

At the sectoral level, with the exception of the large increment in mining -of relatively little significance in Nicaragua's production structure- and a levelling in Government services in real terms -which was expected to be achieved without sacrificing the volume of services rendered on the basis of greater efficiency and without filling any vacancies- it was expected that the rest of the activities would lose some of their dynamism. In the case of agriculture, a slightly smaller increase than in the previous year was envisaged mainly on the basis of an extension of the area sown for purposes of production for domestic consumption (precisely through the stimulus to the production of basic grains, the consolidation of associate forms of production continues to be encouraged). As regards fishing, through the direct action of the State the catch of fish and shrimp had increased significantly. In the case of manufactures, in their turn, action was being taken to promote the production of basic articles in widespread use such as foodstuffs, textiles and clothing, as also construction materials, especially wood.

These results of economic activity, in general envisaged since the beginning of 1982, were already occurring in the early months of the year simultaneously with the changes in some of the trends which it had been possible to attenuate in 1981, particularly at two levels. On the one hand, in the preceding two-year period intensive efforts had been made to overcome at least partially the serious problem of open unemployment,<sup>15/</sup> which succeeded in consolidating a trend in this direction, which apparently in 1982 was losing some of its momentum despite the policy to stimulate the production of basic grains. On the other hand, relatively satisfactory results had been obtained up to 1981 in substantially attenuating the inflationary process.<sup>16/</sup> The continued scarcity of some staples, however, although the possibilities of speculating on the market had been largely eliminated, already in the early months of 1982 was determining a certain acceleration of the rate of increase in prices, even predicted in the goals of the Government's economic plan.<sup>17/</sup>

Finally, economic trends in 1982 presaged a further deterioration in the workers' real wage as the result of increased inflationary pressures vis-a-vis a somewhat austere wage policy, given the generalized financial difficulties. It was also expected that, if new improvements in employment levels were not achieved -taking into account that the total volume of wages would diminish in real terms- the levels of personal consumption would drop. Of course, if these predictions are confirmed, they would interfere with one of the main objectives of economic policy which the administration has kept in force since it assumed power in 1979: the progressive redistribution of income.

(c) Prospects for the economic situation in 1982 after the disaster

As noted earlier, the natural phenomenon described throughout this study significantly alters the country's 1982 economic development prospects, thus adding to the group of obstacles described earlier in this study. The following is a summarized review of the implications of this phenomenon for the main macro-economic variables.

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<sup>15/</sup> Open unemployment had stood at 25%, 18% and 13% in 1979, 1980 and 1981, respectively.

<sup>16/</sup> The average annual rate of increase in consumer prices had been 48%, 35% and 24% in 1979, 1980 and 1981, respectively.

<sup>17/</sup> The cost-of-living index would rise from 24% to 30% in 1982.

(i) Rate of global and sectoral growth. The external and internal difficulties which Nicaragua's economy had been confronting in order to maintain a rate in accordance with its rehabilitation needs -result of the civil war commented on above- which had led to a reduction in the growth rate predicted for 1982 to half that recorded in 1981, will undoubtedly be aggravated in the rest of the year (see table 17).

Taking into account the production losses observed in the various production sectors, an attempt has been made to revise the projections prepared by the Government before the disaster. The contraction in the rate recorded, however, probably fails to reflect the full magnitude of the effect of the damage, because of the difficulties in assessing some indirect effects on levels of activity such as, for example, obstruction, slowness and higher cost of transport, or the greater relative shortage there will be of certain inputs and other supplies whose use should be given priority in the more immediate rehabilitation work. Moreover, some of the effects of the floods -particularly on cotton, coffee and bananas- will make themselves felt in agricultural year 1982/1983 and, therefore, on the balance of payments for the next financial year.

The estimate prepared for the whole calendar year 1982 shows an appreciable reduction in the growth rate of the gross domestic product, which altogether would drop from 4.2% to less than 1%, representing a setback of at least 1.5% in per capita income levels. The contraction attributable to the disaster is fairly serious as far as the production of goods is concerned (the expected rate would fall from 6.4% to 2.1%), caused in its turn by drastic reductions in the dynamism originally predicted for agriculture -the growth rate of its gross domestic product would fall from 7.4% to 3.1%- and for manufacturing in which the rate would become negative. In the mining sector, the losses -partly attributable to the damage suffered in gold production- would virtually nullify the expected growth although there would probably be a recovery in the rest of the year in non-metallic mining in terms of the additional demand for construction materials which is bound to be generated. In this respect, it is expected that the growth rate of the construction sector will necessarily be accelerated, as the only case within the evolution of the sector, for the same reasons as those noted above. Naturally, the reactivation of this activity will not be sufficient to counteract the foreseeable evolution of the other production sectors, so that the above-mentioned rate would fall.

In the services sector, for which the Government had already predicted a very moderate growth of 2.9% -basically because of the austerity and rationalization programme undertaken by the public administration, including the State distribution apparatus- a contraction of about 1% is estimated as a result both of the effects on trade activities and transport owing to interruptions in the road and railway systems and the loss of impetus of each, as a more direct sequel to the disaster.

(ii) The balance of payments. The natural disaster will have a negative effect on the various flows which make up the 1982 balance of payments, although its adverse effects on exports of traditional commodities are estimated as being even greater in 1983. The estimates presented in this respect, which are of a very provisional nature, may be found in table 18. This shows, in the first place, an increase in the balance-of-payments deficit on current account of 65 million dollars over that envisaged before the disaster, or around 40 million dollars with respect to the 1981 figure, so that at the end of the year the deficit will be over 550 million dollars.

Table 18

NICARAGUA: BALANCE OF PAYMENTS  
(Millions of dollars)

	1980	1981	1982 projections	
			Before the disaster	After the disaster
Exports FOB	451	501	549	521
Cotton	30	122	122	96
Coffee	166	136	179	189
Sugar	20	49	49	49
Bananas	8	6	7	7
Other	...	158	192	180
Imports FOB	803	919	886	940
<u>Services balance</u>	<u>-135</u>	<u>-155</u>	<u>-200</u>	<u>-195</u>
Income	78	80	61	66
Expenditure	214	235	261	261
Donations	81	57	48	60
<u>Balance on current account</u>	<u>-407</u>	<u>-516</u>	<u>-489</u>	<u>-554</u>
Movement of capital (net)	206	569	374	...
Official capital (net)	343	588 <sup>a/</sup>	374	...
Withdrawals	366	654	467	...
Normal	280	411	467	...
Renegotiated	85	243	-	-
Amortization payments	-22	-66	-93	...
Undetermined capital	137	-19	...	...
Special drawing rights	5	5	...	...
Change in net reserves	196	-58	115	...
Balance of external debt (due in over a year's time)	1 571	2 141	...	...

Source: CEPAL estimates on the basis of information supplied by the Central Bank of Nicaragua and other official sources.

a/ Does not include 71 million as the effect of the renegotiation of the external debt.

/The increase

The increase in the deficit is due both to the predicted drop in external sales because of the effects of the floods and to the bigger imports required owing to loss of stocks and additional requirements for carrying out rehabilitation and reconstruction activities.

The projections prepared before the natural disaster of the volume which exports would reach were relatively encouraging and altogether represented 550 million dollars thanks to bigger sales of coffee, cotton and cane, and not withstanding a certain stagnation in the sale of non-traditional products, particularly those destined for the rest of Central America.

As a result of the floods, external sales of ginned cotton estimated at 122 million dollars will probably only reach 96 million, while those of bananas will practically remain at around 7 million dollars. Of lesser importance were the drops experienced in exports of cane (see table 18). External sales of meat, shellfish and, in general, the commodities purchased by Central America will probably also decrease, among other factors because of the obstruction of the communication system. In short, total exports of goods would decrease from 550 to 520 million dollars. As regards donations, which had normally entered the country and been assigned to the reconstruction process, the amount involved contracted drastically in the early months of 1982, so that taking into account those which Nicaragua expects to receive in view of the natural disaster, they will probably rise for the whole year to some 60 million dollars, which -in the light of what has occurred after the floods- will be insufficient.

In general, the losses in goods in customs warehouses which were either for export or were entering the country for subsequent use were largely protected by local insurance, which in its turn was to a large extent reinsured abroad, so that it may be expected that income envisaged under this head within the services account will increase in the course of the year.

Imports, estimated by the Central Bank for the whole year at 886 million dollars, will rise due on the one hand to donations in kind of 10 million dollars which had not originally been considered -their counter-entry being the income recorded in the capital account- plus 45 million representing 50% of the total requirements of imported goods calculated in this report in terms of losses of stocks and/or urgent needs arising in the various sectors.<sup>18/</sup>

Logically enough, the capital account will also be affected, although the magnitude and characteristics of its evolution will depend on the volume of additional resources which may be mobilized, and on the country's executive capacity to absorb it. In this respect, a certain slowness is noted in the utilization of pledged foreign capital owing to problems in the execution of projects of various kinds which have been started on the basis of this capital (the utilization of net official capital which amounted to 654 million dollars in 1981 should be reduced to some 450 million according to estimates prior to the disaster). This situation entailed the need to utilize international reserves of over 115 million dollars. In the face of the deterioration in the balance-of-payments current account which has resulted from the meteorological phenomenon and the consequent needs in terms of imports and replacement of assets, in the next few months additional capital needs will be proposed on very favourable maturity and interest terms, particularly keeping in mind that the country's total external debt was already 2 150 million dollars in 1981 and that same year its servicing absorbed over 35% of total exports.

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<sup>18/</sup> The other 50% will have to be imported in 1983.

(iii) The public sector. Owing to the important stimulating role played by the public sector and its efforts to make good the considerable deficiencies in the provision of social services, since the present administration assumed power in the country, the fiscal deficit is one of the greatest disequilibria facing the economy.

In 1982 serious efforts were being made to alleviate this problem by means of a sustained increase in the collection of taxes -both direct and indirect- and by slowing down the expansion of expenditure in relation to previous years. Had it not been for the disaster, the fiscal deficit would have been reduced from nearly 3 000 million córdobas (54% of current income and 11% of GDP) in 1981, to 2 600 million in 1982 (37% of projected income and 7.6% of GDP) (see table 19). This would have constituted an important achievement if it is considered that it was to be attained without reducing the magnitude of the services programmed for the population, and even though it meant a drop in the real execution of investment projects of approximately 400 million córdobas.

The natural disaster altered the situation envisaged in several respects. The reduction in the levels of activity described above was bound to affect the levels of tax collection in the rest of 1982 by a sum roughly estimated at a little over 300 million córdobas (a deficit of 100 million in taxes on income and net worth, and a deficit of 200 million in consumer taxes). Despite this contraction, the income under this head exceeded that received in 1981 thanks to the changes and improvements in the tax collection system (see table 19). Taxes on foreign trade would not be substantially modified, since although there could be a reduction in taxes on imports, these are of little importance; in contrast, it is probable that import taxes will be maintained, notwithstanding the expected increase in these owing to the fact that most of the additional imports expected would be tax free.

As regards the evolution of current expenditure, it was assumed that the system of austerity in connexion with wages and salaries will have to be maintained, in spite of the increase in working hours of many of the Government personnel connected with the emergency and rehabilitation activities, since to a great extent recourse will be had to voluntary work. On the other hand, there should be an increase in expenditure on the purchase of goods and services related to the above-mentioned process, and very probably, too, in transfers to some official institutions, particularly those responsible for the distribution of foodstuffs and other basic items.

In accordance with the above observations, the negative current saving would increase by about 940 million córdobas. Moreover, a moderate increase of 420 million córdobas has been estimated in the capital expenditure required for reconstruction in 1982, so that the fiscal deficit would increase considerably -from 2 600 to 3 870 million- representing as much as 59% of current income and 11.3% of the estimated GDP. The increases in expenditure are fairly modest if account is taken of the substantial requirements for the reconstruction of the infrastructure works destroyed, and the fact that many of them will have to be redesigned so that they can withstand eventualities such as that which occurred. It has been assumed, however, that part of the new expenditure involved in the rehabilitation and reconstruction works will be based on the postponement or elimination of projects which were originally meant to be executed in 1982 but which are less pressing.

Table 19

NICARAGUA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE  
(Millions of córdobas)

	1980	1981 <u>a/</u>	1982 <u>b/</u>	
			Before the disaster <u>c/</u>	After the disaster
1. Current income	4 526	5 523	6 923	6 570
Tax income	3 991	4 531	5 509	5 160
Direct	934	966	1 161	1 060
Indirect	1 840	2 684	3 113	2 900
From foreign trade	1 217	881	1 236	1 200
2. Current expenditure	5 008	6 880	7 000	7 500
Wages and salaries	1 562	1 954	2 343	2 340
Other current expenditure <u>d/</u>	3 446	4 926	4 657	5 160
3. Current saving (1-2)	-482	-1 357	-77	-930
4. Capital expenditure	1 356	1 610	2 518	2 940
Real investment	972	992	...	...
Amortization of the debt	170	381	...	...
Other capital expenditure	214	237	...	...
5. Total expenditure (2+4)	6 364	8 490	9 518	10 440
6. Fiscal deficit (1-5)	1 838	2 967	2 595	3 870
7. Financing of the deficit				
Internal financing	450	2 018	745	1 020
External financing	1 388	949	1 850	2 850

Source: CEPAL, on the basis of figures supplied by the Planning Ministry.

a/ Preliminary figures.

b/ On the basis of figures supplied by the Fiscal Economic Studies Division of the Ministry of Finance.

c/ Updated budget (on the basis of January-April collection; in the case of expenditure: January-May), the source being the Ministry of Finance.

d/ Including transfers (except those made to ENABAS, CORADEP, ENABUS, Ferrocarril and INPESCA.

/In any

In any case, the appreciable increase in the deficit envisaged faces the public sector with additional external financing needs of around 100 million dollars which would not have been the case if the disaster had not occurred, which means trebling the level of disbursements effected in 1981. The following chapter advances some observations regarding the feasibility of attaining that goal.