1. The Government of Nicaragua has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

2. Nicaragua had a moderate gain in international reserves in 1959 as a result of a small increase in export receipts and a steep reduction in imports. The increase in export receipts was partly due to the disposal of cotton stocks previously withheld from export. The export position of Nicaragua, however, continued to weaken as prices for its two major export products, cotton and coffee, declined further last year. The reduction of imports was due to higher import taxation, a sizeable contraction of bank credit to the private sector, and reduced inflows of official and private capital. Notwithstanding the 1959 gain, the level of Nicaragua's gold and exchange reserves continued to be low. In view of an unfavorable production and export outlook for 1960, the Fund urges Nicaragua to pursue restrained fiscal and credit policies in order to attain external and internal financial equilibrium, and contribute to rebuilding its international reserves, which should be a basic objective of Nicaragua's financial policies.

3. A serious imbalance in the Government's fiscal operations developed in 1958-59 and 1959-60, as a result of a decline in revenues, largely related to declining export prices, and because of an increase in expenditures, partly due to the abnormal political events of 1959. The monetary impact of the fiscal deficit led to a contraction of credit to the private sector. The Fund notes that the Nicaraguan authorities are determined to finance the 1960-61 budget through noninflationary sources and the Fund urges Nicaragua to adhere firmly to that policy.

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1 Transmitted by the IMF as relevant for the CONTRACTING PARTIES in connexion with their consultation with Nicaragua under the Decision of 20 November 1959.
4. The Fund notes the progress made by Nicaragua in 1959-60 toward the unification of the córdoba rates of exchange and encourages the Nicaraguan authorities to take steps to complete rate unification and elimination of the remaining restrictions as soon as feasible. In the meantime, the Fund does not object to the recent transfer of a few items from the official exchange market to the uncontrolled exchange market.

5. In concluding the 1959 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Nicaragua.