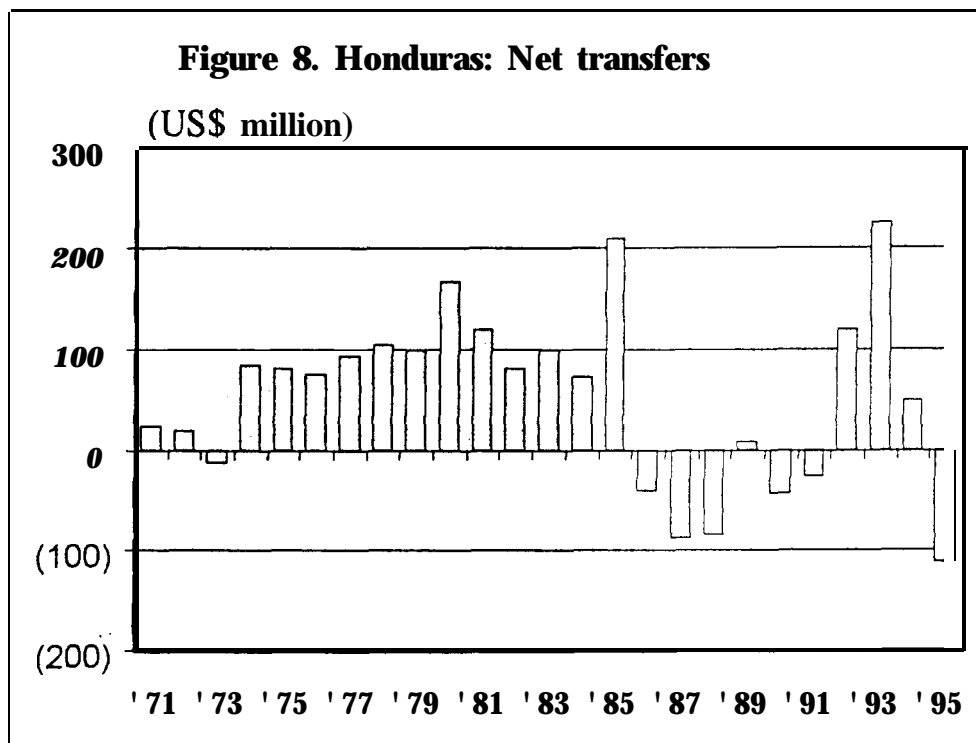
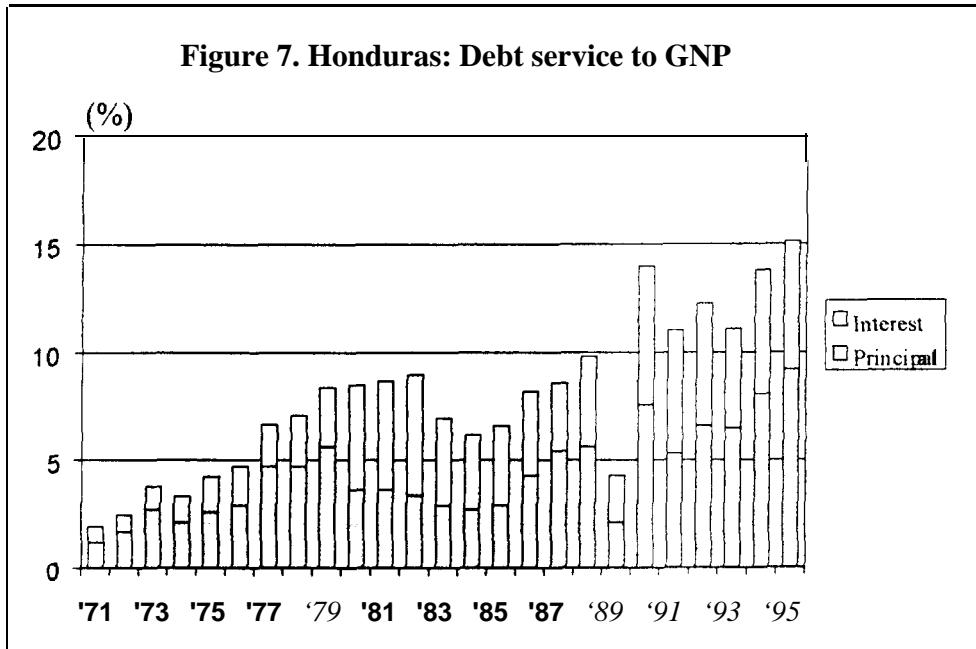


component of the debt and discounts it at a market rate. This explains why the ratios that use the net present value of debt **are** usually lower than those **expressed** in nominal terms.

In terms of flows, standard debt-burden measures are the ratios of debt service to output and debt service to exports. These ratios indicate the effort that a country has to make to cover its foreign obligations. Honduras' total debt service paid in 1996 was US\$429 million, which represented about 26 percent of exports of goods and services and 11 percent of GNP. Figures 6 and 7 show the twenty-five year trend in these two indicators. The debt service-to-GNP ratio has been consistently above 10 percent during the last six years and it has averaged around 30 percent of the exports of goods and services. By comparison, the same indicators for all the countries classified as "severely-indebted low-income countries" are about 4.4 and 18 percent, respectively.



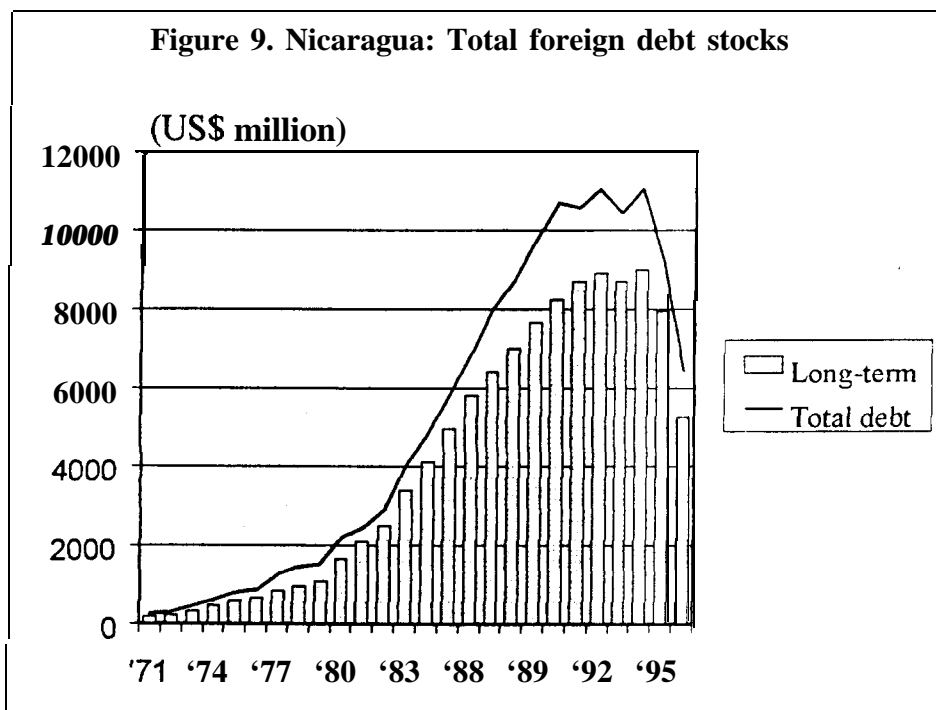
The effective amount of resources transferred to creditors is considered a better indicator of the effort that a country has to make to cover its external obligations. The *net resource transfer*, defined as net flows minus interest payments, gives an example of such a calculation. Figure 8 plots this variable over the last twenty-five years and shows that Honduras received negative net resource transfers from the international financial community for six of the last ten years that ended in 1995.



Nicaragua

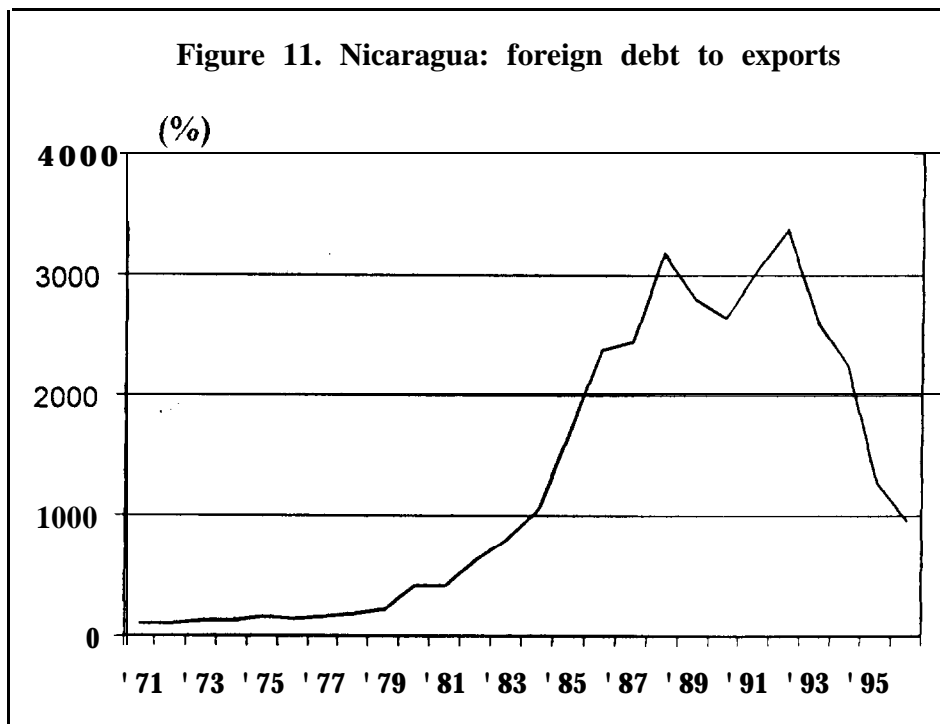
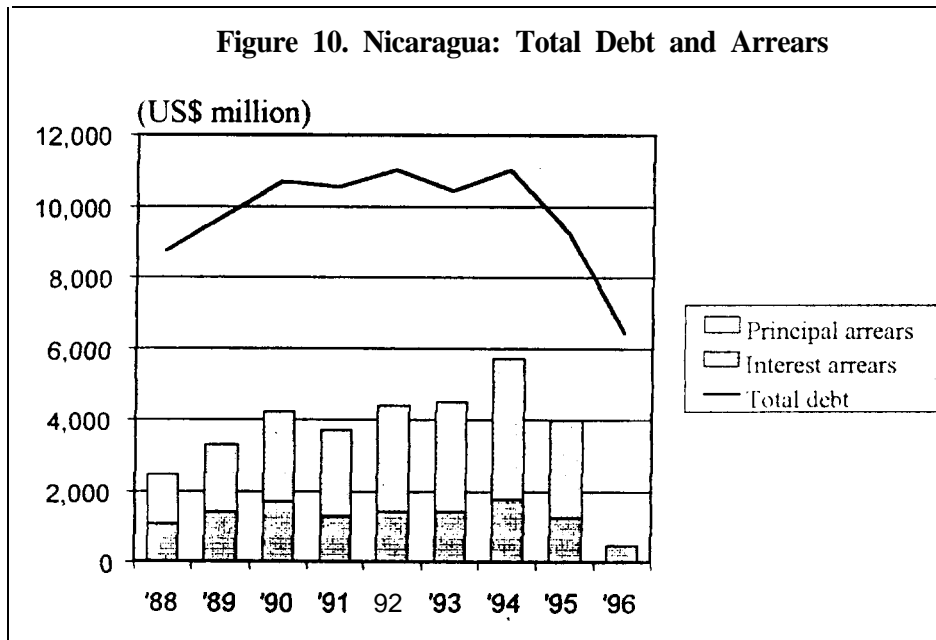
At the end of 1996, Nicaragua's foreign debt reached US\$6440 million (including interest arrears) of which 82 percent was long-term, publicly guaranteed obligations. Short-term debt comprised mainly interest arrears on long-term **debt**. Accumulation of principal and interest arrears accounted for 53 percent --on average-- of total foreign debt stocks between 1988 and 1995.

Figure 9 shows the evolution of Nicaragua's nominal foreign debt between 1971 and 1996. During this period, the country's debt grew at an average compounded annual rate of 13.9 percent in nominal dollars. **Part** of this growth was due to non-voluntary long-term net flows from official creditors (as principal arrears rose sharply in the late 1980s) and to the rapid accumulation of interest arrears. Figure 10 plots both total debt stock and external debt arrears between 1988 and 1996. This figure shows that arrears are one of the most important factors in explaining the rapid accumulation of foreign debt in Nicaragua in the last years.

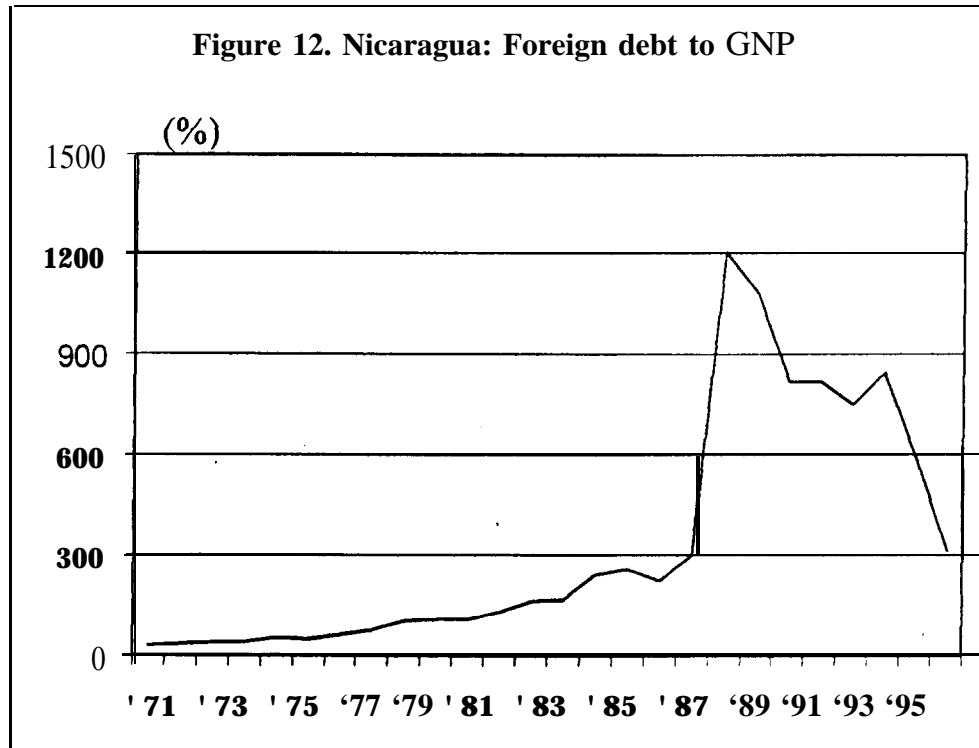


The ratio of foreign debt to exports of goods and services in Nicaragua at the end of 1996 was 961 percent, while foreign debt to **GNP** was 306 percent. Both ratios are depicted in Figures 11 and 12 from 1971 to 1996. These two figures together with Figure 9 illustrate the rapid increase in foreign debt that took place in Nicaragua during the years of the Sandinista regime (1979-89). In fact, only five years after the Sandinistas took

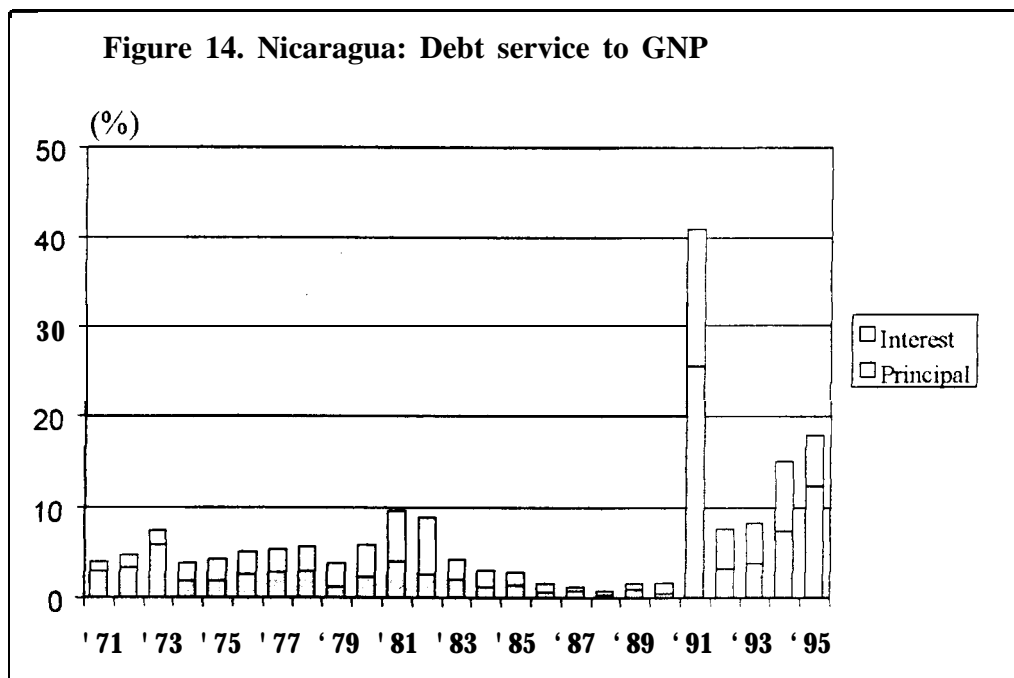
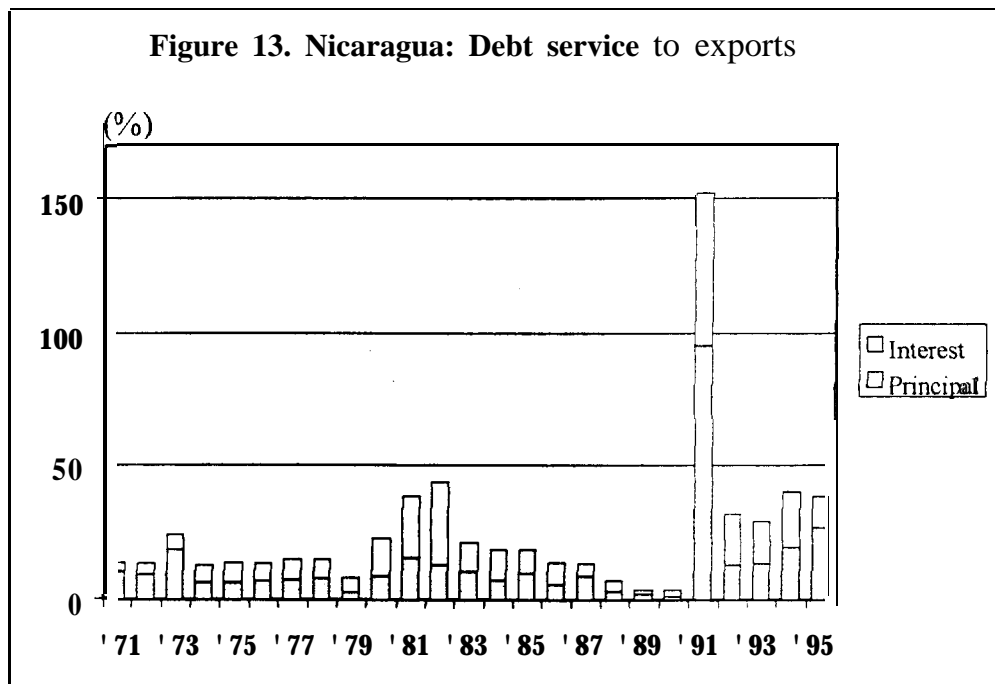
power, the debt-to-export and debt-to-GNP ratios had already reached 1000 and 200 percent, respectively. Governments sympathetic to the Sandinista regime (mainly the former Soviet Union) supplied most of the foreign debt flows that took place during the 1980s.



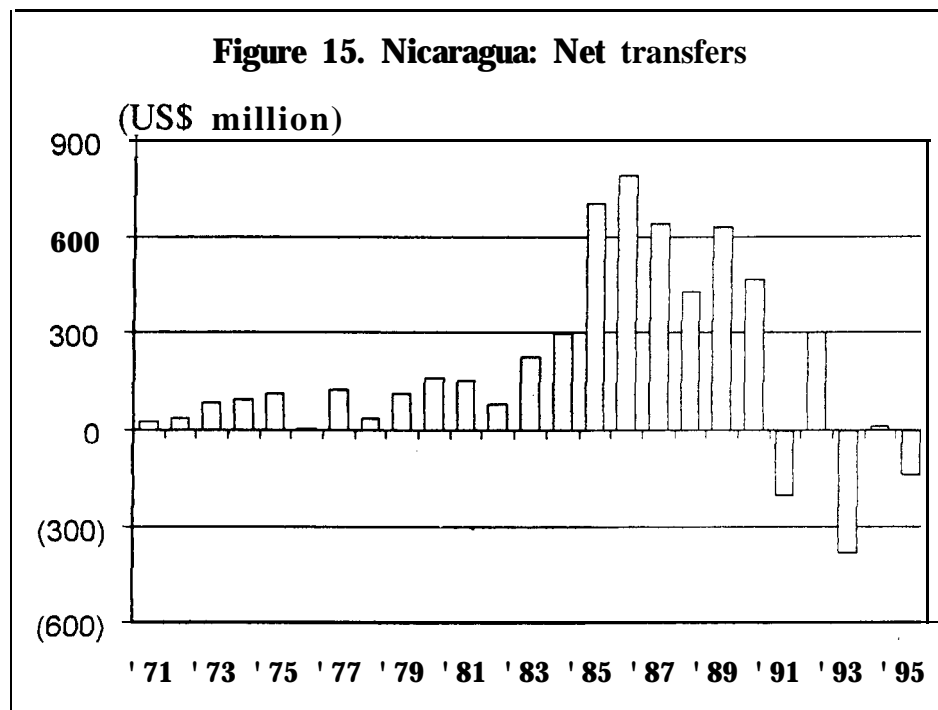
A remarkable aspect of Figures 11 and 12 is the sharp decline in both ratios that has occurred since 1990 as a result of both the export-oriented policies of the new democratic governments that succeeded the Sandinistas after the general elections of 1989, and the debt-reduction policy implemented since 1991



Figures 13 and 14 show two foreign debt service indicators for Nicaragua. They show how Nicaragua substantially reduced the service of its external obligations in spite of the ever-growing external debt during most of the 1980s. This behavior partially explains the rapid accumulations of the external debt that occurred during the 1980s. Figure 13 also shows how starting in 1991 Nicaragua increased substantially the service of its external debt in an attempt to normalize its relations with the international financial community. By then, however, **the** magnitude of the foreign debt had reached unsustainable levels and Nicaragua was unable to service it all (see Figure 10). Figures 13 and 14 also provide an idea of the effort that Nicaragua has made to cover its external obligations in the recent years. During 1996 Nicaragua devoted 33 percent of its total exports of goods and services and 18 percent of its national output to service its foreign debt.



Net resource transfers confirm the trends described above. Figure 15 shows the large transfers that Nicaragua received during most of the 1980s as well as its sudden decline since 1990, which indicates that Nicaragua is no longer benefiting from the access to fresh resources from the international financial community.



At the end of 1996 total foreign debt stocks amounted to US\$6,440 millions, 30 percent lower in nominal terms than the previous year. This decrease was mainly due to debt relief agreements reached with Russia, Mexico, the Paris Club, the Czech Republic and El Salvador that added up to US\$4,208.1 millions in debt forgiveness and US\$644.4 millions in concessional **reschedulings** distributed as follows:⁵

(US\$ millions)

Country	Debt forgiven	Debt rescheduled
Russia	3,099.9	344.4
Mexico	1,065.7	99.5
Paris Club	36.5	26.1
Czech Republic	6.0	134.0
El Salvador		40.4

⁵ A detailed account of Nicaragua's debt negotiations during the period 1990-96 is provided in Ministerio de Cooperación Estern (1997). See also the annual report of the Banco Central De Nicaragua (1996).

4. Debt Relief Mechanisms and the HIPC Initiative

Over the past two decades the international financial community has developed several mechanisms to alleviate the problems that poor countries have faced to fulfill their external obligations. During most of the 1980s, official and Paris Club creditors saw the debt problem as one of liquidity. In consequence, the typical approach to debt relief was to refinance or reschedule arrears and payments that were due during a period in which the debtor had an IMF-supported adjustment program. The result of this approach, however, was a steady increase in the stock of outstanding debt and the debt burden ratios of many of the poorest countries.⁶

In 1988, after the G-7 summit in Toronto, the debt problem in the poorest countries was widely perceived as one of solvency rather than liquidity. Consequently, Paris Club members agreed to provide up to one-third of debt relief to the poorest rescheduling countries by either forgiving part of the debt or by granting concessional interest rates. These terms, known as the *Toronto term*, were later modified in the 1991 G-7 summit in London where the creditors club agreed to provide maximum relief of up to 50 percent in the net present value of the stock of debt (the *London terms*). Finally, in 1994 the Paris Club creditors agreed to raise the maximum amount of debt-relief up to two-thirds of the eligible stock of rescheduling debt for those countries that had a three-year track record of **successful** macroeconomic management. The new conditions became known as the *Naples terms*, described in more detail in Box 1.

Recently, as a result of rising concerns about the service capacity of some severely indebted poor countries, the World Bank and the IMF launched, an initiative whose objective was to look for a “comprehensive solution” to the unsustainable debt of some of these countries. First proposed at the April 1996 meetings of the IMF and the World Bank, the initiative was rapidly endorsed and supported by a large number of countries around the world.

The HIPC Initiative

The most recent debt relief mechanism was officially approved in September 1996 by the boards of the World Bank and the International Monetary Fund. The *Heavily Indebted Poor Countries Debt Initiative* (hereafter referred as “the HIPC initiative”) represents a commitment of the international financial community to act together to grant debt relief to the neediest countries.⁷ The **HIPC** initiative is oriented towards providing debt relief for those countries that demonstrate strong policy performance and that after

⁶ Paris Club is the name given to the meetings between **government** creditors, mainly OECD countries, and debtor countries under the auspices of the French **government**.

⁷ See Sachs (1989b) for a critical review of this approach.

⁸ For more details about the origins and goals of the **HIPC initiative** see Boote and Thugge (1997).

taking full advantage of the traditional debt-relief mechanisms are still considered to have unsustainable debt levels (as defined below). At the outset, the HIPC initiative identified 41 countries as potentially eligible for debt relief.

Box 1. Paris Club Naples Terms
(Replaced the Toronto and London Terms)

Eligibility:

Determined by creditors on a case by case basis according to a country's income and level of indebtedness. Countries that previously received relief under Toronto or London terms become automatically eligible.

Concessional:

Most countries receive a reduction in eligible non-ODA (official development assistance) debt of 67 percent in net present value terms. Some countries with per-capita income of more than \$500 and ratio of debt to exports of less than 350 percent in present value terms may receive 50 percent net present value reduction, to be determined case by case.

Coverage:

Coverage of non-ODA pre-cutoff date debt is determined case by case in the light of balance of payment need. Debt previously rescheduled on concessional terms may be subject to further rescheduling to top-up the amount of concessionality granted. Under the top-up the net present value reduction is increased from the original level given under Toronto or London terms to the level agreed under the Naples terms.

Choice of Options

Creditors have a choice of two concessional options for achieving a 67 (or 50) percent reduction in net present value terms: a) the debt-reduction option, under which repayment is made over 23 years with 6 years of grace; or b) the debt-service-reduction option, under which the NPV reduction is achieved by concessional interest rates with repayment in less than 33 years. There is also a commercial, long maturity option that provides for no NPV reduction and repayment over 40 years with 20 years grace period. Creditors choosing this option undertake best efforts to change to a concessional option at a later date when feasible. The long maturity option provides for repayment over 25 years with 16 years of grace.¹

ODA

Pre-cutoff date credits are rescheduled on interest rates at least as concessional as the original interest rates over 40 years with 16 year grace period (30 years maturity with 12 years grace period for 50 percent NPV reduction). Creditors can also choose an option reducing the NPV of ODA debt by 67 (or 50 percent).

Flow Rescheduling

Service on eligible debt falling due during the consolidation period, generally in line with the period of the IMF arrangement, can be rescheduled. There is no grace period for this operation.

Stock of debt operations

This term in which the entire stock of eligible pre-cutoff date debt is rescheduled concessionally, is reserved for countries with a satisfactory three-year record of both payments under rescheduling agreements and performance under IMF arrangements. Creditors must be confident that the country will be able to respect the debt agreement as an exit rescheduling (with no further rescheduling required). The grace period for this operation is 3 years.

In addition, there is an option to capitalize interest due, which also achieves the NPV reduction by a lower interest rate over the same repayment (and grace) periods as the debt service reduction option.

A traditional debt-relief mechanism usually consists of the following steps. First, the debtor country adopts an economic program of structural reform supported by concessional loans from the **IMF** and the World Bank. Second, the debtor country may obtain a flow-rescheduling agreement with Paris Club creditors on concessional terms in support of such program. This agreement may be followed by a stock-of-debt reduction operation **after** a three-year period of good track record under both IMF arrangements and rescheduling agreements. Third, the debtor country commits to seek at least comparable terms on debt owed to private and other non-Paris Club bilateral creditors. Fourth, the debtor country seeks bilateral forgiveness of **official** development assistance (ODA) debt by some creditors. Finally, the debtor country may obtain new financing on appropriately concessional terms.

According to the terms of the **HIPC** initiative (see Box 2), if a country reaches sustainable debt levels **after** obtaining a stock-of-debt reduction with other creditors it is not eligible to participate in the initiative. **If**, however, the debt reduction is not enough as to bring the debtor country back to sustainable debt levels, then both the Paris Club and the multilateral organizations commit themselves to grant further relief until the debtor country achieves debt sustainability.

Under the HIPC initiative, the Paris Club creditor countries agree to provide debt relief of up to 80 percent in net present value (**NPV**) terms, on a case-by-case basis. Similarly, multilateral creditors commit to reduce the present value of their claims so as to guarantee a sustainable debt level, also defined on a case-by-case basis. Generally, a sustainable debt-exports ratio is up to 200-250 percent (in present value terms) and 20-25 percent for the debt-service to exports ratio. Specific targets are identified for each country depending on the concentration and variability of exports and on the fiscal burden of the debt service.

On April 24, 1997, the Boards of the World Bank and the IMF agreed to modify the interpretation of the **HIPC** initiative for the case of highly open economies. They **considered** that ‘the- previously’ specified debt-export ratio (200-250 percent) could not **lead** to debt sustainability **for** very open economies. In consequence, they accepted to reduce the NPV debt-to-export target below 200 percent for economies with an exports-to-GDP ratio of at least **40 percent** and fiscal revenue-to-GDP of at least 20 percent. For **countries satisfying both criteria, the NPV debt-to-exports target is set at a level that achieves a 280 percent ratio of the NPV debt-to-revenue at the completion point.**

To better understand the debt alleviation implications of the recently introduced fiscal/openness criteria, we must translate them into a comparable measure of the burden of the debt. Table 2 shows the debt-exports ratios implied by different combinations of the fiscal revenue-to-GDP and exports-to-GDP ratios that satisfy the two criteria established in the modification to the **HIPC initiative**⁹.

⁹ The implicit **debt-exports** ratios are obtained as follows. Let us define D as the Net Present Value of **External Debt**, X as **total exports of goods and services**, T as **total government revenues** and Y as output. The fiscal/openness criteria requires a share of exports in total output (X/Y) higher than 0.4 and a fiscal revenues-to-output (T/Y) higher than 0.2. Next, consider the **following identity**: $D/X = D/T \times T/Y \times Y/X..$

Table 2 shows that the introduction of the fiscal/openness criteria implies that an economy that exactly matches both criteria will be set to target a NPV debt-exports ratio of 140 at the completion point. This is an additional 30 percent debt reduction over the most advantageous possible agreement that could have been obtained under the original terms of the HIPC initiative. More importantly, however, Table 2 also shows that the implied debt-exports ratio decreases with the level of openness and increases with the level of fiscal effort. Furthermore, as the shadowed area in Table 2 makes clear, there are combinations of fiscal effort and openness for which the new criteria would imply higher debt-exports ratios than under the original terms of the initiative. The latter results clearly contradict the spirit of the modification since they penalize those economies that are currently undertaking a substantial fiscal effort. As the fiscal/openness modification stands now, it is only a measure that benefits highly open economies with a moderate fiscal effort and it does not properly take into account the fiscal aspect of the debt burden.

Table 2. Implicit Debt-Exports Ratio for Highly Open Economies under the HIPC Initiative

	Exports-Output Ratio										
	40	42	44	46	48	50	52	54	56	58	60
20	140	133	127	122	117	112	108	104	100	97	93
22	154	147	140	134	128	123	118	114	110	106	103
24	168	160	153	146	140	134	129	124	120	116	112
Tax Revenues-	26	182	173	165	158	152	146	140	135	130	126
Output Ratio	28	196	187	178	170	163	157	151	145	140	135
30	210	210	200	191	183	175	168	162	156	150	145
32	224	213	204	195	187	179	172	166	160	154	149
34	238	227	216	207	198	190	183	176	170	164	159
36	252	240	229	219	210	202	194	187	180	174	168
38	266	253	242	231	222	213	205	197	190	183	177
40	280	267	255	243	233	224	215	207	200	193	187

Note: Shadowed area indicates combinations that do not yield extra-benefits under the highly-open-economy status.

where D/X is the **debt-exports** ratio (in net **present value** terms) and D/T is the **debt-to-revenues** ratio. For **qualifying** countries, the **modification** to the **HIPC Initiative** proposes to set a D/T ratio of 280 percent. Therefore, the implicit debt-exports **ratio** for qualifying countries is **given by** $D/X = 2.8 (T/Y)/(X/Y)$.

Box 2. How Does the HIPC Initiative Work?

First Stage:

Paris Club **creditors** reschedule debt flows under Naples Terms (up to 67 percent reduction of the Net Present Value of eligible debt) along with comparable action by other bilateral and **commercial creditors**. Multilateral **Institutions** provide support under adjustment programs. Countries **establish** their **first** three-year track record of good performance. At the end of this stage the *decision point* is reached.

Decision Point

At the end of the first stage, generally three years, the IMF and the World Bank together with the country authorities carry out a Debt Sustainability Analysis. There are **three** possible outcomes:

- 1) If strong policies and a Paris Club stock-of-debt operation in Naples terms are **sufficient** to put the country in a sustainable **external debt position** within three additional years, the country would request a stock-of-debt operation and would not be eligible for assistance under **HIPC**.
- 2) If the assessment indicates that a **country's** overall debt burden will not be sustainable at the end of the second three-year period, it will be deemed eligible for and may request support under **HIPC**.
- 3) In borderline situations, the country may defer the stock-of-debt operation and request a **further** flow rescheduling **under Naples** terms. **The** country would also be assured of additional action at the end of the second three-year **period**.

At this point commitments are made and countries that are deemed eligible for support under the initiative move to the **second stage**.

Second Stage

The Paris Club **along with other creditors** reschedule *flows on more concessional terms* involving an NPV reduction of up to 80 percent **for** eligible debt. The country must establish a **further** three-year track **record of good performance** under the adjustment programs supported by **the IMF** and the World Bank, **during which** time some of the exceptional assistance could be granted.

Completion Point

The completion **point** times **at the end** of the second stage. The Paris-Club provides a stock-of-debt-reduction **of up to 80 percent** in present value terms on eligible debt. Multilateral **institutions** take additional **measures for the country to** reach a sustainable debt situation.

First Results Of the HIPC Initiative

By the end of 1997, six low-income countries had already obtained stock-of-debt reduction agreements with the Paris Club: Uganda (February 1995), Bolivia (December 1995), Mali (May 1996), Guyana (May 1996), Burkina Faso (June 1996), and Benin (October 1996). All these countries were then considered as having successfully completed the first stage of the HIPC initiative and were ready to move to the decision point. In addition to this **group** of countries, other countries belonging to the list of 41 potentially eligible countries that had completed a three-year track record of good policy performance on an IMF-supported program were also considered as being ready to enter into the decision point.

Box 3. Debt Relief under the HIPC Initiative					
Country	Decision Point (Debt-exports target)	Preliminary Assessment (1)	Assessment of External Debt Burden before HIPC Relief (2)	HIPC Assistance Agreed to reach Sustainability (in \$ million NPV) (3)	Estimated Nominal Debt Service Relief (in \$ million) (4)
Uganda	Apr-97 (202)	Possibly Stressed	Unsustainable	340	700
Benin	Jul-97	Sustainable	Sustainable	-	
Bolivia	Sep-97 (225)	Possibly Stressed	Unsustainable	450	600
Burkina Faso	Sep-97 (205)	Sustainable	Unsustainable	110	200
Guyana	Dec-97 (107)	Possibly Stressed	Unsustainable	253	500

Notes:

(1) Based on a preliminary evaluation of the World Bank at the outset of the HIPC Initiative (Source: Global Development Finance Report, 1997).

(2) Based on the results of the Debt Sustainability Analysis (DSA). The DSA assumes the full use of traditional debt relief mechanisms including Naples terms from the Paris Club.

(3) In Net Present Value (NPV) terms at the completion point.

(4) Refers to the cumulative amount of relief over time.

Source: The World Bank

As of **February** 1998, resolutions under HIPC were reached for five countries. Four countries were deemed eligible to benefit from the initiative: Uganda (April 1997), Bolivia (September 1997), Burkina Faso (September 1997) and Guyana (December 1997). One country, Benin, was considered able to achieve sustainable debt levels through traditional debt-relief mechanisms and was therefore not eligible to benefit from the HIPC initiative. Box 3 summarizes the benefits obtained. Two other countries will soon be evaluated to assess whether they qualify for the new debt-relief mechanism, Cote d'Ivoire and Mozambique. Guyana was the first country to benefit from the fiscal/openness criteria introduced in April 1997. This explains the low debt-exports target set for this country, 107, which compares favorably with previous ratios established under the initiative: 202 for Uganda, 205 for Burkina Faso and 225 for Bolivia.

V. Prospects of Honduras and Nicaragua to Qualify for the HIPC Initiative

The prospects for both Honduras and Nicaragua to qualify for the HIPC initiative seem to be very favorable. Nicaragua is a particularly obvious candidate since according to many indicators it is one of the most indebted and poorest economies in the world.

Eligibility

According to the terms of the **HIPC** initiative, 41 countries, including both Honduras and Nicaragua, were deemed potentially eligible for benefits. A further restriction of the initiative was that IDA-only (International Development Assistance) eligible countries could apply to the HIPC initiative. Both Honduras and Nicaragua satisfy this criterion as well.

Preliminary Debt Sustainability Analysis

A preliminary assessment of Nicaragua's foreign debt by the World Bank (1997a) concluded that its level was unsustainable, whereas that of Honduras was deemed to be sustainable. The latter result could be interpreted negatively, since it implies that Honduras may not qualify for the **HIPC** initiative because its foreign debt could reach sustainable levels **after** a stock-of-debt operation with the Paris Club. The results of the preliminary debt sustainability analysis, however, should not be considered definitive. The preliminary analysis of Burkina Faso's debt, which has already benefited from the initiative, concluded that it was sustainable, while those of three other HIPC countries, Bolivia, Uganda and Guyana were originally evaluated as "possibly stressed" (see Box 3). Therefore, while the results of preliminary debt sustainability analysis confirm that Nicaragua has very favorable **perspectives** to qualify for the HIPC initiative, Honduras will require more effort to convince the IMF and the World Bank that its foreign debt necessitates extra-debt relief **from** the multilateral organizations. The economic case for debt-relief for Honduras, however, already exists, as discussed below.

Comparison with countries that have benefited from HIPC

A comparison of key indebtedness indicators for Honduras and Nicaragua with those of Uganda, Bolivia and Burkina Faso creates a benchmark that presents a more precise idea of the prospects for Honduras and Nicaragua to qualify for the HIPC initiative. The comparisons are made for 1995 because this is the latest year for which comparable and reliable data are available (see footnote 2). In what follows bear in mind that debt-reduction operations during 1996 reduced Nicaragua's external debt by about 40 percent although its external debt service remained almost constant.

Figures 16 and 17 show the NPV debt-exports ratio and the debt service-exports ratio for the five highly indebted countries mentioned above. These figures show that Nicaragua has by far the highest debt and debt service ratios among them: confirming that Nicaragua should surely qualify for the HIPC initiative once it fulfills the other requirements. The results for Honduras are somewhat mixed. On the one hand, Figure 16 shows that Honduras has a NPV debt-exports ratio lower than those of Uganda and Bolivia, though higher than Burkina Faso's. On the other hand, Figure 17 shows that Honduras' debt service-exports ratio is greater than those of the three countries that have already qualified for the initiative.

Figure 16. Present Value of Debt
(as a percent of exports of goods and services)

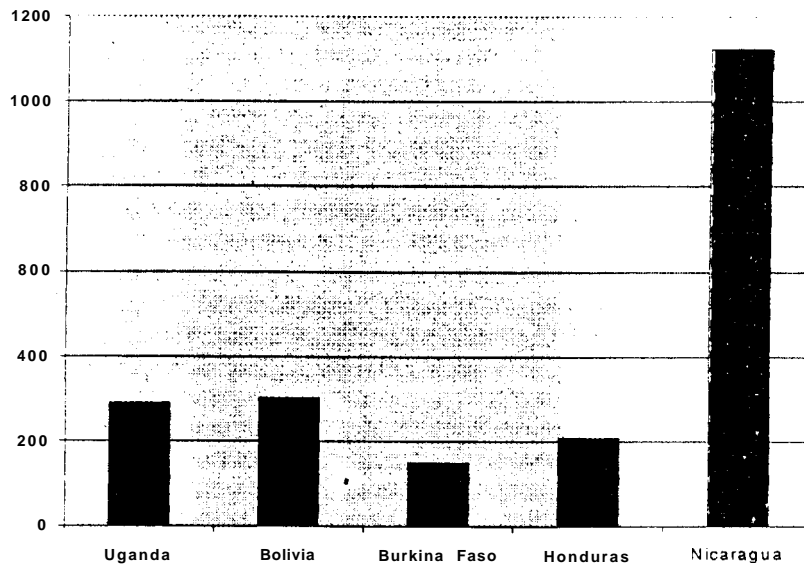
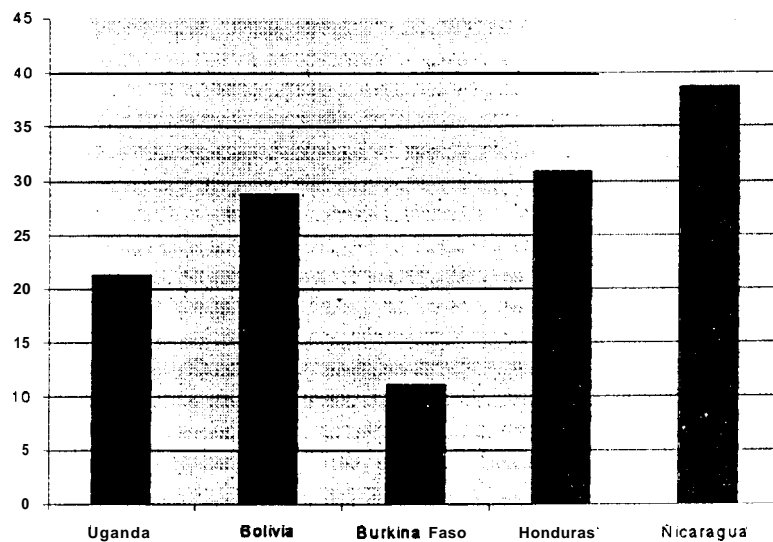


Figure 17. Total Debt Service, 1995
(as a percent of exports of goods and services)



The most traditional debt indicators present a mixed idea of the foreign debt in Honduras. A different and more conclusive picture emerges from additional debt indicators. Figures 18 and 19 show the NPV debt-to-GNP ratio and debt service-to-GNP ratio, respectively, for the same group of **HIPC** countries. These ratios consider the debt burden with respect to the economies' income, not just on the basis of their generation of foreign exchange, as in the debt-to-exports ratios. Figures 18 and 19 clearly show these ratios as higher for Honduras than for Bolivia, Burkina Faso and Uganda. Together, the four ratios make clear that Honduras' debt is less sustainable than that of the countries that have already qualified for the **HIPC** initiative.

Why are different conclusions obtained for Honduras from different indicators? The answer lies in Honduras' level of exports. Honduras is a small open economy with a relatively high ratio of exports to GNP, especially in comparison to those of less open economies such as Bolivia, Burkina Faso and Uganda. Consequently, Honduras has more foreign exchange generated by exports and, by this measure alone, it is considered to have a more sustainable debt level **than** other economies, despite the fact that it has a higher debt burden with respect to its total income-generating capacity.

Given the above analysis, it is crucial to have Honduras qualify for the special treatment given to highly open economies. As mentioned earlier, the IMF and the World Bank agreed to special targets for economies that satisfy two criteria of openness and fiscal effort at the decision point. First, the economy must have an exports-GDP ratio of at least 40 percent. Second, the economy must have a minimum threshold of fiscal revenue-to-GDP of 20 percent.

Figure 18. Present Value of Debt, 1995
(as a percent of GNP)

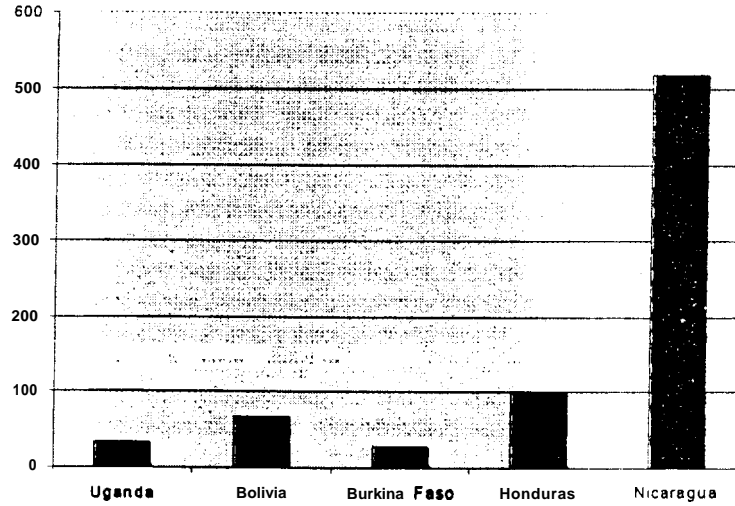
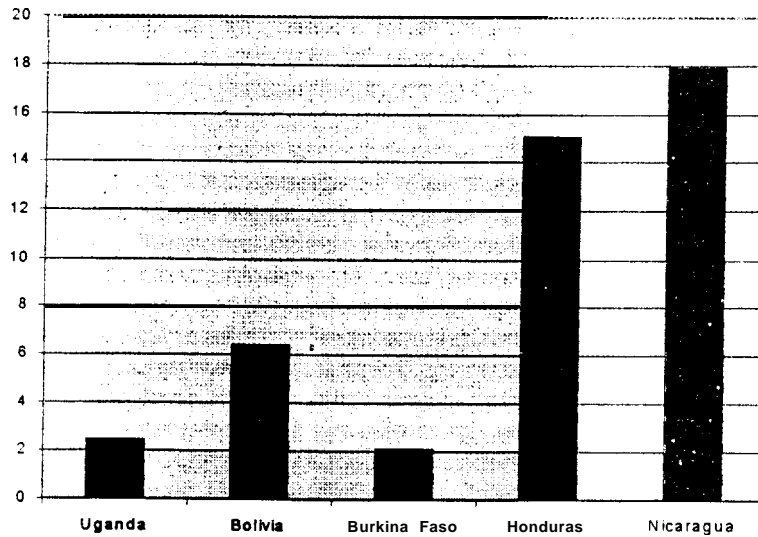


Figure 19. Total Debt Service, 1995
(as a percent of GDP)



According to World Bank data, in 1995 Honduras had an exports-to-GNP ratio of 46 percent and a GNP/GDP ratio of 95 percent, while the same indicators for Nicaragua were 48 and 89 percent.” These results imply that both Honduras and Nicaragua satisfy the openness criterion since in 1995 they had an exports-to-GDP ratio of 43 and 42 percent, respectively.¹¹ On the other hand, Nicaragua clearly satisfies the second condition with a fiscal revenue-to-GDP ratio greater than 30 percent. In contrast, although Honduras is close to **satisfy** the second condition (it has a fiscal revenue-to-GDP ratio of 18 percent), it is still short of reaching the 20 percent threshold established to qualify for the highly open economy status. There are two options here. If it is in the interest of the country, Honduras should adopt measures to increase its fiscal revenues to the 20 percent of GDP threshold. Alternatively, if a good case can be made that it is not in the interest of the country to increase fiscal revenues, Honduras should seek a waiver of this condition.” In either case, the objective should be that the country qualifies for the **HIPC** initiative with a highly-open-economy status.

Table 2 above shows the debt-exports targets that would be set for highly open countries under the April 1997 modification to the **HIPC** initiative. If Honduras qualifies as a highly open economy to the **HIPC** initiative with an exports-to-output ratio of 42 percent and a revenues-to-GDP ratio of 20 percent, Honduras’ debt-to-exports ratio would be set at 133 percent. This would represent an extra debt relief of around 33 percent in net present value terms over the original terms of the HIPC initiative. In that sense, Honduras should probably make an extra effort to comply with the fiscal/openness criteria established by the HIPC initiative **since** this action will guarantee the country a much-needed additional relief in its foreign debt.

Nicaragua’s situation is slightly different. Assuming that the current exports-output and revenues-output ratios are kept until the completion point (42 and 30 percent, respectively), the fiscal/openness criteria would imply a debt-exports ratio of 200 percent. Therefore, qualifying as a highly-open economy for Nicaragua yields no extra-debt relief as compared with the original terms of the initiative (see Table 2). As mentioned above, such outcome calls into question the whole **usefulness** of the new fiscal/openness criteria since it penalizes those countries that are undertaking substantial fiscal efforts to comply with its external obligations. Nicaragua should seek to obtain debt-reduction on the basis of a **20-percent-of-GDP revenue** figure in its negotiations with the IMF and the World Bank. Alternatively, the country could analyze the reduction of its fiscal revenues and expenditures in parallel, if this is in **the** long-term benefit of Nicaragua. It is conceivable that this clause may be changed in the near future. As it stands right now, eligible

¹⁰ See World Bank (1997a), Table A 1.4 and World Bank (1997b).

¹¹ This result contrasts with a preliminary assessment of the IMF, which concluded that neither Honduras nor Nicaragua satisfy the first condition. According to such report, the exports-to-GDP ratios of Honduras and Nicaragua averaged 34.2 and 39.6 percent, respectively, during the past three years.

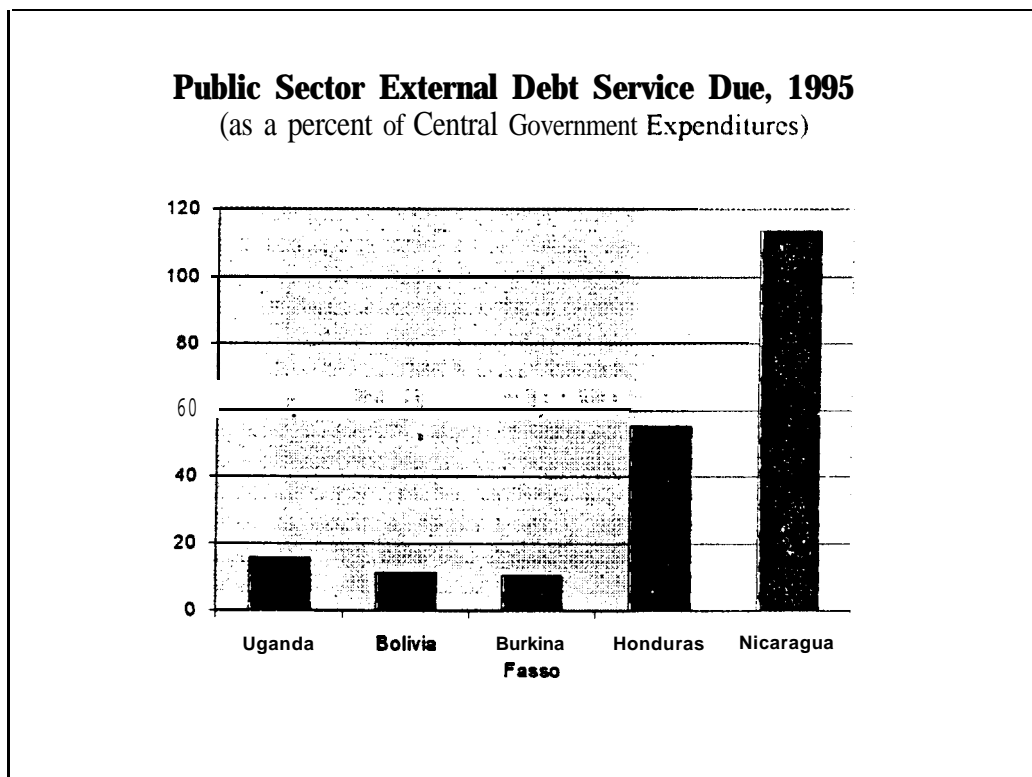
¹² Still, Honduras may agree to calculate its debt-revenue ratio of 2.8 on the basis of a 20-percent-revenue-to-GDP figure.

countries are penalized for any additional fiscal revenue effort beyond the “bliss-point” of 20 percent of GNP.

The debt problem in Honduras and Nicaragua is all the more difficult because foreign debt service in these countries implies a substantial drain of resources from the public sector. This fact is captured by Figure 20, which plots the public sector debt service due in 1995 as a percent of total central government expenditures. The difference in this indicator between Honduras and Nicaragua and the first three beneficiaries of the HIPC Initiative (Bolivia, Burkina Faso and Uganda) is striking. While service due on the public sector external debt of the latter countries was equivalent to less than 20 percent of their central government expenditures in 1995, the corresponding figure for Honduras and Nicaragua were above 50 and 100 percent, respectively. Not surprisingly, the latter countries have been unable to serve all their external obligations in the last several years.

Figure 20 also speaks to an issue widely discussed in the literature on debt and Solvency, namely, that the standard criteria applied to decide whether or not a country is solvent may not be valid. There are situations in which the governments themselves are insolvent.¹³ In such a case, the right approach to the external debt problem of some countries should be **from a fiscal** perspective. This perspective should certainly be considered for both Honduras and Nicaragua when discussing the sustainability of their foreign debts.

Figure 20



¹³ See Agenor and Montiel (1999) for a summary of the different approaches to the debt problem.

Good Record Of Macroeconomic Performance

The previous paragraphs have made clear that there is an economic case for debt relief for Honduras and Nicaragua. The burden of the debt in these two countries is so large as to be a serious impediment for sustained growth. Despite that evidence, both countries must meet a critical condition before they can benefit from the **HIPC** initiative. They must demonstrate a sustained period of strong and coherent macroeconomic performance under the supervision of the **IMF**. Since this step is critical to achieving a stock-of-debt reduction agreement with the Paris Club, it is also a critical step in the process of obtaining debt relief from the multilateral agencies.

Honduras signed letters of intent with the **IMF** in 1992 and 1995. In both cases, however, Honduras failed to meet some of the specified targets and the **IMF** regarded Honduras as to be off-track in 1993 and 1996. In early 1997 Honduras agreed to follow a program monitored by the **staff of the IMF** and established new macroeconomic targets. During 1997 Honduras made important efforts to comply with the new program and also made several attempts to sign a third letter of intention with the **IMF**. Despite progress shown in the monitored program, Honduras has been unable to reestablish the last part of the agreement with the **IMF**. A new government took office in Honduras in early 1998 and it is likely that a new agreement with the **IMF** will be reached during the year. If Honduras signs a third letter of intent in 1998, meets the targets and forcefully argues for a shortening of the probation period, it will be ready to initiate a stock-of-debt reduction agreement with the Paris Club by year 2000. Only then Honduras will reach the decision point of the **HIPC** initiative. It will take at least one additional year before Honduras may benefit from the **HIPC** initiative.

On the other hand, Nicaragua has signed an Enhanced Stability Adjustment Facility (ESAF) Program with the **IMF** in January 1998. Nicaragua is also ready to initiate a third round of talks with the Paris Club in April 1998. As per the agreement reached with the **IMF**, it seems clear that it will take Nicaragua only two years of compliance with the ESAF before obtaining access to a stock-of-debt reduction agreement with the Paris Club.¹⁴ Thus, Nicaragua could reach the decision point by year 2000 and, if it convinces the international financial community of its urgency for debt relief, it may reach the completion point as early as 2001.

¹⁴ See Gobierno de Nicaragua (1998a, 1998b).

VL Summary and Conclusions

Honduras and Nicaragua have a serious debt overhang problem. Several indicators suggest that foreign debt has reached an excessive level and has become a serious impediment to economic growth in both nations. Honduras and Nicaragua, the poorest countries of Central America, have lagged behind the rest of the region, leading to an increase in regional inequality during the 1990s. These elements suggest that Honduras and Nicaragua require alleviation of their foreign debt as a prerequisite to sustained growth. If the burden of the debt remains at current levels, it is unlikely that these countries will be able to grow at the rates necessary to increase the standards of living of their **populations** (6 percent per year at a minimum) in the next decades. Success in achieving deep debt reduction hinges on a set of macroeconomic criteria, a solid record of macroeconomic reforms, and the credibility of the indebted country's government.

Honduras and Nicaragua have favorable prospects of qualifying for the multilateral initiative aimed at assisting highly indebted poor countries (the HIPC Initiative). In general, both countries meet most of the eligibility criteria and in a comparison with **three** countries that have already qualified for HIPC treatment, it is clear that Honduras and Nicaragua face a higher foreign debt burden. The main obstacle is demonstration of **successful** macroeconomic performance under the supervision of the **IMF**. In this sense, the most urgent **step** that Honduras and Nicaragua should take in order to obtain some debt relief is to reestablish **and** meet their agreements with the IMF.

In addition to **fulfilling** the good macroeconomic performance requisite, Nicaragua should try to negotiate a shorter second period of evaluation (possibly one-year long instead of the usual three years) on the basis that it has followed a consistent structural reform policy since 1990. Such special treatment is allowed by the HIPC initiative and has already been granted to Uganda and Guyana,

Nicaragua should also attempt to qualify for the HIPC initiative with a highly open economy status even if it may not benefit from it under current conditions. It is quite possible that the conditions, **which** penalize fiscal revenue in excess of 20 percent of GDP, may change, and Nicaragua should **forcefully** make the case that it not be punished because of being fiscally responsible. The amendment for highly open economies stipulates a target of debt-to-fiscal revenues ratio of 280 percent. Given that fiscal revenues in Nicaragua represent about 30 percent of GDP, the new target implies that the new debt-to-exports ratio will be lower than the original target of 200-250 only as long as Nicaraguan exports represent more than 42 percent of GDP. This also implies that it is in Nicaragua's interest to raise the share of exports in total GDP in order to achieve a better deal in its foreign debt relief negotiations.

Honduras should regularize its agreements with the IMF, and should make a strong economic case to prove that its foreign debt level is unsustainable. Making this point is extremely important for Honduras as a preliminary assessment of the World Bank suggested that its foreign debt was sustainable and therefore it was very likely that it would not qualify for assistance under the **HIPC** initiative. In this regard, the

comparison exercise of Section 5 may provide a guideline to convey a better idea of the magnitude of the foreign debt burden in Honduras. It is also very important that Honduras stresses that the right approach to analyze the burden of the debt is from a fiscal perspective since the service of its debt imposes a tremendous pressure on its public finances as described above.

After demonstrating that its debt is unsustainable, Honduras should then seek to qualify for the HIPC initiative as a highly open economy. However, as discussed above, in order to do so Honduras needs to increase its fiscal revenues as a percent of GDP (currently at 18 percent) or make a good case to seek a waiver of this clause. If Honduras 'succeeds in these two aspects it may then obtain up to 33 percent of additional relief in its foreign debt. It is therefore very important that Honduras implements a fiscal reform before reaching the decision point.

Finally, this paper has also argued that it is necessary to consider the burden of the debt from a truly fiscal perspective. As shown in this paper, the fiscal/openness criteria recently introduced in the **HIPC** initiative does not grant additional benefits to countries that have made substantial efforts to increase their fiscal revenues as share of GDP. Instead, such criteria discriminate against countries with relatively high fiscal revenues by setting higher debt-to-exports targets than if they had moderate fiscal revenues (20 percent of GDP). Therefore, it is **necessary** to reformulate the HIPC initiative in such a way as to guarantee higher benefits to those countries that are making important fiscal efforts and for which the fiscal burden of the debt has reached unsustainable levels. This is the case of Honduras and Nicaragua.

AI. Statistical Appendix

Table A.1.1 Honduras: External Debt Stocks

(US\$ millions)	1970	1980	1988	1989	1990	1991	1992	1993	1994	1995	1996
Total external debt stocks		1,471	3,308	3,386	3,724	3,396	3,614	4,077	4,434	4,567	4,532
Long-term	111	1,166	2,859	2,951	3,492	3,171	3,322	3,740	4,000	4,093	4,047
Public and publicly guaranteed	92	975	2,758	2,867	3,426	3,096	3,232	3,651	3,900	3,979	3,910
Official creditors	88	697	2,269	2,406	2,987	2,750	2,971	3,273	3,561	3,617	3,619
Multilateral	63	459	1,361	1,484	1,581	1,658	1,801	1,952	2,062	2,162	2,160
Bilateral	24	238	908	923	1,406	1,092	1,170	1,321	1,498	1,485	1,459
Private creditors	4	279	489	461	439	346	261	378	339	333	321
Memo: Concessional debt	78	345	1,168	1,213	1,401	1,110	1,363	1,617	1,874	2,018	--
Memo: Nonconcessional debt	13	630	1,590	1,654	2,025	1,986	1,869	2,034	2,026	1,961	--
Private nonguaranteed debt	19	191	101	84	66	75	90	88	100	114	107
Short-term debt	0	272	412	400	199	192	180	319	325	375	407
of which interest arrears		0	137	172	89	75	55	92	68	56	38
Use of IMF credit	0	33	37	35	32	34	112	118	109	99	78
Memo: principal arrears			341	354	190	138	109	167	150	112	

Table A.1.2 Honduras: Change in Debt Stocks

(US\$ millions)	1970	1980	1988	1989	1990	1991	1992	1993	1994	1995
Total change in debt stocks	--	287	9	78	338	(328)	218	463	357	133
Net flows on debt	--	287	73	81	133	134	294	375	228	105
Net change in interest arrears	--	(0)	24	35	(83)	(14)	(20)	37	(24)	(12)
Interest rescheduled	--	0	0	10	140	23	34	32	14	8
Net interest capitalized	--	(0)	24	45	57	9	14	69	(10)	(4)
Debt forgiveness or reduction	--	0	(10)	(57)	(51)	(490)	(29)	(3)	(20)	(10)
Cross-currency valuation	--	0	0	(37)	91	8	(63)	14	113	30
Residual	--	1	(103)	46	108	12	2	8	47	12

Table A.1.3 Honduras: Debt Service

(US\$ millions)	1970	1980	1988	1989	1990	1991	1992	1993	1994	1995
Total debt service	--	208	369	142	389	307	377	361	433	553
Principal repayments	6	87	211	70	211	147	203	210	254	336
Interest payments	--	120	158	72	178	160	174	151	178	217

Table A.1.4 Honduras: Net Flows on Debt

(US\$ millions)		1988	1989	1990	1991	1992	1993	1994	1995	
Net flows on debt	39	287	73	81	133	134	294	375	228	105
Long-term debt	32	258	135	129	256	126	205	367	114	56
Public and publicly guaranteed	26	225	143	117	274	117	189	369	102	42
Official creditors	27	128	147	86	225	121	224	226	118	41
Multilateral	30	92	63	43	53	58	171	151	37	60
Bilateral	7	36	84	43	173	64	53	74	81	(19)
Private creditors	(1)	97	(4)	31	48	(4)	(35)	144	(16)	1
Bonds	0	0	0	0	0	0	0	152	0	(13)
Commercial banks	0	45	(4)	3	19	(6)	(25)	2	(9)	20
Other	(1)	52	0	30	2	(10)	(11)	(7)	(5)	
Private nonguaranteed	7	33	(9)	28	(18)	15	(2)	12	14	
Bonds	0	0	0	0	0	0	0	0	0	
Commercial banks	7	33	(9)	12	(18)	15	(2)	12	14	
Short-term	0	0	(25)	(48)	(117)	8	2	130	62	
IMF			(36)	(0)	(6)		81	(16)	(13)	

Table A.1.5 Honduras: Net Transfer on Debt

(US\$ millions)	1970	1980	1988	1989	1990	1991	1992	1993	1994	1995
Disbursements	45	374	309	199	461	274	-189	584	352	379
minus:										
principal repayments	6	87	211	70	211	147	203	210	254	336
Net flows on debt	39	287	73	81	133	134	294	375	228	105
minus:										
interest payments		120	158	72	178	160	171	151	178	217
Net transfers on debt		167	(85)	9	(45)	(26)	120	225	50	(112)

Table A.1.6 Honduras: Debt Rescheduled

(US\$ millions)	1970	1980	1988	1989	1990	1991	1992	1993	1994	1995
Total debt rescheduled	0	0	0	101	310	88	133	83	43	25
Principal	0	0	0	13	153	64	99	50	29	17
Interest	0	0	0	10	140	23	34	32	14	8
Debt forgiven			0	0	10	442	8	3	20	10
Memo: interest forgiven	-	-	0	6	11	0	2	1	0	0
Debt stock reduction	0	0	10	57	41	48	20	0	0	0
of which debt buyback	0	0	0	0	0	0	0	0	0	0

Table A.1.7 Nicaragua: External Debt Stocks

(US\$ millions)	1970	1980	1988	1989	1990	1991	1992	1993	1994	1995	1996
Total external debt stocks		2,192	8,741	9,743	10,692	10,563	11,033	10. W	11,010	9,287	6,440
Long-term	147	1,671	7,020	7,660	8,245	8,714	8,937	8,695	9,013	7,937	5,295
Public and publicly guaranteed	147	1,671	7,020	7,660	8,245	8,714	x.937	8,695	9,013	7,937	5,295
Official creditors	101	907	5,616	6,244	6,805	6,698	6,936	6,690	7,012	6,968	4,469
Multilateral	48	421	911	921	977	98%	1,124	1,158	1,363	1,489	1,589
Bilateral	53	486	4,691	5,316	5,828	5,852	5,812	5,532	5,649	5,479	2,880
Private creditors	45	764	1,404	1,416	1,440	2,016	2,001	2,005	2,001	969	826
Memo: Concessional debt	75	478	2,487	2,366	3,162	3,141	3,304	3,001	3,245	3,266	
Memo: Nonconcessional debt	72	1,192	4,533	4,794	5,083	5,570	5,628	5,631	5,768	4,671	
Private nonguaranteed debt	0	0	0	0	0	0	0	0	0	0	0
Short-term debt	0	472	1,721	2,082	2,447	1,825	2,073	1,730	1,947	1,311	1,062
of which interest arrears	0	12	1,056	1,364	1,713	1,268	1,395	1,417	1,763	1,215	476
Use of IMF credit	a	49	5	0	0	24	23	23	51	39	83
Memo: principal arrears	0	32	1,393	1,922	2,504	7,457		3	3	2,786	--

Table A.1.8 Nicaragua: Change in Debt Stocks

(US\$ millions)	1970	1980	1988	1989	1990	1991	1992	1993	1994	1995
Total change in debt stocks	0	658	765	1,002	949	(129)	470	(585)	562	(1,723)
Net flows on debt	24	230	438	636	480	(3)	362	(318)	110	(55)
Net change in interest arrears	0	0	0	308	349	(445)	127	22	346	(548)
Interest rescheduled	0	0	178	54	30	518	36	29	3	35
Net interest capitalized	0	0	178	362	378	73	163	51	349	(513)
Debt forgiveness or reduction	0	0	0	0	0	(228)	(6)	(1)	(16)	(1,41)
Cross-currency valuation	0	0	0	6	87	(44)	(48)	(28)	65	67
Residual	0	427	(29)	(3)	4	73	(2)	(290)	55	318

Table A.1.9 Nicaragua: Debt Service

(US\$ millions)	1970	1980	1988	1989	1990	1991	1992	1993	1994	1995
Total debt service		115	20	11	16	530	101	116	195	282
Principal repayments	30	46	9	7	4	329	42	52	96	195
Interest payments		69	12	5	11	201	62	64	100	87

Table A.1.10 Nicaragua: Net Rows on Debt

(US\$ millions)	1970	1980	1988	1989	1990	1991	1992	1993	1994	1995
Net flows on debt	24	230	438	636	480	(3)	362	(318)	110	(55)
Long-term debt	28	231	418	583	464	(10)	241	47	213	46
Public and publicly guaranteed	28	231	418	583	464	(10)	241	47	213	46
Official creditors	28	257	416	572	444	(7)	243	51	219	123
Multilateral	9	76	9	4	6	(2)	130	32	180	116
Bilateral	20	181	406	569	437	(5)	113	19	39	7
Private creditors	(1)	(26)	3	11	21	(3)	(2)	(3)	(6)	(77)
Bonds	0	0	0	0	0	0	0	0	0	0
Commercial banks	1	(20)	11	(1)	11	0	2	1	0	(73)
Other	(2)	(6)	0	12	21	(3)	(4)	(5)	(7)	(4)
Private nonguaranteed	0	0	0	0	0	0	0	0	0	0
Bonds	0	0	0	0	0	0	0	0	0	0
Commercial banks	0	0	0	0	0	0	0	0	0	0
Short-term	0	0	20	53	16	(16)	121	(365)	(129)	(88)
IMF	(3)	(1)	0	0	0	23	0	0	16	(13)

Table A. 1.1 I Nicaragua: Net Transfers on Debt

(US\$ millions)	1970	1980	1988	1989	1990	1991	1992	1993	1994	1995
Disbursements	54	276	427	590	469	342	283	99	334	228
minus:										
principal repayments	30	46	9	17	4	329	42	52	36	195
Net flows on debt	24	230	438	636	480	(3)	362	(318)	110	(55)
minus:										
interest payments	0	69	12	5	11	201	62	64	100	87
Net transfers on debt	0	161	427	632	469	(204)	300	(382)	10	(142)

Table A.1.12 Nicaragua: Debt Rescheduled

(US\$ millions)	1970	1980	1988	1989	1990	1991	1992	1993	1994	1995
Total debt rescheduled	0	0	500	54	30	1,898	102	117	15	335
Principal	0	0	121	0	0	698	65	73	3	151
Interest	0	0	178	54	30	518	36	29	3	35
Debt forgiven	0	0	0	0	0	228	6	1	7	430
Memo: interest forgiven	0	0	0	0	0	205	1	0	0	722
Debt stock reduction	0	0	0	0	0	159	0	0	9	1,200
of which debt buyback	0	0	0	0	0	159	0	0	0	89

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