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Clausen's - Country Files: Nicaragua

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Clausen Country Files - Nicaragua - Correspondence - Volume 1

# OFFICE MEMORANDUM

DATE: October 5, 1984

TO: Memorandum for the Record

FROM: Humayun Mirza, Division Chief, LCICA 

SUBJECT: NICARAGUA: Meeting with the Nicaraguan Delegation with Mr. Clausen on Thursday, September 27, 1984 at the 1984 Annual Meetings.

## Delegation

Dr. Joaquin Cuadra Chamorro  
Minister of Finance

Dr. Pedro Jose Antonio Blandon  
Minster/Director, Fondo  
Internacional de Reconstruccion

Dr. Luis Henrique Figueroa, President  
Central Bank of Nicaragua

Mr. Frank Vannini, Executive Director  
Fondo Nicaraguense Inversiones

Mr. Roberto Mayorga-Cortes  
Alternate Executive Director

## Bank

Mr. A. David Knox,  
Vice President, LAC

Mr. Rainer B. Steckhan  
Director, LCI

Mr. Humayun Mirza  
Division Chief, Central  
America Division

1. Mr. Clausen met with the Nicaraguan delegation on Thursday, September 27, 1984. Minister Cuadra Chamorro described the difficult situation in the country and expressed appreciation for the Bank's support to the Government prior to 1982. Since 1982, however, he said that the relationship with the Bank had deteriorated substantially as signified by a cessation of lending. Late last year, there was some improvement in the relationship and satisfactory and innovative arrangements were made with the Bank to meet Nicaragua's financial obligations under its loans. He expressed appreciation for the Bank's efforts in this respect. However, after the economic mission visited Nicaragua earlier this year, the report of that mission has not yet been submitted to the Government. The Government nevertheless has gone ahead and prepared an economic program which it feels provides a good basis for further assistance from the Bank.

2. Mr. Clausen thanked Dr. Cuadra Chamorro for his appreciative remarks about the innovative approach developed by the Bank staff to enable Nicaragua meet its debt service payments until about the middle of this year, but regretted that Nicaragua was currently substantially overdue in its payments to the Bank. Since the Bank has to borrow in the capital markets of the world, it has to ensure that debt-service payments of its borrowers are kept current. If payments to the Bank are not kept current by Nicaragua, the Bank would have no option but to suspend disbursements. Mr. Clausen stressed that the Bank wants to continue working with Nicaragua and help the country achieve growth and earn the confidence of the external financial community. In this context he emphasized the need for the



preparation of a stabilization program to be followed by a realistic economic recovery program as essential ingredients to set Nicaragua on the path to restore its creditworthiness. He felt that the IMF could help the Government considerably in implementing a stabilization program.

3. Minister Cuadra Chamorro said that it was difficult for the Government to continue debt service payments because of lack of finances. He felt, however, that since the undisbursed amount was currently only about \$4 million,<sup>1/</sup> any suspension of disbursements by the Bank at this time would be tantamount to a sanction against the Government. He said that he would rather waive the right to make further disbursement requests under outstanding Bank loans rather than have the Bank suspend disbursements. Mr. Clausen responded by saying that as long as debt service payments are not kept current, the Bank has no choice but, as a matter of principle, to suspend disbursements.

4. Mr. Knox intervened at this point and stated that while the Bank is keenly aware of the difficult financial problems of the Government, it could not see how the Government could strengthen its debt servicing capacity without undertaking a readjustment program. He said that if the Government could start such a program with the help of the IMF, the Bank would be prepared to continue working with the Government to help set it on the road to restore its creditworthiness. He said that the Bank alone could not help meet Nicaragua's enormous financial needs since any loan we make would be minuscule compared to the financial assistance needed to resolve the country's problems. An adjustment program supported by the IMF must, therefore, be a pre-requisite to mobilizing the additional funds.

5. Minister Cuadra Chamorro said that the Government had prepared a proposal which he would like Mr. Mayorga-Cortes to present to the Bank. This proposal, or plan of action, covered the period October 1984 to March 1985 and was aimed at addressing the current problem between the Bank and Nicaragua.

6. Mr. Clausen reiterated the Bank's desire to help Nicaragua and stressed that we are prepared to look at any or all alternatives to help resolve the current impasse. In view of time constraints it was agreed that the delegation would meet with Mr. Knox as soon as possible to consider the Government's proposal and the meeting ended on this note.

7. Minister Cuadra Chamorro and Mr. Vannini then met on the same afternoon with Mr. Knox. Mr. Steckhan (part-time) and I attended the meeting. Mr. Mayorga-Cortes presented the Government's proposal, at first verbally, and then handed Mr. Knox a note incorporating it (attached). It became clear that the Government's proposal was merely a restating of views expressed on numerous occasions during the past year and aimed at further delaying debt service payments to the Bank. It implied a rescheduling of

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<sup>1/</sup> In fact, the correct amount is US\$3.1 million, of which US\$1.1 million is already committed.

debt-service payments until June 30, 1985 by which time all arrears would be cleared provided the Bank presented a loan for agricultural development to Nicaragua to its Board. Mr. Knox then clearly stated the Bank's intention to suspend unless payments were received immediately. Minister Cuadra Chamorro enquired how the suspension would be handled - obviously concerned about the adverse publicity it might generate. Mr. Knox said that the Bank would send a cable to the Government suspending disbursements and inform its Executive Directors of such action. He again reiterated the Bank's desire to maintain a close dialogue with the Government inspite of the imminent suspension with the view to helping it address its difficult economic problem. The meeting ended on a cordial note and the Nicaraguans departed clearly aware of the Bank's position.

8. Since no payments apart from those made by using loan funds (now exhausted) to cover debt service payments have been received and because arrears to the Bank now total about US\$7.0 million, a cable over the signature of Mr. Knox was sent to the Nicaraguan Government suspending disbursements under all Bank loans and IDA credits on September 28, 1984.

Cleared with and cc: Mr. Steckhan, LCIDR

cc: Messrs. Clausen  
Stern, SVPOP  
Knox, LCNVP  
Quijano, LCNVP  
Landau, LCIDR  
Marques, LCICA  
Ms. Martinez, LCICA

LAC Projects Director  
LAC Projects Assistant Directors  
LAC Projects Division Chiefs

Attachment

HMirza:amp

PROPUESTA

~~PROPUESTA~~ DE NICARAGUA <sup>1/</sup>

(27 de septiembre de 1984)

La presentación de esta propuesta a la Administración del Banco Mundial por parte de las autoridades de Nicaragua ante dicho organismo, se fundamenta en los siguientes principios acordados hoy con el Presidente Clausen:

- a. El encuentro de una solución apropiada, y mutuamente satisfactoria, es del interés de ambas partes;
- b. La eventual solución debe incorporar elementos que atiendan los tres aspectos fundamentales de las relaciones entre Nicaragua y el Banco: i) la restauración de la capacidad crediticia del país; ii) la formulación y ejecución de un programa de ajuste económico; y iii) la atención de la mora con el Banco en que ha incurrido el país.

1. Congelación de flujos financieros

Congelar la situación actual en materia de desembolsos y reembolsos, hasta el 31 de diciembre de 1984. Alternativamente, considerar la posibilidad de dos opciones: i) la renuncia oficial, por parte de Nicaragua, al saldo por desembolsar, estimado en unos US\$ 3.4 millones; o ii) la aplicación de ese monto a la cancelación de la mora.

2. Formulación del Programa Económico 1985 y proyecciones para el mediano plazo

Entre octubre y diciembre de 1984, el país concretaría su programa económico para 1985, el cual incluiría las medidas y políticas de ajuste para el corto y mediano plazo. El Banco y el país formularían, asimismo, en forma conjunta, proyecciones macroeconómicas sobre los resultados previsibles bajo dos o tres alternativas de ajuste.

3. Presentación de un programa mínimo de cancelaciones

Ante la imposibilidad real de efectuar cancelaciones al Banco durante el último trimestre de 1984, período en el cual estacionalmente se presentan las mayores limitaciones en la entrada y

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<sup>1/</sup> Title changed per instructions from Mr. Mayorga-Cortes.



disponibilidad de divisas, el país presentaría en el curso del mes de octubre de 1984 un plan mínimo de pagos a partir de enero de 1985. Tanto los montos como la periodicidad de dichos pagos serían mutuamente convenidos con el Banco.

4. Evaluación del Programa Económico y de la solicitud de crédito agrícola.- Consideración de financiamiento en condiciones concesionarias

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A partir de enero de 1985 el Banco evaluaría el programa de ajuste adoptado por el país e iniciaría, simultáneamente, la evaluación de un posible préstamo sectorial de desarrollo agrícola o de una operación crediticia para el desarrollo de las exportaciones. Teniendo en cuenta la necesidad de cooperar en la restauración de la capacidad crediticia del país, dicho financiamiento debería contemplar el otorgamiento -- total o parcial -- de recursos en condiciones concesionarias.

5. Finalización de las consultas

El proceso de evaluación y consulta alrededor del Programa Económico debería finalizar, a más tardar, el 31 de marzo de 1985. En caso de que dicho proceso culminara de manera mutuamente satisfactoria, la aprobación del financiamiento del Banco (préstamo sectorial o de exportaciones) debería producirse con anterioridad al 30 de junio de 1985, a fin de permitir la atención de los requerimientos del próximo año agrícola. A esa fecha habrían transcurrido seis meses de evaluación, por parte del Banco, tanto del Programa Económico como de la solicitud de crédito.

6. Cancelación de la mora

Con anterioridad a la aprobación del préstamo por parte del Banco, el país habría terminado de cancelar la mora en que se hubiese incurrido hasta ese entonces, a fin de facilitar la presentación respectiva del préstamo al Directorio Ejecutivo.

## NICARAGUAN DELEGATION

Joaquin Cuadra Chamorro - Min. of Fin.

Pedro Jose Antonio Blandon - Min./Dir.,

Int'l. Reconstruction Fund

Luis Enrique Figueroa - Pres., Central  
Bank of Nicaragua

Noel Gonzalez - Vice Min., Central Bank

Jose Evenor Taboada - Legal Adviser,  
Int'l. Reconstruction Fund

Jaime Castillo - In'tl. Reconstruction  
Fund

Rolando Sevilla - Minister/Counselor,  
Embassy

Patricio Ayala-Gonzalez

### From the Bank

David Knox

Rainer Steckhan

Humayun Mirza - Div. Chief



## OFFICE MEMORANDUM

C O N F I D E N T I A L

DATE: September 25, 1984

TO: Mr. A. W. Clausen  
(Through: Mr. Ernest Stern, SVPOP) *es.*FROM: A. David Knox, LCNVP *AK*SUBJECT: Nicaragua: Update for Annual Meeting Briefing

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1. At the government's request, a mission composed of Messrs. Steckhan, Mirza and Landau visited Managua on September 13-14. The mission informed the authorities that a resumption of Bank lending could only be considered after the government had taken tangible steps towards stabilizing the economy and restoring creditworthiness. The mission suggested that the IMF could assist the government in these efforts.
2. The authorities understood the Bank's position. However, they indicated that at this time the government is not prepared to seek Fund assistance. On the other hand, the authorities wish to continue the dialogue with us on economic management and they would like to send a small team to Washington in the fall to review jointly alternative policy scenarios.
3. As regards Nicaragua's overdue debt service payments, Mr. Steckhan delivered a letter indicating that, as of September 17, the arrears amounted to \$7.1 million, part of which were more than 100 days overdue. The letter also stated that in the absence of a substantial payment, disbursements would have to be suspended on September 20. Nicaragua pleaded for a last delay until September 28 (the day after their meeting with you). They assured us that the Finance Minister was on a fund raising trip that, if successful, would be used to pay the Bank at least part of the arrears.
4. We have agreed to extend the deadline to September 28, in the understanding that the government would, before this date, make a partial payment and present us with a tight payments program aimed at keeping future arrears below 60 days at all times.
5. At a follow up meeting in Washington on September 24, Minister Cuadra indicated that, while the government may be able to pay now the \$3.1 million needed immediately to bring the arrears below 60 days, he was concerned about the magnitude of the payments coming up soon. He indicated that, to keep their arrears below 60 days, Nicaragua would need to pay the Bank about \$30 million over the next 12 months. It would be hard for the government to undertake this heavy burden unless they had a clear indication that Bank lending would resume soon. We replied that Nicaragua needed to show evidence of progress towards restoring creditworthiness before the Bank could proceed with new loans. In the meantime, the Bank was prepared, through our economic dialogue, to assist Nicaragua to formulate a development program, as soon as they begin to stabilize the economy. We pointed out again that the IMF may be able to help the country, both with advice on the design of the needed stabilization program and with balance of payments support loans.

Mr. A. W. Clausen  
Nicaragua

- 2 -

September 25, 1984

Comment:

6. The meeting ended inconclusively. Minister Cuadra said he would seek further instructions from Dr. Ramirez (a member of the Government Junta in charge of economic matters). It is possible that during their meeting with you, the delegation may inform you that Nicaragua will stop servicing the Bank debt, in view of their desperate financial situation and the lack of firm prospects for renewed Bank lending.

cc: Messrs. Steckhan, van der Meer, Pfeffermann, Mirza,  
Ms. Martinez, Mr. Marques

LLandau/ysb

Pending the outcome of the meeting, a cable is ready to be sent Friday PM, announcing suspension of disbursement. only actual receipt of payments before that time will prevent the cable from going. However, only \$12 million remains undisbursed so the cost to Nicaragua is minimal.



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ANNUAL MEETING BRIEF

	<u>Name of Country:</u>	NICARAGUA
	<u>Date:</u>	August 17, 1984
Population:		3 million (mid-1983)
GNP per capita:		\$ 900.00 (1982) <sup>1/</sup>
Total Bank/IDA Commitments		\$ 291.6 million
FY 1984: Commitments		\$ ---
Disbursements		\$ 27.1 million
Amortization		\$ 5.8 million
Lending Program: FY1985-86		\$ ---

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I. BACKGROUND

A. Political Situation

1. Since July 1979, the Government of Nicaragua has been headed by a Junta of National Reconstruction. The ultimate power continues to rest with the Sandinista military factions, specifically with the Directorate of the Sandinista National Liberation Front, composed of nine senior "Commandantes." This collective leadership has not always spoken with one voice and has diffused decision-making. However, in view of the growth in hostilities in the last 12 months, the cohesion of the Junta seems to be increasing.

2. The authorities have recently announced that elections for President, Vice-President and the National Assembly will be held in early November 1984. The voting age has been reduced to sixteen giving the Sandinista regime a clear advantage. As of now indications are that the opposition will not participate.

B. Economic Situation

3. Economic management since 1979 has been poor. Fiscal policies have been expansionary, the exchange rate has become greatly overvalued and market mechanisms have been replaced with discretionary ad hoc decisions on resource allocations. Economic and financial statistics are of poor quality, but they reveal the extent of the imbalances. The Central Government overall deficit--including extrabudgetary expenditures--reached

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<sup>1/</sup> Calculated at the official exchange rate of C10/US\$1, according to the Atlas methodology. This exchange rate is highly overvalued.



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36 percent of GDP in 1983, despite major increases in the tax burden, as a result of much expanded government participation in the economy, widespread subsidies, poorly managed public enterprises and the war effort. On the external side, imports have been severely constrained owing to a severe shortage of foreign exchange. The current account deficit reached \$520 million in 1983, equivalent to 15 percent of GDP, and accumulated payment arrears reached an estimated \$360 million. Foreign debt outstanding is estimated at \$3.4 billion, equivalent to 7.8 times exports of goods and non-factor services and \$1133 per capita. The rise in the Consumer Price Index is officially estimated at over 30 percent in 1983, but widespread price controls, rationing and black markets suggest that the true inflation rate is quite higher. By any accounting, real wages have fallen sharply, although this drop has been alleviated by an enhanced provision of health and other social services. Private consumption is estimated at only two-thirds of the pre-1979 levels. On the other hand, food production has increased significantly, albeit at the cost of export crops, in line with the Government's objective of achieving food self-sufficiency. The employment picture is not clear because of the total or partial mobilization of large numbers of working age individuals. Labor shortages are reportedly constraining the expansion of export crops, but the Government estimates overall unemployment at around 20 percent. Escalating hostilities are also absorbing increasing amounts of fiscal resources and disrupting lives in the North and South of the country. The Government is presently managing a war-time economy, with price controls, rationing and periodic shortages of essential goods.

4. In these circumstances, the economic outlook is bleak. Exports are equivalent to just over one half of non-military imports. Rough calculations based on the Government's 1984 Economic Program and its own optimistic export growth assumptions suggest that Nicaragua would need a net inflow of concessionary aid of about \$800 million p.a. until the end of the decade in order to sustain a minimum rate of economic growth--and to pay interest on the existing debt. This compares to identified net capital inflows of about \$410 million p.a. (excluding rescheduling arrangements) in the 1981-83 period. In addition, Nicaragua would need a full rollover, rescheduling or refinancing of all principal payments for at least the next decade. Even assuming that all interest payments could be forgiven, the net annual capital requirements would be of the order of \$500 million p.a. Should foreign aid fall short of these needs, the consequences would probably be a combination of default on the external debt (generalized or selective) and even lower economic growth, with the consequent further erosion of living standards.

#### C. Relations with the IMF

5. Article IV Consultations were last held in October-November 1983, and a new round of consultations is scheduled for October 1984. In May 1983, Nicaragua stopped servicing its debt to the IMF. It resumed some



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partial payments in April and June, 1984. As of June 30, 1984, Nicaragua was about US\$11 million in arrears with the IMF. As of now we do not know whether the Government is prepared to normalize its relations with the IMF and enter into discussions for a stabilization program.

#### D. Bank/Country Dialogue

6. The leak of a draft version of the CPP in April 1982 put the relationship to a severe test during the following year. Since the 1983 Annual Meetings, our policy dialogue has intensified, with a sharper focus on the policy areas that require improvement. The Government economic team has indicated in a report submitted to the Bank in September 1983 (Outline of Economic Policies, 1983-88) a willingness to take corrective actions to reduce the fiscal deficit, to rationalize the complex exchange rate system, to improve the efficiency of banking operations and to strengthen debt management.

7. In late 1983, the Bank agreed with the Government to pursue a two-pronged approach. A dialogue on economic matters aimed at identifying the policy measures needed to reduced the fiscal and external imbalances would proceed in parallel with the preparation of future operations. During the February-April 1984 period, a FAO/Cooperative Program (CP) mission identified an agricultural loan and two small Bank missions assessed to what extent the authorities are willing to consider further actions to stabilize the economy and analyzed, at Government's request, the present food pricing policy. Following the meetings in the Bank between Government officials and senior regional management in mid-June 1984, the Bank informed the Government of the areas in which further policy actions may be necessary. These areas included public sector management, exchange rate, credit and interest rates, and external debt management.

8. In mid-July the Bank received a letter signed by the Finance Minister, addressing the economic management issues that had been raised earlier by us. The letter indicated that the Government agrees generally with our policy recommendations, and listed a number of actions, consistent with those recommendations, that have been taken.

9. Nevertheless, the letter sets limits to how much further the authorities are prepared to go towards addressing some of the issues raised by the Bank. With respect to fiscal policy, the Government now projects current expenditures to increase by a high 8.4 percent in real terms in 1984, and fixed investment by 41.7 percent, which compares with -3.3 and 2.6 percent, respectively in the original budget. As regards the prospects for unifying the exchange rates at a realistic level, the letter states that such a move would not be feasible in the absence of large balance of payments support (which is most unlikely without an agreement with the IMF). Further progress in the movement towards positive real

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interest rates is ruled out as long as inflationary pressures continue. The letter also rules out the possibility of reversing the recent trend towards a rapid expansion of domestic credit to the public sector, owing to defense requirements.

## II. ISSUES TO BE RAISED BY THE DELEGATION

### Agricultural Loan

10. The Government has asked for urgent action by the Bank to resume lending, and presented a formal request for a US\$68 million loan to finance imports for agricultural export crops--backed by the necessary documentation. It has also requested a economic mission to agree on a set of macroeconomic policy measures as a basis for a resumption of Bank lending.

11. As a result of the Managing Committee Decision, the Government has been informed that before the Bank can resume lending, a necessary first step is the adoption of a comprehensive stabilization program agreed with the IMF. We have indicated that we would be prepared to send a mission to Nicaragua after discussions with the IMF have been initiated, to assist the Government in the reformulation of economic policy regarding the country's medium term development protential.

## III. ISSUES TO BE RAISED BY MANAGEMENT

### Debt Service

12. After the last disbursement applications for Loan 2028-NI are received by the Bank, all available loan funds for purposes of payment of outstanding debt service will have been exhausted. In accordance with the arrangements agreed with the government, the necessary foreign exchange should be made available to the Bank for repayment of outstanding debt service obligations. Debt service falling due during the remainder of the year is estimated at about US\$9 million.

13. Management may wish to stress that for the Bank to support the Government's development program, Nicaragua must remain current in its debt service payments to the Bank.



BIOGRAPHICAL SKETCHES OF  
DELEGATION MEMBERS AND OF SENIOR OFFICIALS

JOAQUIN CUADRA CHAMORRO

Minister of Finance and Bank's Governor

Mr. Cuadra Chamorro was the senior partner of an important law firm in Managua. He has also served as a lawyer for Bank of America, and as consultant lawyer for the Central Bank of Nicaragua. He is the father of Joaquin Cuadra Lacayo, one of the Sandinista army commanders. He does not speak English. Mr. Cuadra Chamorro is in his sixties.

PEDRO ANTONIO BLANDON

Minister and Executive Director  
International Fund for Reconstruction ("Fondo Internacional  
para la Reconstruccion (FIR)")  
and Bank's Alternate Governor

Mr. Pedro Antonio Blandon is a cotton producer. He holds a degree in industrial engineering and a Master in business administration. After the revolution, he became Director of ENABAS (the Government's agency for the marketing of basic grains). Before taking the present position on April 1984, he was Vice-Minister for food production in the Ministry of Agriculture and Agrarian Reform. As a minister of FIR, he is part of the Government's Economic Council. The Sandinista Government created FIR in 1979, with responsibility for negotiating all foreign aid. Responsibility for project identification, preparation and execution has been transferred from FIR to the recently created (1984) Fondo Nicaraguense de Inversiones (FNI) under the direction of the Vice-President of the Central Bank. Mr. Blandon speaks English. He is in his forties.

FIVE YEAR LENDING PROGRAM AS OF 06/30/84  
 RUN ON 07/05/84

NICARAGUA

MID-82 POPULATION: 2,890,000

GNP PER CAPITA: 900

	FY 84 - 85		IDA ALLOCATIONS		FY 84 - 88	
	IPRD	IDA	FY 81 - 83	FY 84 - 86	IPRD	IDA
REVIEW GROUP 11/10/83	.0	.0	5.0	.0	40.0	.0
CUR. REV. GROUP 11/10/83	.0	.0	5.0	.0	40.0	.0
LAC PROGRAM	.0	.0	5.0	.0	40.0	.0
AUG. ANNUAL PER CAPITA LENDING						
REVIEW GROUP		.00				2.77
CURRENT REVIEW GROUP		.00				2.77
LAC PROGRAM		.00				2.77

FISCAL			RESERVE PROJECTS							
CODE	YEAR	PROJECT NAME	BANK/IDA	SOURCE	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
AC07	86R	AGRIC DEVT	25.0	IBRD						
PD03	89	POWER XI		IBRD					40.0	
AP02	88R	TREE CROPS II	25.0	IBRD						
DD03	89	DFC IV		IBRD						30.0

COUNTRY TOTAL										
	IBRD				.0	.0	.0	.0	40.0	30.0
					0	0	0	0	1	1
	IDA				.0	.0	.0	.0	.0	.0
					0	0	0	0	0	0
	TOTAL								40.0	30.0
					0	0	0	0	1	1
OF WHICH 'S'										

## OFFICE MEMORANDUM

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V.WBG ARCHIVES

DATE September 19, 1984

TO Mr. A.W. Clausen  
(Through: Mr. Moeen A. Qureshi, SVPFI)  
FROM M.J. Gillette, ACTDR

EXTENSION 61053

SUBJECT Nicaragua: Projected Late Payment Status at September 30, 1984

1. As of September 30, 1984, we expect that IBRD late payments of interest and other charges over 90 days <sup>a/</sup> will total \$4.1 million, of which \$2 million relates to Nicaragua. I have discussed with my staff and with officers in the LAC Region and the Finance Complex the implications of the present arrears situation on the September 30, financial statements. We have concluded that there is no need at this time to include any adjustments or additional disclosures with respect to the Nicaraguan arrears in the September statements. We must be prepared, however, to respond to questions from our underwriters, in the upcoming due diligence meetings, about both the status of late payments and our policies with respect to cessation of interest accrual on loans in arrears.

2. We will respond to questions about the status by reference to the existing disclosure in the financial statements of payments of interest and other charges by more than 90 days. The September 30 disclosure of overdue payments of \$4.1 million will substantially exceed that reported as of June 30, 1984, of \$352,000. We will respond to queries about the increase by pointing out the variability of late payments in the past. For example, at March 31, 1984, the amount overdue by more than 90 days was \$2.8 million (primarily relating to Bolivia); the lower June balance reflects the Bank's success in collecting these late payments. Under no circumstances will we disclose the specific countries involved. (We do, however, provide full details, including country identification, to our Executive Directors.)

3. We will respond to questions about our policy with respect to cessation of interest accrual by stressing that we are not subject to the regulations which require U.S. commercial banks to cease accrual on certain loans more than 90 days overdue. As history has demonstrated, we have a privileged creditor status with our borrowers, unlike that of commercial banks; our policies reflect this difference. We can point out that we have a general policy of stopping disbursements on loans to borrowers in arrears by 75 days. Further, as a matter of policy, management carefully evaluates

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<sup>a/</sup> As you know, in the June 30, 1984 financial statements we reported interest and other charges overdue by "more than three months", and we continued to report the total principal outstanding on all loans so overdue; this change from previous reporting (when we also showed the amounts of principal payments overdue and reported overdues for "more than 60 days") was made during FY84 to bring the Bank into line with reporting requirements in the U.S.



loans with serious arrears and makes a judgment about the collectibility of both interest and principal. These judgments are periodically reevaluated until the arrears situation has been remedied. If at any point, in management's judgment, there is doubt about the collectibility of interest payments, we would cease accruing interest and reverse any previously accrued but uncollected amounts. If pressed about the period of arrears requiring a judgment on collectibility, we would state that formal evaluation is required when loans have been in arrears for one payment period (180 days).

4. The attached table sets forth the expected late payment status as of September 30, 1984. The data in the table are based on the presumption that the amounts outstanding as of today, that will have reached three months or more overdue by September 30, will not be paid. If we were to receive payments prior to that date (contrary to our current expectations), the arrearages would be reduced.

Attachments

cc: Messrs: Stern, SVPOP  
Shihata, LEGVP  
Knox, LACVP  
Rotberg, TREVP  
Wood, FPBVP  
Hittmair, CTRVP

MJGillette:mpd

IBRD

Expected Status of Payments Overdue by More Than Three Months

September 30, 1984

	Interest and <u>Other Changes</u>	<u>Principal</u>	<u>Total</u>
	----- (US\$ in millions) -----		-----
Nicaragua	2.0	0.7	2.7
Mauritania (1)	2.0	-	2.0
Others (2)	<u>0.1</u>	<u>0.1</u>	<u>0.2</u>
Total	4.1 (3) ===	0.8 ===	4.9 ===

- (1) Represents payment obligation on the Guelbs Iron Ore Project, for which payment was delayed due to an administrative oversight by IBRD staff. Payment is expected by October 15, 1984.
- (2) Represents \$130,000 due from the Congo in respect of charges and an aggregate of \$14,870 due from Algeria, Malaysia and Morocco of which \$14,695 is in respect of principal and \$175 is for charges.
- (3) Amount to be reported in September financial statements.

September 19, 1984

RECEIVED

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OFFICE OF THE PRESIDENT



April 4, 1984

Mr. Ernest Stern

Re.: Nicaragua - Interim Back-to-Office Report  
Economic Mission

At the request of the Nicaraguan authorities, we divided our economic mission in two parts to allow some government officials to travel to the IDB meetings in Uruguay. We have agreed with the government that our mission will return to Nicaragua this weekend.

You may wish to glance over the attached Interim Back-to-Office Report, and in particular para. 22 on page 8. We shall ask for a decision only when the mission has completed its work next month, but any guidance you may wish to give at this stage will be greatly appreciated.

  
Rainer B. Steckhan

Attachment

## OFFICE MEMORANDUM

CONFIDENTIAL

DECLASSIFIED

MAR 08 2022

WBG ARCHIVES

DATE: April 3, 1984

TO: Mr. Rainer B. Steckhan, Director, LCI

FROM: Luis Landau, Senior Economist, LCI 

EXTENSION: 74708

SUBJECT: NICARAGUA - Interim Back-to-Office Report

1. In line with my terms of reference, dated March 9, 1984, the first phase of the Mission started on the weekend of March 10. The Mission's objectives were to review the Government's 1984 Economic Program, discuss with the authorities their economic recovery efforts, explore the extent to which they are prepared to take further corrective actions, and discuss the Bank's economic work program for the next few months. Other Mission members were Messrs. Jose Marques and Peter Miovic. Mr. Miovic left Managua on March 15, I left on March 17, and Mr. Marques on March 24. The Mission benefitted from the presence in Managua of Ms. Gloria Reyes, a debt specialist in EPD(ED), and from discussions with an FAO Cooperative Program Mission that was in the field preparing an agricultural credit project.

2. At the Government's request, our Mission was scheduled to be in the field in two phases. The second phase is currently scheduled to consist of a one-week follow-up visit beginning April 9 (the break in the Mission was meant to accomodate the travel schedules of some members of the economic team). As explained below (c.f. paras. 22 and 23), the Mission needs guidance in preparation for the second phase.

General Impressions

3. The Mission found a war economy. The war effort is absorbing scarce resources and manpower, as well as the attention of the key policy-makers. Many products are in short supply, and there is widespread rationing. As a result, real wages have been falling for several years. The prospects for the private sector are particularly dim under the present regime; the Government will, at best, tolerate the national private sector to continue limping along, without much scope for growth.

4. The Mission was well received, although most Senior Government officials in the economic team are clearly overextended. We were given access to some confidential data, including the foreign debt, and we had some good, frank discussions with second-level Government officials. Nevertheless, it was made clear to us that the authorities expected that the

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dialogue would lead to a resumption of Bank lending. In fact, the authorities requested that the April Mission should come to Nicaragua prepared not only to discuss specific economic measures and reforms in policy instruments, but also to begin reaching agreements on future Bank assistance.

5. The authorities were receptive to our specific suggestions for improvements in policy instruments in the areas of food subsidies, marketing of basic grains, and exchange rate management. They indicated a willingness to discuss with us concrete measures to help stabilize the economy and improve the prospects for growth, provided that we keep the dialogue away from vague, general statements with political connotations. Unfortunately, even with the possible corrective measures, Nicaragua is not creditworthy and it would take many years of good domestic policies and generous foreign aid for the country's financial indicators to return to conventionally acceptable levels.

#### Recent Economic Developments

6. Growth performance improved in 1983, but the internal and external imbalances aggravated. Official estimates show a GDP growth of 5.1 percent. Although this is most likely an overestimation, there seems to have been some growth, led by export agriculture, albeit from a depressed base.<sup>1/</sup> Private consumption declined further by 1 percent owing to supply constraints, notably import restrictions, including those on the purchase of inputs for the manufacture of consumer goods. Public consumption expenditures continued to increase at a real rate of 15 percent; inflation accelerated to over 35 percent; and unemployment is believed to have remained at about 20 percent. The Central Government deficit reached 18 percent of GDP, reflecting substantially increased current and capital transfers to the public enterprises. Half of this deficit originated from direct consumer subsidies, which were estimated at 3 percent of GDP, and from the Central Government assumption of accumulated losses of public enterprises, which was equivalent to over 6 percent of GDP.<sup>2/</sup> As a result, domestic bank credit to the public sector more than doubled in nominal terms, while that to the private sector increased only 15 percent, for a total credit expansion of 36 percent. On the external side, the trade gap increased to US\$ 414 million, or to about 12 percent of GDP. By year-end, net foreign assets were negative, in excess of US\$ 310 million, and payment arrears reached about US\$ 280 million. The accumulated external debt of about US\$ 3.5 billion was equivalent to 100 percent of GDP, and to over 7 times exports. Only one-third of the US\$ 180 million interest payments due

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<sup>1/</sup> The GDP growth estimate for 1983 was recently revised upward by 3 percentage points. The Mission did not probe into the national accounts statistics which the Government acknowledges are in need of improvement.

<sup>2/</sup> Subsidies on basic grains and capital transfers to ENABAS, the public enterprise that controls the grain market, were estimated at about C/ 1 billion, or 2.7 percent of GDP.



(or 40 percent of exports of goods and services) was actually paid, with priority given to those creditors who continue to lend to Nicaragua. The remaining interest payments either fell in arrears or were rescheduled.

7. In recent months there has been some improvement in the economic management. The economic team now appears to recognize the urgent need to control the large internal and external imbalances being experienced. On the institutional side, the Government formally established the Economic Council, chaired by a Junta member and comprising representatives of all the key Ministries dealing with economic issues. This Council convenes at least once a week. In addition, financial institutions have been reorganized to provide for better Central Bank control. Also, a program to specialize commercial banks by type of lending (i.e., agricultural, commercial, or for housing), is being tried out in one of the provinces to increase efficiency and lower intermediation costs. Efforts are also underway to improve the foreign debt management system. Furthermore, a law organizing the budgetary system--a first step to rationalize the finances of the public sector--has been enacted.

8. On the policy side, corrective actions were taken in the fiscal, exchange rate, credit and public investment areas. Strict expenditure controls were implemented for current expenditures, while a series of taxes were raised (i.e., taxes on income, property and sales of oil products and beverages). In addition, public employment was partially frozen. No general wage increases have been granted since mid-1981. Although there was no formal devaluation, the implicit exchange rate applied to imports and exports was increased. Most transactions on the service account were shifted to the parallel market (the official rate is C/ 10 per US\$ 1; the parallel rate is C/ 28 per US\$ 1; and the black market rate is currently reported at C/ 140 per US\$ 1). The tax on sales of foreign exchange for imports was raised from 50 to 100 percent for non-essential imports. In the area of credit policy, a mechanism to reduce credit arrears was implemented whereby agricultural exporters (both private and public) see the amount of debt outstanding to the commercial banks deducted automatically from their export proceeds. Finally, during the latter part of the year, a major effort was made to revise the public investment program and clearly define investment priorities.

#### The 1984 Economic Program

9. We believe that the Government will continue in 1984 to take actions aimed at stabilizing the economy. The Nicaraguan authorities' economic policy, as described in their 1984 Economic Program, is directed at: (i) reducing the inflation rate; (ii) reducing the Central Government deficit; (iii) adjusting the implicit exchange rate; and (iv) pursuing a credit and interest rate policy oriented towards productive sectors and resource mobilization, all within the framework of the Government's Outline for Economic

Policy, 1983-88, the report submitted to the Bank in September 1983. The Government's major objectives are stated to be: (1) satisfy the basic needs of the population; (2) consolidate the mixed economy; (3) rationalize the management of public enterprises; (4) continue the agrarian reform to intensify land use; and (5) increase austerity and efficiency in the economy.

10. The 1984 Economic Program calls for a moderate 2.7 percent GDP increase, with emphasis on the export sector, which is projected to grow at a rate of 8 percent. Private consumption is projected to continue to lag behind population growth. Severe import restrictions will continue. Emphasis is being placed on increasing capacity utilization in the export and consumer goods sector. As a result, imports of consumer goods are programmed to decline both in real and nominal terms, whereas imports of intermediate and capital goods are expected to increase in nominal terms by about 15 and 20 percent, respectively. Exports, on the other hand, are projected to increase by about 20 percent in nominal terms. Cotton, meat and seafood are expected to lead the growth of traditional exports. Non-traditional exports are projected to double in nominal terms to US\$ 70 million, which seems too optimistic. The trade gap is therefore projected to reach US\$ 424 million, slightly above its 1983 level. (See Table 1)

11. According to official sources, debt service due in 1984 will reach US\$ 408 million (not including the US\$ 280 million arrears due by the end of 1983). We were informed that the foreign exchange budget only allocates US\$ 290 million for debt service payments in 1984; still, there would remain a financing gap of US\$ 190 million in the balance of payments. In other words, the total balance of payments gap projected for 1984 is US\$ 308 million. At the moment, the Mission is still working with EPD to update the balance of payments for 1983 and projected capital flows for 1984. The authorities assured the Mission that the debt service to the Bank and IMF has been included in the 1984 programming, and that the details of the foreign exchange budget will be made available shortly to the Bank.

12. On the fiscal side, the Government program seems overly ambitious. The overall deficit is to be cut in half, to about 9 percent of GDP (c.f. Table 2). Although tight expenditure controls will continue and capital transfers to public enterprises are to be ended, the Mission found that the 1984 budget assumes no wage increase for the public sector. This latter assumption appears to be inconsistent with the Government's stated policy to raise the wages in the public sector. The amount of the increase and its timing are still to be determined. Nevertheless, it does not seem realistic to expect that aggregate consumption expenditures (which also includes most military expenditures) will only grow at 20 percent in current prices. The inflation rate underlining the fiscal projections is 20 percent, but is likely to be higher. It also seems unrealistic that



current transfers to public enterprises would decline by 9 percent in nominal terms. However, the subsidy policy which is responsible for the larger part of this expenditure item is still being discussed within the Government. On the other hand, the Mission feels that capital transfers could indeed decline substantially from the previous year, if the authorities adhere to the policy of not "bailing out" public enterprises. On the revenue side, most of the tax measures were taken in late 1983. (c.f. para. 8) The major increase in revenues will come from the taxes on oil products and on the purchase of foreign exchange. The shifting of many imports to the parallel exchange rate, together with the doubling of the tax on sales of foreign exchange, will increase tax collections substantially. Thus, the programmed 47 percent increase in current revenues may be attainable.

13. In the financial area, deposit interest rates were increased by two to three points, while the active rates maintained their 1983 levels. The exception to the latter were the rates to small producers and cooperatives, which were reduced by 1 to 2 points. (The deposit rates now vary from 9 to 19 percent depending on maturity; the lending rates vary from 8 to 24 percent depending on maturity and economic activity.) These rates, however, remained substantially negative in 1983 since the consumer price index increased by over 35 percent. Credit allocations are expected to be reoriented under the following principles: (1) agricultural credit is to be a function of the increase in harvested areas or meat production targets in the 1984 Economic Program; (2) industrial credit is to take into consideration the rationalization of the sector contemplated in the Program as well as the availability of foreign exchange for the sector; and (3) the policy of automatic recovery of credits from exporters is to continue. Finally, the average implicit exchange rate for exports was further increased from C/ 15.47 per US\$ 1 in 1983, to C/ 18.72 for 1984.

14. In summary, the Mission feels that the 1984 Economic Program and the policies being enacted by the authorities demonstrate an effort to stabilize the economy. The Government has the tools at present (i.e., quarterly revisions of the budget, monthly foreign exchange budgets, continued reviews of credit policy) to monitor any major deviations from the Program. There are, however, many distortions in the economy that need to be corrected, the most important ones related to the subsidy and exchange rate policies. In addition, the authorities continue to face the difficult task of defining a clear model of economic development, particularly the role that the private sector is to play in the future.

#### Private Sector Issues

15. It was clear from the Mission's discussions with the authorities that the private sector will not flourish in Nicaragua. At best, it may maintain its reduced participation in economic activity (estimated at



between 50 to 60 percent of GDP), under expanded Government control over most aspects of its activities. The Government now controls: (i) export and import activities, through the export marketing boards and foreign exchange allocation mechanisms; (ii) credit allocation through the nationalized financial system; (iii) the marketing and pricing mechanism, to a large extent; and (iv) investments.

16. In relation to private investments, the authorities require prior approval of all investments over C/ 1 million (about US\$ 36,000 at the parallel rate) submitted to the banking system for financing. In addition, the Government plans to extend its controls in two areas. First, it initiated a countrywide classification of occupational categories (job regrading), attaching to each a given salary range. When the exercise is completed, employers will only be allowed to increase salaries within that narrow range. Prior Ministerial approval will be required to upgrade employees. Also, whenever civil servant salaries are lower than private sector salaries, the latter are to be frozen. This policy, which will be difficult to monitor, may intensify a "brain drain" of the most capable individuals. Most importantly from the private sector perspective, this policy will permit the Government to have greater control over their activity. Second, the Ministry of Internal Commerce is considering extending its operations to the wholesale trade in some non-food products. These two policies would further contribute to making resources less mobile in Nicaragua, with adverse consequences for the country's capacity to adjust to changes in internal and external demand.

17. In our discussions with the private sector, the fears about increasing Government controls and concerns about a lack of dialogue were clear. Private sector representatives said that their major problem was the lack of access to foreign exchange to buy current inputs. They suggested that Nicaragua needs to establish urgently a Foreign Working Capital Fund of about US\$ 400 million, the amount estimated to finance each year's production cycle.

#### Economic Dialogue

18. The Mission presented to the authorities very rough projections designed to help frame our dialogue. These projections, which took into consideration the preliminary findings of the Bank/FAO Cooperative Program Mission, showed that even under the most optimistic assumptions about domestic policies, Nicaragua would not be creditworthy through the end of the decade. The external gap would only begin to improve in the mid-1990s. With this in mind, the Mission explored with the authorities: (1) the extent to which they were prepared to take further corrective actions in 1984 in key macroeconomic areas; and (2) the scope for a coordinated effort to help restore Nicaragua's creditworthiness, involving a major stabilization and adjustment effort, to be supported by foreign aid from several sources.

19. The authorities made the following points very clear to the Mission:
- (a) Any measures and policies to adjust the economy will have to consider their impact on the country's social and political stability. Emphasis is therefore to be given to structural change and not only to stabilization. A major consideration in any policy package will be what is the political cost of alternative economic measures. The adjustment will have to be gradual and progressive; and the time horizon considered will have to be longer than what is traditionally allowed in IMF programs. The Government plans to first stabilize the economy in 1984-85, and then, in 1986-90, reverse the declining growth trend, hoping to resume sustained growth in the 1990s.
  - (b) The economic dialogue should concentrate on specific policy instruments. For instance, the authorities feel that it is counterproductive to discuss broad issues with a political connotation, such as the private sector investment climate. The dialogue between the Government and private sector is now in essence political: the Government will allow the survival of the private sector as an economic class, but will not allow it to control political power. The Government controls the financial and export spheres, and, therefore, has no need--neither can it afford--to take over more private sector activities.
  - (c) The Government is not under present circumstances interested in discussing a coordinated external financial package in support of an adjustment program, because it feels that this approach would make the country more vulnerable politically.
  - (d) Furthermore, the Government feels that an IMF-type program would not serve Nicaragua because it is convinced the Fund would insist on a stabilization program of such severity, that it could undermine the socio-political stability of the system. On the other hand, the Government is open to discuss with the Bank specific alternative policy packages, in the context of a resumption of Bank lending.
20. In view of the above, the Mission explored to what extent the authorities were willing to discuss two key policy issues: streamlining food subsidies and targetting them more narrowly, and moving towards the unification of the exchange rates at a realistic level. In both cases, the suggested reforms would aim at reducing the fiscal cost of the subsidies and the huge foreign exchange losses, as well as making the subsidy system more transparent. The authorities recognized that there was much room for improvement in these two areas. After internal consultations, they replied that they were willing to discuss with the Bank specific alternatives to the present food subsidy policies. They requested that, in the next stage,

an expert in food subsidies and marketing of basic grains be included in the Mission. Concerning the exchange rate, the authorities said that, in effect, they had taken measures--additional to those in the 1984 Economic Program--on the day of our arrival to move most non-essential import transactions to the parallel market. They also continued to devalue the exchange rate applied to exports, on a product-by-product basis. The authorities are, however, concerned with the administrative burden of the present system. They stated their willingness to discuss the exchange rate system with the Bank. They would prefer to approach this subject as part of the general subsidy policy discussions.

#### Technical Assistance

21. In addition to their request for technical assistance in the areas of food subsidies, the authorities requested the Bank's cooperation in improving national accounts statistics and in designing a computer-based debt management system.

#### Options for the Bank

22. The second phase of the Mission is scheduled to begin on April 9, 1984 for about one week. The authorities expect that this phase will be devoted to intensive discussions aimed at defining the reforms and policy instruments to be required by the Bank and the implications for future Bank assistance. What are the Bank's options? We suggest the following for consideration:

##### Apply Conventional Creditworthiness Criteria

In this case, the country would not qualify for Bank lending, even if the authorities were to implement our recommendations. The country faces a long-haul creditworthiness problem.<sup>3/</sup>

##### Coordinated Effort to Shore Up Economy

Nicaragua's prospects would certainly improve if a decisive stabilization and structural adjustment program could be put together with a coordinated package of foreign assistance. This package would have to include the IMF, liberal rescheduling from most foreign creditors, and large additional net lending--about US\$ 400 million a year on concessionary terms, including a substantial part of non-project loans.<sup>3/</sup> Unfortunately, the political conditions are not favorable for such a coordinated effort. The authorities furthermore are unwilling at present to begin discussing a program with the IMF or to participate in an aid coordination exercise.

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<sup>3/</sup> For details underlining this assessment, c.f. memorandum by Peter Miovic, EPD(GL), dated March 30, 1984.



IDA Eligibility

With the recent improvements in economic management, the country's performance might qualify for IDA assistance, particularly if we could reach agreement on the additional measures that our Mission proposed (c.f. para. 20). According to the latest Operational Guidelines, Nicaragua's 1982 GNP per capita was US\$ 900, much higher than the cutoff for IDA eligibility (US\$ 805), but the Guidelines calculation was based on the official exchange rate of C/ 10:US\$ 1; by using an equilibrium exchange rate--as is done in other cases when the official exchange rate is sharply out of line with market rates--one would obtain a level of GNP per capita well below the cutoff for IDA eligibility.

Flexible Creditworthiness Criteria

We believe that the authorities are eager to maintain good relations with the Bank, and they might be prepared to tolerate a temporary negative net transfer situation, as long as there is tangible progress towards an early reversal. They made it clear, furthermore, that they are prepared to modify their financial policies in order to qualify for Bank lending. Therefore, we could conceive of an intermediate scenario in which Nicaragua would improve its policies as suggested in para. 20, and continue to service its debt to the Bank Group, as long as we maintain an active--albeit modest--lending program, even though that the country would keep building up arrears and seeking further debt relief from other creditors.

Guidance Requested

23. In preparation for the April 9-13 discussions, the Mission requests guidance on the following questions: first, how to respond to the Government's informal requests for technical assistance (c.f. para. 21); second, is it appropriate for the Mission to concentrate the discussions in the areas of subsidies and foreign exchange management? In other words, would a monitorable agreement with the authorities on specific corrective actions in these two areas constitute sufficient basis for the Bank to resume lending? Third, if it is impractical to obtain early guidance on the preceding questions, should the second phase of the Mission be delayed?

cc: Messrs. Mirza, LCIB  
Pfeffermann, LCNVP  
Miovic, EPDGL  
Marques, LCIB  
Mrs. Martinez, LCIB

LLandau:JMarques/slc

Table 1  
PRINCIPAL ECONOMIC INDICATORS

ITEMS	1983	1984 <sup>1/</sup>
<u>Real Growth Rates (%)</u>		
GDP	5.1	2.7
Primary	9.7	4.8
Secondary	4.3	3.2
Services	3.2	1.2
(of which Central Government)	(9.5)	(3.0)
Consumption	3.8	0.8
Public	15.4	2.3
Private	-0.8	0.1
Investment	1.3	13.4
Exports	9.0	8.0
Imports	1.6	8.8
<u>Balance of Payments (US\$ Millions)</u>		
Imports	819	907
Consumer goods	175	156
Petroleum products	156	176
Intermediate goods	282	325
Capital goods	206	250
Exports	405	483
Traditional	372	412
Non-traditional	33	71
Trade Deficit	414	424
<u>Accrued Debt Service</u>	310	408
Interest	180	238
Principal	130	170

<sup>1/</sup> Government's 1984 Economic Program.

Source: Government's 1984 Economic Program, Ministry of Planning.

Table 2

## NICARAGUA

CENTRAL GOVERNMENT BUDGET  
(C/ Millions)

BUDGET ITEMS	1983	1984 <sup>1/</sup>	PERCENTAGE OF CHANGE
Current Revenues	9,980	14,677	47
Income Tax	1,417	1,654	17
Property Tax	294	402	37
Taxes on Goods & Services	4,588	6,577	44
Beverages	(1,096)	(1,536)	(40)
Petroleum Products	(1,287)	(2,200)	(71)
Others	(2,175)	(2,841)	(31)
Tax on Imports	670	1,016	52
Tax on Foreign Exchange	1,100	3,100	182
Other Revenues	1,941	1,928	-
Current Expenditures	12,341	14,701	19
Consumption	9,139	10,999	20
Interest	891	1,290	45
Transfers	2,311	2,112	-9
Contingency	-	300	-
<u>Current Balance</u>	<u>-2,361</u>	<u>-24</u>	<u>-99</u>
Capital Expenditures	4,157	3,827	8
Investment	2,135	2,759	29
Transfers	2,022	1,068	-47
<u>Overall Balance</u>	<u>-6,518</u>	<u>-3,851</u>	<u>-41</u>
Financing	6,518	3,851	-41
Domestic, Net	3,709	2,900	-22
External, Net	2,809	951	-66
<u>Memorandum Items</u>			
Overall Deficit/GDP <sup>2/</sup> (%)	18.2	9.0	
Public Sector Employees (Thousands)	64.8	74.8	15

<sup>1/</sup> Government's 1984 Economic Program.<sup>2/</sup> Assumes a 20 percent change in the GDP implicit deflator in 1984.Source: Government's 1984 Economic Program, Ministry of Planning.



LIST OF NICARAGUAN OFFICIALS MET  
BANK ECONOMIC MISSION  
March 11-24, 1984

Edmundo Jarquin	Minister and Executive Director International Fund for Reconstruction (FIR)
Cesar Arostegui	Vice-Minister International Fund for Reconstruction (FIR)
Virgilio Godoy	Minister of Labor
Frank Vannini	Vice-Minister Central Bank of Nicaragua
Armando Navarrete	Director, Central Bank of Nicaragua
Nestor Avendano	Vice-Minister Ministry of Planning
Homar Shible	Director, Global Planning Ministry of Planning
Luis E. Figueroa	Minister and President, Central Bank of Nicaragua
Bernardo Chamorro	Vice-Minister External Commerce
Julio Lopez	Vice-Minister Internal Commerce
Roberto Gutierrez	Vice-Minister Ministry of Agricultural and Fisheries Development and Agrarian Reform
Fernando Cueva	Vice-Minister Nicaraguan Institute for Energy
William Lara	President Small and Medium Farmer's Union
William Baez	Executive Director Nicaraguan Institute for Development (INDE)
Jaime Bengochea	President, Chamber of Nicaraguan Industries
Onno van Teuten	FAO Representative

Mr. Clausen  
E1224  
P1

## OFFICE MEMORANDUM

TO: Mr. Ernest Stern

DATE: May 21, 1982

FROM: E. Bevan Waide, Director, CPD *EW*SUBJECT: Nicaragua CPP: Outstanding Issues

1. This CPP provides a good analysis of the serious economic and political difficulties confronting Nicaragua. However, on the basis of recent events and discussions with the regional office we conclude that the situation is even more serious than indicated in the CPP. Perhaps it is somewhat muted because of concerns about a possible leak.

Diagnosis

2. The Bank has been very forthcoming on Nicaragua, making loans of about \$90 million (including \$37 million of IDA) over the first two years after the new Government took power. Because this was a reconstruction period, conditionality was relatively low. Nevertheless the Bank was able to develop a dialogue on macro-economic issues, and until recently there seemed to be evidence that the Government was responding to the Bank's concerns about fiscal and monetary policy and the need to restore the confidence of the private sector. But recent developments indicate that progress has ceased or even reversed. One serious reversal has taken place on credit restraint, leading to the resignation and departure from the country of the President of the Central Bank. Moreover, prospects of obtaining the large capital flows projected in the CPP for the next several years, which were never very bright, have recently become dimmer.

3. Against this background, there are two questions: (i) is the proposed policy conditionality for continued Bank lending adequate, and is there any reasonable hope that the Government will be willing and able to meet those conditions even if they are judged to be adequate; (ii) there is also a major question about the country's creditworthiness.

Adequacy of Policy Conditionality

4. Erosion of fiscal and monetary discipline and a concurrent overvaluation of the exchange rate appear to be the most immediate problems. However, the areas of policy action detailed in para. 38 of the CPP do not include any explicit reference to measures to deal with these problems. Since this is clearly an area of IMF responsibility, the best course, in principle, would be for the Bank to advise the Government that lending should await a standby agreement with the IMF -- which would also help alleviate the immediate foreign exchange constraint. But even if the Government is not willing to approach the Fund, we should make it clear that a stabilization program involving an adjustment of the exchange rate is essential to any further Bank lending.



- We recommend that the list of conditions mentioned in para. 38 be explicitly expanded to cover adequate stabilization measures.

#### Medium Term Prospects and Creditworthiness

5. Aside from a stabilization program, the main measures required to provide the basis for renewed growth consist of action to a) restore the confidence of the private sector and b) to improve the efficiency of public expenditure management, public enterprises, and public policy making. Even if steady progress is made in all these areas, very large capital inflows would be required to prevent another sharp downturn in overall economic activity during the next two or three years. However, it now seems highly doubtful that the country can mobilize anywhere near the \$580 million annually in gross capital inflow (\$220 p.c.p.a.) projected by the CPP for the 1983-85 period in the "high" case. Even the amount in the "low" case assumption of \$480 a year seem excessively optimistic. Thus, the country's creditworthiness appears to depend, at a minimum, on the Government's ability to maintain its debt service payments or to organize an orderly debt rescheduling in the face of substantial decline in GNP and consumption. A default would make it virtually impossible for the IBRD and possibly other multilateral institutions to continue lending. In Nicaragua's longer term interest it is therefore crucial that it avoid any serious arrears or default to its main creditors. The Bank should give attention to this issue in its dialogue with the Government and provide whatever assistance it can in working out a rescheduling in the likely event of a major shortfall in new resources.

- We recommend that the Bank seek to expand its dialogue with the Government to include a careful assessment of likely capital inflow and debt service requirements with a view to helping it develop contingency plans for maintaining an orderly approach to debt rescheduling of private debt in order to avoid serious arrears or default.

#### Bank Lending

6. The process of reconstruction - physical, managerial and institutional - is still going on in Nicaragua. If a return to pre-war (1977) per capita income is the criterion, the process will not be complete for another decade. The question is what the Bank can do to assist, within the limits of financial prudence.

7. We conclude that if the Government adopts a meaningful stabilization program and starts to take action on the points listed in para. 38 of the CPP, then the Bank should proceed with a lending program over the next two years along the lines proposed by the paper, perhaps supplemented by technical assistance. We should be prepared to expand that program if adequate progress is made on restoring the country's creditworthiness, or curtail it if the reverse occurs.

#### Attachment

cc: Management Review Group



COMPARATIVE COUNTRY ANALYSIS

Over the past decade, Nicaragua's real GDP and exports actually declined, while there was a marked increase in the debt service ratio (1981 estimate is double that of the previous year). The savings ratio for 1980 was also negative. Social indicators are not unusual except for the high adult literacy rate.

	<u>NICARAGUA</u>	<u>HONDURAS</u>	<u>GUATEMALA</u>	<u>SRI LANKA</u>	<u>LIBERIA</u>					
<u>Economic Structure</u>										
Population 1980 (millions) <u>a/</u>	2.6	3.7	7.0	14.8	1.9					
GNP Per Capita 1980 (US\$) <u>a/</u>	790.0 <u>c/</u>	560.0	1110.0	270.0	520.0					
% Agriculture in GDP 1979 <u>b/</u>	23.0 <u>c/&amp;d/</u>	32.0	26.1 <u>i/</u>	27.0	35.0					
% Industry in GDP 1979 <u>b/</u>	30.6 <u>c/&amp;d/</u>	26.0	20.9 <u>i/</u>	31.0	26.0					
Debt Service Ratio 1980 <u>L/</u>	30.0 <u>c/&amp;h/</u>	9.9	3.5	6.0	7.0					
<u>Economic Performance</u>										
	<u>1970-80</u> <u>c/&amp;k/</u>	<u>1970-79</u>	<u>1970-79</u>	<u>1970-79</u>	<u>1970-79</u>					
Real GDP Growth Rate <u>b/</u>	-0.1	3.5	5.9	3.8	1.8					
Real Exports Growth Rate <u>b/</u>	-0.4	4.3	4.5	-3.0	2.3					
	<u>1980</u> <u>c/</u>	<u>1978-80</u> <u>i/</u>	<u>1977-79</u> <u>i/</u>	<u>1978-80</u> <u>i/</u>	<u>1978-80</u> <u>i/</u>					
Gross Domestic Investment/GDP	20.2	28.2	21.6	28.5	30.0					
Export and NFS/GDP	23.8	37.0	22.3	33.0	52.6					
Resource Balance/GDP	-21.5	-6.5	-4.2	-14.3	-2.6					
Gross Domestic Savings/GDP	-1.3	21.7	17.4	14.2	27.4					
Government Revenue/GDP	18.8	15.0	11.0	23.5	18.5					
<u>Recent Social Indicators</u> <u>e/</u>										
	<u>1976-79</u>	<u>1976-79</u>	<u>1976-79</u>	<u>1976-79</u>	<u>1976-79</u>					
Population Growth Rate	3.3	3.3	2.9	1.7	3.3					
% Change in Crude Birth Rate (1960-79) <u>b/</u>	-10.3	-10.6	-16.8	-22.3	-4.2					
% Change in Crude Death Rate (1960-79) <u>b/</u>	-37.4	-39.5	-41.8	-18.7	-33.0					
Infant Mortality Rate	122.0 <u>f/</u>	118.0	87.1 <u>f/</u>	49.0	n.a.					
Life Expectancy (years)	56.3	58.1	58.5	65.6	53.5					
Adjusted Enrollment Ratio										
- Primary	85.0	85.0	64.0	94.0	64.0					
- Secondary	26.0	13.0	15.0	52.0	20.0					
Adult Literacy Rate	90.0	60.0 <u>h/</u>	46.1 <u>g/</u>	85.0	30.0					
<u>Lending Program</u>										
	<u>FY77-81</u>	<u>FY82-86</u>	<u>FY77-81</u>	<u>FY82-86</u>	<u>FY77-81</u>	<u>FY82-86</u>	<u>FY77-81</u>	<u>FY82-86</u>	<u>FY77-81</u>	<u>FY82-86</u>
Nominal IBRD MU\$	88.8	192.0	266.5	255.0	150.5	210.0	-	200.0	71.8	100.0
Nominal IDA/TW MU\$	37.0	-	47.0	25.0	20.0	-	453.2	590.0	31.0	41.0
p.c.p.a. Lending (\$US)	9.7	14.8	17.6	15.7	5.0	6.2	6.2	10.8	11.4	15.6
p.c.p.a. Grant Equivalent (US\$)	4.1	3.3	5.5	4.5	1.3	1.4	5.5	7.8	4.9	6.6
p.c.p.a. in Constant 1980 (US\$)	11.0	11.8	20.3	12.6	6.6	4.9	6.8	8.7	14.0	12.8

a/ World Bank Atlas, 1981.

b/ World Development Report, 1981.

c/ Nicaragua CPP, February 1982.

d/ 1980 figure.

e/ Social Indicators Data Sheets, EPD, 1981.

f/ 1969-71 data.

g/ 1973 figure.

h/ 1975 figure.

i/ IFS, IMF, 1981.

j/ Guatemala Country Economic Memorandum, February 1980.

k/ WDR data for 1970-79 shows real GDP growth rate of +2.6% and export growth rate of +4.5% for Nicaragua.

L/ World Debt Tables, EPD, December 1981.

h/ 1981 estimate.

Country Assistance Division

Country Policy Department

May 18, 1982



## OFFICE MEMORANDUM

TO: Mr. Ernest Stern

DATE: May 21, 1982

FROM: Heinz Vergin, Director, PAB

SUBJECT: NICARAGUA CPP - Country Program Issues

PAB has the following issues and recommendations to table for the Senior Management Review:

Issues

- o Is Nicaragua creditworthy for the proposed volume of lending? As the CPP notes, the assumptions underlying the balance of payments analysis are optimistic: exports and imports are projected to grow by approximately 8% and 2.5% p.a., respectively through 1990; and the level of concessional loans, which in the projections has been set at about \$450 million p.a. through the end of the decade, must be considered high in the general context of future ODA availability. Even so, the CPP projections yield a debt service ratio of more than 30% through 1990. Also, from 1982 on Nicaragua's projected debt outstanding is well in excess of GDP. On this basis, Nicaragua clearly is not creditworthy for IBRD lending. We note that at present the risk rating of the country by the international capital markets is no better than that of Costa Rica and El Salvador. Despite the serious economic difficulties, Government has not approached the IMF.
- o Notwithstanding Nicaragua's lack of creditworthiness, should the Bank as a development institution continue to provide assistance? The situation in Nicaragua calls for a major overhaul of economic policy which politically does not seem feasible at the present time. In the interim, the CPP proposes that despite the substantial risks, Bank lending to Nicaragua be continued for the next two years on a reduced scale for a few high priority projects. Such lending would be conditional on progress on a long list of sensitive policy and management issues (para. 38). Provided the Government is prepared to accept these conditions and there is sufficient progress in the implementation of improved policies and programs to warrant the conclusion that the economy has been put on a path which in the medium-term will restore its creditworthiness, we agree that the Bank as a development institution would be justified in supporting a minimum assistance program and accepting the risks involved. In order to emphasize the above proviso we would suggest that the decision to appraise future loans (or reappraise loans presently in abeyance) should be a Loan Committee decision based on a detailed examination of the country's creditworthiness and the conditions which the Government has met or is meeting and which, in the view of the Region, warrant the decision to commence field appraisal of a prospective lending operation.

Recommendations

We recommend that:

- o not more than one project per year be considered for planning purposes, subject to Loan Committee review of country conditions prior to departure of the appraisal mission.
- o consideration of the lending program be limited to FY83 and FY84, with a review of longer term country relations taking place if and when the situation has stabilized.
- o the next review of the Nicaragua country program be held within two years.

Annex 1 compares the IBRD lending program proposed for Nicaragua in the CPP with programs approved earlier.

The Country Program Review Meeting is scheduled for Wednesday, May 26, 1982 at 11:00 a.m. in Room E 1208.

Attendance:

Messrs. Stern  
Qureshi  
Baum  
Chenery  
Gabriel  
Vergin  
Waide

Horsley  
Köpp  
Chernick  
Robless

cc: Messers. Clausen  
Lafourcade  
Paijmans

LAC Regional Office

Messrs. Ardito-Barletta, RVP  
Pfeffermann, Chief Economist  
van der Meer, Director, Projects  
Lari, Director, Programs 1  
Mirza, Div. Chief, 1B  
Meo, Senior Economist  
Eschenberg, Senior Loan Officer



Nicaragua

Annex 1

	<u>FY77</u>	<u>FY78</u>	<u>FY79</u>	<u>FY80</u>	<u>FY81</u>	<u>FY82</u>	<u>FY83</u>	<u>FY84</u>	<u>FY85</u>	<u>FY86</u>	<u>Total FY77-81</u>	<u>Total FY81-85</u>	<u>Total FY82-86</u>
<u>Operations Program (No.)</u>													
Approved, October 1976	1	3	3	1	1	2	..	..	..	..	9.0	..	..
Std. Table IVa, Nov. 1981	1	2	-	2	3	3	2	1	2	2	8.0	11	10
Proposed, May 1982	1	2	-	2	3	1	3	3	3	4	8.0	13	14
<u>Lending Program (No.)</u>													
Approved, October 1976	1	2	3	1	1	1	..	..	..	..	8.0	..	..
Std. Table IVa, Nov. 1981	1	2	-	2	3	2	2	2	2	2	8.0	11	10
Proposed, May 1982	1	2	-	2	3	1	3	2	2	2	8.0	11	10
<u>Lending Program (Cur. \$m)</u>													
Approved, October 1976													
IBRD	22.0	23.0	25.0	15.0	15.0	25.0	..	..	..	..	100.0	..	..
IDA	-	-	-	-	-	-	..	..	..	..	-	..	..
TOTAL	22.0	23.0	25.0	15.0	15.0	25.0	..	..	..	..	100.0	..	..
Std. Table IVa, Nov. 1981													
IBRD	22.0	13.1	-	20.0	33.7	26.0	18.0	60.0	45.0	45.0	88.8	182.7	194.0
IDA	-	-	-	32.0	5.0	10.0	-	-	-	-	37.0	15.0	10.0
TOTAL	22.0	13.1	-	52.0	38.7	36.0	18.0	60.0	45.0	45.0	125.8	197.7	204.0
Proposed, May 1982													
IBRD	22.0	13.1	-	20.0	33.7	16.0	29.0	36.0	45.0	66.0	88.8	159.7	192.0
IDA	-	-	-	32.0	5.0	-	-	-	-	-	37.0	5.0	-
TOTAL	22.0	13.1	-	52.0	38.7	16.0	29.0	36.0	45.0	66.0	125.8	164.7	192.0
<u>Lending Program (Const. FY82 \$m)</u>													
Approved, October 1976													
IBRD	29.6	29.1	30.2	17.2	16.1	25.0	..	..	..	..	122.2	..	..
IDA	-	-	-	-	-	-	..	..	..	..	-	..	..
TOTAL	29.6	29.1	30.2	17.2	16.1	25.0	..	..	..	..	122.2	..	..
Std. Table IVa, Nov. 1981													
IBRD	29.6	16.6	-	22.9	36.1	26.0	16.9	53.0	37.5	35.4	105.2	169.5	168.8
IDA	-	-	-	36.7	5.3	10.0	-	-	-	-	42.0	15.3	10.0
TOTAL	29.6	16.6	-	59.6	41.4	36.0	16.9	53.0	37.5	35.4	147.2	184.8	178.8
Proposed, May 1982													
IBRD	29.6	16.6	-	22.9	36.1	16.0	27.2	31.8	37.5	51.9	105.2	148.6	164.4
IDA	-	-	-	36.7	5.3	-	-	-	-	-	42.0	5.3	-
TOTAL	29.6	16.6	-	59.6	41.4	16.0	27.2	31.8	37.5	51.9	147.2	153.9	164.4
Commitment Deflator (FY82=100)	74.2	79.0	82.9	87.3	93.4	100.0	106.6	113.2	120.0	127.2			

NOTE: September 1981 Review Group Decisions: FY82-86 - IBRD \$192 million.

JUL 14 1981

Dear Mr. Ambassador,

With reference to your letter of July 7, 1981, I wish to thank the Junta of the Government of National Reconstruction for its thoughtful invitation to attend the celebration of the II Anniversary of the Nicaraguan Revolution. Unfortunately, as Mr. Barletta indicated in his cable of July 9 to Mr. Ramiro Contreras, Director General of Protocol, I will not be able to attend due to a heavy schedule of commitments during my first weeks with the Bank.

Sincerely,

(Signed) A. W. Clausen

A.W. Clausen  
President

His Excellency  
Mr. Arturo J. Cruz  
Ambassador of Nicaragua to  
the United States of America  
Washington, D.C.

Enclosure

Drafter: G.Siri:dvh (July 13, 1981)

cc: Mr. Clausen (2)

cc: Messrs. Barletta

Fernandes, Acting Director, LCI

Lari, LCI (o/r)

Benjenk, VPE

✓ Lafourcade, EXC

Mirza, LAC I

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Date

JULIO 9, 1981

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JUNTA GOBIERNO RECONSTRUCCION NACIONAL

MANAGUA, NICARAGUA

PARA SR RAMIRO CONTRERAS, DIRECTOR GENERAL DE PROTOCOLO.

EN NOMBRE DEL SR CLAUSEN, PRESIDENTE DE ESTA INSTITUCION, QUIERO AGRADECERLE SU CABLE DEL 7 DE JULIO INVITANDOLO A ASISTIR A LAS CELEBRACIONES DEL 19 DEL PRESENTE. EL SR CLAUSEN ME HA PEDIDO COMUNICARLE QUE DEBIDO A SU RECIENTE NOMBRAMIENTO COMO PRESIDENTE DEL BANCO MUNDIAL Y SUS MULTIPLES COMPROMISOS PREVIOS RELACIONADOS CON SU NUEVO CARGO SIENTE MANIFESTARLE QUE LAMENTABLEMENTE NO PODRA ACEPTAR LA GENTIL INVITACION DE LA JUNTA DE GOBIERNO DE RECONSTRUCCION NACIONAL. EN ESTA OCASION, EL SR CLAUSEN QUISIERA TRANSMITIR A LA JUNTA DE GOBIERNO LA EXPRESION DE SU MAS ALTA CONSIDERACION. CORDIALES SALUDOS, NICOLAS ARDITO BARLETTA, VICEPRESIDENTE, AMERICA LATINA Y EL CARIBE, INTBAFRAD

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TEXT

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DRAFTED BY:

E.GONELLA/bc

AUTHORIZED BY (Name and Signature)

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 cc: Mr. Clausen (2)  
Mr. Lari o/r  
Mr. Fernandes, Act/Dir., LAC I

Nicolas Ardito Barletta

DEPARTMENT

LAC I

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A.M.D.G.  
No. 0259-81

EMBAJADA DE NICARAGUA  
WASHINGTON D C

July 7, 1981

Dear Mr. President,

It is my pleasure to attach  
hereto an invitation which my Government  
extends to you, to attend the celebration  
of the II Anniversary of our Revolution.

Sincerely,



Arturo J. Cruz  
Ambassador of Nicaragua  
to the United States of America

Mr.  
A.W. Clausen  
President  
The World Bank  
Washington, D.C.

Annex:

No. 0259-81

Translation

July 7, 1981

Dear Mr. Clausen,

Our people are preparing the joyous celebration of the Second Anniversary of the triumph of the Sandinist Popular Revolution, on July 19, when the Twentieth Anniversary of the founding of the Sandinist National Liberation Front will also be commemorated.

The Junta of the Government of National Reconstruction extends to you a cordial invitation to attend these celebrations.

Your presence in our country will provide an opportunity to renew and strengthen the bonds of friendship which unite us.

Hoping for an affirmative reply, and with the assurances of my highest consideration, I am,

Sincerely yours,

Federico Cerdas M.  
Minister Secretary General  
Junta of the Government of  
National Reconstruction

Mr.  
A.W. Clausen  
President  
The World Bank  
Washington, D.C.

CLAUSEN  
PRESIDENTE DEL BIRF  
WASHINGTON DC

ESTIMADO SEÑOR CLAUSEN:

NUESTRO PUEBLO SE PREPARA A CELEBRAR JUBILOSAMENTE EL II ANIVERSARIO  
DEL TRIUNFO DE LA REVOLUCION POPULAR SANDINISTA, EL PROXIMO 19 DE  
JULIO DE 1981, OCASION EN QUE TAMBIEN SE CONMEMORARA EL XX ANIVER-  
SARIO DE LA FUNDACION DEL FRENTE SANDINISTA DE LIBERACION NACIONAL.

LA JUNTA DE GOBIERNO DE RECONSTRUCCION NACIONAL, LE EXTIENDE UNA  
CORDIAL INVITACION PARA QUE USTED ASISTA A ESTAS CELEBRACIONES.

SU PRESENCIA EN NUESTRO PAIS, SERA UNA OPORTUNIDAD PARA RENOVAR  
Y ACRECENTAR LOS LAZOS DE AMISTAD QUE NOS UNEN.

EN ESPERA DE SU CONFIRMACION AFIRMATIVA, LE SALUDA,

FEDERICO CERDAS M  
MINISTRO SECRETARIO GENERAL  
JUNTA DE GOBIERNO DE RECONSTRUCCION NACIONAL  
DE NICARAGUA

197650 EMBANIC

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VIA TRT

ational Telex  
Western Union International, Inc.  
International Telex



TRANSLATION

July 10, 1981

JUNTA GOBIERNO RECONSTRUCCION NACIONAL  
MANAGUA, NICARAGUA

FOR MR. RAMIRO CONTRERAS, MANAGING DIRECTOR OF PROTOCOL.  
ON BEHALF OF MR. CLAUSEN, PRESIDENT OF THIS INSTITUTION,  
I WANT TO THANK YOU FOR YOUR CABLE OF JULY 7 INVITING HIM  
TO ATTEND THE CELEBRATIONS OF JULY 19. MR. CLAUSEN HAS  
ASKED ME TO COMMUNICATE TO YOU THAT DUE TO HIS RECENT  
APPOINTMENT AS PRESIDENT OF THE WORLD BANK AND TO MANY  
PREVIOUS ENGAGEMENTS RELATED TO HIS NEW DUTIES, HE REGRETS  
THAT HE CANNOT ACCEPT YOUR GRACIOUS INVITATION TO THE  
MEETING OF THE GOVERNMENT FOR NATIONAL RECONSTRUCTION.  
ON THIS OCCASION, MR. CLAUSEN WISHES TO TRANSMIT TO THE  
GOVERNING JUNTA THE EXPRESSION OF HIS HIGHEST REGARDS.  
SINCERELY, NICOLAS ARDITO BARLETTA, VICE PRESIDENT, LATIN  
AMERICA AND THE CARIBBEAN, INTBAFRAD.

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START  
1 HERE TOJUNTA GOBIERNO RECONSTRUCCION NACIONAL

CITY/COUNTRY

MANAGUA, NICARAGUA

MESSAGE NO

PARA SR RAMIRO CONTRERAS, DIRECTOR GENERAL DE PROTOCOLO.

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EN NOMBRE DEL SR CLAUSEN, PRESIDENTE DE ESTA INSTITUCION, QUIERO  
AGRADECERLE SU CABLE DEL 7 DE JULIO INVITANDOLO A ASISTIR A  
LAS CELEBRACIONES DEL 19 DEL PRESENTE. EL SR CLAUSEN ME HA  
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PRESIDENTE DEL BANCO MUNDIAL Y SUS MULTIPLES COMPROMISOS PREVIOS  
RELACIONADOS CON SU NUEVO CARGO SIENTE MANIFESTARLE QUE  
LAMENTABLEMENTE NO PODRA ACEPTAR LA GENTIL INVITACION DE LA  
JUNTA DE GOBIERNO DE RECONSTRUCCION NACIONAL. EN ESTA OCASION,  
EL SR CLAUSEN QUISIERA TRANSMITIR A LA JUNTA DE GOBIERNO LA  
EXPRESION DE SU MAS ALTA CONSIDERACION. CORDIALES SALUDOS,  
NICOLAS ARDITO BARLETTA, VICEPRESIDENTE, AMERICA LATINA Y EL  
CARIBE, INTBAFRAD

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SUBJECT

DRAFTED BY:

E.GONELLA/bc *go*

AUTHORIZED BY (Name and Signature)

Nicolas Ardito Barletta *[Signature]*

DEPARTMENT

LAC I

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cc: Mr. Clausen (2)  
Mr. Lari o/r  
Mr. Fernandes, Act/Dir., LAC I

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