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Dr. Emilio Pereira
Ministro de Finanzas
Managua, Nicaragua

Estimado Sr. Ministro:

Adjunto copia **del** memorando tecnico en el **cual** se especifican **los** requerimientos de **información** periodica **para** el seguimiento **del programa** ESAF. Le agradeceria que le **haga** llegar copia **del** mismo al personal tecnico **del** Ministerio.

Lo saluda atentamente,

Juan Carlos Di Tata
Juan Carlos Di Tata
Sub-Jefe

Division de Centroamerica I
Departamento **del** Hemisferio Occidental

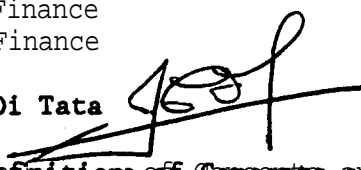
Adjunto

To: Dr. Jose **Evenor** Taboada A.
Minister President
Central Bank of Nicaragua

July 26, 1994

Dr. Emilio Pereira A.
Minister of Finance
Ministry of Finance

From: Juan **Carlos Di Tata**



Subject: Nicaragua--~~Definition of Concepts and~~ Reporting
Requirements of the Economic Program

The purpose of this memorandum is: (1) to specify in greater detail the concepts used to define quantitative and structural performance criteria in the Letter. of Intent dated May 25, 1994 to the Managing Director of the International Monetary Fund requesting a three-year arrangement under the Enhanced Structural Adjustment Facility; and (2) to establish the method and frequency of reporting to the Fund on Nicaragua's performance under the arrangement.

Any changes in the definition or classification of items being reported under the program must first be discussed with Fund staff. All data are to **be** sent to Mr. Leonardo Cardemil, Division Chief, Central American I Division, Western Hemisphere Department, preferably by facsimile or courier.

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I. Quantitative performance criteria

The key variables to be used in monitoring performance with respect to the quantitative performance criteria set out in the Letter of Intent dated May 25, 1994 are as follows:

1. Total current expenditure of the Central Government

Total current expenditure of the Central Government (to be reported as shown in the attached Table 1) involves budgetary and extrabudgetary operational expenditures (including severance payments related to the employment reduction program), current transfers, and domestic and external interest payments. The limits on central government current expenditure (referred to in Table 1 of the Letter of Intent) 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 Table 2 and in Table 2a. The upward adjustments will be limited to **US\$7** million. In addition, the limits for September 30, 1994 and December 31, 1994 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.

2. Net domestic financing of the combined public sector

The limits on the cumulative change in the net domestic financing of the combined public sector (**referred** to in Table 2 of the Letter of Intent) will be measured as the sum of: a) net banking

system credit to the nonfinancial public sector; b) net domestic bond placements by the nonfinancial public sector outside the financial system (excluding placements of compensation bonds) and any change in the domestic obligations of the nonfinancial public sector, including suppliers' credits; and c) the operational losses of the Central Bank of Nicaragua (as defined in section 7 **below**).

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 Table 2 (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 vice versa. **Details** on nonproject related loans to the NFPS and on programmed debt service payments are provided in Tables 2(b), 2(c), 2(c)(i), and **2(c)(ii)**. Programmed disbursements to the nonfinancial public sector and the Central Bank are specified in Tables 2(b) and 2(d).. The outcome projected for June 30, 1994 could be up to **C\$109** million higher than assumed in the program, depending on the result of negotiations with the Central American Bank for

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Economic Integration (BCIE) and other external creditors regarding the distribution of payments between the second and third quarters,

For purposes of program monitoring, 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.

The data on the net domestic financing of the combined public sector should be reported as shown in the attached Tables 3, **3a**, and 3b.

3. Net domestic assets of the Central Bank of Nicaragua

The ceilings on the cumulative change in the net domestic assets of the Central Bank of Nicaragua (referred to. in Table 3 of the Letter of Intent) will be measured as the difference between currency in circulation and the net international reserves of the Central Bank as defined in section 4 below. For the purpose of calculating net domestic assets, 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.

These ceilings 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 Table 5 (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. Details on programmed nonproject related grants and loans to the public sector are provided in Table 5(a), while details on programmed cash debt service payments by the public sector are provided in Table 5(b). 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. The outcome projected for June 30, 1994 could be up to **C\$143** million higher than assumed in the program depending on the result of negotiations with the Central American Bank for Economic Integration (BCIE) and other external creditors regarding the distribution of payments between the second and third quarters.

The data on the net domestic assets of the Central Bank of Nicaragua should be reported as shown in the attached Table 4.

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4. Stock of net international reserves of the
of the Central Bank of **Nicaragua**

The targets for the stock of net international reserves of the Central Bank of Nicaragua (referred to in Table 4 of the Letter of Intent) will be measured 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. The targets will be adjusted in case 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.

The targets for the stock of net international reserves 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 Table 5 (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. Details on programmed nonproject related grants and loans to the public sector are provided in Table 5(a), while details on programmed cash debt service payments by the public sector are provided in Table 5(b). The level of NIR projected for June 30, 1994 could be up

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to **US\$21** million below the amount assumed in the program depending on the outcome of negotiations with the Central American Bank for Economic Integration (BCIE) and other external creditors regarding the distribution of payments between the second and third quarters.

The data on the stock of net international reserves of the Central Bank of Nicaragua should be reported as shown in the attached Table 6.

5. Net disbursements of external loans contracted or guaranteed by the public sector

The limits (a), (b) and (c) on net disbursements of external loans contracted or guaranteed by the public sector (referred to in Table 5 of the Letter of Intent) are defined as gross disbursements, excluding rescheduling agreements, minus cash payments of principal. Limit (b) is a subceiling of limit (a); limit (c) excludes normal import-related credits and reserve liabilities of the Central Bank.

The data on net disbursements of external loans contracted or guaranteed by the public sector should be reported as shown in the attached Table 7.

6. External payments arrears

The limits on the stock of external payments arrears (referred to in Table 6 of the Letter of Intent) are defined as all overdue obligations (including late interest but excluding arrears

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assumed to be rescheduled under the program). The arrears on private suppliers' obligations and on commercial bank debt are part of the arrears that are assumed to be rescheduled under the program. Nonre-schedulable arrears under the program include obligations due to the International Monetary Fund (IMF), the World Bank, the Inter-American Development Bank (IDB), the Central **American** Bank for Economic Integration (BCIE), and the Venezuelan Investment Fund (FIV), as well as obligations with Paris Club creditors on post cut-off debt and on rescheduled debt. No new arrears will be incurred within the program period, except for arrears on obligations pending negotiation.

The stock of external payments arrears projected for June 30, 1994 could be up to **US\$21** million lower than assumed in the program depending on the result of negotiations with the Central American Bank for Economic Integration (BCIE) and other external creditors regarding the distribution of payments between the second and third quarters.

The data on the stock of external payments arrears should be reported as shown -in the attached Table 8.

7. Losses of the Central bank of **Nicaragua**

For program purposes the losses of the **Central** Bank of Nicaragua are defined as the difference between revenue and expenditure resulting from financial and administrative operations on a cash basis. The losses of the Central Bank also include the amount

of "Bonos Algodoneros" (Bonos de **Transformacion** Tecnologica) issued by the Central Bank for the cancellation of bank loans extended to cotton growers in the **1991/92** crop year.

The losses of the Central Bank of Nicaragua should be reported as shown in the attached Table 9.

II. Structural Performance Criteria

The key concepts to be used in monitoring performance with respect to the structural criteria set out in the Letter of Intent dated May 25, 1994 are as follows:

1. Credit Policy

a. Financing of the state-owned banks

The financing of the state-owned banks by the Central Bank on a net basis (referred to in Table 7 of the Letter of Intent) is defined as disbursements minus repayments of short- and long-term loans made by the Central Bank to all state-owned banks., Although the financing could change during the year because of seasonal reasons, net central bank financing of the state-owned banks is limited to 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.

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For the purpose of monitoring, information on central bank financing of the state-owned banks should be reported as shown in the attached Table 10.

b. Financing of the FNI

Incremental financing of the FNI by the Central Bank (referred to in Table 7 of the Letter of Intent) is limited to the amount of disbursements provided by regional institutions and external donors for specific programs minus programmed repayments to **the** Central Bank. For program purposes, repayments to the Central Bank are projected at **C\$35** million in 1994.

For monitoring purposes, information on central bank financing of the FNI should be reported as shown in the attached Table 11.

2. Interest rates

Interest rates charged on central bank short- and long-term financing to commercial banks (referred to in Table 7 of the Letter of Intent) will be calculated quarterly on the basis of an average of rates offered by all commercial banks on **30-day** deposits (with maintenance of value clause) plus a spread of **1/4 of** one percentage point. In 1994 rates will be revised on June 1, September 1, and December 1.

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The relevant **30-day** deposit rate will be the simple average of the rates offered by commercial banks on **30-day** deposits (with maintenance of value) during the previous 10 working days, as reported by the Superintendency of Banks (excluding deposits of the Social Security Institute-INSSBI, Municipality of Managua, and the public enterprises-INE, INAA, and TELCOR).

Whenever the interest rate is altered, the Central Bank will send information to the staff on the rate paid on **30-day** deposits of the private sector by each bank during the previous 10 working days, as reported by the Superintendency of Banks, and on the simple arithmetic average of these rates.

Central bank disbursements committed under long-term contracts signed as of May 6, 1994, which preclude changes in rates because of legal reasons will not be subjected to the mechanism of quarterly revised interest rates described above. The Central Bank will send to the staff detailed information on **scheduled disbursements** under these long-term contracts before September 1, 1994.

Short-term agricultural loans with maturity of up to 9 months will be allowed a fixed rate for the whole **contractual** period (the rate would be determined on the basis of the mechanism of quarterly interest rates described above), and short-term loans with maturities exceeding nine months will have the interest rate modified according

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to the mechanism of quarterly revised rates described above after the first nine months.

All new lending contracts (excluding assistance for liquidity shortages at punitive rates, and the contracts referred to in the two previous paragraphs) will have to be made at variable interest rates applicable to the outstanding balance of the credit, according to the mechanism of quarterly revised interest rates described above.

For monitoring purposes, information on the relevant commercial bank rates used for calculating the central bank lending rates should be reported as shown in the attached Table 12.

3. Privatization

To monitor the privatization of TELCOR the Ministry of Finance should provide the staff, no later than November 7, 1994, copies of documents published in the Nicaraguan press confirming the offering for sale of at least **40** percent of the shares of TELCOR (including a management contract) before end-October 1994.

As referred to in Table 7 of the Letter of **Intent**, before end-1994 all but six enterprises still managed by CORNAP should be offered for sale, offered for lease, or cease their operations. For monitoring purposes, the Ministry of Finance should provide the staff, no later than January 9, 1995, a list of all CORNAP enterprises that

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have been divested or are in the process of being divested, specifying the date and the nature of the relevant steps taken by the Government.

4. **Employment reduction**

Information on the implementation of the employment reduction program should be provided on a quarterly basis (end-June 1994, end-September 1994 and end-December 1994) according to Table 28.

III. **Method and Frequency of Reporting**

No purchase under the arrangement will be requested unless the information to be supplied to the Fund is current. For this purpose, the normal reporting delays are referred to below. **Progress** under the ESAF supported program will be monitored weekly, monthly and quarterly reports, where appropriate. We suggest that all the required reports be coordinated centrally by the Vice-Presidency for Economic Programming of the Central Bank of Nicaragua, which also would be responsible for verifying that all data are accurate and conform to the required presentation.

1. **Weekly report**

The weekly report will include the following information to be reported by facsimile (FAX No. 202-6234661 or **202-6234662**), with a delay of no more than one week:

- a. **"Programa Monetario"**, weekly follow-up;

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b. "Indicadores Semanales", including information on changes in central bank accounts, net international reserves, exchange rates (buying and selling rates, official and foreign exchange houses' rates), interest rates (commercial banks' deposit and lending rates), consumer price index;

c. information on changes in economic policies, new laws or decrees, monetary authority decisions, modifications in the exchange and trade regimes, and useful newspaper clippings.

2. Monthly report

The monthly report to be forwarded by courier will include the following information:

a. summary operations of the Central Bank of Nicaragua as reported in Table 4 (monthly);

b. monthly balance sheet of the Central Bank of Nicaragua as set out in the document "Balance Monetario" prepared by the Central Bank (Gerencia de Programacion Economica) with a lag of no more than one month;

c. - monthly summary accounts of the commercial banks and the **FNI** as set out in Tables 16, 16a and 16b with a lag of no more than two months;

d. monetary aggregates as shown in Table 14 (monthly);

e. monthly report on legal reserve requirements as shown in Tables 17 and **17a**, with a lag of no more than two months ;

- f. detailed data on international reserves of the Central Bank of Nicaragua as shown in Table 6 (monthly);
- g. inflow and outflow of foreign exchange to and from the Central Bank of Nicaragua, as shown in Tables 13 (monthly);
- h. official and black market exchange rates as reported in Table 15;
- i. a monthly report on external debt service payments and on the amount of external credits contracted during the month of reference as set out in Tables 7 and 8, respectively, with a lag of no more than one month;
- j. a monthly detailed report on central government revenue and expenditure as shown in Tables 1, 18, and 19 with a lag of no more than one month;
- k. monthly reports on the rest of the nonfinancial public sector (i.e., the Municipality of Managua, INSSBI, and the public enterprises-INE, INAA, and TELCOR) financial performance as shown in Tables 20 to 24, with a lag of no more than two months;
- l. monthly information on public sector tariffs, and gasoline prices; .
- m. monthly volumes, prices, and values of imports and exports by main products; . .
- n. details on monthly **disbursements** and service payments of **medium-** and long-term external debt and of short-term external debt of the public sector (including the Central Bank of Nicaragua), with a lag of no more than two months;

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o. details on monthly disbursements of official transfers from abroad by source and by destination, with a lag of no more than two months;

p. detailed monthly report on central bank losses, with a lag of no more than a month as shown in Table 9;

q. information on developments in the area of reform of the financial sector;

r. interest rates on commercial bank time and savings deposits and loans, by maturity, as shown in Table 25 (monthly);

s. monthly information on the relevant commercial banks rates used for calculating central bank rates as shown in Table 12;

t. details on the monthly index of consumer prices as shown in Tables 26 and 26a;

u. monthly income statement on the operations of the **Banco** Nicaraguense de Industria y Comercio (BANIC), as shown in Table 27;

2. Quarterly report

The quarterly report to be forwarded by courier will include the following information:

a. quarterly statistics on production in key sectors of the economy, (i.e., output, cultivated area, and yields in agriculture, industrial output, and other indicators of economic activity available);

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- b. quarterly information on wages and employment;
- c. quarterly information national account statistics;
- d. quarterly information on the implementation of the employment reduction program, as shown in Table 28.

Attachments'