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FOR
AGENDA

EBS/84/48
Supplement 3

CONFIDENTIAL

September 5, 1984

To: Members of the Executive Board

From: The Managing Director

Subject: Nicaragua: Overdue Financial Obligations to the Fund

1. On September 6, 1984, the Executive Board will review the decision, taken June 6, 1984 pursuant to Rule K-2 of the Fund's Rules and Regulations, that Nicaragua shall not make use of the general resources of the Fund until such time as Nicaragua is current on its obligations under the Articles of Agreement relating to repurchases and the payment of charges in the General Department (Decision No. 7720-(84/88)). The text of the decision is contained in Attachment I.

2. Directors will recall that at the time of the discussion in June, Mr. Senior explained that, due to the seasonality of Nicaragua's exports, foreign exchange receipts were likely to become substantial only in November and December. He indicated that Nicaragua would have great difficulty in eliminating its overdue obligations to the Fund within a period of three months following the date of the decision and expressed the view that a review period of six months would be appropriate in this case. Executive Directors were reluctant to agree to a period as long as six months. However, in light of Mr. Senior's comments and the significant payments to the Fund made by Nicaragua immediately prior to the meeting in June, the Board decided on a two-part provision relating to its review of the decision. It decided that a review would be held within a period of three months from the date of the decision, i.e., not later than September 6, 1984. However, the Board also called upon me to consult with the Nicaraguan authorities regarding the prompt elimination of the remaining overdue obligations and envisaged that I might request an extension of the review period up to an additional three months in the light of the repayment performance and the prospects.

3. Developments since the Executive Board's discussion in June may be summarized as follows.

a. The consultations called for by the Executive Board were initiated by me in July and pursued by the Acting Managing Director in August.

b. In early August, new obligations totaling SDR 655,880 became overdue in respect of net SDR charges of SDR 456,695 due August 1, 1984 and quarterly charges of SDR 199,185 due August 8, 1984.

c. On September 5, 1984, Nicaragua settled substantially all of the newly accrued obligations ^{1/} and the balance of a Compensatory Financing repurchase of SDR 1,070,553 that was due since August 16, 1983. As a consequence, Nicaragua's overdue obligations to the Fund totaled SDR 9,036,521 as of September 5, 1984 in comparison with SDR 10,103,379 on June 5, 1984, as shown in the table in Attachment II.

d. In advising the Fund on September 4, 1984 of these payments, the Nicaraguan authorities indicated that they are making further arrangements to permit regularization of Nicaragua's financial relations with the Fund on the urgent basis that the matter requires. It is understood that the authorities intend to present to the Fund, during the forthcoming Annual Meetings or very shortly thereafter, an explanation of their specific plans for achieving this result.

4. Although full settlement of the remaining obligations would have been much the preferable result, I consider on the basis of the facts outlined above that the authorities intend to complete payment to the Fund and that there is a reasonable prospect that this will be accomplished in the near future. It would be my intention to report to the Board in early October on the further discussions to be held with the Nicaraguan authorities within the coming weeks. In the meantime, I recommend that the Executive Board extend the period for its review of Decision No. 7720-(84/88) to not later than December 6, 1984.

5. There follows a proposed draft decision to extend the review period:

1. In accordance with Decision No. 7720-(84/88), June 6, 1984, the Managing Director has consulted with the Nicaraguan authorities regarding the prompt elimination of Nicaragua's overdue financial obligations to the Fund.
2. The Fund has noted the facts described in EBS/84/48, Supplement 3, September 5, 1984 pertaining to Nicaragua's payments to the Fund and the preparation of arrangements by Nicaragua to settle the remaining overdue obligations as a matter of urgency.

^{1/} A small balance (SDR 3,695) of the quarterly charges due August 8, 1984 remains to be settled. It is understood that payment of this balance is in process.

3. The Fund calls upon Nicaragua to become current promptly on its financial obligations to the Fund. The Fund looks forward to a further report by the Managing Director soon after the 1984 Annual Meeting concerning Nicaragua's specific plans for the prompt elimination of the remaining overdue obligations to the Fund.
4. The Fund shall complete its review of Decision No. 7720-(84/88) not later than December 6, 1984.

Attachments (2)

Nicaragua - Complaint Under Rule K-1

Executive Board Decision No. 7720-(84/88) - June 6, 1984

1. The Managing Director has reported under Rule K-1 of the Fund's Rules and Regulations to the Executive Board the facts on the basis of which it appeared to him at the dates of these reports that Nicaragua was not fulfilling its obligations under the Articles of Agreement and submitted a complaint on March 9, 1984 in accordance with that rule. The complaint, amended on April 6, 1984, was that Nicaragua was not fulfilling its obligation relating to repurchases in the General Department in the total amount of SDR 10,105,121. These facts, and the complaint of the Managing Director in EBS/84/48, Supplement 1, have been communicated to the authorities of Nicaragua.

2. Since then, Nicaragua's overdue financial obligations in the General Department at first increased to a total amount of SDR 13,498,526, including the obligation to pay charges of SDR 215,700, but were then reduced to the total amount of SDR 10,103,379, all of which relates to repurchases.

3. Having considered the reports of the Managing Director, the complaint and the views of Nicaragua, the Fund finds that Nicaragua has failed to fulfill its obligation relating to repurchases in the General Department in the total amount of SDR 10,103,379.

4. The Fund acknowledged the recent payment of a portion of the overdue payments and took note of the fact the Nicaraguan authorities proposed to make further repayments and of their intention not to seek access to Fund resources while arrears to the Fund remain outstanding. It nevertheless regrets the nonobservance by Nicaragua of its remaining obligation and urges Nicaragua to resume its observance forthwith. The Fund decides, pursuant to Rule K-2 of the Fund's Rules and Regulations, that Nicaragua shall not make use of the general resources of the Fund until such time as Nicaragua is current on its obligations under the Articles of Agreement relating to repurchases and the payment of charges in the General Department.

5. The present decision shall be reviewed within a period of three months from the date of the decision. The Managing Director will consult with the Nicaraguan authorities regarding the prompt elimination of the remaining overdue obligations and may request an extension of that period up to an additional three months in the light of the repayment performance and the prospects.

Nicaragua--Overdue Payments to the Fund--General Department

(September 5, 1984)

Type of Obligation	Due Date	Days overdue	SDR amount
CF repurchase*	November 16, 1983	294	2,125,000
CT repurchase*	November 30, 1983	280	542,621
CF repurchase*	February 16, 1984	202	2,125,000
CT repurchase*	February 29, 1984	189	1,062,500
CF repurchase*	May 16, 1984	112	2,125,000
CT repurchase*	May 31, 1984	97	1,052,705
Quarterly charges	August 8, 1984	28	<u>3,695</u>
Total			9,036,521

*All purchases have been outstanding for more than five years.