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Press Releases

Nicaragua and the IMF

Heavily Indebted Poor Countries -- A Factsheet

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IMF and World Bank Open Way for US$4.5 billion Debt Relief for Nicaragua under the Enhanced HIPC Initiative

The International Monetary Fund (IMF) and the World Bank Group's International Development Association (IDA) agreed to support a comprehensive debt reduction package for Nicaragua under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. Total debt service relief from all of Nicaragua's creditors is worth nearly US$4.5 billion, or US$3.3 billion in Net Present Value (NPV) terms[1], which is equivalent to 72 percent of total debt outstanding after the full use of traditional debt relief mechanisms. This is the largest debt relief package yet committed under the HIPC Initiative.

The impact of HIPC assistance is substantial, and will help Nicaragua build on its strong reconstruction efforts after Hurricane Mitch toward a stable, long-term development strategy. External debt as a percentage of Nicaragua's export earnings will be reduced from 540 percent in 1999 to a sustained level below the enhanced HIPC target of 150 percent. Debt service as a percentage of government revenue falls from 20 percent this year to less than 9 percent in 2007 and declines steadily thereafter.

IDA will provide HIPC assistance amounting to about US$379 million, with interim relief equivalent to 90 percent on IDA debt service due beginning immediately at the decision point. The assistance committed by the IMF of US$81.5 million in NPV terms will be delivered over a 9-year period. IMF will provide interim assistance as soon as satisfactory financing assurances are in place.

Nicaragua will receive the bulk of the assistance under the enhanced HIPC Initiative when it satisfies a number of conditions, including adoption and implementation of a participatory poverty reduction strategy paper (see Annex).

Annex

1. Nicaragua

Track record and poverty

Over the past decade, Nicaragua has made important progress in the areas of stabilization and structural reform. Financial policies have been strengthened, price controls eliminated, and foreign exchange and trade systems liberalized. These efforts resulted in a substantially improved economic performance. Inflation was reduced sharply to ten percent annually in 1995-97 and 7 percent in 1999, while output growth recovered strongly, reaching 7 percent in 1999. Similar improvements are seen in investment growth, savings, and job creation.

Nicaragua has also made considerable efforts in social policy critical to sustained poverty reduction, with mixed results. While the number of poor as a percentage of the population has fallen, the absolute number of people living in poverty and extreme poverty has increased. Nicaragua remains one of the poorest countries in Latin America, with almost 48 percent of the population living below the poverty line. Fertility rates are twice the Latin American average, and malnutrition, infant mortality and illiteracy remain at high levels. The government has recently issued a "Strengthened Poverty Reduction Strategy," prepared in consultation with civil society, and setting out a number of priority areas to enable it to achieve its International Development Goal targets by 2015.

Reform steps to be taken before the completion point

Nicaragua will reach its completion point under the Initiative and receive the remainder of its debt relief from all creditors once it has taken a number of actions designed to strengthen economic growth and reduce poverty. It is expected that Nicaragua would take the necessary steps for the completion point by end-2002.These areas include:

Satisfactory performance under a program supported by a PRGF arrangement and IDA structural adjustment loans.
Completion and satisfactory implementation for one year of a fully participatory Poverty Reduction Strategy (PRSP).
Implementation of an agreed set of measures in the context of the government's poverty reduction strategy, with a focus on steps to promote human development and social protection, including increased access to primary education and health care. Other steps focus on strengthening of governance in the areas of civil service reform, public procurement, and reform of the pension system.
Confirmation of the participation of other creditors in the debt relief operation.

General

The **HIPC Initiative** was launched by the World Bank and the IMF in 1996 as the first comprehensive effort to eliminate unsustainable debt in the world's poorest, most heavily indebted countries. In October 1999, the international community agreed to make the

Initiative broader, deeper and faster by increasing the number of eligible countries, raising the amount of debt relief each eligible country will receive, and speeding up its delivery. The enhanced Initiative aims at reducing the NPV of debt at the decision point to a maximum of 150 percent of exports and 250 percent of government revenue, and will be provided on top of traditional debt relief mechanisms (Paris Club debt rescheduling on Naples terms, involving 67 percent debt reduction in NPV terms and at least comparable action by other bilateral creditors).

Eligible countries will qualify for debt relief in two stages. In the first stage, the debtor country will need to demonstrate the capacity to use prudently the assistance granted by establishing a satisfactory track record, normally of three years, under IMF- and IDA-supported programs. In the second stage, after reaching the decision point under the Initiative, the country will implement a full-fledged poverty reduction strategy, which has been prepared with broad participation of civil society, and an agreed set of measures aimed at enhancing economic growth. During this stage, the IMF and IDA grant interim relief, provided that the country stays on track with its IMF- and IDA-supported program. In addition, Paris Club creditors, and possibly others, are expected to grant debt relief on highly concessional terms. At the end of the second stage, when the floating completion point has been reached, the IMF and IDA will provide the remainder of the committed debt relief, while Paris Club creditors will enter into a highly concessional stock-of-debt operation with the country involved. Other multilateral and bilateral creditors will need to contribute to the debt relief on comparable terms.

Some three-dozen HIPCs are expected to qualify for assistance under the enhanced HIPC Initiative, the great majority of which are sub-Saharan African countries. Debt relief packages are now in place for 19 countries under the enhanced HIPC Initiative framework (Benin, Bolivia, Burkina Faso, Cameroon, The Gambia, Guinea-Bissau, Guyana, Honduras, Malawi, Mali, Mauritania, Mozambique, Nicaragua, Niger, São Tome & Príncipe, Senegal, Tanzania, Uganda and Zambia), with total committed assistance estimated at more than US$31 billion, representing an average NPV stock-of-debt reduction of some 47 percent on top of traditional debt relief mechanisms.

For more information on HIPC, visit:
http://www.worldbank.org/hipc/
http://www.imf.org/external/np/exr/facts/hipc.htm

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[1]The NPV of debt is the discounted sum of all future debt-service obligations (interest and principal) on existing debt. The NPV of debt is a measure that takes into account the degree of concessionality. It is defined as the sum of all future debt-service obligations (interest and principal) on existing debt, discounted, under the HIPC Initiative, at the market interest rate. Whenever the interest rate on a loan

is lower than the market rate, the resulting NPV of debt is smaller than its face value, with the difference reflecting the grant element.

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