

III. EFFECTS ON ECONOMIC DEVELOPMENT

1. Evolution of the Nicaraguan Economy as of 1979

a) Main Features of the Economy and of the Problems Inherited

Nicaragua has the typical characteristics of a small agri-exporting economy, based on a small number of commodities which make it highly vulnerable to the international economic situation. In the 1960s its traditional export platform was considerably expanded and diversified. In addition to coffee, cotton, sugar and meat were incorporated as "motor" products, and at the same time some progress in industrialization was made within the context of the Central American Common Market integration scheme. The dynamic stimulus of the traditional export sector and of import substitution industrialization allowed for a rapid expansion of the economy as of 1960, but with a highly uneven distribution of its benefits among the different population strata. Thus, among the present main features of the Nicaraguan economy are its extreme dependence on phenomena associated with the international economy -and among these the shortage of foreign exchange which is the principal factor limiting development- and the many lacks and backwardness suffered by the bulk of the population.

The devastating effects of the 1972 earthquake aggravated those inequalities, punishing to a great extent the low-income groups living in the Marginated areas of the city and adding thus to their aforementioned backwardness.^{5/} The aftermath of the still unfinished reconstruction was superimposed on an increasingly intense civil upheaval which in turn led to a situation of progressive economic recession, characterized by a contraction of private investment, the flight of foreign exchange, growing external public indebtedness and, finally, considerable damage caused by the armed conflict which culminated in mid 1979 at a cost of not less than 50 000 human lives and material damage amounting to some 500 million Dollars.^{6/}

When the new authorities assumed power, a large extension of cotton and basic grains remained unsown; the country was immersed in an acute internal decapitalization process and an unprecedented external financial insolvency -the total external debt amounted to 1 500 million Dollars, with service payments that in 1979 would have absorbed 100% of the foreign exchange earned by exports of goods and services- open unemployment of more than 30% of the economically-active population and a fiscal deficit of over 1 200 million Córdobas,^{7/} equivalent to 70% of the Government current income. As a direct result of the war and because of the transfer of capitals abroad, there was heavy decapitalization in both production and economic infrastructure.

b) Principal Aspects of the Economic Policy as of 1979 and Main Achievements

In the face of this profound economic depression and the paralyzation of most production activities, combined with the longstanding problems of Nicaragua's economy, the National Reconstruction Government Junta established a number of objectives which at the beginning of 1980 were incorporated into an annual plan,^{8/} and which were reinforced in a second plan adopted early in 1981.^{9/} These measures were designed to reactivate production and were at the same time consistent with the objectives for social justice outlined in the Government's original programme.

This reactivation was sought by imbuing the State's operational structure with dynamic force, in an endeavour to combine, in a system of mixed economy the interests of the workers, the Government and private enterprise. Incentives were offered to production and exports, both through credit and fiscal concessions and by fixing remunerative sales prices for the main export commodities. At the same time, an attempt was made to raise the level of well-being of the masses, not so much through a wage policy -although minimum wages were adjusted nominally during the period 1980-1981, real wages fell- but rather through the provision of services and other indirect benefits and the creation of

new employment opportunities. For example, ceiling prices were fixed for a basket of basic commodities and for rents; distribution channels were organized for essential articles on the basis of popular markets; and there was improvement in the provision of health and education services, most notably the literacy campaign launched in 1980. At the same time, the year-end rates of open unemployment dropped from 23% in 1979 to 17.6% in 1980 and to 13.4% in 1981.

During this period an important change was also introduced in the structure of property, with the State confiscating all the assets of the overthrown political group.^{10/} In addition, an agrarian reform was initiated on the basis of expropriated land, and subsequently of the unused areas in properties larger than 350 hectares on the Pacific coast and 700 hectares in the rest of the country. This land is administered as State enterprises or as co-operatives.

In order to alleviate the external constraints, the new authorities initiated concerted actions with a view toward obtaining additional credit from abroad under favourable terms -the official loans contracted between July 1979 and December 1981 amounted to about 1 200 million Dollars^{11/} and renegotiations of the previously existing external public debt with private creditors were carried out successfully.

Finally, important efforts were made to improve the efficiency of the enterprises which came under State control -the so-called Popular Ownership Area- and to improve the public sector's capacity to stimulate economic growth and promote the changes postulated in the Government programme and development plans previously referred to, although problems such as the organization and shortage of executive and intermediate staff hindered the attainment of these goals.

Unfortunately, all these efforts were made within the context of a gradual decline in the world economy; this deterioration was particularly severe in 1981, and the main obstacle to economic recovery -the acute scarcity of foreign exchange- was seriously aggravated. Furthermore, the changes proposed by the National Reconstruction Government Junta were questioned both internally and externally and thus not free from

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pressures: private enterprise was reluctant to reactivate its investments in spite of the fiscal incentives offered, due to the uncertainty of a great many entrepreneurs concerning the medium-term future of the country. These pressures turned at times into acts of violence, which, among other effects, increased the concern of the authorities for national security and defence. Moreover, Nicaragua has -as the rest of the Central American countries- recently experienced difficulties in obtaining resources to finance its development, particularly when taking into account that, for different reasons, some important international agents have placed obstacles to the flow of new resources into the country. Nevertheless, since 1979 the Government Junta has accomplished important achievements. In 1981 the gross domestic product increased at a rate of approximately 9% for its second consecutive year. Although real per capita income in the past year was 25% lower than that recorded five years before, its growth was considerable, if it is considered against a background of the adverse trends described above, and reflects reactivation from an extremely depressed internal situation.

The production of goods recovered in 1981, basically stimulated by agriculture, with a 14% increase in that sector's added value, despite the fact that cattle production continued to fall during that same year. The rise in production was both in export and domestic consumption goods. The construction sector -the most severely affected by the 1979 recession- had shown a distinct trend towards recovery during the 1980-1981 two-year period -although it only reached 75% of the 1978 level- basically influenced by public investment and the support and financing of low-cost housing. Notable developments in this sector are the virtual conclusion of the highway to the Atlantic (Puerto Cabezas), the great stimulus given to the construction of rural roads, the works connected with the energy sector, and the building of hospitals, health centres and schools. In general, public expenditure -both capital and current- became one of the main dynamic factors of the economy. For example, the added value of the public administration represented one-quarter of economic growth in 1981. This, of course, also gave rise

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to the financial disequilibrium which will be referred to later on. Finally, mining, electricity generation, transport and trade also showed a fairly vigorous growth in the recent two-year period.

In contrast, the manufacturing sector has had to face the most serious problems in its reactivation, although it experienced a moderate growth during 1980 and 1981; some of the contributing factors were the destruction of its installations and equipment, the depletion of its inventories and the breaking down of the chain of financing-imports of inputs-productive process-distribution-exports. This sector continues to be affected by the lack of skilled personnel and by the private industrial sector's attitude, described above, which, in the face of the new economic policy guidelines, has discouraged investment and even led to decapitalization.

As regards the external sector, exports growth has been severely limited by the instability and decrease in prices of the main commodities and in their purchasing power, and further limited by the rise in the average price of imports. The high interest payments for the external debt, despite its recent renegotiation, combined with the negative trade balance, raised the deficit on the current account to approximately 490 million Dollars in 1981 -a figure which, for the first time, comes fairly close to the current value of exports- and the shortage of foreign exchange constituted a crucial limitation for the general operation of economic activities. This shortage contributed to the formation of a parallel market used mainly for non-essential imports and the movement of unrecorded capital, whereby the exchange rate almost tripled the official one, which introduced additional distortions in the financial area and in the general price system.

On the domestic economy front, notwithstanding the efforts exerted for austerity and rationality, the disequilibria and pressures of the most important economic and financial variables still exist, although inflationary pressures have diminished. In this respect, a source of concern was the growing deficit of the central Government, which increased from 1 840 to over 2 900 million Córdobas between 1980 and 1981 -8.5% and 11%, respectively, of the GDP- despite the increase in income

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which almost tripled between 1979 and 1981. The rapid expansion of expenditure -in 1980 both on investment and current; in 1981, only on current expenditure- is consistent with the Government's effort to achieve its many and sometimes conflicting economic, social and security policy goals.

To sum up, in the past two-year period Nicaragua faced two long-standing development obstacles -disequilibria in the balance of payments current account and in public sector finances- added to new obstacles linked with the effort to introduce changes in conducting the economic policy, within the context of increasing political polarization.^{12/} What is more, the country had not yet recovered from the damage caused by the 1972 earthquake, and still less from the considerable destruction and indirect consequences of the armed conflict in 1979. Now, in addition to this entire constellation of adverse phenomena, there are the effects of a new natural disaster.

2. Possible Effects on the Economy in 1982

a) General

The natural disaster will have clear effects on the evolution of the economy not only in what remains of 1982 but also and to some extent in 1983. As regards the damage to certain natural resources linked to agriculture, its impact will be felt over a still longer period.

In the first place, the growth rate of nearly all the production sectors will slow down, which, in turn, will affect the high unemployment levels recorded in the country, i.e., about 13% of the work force at the time of the disaster. Perhaps the only exception will be construction, where the urgent need for repairs to highways, bridges, buildings and housing will demand a high level of activity, which, in view of the high demand for manpower in this sector will probably offset, in part, the situation of increasing unemployment.

In the second place, there will be an impact on the balance of payments due to the decrease in exports of agricultural commodities, either destroyed or damaged, and the increase in external purchases of consumer goods,

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raw materials for agriculture and industry designed to replace lost stocks and capital goods, particularly spare parts, and to put rapidly into operation machinery and equipment which came to a standstill in the productive sectors. In addition, despite the magnitude of the disaster, the flow of donations thus far received (mid-June 1982) continued to be insignificant in terms of the existing requirements. Hence an even greater current account deficit on the balance of payments is expected than the already high figure (520 million Dollars) estimated before the disaster.

A third type of negative effects will be recorded in the public sector's operation. On the one hand, the reduction in the product's rate of growth will affect the collection of taxes, both direct and those deriving from consumption; as regards expenditure, there is no doubt that the austerity policy in current expenditure and investment envisaged before the disaster will have to be modified in the face of the urgent need to undertake activities such as the reconstruction of roads, the transport system, housing, hospitals, schools, etc. Possibly, there should also be increases in the subsidies to State agencies responsible for the distribution of food so as to allow them to revert to the operation levels required by the population.

It is still too early to assess the full effects of the recent disaster on the general economy of Nicaragua. There is no doubt, for example, that the supply problems which it has brought about will affect the rate of inflation, as borne out by the efforts made by the authorities -with varying results- to exert a more strict control on basic commodities prices which shot up during the first few weeks after the disaster; also, connected to this is the great increase in the demand for certain materials that will arise as a result of the reconstruction process.

In short, the disaster is having negative effects on three areas of key importance for the economic situation prevailing in the country: it is reducing the production of goods, with the corresponding impact on the rate of growth and employment which are posed as crucial matters in order to face the unemployment problems and the existing plans to raise the populations' level of consumption in the short term; it is aggravating

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the problem of the shortage of foreign exchange, which has already constituted a basic factor hindering the economic reactivation plans which have been put into effect since the new authorities assumed power in 1979, and at the same time it raises new requirements in terms of foreign capital, despite the high levels reached by debt service payments; and, finally, it is accentuating the disequilibrium in public finance with the reduction in public income and the rise in the expenditure required to repair the damages. It should be noted that the Government has been making praiseworthy efforts in this connection which seemed to indicate that a considerable reduction in the absolute amount of the deficit might have been expected.

Within the still preliminary nature of the figures, an attempt is made below to define somewhat more precisely the foreseeable effects in each of these fields.

b) Prospects for the Economic Situation in 1982 before the Disaster

The two main financial constraints which had characterized the economic situation in 1981 with different intensity,^{13/} -extreme shortage of foreign exchange and serious fiscal imbalance- were accentuated after the first quarter of 1982, causing a drastic fall in economic activity -with negative effects on employment- and an increase in inflationary pressures.

In the first place, the rigidities which were previously evident in economic relations with other countries, in general, became more acute. On the one hand, with a volume of exports which would apparently exceed the previous year's level, the further decline in world prices of the main commodities, would increase the loss in foreign trade, which the efforts to continue the reduction of imports would not compensate. Hence the current account balance would almost maintain, in general terms, the critical 1981 levels. On the other hand, the high level of cumulative indebtedness -which, in addition to the level of the inherited debt, is explained by the execution of projects mainly benefiting the production sectors and economic and social infrastructure-

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and the difficulty to execute investment projects, determined that the utilization of foreign capital would not be high, so that an even sharper drop in international reserves was expected at the end of 1982. As already stated in the preceding pages, among the causes underlying these predictions, both the international situation and the short-term trends played an important part in Central America.

Secondly, as regards public finance, the aforementioned difficulties which increasingly encouraged a less expansive expenditure policy, gave grounds for assuming that in 1982 the high fiscal deficit would be reduced basically due to a rise in tax revenues (improvements in the collection of taxes on personal income and property and new charges on beverages and tobacco). The fiscal situation, however, would in any case maintain its critical levels since, for example, the Government's coefficient fiscal deficit/total expenditure would only have fallen from 34% to 30%. It should also be noted that the above-mentioned efforts to moderate the vigorous growth of public expenditure with the aim of reducing the financial disequilibrium conflicted with various pressures deriving from the international situation which, for reasons unrelated to economics, required the orientation of more resources for defence in the present year than in the past.

These disequilibria -balance of payments and fiscal- owing both to internal and external factors had determined, as noted earlier, that at the beginning of the year the goals considered in the Government's economic plan had already contemplated a decrease of the growth rate from nearly 9% in 1981 to less than 5% in 1982. Subsequently, the more serious situation with respect to the shortage of foreign exchange, over and above what was expected, had already determined an additional decrease in this rate as a result of more pessimistic prospects in the case of the manufacturing industry, one of the sectors which in Nicaragua is most dependent on supplies of imported raw materials ^{14/} (see Table 17). In order to understand the persistence of the low levels of real economic activity, it should be taken into account that the growth that had been predicted for 1982 meant that even the total added value at constant prices would be lower than that recorded in the mid 1970s, and would represent approximately 80% of the 1977 total.

Table 17

NICARAGUA: GROSS DOMESTIC PRODUCT BY ECONOMIC ACTIVITY IN 1981
AND PROJECTIONS FOR 1982 a/

(Growth rates)

Item	1980	1981	1982	
			Expected before the Disaster	Probable Results after the Disaster
Gross domestic product	10.0	8.9	4.2 ^{b/}	0.7
Goods	0.7	10.3	6.4	2.1
Agriculture	-10.0	14.3	7.4	3.1 ^{c/}
Mining	49.2	6.6	14.4	0.0
Manufacturing	11.8	2.8	4.9 ^{d/}	-0.4
Construction	117.3	34.8	7.0	10.0
Services	115.8	9.2	2.9	-0.8
Electricity, gas and water	11.8	16.0	15.0	-2.5
Transport, storage and communications	18.5	6.1	...	-5.0
Trade and finance	16.3	6.9	3.0	0.0
Ownership of dwellings	-	4.9	...	...
Public administration and defence, and other services	26.2	11.8	0.0	0.0

Source: Estimates made by CEPAL on the basis of information provided by the Ministry of Planning.

a/ Preliminary, subject to subsequent revision.

b/ Already adjusted to take into account a decrease in the industrial growth rate.

c/ On the basis of Table 10, an increase of 15.7% was expected in the agricultural quantum, which was reduced to 8.8% because of the disaster. This proportion was maintained in calculating the new growth rate of the agricultural product. The estimated losses in livestock production and in stocks of products ready for sale were deducted (see Table 13).

d/ Owing to foreign exchange problems, the reduction of this rate to 2.2% had been proposed even before the disaster.

At the sectoral level, with the exception of the large increase 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 decreasing 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 dynamism. In the case of agriculture, a slightly smaller increase than in the previous year was envisaged, on the basis of an extension of the area sown for production of domestic consumption goods (precisely by stimulating the production of basic grains, the consolidation of associative 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. At the same time, in the case of manufactures, action was being taken to promote the production of basic articles, of widespread use, such a foodstuffs, textiles and clothing, as also construction materials, especially wood.

These results of economic activity, envisaged in general 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 achieve in 1981, particularly at two levels. On the one hand, in the preceding two-year period intensive efforts had been made to partially overcome the serious problem of open unemployment,^{15/} 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.^{16/} The continued scarcity of some staples, however, -although the possibilities for speculating on the market had been largely eliminated- in the early months of 1982 was determining a certain acceleration of the rate of increase in prices. This was even predicted in the goals of the Government's economic plan.^{17/}

Finally, economic trends in 1982 would have lead to a further deterioration in the real wages of the workers as the result of increased inflationary pressures vis-a-vis a somewhat austere wage policy, given

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the generalized financial difficulties. It was also expected that, if new increases 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 decrease. 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 list of obstacles described earlier. The following is a summarized review of the implications of this phenomenon for the main macro-economic variables.

i) Rate of Global and Sectoral Growth. The external and internal difficulties which Nicaragua's economy had been confronting in order to maintain a growth 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 for the rest of the year (see Table 17).

Taking into account the production losses observed in the various economic sectors, an attempt has been made to revise the projections prepared by the Government before the disaster. The estimated decrease in the growth rate, 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 expected 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 be felt in the 1982/1983 agricultural year and, therefore, on the balance of payments for the next financial year.

/The estimates

The estimates made for the 1982 calendar year indicate a substantial reduction in the growth rate of the gross domestic product, which altogether would decrease from 4.2% to less than 1%, which represent a setback of at least 1.5% in per capita income levels. The contraction which can be 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 reduction in gold production- would virtually nullify the expected growth although non-metallic mining would probably have a recovery in the rest of the year, in view 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; the only case within the whole economy for the same reasons noted above. Naturally, the reactivation of this activity will not be sufficient to counteract the foreseeable negative evolution of the other productive 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 aftermath to the disaster.

ii) The Balance of Payments. The natural disaster will have an adverse effect on the various items 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 preliminary nature, may be found in Table 18.

/Table 18

Table 18
NICARAGUA: BALANCE OF PAYMENTS
(Millions of Dollars)

Item	1980	1981	1982 Projections	
			Before the Disaster	After the Disaster
Exports, <u>fob</u>	451	501	549	521
Cotton	30	122	122	96
Coffee	166	136	179	189
Sugar	20	49	49	49
Bananas	8	6	7	7
Others	...	158	192	180
Imports, <u>fob</u>	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>Current Account Balance</u>	<u>-407</u>	<u>-516</u>	<u>-489</u>	<u>-554</u>
Movements of Capital (net)	206	569	374	...
Official Capital (net)	343	588 ^{a/}	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 more than one year's time)	1 571	2 141	...	...

Source: Estimates made by CEPAL on the basis of information provided by the Central Bank of Nicaragua and other official sources.

a/ Does not include 71 million due to the renegotiation of the external debt.

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It shows, in the first place, an increase in the current account balance-of-payments deficit of 65 million Dollars over that envisaged before the disaster, or around 40 million Dollars with respect to the 1981 figure, so that at year's end the deficit will exceed 550 million Dollars.

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

The projections made prior to the natural disaster on the volume of exports were relatively encouraging and altogether amounted to 550 million Dollars thanks to bigger sales of coffee, cotton and cane, and notwithstanding 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 estimated the decreases that will be experienced by the cane exports (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 transport system. In short, total exports of goods would decrease from 550 to 520 million Dollars. The donations, which had normally entered the country and been assigned to the reconstruction process, suffered a drastic contraction in the early months of 1982, so that taking into account those which Nicaragua expects to receive in view of the new natural disaster, the figure for the entire year will probably amount to some 60 million Dollars, which -in the light of what has occurred after the floods- will be insufficient.

In general, the losses of 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 turn was to a large extent reinsured abroad, so that the income envisaged under this heading in the services account can be expected to increase in the course of the year.

/Imports.

Imports, estimated by the Central Bank for the whole year at 336 million Dollars, will rise due on the one hand to donations in kind of 10 million Dollars which had not originally been considered -their counterpart 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 stock losses and/or urgent needs arising in the various sectors.^{18/}

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 capacity to implement new projects. In this respect, some sluggishness is noted in the utilization of earmarked foreign loans due to problems in executing different projects which have been started on the basis of this capital (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 resulting needs in terms of imports and replacement of assets, in the next few months additional capital on very favourable maturity and interest terms will be required, particularly keeping in mind that the country's total external debt was already 2 150 million Dollars in 1981 during which year its servicing absorbed over 35% of total exports.

iii) The Public Sector. Due to the important stimulating role played by the public sector and its efforts to overcome 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 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 expenditure expansion in relation to

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previous years. Had it not been for the disaster, the fiscal deficit would have been reduced from nearly 3 000 million Córdoba (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 been an important achievement, considering that it was to be attained without reducing the magnitude of the services for the population, and even though it meant a decrease in the real implementation of investment projects of approximately 400 million Córdoba.

The natural disaster modified the situation envisaged in several respects. The reduction in the levels of activity described above was bound to affect the levels of tax collection for the rest of 1982 by a sum roughly estimated at a little over 300 million Córdoba (a decrease of 100 million in taxes on income and net worth, and a decrease of 200 million in consumer taxes). Despite this contraction, the income under this heading exceeded the one received in 1981 due to 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 on export taxes, these are of little importance; in contrast, it is probable that import taxes will be maintained, notwithstanding their expected increase owing to the fact that most of the additional imports foreseen would be tax free.

As regards the evolution of current expenditure, it was assumed that the principle of austerity in connection 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 it will have to resort 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 Córdoba. Moreover, a moderate increase of 420 million Córdoba has been estimated for the

Table 19
NICARAGUA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE
(Millions of Córdoba)

Item	1980	1981 ^{a/}	1982 ^{b/}	
			Before the Disaster ^{c/}	After the Disaster
1. Current Income	4 526	5 523	6 923	6 570
Tax Revenue	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 ^{d/}	3 446	4 926	4 657	5 160
3. Current Savings (1-2)	-482	-1 357	-77	-930
4. Capital Expenditure	1 356	1 610	2 518	2 940
Real Investment	972	992	...	...
Debt Amortization	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. Deficit Financing				
Internal Financing	450	2 018	745	1 020
External Financing	1 388	949	1 850	2 850

Source: Estimates made by CEPAL on the basis of information provided by the Ministry of Planning.

a/ Preliminary figures.

b/ On the basis of figures provided 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).

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capital expenditure required for reconstruction in 1982, so that the fiscal deficit would increase considerably -from 2 600 to 3 870 million- amounting to 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 destroyed, and the fact that much of it will have to be redesigned so that it can withstand similar future phenomena. 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.

In any case, the expected notable increase in the deficit imposes additional external financing requirements on the Government, of approximately 100 million Dollars over and above the figure anticipated before the disaster, which means that the level of the 1981 disbursement will be tripled.