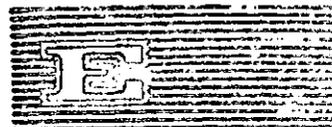


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1979

NICARAGUA

This preliminary version of the Economic Survey of Latin America, 1979 is being distributed in 27 separate parts: an Introduction of a general nature, bearing the symbol E/CEPAL/R.227, and 26 Addenda to this document, each containing a study of the economic development of a country of the region. These Addenda will not appear in alphabetical order, but in order of completion. The complete Survey will be published in the usual printed version when the comments arising out of this preliminary version have been collected.

NICARAGUA

1. Recent economic trends: Introduction and summary

During 1979 Nicaragua experienced virtually the most profound changes in its history, with the end of a civil war which came to a head in July but whose root causes go back a considerable time. The victory of the people's insurrection gave rise to a total change of administration, with the assumption of power by a political movement whose approach to economic and social development is totally different from that of the previous government. Since this change took place right in the middle of the year under review, it seems appropriate first to consider briefly the way in which the economic situation of the country had been worsening, especially since 1978, to the point where it culminated in the middle of 1979 in an unprecedented crisis. The most important political events in the second half of the year will then be reviewed.

For a number of years the country had been afflicted by economic deterioration, which, combined with civil disturbances obviously already latent in 1978, had given rise to a situation which at that time was already considered to be without precedent although it cannot be compared with the situation which arose in the middle of 1979 when the previous administration disappeared from the scene.^{1/}

The general state of deterioration in almost all economic activities in 1978 had been partially mitigated by the relatively favourable performance of agricultural production. However, the insufficient fiscal revenues, the need to sustain relatively high current expenditure to cover increasingly high operating expenses (including military spending), the gradual slowing down of capital expenditure and the pressure of external debt servicing had been resulting in substantial increases in loans from abroad. The crisis gradually got worse during the first half of 1979 as violent incidents increased and became more generalized and little by little turned into a civil war.

^{1/} See the chapter on Nicaragua in the Economic Survey of Latin America, 1978.

/Meanwhile, certain

Meanwhile, certain entrepreneurial circles, not directly linked with the then centre of political power, had been moving closer to the insurrection movement, with the result that activities were paralyzed, first partially and later totally. This led to the adoption of political measures to deal with the consequent economic bottlenecks and to development which culminated in a great economic depression. Moreover, the group which had been in power for four decades had made possible a very wide variety of means of getting capital out of the country and dismantling the production equipment, and much of its effort was directed towards the military defence of its interests.

In the early months of 1979, faced with the worsening of the economic situation, the Government adopted some measures aimed at reducing the effects of the above imbalances. Among other things, in February it ordered advanced deposits equivalent to 100% of the value of most imports, and at the beginning of the second quarter of the year, it devalued the córdoba by more than 40%, establishing different rates for the purchase and sale of foreign currency, and also decreed that the resources generated by the difference in the buying and selling rates of foreign currency should be transferred to the central government.

The worsening of hostilities and the creeping paralyzation of activities make it impossible to judge how effective the provisions adopted at that time might have been; however, in the light of the existing economic registers, it may be affirmed that, in addition to speculation and looting, there was an immediate wave of price rises of a magnitude unprecedented in the country, caused in part by the failure of the supply of national and imported products. The scarcity of imports was due to a very marked decline in foreign trade caused in part by the paralyzation of activities and in part by the extension of the war to almost all parts of the country, which had a direct effect on trade with Central America. The exchange rate measures adopted discouraged foreign sales, although during the first half of the year the Government had completely filled the annual quota of meat sales to the United States in order to accelerate the inflow of foreign currency.

As a result, when the change of government took place the economic situation was critical; externally, the country was in a state of almost total financial insolvency, and it was totally demonetized at the domestic level.

A large proportion of the economic activities were paralyzed (the area planted with the main export product, cotton, for example, had fallen by 75% in comparison with the previous growing season), and open unemployment was extremely high; stocks of both imported raw materials and of essential products, chiefly food, were nearly exhausted, and the health situation was desperate. All this was compounded by the loss of human life and the material damage caused by the fighting.^{2/}

In these conditions, the new administration had, from the middle of the year, to meet the challenge of reactivating the economy as soon as possible and at the same time laying the groundwork for a mixed economy,^{3/} while assigning the highest priority, however, to meeting the basic needs of the people,^{4/} in which the State discharges an essential function, with particular attention to the role of public ownership, known as the Area de Propiedad del Pueblo.

Among the first measures adopted by the Government were the seizure of enterprises belonging to the group which had been in power, the nationalization of banking and foreign trade and the institution of agrarian reform. The latter was basically oriented towards the administration of the enterprises which had been seized and the distribution of land, some of it among co-operatives, in areas which had hitherto been unexploited.^{5/}

^{2/} It is estimated that approximately 35,000 lives were lost and that material damage amounted to some US\$ 500 million. See CEPAL, Nicaragua: Repercusiones económicas de los acontecimientos políticos recientes, (E/CEPAL/G.1091), August 1979.

^{3/} See Programa de la Junta de Gobierno de Reconstrucción Nacional de Nicaragua, 9 July 1979.

^{4/} The new policy of giving priority to the satisfaction of the basic needs of the population, particularly food and above all child nutrition, will mean that in the short run much of the milk and dairy production usually exported to the Central American Common Market will be absorbed by the domestic market.

^{5/} If, in addition to the seizures, account is taken of the very low level of activity previously carried out by public enterprises and the impact of nationalization, it is estimated that the public sector's share in production in 1980 will be as follows: crop farming, 17%; livestock production, 12%; forestry, 70%; hunting and fishing, 95%; manufacturing, 25%; construction, 70%; mining, 95%; commerce, 30%; transport and communications, 60%; electric power and drinking water, 100%, and other services, 10%. (See Programa de Emergencia y Reactivación en Beneficio del Pueblo, 1980-1981, Ministry of Planning, 14 January 1980.)

In order to reactivate all sectors of the economy, innumerable obstacles had to be overcome. One was the lack of inputs for the agricultural sector (seeds for the first sowings, fertilizers, insecticides and the like), and in the case of many of these inputs international aid was urgently required.^{6/}

Another problem was the loss of certain capital goods and the deterioration of and damage to mechanical equipment, silos, some sugar mills, the cotton gins, and coffee processing plants, industrial machinery and motor vehicles.

Moreover, after a structural change such as the one which occurred in Nicaragua, it takes some time for the new system to reach maturity, especially when a different conception of economic policy is applied from the beginning. On the one hand, the uncertainty produced by the change made the private sector hesitant about reactivating its enterprises, while on the other, the shortage of human resources and the disorganization which prevailed when the new Government took over limited its capacity to embark simultaneously on all the priority tasks required for reconstruction.

In spite of all these problems, the measures adopted during the first few months gave satisfactory results in some cases: for example, the setting of guaranteed prices for grains induced some sectors to participate rapidly in the action suggested by official policy, by sowing crops although it was late in the season. However, the lack of essential industrial inputs, the difficulty of effectively restructuring the financial system in such a short time and, above all, the demand by entrepreneurs for the fixing of new "rules of the game" delayed full and effective reactivation, which showed signs of taking place at the end of 1979 and the beginning of 1980, once the emergency programme to reactivate the economy for the benefit of the people had been prepared under the co-ordination of the Ministry of Planning.^{7/} Some of the obstacles have been gradually surmounted through efforts to secure the speedy application of tripartite production agreements between the State, the workers and private

^{6/} After peace was restored, international support for the new Nicaraguan order was mobilized, with a number of Latin American countries participating in various ways.

^{7/} The final version of this programme was published on 14 January 1980.

enterprise. The objective has been to ensure the provision of inputs and financing by the State, labour by the workers, and minimum production quotas and the payment of the agreed wages by private enterprise.

The final economic results for the year indicate that the country is still in a very critical situation although a certain level of international reserves has been restored. The gross domestic product, which had already dropped by 6% in 1978, fell by 25% in 1979 (see table 1). Because of the depressed situation of the economy, imports dropped sharply, and although the value of exports fell too, the trade in goods and services showed a positive balance of US\$ 140 million, while there was a somewhat smaller surplus of US\$ 84 million on the current account.

At the end of 1979, the State-guaranteed public external debt was close to US\$ 1,160 million (compared with US\$ 960 million the previous year), but it is estimated that the total external debt probably amounted to US\$ 1,500 million. Indeed, if the external debt incurred had been serviced, debt servicing alone would have come close to US\$ 600 million, roughly equivalent to the total exports of goods and services in 1979.

The extreme gravity of the economic situation through which Nicaragua is passing is further reflected by the fiscal deficit which was equivalent to over 40% of total government expenditure, the rate of open unemployment, which is estimated to have been slightly less than 28% of the labour force in October, and the rate of domestic inflation (77% between December 1978 and December 1979 and 48% in terms of the variation between annual averages).

The style of development which Nicaragua has set itself is very much its own, very distinctive, and virtually without precedent in the Latin American region.^{8/} Since the middle of 1979, planning has become a strategic function in the formulation, harmonization and co-ordination of economic policies. In the work accomplished (such as the emergency plan for the reactivation of the economy for the benefit of the people) and in the application of the various measures adopted, selective criteria have begun to be applied which reflect

^{8/} The policy postulated is one which strives to give preference to the satisfaction of the most essential needs, such as food, health and education. An example of the way it works is the mass literacy campaign begun at the end of March 1980.

the great concern over the shortage of supplies, the low level of wages, the high rates of unemployment and underemployment and the prevailing inflation and lack of liquidity, and which seek to tackle these constraints organically in the reactivation work, in which it is envisaged that the agricultural sector will play a key role. The new form of government is so organized that its institutional structure is very different from the one inherited from the past, not only in the large number of challenges initially tackled but also in that the role of the public sector is conceived differently.

2. Recent economic trends

(a) Total supply and demand

Analysis of the trends observed in total supply and demand during the past two years quantitatively confirms the increasing deterioration of the Nicaraguan economy and the critical situation in which the country finds itself. Thus the unprecedented decline in total economic activity by -7.2% in 1978 and nearly -25% in 1979 was surpassed by the drops in imports of -23% in 1978 and -38% in 1979 (see table 2). This was due to the generalized imbalances and paralyzation of the economy, especially during the period of civil war, and also to the impossibility of achieving effective reactivation during the second half of 1979.

The decline in the gross domestic product in 1978 was not as pronounced as it might have been because agricultural production was relatively high owing to a good rainy season and partially offset the slump in the other economic activities. In 1979, however, the general deterioration of all the productive sectors in the country made the product fall abruptly by nearly 25%.

The slump in domestic activities and the serious external bottleneck caused imports to fall more sharply in 1979,^{9/} so that the import coefficient dropped from slightly higher than 29% in 1970 to little more than 25% in 1979. The drop in imports, which was partly responsible for the depletion of stocks, was especially felt in the manufacturing sector, which uses a high percentage of imported inputs.

^{9/} In global terms, the volume of imports in 1979 was lower than in 1963, while in per capita terms it was lower than in 1959.

On the demand side, the slump reached serious levels as regards both domestic demand and exports. During 1978 exports and government consumption were the only growth elements in total demand, while in 1979 all the components of total demand fell. Thus, the volume of external sales fell by 23%, mainly as a result of the deterioration in exports of coffee and cotton to markets outside the region and in sales of chemicals, mostly to the Central American market.

Among the components of domestic demand which went down, it is worth mentioning that total gross domestic investment registered a negative balance, in absolute terms, of over 250 million córdobas - another unprecedented situation which is explained by the fact that urgent supply needs caused tremendous losses in stocks through destruction, looting and natural exhaustion which far exceeded the amount of resources allocated to building up the fixed capital assets.^{10/} There were no major differences between the decline in public investment and that in private investment, the former having gone down mainly because expenditure was redirected to meet current needs and the latter because of the lack of incentives to expand the productive capacity. The decline was very apparent in the construction sector, where activity dropped by nearly 77% after having fallen by 41% the preceding year (see table 2).

As a result of this general deterioration and the high level of unemployment and underemployment, private consumption fell by 18%. Although government consumption also decreased, it dropped by less than any other component of demand, its decrease being moderated by the fact that during both halves of the year essential services had to be maintained and in particular government employees still had to be paid.

Undoubtedly the paralysis of activity which had been spreading throughout the economy during the first half of the year reached a peak which was not perceptible immediately after the change of government but began to become apparent when the measures to revitalize the economy were applied: the reconstruction efforts initiated in August, the reorganization of many public services, the credit policy which was put into effect in the final

^{10/} In 1979 there was a decline in stocks equivalent to 11.5% of the gross domestic product.

months of the year to promote the resumption of activity, and the policy of gradually absorbing unemployed and underemployed labour.

(b) Sectoral developments

The downward trends recorded in 1978 became more pronounced in 1979 in all economic activities with the exception of mining, which is of little importance in Nicaragua. The greatest fall was observed in construction, which went down by 77%, and the least in government activity and the generation of electricity, which dropped by 2%, and in the agricultural sector, whose product fell by 13%. The remaining activities declined by between 23% and 39% (see table 3).

(i) Agriculture. In 1978 crop-farming output increased by 7%, thereby attenuating the impact of the slump which had beset the economy in general. At the end of the year, however, in spite of the good yields and excellent prospects of cotton and coffee, the producers had to face up to serious problems which made them less willing not only to continue investing but also to maintain the production levels reached. From the early months of 1979, agricultural activity was affected by the worsening political crisis, the lack of financing for the harvesting of crops, the difficulties of procuring pesticides and other necessary inputs, the breakdown of the entire productive apparatus and the uncertainty reigning among many entrepreneurs, a considerable proportion of whom were opposed to the government.

Moreover, the agricultural sector continued to deteriorate throughout the year. The heightening of the conflict as from the second quarter of 1979 had a number of adverse effects on farming activities. Even the growing cycle was partially disrupted by the fighting, since some products could not be sown and others could not be harvested. In addition, the deterioration in the production of basic grains, which are essential for food, made it necessary to replace them by other foods, such as meat, with the result that at certain times in the year there were sizeable drops in stocks, essentially of poultry, which were subsequently made up for by imports on an unprecedented scale. The disorganization of the productive apparatus also prevented the normal use of agricultural machinery, which had deteriorated greatly and needed repairs which could not be made during the year.

As a result of these developments, the agricultural product fell by 13%. The decrease was especially severe in the case of cotton (an export item which traditionally provided about 25% of the total inflow of foreign currency), the most important domestic consumer products, and the entire stock-raising subsector (see table 4). From the beginning this drop in production constituted one of the most serious stumbling blocks in the establishment of the new policy, which was designed precisely to eliminate shortages of some essential foodstuffs.

The decline in cotton production during the calendar year amounted to nearly 25%. Moreover, it is probable that the harvest of the 1979/1980 agricultural season will prove to be much lower than that of the preceding season because only about 25% of the land normally planted with cotton had been sown before the mid-year rainy season. In view of the damage to the crops sown caused by supply problems and lack of credit, it is also likely that the average yield per hectare will be lower. Furthermore, a similar decline in the production of cotton-seed had a very negative effect on the edible oil industry, which was deprived of its principal raw material.

The critical situation resulting from the deterioration in the production of cotton was partially offset by the performance of other crops, especially coffee. The renovation programmes carried out in past years in the plantations meant that the conflict did not affect coffee production much, and it rose by about 9%. This rise was especially significant because, following the extraordinary increases in the international price of coffee during 1976 and 1977, in 1978 coffee led Nicaraguan exports in value and retained that position in 1979 owing to the drop in the production of cotton.

Nevertheless, results would have been better if production had not been affected by four problems. In the first place, because of the armed conflict, it was not possible to give this crop the constant attention it requires; secondly, some of the facilities for processing coffee were destroyed or damaged; thirdly, from April onwards there was a long interruption in the work to control the coffee rust which had been carried out since 1978, especially in the department of Carazo; and finally, in the last few months of the year, despite the high incidence of open unemployment at the national level, some coffee growing areas continued to suffer from a shortage of pickers, thus causing further losses.

/In spite

In spite of the problems of a general nature which affected all economic activity in the country, in the final months of the year the production of sugar cane resumed its normal growth rate, with the result that it increased by slightly more than 3% in the year as a whole.

With regard to production for domestic consumption, it may be noted that small farmers far from the main combat areas managed to carry out their early sowing in relatively normal conditions, so that their production was not much affected, while the late sowing was begun after the conflict was over. The situation was different, however, on the commercial plantations, especially those on the Pacific coast.

The production of crops such as maize, beans, rice, sorghum and blonde tobacco fell by between 19% and 32% during 1979 (see table 4). Like cotton, the first three of these commodities recorded drops in production because not so much land as usual was planted. The decrease was not so great in the case of sorghum, possibly because some of the land traditionally planted with cotton was used for sorghum.

Livestock production also deteriorated significantly. As regards cattle, a promotion policy aimed at the improvement of the herds and the introduction of new techniques had been applied and had made it possible to raise external sales substantially. In 1979 the conflict had various kinds of impact on the organization of the livestock sector. On the one hand, in the early months of the year the illegal export of live cattle, including especially breeding bulls and cows, became prevalent and was even to some extent facilitated and furthermore during the same period the export of meat was speeded up to such an extent that almost the entire quota allocated to Nicaragua for the United States market was met. The practice of slaughtering cattle prematurely, begun in 1978, was continued.

Pig and poultry farms were also affected although, as pointed out above, it was later possible to rebuild the stocks, especially in the case of poultry.

During 1979 there was also a significant deterioration in production of milk (-17%) and eggs (-33%). In absolute terms, milk production fell by about 20 million gallons and egg production by approximately 12 million dozen.^{11/}

^{11/} This is equivalent to an annual per capita decrease of 30 litres of milk and 55 eggs.

Since the present Government assumed power in July, one of its main concerns has been to meet the demand for food, which, because of the sharp fall in agricultural production, was one of the most serious problems facing the economy. To this end, in addition to the imports which were carried out as a matter of urgency and the international aid received, efforts were made to increase late planting as much as possible by using land which it had been impossible to plant with cotton. In this effort preference was given to the planting of maize, beans, sorghum, sesame, and peanuts, the latter two items being intended to replace some of the raw materials needed to produce edible oil. In addition, in September the Instituto Nicaragüense de Reforma Agraria (Nicaraguan Agrarian Reform Institute - INRA) sowed about 11,000 manzanas with rice, i.e., 40% of the area traditionally given over to this crop. However, all these efforts were still insufficient to cover the domestic deficit, and a number of items will probably still have to be imported in 1980.

Among the main policy measures taken by the present Government, was the seizure of estates which had belonged to the former ruling group 12/ and which were entrusted to INRA for the purpose of initiating an integrated rural development system as part of what is now known as the Area de Propiedad del Pueblo (APP).13/ Secondly, with a view to tackling the main problems of the sector, a number of measures of an institutional nature were gradually adopted. These measures culminated in the unification of the policy-making functions, which had been in the hands of a number of bodies in the initial phase of the present administration. Thus, decision-making is now centralized in the Ministry of Agricultural Development, which is responsible for INRA and other institutions.

12/ These estates amount to about 350,000 hectares, including 60,000 hectares of high-yield farm land given over primarily to the cultivation of sugar cane, rice, coffee and tobacco and 100,000 hectares sown with grass and supporting about 40,000 head of cattle; the rest was unexploited.

13/ This land normally produces approximately 45% of Nicaragua's sugar cane, 50% of the rice, 13% of the coffee, 10% of the cotton and 20% of the basic grains.

To combat the deterioration of agricultural machinery and to organize the work of repairing it quickly, a special State enterprise known as AGROMECA was created, but initially it experienced difficulties in importing the necessary spare parts.

Decree No. 3 on the confiscation of the property of the former ruling group was applied in the light of the fact that a large number of the production units were run on the basis of specific technologies. Consequently, these production units were preserved as such, but placed under a new central administrative structure - the State enterprise AGROINRA, which is basically concerned with sugar-cane and sugar mills, meat packing, rice and coffee. Some of the unexploited confiscated land was distributed to co-operatives, but most of it remained under the direct administration of the State.

Altogether, the public-owned sector generates approximately 20% of total agricultural production. Thus, in spite of the changes which have been taking place as part of the present revolutionary process, the sector remaining in the hands of private owners is still essential to the economy, thus constituting a mixed-economy structure.

However, the rapid changes made with the participation and support of those private sectors of the country which had been opposed to the previous régime caused hesitation in a number of fields of activity, and moreover it was not easy to reactivate the agricultural sector immediately because of the problems noted above. All this, in conjunction with the new administrative structure of the country and the new domestic financial system, to which reference will be made later, produced a certain amount of stagnation in private circles and some delay in the resumption of work.

The Government made the basic objective of its short-term programme the recovery of the production levels of 1977 and 1978 in the next agricultural season, together with the consolidation of the "new structures for production, marketing and financing in the agricultural sector and the strengthening of the single, co-ordinated and planned direction of this sector". Another of its basic objectives is to "consolidate the new credit policy which benefits small producers in particular, both in export production and in the production of basic grains, where there is a great peasant base".^{14/}

^{14/} See Programa de emergencia y reactivación en beneficio del pueblo, 1980-1981, Ministry of Planning, 14 January 1980.

/In addition,

In addition, some large-scale projects aimed at capitalizing the country's agriculture have begun to be implemented. Preference is being given to the consideration of integrated regional projects, such as the one on the African palm and other permanent crops, with a view to integrating agriculture and manufacturing.

Finally, an attempt is being made to promote the fishery sector despite the loss of a large number of boats, which were used to carry elements closely linked to the former régime out of the country. Towards the end of the year, progress began to be made in the recovery of some of these vessels. The sector was given some incentive by the creation in January 1980 of the Nicaraguan Fishery Institute,^{15/} through which it is intended to centralize the co-ordination and rationalization of the exportation of the country's fishery resources and their marketing abroad. Technical assistance is also being received from other Latin American countries in this connexion.

(ii) Mining. The production of this sector, which is of scant significance to the Nicaraguan economy,^{16/} had been declining since 1977, but in 1979 mining was the only sector which showed a positive growth rate (27%), mainly because of the exploitation of gold. The new administration is encouraging the mining sector, which it believes has high growth potential, and has adopted some policies of an institutional nature aimed at its reorganization. Thus, at the beginning of November, a decree was adopted providing for the nationalization of mining and the creation of a specialized enterprise called the Nicaraguan Mining Development Corporation (CONDEMINA).^{17/} This body will be responsible for the development of the country's mineral resources and will receive advisory assistance from the Nicaraguan Natural Resources and Environment Institute (IRENA).

^{15/} See Decree No. 233, Ley creadora del Instituto Nicaragüense de la Pesca 5 January 1980.

^{16/} Although its importance has perhaps been underrated in the past, because when the mines were being nationalized it became apparent that the gold exporting enterprises had consistently understated the value of this metal in their sales abroad.

^{17/} See Decree No. 137, Ley de Nacionalización del Sector Minero y Creación de CONDEMINA, 2 November 1979.

(iii) Manufacturing. In 1979 industrial production fell by over 27% (see table 5). Manufacturing had already begun to show signs of deterioration in 1978, due to the climate of uncertainty, the consequent flight of capital, and the drop in domestic demand for consumer goods and the pace of economic activity in general, and this situation worsened during the early months of 1979. In addition to the fact that their suppliers had virtually suspended the flow of credit to them owing to the risks that the political instability might occasion, entrepreneurs were faced with increasing financial problems due to the crisis, and all this limited their capacity to import the necessary raw materials. Moreover, the introduction of the advance deposit of 100% on imports of most items and the devaluation of the córdoba caused external purchases of inputs to decrease, thereby setting up a vicious circle which contributed to the generalized rise in domestic prices. Consequently, the industrial branches most severely afflicted from the beginning of 1979 were those which depended most on imported raw materials.

Except in the case of the refining of petroleum, a product for which demand remained relatively high during the conflict, industrial production fell markedly and in some cases, such as that of the metalworking industries, the drop was between 40% and 54%. The drop was less severe in the case of food and leather, since these items are more essential components in the mass demand of the population, but even so both of these branches deteriorated by an abnormally large amount (18%). Some indirect indicators of industrial production, such as the amount of electric power used and the number of people employed, provide quantitative confirmation of the negative evolution of the sector, since they fell by 26% and 14%, respectively (see table 5).

Partly as a result of the situation described above and also because of transport problems, exports of manufactures, whose main outlet is the Central American Common Market, fell notably.

Moreover, it is estimated that, in terms of replacement value, the armed conflict caused losses to industry amounting to nearly 1,650 million córdobas - 700 córdobas in fixed assets, 513 córdobas in stocks of raw materials and

/finished products

finished products, 293 córdobas in financial holdings, and 139 córdobas representing the wages paid for the two months in which activities were paralyzed.^{18/}

According to estimates contained in official data published in August on 100 medium- and large-scale enterprises which were severely damaged or in some cases almost totally destroyed, the most severely afflicted industrial subsectors were foodstuffs and agricultural implements, beverages, textiles, paints and some of the metalworking subsectors.

In those enterprises which became part of the Area de Propiedad del Pueblo, recovering during the second half of the year was only partial. The major problems which had to be faced included the disarticulation of the productive apparatus and the lack of capital, supplies of raw materials and spare parts for machinery. In many cases these problems have still not been solved because of inadequate financial resources and the inability of entrepreneurs to pay.

In this connexion, the new Government promptly adopted measures to promote production. It was laid down that the foreign currency generated by industrial exports could be used to finance imports of raw materials. The credit system was rationalized, and arrangements for lending through the new Development Bank were made more flexible with a view to accelerating the replacement of equipment and facilities and reconstituting the working capital. It was also decided to continue using the Central American Agreement on fiscal Incentives for Industrial Development until 1983, but with strict controls on tax exemptions and reductions.

The industrial policy adopted by the Ministry of Industry was reflected in a number of significant changes in certain activities: the new price rises requested by the local petroleum refinery were refused, and the Government assumed responsibility for the importation of crude and for negotiating its price on relatively favourable terms; it was decided to suspend exports of salt and leather products temporarily, since those items were required as inputs in domestic activities; with respect to some foodstuffs, such as maize

^{18/} See Evaluación de los daños en el sector industrial y sus necesidades de financiamiento inmediato, Parte II, Central Bank of Nicaragua, Managua, D.N., September 1979.

bread and other bakery products, the Government introduced exemptions from consumer taxes or provided financial assistance; and, with a view to increasing the inflow of foreign currency, it is studying the possibility of increasing beef exports and promoting the domestic consumption of fish by giving greater incentives to the small-scale fishery sector.

The emergency programme for the reactivation of the economy for the benefit of the people provides a framework for the industrial planning of the nearly 120 nationalized industrial enterprises grouped together under the Corporación Industrial del Pueblo (People's Industrial Corporation - COIP). The programme includes the creation of the Ministry of Industry and the establishment of a financial policy, and in addition it provides for the progressive participation of workers in the management of State enterprises and for co-operation between the private sector, the workers and the State.

The main objectives of the programme are designed to raise the production of basic consumer goods and rates of employment and exports to the highest possible levels and to rationalize imports. To this end, the creation of bodies responsible for promoting, co-ordinating and overseeing the integral application of the industrial policy has been announced. Action has already been initiated with a view to creating the conditions required for the conclusion of production agreements with large and small enterprises for the purpose of getting the production units back into operation, ensuring adequate supplies of mass-consumption goods, building materials and basic inputs for industry, agriculture and mining, and promoting exports by means of adequate financial assistance. Finally, it has been decided to continue participating in the process of Central American integration, and indeed, during the last quarter of 1979 the rate of exports of manufactures to the rest of the region showed an upward trend.

(iv) Construction. Within the general economic slump, the construction sector showed the greatest deterioration for the second year running. This activity, which in 1970 represented rather more than 3% of the total gross domestic product, accounted for less than 1% in 1979. Its growth rate dropped slightly in 1977 (-1.7%) and then fell abruptly in 1978 (-41%) and even more sharply in 1979 (-77%) (see table 3).

/Construction has

Construction has been virtually paralyzed since the end of 1978, owing both to the shortage of resources in the private sector and to the financial position of the Government, which forced it to reduce its investments drastically. The main problem, apart from the state of uncertainty produced among entrepreneurs by the prevailing political instability, was the lack of capital in the financial system, which also affected the capacity of industry and commerce to provide building materials on credit. The deterioration worsened during the first half of 1979 when the construction sector was brought to a complete halt by the spread of the conflict to the whole country and especially to cities such as Managua, León, Estelí, Masaya and Rivas. Since this is a very labour-intensive sector, its paralyzation caused an increase in open unemployment, especially in the urban centres. Construction workers, unlike manual workers in the formal manufacturing sector, are usually hired for specific building projects and hence do not come under the provision adopted by the new administration making it obligatory to pay wages while work is paralyzed. This was prejudicial to the income of a large sector of the labour force.

In the final months of the year, efforts were made to create additional jobs, particularly in connexion with the construction of some municipal distribution markets (in the city of Managua) and the repair and maintenance of highways and bridges which had been partially destroyed during the fighting. Very little was done to resume work on the construction of dwellings, since the immediate priority objectives were considered to be the recovery of the productive capacity lost during the war and the reconstruction of the production infrastructure, followed by urgent work of high social content such as the construction of low-cost housing, water supply and sewerage systems, schools and hospitals.^{19/}

A large percentage of the activities within the so-called "Area de Propiedad del Pueblo" relate to building materials industries (the cement industry, for example), the majority of which resumed work as soon as peace was restored to the country at the end of July. Although they undoubtedly worked below their normal production capacity, it was possible to build up

^{19/} See Programa de Emergencia y Reactivación en Beneficio del Pueblo, 1980-1981, Ministry of Planning, 14 January 1980.

stocks of some basic inputs which, in the short term, were essential for the recovery of the construction sector. At the same time, the strong emphasis on the manufacture of building materials 20/ help to meet one of the priority objectives recently laid down by the Government.

(v) Electric power. The total production of electric power also decreased substantially in 1979 (see table 6). However, during the year progress was made on the plan to restore and increase the generation of hydroelectric power, and it proved possible to raise it above the 1976 production figure, the highest ever achieved in the country, 21/ This is of paramount importance because it was possible, especially in the final months of the year, to replace the petroleum products used and consequently to make savings in foreign currency.

Table 6 also shows figures relating to the consumption of electric power by types of users, which are an indirect reflection and confirmation of the impact of the slump on a number of economic activities already discussed. This is so, for example, in the case of the declines recorded in the amount of electricity consumed for purposes of irrigation (a partial indicator of agricultural activity) and for use in industry and commerce, where consumption had already slumped for other reasons in 1978. The deterioration shown under "government, public lighting and pumping" was naturally less marked, but it was quite pronounced in the case of household consumption, which represents the electricity consumed in dwellings.

Although investment expenditure in this sector fell to almost half the figure for the preceding year, rapid progress continued to be made in the rural electrification project and in the implementation of the so-called "Ninth Master Plan", which is designed to develop the national integrated electric power network.

20/ The main installations concerned include factories producing cement, roofing materials and gutters, blocks and paving stones, plastic pipes and fittings, premixed concrete, aluminium products and other building materials.

21/ The share of hydroelectricity in total electric power generated was 40% in 1976, 11% in 1977, 16% in 1978 and 45% in 1979 (24% in the first half of the year and 77% in the second).

In November the Government set up the Instituto Nicaragüense de Energía (Nicaraguan Energy Institute - INE), which will take the place of the former electricity agency (ENALUF) and will be responsible for all activity in the country relating both to the production and generation of power and its distribution. INE will produce the power largely distributed in the past by independent agencies which have now been nationalized.^{22/}

(vi) Other sectors. The activities of the other sectors also declined in 1979 by between 23% and 39%, the only exception being public administration and defence, which showed a decrease of only 2% (see table 3). Commerce suffered the greatest material^o damage, estimated at approximately US\$ 220 million.^{23/} Over 50% of that amount represents stock lost in the looting which occurred during the final month of the armed confrontation. Losses of financial holdings were also substantial, but in any case they could probably not have been collected since the situation at the end of the conflict was one of general insolvency. Finally, the destruction of the buildings, furnishings and equipment of commercial and service establishments resulted in losses which, although not so great as those already mentioned, were nevertheless considerable in urban centres such as Estelí where the most violent fighting occurred.

From the very beginning the new régime promoted the work of the social services by a restructuring process which gives in the new Ministry of Social Welfare an essential role. Similarly, health and education reforms were initiated promptly in an attempt to raise the standard of living of the people as quickly as possible: this is the objective, for example, of the mass literacy campaign now being carried out.

(c) The evolution of employment and unemployment

Because its economy is incapable of absorbing its growing labour force, Nicaragua has traditionally had a high rate of unemployment and underemployment. This situation has been getting worse since 1977 and reached abnormal proportions in 1979, when unemployment rose higher than 28%: twice what it had been the preceding year (see table 7).

^{22/} Decree No. 189 of 30 November 1979.

^{23/} See Nicaragua: repercusiones económicas de los acontecimientos políticos recientes (E/CEPAL/G.1091), August 1979.

This figure corresponds to the national average, but its connotations are different depending on the aspect analysed - urban-rural distribution, regional distribution or, finally, the formal and informal labour force.

When the armed conflict broke out, the problem of employment affected the urban centres and the rural areas differently.^{24/} The good harvests had made it possible to absorb much more manual labour in the countryside than in the cities, where at the beginning of the conflict some activities were already partially paralyzed, with resulting unemployment. In 1979 the situation became worse and, unlike the preceding year, the sparse sowing of some export crops made the situation with regard to rural employment as critical as that in urban centres.

From the point of view of regional distribution, data collected in the last quarter of 1979 ^{25/} indicate that in some parts of the country, such as Chinandega and León, unemployment was much higher than in others, especially because of the decrease in the amount of land sown with certain crops.

Finally, the number of people employed in the informal sector rose during 1979 so that this more or less became the buffer sector in the midst of the widespread drop in economic activity,^{26/} accomodating those who found no work in the formal sectors of the economy.

It is possible that the problem of unemployment would have been even more acute if the country had not suffered the painful loss of so many human lives and if some of the skilled and unskilled labour had not emigrated during the second half of the year.^{27/}

After the change of administration, the public sector was able to absorb part of the unemployed labour force as a result of the reorganization of the civil and military services. However, it should be noted that in the final months of the year, in spite of the high level of open unemployment,

^{24/} See Nicaragua: Notas para el estudio económico de América Latina, 1978 (CEPAL/MEX/1003). February 1979.

^{25/} See PREALC, Empleo en Nicaragua, situación actual y líneas de acción futuras, November 1979.

^{26/} Ibid.

^{27/} According to official information, however, such emigration does not appear to have reached particularly high levels.

there was some shortage of manual labour to harvest certain crops (such as coffee), which might be partially explained by the problem of regional distribution mentioned above.

In short, the employment situation became more grave in 1979 than ever before and has been a real challenge to the Government as regards the fulfilment of its goods in this respect. In order to tackle this problem, activities were programmed which will generate employment and are necessary for the reconstruction or revitalization of the economy. However, these efforts were hindered by the disorganization and destruction of the production apparatus caused by the war.

Over and above the measures provided for in the reactivation programme, it was decided to create a fund to combat unemployment 28/ by promoting new sources of work. This fund will be made up of voluntary contributions and levies on bonuses in excess of 1,500 córdobas.

3. The external sector

The external trade and balance-of-payments situation was already critical in 1978, when there was an increasing tendency to resort to international credit, especially credit from private sources with the consequent increase in the debt-servicing burden. The economic and political events of 1979 seriously aggravated both the previous imbalances and the flight of capital begun in 1978. The result was a situation of total external insolvency and an imbalance which was not evident in the end-year current account because imports also decreased during 1979 owing to the paralyzation of productive activity.

However, the commitments entered into previously were such that the magnitude of the external debt service payments which should have been made during the year would have prevented any attempt at economic revitalization. In these circumstances, payments on the external debt were suspended, and at the end of the year their renegotiation was begun. In spite of the success achieved in the renegotiation process, the situation will remain grave, although somewhat less critical, in the short and medium term.

28/ See Decree No. 179 of 29 November 1979 establishing the Fund to Combat Unemployment.

In April, the crisis had forced the previous government to raise the selling exchange rate from 7 to 10 córdobas per US dollar and the buying rate from 7 to 9 córdobas per US dollar, although some export products were excepted from this measure and a rate of 8 córdobas per US dollar was fixed for them. This measure, which brought about an immediate reduction in imported supplies, had been designed also to increase the income accruing to the Central Bank through the difference between the buying price and the amount received from sales of foreign currency derived from exports.

The new government established a single exchange rate of 10 córdobas per US dollar for all transactions. Nevertheless, owing to the increase in domestic prices, the real exchange rate fell markedly in the second half of the year (see table 8). Among the most important foreign trade policies applied from July 1979 onwards were those related to the nationalization of foreign trade through the creation of the Ministry of Foreign Trade and specialized enterprises subordinate to it for each of the main export products and for other activities related to foreign relations.^{29/} The Ministry of Foreign Trade was also made responsible for co-ordinating the functions relating to economic integration which had previously been the responsibility of the Ministry of Economic Affairs.

^{29/} See Decree No. 135 promulgated by the National Reconstruction Government Junta on 31 October 1979, establishing the system of State enterprises for foreign trade within the Ministry of Foreign Trade, such enterprises to include the Empresa Nicaragüense del Algodón (Nicaraguan Cotton Enterprise - ENAL), the Empresa Nicaragüense del Café (Nicaraguan Coffee Enterprise - ENCAFE), the Empresa Nicaragüense del Azúcar (Nicaraguan Sugar Enterprise - ENAZUCAR), the Empresa Nicaragüense de la Carne (Nicaraguan Meat Enterprise - ENCAR), the Empresa Nicaragüense del Mar (Nicaraguan Enterprise for Marine Products - ENMAR), the Empresa Nicaragüense de Alimentos Básicos (Nicaraguan Basic Foodstuffs Enterprise - ENABAS), the Empresa Nicaragüense de Insumos Agropecuarios (Nicaraguan Agricultural Inputs Enterprise - ENIA), the Empresa Nicaragüense del Banano (Nicaraguan Banana Enterprise - BANANIC) and the Empresa Nicaragüense del Petróleo (Nicaraguan Petroleum Enterprise - PETRONIC).

(a) Trade in goods

(i) Exports. After remaining almost constant in 1978, the value of exports fell by rather more than 12% in 1979 to US\$ 570 million, which was only slightly higher than in 1976 (see table 9). Approximately 70% of this amount was derived from exports made in the first half of the year as a result of the then Government's efforts to accelerate the generation of foreign currency and maintain a minimum level of international liquidity. This contributed indirectly to the flight of foreign currency, as evidenced by the advance sale of meat, the United States import quota for which was almost filled in the first part of the year. This increase in sales had a detrimental effect on the rational exploitation of the country's cattle, although it did make it possible to benefit from the rise in meat prices on the international market.

As already noted, the value of sales of cotton, which had been the main export product up to 1976, fell by nearly 4% because the 6% rise in the international price of cotton was not enough to make up for the drop in the volume exported.

As regards coffee, whose export value dropped by more than 20% in 1978, it is very likely that had the plantations not been neglected by the producers there would have been a record crop and sales of coffee would have increased markedly.

Among the other traditional export products, the value of sugar exports remained the same while the value of shrimp and lobster exports rose by 29%. The performance of sugar was due to the fact that the rise in the international price of that product made up for the 8% decrease in the volume exported. The rise in the value of shrimp and lobster exports occurred in spite of the 19% decline in the volume exported, which was more than offset by a rise of nearly 60% in the international prices. Although this produced a large increase in the current value of exports of shrimp and lobster, the value was nevertheless much lower than in 1977.

Finally, sales of chemicals, most of which go to the Central American market, fell by 42%. This drop was due mainly to the limited supply caused by the paralysis of the country's activities but also partly to a decrease in the demand in other Central American countries, such as El Salvador, where domestic activity was also affected.

/(ii) Imports.

(ii) Imports. The total value of imports amounted to nearly US\$ 360 million, which was 40% lower than in 1978, when imports had fallen in turn by 22% in comparison with 1977. Thus, the volume imported in 1979 was only the same as that achieved 17 years previously (see table 10).

The value of external sales of intermediate goods fell by 36% while those of imports of consumer and capital goods dropped by 41% and 49%, respectively. The decline in sales of intermediate goods, excluding petroleum, however, was much greater if the fact that sales of fuels fell by only 10% is taken into consideration.

The very marked drop in imports, together with the very open nature of the Nicaraguan economy, meant that the inadequacy of external supply was a great obstacle to reactivation.

(iii) The terms of trade and the purchasing power of exports. The drop in the volume exported was nearly 15%, but its impact was partially attenuated by the rise of nearly 3% in the prices of exports. On the other hand, the consequences of the drop in imports were aggravated by the rise of approximately 15% in their unit prices. For this reason, the terms of trade deteriorated markedly for the second year running (see table 11), so that the pronounced slump in the economy caused by internal factors was made worse by the unfavourable consequences of a downward turn in the external variables. As a result, the purchasing power of exports, which had been quite high in 1977, fell by 8% in 1978 and by 23% in 1979 (see table 11).

(b) Trade in services and factor payments

Unlike the trade in goods, in which a positive balance was achieved, the balance on the trade in services was again negative, the deficit being almost three times as great as the one recorded the preceding year (see table 12). Part of the blame for this undoubtedly lay with the new rise in the price of fuels, which contributed greatly to the rise in freight rates; the virtual absence of income from tourism, and the outflow of foreign currency connected with the departure of groups of Nicaraguans who moved out of the country during the most critical periods in the conflict.

Net payments of profits and interest fell from US\$ 94 million to US\$ 56 million, mainly because of the drop in payments of profits due to the economic slump.

/(c) The

(c) The balance on current account and its financing

During 1979, there was a favourable balance on current account of US\$ 84 million whereas in 1978 there had been a deficit of US\$ 33 million. The critical situation due to the level of external indebtedness, which would ordinarily have made it necessary to make high amortization payments in 1979, was relieved by the suspension of these payments. Moreover, the international co-operation extended during the second half of the year in the form of donations and new loans on more favourable terms than before placed the country in a somewhat easier external finance position in the final months of the year as far as immediate commitments were concerned. Finally, the net international reserves rose by rather more than US\$ 50 million.

(d) External indebtedness

In December 1979 the medium- and long-term disbursed external public debt amounted to nearly US\$ 1,160, over 20% higher than the preceding year. Up to August this debt was slightly more than US\$ 960 million. However, if the short-term commitments existent at that time and the indebtedness of the private sector are taken into account, the total debt was over US\$ 1,530 million. According to official estimates, the total debt at the end of 1979 came to about US\$ 1,600 million.

In order to make the amortization and interest payments on the amount owing, it would have been necessary to pay out more than 100% of the foreign currency obtained from exports of goods and services, which was clearly impossible. In fact, the medium- and long-term public external debt servicing was reduced from US\$ 103 million to US\$ 80 million by cutting interest and amortization payments to the bare minimum. As a result, debt servicing as a percentage of the value of exports fell from 13.4% in 1978 to 12.7% in 1979 (see table 13).

4. Prices and wages

(a) Prices and anti-inflation policy

The rise of slightly more than 4% in prices in 1978 was fairly moderate by comparison with the rises recorded in the other Central American countries. This was due primarily to the excellent harvests obtained that year and to the limitations on consumption necessitated by the general situation of the country.

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However, this relative stability in prices changed radically in 1979. The day after the April devaluation, the price of fuels rose by approximately 50% and that of medicines by between 40% and 50%. In addition, authorization was given for increases in electric power, telecommunications, postal and drinking water rates. Although measures were adopted to control the prices of some basic products, shortages of these, hoarding, and other repercussions of the intensification of the armed conflict caused a widespread and unprecedented rise in domestic prices, which climbed by over 84% during the first half of the year.

This trend was reversed when the new government came into power, partly because it was sought from the beginning to freeze the prices of a few basic items through State intervention, partly because of a relative improvement in the food supply situation, and partly because of the donations in kind received. Thus, during the second half of the year, prices fell by about 8%. Nevertheless, the variation between December 1978 and the same month in 1979 for the general consumer price index in Managua came to 70.3%, while the food sub-index nearly doubled.^{30/} The annual average variation in consumer prices was 48.5%, with a larger variation (63.3%) for food, beverages and tobacco (see table 14).

The new authorities adopted measures to control prices, especially food prices, through agencies such as the Nicaraguan Basic Food Enterprise and people's organizations which were given responsibility for looking out for and reporting irregularities. Even so, however, there were still middlemen who, despite the severe penalties introduced by the Government, continued to speculate in certain essential items. The Emergency Reactivation Programme is designed to check such speculation through marketing machinery and price policies embodied in a scheme for meeting the basic consumer needs of the population.

The Government also adopted fiscal measures to prevent consumer taxes from having a significant impact on goods related to productive activities and mass consumption, directing them instead to items such as wines, liquors

^{30/} The monthly variations during the year were as follows: January, 1.2%; February, 0.7%; March, 2.3%; April, 12.5%; May, 7.5%; June, 43.0%; July, 2.2%; August, -12.2%; September, 2.6%; October, 0.0%; November, -0.1% and December 2.7%.

/and gasoline

and gasoline for motor vehicles, which are acquired by people with more resources at their disposal. To the same end, the taxes on some basic consumer products were removed. Thus, the selective tax of 20% on wheat flour and 30% on unmilled wheat and spelt were eliminated, and the taxes on alcoholic beverages were raised by an average of 50%.

Finally, in December a law regulating the rental of dwellings was promulgated and went into effect on 1 January 1980. A 40% to 50% reduction of the lowest rents was decreed and an annual limit of 5% of the official valuation of dwellings was imposed for those in excess of 1,000 córdobas in Managua and 500 córdobas in the rest of the country.

(b) Wages and salaries

After remaining relatively stable during the period 1975-1978, real wages and salaries fell by around 17% in 1979 31/ (see table 15). This drop was largely attributable to the accelerated increase in prices, especially food prices, which took place during the first half of the year.

To compensate for the effects of the devaluation, the previous Government decreed a wage adjustment effective 1 May for public employees. The scale of readjustments ranged from 10% to 25%, and the private sector was also recommended to conform to it. These rises did not, however, succeed in making up for the loss in the purchasing power of wages and salaries.

One of the first measures adopted by the new government was to make it obligatory to pay the wages and salaries due for the period in which activities had been paralyzed in both the public and private sectors. It was thus possible to maintain at least a minimum level of real demand by wage earners, although at the same time the pay involved constituted an additional obstacle for small production units, many of which were in serious financial difficulties.

The government maintained the minimum wages previously established and set a maximum limit of 10,000 córdobas a month on the salaries of public officials and administrators. It also adopted a new minimum wage scale for

31/ It must be borne in mind that the figures given are for the wages and salaries of personnel covered by the Nicaraguan Social Security Institute, which does not include a high percentage of the labour force. These figures may, however, serve as an indicator of the evolution of wages and salaries of the formal labour force or, at least, of those members of the formal labour force who, in general, enjoy better working conditions.

both permanent and seasonal rural workers by geographical area and type of work, especially for coffee plantation workers, which includes their board and lodging. These provisions are aimed at reducing the disparity between minimum and maximum wages and at least keeping the real wages of the lower income groups of the population at the same level. However, for the purpose of reactivating the economy and creating new jobs, a relatively cautious wage policy was followed while emphasis was placed on other kinds of measures, such as the provision of services and the setting of price ceilings on basic items, in an attempt to improve in the short term the well-being of those groups making up the majority of the population. This policy was partly responsible for some work stoppages during the second half of the year, and demands for additional wage hikes and Christmas bonuses continued. However, the policy of the trade unions and workers' organizations, such as the Central Sandinista de Trabajadores (Sandinista Workers' Organization - CST) and the Asociación de Trabajadores del Campo (Rural Workers' Association - ATC) focused more on social welfare issues, especially those relating to working conditions, than on wage increases, and sought to co-ordinate action with the Government's employment and wage policies and those relating to the ownership of the means of production. Some public employees and workers resolved through their organizations to give up their Christmas bonus ("thirteenth month") to demonstrate their solidarity with the Government in its attempts to deal with its financial limitations.

Unemployment affected a very high percentage of the labour force, who received no income during much of the year. This, in conjunction with the deterioration in real wages due to the price rises, meant that wages and salaries as a whole must have dropped more markedly than the total value added, although the present administration is trying to correct this trend.

Under the emergency reactivation programme for the benefit of the people, a wage policy is being applied which is aimed at ensuring a minimum level of consumption for all wage earners and at expanding social benefits (health, education and housing). For this purpose, price controls have begun to be applied with a view to raising the standard of living of the population

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and the above-mentioned decree which came into effect in January providing for a reduction in the rent of dwellings has also helped to improve the purchasing power of non-manual and manual workers.

5. Monetary and fiscal policy

(a) Monetary policy

The economic crisis rendered the monetary and financial system increasingly vulnerable and made it less feasible to use that system for effecting positive changes in the levels of economic activity. As the political crisis got worse, it became more difficult to co-ordinate action and measures in the various fields of economic policy, including the monetary and financial fields. Moreover, as the armed conflict stepped up, economic development objectives were replaced by other objectives of greater importance for the interests of the group which held the political power, among them being the withdrawal of capital from the country. Thus, if any consistency was observable in the application of the financial and credit policy within the tremendous limitations imposed by the extreme drop in liquidity which had been taking place, it was in the co-ordinated action taken to facilitate the attainment of certain objectives diametrically opposed to national interests.

Since the change of administration took place in the middle of the year, it seems appropriate to recall the monetary and financial situation which the country was in when the new government took over.

During the first part of the year, the financial variables were influenced first by the economic slump and cessation of activities, which had weakened the public finances, secondly, by the flight of capital which, together with the loss of capital from the banking system, made the position of the monetary and financial system extremely critical in the middle of the year, and thirdly by the very high rate of inflation combined with the effects of the devaluation and the speculation in or looting of various products, especially foodstuffs.

As may be observed in table 16, the rapid drop in the supply of quasi-money begun in 1978 continued in 1979. Savings and time deposits decreased by over 130 million córdobas, while sight deposits rose by almost 200 million córdobas. Moreover, the Government's use of domestic credit, especially to the

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prejudice of credit for other productive activities, continued to increase rapidly. Thus, of the 440 million córdobas by which credit increased during the first half of the year, 421 million córdobas consisted of credit to the central government, whereas credit to the private sector decreased by 137 million córdobas.

Because of the debt-servicing commitments, only a minimum of which were met, and above all because of the facility accorded to the flight of foreign currency, in June there was a marked decline in the net international reserves, which had already shown a deficit of nearly 1,300 million córdobas in December 1978. This critical situation as regards external solvency arose in spite of the fact that total long-term external loans and loans granted by the federal reserve system of the United States had increased by more than 200 million córdobas.

In view of the need to adopt decisions to expedite the initiation of reconstruction and revitalization in July, steps were taken to refinance the debt. Thanks in part to international assistance and the domestic policy of centralizing and stabilizing the financial system, during the rest of the year a more adequate level of reserves could be maintained. Because of this, a good deal more money was issued, while at the same time the expansion of domestic credit was facilitated with a view to promoting economic revitalization.^{32/} Even so, however, since the situation as regards the monetary variables was so critical at the beginning, big imbalances were still observable at the end of the year.

The principal measures in this area of economic policy included the nationalization of the financial system, which met with great difficulty owing to the insolvency inherited from the previous régime;^{33/} the creation of the

^{32/} During the first half of the year, the money supply rose by 18% and domestic credit to the public sector increased by 54%, while domestic credit to the private sector fell by -4%. During the second half of the year, all these variables increased by 50%, 72% and 25%, respectively.

^{33/} Decree No. 25 of 26 July 1979 and Supplementary Decree No. 90 of 21 September 1979.

Governing Council of the National Financial System;^{34/} the nationalization of insurance and reinsurance companies, and the creation of the Nicaraguan Insurance and Reinsurance Institute.^{35/}

Owing to the lack of liquidity and in an attempt to amplify and reorient the possibilities of credit expansion, a law entitled "Ley de Defensa de la Moneda Nacional" (Law to Uphold the National Currency) ^{36/} was promulgated making it obligatory to deposit bills of 1,000 and 500 córdobas within a mandatory period of 180 days.

The monetary policy adopted by the new government seeks to facilitate reactivation, especially by reconstituting the working capital both of the so-called "Area de Propiedad del Pueblo" and of the other activities, particularly those engaged in the production of essential goods.

(b) Fiscal policy

The public finances had been deteriorating to an increasing extent since the beginning of the decade, since it was necessary to pay for the major part of the expenditure with external credit, which resulted in a substantial increase in the external debt. The contraction in economic activity which began during 1978 reduced the Government's tax revenues that year and even more so in 1979. This trend was reflected in a growing fiscal deficit both in absolute and relative terms ^{37/} (see table 17). However, as the country gradually lost part of its international financial support, it became increasingly difficult to finance the expenditure by contracting external debts, and even more so as the internal confrontation increased and the precariousness of the Government became apparent.

^{34/} Decree No. 136 of 3 October 1979 and Supplementary Decree No. 254 of 27 December 1979.

^{35/} Decree No. 107 of 16 October 1979.

^{36/} Decree No. 55 of 24 August of 1979 and Supplementary Decree No. 201 of 12 December 1979.

^{37/} The fiscal deficit was equivalent to 43% of the current income in 1976, 71% in 1977 and 92% in 1978.

The current income of the Government in the first half of 1979 amounted to 675 million córdobas: approximately 15% more than in the same period in 1978. Factors in this increase included the obligation to present a certificate of fiscal solvency in order to complete a large number of formalities, the different exchange rates for buying and selling foreign currency which were set at the same time as the April devaluation, and the obligation to make an advance deposit equivalent to 100% of the value of imports ordered.

During the first half of the year, the consumption of capital goods and the purchase of goods and non-personal services decreased substantially while payments of wages and salaries increased and the payment of interest on the public debt rose markedly.^{38/} Thus, the deficit in respect of the first half of the year amounted to 337 million córdobas, 44% of current income. Although this represented an improvement over 1978, at the end of July it was obvious that the final results of the 1979 exercise, too, were bound to be extremely bad.^{39/}

This deficit constituted one of the main restrictive elements affecting the economy, and during the second half of the year the new Government did all it could to attenuate it. Among the measures adopted to increase revenues were the following: (i) the law on tax settlements, which set specific time limits for the settlement of tax liabilities;^{40/} (ii) the introduction of new taxes on activities where collection is quick and easy, such as the export of bananas,^{41/} and progressive ad valorem taxes on coffee

^{38/} In the first half of 1979, in comparison with the same period in 1978, wages and salaries rose by 17%, the purchase of goods and personal services fell by 37%, current transfers dropped by 17%, the interest on the public debt rose by 127% and capital expenditure fell by 38%.

^{39/} CEPAL, Repercusiones económicas de los acontecimientos políticos recientes, op. cit.

^{40/} Decree-Law No. 120 of 23 October 1979.

^{41/} See the provision of 9 October 1979 establishing a tax of US\$ 0.50 on each 40-pound box exported, which came close to the commitment entered into by members of the Union of Banana-Exporting Countries (UPEB).

/and sesame;

and sesame;^{42/} (iii) the replacement of the fixed tax on the consumption of tobacco and alcoholic beverages by an ad valorem tax; (iv) the provision authorizing the advance exchange of non-negotiable special term deposit certificates if given to the tax authorities in lieu of tax payments;^{43/} (v) the reintroduction of the certificate of fiscal solvency;^{44/} and (vi) an increase in the gasoline tax.^{45/}

These measures made it possible to raise current income by 4.4% in 1979, contrary to what had been predicted in August in an evaluation of the economic repercussions of the political events following the country's return to peaceful conditions.

On the other hand a great effort was made to rationalize the expenditure by means of budgetary controls, as shown by the fact that no time was lost in formulating an emergency budget for the last quarter October-December 1979.

Current expenditure, for its part, rose by 20% from 1,980 million córdobas in 1978 to 2,380 in 1979, basically because of an 87% rise in wage payments due in large measure to the incorporation of a large number of officials in the central government as a consequence of the increased number of tasks which have now been undertaken.

Nevertheless, the measures to increase revenues and control expenditure made it possible to attenuate the serious fiscal situation only slightly. The current account deficit was the highest in the country's history, and the only reason why the total fiscal deficit was no higher than 10% of the gross domestic product was because investment expenditure was resumed only slowly.^{46/} The seriousness of the situation was also reflected in the large

^{42/} Decree No. 84 of 19 September 1979 and Decree No. 157 of 5 November 1979 establishing progressive ad valorem taxes on exports of coffee and sesame, respectively.

^{43/} Gaceta No. 14 of 20 September 1979; Decree No. 69 of 13 September 1979.

^{44/} Decree No. 164 of 17 November 1979 establishing that this document is required for administrative and legal formalities.

^{45/} Decree No. 104 of 6 October 1979.

^{46/} Capital expenditure fell by 32% during the year, the decrease being 20% in real investment but 83% in debt amortization payments. It should be noted that the central government paid 65 million córdobas in amortization payments in 1979, whereas in August, before renegotiation, it had been predicted that its amortization payments would amount to 779 million córdobas.

domestic debt incurred by the public sector with financial intermediaries (see table 16). In connexion with this critical situation, it should be pointed out that the public sector has assumed the ownership of a large percentage of the productive areas of the country, whose surpluses might in the near future help to finance the public sector and the central government with the aim of achieving the goals which the Government has set itself as regards the development of a more equalitarian society.

Table 1

NICARAGUA: MAIN ECONOMIC INDICATORS

	1974	1975	1976	1977	1978	1979(a)
A. Basic economic indicators						
Gross domestic product at factor cost (billions of dollars at 1970 prices)	996	1 018	1 069	1 136	1 055	793
Population (millions of inhabitants)	2.24	2.32	2.40	2.48	2.56	2.64
Per capita gross domestic product (dollars at 1970 prices)	444	439	446	459	412	300
<u>Growth rates</u>						
B. Short-run economic indicators						
Gross domestic product	12.7	2.2	5.0	6.3	-7.2	-24.8
Per capita gross domestic product	9.0	-1.1	1.6	2.8	-10.2	-27.2
Gross income (b)	12.1	-2.6	10.0	13.6	-9.7	-25.7
Terms of trade	-4.3	19.1	21.9	33.3	-13.6	-10.3
Current value of exports of goods and services	29.1	1.1	36.6	17.5	5.2	-18.1
Current value of imports of goods and services	56.2	-9.2	-	41.9	-17.2	-30.9
Consumer price index						
December - December	...	1.9	6.2	10.2	4.3	70.3
Variation between annual averages	...	1.8	2.9	11.4	4.6	48.5
Money	11.8	-3.5	25.4	6.2	5.1	76.8
Wages and salaries (c)	16.8	5.8	5.0	9.6	4.5	22.7
Rate of unemployment (d)	6.1	9.6	8.7	13.1	14.5	20.4
Current income of government	45.7	-3.1	15.4	17.6	-7.7	4.4
Total expenditure of government	27.0	3.9	4.3	41.2	3.4	-6.6
Fiscal deficit/total expenditure of government (d)	32.6	37.2	29.9	41.7	47.9	41.8
<u>Millions of dollars</u>						
C. External sector						
Trade balance (goods and services)	-214	-148	19	-125	60	140
Balance on current account	-267	-195	-47	-192	-33	84
Variation in net international reserves	-28	38	-8	4	-88	-52
External debt (e)	503	644	681	912	961	1 159

Source: CEPAL, on the basis of official data.

(a) Preliminary figures.

(b) Gross domestic product plus terms-of-trade effect.

(c) Nominal wages and salaries of members of the Nicaraguan Social Security Institute.

(d) Percentage.

(e) Disbursed public and State-guaranteed external debt.

Table 2

NICARAGUA: TOTAL SUPPLY AND DEMAND

	Millions of córdobas at 1970 prices			Percentage breakdown		Growth rates		
	1977	1978	1979(a)	1970	1979(a)	1977	1978	1979(a)
	Total supply	10 876	9 630	6 956	129.2	125.3	12.3	-11.5	-27.8
Gross domestic product at market prices	7 954	7 385	5 553	100.0	100.0	6.3	-7.2	-24.8
Imports of goods and services (b)	2 922	2 245	1 403	29.2	25.3	32.5	-23.2	-37.5
Total demand	10 876	9 630	6 956	129.2	125.3	12.3	-11.5	-27.8
Domestic demand	8 886	7 437	5 271	102.5	94.9	20.2	-16.3	-29.1
Gross domestic investment	2 070	841	-256	18.6	-4.6	74.8	-59.3	...
Gross fixed investment	1 681	938	395	16.4	7.1	28.2	-44.2	-57.9
Construction	709	416	97	6.5	1.7	-1.6	-41.3	-76.7
Machinery	972	521	298	9.9	5.4	64.4	-46.4	-42.8
Public	841	423	190	4.2	3.4	57.3	-49.7	-55.0
Private	840	515	204	12.2	3.7	8.1	-38.7	-60.4
Changes in stocks	388	-96	-651	2.2	-11.7			
Total consumption	6 816	6 596	5 527	83.9	99.5	9.8	-3.2	-16.2
General government	902	1 110	1 035	9.6	18.6	12.4	23.1	-6.7
Private	5 914	5 486	4 492	74.3	80.9	9.4	-7.2	-18.1
Exports of goods and services (b)	1 991	2 193	1 686	26.7	30.4	-13.4	10.1	-23.1

Source: 1970-1979: CEPAL calculations on the basis of figures supplied by the Central Bank of Nicaragua.

(a) Preliminary figures.

(b) The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values by deflation, using price indexes calculated by CEPAL for the purpose.

Table 3

NICARAGUA: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of córdobas at 1970 prices			Percentage breakdown		Growth rates		
	1977	1978	1979(a)	1970	1979(a)	1977	1978	1979(a)
	Agriculture	1 875	1 996	1 737	27.0	33.5	3.6	6.5	-13.0
Mining	18	14	18	0.7	0.3	-3.7	-22.3	26.8
Manufacturing	1 425	1 424	1 035	19.2	20.0	7.8	-0.1	-27.3
Construction	373	219	51	3.5	1.0	-1.7	-41.3	-76.7
Subtotal goods	3 691	3 653	2 841	50.3	54.8	4.5	-1.0	-22.2
Electricity, gas and water	174	161	158	1.7	3.0	12.4	-7.4	-2.0
Transport, storage and communications	421	340	263	5.8	5.1	7.6	-19.3	-22.6
Subtotal basic services	595	501	421	7.5	8.1	9.0	-15.8	-16.0
Commerce, financial institutions and insurance	1 529	1 326	808	20.5	15.6	8.0	-13.2	-39.1
Real estate (b)	364	328	218	7.1	4.2	4.6	-9.8	-33.4
Community, social and personal services (c)	1 094	1 014	893	14.6	17.2	7.8	-7.3	-12.0
Subtotal other services	2 987	2 668	1 919	42.2	37.0	7.5	-10.6	-28.1
Gross domestic product (d)	7 282	6 761	5 084	100.0	100.0	6.3	-7.2	-24.8

Source: 1970-1979: CEPAL calculations on the basis of figures supplied by the Central Bank of Nicaragua.

(a) Preliminary figures.

(b) Ownership of dwellings only.

(c) Also includes restaurants, hotels and business services.

(d) As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

Table 4

NICARAGUA: INDICATORS OF AGRICULTURAL PRODUCTION

	1976	1977	1978	1979(a)	Growth rates (b)		
					1977	1978	1979(a)
<u>Index of agricultural production</u> (1970 = 100)	148.7	152.9	163.5	144.0	2.8	7.0	-12.0
<u>Production of main crops</u> (millions of quintals)							
<u>Export crops</u>							
Ginned cotton	2 437	2 586	2 621	1 975	6.1	1.3	-24.7
Cotton seed	3 922	4 208	4 296	3 243	7.3	2.1	-24.5
Green coffee	1 109	1 222	1 254	1 361	10.3	2.6	8.6
Sugar cane	56.9	54.9	56.4	58.2	-3.6	2.8	3.2
Bananas	3 448	3 533	3 774	5 500	2.5	6.8	45.7
Sesame	76	101	126	375	32.8	25.1	197.6
Havana tobacco	23	26	29	29	11.6	12.0	-
<u>Crops for domestic consumption</u>							
Maize	4 371	3 942	5 525	3 750	-9.8	40.2	-32.1
Beans	1 177	895	1 206	862	-24.0	34.8	-28.5
Hulled rice	925	994	1 238	937	7.5	24.5	-24.3
Sorghum	1 225	970	1 318	1 071	-20.8	35.8	-18.7
Blond tobacco	35	37	42	32	4.8	12.7	-22.2
<u>Indicators of stock-raising production</u>							
<u>Number of animals slaughtered</u>							
Cattle (c)	370	389	482	448	5.2	23.7	-7.1
Pigs (c)	311	280	237	200	-10.0	-15.3	-15.6
Poultry (d)	13	15	16	10	14.7	6.7	-37.5
<u>Changes in stocks</u>							
Cattle (c)	55	81	13	-62	...	...	...
Pigs (c)	34	36	48	48	...	...	...
Poultry (e)	178	180	180	150	...	...	...
<u>Other indicators</u>							
Milk production (f)	118	118	119	99	0.2	0.6	-16.9
Egg production (g)	33	35	37	25	6.1	7.1	-33.3

Source: CEPAL, on the basis of figures supplied by the Central Bank of Nicaragua.

- (a) Preliminary figures.
 (b) The growth rates were calculated on the basis of real, not rounded figures.
 (c) Thousands of head.
 (d) Millions of pounds.
 (e) Thousands of chickens includes 1 million chickens imported in 1978 and 6 million in 1979.
 (f) Millions of gallons.
 (g) Millions of dozens.

Table 5

NICARAGUA: INDICATORS OF MANUFACTURING PRODUCTION

	Millions of córdobas at 1958 prices				Growth rates (b)		
	1976	1977	1978	1979(a)	1977	1978	1979(a)
<u>Value of total production</u>	3 454	3 715	3 714	2 692	7.6	-0.1	-27.5
Food	1 465	1 554	1 629	1 336	6.1	4.8	-18.0
Beverages	222	286	291	202	28.5	2.0	-30.5
Tobacco	100	107	104	74	7.2	-3.0	-28.3
Textiles	187	177	172	108	-5.3	-3.2	-37.3
Footwear and clothing	100	98	85	48	-1.9	-13.1	-43.3
Wood and cork	116	124	99	50	6.7	-20.1	-49.6
Furniture and accessories	21	22	22	15	8.7	-2.2	-31.5
Paper and paper products	75	85	94	56	14.3	10.4	-40.3
Printing, publishing and related industries	54	61	50	37	13.2	-17.4	-26.6
Leather and leather products	22	23	26	21	4.5	12.6	-18.1
Rubber products	10	11	11	8	10.1	1.8	-25.2
Chemicals and chemical products	507	538	544	377	6.2	1.1	-30.7
Petroleum products	142	153	127	127	7.4	-17.2	-0.1
Non-metallic minerals	162	174	148	69	7.1	-14.8	-53.6
Metal products	146	173	178	87	18.9	2.6	-50.8
Electrical and non-electrical machinery	51	52	53	28	1.6	2.7	-47.6
Transport equipment	12	11	11	7	-7.0	3.7	-40.5
Others	61	65	69	41	5.9	5.5	-40.2
<u>Other indicators</u>							
Industrial consumption of electricity (millions of kWh)	...	258	261	194	...	1.2	-25.7
Employment (thousands of workers)	30.5	32.0	31.0	26.7	5.0	-3.2	-13.8

Source: CEPAL, on the basis of data supplied by the Central Bank of Nicaragua.

- (a) Preliminary figures.
 (b) Growth rates based on real, not rounded figures.

Table 6

NICARAGUA: ELECTRICITY INDICATORS

	Millions of kilowatt hours				Growth rates (b)		
	1976	1977	1978	1979(a)	1977	1978	1979(a)
<u>Gross generation of power</u>							
<u>by type of station</u>							
Hydro-electric	949	1 073	1 072	868	13.1	-0.1	-19.1
Thermal	380	120	176	392	-68.2	45.9	122.6
Diesel and gas	541	899	876	465	66.2	-2.5	-46.9
<u>Consumption according to use</u>	28	54	20	11	88.8	-63.2	-47.0
Irrigation	796	882	886	729	10.9	0.4	-17.4
Industry	54	58	48	37	7.7	-16.3	-23.9
Commerce (c)	290	309	308	227	6.7	-0.3	-26.2
Government, public lighting and pumping	222	249	247	217	12.2	-1.1	-13.5
Household	89	103	114	107	19.2	10.1	-5.8
	143	163	169	145	13.8	3.7	-14.2

Source: CEPAL, on the basis of data supplied by the Central Bank of Nicaragua and the Instituto Nicaragüense de Energía (Nicaraguan Energy Institute - INE).

(a) Preliminary figures.

(b) Growth rates based on real, not rounded figures.

(c) Includes "commercial" and "wholesale", consumption, as designated in INE statistics.

Table 7

NICARAGUA: EMPLOYMENT AND UNEMPLOYMENT

	1976	1977	1978	1979(a)
<u>Rates of unemployment</u>				
National	8.7(b)	13.1(c)	14.5(d)	28.4(e)
Agricultural activities (e)	...	15.8(c)	...	32.1(e)
Non-agricultural activities (f)	...	11.4(e)	...	25.7(e)
Managua	9.8(b)	5.8(b)	...	24.6(g)
<u>Indexes (1976 = 100)</u>				
Economically active population (national)	100.0	104.3	108.0	110.3
Unemployment (national) (h)	100.0	157.8	181.2	360.9
Employment (national) (h)	100.0	99.3	101.0	86.5
Employment (members of the Nicaraguan Social Security Institute)	100.0	107.0	106.5	90.4

Source: CEPAL, on the basis of data supplied by the Ministry of Planning, the Central Bank and other official sources.

(a) Preliminary figures.

(b) Based on the employment survey conducted by the Surveys and Census Bureau in the areas of Chinandega, León, Masaya, Granada, Jinotepe, Diriamba, Rivas and Managua.

(c) Ministry of Planning; "Programa de Emergencia y Reactivación en Beneficio del Pueblo, 1980-1981", "Año de la Alfabetización", 14 January 1980, table II-9-1, p. 111.

(d) CEPAL, "Nicaragua: Repercusiones económicas de los acontecimientos recientes", E/CEPAL/G. 1091, August 1979. Estimate based on assumption that per capita productivity of workers remains constant.

(e) Includes agricultural, forestry, fishery and mining sectors.

(f) includes manufacturing, construction, commerce and other services.

(g) Regional employment Programme for Latin America and the Caribbean (PREALC), Empleo en Nicaragua: Situación actual y líneas de acción futuras, issued in November 1979 and based on a survey conducted in October 1979.

(h) Estimated on the basis of the rate of national unemployment shown in the first line on this table.

(i) Estimated on the basis of data supplied by the Central Bank of Nicaragua on the membership of the Nicaraguan Social Security Institute.

Table 8

NICARAGUA: EVOLUTION OF EXCHANGE RATE AND PRICES

	Exchange rate (córdobas per dollars) (1)	Exchange rate index (2)	Consumer price index (3)	Real exchange rate index (4)=(2)/(3)
1978				
December	7.00	100.0	100.0	100.0
1979				
January	7.00	100.0	103.3	96.8
February	7.00	100.0	103.7	96.4
March	7.00	100.0	104.6	95.6
April (a)	9.40	134.3	108.4	123.9
May	10.00	142.9	112.4	127.1
June	10.00	142.9	123.9	115.3
July	10.00	142.9	133.5	107.0
August	10.00	142.9	137.4	104.0
September	10.00	142.9	141.0	101.3
October	10.00	142.9	143.8	99.4
November	10.00	142.9	143.7	99.4
December	10.00	142.9	148.4	96.3

Source: CEPAL, on the basis of official data.

(a) On 7 April the córdoba was devalued from 7 to 10 per dollars.

Table 9

NICARAGUA: EXPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown (b)		Growth rates (b)		
	1976	1977	1978	1979(a)	1970	1979(a)	1977	1978	1979(a)
<u>Main traditional exports</u>	<u>361</u>	<u>437</u>	<u>444</u>	<u>426</u>	<u>60.8</u>	<u>75.1</u>	<u>21.1</u>	<u>1.6</u>	<u>-4.1</u>
Cotton	131	151	141	135	19.1	23.8	15.3	-6.4	-3.9
Coffee	119	199	200	158	18.0	27.9	66.5	0.4	-20.6
Sugar	53	28	20	20	5.5	3.5	-47.3	-29.6	-0.3
Meat	38	37	68	94	14.9	16.6	-0.9	81.7	38.6
Shrimp and lobster	20	22	15	19	3.4	3.3	11.6	-33.2	28.8
<u>Main non-traditional exports</u>	<u>59</u>	<u>66</u>	<u>70</u>	<u>...</u>	<u>7.7</u>	<u>...</u>	<u>11.9</u>	<u>6.1</u>	<u>...</u>
Bananas	5	4	5	6	0.2	1.1	-2.8	7.3	32.7
Unmanufactured tobacco	5	4	5	...	1.1	...	-8.5	13.9	...
Chemical products	42	51	52	30	5.3	5.3	22.7	2.3	-41.9
Dairy products	7	7	8	...	1.1	...	-4.9	8.3	...
Other	122	134	132	...	31.5	...	9.8	-1.5	...
<u>Total</u>	<u>542</u>	<u>636</u>	<u>646</u>	<u>567</u>	<u>100.0</u>	<u>100.0</u>	<u>17.5</u>	<u>1.4</u>	<u>-12.3</u>

Source: CEPAL, on the basis of data supplied by the Central Bank of Nicaragua.

(a) Preliminary figures.

(b) The percentage breakdown and growth rates are based on real, not rounded figures.

Table 10

NICARAGUA: IMPORTS OF GOODS, CIF

	Millions of dollars				Percentage breakdown (b)		Growth rates (b)		
	1976	1977	1978	1979(a)	1970	1979(a)	1977	1978	1979(a)
<u>Consumer goods</u>	<u>145</u>	<u>181</u>	<u>148</u>	<u>88</u>	<u>29.2</u>	<u>24.6</u>	<u>24.8</u>	<u>-18.5</u>	<u>-40.8</u>
Non-durable	95	110	98	...	19.0	...	15.8	-10.1	...
Durable	50	71	50	...	10.2	...	42.0	-29.6	...
<u>Intermediate goods</u>	<u>274</u>	<u>387</u>	<u>333</u>	<u>213</u>	<u>47.6</u>	<u>59.5</u>	<u>41.6</u>	<u>-14.2</u>	<u>-35.7</u>
Fuels and lubricants	68	103	89	80	5.7	22.3	51.5	-13.6	-9.7
Others									
For agriculture	19	40	37	14	...	3.9	110.5	-8.6	-60.6
For industry	156	212	181	104	...	29.1	35.9	-14.7	-42.6
For construction	31	32	26	15	...	4.2	3.2	-19.9	-41.4
<u>Capital goods</u>	<u>113</u>	<u>193</u>	<u>114</u>	<u>57</u>	<u>23.2</u>	<u>15.9</u>	<u>70.8</u>	<u>-41.2</u>	<u>-49.4</u>
For agriculture	13	22	13	5	1.8	1.4	69.2	-41.4	-60.5
For industry	76	118	75	38	17.0	10.6	55.3	-36.1	-48.8
For transport	24	53	26	14	4.4	3.9	120.8	-52.2	-45.9
<u>Total</u>	<u>532</u>	<u>761</u>	<u>595</u>	<u>358</u>	<u>100.0</u>	<u>100.0</u>	<u>43.2</u>	<u>-22.0</u>	<u>-39.6</u>

Source: CEPAL, on the basis of official data.

(a) Preliminary figures.

(b) The percentage breakdown and growth rates are based on real, not rounded figures.

Table 11

NICARAGUA: MAIN INDICATORS OF FOREIGN TRADE

	1974	1975	1976	1977	1978	1979(a)
	<u>Growth rates</u>					
Exports of goods, FOB						
Value	36.6	-1.3	44.5	17.4	1.6	-12.3
Volume	8.3	6.2	14.7	-17.1	6.7	-14.6
Unit value	26.1	-7.0	26.0	41.7	-4.9	2.7
Imports of goods, FOB						
Value	65.3	-10.8	0.6	45.2	-21.4	-39.5
Volume	25.3	-22.4	-2.7	36.6	-28.6	-47.2
Unit value	31.8	15.0	3.4	6.3	10.0	14.6
Terms of trade	-4.3	-19.1	21.9	33.3	-13.6	-10.3
	<u>Indexes (1970 = 100)</u>					
Terms of trade	98.2	79.4	96.8	129.0	111.5	100.0
Purchasing power of exports of goods	131.6	113.0	158.0	174.5	161.0	123.3
Purchasing power of exports of goods and services	133.7	119.1	156.7	171.5	168.3	124.7

Source: CEPAL, on the basis of official data.

(a) Preliminary figures.

Table 12

NICARAGUA: BALANCE OF PAYMENTS
(Millions of dollars)

	1974	1975	1976	1977	1978	1979(a)
Current account						
Exports of goods and services	451	456	623	732	770	631
Goods FOB (b)	380	375	542	636	646	567
Services	71	81	81	96	124	64
Transport	16	25	26	29	28	29
Travel	23	26	28	34	25	18
Imports of goods and services	665	604	604	857	710	491
Goods FOB (b)	540	482	485	704	553	335
Services	125	122	119	153	157	156
Transport	58	56	50	68	56	44
Travel	33	32	35	46	60	60
Net payments of profits and interest on foreign capital	-59	-54	-67	-68	-94	-56
Profits	-37	-24	-26	-28	-34	
Interest	-22	-30	-41	-40	-60	
Net private transfer payments	6	7	1	1	1	-
Balance on current account	-267	-195	-47	-192	-33	84
Capital account						
Net external financing (a+b+c+d+e)	267	195	47	192	33	-84
a) Long-term capital	172	152	45	208	40	} -136
Direct investment (net)	14	11	13	10	6	
Private sector	67	61	17	61	6	
Loans	80	81	55	97	58	
Amortization payments	-13	-17	-31	-35	-45	
Other net liabilities and assets	-	-3	-7	-1	-7	
Official sector	91	80	15	137	28	
Loans	100	87	34	165	57	
Amortization payments	-8	-6	-16	-24	-23	
Other net liabilities and assets	-1	-1	-3	-4	-6	
Monetary authorities (net)						
b) Short-term capital (net)	58	45	-28	-25	-157	
Private sector	55	48	-10	-23	-186	
Official sector	12	-2	-4	3	-2	
Monetary authorities	1	-	-15	1	39	
Errors and omissions	-10	-1	1	-6	-8	
Extraordinary financing	-	26	14	3	55	
c) Allocations of Special Drawing Rights (SDRs)						
d) Official transfer payments	9	10	8	10	7	
e) International reserves (minus sign signifies an increase)	28	-38	8	-4	88	52
Use of IMF credit	-3	7	-8	-8	-	...
Other liabilities	-	-2	10	6	-10	...
Monetary gold	-	-	-	-	-	...
Special Drawing Rights	-	2	2	-	-1	...
IMF reserve position	-	-	-	-	-	...
Foreign exchange and other assets	31	-45	4	-2	99	...

Source: 1974-1978: International Monetary Fund, *Balance of Payments Yearbook*; vol. 30, 1979: CEPAL, on the basis of official data.

(a) Preliminary figures.

(b) Including non-monetary gold.

Table 13

NICARAGUA: INDICATORS OF EXTERNAL INDEBTEDNESS(a)
(Millions of dollars)

	1974	1975	1976	1977	1978(b)	1979(c)
Public external debt (d)	503	644	681	912	961	1 159
Servicing of public external debt	49	56	88	98	103	80
Amortization payments	20	20	40	50	52	11
Interest payments	29	36	48	48	51	69
Servicing of public external debt, as a percentage of total exports (e)	10.9	12.3	14.1	13.4	13.4	12.7

Source: CEPAL, on the basis of data supplied by the Central Bank of Nicaragua.

- (a) End-year balance of debts having a term of over one year.
 (b) On 31 December 1978 the short-term debt amounted to US\$ 131 million; commitments in respect of guaranteed to US\$ 36 million; private debt not guaranteed by the State to US\$ 264 million and State-guaranteed private debt to US\$ 6 million.
 (c) Preliminary figures.
 (d) Disbursed.
 (e) Percentages based on real, not rounded figures.

Table 14

NICARAGUA: EVOLUTION OF DOMESTIC PRICES(a)

	1975	1976	1977	1978	1979
<u>Variation December to December</u>					
Consumer price index	1.9	6.2	10.2	4.3	70.3
Food, beverages and tobacco	-0.5	8.1	10.7	1.6	97.7
Clothing	2.3	2.5	2.6	4.3	46.0
Housing	3.5	5.0	8.9	7.9	35.3
Others	4.6	5.2	12.6	5.5	65.7
<u>Variation between annual averages</u>					
Consumer price index	1.8	2.9	11.4	4.6	48.5
Food, beverages and tobacco	0.7	1.2	14.8	3.6	63.3
Clothing	2.8	0.6	2.8	3.3	26.1
Housing	2.8	4.1	6.9	6.4	27.8
Others	2.5	5.1	12.4	4.8	44.8

Source: CEPAL, on the basis of data supplied by the Central Bank of Nicaragua.

- (a) Consumer price index for the Managua metropolitan area.

Table 15

NICARAGUA: EVOLUTION OF WAGES AND SALARIES(a)

	1976	1977	1978	1979(b)
<u>Indexes (1975 = 100)</u>				
Wages and salaries				
Nominal	105.0	115.0	121.2	147.5
Real	102.1	100.4	101.4	82.9
<u>Growth rates</u>				
Wages and salaries				
Nominal	5.0	9.6	4.5	22.7
Real	2.1	-1.6	-	-17.4

Source: CEPAL, on the basis of data supplied by the Central Bank of Nicaragua.

- (a) For workers covered by the Nicaraguan Social Security Institute.
 (b) Preliminary figures.

Table 16

NICARAGUA: MONETARY BALANCE

	Balance at end of year (millions of córdobas)				Growth rates		
	1977	1978	1979(a)	1979(b)	1977	1978	1979(b)
	Money	1 835	1 928	2 278	3 409	6.2	5.1	76.8
Currency outside banks	701	886	1 007	1 539	10.2	26.4	73.7
Demand deposits	1 085	1 002	1 207	1 800	2.0	-7.6	79.6
Other deposits	49	40	64	70	75.0	-18.4	75.0
Factors of expansion	3 971	3 797	4 035	...	3.7	-4.4	...
Foreign assets (net)	206	-1 282	-1 493	...(c)	-67.1	...	...
Domestic credit	3 765	5 079	5 528	7 618	17.6	34.9	50.0
Government (net)	145	724	1 145	1 554	-10.5	399.3	114.6
Official entities	22	55	55	512	-68.1	150.0	830.9
Private sector and APP (d)	3 539	3 877	3 740	4 692	21.1	9.6	21.0
Other financial institutions	59	423	588	860		616.9	103.3
Factors of absorption	2 136	1 869	1 757	...	1.7	-12.5	...
Quasi-money (savings and time deposits)	1 148	992	860	900	5.9	-13.6	-9.3
Credit from the United States Federal Reserve System (net)	170	250	290	299	41.7	47.1	19.6
Other long-term foreign borrowing	396	340	523	520	-11.2	-14.1	52.9
Other items (net)	422	287	84	...	-6.2	-32.0	...

Source: CEPAL, on the basis of data supplied by the Central Bank of Nicaragua.

(a) In June 1979.

(b) Preliminary figures.

(c) The gross international reserves amounted to 567 million córdobas in June 1979 and to 1 385 million córdobas in December 1979.

(d) The Area de Propiedad del Pueblo (APP) includes enterprises confiscated when the new administration assumed power.

Table 17

NICARAGUA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of córdobas				Growth rates (b)		
	1976	1977	1978	1979(a)	1977	1978	1979(a)
1. Current income	1 527	1 796	1 658	1 731	17.6	-7.7	4.4
Tax revenue	1 352	1 638	1 448	1 431	21.2	-11.6	-1.2
Direct	350	392	363	307	12.0	-7.4	-15.5
Indirect	628	752	701	706	19.7	-6.8	0.6
On foreign trade	374	494	384	418	32.0	-22.2	8.9
Non-tax revenue	175	158	210	300	-9.9	33.2	43.4
2. Current expenditure	1 210	1 539	1 979	2 383	27.2	28.6	20.4
Wages and salaries	547	588	702	1 314	7.6	19.3	87.2
Other current expenditure	663	951	1 277	1 069	43.3	34.4	-16.4
3. Saving on current account (1-2)	317	257	-321	-652	-19.2		103.1
4. Capital expenditure	969	1 539	1 203	589	58.7	-21.8	-52.0
Real investment	370	921	402	320	148.8	-56.3	-20.4
Debt amortization payments	156	238	382	65	52.2	60.5	-83.0
Other capital expenditure	443	380	419	204	-14.2	10.3	-51.4
5. Total expenditure (2+4)	2 179	3 078	3 182	2 972	41.2	3.4	-6.6
6. Fiscal deficit (1-5)	-652	-1 282	-1 524	-1 241	96.6	18.9	-18.6
7. Financing of deficit							
Domestic financing	283	130	1 147	1 146	-54.0	780.2	-0.1
External financing	369	1 152	377	95	212.1	-67.3	-74.9

Source: CEPAL, estimated on the basis of data supplied by the Central Bank and Ministry of Finance of Nicaragua.

(a) Preliminary figures.

(b) Growth rates based on real, not rounded figures.