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EBS/83/199

CONFIDENTIAL

September 13, 1983

To: Members of the Executive Board
From: The Managing Director
Subject: Nicaragua - Overdue Payments to the Fund

Executive Directors were informed in EBS/83/144 (July 11, 1983) that a repurchase equivalent to SDR 2,125,000 due May 16, 1983 by Nicaragua was outstanding. This repurchase has not yet been made. In addition, a repurchase of the same amount that became due on August 16, 1983 has also not been made. Nicaragua's overdue payments to the Fund now total SDR 4,250,000.

The authorities recently proposed postponing the repurchase due May 16, 1983 and also rescheduling the repurchases of SDR 2,125,000 each due August 16, 1983 and November 16, 1983. I pointed out to the authorities that I was not in a position to support their proposal in view of the Fund's established practice on repurchases since the Second Amendment of the Fund Agreement, which has been designed to spread instalments evenly over the repurchase period on a uniform basis. I also indicated that on the basis of information available to the Fund on Nicaragua's current balance of payments circumstances and policies, there appears no reasonable certainty that a rescheduling would of itself contribute to the discharge of the obligation at a later date without an appropriate adjustment policy being in place, and that postponement could result in an aggravation of repayment difficulties. Accordingly, I urged the authorities to settle promptly the overdue payments to the Fund.

The Central Bank of Nicaragua has now replied that the overdue repurchases could not be discharged at this time for reasons of liquidity shortages and advised that the repurchase obligation due May 16, 1983 would be settled during the month of September 1983. The staff has requested that the authorities advise soonest a value date for the settlement of that obligation and for the repurchase due August 16, 1983.

In this connection, the staff reminded the authorities that since the beginning of this year, Nicaragua's repurchase obligations have all been discharged with delays of more than three months and that a comparable delay will occur for the obligation due May 16, 1983 which is to be discharged shortly. The staff emphasized that delays of this nature which result in a de facto postponement of obligations reflected adversely on the state of relations between Nicaragua and the Fund and again urged the authorities to promptly settle outstanding obligations and to discharge future obligations as due.

After due consideration of this matter, I do not propose any action by the Executive Board at this stage, but I shall keep Executive Directors apprised regarding this matter so that further steps may be taken as appropriate to deal with these repeated delays by Nicaragua in settling its repurchase obligations.