

INTERNATIONAL MONETARY FUND



# **Staff Country Reports**

**Nicaragua: Fourth and Fifth Review Under the Three-Year Arrangement Under the Extended Credit Facility, Requests for Extension of the Arrangement, Rephrasing of Access, and Waiver of Nonobservance of Performance of Criterion, and Financing Assurances Review—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Nicaragua.**

In the context of the Fourth and Fifth Review Under the Extended Credit Facility, the following documents have been released and are included in this package:

- The staff report for the Fourth and Fifth Review Under the Extended Credit Facility, prepared by a staff team of the IMF, following discussions that ended on September 17, 2010, with the officials of Nicaragua on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 1, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A Press Release summarizing the views of the Executive Board as expressed during its November 19, 2010 discussion of the staff report that completed the request and/or review.
- A statement by the Executive Director for Nicaragua.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Nicaragua\*  
Technical Memorandum of Understanding\*

\*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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# INTERNATIONAL MONETARY FUND

## NICARAGUA

### **Fourth and Fifth Reviews Under the Three-Year Arrangement Under the Extended Credit Facility, Requests for Extension of the Arrangement, Rephasing of Access, and Waiver of Nonobservance of Performance Criterion, and Financing Assurances Review**

Prepared by the Western Hemisphere Department  
(In consultation with other departments)

Approved by Miguel A. Savastano (WHD) and Dhaneshwar Ghura (SPR)

November 1, 2010

**Background.** A three-year PRGF (now ECF) arrangement for SDR 71.5 million (55 percent of quota) was approved on October 5, 2007 and augmented by SDR 6.5 million (5 percent of quota) on September 11, 2008. The second and third reviews under the ECF arrangement were completed in November 2009. The fourth review was postponed due to a decision to grant a monthly wage bonus to public sector employees that had not been contemplated in the program. On September 24, 2010, the Executive Board approved a two-month extension of the arrangement (which was expiring on October 4) to allow time to conclude negotiations for bringing the program back on track. Jointly with the fourth and fifth reviews, the authorities are requesting an extension of the arrangement through December 4, 2011. The extension would entail a re-phasing of remaining access under the ECF. The staff report on the 2010 Article IV consultation was discussed by the Executive Board on July 9.

**Recent developments and outlook.** The economic recovery, tax collections, and net capital flows are somewhat stronger than anticipated at the time of the Article IV discussions. All quantitative performance criteria through end-December 2009 and end-June 2010 (set in November 2009) were met with margins (except for the ceiling on nonconcessional external debt which for a technical reason was formally not observed), but the surplus of the social security institute (INSS) was lower than envisaged. Good progress has been made in moving forward the structural agenda—a new Central Bank charter and legislation extending coverage of the anti-theft electricity law were approved by the Assembly in July, and a study on options for reform of the pension system has been published.

**Program understandings.** The strong revenue performance and higher-than-expected grants will allow the authorities to keep the overall fiscal deficit in 2010 significantly below what was projected at the time of the Article IV consultation. A prudent fiscal policy in 2011 will result in a substantial improvement in the cyclically-adjusted fiscal balance. On the structural front, the authorities will adopt measures to enhance the monitoring and transparency of external assistance and assess the scope for streamlining government employment practices.

**Discussions.** A team comprising Messrs. Gelos (head), Brousseau, Di Bella (Resident Representative), Samake (all WHD), and Messrs. Fenochietto (FAD) and Serra (SPR) visited Managua during September 9-17 and met with Central Bank President Rosales, Finance Minister Guevara, other senior officials, Assembly leaders, and representatives of the private sector. Mr. Gramajo (OED) joined the policy discussions.

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## I. INTRODUCTION

1. **Economic performance in Nicaragua during 2010 has been somewhat better than envisaged at the time of the Article IV discussions.** With a broadly supportive external environment, the recovery has gained strength and growth is now projected to reach 3 percent. Exports are growing faster than anticipated, and net capital flows (mainly official assistance) have been higher than envisaged, keeping international reserve levels above projections. In response to stronger-than-expected tax revenues and higher-than-expected grants, the authorities have slowed down spending growth, and will lower the fiscal deficit, thus saving broadly the equivalent to the wage bonus and the deviations in social security in 2010. Progress has also been made on the structural reform agenda.

2. **Nonetheless, vulnerabilities remain and will be compounded by electoral uncertainties.** Historically, Nicaraguan elections have been accompanied by heightened economic uncertainty and 2011 entails similar risks. President Ortega is expected to run for a new term (in spite of claims by the opposition that such a move would be illegal), while it is unclear whether the opposition will agree on a consensus candidate. Meanwhile, negotiations between the ruling and opposition parties over the appointment of judges and officials to the Supreme Court and other key institutions continue. Resumption of budget support by some foreign donors remains conditioned on the establishment of a credible electoral process.

3. **Against this background, the authorities are requesting a one-year extension of the ECF arrangement to help them anchor policies and expectations.** They consider that a Fund-supported program through end-2011 would contribute to reduce uncertainties stemming from the political context and also provide a credible framework to mitigate risks related to a still uncertain external environment. Building on the prudent macroeconomic stance of 2010, macroeconomic policies during 2011 will be anchored on containing expenditures, protecting the external position, and paving the way for fiscal consolidation. Concrete steps to improve the monitoring and reporting on the sources and uses of foreign aid flows will further contribute in improving confidence and transparency.

## II. RECENT DEVELOPMENTS

4. **The economic recovery is firming up.** The economy grew at 5.9 percent (y/y) in the first half of the year. The recovery is broad based, with most sectors (except construction) posting gains in activity (Figure 1). On the demand side, the recovery in investment is lagging that of consumption, while export growth is outpacing import growth. Despite the adverse impact of strong rainfalls, real GDP growth for 2010 is now projected to reach at least 3 percent (compared to 1 ¾ -2 percent in the last staff report). Inflation is broadly in line with earlier projections and is expected to reach 7 percent by end-2010.

5. **The external position remains relatively sound.** The external current account deficit is projected to increase in line with the higher activity, but the non-oil current account

balance will strengthen on the back of strong performance of commodity exports (Figure 3).<sup>1</sup> On the capital account, a modest recovery of FDI and an increase in concessional inflows related to the Venezuelan oil-collaboration scheme (expected to reach about 8 percent of GDP) will not offset the projected decline in official assistance, but will result in a surplus larger than the one projected during the Article IV consultation. As a result, the shortfall in the balance of payments by end-2010 is projected to be US\$100 million lower than envisaged earlier (Table 7).

6. **Revenue performance is stronger than expected.** The pickup in activity and the effects of the 2009 tax reform (which eliminated a range of exemptions and established a minimum tax on gross income) have resulted in a strong revenue intake in the first half of the year. For the year as a whole, tax revenues are projected to reach 18.3 percent of GDP (17.7 percent in 2009), 0.8 percentage point of GDP higher than envisaged during the Article IV.

7. **The financial sector remains stable and highly liquid, but profitability has declined.** With the ratio of nonperforming loans (NPLs) stabilizing at 11 percent in July (from 7 percent in 2008), the drop in credit appears to have been halted by mid-2010 and the first signs of a resumption in lending are emerging. However, banks' returns on assets remain close to zero (compared to 1.8 percent in 2008). At the same time, liquidity buffers remain very high, with a ratio of liquid assets to total assets of 31.5 percent as of July.

8. **Relative to the targets and understandings reached at the conclusion of the second and third review (in November 2009), performance has been mixed:**

- **Quantitative targets.** All quantitative performance criteria (QPCs) through end-June 2010 were met with margins, with the exception of the ceiling on nonconcessional external debt, which for a technical reason was formally not observed.<sup>2</sup> The surplus of the social security institute (INSS) was, however, lower than envisaged.
- **Structural reforms.** In July 2010, the National Assembly approved a reform of the electricity anti-theft law and a new Central Bank Charter, both of which incorporated earlier Fund recommendations. In October, the National Assembly approved a new procurement law in line with international best practices. More recently, the authorities published a study on options to reform the pension system, covering the areas staff had identified as critical.

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<sup>1</sup> The oil bill for 2010 is projected to be 40 percent higher than in 2009 owing to higher oil prices and a one-off expansion of fuel-oil reserves.

<sup>2</sup> In August 2010, the authorities renewed for 12 months an existing US\$200 million contingent credit line with the Central American Bank of Economic Integration secured in 2009 (and contemplated in the program). Since the renewal of this credit line—which has not been activated—had not been explicitly foreseen in the TMU, this triggered a nonobservance of the performance criterion of the ceiling on nonconcessional external debt, for which the authorities are requesting a waiver.

- **Wages.** The government's decision in early May to grant an off-budget wage increase (in the form of a monthly bonus, at an annual cost of 0.7 percent of GDP), financed with grants from Venezuela, delayed the completion of the 4<sup>th</sup> review. Although the measure was not expected to affect the overall fiscal outturn in 2010, it raised concerns about financing recurrent fiscal spending with transitory resources, and precluded the decline in government spending and the real wage bill that were contemplated in the revised program for 2010.

### III. MACROECONOMIC OUTLOOK AND RISKS

9. **The recovery is expected to continue at a moderate pace.** The momentum of the output recovery is expected to carry over into 2011, although the projected slowdown in U.S. growth is expected to keep output growth at about 3 percent. Inflation is expected to remain at around 6-7 percent (reflecting a rate of crawl of 5 percent during 2011), while the external current account deficit is projected to stabilize at about US\$1 billion (16 percent of GDP). Gross reserves are expected to decline moderately in 2010 and 2011, as commercial banks reduce their excess (dollar) liquidity, and credit to the private sector recovers. Risks to the outlook stem mainly from an unsettled political environment in the run up to the presidential elections and uncertainties about global conditions, including developments in Nicaragua's main trading partners (the U.S. and Venezuela).

Nicaragua: Key Economic Indicators

	2008	2009	2010	2011
			Proj.	
Real GDP growth (in percent)	2.8	-1.5	3.0	3.0
Inflation (eop, percent)	13.8	0.9	7.0	6.7
Combined Public Sector Balance (in percent of GDP)	-1.5	-3.1	-2.3	-2.2
Current account deficit (in percent of GDP)	-24.1	-14.5	-16.5	-16.0
Gross International Reserves (US\$ million)				
US\$ million	1,141	1,573	1,519	1,499
Months of imports of goods excl. maquilas	2.9	4.9	4.1	3.8

### IV. THE ECONOMIC PROGRAM FOR 2010 AND 2011

10. **The authorities consider that a strengthened commitment to macroeconomic stability will be crucial to mitigate risks in an electoral year.** To this effect, they have developed an economic program for the remainder of 2010 and 2011 anchored on a tightening of the fiscal stance, a strengthening of prudential regulations, and improvements in the monitoring and use of foreign aid flows.

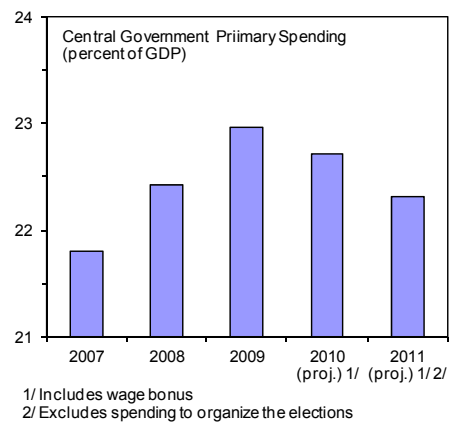
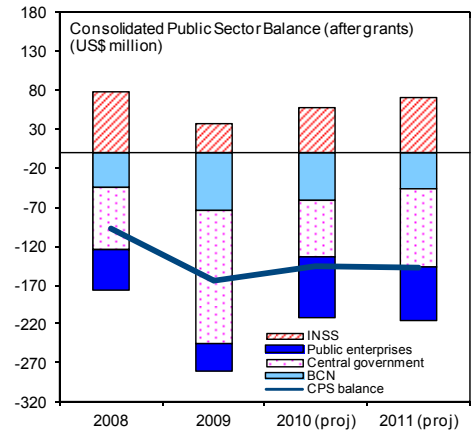


## A. Fiscal Policy

11. **The authorities are committed to use this year's stronger-than-expected revenues to reduce the overall fiscal deficit to 2.3 percent of GDP (3.1 percent in 2009).** At the central government level, the supplementary budget approved by the Assembly in October contained a modest increase in spending that will be more than offset by the increase in projected revenues and grants. As a result, the deficit of the central government in 2010 is expected to fall to 1.1 percent of GDP (from 2.8 percent of GDP in 2009—and 1.8 percent of GDP during the Article IV) implying a decline in primary spending (including the wage bonus) of 0.3 percentage points of GDP. At the public enterprise level, restraint in current spending and slower execution of investment programs would mitigate the lower revenues and contain their deficit at 1.2 percent of GDP compared to 1.6 percent of GDP projected during the Article IV. External resources (including US\$43 million of budget support loans from the IDB that are expected before year-end) would more than cover the overall deficit, thus helping avoid crowding out the private sector.

12. **For 2011, the authorities will keep the central government deficit below 1.5 percent of GDP.** Excluding one-off spending to organize the elections of about 0.7 percent of GDP, this would entail a decline in primary spending of 0.4 percentage points of GDP. This measure of primary spending includes an extrabudgetary wage bonus equivalent to 0.7 percent of GDP, which will be again financed with resources from Venezuela. Nevertheless, the authorities are committed to dampen the growth in the public wage bill, which will remain broadly constant as a share of GDP (new indicative target). For the overall public sector, the deficit in 2011 (including election-related spending) will be roughly similar to the projected outturn for 2010, which would represent an improvement in the cyclically-adjusted primary balance of roughly 1 percent of GDP (Box 1). As in 2010, external resources (including US\$40 million of budget support from the IDB) would more than cover the projected deficit, thus allowing for further cancellation of the (more expensive) domestic debt.

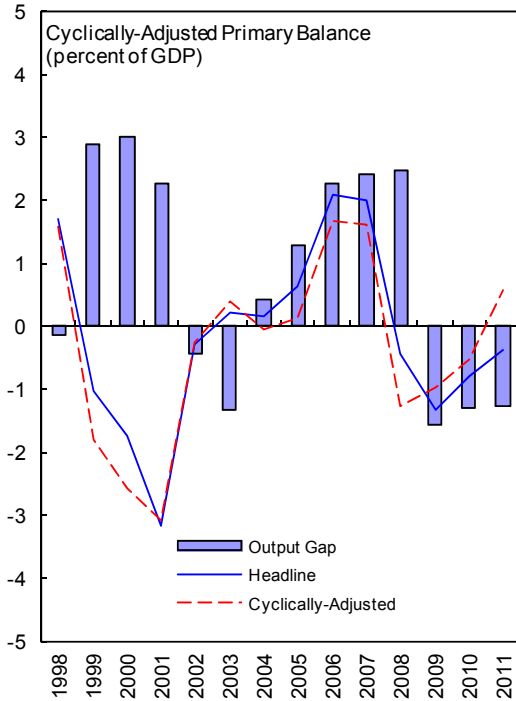
13. **The authorities are committed to keep the spending of the social security institute under control.** The authorities recognized that INSS' expenditures (in particular administrative spending) had been growing too fast and had to be restrained, especially given the precarious actuarial situation of the institution. They agreed to keep the surplus of the INSS at one



percent of GDP during 2011 and to include in the program performance criteria on the overall balance of the entity.

### Box 1. Estimates of Fiscal Impulse

To gauge the stance of fiscal policy implied by the proposed program, we constructed cyclically adjusted (CA) measures of Nicaragua's nonfinancial public sector balance (see Annex 1 for the methodology). Results of the exercise suggest that fiscal policy in Nicaragua was strongly procyclical in 2008, and broadly neutral during 2009.



	Primary Balance		Fiscal	Output
	Headline	CA	Impulse	Gap
2007	2.0	1.6	-0.2	2.4
2008	-0.4	-1.3	2.0	2.5
2009	-1.3	-1.0	-0.2	-1.6
2010	-0.8	-0.5	-0.4	-1.3
2011	-0.4	0.6	-1.1	-1.3

Source: Fund staff calculations

During 2010-11, the output gap is projected to remain negative (at about 1.3 percent of potential GDP) but the fiscal targets envisaged in the program are expected to withdraw fiscal stimulus (especially in 2011). This procyclical fiscal policy is justified by the urgency to regain fiscal space used during the downturn and return the public debt-to-GDP ratio to a downward trajectory.

## B. Monetary, Exchange Rate, and Financial Sector Policies

14. **Monetary policy will remain focused on keeping inflation stable and protecting the external reserve coverage.** The monetary program envisages that a gradual decline of the excess liquidity currently held by commercial banks would result in moderate losses of international reserves in 2011. At the same time, net credit to the central government is expected to decline owing to the amortization of debt originated in the bank bail-out of 2001 as well as through net deposit increases. Currency in circulation is projected to grow slightly more than nominal GDP this year, and in line with nominal GDP in 2011. The authorities agreed on the need to monitor closely developments in banks' liquidity to avoid a sudden increase in lending not justified by fundamentals.

15. **The authorities remain committed to a system of market-determined interest rates and plan to adopt a regulatory framework for microfinance institutions (MFIs).** The framework, which will be in place before year-end, will not interfere with the

restructuring process of past-due loans currently underway. Staff urged the authorities to revamp the regulatory framework for financial cooperatives, so as to improve their governance structure, and to strengthen their overseeing authority, so as to limit the macroeconomic risks derived from the cooperatives' activities. The authorities agreed on the importance of these issues and will work on designing specific measures in this area; they are also committed to make progress in the implementation of pending FSAP Update recommendations.<sup>3</sup>

16. **Bank supervision will continue strengthening.** Although the rise in NPLs appears to have stabilized, the authorities are committed to maintain enhanced (including on-site) supervision of banks to mitigate the risks of a second round of credit deterioration (particularly against a background of declining bank profitability). The authorities will also monitor closely movements in the deposits associated with Venezuelan aid flows, which are sizeable and concentrated in a couple of banks.

### C. Structural Reforms

17. **The economic program for 2010-11 will make further progress in key structural areas.** In particular, the program contemplates measures in the areas of public financial management; pension reforms; the management and monitoring of aid flows; and the electricity sector:

- **Public Financial Management.** The authorities will prepare a study on the composition and structure of employment in the central government. The study will serve to assess the scope for increasing productivity gains and rationalizing government employment practices (new structural benchmark).
- **Pension Reforms (INSS).** The release of the study on reform options (prior action) will facilitate a discussion of the options for reforms among all stakeholders.
- **Monitoring and Management of Aid Flows.** Starting in March 2011, the authorities' "Aid Report" will include information on the use, by economic sector, of Venezuela-related aid flows (new structural benchmark). In addition, starting in October 2010, the authorities will provide staff (monthly) data on the bank deposits associated with those aid flows. Moreover, except for the amounts allocated for the wage bonus, the authorities express a commitment to refrain from using those resources to finance fiscal spending.<sup>4</sup>

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<sup>3</sup> See SM/10/156.

<sup>4</sup> The authorities also provided more information to staff on the modalities of Venezuelan aid that may have implications for the recording of those transactions. This information clarified that all flows related to the oil-collaboration assistance (amounting to half of the oil bill) take the form of concessional loans from Venezuela

(continued)

- **Electricity Sector.** Efforts to ensure that electricity tariffs cover generation costs and reduce oil dependency in the energy sector will continue. The tariff hike (of about 7 percent) of early May brought tariffs in line with costs, while the reform of the anti-theft law will allow for a gradual reduction of the non-technical losses by the private distribution company. In addition, during 2011-14, the scheduled completion of large power generation projects will facilitate the substitution of less efficient (and oil-dependent) units.

## V. PROGRAM FINANCING

18. **Program financing.** The program is projected to be fully financed for the remainder of 2010 and for 2011, through the undisbursed amount under the ECF, budget-support grants of about US\$20 million in 2010, and IDB budget support loans for US\$43 million in 2010 and US\$40 million in 2011. The projection assumes no budget-support loans from the World Bank. The program includes adjusters whereby (i) higher-than-programmed external budget support loans will be used to build international reserves; (ii) higher-than-programmed grants are earmarked for increased social spending; and (iii) higher-than-programmed concessional external project loans can be used to increase investments up to 0.2 percent of GDP in 2010 and 0.8 percent of GDP in 2011.

19. **Financing assurances.** Negotiations continue to obtain debt relief on HIPC-equivalent terms with non-Paris Club bilateral creditors and one pending claim (for US\$21 million) from the commercial debt buy-back operation launched in October 2007. While debt relief was secured from Algeria, Poland, and Venezuela (for about US\$210 million during 2007–09), and negotiations are ongoing to secure debt relief from Libya (with a pending claim of US\$311 million), debt to non-Paris Club bilateral creditors pending relief stood at US\$1.6 billion (25 percent of GDP) by end-2009.

## VI. PROGRAM MODALITIES, RISKS, AND SAFEGUARDS

20. **The proposed extension of the ECF through December 2011 would require rephasing of the undisbursed resources under the arrangement.** Staff proposes that slightly more than one half of the undisbursed amount (SDR 23.9 million) be made available upon completion of the fourth and fifth reviews and the rest be disbursed in two equal tranches during 2011 (Table 11). The proposed access levels are consistent with maintaining gross reserves at about the equivalent of 4 months of non-*maquila* imports during the program period. Program performance will be monitored by two additional reviews. The

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to the domestic financial cooperative Caruna, which distributes about half of these funds as grants, while investing the other half for profit. The authorities are still studying the implications of this modality for their official statistics, but the preliminary conclusion of staff is that it implies an increase of recorded private external debt as of end-2009 of about 5 percent of GDP. Moreover, although this change would not alter the debt sustainability assessment, it would imply an increase in fiscal risks.

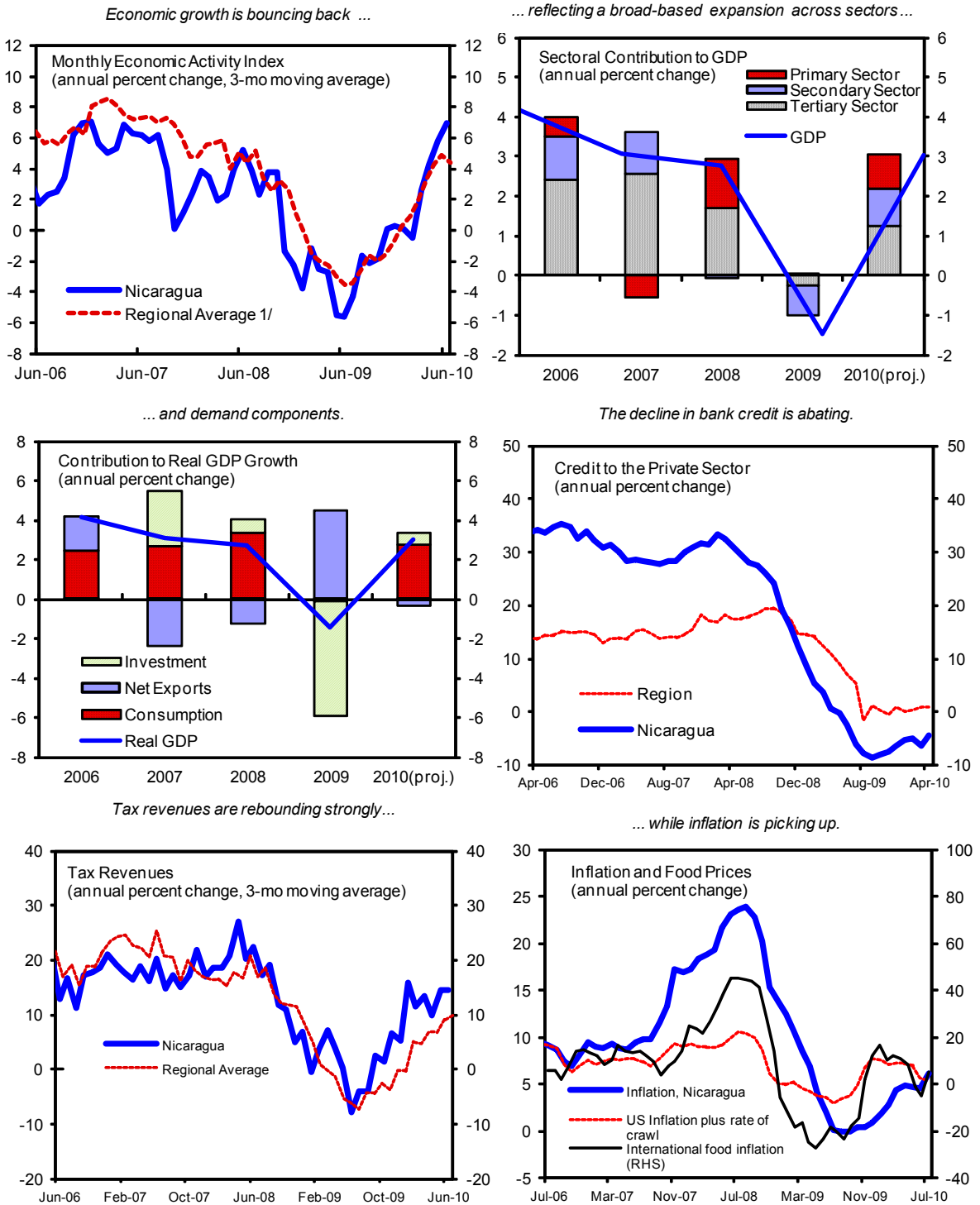
quantitative performance criteria agreed on for December 2010 and June 2011 and the structural agenda for the next 12 months are presented in Tables 1a-b.

21. **Unsettled domestic conditions in the run up to the elections and the uneven record of program implementation present key risks.** Political tensions related to the pending appointment of members to the Supreme Court and the Electoral Council and the launch of official candidacies may increase uncertainty and spending pressures on the government. Uncertainties related to the pace of the U.S. recovery and the amount of Venezuelan aid flows present additional risks. The relatively small size of the disbursements proposed under the extension and the adequate capacity to repay the Fund mitigate these risks somewhat.

22. **Safeguards.** The financial statements for the years 2007-09 submitted by the audit firms and approved by the Central Bank have been published. However, these are yet to be approved by the Comptroller General. While the overall goal of transparency was achieved, technical non-compliance with the Safeguards Policy still exists. The 2010 audited financial statements will be prepared pursuant to the new Central Bank charter which no longer requires Comptroller General validation, and will be published in March 2011 in line with the Safeguards Policy

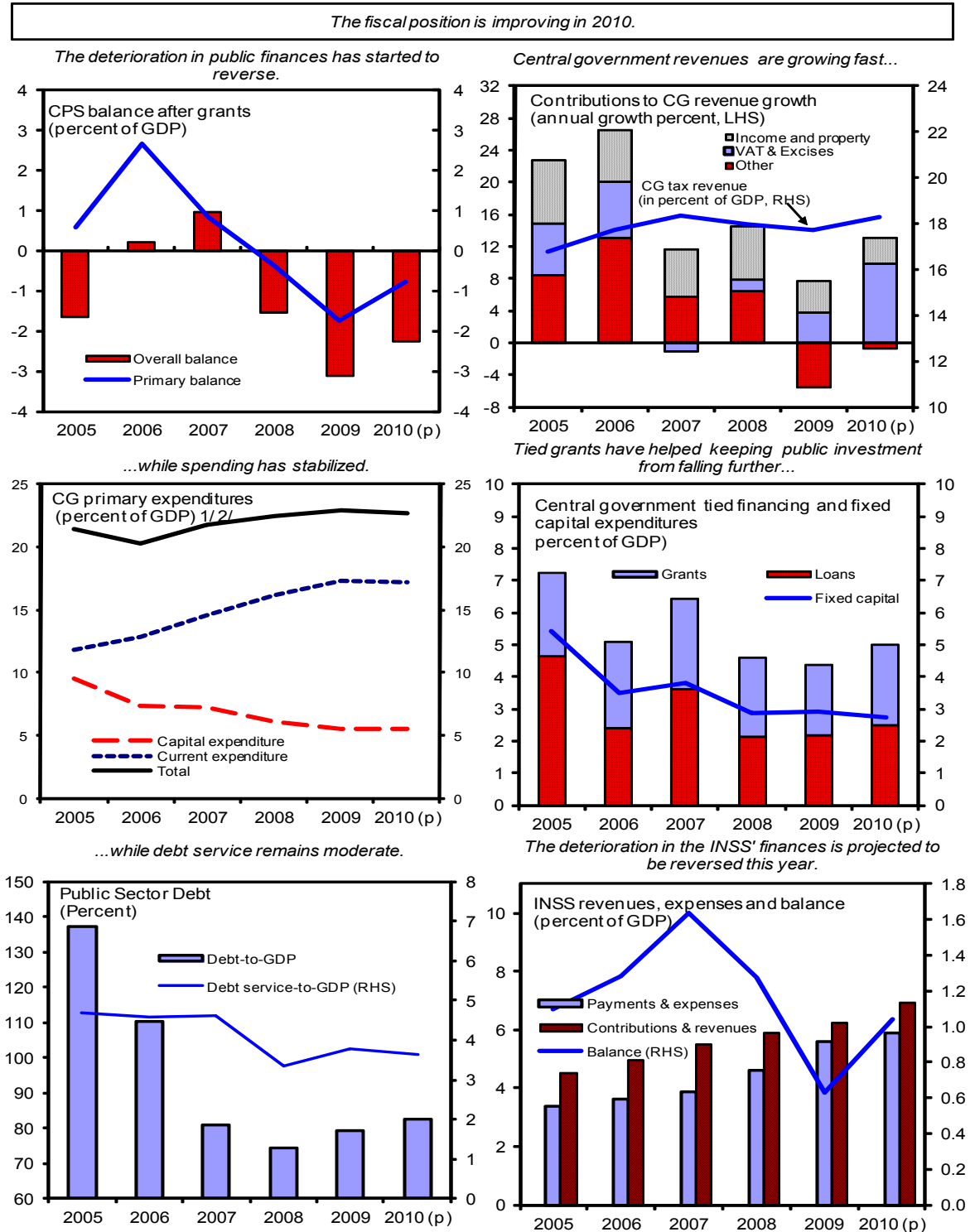
Figure 1. Nicaragua: Recent Economic Developments, 2006–10

*The economy has bottomed out and the recovery has gained strength.*



Sources: National Authorities; World Economic Outlook; Information Notice System; and Fund staff calculations.

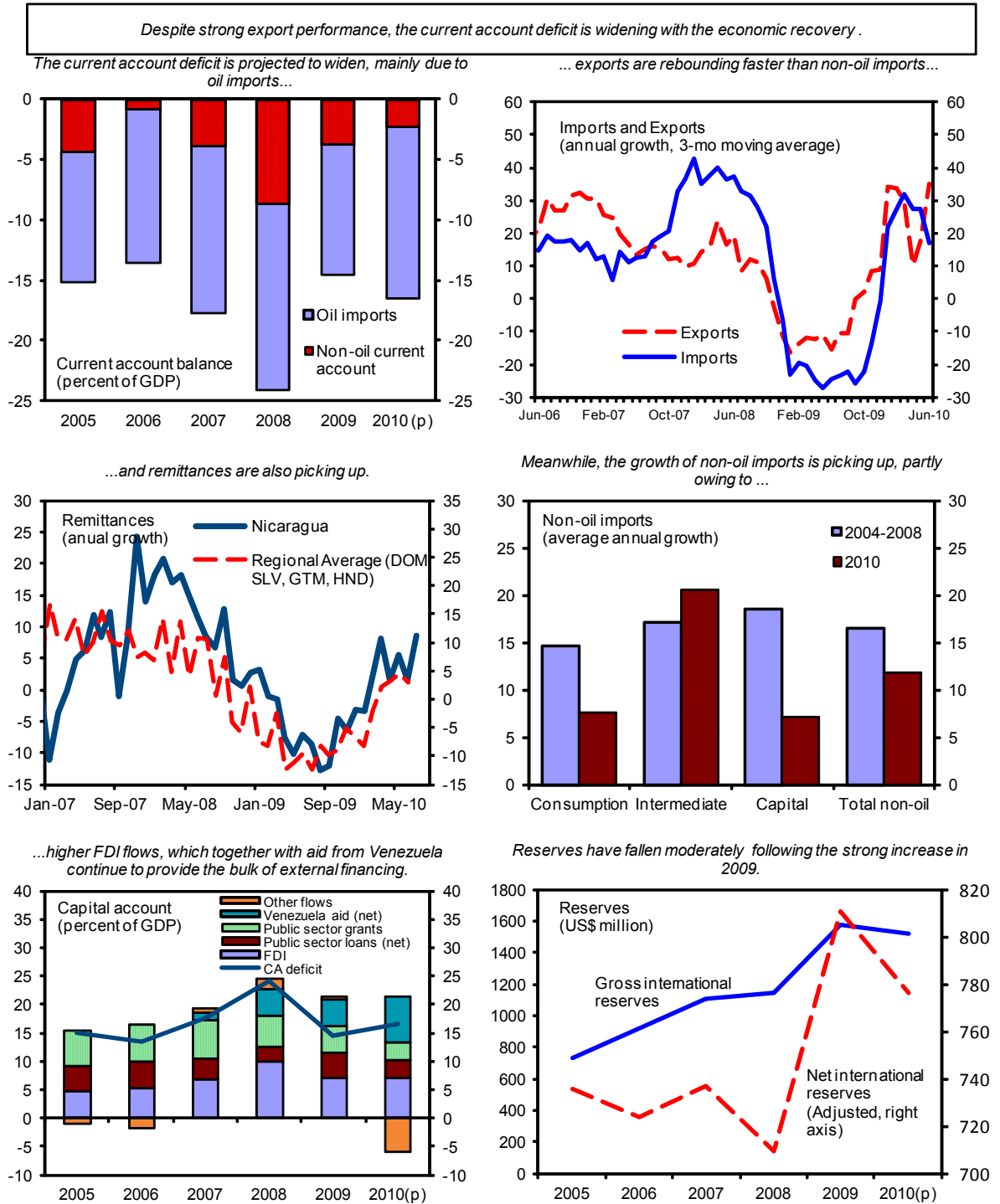
Figure 2. Nicaragua: Selected Fiscal Indicators, 2005–10



Sources: Nicaraguan Authorities; and Fund staff calculations.

1/ Includes the 2010–11 wage bonus. 2/ Excludes election-related spending in 2006.

Figure 3. Nicaragua: External Sector Developments, 2005–10



Sources: Nicaraguan Authorities; and Fund staff calculations.



## VII. STAFF APPRAISAL

23. **A stronger-than-expected recovery has improved the near-term outlook for Nicaragua.** The pickup in activity in 2010 has been broad based and balanced, balance-of-payment flows have returned to normal, pressures on reserves have not materialized, and the financial system remains stable and highly liquid.

24. **The authorities' decision to use part of the strong revenue performance in 2010 to lower the fiscal deficit was appropriate.** The efforts in improving tax administration and the adherence to the tax measures approved at the time of the November 2009 review are also welcome. Nonetheless, the continued increase in the government's wage bill is regrettable and should be addressed to make room for investment spending and well-targeted poverty reduction programs.

25. **Exchange-rate and monetary policy remains broadly adequate.** Central bank credit policy continues to be consistent with the crawling peg regime and was able to offset larger-than-expected flows of official assistance (including from Venezuela). Nonetheless, the crawling peg system continues to set a relatively high floor for inflation expectations and, together with the high degree of bank dollarization, constrains the effectiveness of monetary policy.

26. **There has been some progress on the structural agenda.** The adoption of the new central bank charter and the strengthening of the anti-theft electricity law are welcome. The recent completion of the study on pension reform options, the adoption of a new procurement law in line with best international practices, as well as the plans to strengthen the regulatory framework for microfinance institutions also are steps in the right direction. Staff encourages the authorities to maintain the momentum of structural reforms despite the challenges of the electoral calendar.

27. **The fiscal adjustment contemplated for 2011 is modest, but should set the stage for a strong program of fiscal consolidation following the elections.** While the decision to maintain the off-budget wage bonus in 2011 is unfortunate, the growth of the wage bill will be contained, and the fiscal outlook for next year has improved considerably. The one-off expenditures associated with the elections and the still sizeable output gap constrain the withdrawal of fiscal stimulus in an electoral year, particularly since the public debt dynamics are relatively benign. Nonetheless, sustained fiscal consolidation and continued reduction of the still high public debt level remains the key challenge and macroeconomic policy priority in Nicaragua.

28. **Structural measures to improve fiscal sustainability are also key.** Improving the actuarial situation of the pension system remains central for the soundness of public finances in the medium term. In this regard, the publication of the recently concluded study laying out options for reform constitutes a significant milestone. Similarly, the envisaged review of

employment in the central government will provide useful guidance for reforms looking forward. Efforts to improve tax administration need to be sustained.

29. **Continued vigilance in the financial sector will be critical.** While the rise in nonperforming loans appears to have abated, uncertainties about the economic outlook call for continued enhanced supervision. Similarly, the concentration of large deposits in some institutions requires careful monitoring. Progress in adopting the recommendations of the recent FSAP update has been slow.

30. **Notwithstanding the proposed improvement in reporting and monitoring of foreign aid flows, further transparency in this area is necessary.** More transparency in this area will help mobilize donor support, foster confidence, and help program monitoring and macroeconomic management. Adherence to the commitment that foreign aid flows not be channeled to the government nor be used to finance government spending or create fiscal contingencies will be a condition for maintaining Fund support.

31. **Based on the above, staff recommends the granting of a waiver for nonobservance of the quantitative performance criterion on nonconcessional external debt, completion of the fourth and fifth reviews under the ECF arrangement, rephrasing of disbursements, and the extension of the arrangement.**

## ANNEX 1: ESTIMATES OF FISCAL IMPULSE

**Coverage.** The Non-Financial Public Sector (NFPS) includes the Central Government (CG), the Social Security Institute (SS), the Public Enterprises (PEs), and the Municipality of Managua (MM).

**Methodology.** Cyclically-adjusted (CA) accounts were obtained applying the methodology used in Chapter 4 of the October 2009 REO). In particular, details of the calculation include the following:

- **Revenues.** Total revenues were split into domestic revenues and external grants. Domestic revenues comprise tax receipts and SS contributions. A (short-term) elasticity of 1.2 was assumed to describe the relationship between domestic revenues and the output gap. For external grants, it was assumed that such elasticity is zero, i.e. their cyclical component only reflects the sign and size of the output gap.
- **Primary expenditures.** They include those of the CG and SS, plus the deficit (before grants) of PEs and MM. An elasticity of zero was assumed to reflect the relationship between primary spending and the output gap.
- **Spending to organize elections.** The Nicaraguan law mandates that the budget has to make a provision to finance the organization of national elections, once every 5 years; for 2011, these costs are budgeted to amount to around 0.7 percent of GDP. The CA primary spending was adjusted to reflect this pattern, by evenly allocating such a cost over a period of 5 years (i.e., 0.14 percent of GDP per year).
- **Fiscal Impulse.** It is calculated as the (negative) of the change in the CA primary balance, excluding grants.
- **Output Gap.** Trend GDP was calculated by taking the simple average of Hodrick-Prescott filtered headline real GDP series starting in 1920, using alternative smoothing parameters (6.25, 10, 100, and 250). The output gap was estimated in a similar manner. In order to avoid an end-of-period bias, the filter was applied to a series through 2015 that assumes that GDP growth converges gradually to 4 percent in the long term.

Table 1a. Nicaragua: Quantitative Performance Criteria and Indicative Targets, 2009-11 1/

	2009		2010			2011		
	Adj. Prog.	Prel.	Adj. Prog.	Prel.	Prog.	Prop. Prog.	Prop. Prog.	Prop. Prog.
			Jan-Jun		Jan-Dec		Jan-Jun	Jan-Dec

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**Performance Criteria (Jan-Dec 2010, Jan-Jun 2011, indicative targets otherwise)**

*(In millions of Córdoba)*

1. Floor on combined public sector overall balance, after grants 2/	-5,934	-3,899	-736	133	-4,415	-3,097	-1,844	-3,314
2. Floor on Social Security Institute (INSS) overall balance, after grants	N.A.	784	N.A.	981	N.A.	1,415	1,016	1,495
3. Ceiling on change in net domestic assets of the central bank 3/	1,118	-1,409	-906	-989	763	1,560	680	1,573
Cumulative flows from end-June 2010 4/						2,549	3,230	4,122

*(In millions of US dollars)*

4. Floor on change in net international reserves of the central bank 3/	-55	102	-10	10	-20	-35	-70	-40
Cumulative flows from end-June 2010 4/						-45	-115	-85
5. Continuous ceiling on nonconcessional external debt contracted or guaranteed by the consolidated public sector	0	0	0	0	0	0	0	0
6. Continuous ceiling on the accumulation of new external arrears of the combined public sector	0	0	0	0	0	0	0	0

**Indicative targets**

*(In millions of Córdoba)*

1. Ceiling on central government primary expenditure 5/	28,256	28,713	13,530	13,446	29,160	30,916	16,802	34,370
2. Floor on poverty-related expenditures of the central government 6/	16,746	17,024	8,218	8,218	16,863	18,919	9,178	20,474
3. Ceiling on monitorable wage bill	N.A.	10,153	N.A.	4,885	N.A.	11,288	5,901	12,599

Memorandum items

Stock of NIR (adjusted, US\$ millions)	655	811	645	821	635	776	707	736
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Sources: Central Bank of Nicaragua; Ministry of Finance; and Fund staff estimates/projections.

1/ Cumulative flows starting at the beginning of the calendar year. Targets for end-December 2009 and end-June 2010 are those set during the second and third reviews (EBS/09/157). Definitions are specified in the TMU, including adjusters. N.A. indicates not applicable.

2/ Adjusted by any excess of project loans above programmed levels for up to US\$15 million in 2010 and US\$55 million in 2011. Adjusted in 2011 by any use of US\$49.5 million of a grant to ENACAL received in 2009.

3/ Adjusted for deviations in budget support external loans compared to programmed levels both in 2010 and 2011.

4/ The targets for NDA and NIR-Adjusted are defined as cumulative flows from June 2010.

5/ Adjusted for deviations in observed grants and project-loans compared to programmed amounts.

6/ Adjusted for deviations in external loans and grants compared to programmed levels, as specified in TMU.

Table 1b. Nicaragua: Structural Measures, 2010-11 1/ 2/

		Date	Status
Approval by Assembly of an agreed 2010 budget consistent with a combined public sector deficit of 3.2 percent of GDP	SB	End-Dec. 2009	Done
Approval by Assembly of an agreed tax reform yielding at least 0.7 percent of GDP	SB	End-Dec. 2009	Done
Initiate publication of monthly report monitoring the physical execution of public investment program.	SB	End-March 2010	Done
Assembly approval of reforms to the electricity anti-theft law expanding the coverage of customers subject to penalties.	*		Done
Assembly approval of reforms to central bank charter aimed at strengthening its independence, accountability and operations.	*		Done
Publication of technical proposal on options to reform the pension system and reduce its actuarial gap 3/	PA		Done
Submission to National Assembly of a Supplementary Budget for 2010 consistent with program objectives 3/	PA		Done
Submission to National Assembly of a Budget for 2011 consistent with program objectives 3/	PA		Done
Publication of Aid Report with fuller disclosure on uses of aid flows.	SB	End-March 2011	
Complete study assessing the scope for productivity gains and rationalizing government employment practices.	SB	End-August 2011	

1/ SB= Structural benchmark; PA= Prior action; \* denotes measures agreed at the technical level, to be proposed at the review that was envisaged for early 2010.

2/ An increase in electricity tariffs in the range of 5-6 percent was a prior action for consideration at the review that was envisaged for early 2010.

3/ Prior Action for Board consideration of 4th and 5th Reviews.

Table 2. Nicaragua: Selected Social and Economic Indicators, 2007–11

I. Social and Demographic Indicators							
Main export products: coffee, sugar (ethanol), meat, gold.							
GDP per capita (current U.S. dollars, 2008)	1,102	Income shared by highest 10 percent					
Population (millions, 2008)	5.7	(in percent, 2001) 33.8					
Life expectancy at birth in years (2008)	73	Poverty rate (in percent, 1998) 47.9					
Infant mortality rate (per 1,000 live births, 2006)	29.2	Adult literacy rate (2005) 81.6					
II. Economic Indicators							
	2007	2008	2009		2010 Proj.		2011
			SM/10	Revised	SM/10	Revised	Proj.
			/156 1/		/156 1/		
<b>Real sector</b> (In percent)							
GDP growth	3.1	2.8	-1.5	-1.5	1.8	3.0	3.0
GDP deflator	9.0	14.0	4.9	4.9	4.8	5.6	6.5
Consumer price inflation							
End of period	16.9	13.8	0.9	0.9	5–7	7.0	6.7
Period average	11.1	19.8	3.7	3.7	5.1	5.7	6.4
<b>External sector</b> (In US\$ millions)							
Current account	-992	-1,504	-796	-893	-1,099	-1,052	-1,067
Exports of goods, f.o.b	2,336	2,538	2,387	2,387	2,521	2,969	3,221
Imports of goods, f.o.b.	-4,086	-4,740	-3,927	-3,927	-4,335	-4,592	-4,865
Of which: oil	-777	-963	-661	-661	-818	-904	-881
Capital and financial account 2/ 3/	1,082	1,527	1,213	1,309	871	987	1,036
(In percent of GDP)							
Current account	-17.7	-24.1	-12.9	-14.5	-17.6	-16.5	-16.0
Exports of goods, f.o.b	41.7	40.6	38.8	38.8	40.4	46.6	48.4
Imports of goods, f.o.b.	-73.0	-75.9	-63.9	-63.9	-69.4	-72.0	-73.1
Of which: oil	-13.9	-15.4	-10.7	-10.7	-13.1	-14.2	-13.2
Capital and financial account 2/ 3/	19.3	24.4	19.7	21.3	13.9	15.5	15.6
<b>Fiscal sector</b>							
Central government overall balance, after grants	0.4	-1.3	-2.8	-2.8	-1.8	-1.1	-1.5
Revenues	19.9	19.4	19.1	19.1	18.9	19.7	20.0
Expenditure 4/	23.3	23.6	24.3	24.3	23.8	24.2	24.7
Grants 4/	3.8	3.0	2.5	2.5	3.1	3.3	3.1
Rest of NFPS overall balance	0.9	0.4	0.1	0.9	-0.4	-0.2	0.0
Central bank balance	-0.3	-0.7	-1.2	-1.2	-1.1	-1.0	-0.7
Combined public sector (CPS) overall balance	1.0	-1.5	-3.9	-3.1	-3.3	-2.3	-2.2
Financing	-1.0	1.5	3.9	3.1	3.3	2.3	2.2
External	2.9	1.9	3.9	3.9	3.6	3.0	2.8
Domestic (including CB operating balance)	-3.9	-0.4	0.0	-0.8	-0.3	-0.8	-0.6
CPS overall balance, before grants	-3.1	-4.7	-6.6	-6.6	-6.6	-5.8	-5.7
<b>Public sector debt</b>							
Total	81.0	74.4	79.3	79.3	82.3	82.1	79.4
Domestic	20.5	18.2	19.8	19.8	19.8	19.8	19.1
External 5/	60.5	56.2	59.5	59.5	62.6	62.4	60.3
<b>Memorandum items:</b>							
GDP (US\$ million)	5,599	6,248	6,149	6,149	6,247	6,375	6,659
Gross reserves (US\$ m) 3/	1,103	1,141	1,573	1,573	1,435	1,519	1,499
(in months of imports excl. maquilas)	3.2	2.9	5.0	4.9	4.1	4.1	3.8
Net international reserves 3/	1,019	1,030	1,423	1,423	1,249	1,249	1,309
Net international reserves (adjusted) 6/	737	710	811	811	681	681	730
SDR allocations	...	...	165	165	165	165	165
Observed reserves on foreign deposits	282	320	447	447	403	403	414
Short-term liabilities	84	111	150	150	185	185	185
Oil price (average, US\$/bbl)	71.1	97.0	61.8	61.8	78.3	76.2	78.8

Sources: Central Bank of Nicaragua; Ministry of Finance; World Bank, and Fund staff estimates and projections.

1/ Staff Report for the 2010 Article IV Consultation (June 25, 2010).

2/ Projections for 2010–11 include budget support that covers the financing gap.

3/ Figures for 2009 includes the SDR allocation for SDR 105.1 million (US\$165 million) of September 2009.

4/ Projections for 2010–11 include off-budget wage bonus.

5/ Estimates up to 2009 correspond to the legal situation. The projections assumes "no" restructuring of the outstanding debt to non-Paris Club Bilaterals, currently under negotiations.

6/ Program definition. Includes deposit insurance fund (FOGADE) and excludes new SDR allocation and reserve requirements of commercial banks in foreign currency.

**Table 3a. Nicaragua: Operations of the Central Government, 2007–11**  
(in millions of Córdoba)

	2007	2008	2009	2010 June	2010 Dec. Proj.		2011
				Prel.	SM/10 /156 1/	Revised	Proj.
<b>Total Revenue</b>	<b>20,579</b>	<b>23,468</b>	<b>23,859</b>	<b>13,708</b>	<b>25,263</b>	<b>26,863</b>	<b>29,942</b>
Tax	18,984	21,729	22,175	12,765	23,367	24,889	27,813
Income and property	5,746	7,002	7,865	4,544	9,096	8,570	9,607
VAT	3,103	3,139	3,885	2,077	3,634	3,964	4,357
Excises	3,036	3,283	3,339	2,769	3,459	5,438	6,053
Other	7,099	8,305	7,086	3,375	7,178	6,917	7,796
Nontax and current transfers	1,595	1,739	1,684	943	1,896	1,975	2,129
<b>Total Expenditure</b>	<b>24,092</b>	<b>28,578</b>	<b>30,424</b>	<b>14,587</b>	<b>31,747</b>	<b>32,960</b>	<b>36,838</b>
Current expenditures 2/	16,562	21,063	23,410	11,447	24,421	25,402	28,551
Wages and salaries 3/	5,745	7,629	8,615	4,215	9,575	9,640	10,923
of which : bonus	0	0	0	146	659	659	973
Goods and services	2,915	4,831	4,652	2,247	5,012	5,343	6,113
Interest	1,580	1,447	1,711	995	1,933	2,045	2,468
of which : external	463	515	553	295	633	638	802
Current transfers 4/	6,323	7,156	8,432	3,989	7,900	8,375	9,047
Capital Expenditures 2/	7,488	7,417	6,977	3,140	7,326	7,558	8,287
Domestically financed	2,192	1,839	904	701	591	729	1,166
Externally financed	5,296	5,578	6,073	2,439	6,735	6,830	7,121
Net lending	42	98	37	0	0	0	0
<b>Overall balance (before grants)</b>	<b>-3,513</b>	<b>-5,110</b>	<b>-6,565</b>	<b>-879</b>	<b>-6,484</b>	<b>-6,097</b>	<b>-6,896</b>
Grants 5/	3,912	3,574	3,080	1,002	4,090	4,549	4,643
of which: Project-related 6/	2,930	2,977	2,742	856	3,437	3,454	3,670
<b>Primary balance (after grants)</b>	<b>1,979</b>	<b>-89</b>	<b>-1,774</b>	<b>1,118</b>	<b>-461</b>	<b>497</b>	<b>215</b>
<b>Overall balance (after grants)</b>	<b>399</b>	<b>-1,537</b>	<b>-3,485</b>	<b>123</b>	<b>-2,394</b>	<b>-1,548</b>	<b>-2,253</b>
<b>Net Financing</b>	<b>-399</b>	<b>1,537</b>	<b>3,485</b>	<b>-123</b>	<b>2,394</b>	<b>1,548</b>	<b>2,253</b>
External	2,754	1,865	4,019	1,172	3,192	3,245	3,215
Amortizations	-635	-735	-911	-412	-1,017	-1,040	-1,131
Disbursements	3,389	2,600	4,930	1,584	4,208	4,285	4,347
Project-related 6/	2,366	2,600	3,331	1,584	3,299	3,376	3,451
BOP support	1,022	0	1,599	0	910	910	896
Domestic	-3,153	-329	-535	-1,295	-797	-1,697	-963
Central Bank	-2,389	932	-824	-526	237	-846	-517
Commercial Banks	11	-147	-19	-46	0	0	0
Amortizations (gross)	-1,724	-2,320	-2,313	-2,150	-3,056	-2,864	-3,006
Bonds issuance 7/	142	866	2,414	1,810	2,555	2,769	2,912
Other	806	340	207	-383	-533	-756	-351
Privatization	0	1	1	0	0	0	0
<b>Memorandum items:</b>							
Monitorable wage bill 8/	7,693	9,119	10,153	5,032	11,077	11,288	12,599
Poverty related expenditure	14,226	16,468	17,024	8,218	16,863	18,919	20,474
Central Government primary spending 9/	22,512	27,130	28,713	13,592	29,813	30,916	34,370
Election-related Spending	0	0	0	0	0	0	1,046

Sources: Central Bank of Nicaragua; Ministry of Finance; and Fund staff estimates and projections.

1/ Staff Report for the 2010 Article IV Consultation (June 25, 2010).

2/ Starting in 2008, a portion of capital spending was reclassified to current spending, namely wages and goods and services.

3/ Starting in 2010, it includes an extra-budgetary wage bonus financed with Venezuela-related resources.

4/ Current transfers in 2009 includes payment of arrears to the electricity sector for US\$28 million.

5/ Starting in 2010, it includes an extra-budgetary grant from Venezuela to finance a wage bonus.

6/ In 2010 a project loan for US\$17 million was reclassified as a grant.

7/ It includes issuance of central government bonds to the social security institute (INSS).

8/ It includes the wage bill of all decentralized agencies of the central government; and the extra-budgetary wage bonus.

9/ It includes the extra-budgetary wage bonus.

**Table 3b. Nicaragua: Operations of the Central Government, 2007–11**  
(in percent of GDP)

	2007	2008	2009	2010 Proj.		2011
				SM/10		
				/156 1/	Revised	Proj.
<b>Total Revenue</b>	<b>19.9</b>	<b>19.4</b>	<b>19.1</b>	<b>18.9</b>	<b>19.7</b>	<b>20.0</b>
Tax	18.4	18.0	17.7	17.5	18.3	18.6
Income and property	5.6	5.8	6.3	6.8	6.3	6.4
VAT	3.0	2.6	3.1	2.7	2.9	2.9
Excises	2.9	2.7	2.7	2.6	4.0	4.1
Other	6.9	6.9	5.7	5.4	5.1	5.2
Nontax and current transfers	1.5	1.4	1.3	1.4	1.5	1.4
<b>Total Expenditure</b>	<b>23.3</b>	<b>23.6</b>	<b>24.3</b>	<b>23.8</b>	<b>24.2</b>	<b>24.7</b>
Current expenditures 2/	16.0	17.4	18.7	18.3	18.7	19.1
Wages and salaries 3/	5.6	6.3	6.9	7.2	7.1	7.3
Of which : Budgetary	2.8	6.3	6.9	6.7	6.6	6.7
Of Which : Bonus	1.5	0.0	0.0	0.5	0.5	0.7
Goods and services	2.8	4.0	3.7	3.8	3.9	4.1
Interest	1.5	1.2	1.4	1.4	1.5	1.7
of which : external	0.4	0.4	0.4	0.5	0.5	0.5
Current transfers 4/	6.1	5.9	6.7	5.9	6.2	6.1
Capital Expenditures 2/	7.2	6.1	5.6	5.5	5.6	5.5
Domestically financed	2.1	1.5	0.7	0.4	0.5	0.8
Externally financed	5.1	4.6	4.9	5.0	5.0	4.8
Net lending	0.0	0.1	0.0	0.0	0.0	0.0
<b>Overall balance (before grants)</b>	<b>-3.4</b>	<b>-4.2</b>	<b>-5.2</b>	<b>-4.9</b>	<b>-4.5</b>	<b>-4.6</b>
Grants 5/	3.8	3.0	2.5	3.1	3.3	3.1
of which: Project-related 4/	2.8	2.5	2.2	2.6	2.5	2.5
<b>Primary balance (after grants)</b>	<b>1.9</b>	<b>-0.1</b>	<b>-1.4</b>	<b>-0.3</b>	<b>0.4</b>	<b>0.1</b>
<b>Overall balance (after grants)</b>	<b>0.4</b>	<b>-1.3</b>	<b>-2.8</b>	<b>-1.8</b>	<b>-1.1</b>	<b>-1.5</b>
<b>Net Financing</b>	<b>-0.4</b>	<b>1.3</b>	<b>2.8</b>	<b>1.8</b>	<b>1.1</b>	<b>1.5</b>
External	2.7	1.5	3.2	2.4	2.4	2.2
Amortizations	-0.6	-0.6	-0.7	-0.8	-0.8	-0.8
Disbursements	3.3	2.1	3.9	3.2	3.1	2.9
Project-related 6/	2.3	2.1	2.7	2.5	2.5	2.3
BOP support	1.0	0.0	1.3	0.7	0.7	0.6
Domestic	-3.1	-0.3	-0.4	-0.6	-1.2	-0.6
Central Bank	-2.3	0.8	-0.7	0.2	-0.6	-0.3
Commercial Banks	0.0	-0.1	0.0	0.0	0.0	0.0
Amortizations (gross)	-1.7	-1.9	-1.8	-2.3	-2.1	-2.0
Bonds issuance 7/	0.1	0.7	1.9	1.9	2.0	1.9
Other	0.8	0.3	0.2	-0.4	-0.6	-0.2
Privatization	0.0	0.0	0.0	0.0	0.0	0.0
<b>Memorandum items:</b>						
Monitorable wage bill 8/	7.4	7.5	8.1	8.3	8.3	8.4
Poverty related expenditure	13.8	13.6	13.6	12.6	13.9	13.7
Central Government primary spending 9/	21.8	22.4	23.0	22.3	22.7	23.0
Election-related Spending	0.0	0.0	0.0	0.0	0.0	0.7

Sources: Central Bank of Nicaragua; Ministry of Finance; and Fund staff estimates and projections.

1/ Staff Report for the 2010 Article IV Consultation (June 25, 2010).

2/ Starting in 2008, a portion of capital spending was reclassified to current spending, namely wages and goods and services.

3/ Starting in 2010, it includes an extra-budgetary wage bonus financed with Venezuela-related resources.

4/ Current transfers in 2009 includes payment of arrears to the electricity sector for US\$28 million.

5/ Starting in 2010, it includes an extra-budgetary grant from Venezuela to finance a wage bonus.

6/ In 2010 a project loan for US\$17 million was reclassified as a grant.

7/ It includes issuance of central government bonds to the social security institute (INSS).

8/ It includes the wage bill of all decentralized agencies of the central government; and the extra-budgetary wage bonus.

9/ It includes the extra-budgetary wage bonus.

**Table 4a. Nicaragua: Operations of the Combined Public Sector, 2008–11**  
(in millions of Córdoba)

	2008	2009		2010 June	2010 Dec. Proj.		2011
		SM/10			SM/10		
		/156 1/	Revised	Prel.	/156 1/	Revised	Proj.
<b>Central government overall balance</b>	<b>-1,536</b>	<b>-3,485</b>	<b>-3,485</b>	<b>123</b>	<b>-2,394</b>	<b>-1,548</b>	<b>-2,253</b>
Revenue	23,468	23,859	23,859	13,708	25,263	26,863	29,942
Expenditure 2/	28,578	30,424	30,424	14,587	31,747	32,960	36,838
Current	21,063	23,410	23,410	11,448	24,421	25,402	28,551
of which: interest	1,447	1,711	1,711	995	1,933	2,045	2,468
Capital and net lending 3/	7,515	7,013	7,014	3,140	7,326	7,558	8,287
Grants 4/	3,574	3,079	3,080	1,002	4,090	4,549	4,643
<b>Social Security Institute (INSS) balance</b>	<b>1,536</b>	<b>784</b>	<b>784</b>	<b>981</b>	<b>1,612</b>	<b>1,415</b>	<b>1,495</b>
Contributions and revenues	7,129	7,783	7,783	4,799	9,068	9,438	10,465
Payments and expenses	5,593	6,999	6,999	3,817	7,456	8,026	8,973
Grants	0	0	0	0	0	3	3
<b>Managua municipality (ALMA) balance</b>	<b>-53</b>	<b>60</b>	<b>60</b>	<b>228</b>	<b>-49</b>	<b>-15</b>	<b>-16</b>
of which: Grants	15	31	31	0	28	17	14
<b>Overall Public Enterprises balance 5/</b>	<b>-970</b>	<b>-749</b>	<b>255</b>	<b>-478</b>	<b>-2,149</b>	<b>-1,633</b>	<b>-1,519</b>
Revenue	3,994	4,034	4,035	1,746	4,197	3,993	4,518
Expenditure	5,223	5,048	5,048	2,295	6,684	5,813	6,552
Grants 6/	259	264	1,268	71	338	187	515
<b>Central Bank (BCN) operating balance</b>	<b>-848</b>	<b>-1,514</b>	<b>-1,514</b>	<b>-721</b>	<b>-1,435</b>	<b>-1,316</b>	<b>-1,021</b>
<b>Overall CPS balance (after grants)</b>	<b>-1,872</b>	<b>-4,904</b>	<b>-3,899</b>	<b>133</b>	<b>-4,415</b>	<b>-3,097</b>	<b>-3,314</b>
Primary balance (after grants)	-404	-3,175	-2,166	1,140	-2,455	-1,026	-821
Total interest	1,467	1,733	1,733	1,007	1,960	2,071	2,492
<b>Net Financing</b>	<b>1,872</b>	<b>4,904</b>	<b>3,899</b>	<b>-133</b>	<b>4,415</b>	<b>3,097</b>	<b>3,314</b>
External	2,301	4,874	4,874	1,462	4,788	4,134	4,187
Amortizations	-754	-931	-931	-421	-1,037	-1,060	-1,152
Disbursements 4/	3,055	5,805	5,805	1,883	5,824	5,194	5,339
Domestic	-1,277	-1,484	-2,493	-2,315	-1,807	-2,353	-1,895
Central Bank	786	-865	-865	1,020	237	578	-490
Commercial Banks	951	1,401	392	-1,814	216	-1,239	-132
Amortizations (gross)	-1,823	-2,069	-2,069	-1,629	-2,282	-1,829	-2,063
Bonds issuance 7/	587	807	807	1,406	1,001	1,371	1,454
Others	-1,778	-758	-758	-1,298	-979	-1,235	-665
of which: Caruna 8/	486	-81	48	-246	366	-718	-107
Central Bank (BCN) operating balance	847	1,514	1,514	721	1,435	1,316	1,021
<b>Memorandum items:</b>							
Quasi-fiscal activities of ALBA 9/	5,679	4,879	4,879	6,788	5,720	11,033	8,733
CPS primary balance (before grants)	-4,252	-6,549	-6,546	67	-6,911	-5,783	-5,996
CPS overall balance (before grants)	-5,719	-8,282	-8,278	-940	-8,871	-7,853	-8,489

Sources: Central Bank of Nicaragua; Ministry of Finance; and Fund staff estimates and projections.

1/ Staff Report for the 2010 Article IV Consultation (June 25, 2010).

2/ Starting in 2010, it includes the extra-budgetary wage bonus financed with Venezuela-related resources.

3/ Starting in 2008, a portion of capital spending was reclassified to current spending, namely wages and goods and services.

4/ In 2010, a project loan for US\$17 million was reclassified into a grant. Starting in 2010,

it includes an extra-budgetary grant from Venezuela to finance a wage bonus.

5/ It includes the state-owned water, electricity generation, electricity transmission, and port companies, as well as the telecommunications regulatory agency.

6/ It includes a project grant for US\$49.5 million received in December 2009 by the state-owned water company is projected to be spent in 2010 or 2011.

7/ It nets out purchases of central government bonds by the social security institute (INSS).

8/ In 2010, it includes payments of short-term bills by the central government and a debt net out by the state-owned electricity company.

9/ It includes all resources from the oil-colaboration scheme, some of which have not been spent and are deposited in the commercial banks.



**Table 4b. Nicaragua: Operations of the Combined Public Sector, 2008–11**  
(in percent of GDP)

	2008	2009		2010 Proj.		2011
		SM/10 /156 1/	Revised	SM/10 /156 1/	Revised	
<b>Central government overall balance</b>	<b>-1.3</b>	<b>-2.8</b>	<b>-2.8</b>	<b>-1.8</b>	<b>-1.1</b>	<b>-1.5</b>
Revenue	19.4	19.1	19.1	18.9	19.7	20.0
Expenditure 2/	23.6	24.3	24.3	23.8	24.2	24.7
Current	17.4	18.7	18.7	18.3	18.7	19.1
of which : interest	1.2	1.4	1.4	1.4	1.5	1.7
Capital and net lending 3/	6.2	5.6	5.6	5.5	5.6	5.5
Grants 4/	3.0	2.5	2.5	3.1	3.3	3.1
<b>Social Security Institute (INSS) balance</b>	<b>1.3</b>	<b>0.6</b>	<b>0.6</b>	<b>1.2</b>	<b>1.0</b>	<b>1.0</b>
Contributions and revenues	5.9	6.2	6.2	6.8	6.9	7.0
Payments and expenses	4.6	5.6	5.6	5.6	5.9	6.0
Grants	0.0	0.0	0.0	0.0	0.0	0.0
Managua municipality (ALMA) balance	0.0	0.0	0.0	0.0	0.0	0.0
of which: Grants	0.0	0.0	0.0	0.0	0.0	0.0
<b>Overall Public Enterprises balance 5/</b>	<b>-0.8</b>	<b>-0.6</b>	<b>0.2</b>	<b>-1.6</b>	<b>-1.2</b>	<b>-1.0</b>
Revenue	3.3	3.2	3.2	3.1	2.9	3.0
Expenditure	4.3	4.0	4.0	5.0	4.3	4.4
Grants 6/	0.2	0.2	1.0	0.3	0.1	0.3
Central Bank (BCN) operating balance	-0.7	-1.2	-1.2	-1.1	-1.0	-0.7
<b>Overall CPS balance (after grants)</b>	<b>-1.5</b>	<b>-3.9</b>	<b>-3.1</b>	<b>-3.3</b>	<b>-2.3</b>	<b>-2.2</b>
Primary balance (after grants)	-0.3	-2.5	-1.7	-1.8	-0.8	-0.5
Total interest	1.2	1.4	1.4	1.5	1.5	1.7
<b>Net Financing</b>	<b>1.5</b>	<b>3.9</b>	<b>3.1</b>	<b>3.3</b>	<b>2.3</b>	<b>2.2</b>
External	1.9	3.9	3.9	3.6	3.0	2.8
Amortizations	-0.6	-0.7	-0.7	-0.8	-0.8	-0.8
Disbursements 4/	2.5	4.6	4.6	4.4	3.8	3.6
Domestic	-1.1	-1.2	-2.0	-1.4	-1.7	-1.3
Central Bank	0.6	-0.7	-0.7	0.2	0.4	-0.3
Commercial Banks	0.8	1.1	0.3	0.2	-0.9	-0.1
Amortizations (gross)	-1.5	-1.7	-1.7	-1.7	-1.3	-1.4
Bonds issuance 7/	0.5	0.6	0.6	0.8	1.0	1.0
Others	-1.5	-0.6	-0.6	-0.7	-0.9	-0.4
of which : Caruna 8/	0.4	-0.1	0.0	0.3	-0.5	-0.1
Central Bank (BCN) operating balance	0.7	1.2	1.2	1.1	1.0	0.7
<b>Memorandum items:</b>						
Quasi-fiscal activities of ALBA 9/	4.7	3.8	3.9	4.3	8.1	5.8
CPS primary balance (before grants)	-3.5	-5.2	-5.2	-5.2	-4.2	-4.0
CPS overall balance (before grants)	-4.7	-6.6	-6.6	-6.6	-5.8	-5.7

Sources: Central Bank of Nicaragua; Ministry of Finance; and Fund staff estimates and projections.

1/ Staff Report for the 2010 Article IV Consultation (June 25, 2010).

2/ Starting in 2010, it includes the extra-budgetary wage bonus financed with Venezuela-related resources.

3/ Starting in 2008, a portion of capital spending was reclassified to current spending, namely wages and goods and services.

4/ In 2010, a project loan for US\$17 million was reclassified into a grant. Starting in 2010, it includes an extra-budgetary grant from Venezuela to finance a wage bonus.

5/ It includes the state-owned water, electricity generation, electricity transmission, and port companies, as well as the telecommunications regulatory agency.

6/ It includes a project grant for US\$49.5 million received in December 2009 by the state-owned water company is projected to be spent in 2010 or 2011.

7/ It nets out purchases of central government bonds by the social security institute (INSS).

8/ In 2010, it includes payments of short-term bills by the central government and a debt net out by the state-owned electricity company.

9/ It includes all resources from the oil-colaboration scheme, some of which have not been spent and are deposited in the commercial banks.

**Table 5. Nicaragua: Summary Accounts of the Central Bank, 2008–11**  
(Flows in millions of córdobas; unless otherwise indicated)

	2008	2009	2010 June	2010 Dec. Proj.		2011
			Prel.	SM/10 /156 1/	Revised	Dec.
Exchange rate (córdobas/US\$, average)	19.4	20.3	21.4	21.4	21.4	22.4
<b>Net international reserves (adjusted) 2/</b>	<b>-532</b>	<b>2068</b>	<b>211</b>	<b>-2776</b>	<b>-748</b>	<b>-896</b>
(In US\$ millions)	-27	102	10	-130	-35	-40
<b>Net domestic assets</b>	<b>494</b>	<b>-1,409</b>	<b>-989</b>	<b>3299</b>	<b>1,560</b>	<b>1,573</b>
Net credit to public sector (NFPS) 3/	3,230	-808	-526	237	-846	-518
Net credit to central government	932	-824	-526	237	-846	-518
Net credit to RNFPs	2,299	16	0	0	0	0
Net credit to the financial system	-694	-1,529	327	685	-117	-27
Operational losses	848	1,514	721	1435	1,316	1,021
Central bank bonds (net)	-3,102	-875	-1,638	620	854	583
Medium- and long-term foreign liabilities	258	329	180	363	383	493
Other	-47	-38	-54	-41	-30	21
<b>Currency</b>	<b>-38</b>	<b>659</b>	<b>-778</b>	<b>523</b>	<b>812</b>	<b>677</b>
<u>Memorandum items:</u>						
Gross reserves (US\$ million, stock) 4/	1,141	1,573	1,554	1,435	1,519	1,499
Net international reserves	1,030	1,423	1,412	1,249	1,349	1,314
<b>Net international reserves (adjusted) 2/</b>	<b>710</b>	<b>811</b>	<b>821</b>	<b>681</b>	<b>776</b>	<b>736</b>
SDR allocations	...	165	165	165	165	165
Reserve requirements on foreign deposits	274	312	378	403	373	389
Observed reserves on foreign deposits	320	447	426	403	408	412
Short-term liabilities	111	150	142	185	170	185
Central Bank paper (stock) 5/	7,321	8,583	10,690	9,042	8,138	7,947
<i>in percent of GDP</i>	<i>7.1</i>	<i>6.9</i>	<i>8.1</i>	<i>6.8</i>	<i>6.0</i>	<i>5.3</i>
Currency (stock)	5,499	6,157	5,380	6,680	6,969	7,646
<i>annual growth, in percent</i>	<i>-0.7</i>	<i>12.0</i>	<i>13.3</i>	<i>8.5</i>	<i>13.2</i>	<i>9.7</i>

Sources: Central Bank of Nicaragua; and Fund staff estimates and projections.

1/ Staff Report for the 2010 Article IV Consultation (June 25, 2010).

2/ Program definition. Includes deposit insurance funds (FOGADE), and excludes new SDR allocation and observed reserves of commercial banks in foreign currency.

3/ Includes only "Títulos Especiales de Inversión"

4/ Estimate for 2009 and projections for 2010 and 2011 include the SDR allocation for SDR105.1 million (US\$165 million) of September 2009.

5/ Estimates for 2008 and 2009 were revised downward from C\$8,787 million and C\$9,662 million respectively.

**Table 6. Nicaragua: Summary Accounts of Deposit Banks and the Financial System, 2008–11**  
(Flows in millions of córdobas; unless otherwise indicated)

	2008	2009	2010 Proj.		2011
			SM/10	Revised	Dec.
			/156 1/		
<b>Commercial banks 2/</b>					
<b>Net international reserves (adjusted)</b>	<b>2,330</b>	<b>5,770</b>	<b>4,436</b>	<b>7,576</b>	<b>3,764</b>
(in US\$ millions)	117	284	208	355	168
<b>Net domestic assets</b>	<b>868</b>	<b>-1,541</b>	<b>-1,483</b>	<b>3,874</b>	<b>1,627</b>
Net credit to nonfinancial public sector	-794	-692	-156	-630	184
Net credit to the financial system	-572	-1,488	-2,807	-610	-779
Net credit to the private sector	5,142	-3,479	2,699	-264	4,134
Medium- and long-term foreign liabilities	-1,271	879	641	322	-699
Other net assets	-1,637	3,239	-1,860	5,055	-1,213
<b>Liabilities</b>	<b>3,198</b>	<b>4,229</b>	<b>2,953</b>	<b>11,450</b>	<b>5,391</b>
<b>Financial sector 3/</b>					
<b>Net international reserves (adjusted) 4/</b>	<b>1,741</b>	<b>7,838</b>	<b>1,660</b>	<b>6,828</b>	<b>2,868</b>
(in US\$ millions)	90	385	78	320	128
<b>Net domestic assets</b>	<b>1,362</b>	<b>-2,950</b>	<b>1,816</b>	<b>5,434</b>	<b>3,200</b>
Net credit to nonfinancial public sector	2,436	-1,501	81	-1,476	-335
Net credit to the private sector	5,142	-3,479	2,699	-264	4,134
Medium- and long-term foreign liabilities	-1,012	1,207	1,004	705	-207
Other net assets	-5,204	822	-1,968	6,469	-393
Of which: Other financial institutions 5/	-1,282	-3,150	-1,885	-488	-583
<b>Liabilities to the private sector</b>	<b>3,159</b>	<b>4,888</b>	<b>3,476</b>	<b>12,262</b>	<b>6,068</b>
<b>Memorandum items:</b>					
Credit to the private sector (in percent of GDP)	37.6	34.3	34.1	31.3	31.3
Credit to the private sector (annual growth rate)	12.5	-7.5	6.3	-0.6	9.7
Foreign currency deposits (in percent of total)	68.5	71.8	73.1	71.8	73.5
Total private deposits (annual growth rate)	3.7	18.7	6.8	23.9	8.5

Sources: Central Bank of Nicaragua; and Fund staff estimates and projections.

1/ Staff Report for the 2010 Article IV Consultation (June 25, 2010).

2/ Includes Financiera Nicaraguense.

3/ Includes Central Bank of Nicaragua.

4/ Program definition. Includes deposit insurance funds (FOGADE), and excludes new SDR allocation and observed reserves of commercial banks in foreign currency.

5/ Financial cooperatives and microfinance entities are not included in the consolidated financial sector.

**Table 7. Nicaragua: Balance of Payments, 2007–15 1/**  
(In millions of U.S. dollars; unless otherwise indicated)

	2007	2008	2009		2010 Proj.		2011	2012	2013	2014	2015
			SM/10 /156 2/	Rev.	SM/10 /156 2/	Revised			Proj.		
<b>Current account</b>	<b>-992</b>	<b>-1,504</b>	<b>-796</b>	<b>-893</b>	<b>-1,099</b>	<b>-1,052</b>	<b>-1,067</b>	<b>-1,061</b>	<b>-1,070</b>	<b>-1,079</b>	<b>-1,006</b>
According to BPM5 3/	-939	-1,474	-613	-826	-941	-1,031	-1,067	-1,061	-1,070	-1,079	-1,006
Trade balance	-1,750	-2,203	-1,540	-1,540	-1,814	-1,623	-1,644	-1,675	-1,711	-1,711	-1,632
Exports, f.o.b.	2,336	2,538	2,387	2,387	2,521	2,969	3,221	3,509	3,810	4,063	4,336
Imports, f.o.b.	-4,086	-4,740	-3,927	-3,927	-4,335	-4,592	-4,865	-5,184	-5,520	-5,774	-5,968
Of which: oil imports	-777	-963	-661	-661	-818	-904	-881	-951	-1,017	-1,064	-1,100
Services	-182	-209	-85	-130	-142	-184	-196	-194	-195	-195	-194
Receipts	373	399	470	470	485	489	517	544	575	603	632
Payments	-555	-608	-555	-600	-628	-673	-713	-738	-770	-798	-826
Income	-135	-161	-190	-240	-196	-267	-268	-280	-293	-329	-360
Credits	48	23	6	6	6	7	7	7	7	7	7
Debits	-183	-183	-195	-246	-201	-274	-275	-288	-301	-336	-367
Of which: official interest	-58	-40	-39	-39	-42	-38	-42	-44	-51	-83	-93
Transfers to the private sector	1,075	1,068	1,018	1,018	1,053	1,023	1,041	1,088	1,129	1,156	1,180
Of which: remittances	740	818	768	768	803	808	841	878	919	948	976
<b>Capital account</b>	<b>1,082</b>	<b>1,527</b>	<b>1,213</b>	<b>1,309</b>	<b>871</b>	<b>924</b>	<b>980</b>	<b>1,083</b>	<b>1,091</b>	<b>1,075</b>	<b>1,051</b>
Official	497	479	673	714	338	319	311	410	401	379	353
Official transfers	1,513	347	260	300	178	192	187	165	160	155	150
Of which: grants	371	347	260	300	178	192	187	165	160	155	150
Disbursements	259	219	330	330	230	203	198	255	257	259	326
Amortization	-1,262	-75	-81	-81	-70	-71	-72	-74	-81	-100	-124
Other 3/	-13	-13	165	165	0	-6	-3	0	0	0	0
Private	585	1,048	539	595	534	606	669	738	754	761	698
Foreign direct investment	382	625	434	434	502	450	502	534	594	635	695
Capital Transfers	11	29	211	94	173	16	3	0	0	0	0
Of which: ALBA collaboration 5/	0	0	167	50	158	0	0	0	0	0	0
Financial system and other capital flows	193	393	-106	67	-141	139	164	204	161	126	3
Assets	-38	-65	-210	-210	-269	-562	-164	-75	-25	10	40
Medium- and long-term liabilities	153	350	59	168	128	438	397	279	186	116	-37
Of which: ALBA collaboration	69	293	119	235	158	516	380	264	177	112	-36
Other, including errors and omissions 6/	77	109	45	109	0	263	-69	0	0	0	0
<b>Overall balance</b>	<b>91</b>	<b>22</b>	<b>417</b>	<b>417</b>	<b>-228</b>	<b>-128</b>	<b>-88</b>	<b>22</b>	<b>21</b>	<b>-4</b>	<b>45</b>
Change in external assets (- increase) 4/	-179	-38	-432	-432	138	54	20	-87	-86	-61	-45
Exceptional financing	88	16	16	16	12	11	12	0	0	0	0
<b>Financing gap 7/</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>78</b>	<b>63</b>	<b>56</b>	<b>65</b>	<b>65</b>	<b>65</b>	<b>...</b>
IMF	...	...	...	...	35	20	16	...	...	...	...
World Bank	...	...	...	...	0	0	0	...	...	...	...
IDB	...	...	...	...	43	43	40	...	...	...	...
Bilaterals and other multilaterals	...	...	...	...	0	0	0	...	...	...	...
<b>Memorandum items:</b>											
<b>Current account (in percent of GDP)</b>	<b>-17.7</b>	<b>-24.1</b>	<b>-12.9</b>	<b>-14.5</b>	<b>-17.6</b>	<b>-16.5</b>	<b>-16.0</b>	<b>-15.3</b>	<b>-14.6</b>	<b>-13.9</b>	<b>-12.3</b>
According to BPM5 3/	-16.8	-23.6	-10.0	-13.4	-15.1	-16.2	-16.0	-15.3	-14.6	-13.9	-12.3
Excluding official interest	-15.7	-22.9	-9.3	-12.8	-14.4	-15.6	-15.4	-14.7	-13.9	-12.9	-11.2
Non-oil, excluding interest	-1.8	-7.5	1.4	-2.1	-1.3	-1.4	-2.2	-1.0	0.0	0.9	2.3
<b>Alba-related flows (in percent of GDP)</b>	<b>3.0</b>	<b>7.2</b>	<b>7.1</b>	<b>7.0</b>	<b>6.9</b>	<b>8.7</b>	<b>5.7</b>	<b>3.8</b>	<b>2.4</b>	<b>1.4</b>	<b>-0.4</b>
FDI	0.8	2.1	2.4	2.4	1.2	0.6	0.0	0.0	0.0	0.0	0.0
Oil collaboration	1.2	4.7	3.8	3.8	5.1	8.1	5.7	3.8	2.4	1.4	-0.4
Others	0.9	0.5	0.9	0.9	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Gross reserves 4/	1,103	1,141	1,573	1,573	1,435	1,519	1,499	1,586	1,672	1,732	1,777
in months of imports excl. maquilas	3.4	3.0	5.0	4.9	4.1	4.1	3.8	3.8	3.8	3.8	3.8
Oil price (average, US\$/bbl)	71.1	97.0	61.8	61.8	78.3	76.2	78.8	82.3	84.8	86.0	87.5

Sources: Central Bank of Nicaragua; and Fund staff estimates and projections.

1/ Assumes that outstanding debt to non-Paris Club bilaterals is settled on HIPC-equivalent terms in 2011. Debt service is measured on an accrual basis.

2/ Staff Report for the 2010 Article IV Consultation (June 25, 2010).

3/ Untied grants are recorded above the line.

4/ The one-off allocation of SDR 105.1 million (US\$165 million) in 2009 is reported in the official financial account, in accordance with BPM6.

5/ A portion of ALBA-related transfers are being used to finance off-budget transport subsidies and wage bonuses in 2010.

6/ Includes short-term credits for importing oil under ALBA.

7/ Includes possible budget support loans and grants for 2010 and 2011. The financing gap estimated for 2012-14 is preliminary and its financing unidentified.

Table 8. Nicaragua: External Financing Requirements, 2007–15 1/

(In millions of U.S. dollars)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
	Proj.								
<b>Gross financing requirements</b>	<b>-2,446</b>	<b>-1,630</b>	<b>-1,241</b>	<b>-1,075</b>	<b>-1,122</b>	<b>-1,223</b>	<b>-1,236</b>	<b>-1,240</b>	<b>-1,174</b>
Current account deficit (excluding official transfers)	-992	-1,504	-893	-1,052	-1,067	-1,061	-1,070	-1,079	-1,006
Public debt amortization	-1,262	-75	-81	-71	-72	-74	-81	-100	-124
GIR accumulation (-) 3/	-179	-38	-432	54	20	-87	-86	-61	-45
Other official 3/ 4/	-13	-13	165	-6	-3	0	0	0	0
<b>Gross financing sources</b>	<b>2,446</b>	<b>1,630</b>	<b>1,241</b>	<b>1,012</b>	<b>1,066</b>	<b>1,158</b>	<b>1,171</b>	<b>1,175</b>	<b>1,174</b>
Foreign direct investment and capital transfers	393	654	528	466	505	534	594	635	695
Debt financing from private creditors, net	193	393	67	139	164	204	161	126	3
Official transfers	1,513	347	300	192	187	165	160	155	150
Of which: grants	371	347	300	192	187	165	160	155	150
Of which: MDRI grants	770	0	0	0	0	0	0	0	0
Of which: HIPC grants	371	0	0	0	0	0	0	0	0
Official disbursements (medium- and long-term loans)	259	219	330	203	198	255	257	259	326
Net Exceptional Financing	88	16	16	11	12	0	0	0	0
<b>Financing gap 2/</b>	<b>...</b>	<b>...</b>	<b>...</b>	<b>63</b>	<b>56</b>	<b>65</b>	<b>65</b>	<b>65</b>	<b>...</b>
IMF	...	...	...	20	16	...	...	...	...
World Bank	...	...	...	0	0	...	...	...	...
IDB	...	...	...	43	40	...	...	...	...
Bilaterals and Other Multilaterals	...	...	...	0	0	...	...	...	...
<b>Memorandum items:</b>									
Official disbursements	259	219	330	266	254	320	322	324	326
Gross international reserves (GIR) 3/	1,103	1,141	1,573	1,519	1,499	1,586	1,672	1,732	1,777
In months of imports of G&NFS excl. maquilas	3.4	3.0	4.9	4.1	3.8	3.8	3.8	3.8	3.8
Change GIR (+ = increase) 3/	179	38	432	-54	-20	87	86	61	45

Sources: Central Bank of Nicaragua; and Fund staff estimates/projections.

1/ Assuming that outstanding debt to non-Paris Club bilaterals is settled on HIPC-equivalent terms in 2011. Debt service is measured on an accrual basis.

2/ In 2010-11, projections include financing gap.

3/ 2009 entry includes the allocation of SDR 105.1 million (US\$165 million) of September 2009.

4/ Includes public external assets.

Table 9. Nicaragua: Nonfinancial Public Sector Gross Financing Requirements, 2008–11

	2008	2009	2010 Dec. Proj. SM/10 /156 1/	Revised	2011 Proj.
(in US\$ million)					
<b>a. NFPS primary deficit (before grants)</b>	<b>176</b>	<b>247</b>	<b>256</b>	<b>209</b>	<b>222</b>
CG and public enterprises	255	286	332	275	288
INSS	-79	-39	-76	-66	-67
<b>b. Debt service obligations</b>	<b>209</b>	<b>233</b>	<b>247</b>	<b>232</b>	<b>255</b>
External	66	73	78	80	87
Interest	27	27	30	30	36
Amortization	39	46	49	50	51
Domestic	143	160	169	153	167
Interest	49	58	62	67	75
Amortization	94	102	107	86	92
<b>c. Gross financing needs (a+b)</b>	<b>385</b>	<b>480</b>	<b>504</b>	<b>441</b>	<b>476</b>
<b>d. Financing sources</b>	<b>385</b>	<b>480</b>	<b>504</b>	<b>441</b>	<b>476</b>
<b>External</b>	<b>356</b>	<b>451</b>	<b>482</b>	<b>466</b>	<b>469</b>
Project	325	355	408	372	386
Grants	167	148	178	171	187
Loans	158	207	230	201	198
Budget support	32	97	73	94	83
Grants 2/	32	18	31	51	43
Loans 3/	0	79	43	43	40
<b>Domestic</b>	<b>28</b>	<b>29</b>	<b>22</b>	<b>-25</b>	<b>8</b>
Central Bank	41	-43	11	27	-22
Commercial banks	49	69	10	-58	-6
Other	-61	3	1	6	35
(in percent of GDP)					
<b>a. NFPS primary deficit (before grants)</b>	<b>2.8</b>	<b>4.0</b>	<b>4.1</b>	<b>3.3</b>	<b>3.3</b>
CG and public enterprises	4.1	4.7	5.3	4.3	4.3
INSS	-1.3	-0.6	-1.2	-1.0	-1.0
<b>b. Debt service obligations</b>	<b>3.3</b>	<b>3.8</b>	<b>4.0</b>	<b>3.6</b>	<b>3.8</b>
External	1.0	1.2	1.3	1.2	1.3
Interest	0.4	0.4	0.5	0.5	0.5
Amortization	0.6	0.7	0.8	0.8	0.8
Domestic	2.3	2.6	2.7	2.4	2.5
Interest	0.8	0.9	1.0	1.1	1.1
Amortization	1.5	1.7	1.7	1.3	1.4
<b>c. Gross financing needs (a+b)</b>	<b>6.2</b>	<b>7.8</b>	<b>8.1</b>	<b>6.9</b>	<b>7.2</b>
<b>d. Financing sources</b>	<b>6.2</b>	<b>7.8</b>	<b>8.1</b>	<b>6.9</b>	<b>7.2</b>
<b>External</b>	<b>5.7</b>	<b>7.3</b>	<b>7.7</b>	<b>7.3</b>	<b>7.1</b>
Project	5.2	5.8	6.5	5.8	5.8
Grants	2.7	2.4	2.9	2.7	2.8
Loans	2.5	3.4	3.7	3.1	3.0
Budget support	0.5	1.6	1.2	1.5	1.3
Grants 2/	0.5	0.3	0.5	0.8	0.7
Loans 3/	0.0	1.3	0.7	0.7	0.6
<b>Domestic</b>	<b>0.5</b>	<b>0.5</b>	<b>0.4</b>	<b>-0.4</b>	<b>0.1</b>
Central Bank	0.6	-0.7	0.2	0.4	-0.3
Commercial banks	0.8	1.1	0.2	-0.9	-0.1
Other	-1.0	0.0	0.0	0.1	0.5

Sources: Central Bank of Nicaragua; Ministry of Finance; and Fund staff estimates and projections.

1/ Staff Report for the 2010 Article IV Consultation (June 25, 2010).

2/ Projections for 2010 include grant from Venezuela for 0.5 percent of GDP to finance wage bonus.

3/ Program and projections figures for 2010 assume disbursement of IDB budget support loan for US\$43 million.

**Table 10. Nicaragua: Indicators of Capacity to Repay the Fund, 2010–15**

	2010	2011	2012	2013	2014	2015
Fund obligations based on existing and prospective credit 1/						
In millions of SDRs	0.0	1.5	8.7	11.1	14.7	19.4
In millions of U.S. dollars	0.0	2.2	13.2	16.9	22.4	29.7
In percent of exports of goods and nonfactor services	0.0	0.1	0.3	0.4	0.5	0.6
In percent of external public debt service	0.0	1.9	11.2	12.8	12.3	13.7
In percent of quota	0.0	1.1	6.7	8.5	11.3	14.9
In percent of gross international reserves	0.0	0.1	0.8	1.0	1.3	1.7
Fund credit outstanding						
In millions of SDRs	108.7	118.3	109.9	99.2	84.8	65.6
In millions of U.S. dollars	164.8	179.8	167.3	151.2	129.3	100.1
In percent of exports of goods and nonfactor services	4.8	4.8	4.1	3.4	2.8	2.0
In percent of external public debt service	151.6	157.4	141.7	115.2	70.7	46.2
In percent of quota	83.6	91.0	84.6	76.3	65.2	50.5
In percent of gross international reserves	10.9	12.0	10.5	9.0	7.5	5.6
<u>Memorandum items</u>						
Exports of goods and services (millions of U.S. dollars)	3,457	3,738	4,054	4,385	4,666	4,968
External public debt service (millions of U.S. dollars)	109	114	118	131	183	217
Quota (millions of SDRs)	130	130	130	130	130	130
Quota (millions of U.S. dollars)	197	198	198	198	198	198
Gross international reserves (millions of U.S. dollars) 2/	1,519	1,499	1,586	1,672	1,732	1,777
SDR per U.S. dollars (period average)	0.66	0.66	0.66	0.66	0.66	0.66

Source: Fund staff calculations.

1/ Projections of interest payments incorporate the temporary interest relief initiative and interest rate structure under the new LIC financing architecture.

2/ Includes new SDR allocation in 2009.

**Table 11. Nicaragua: Schedule of Disbursements Under the Current and Extended ECF Arrangement**

Date	Proposed Schedule		Conditions	Status
	In millions of SDRs	In percent of quota 1/		
Oct. 5, 2007	11.9	9.2	Board approval of PRGF arrangement	Completed
Sep. 10, 2008 2/	18.4	14.2	Observance of end-Dec 2007 performance criteria and completion of first review	Completed
Nov. 2, 2009 3/	23.8	18.3	Observance of end-Jun and end-Dec 2008 performance criteria and completion of second and third reviews.	Completed
Nov. 12, 2010 4/ 5/	12.8	9.8	Observance of end-Dec 2009 and end-Jun 2010 performance criteria and completion of fourth and fifth reviews.	
Apr. 15, 2011 5/	5.55	4.3	Observance of end-Dec 2010 performance criteria and completion of sixth review	
Oct. 15, 2011 5/	5.55	4.3	Observance of end-Jun 2011 performance criteria and completion of seventh review	
<b>Total</b>	<b>78</b>	<b>60.0</b>		

Sources: IMF, Finance Department and Fund staff estimates and projections.

1/ Nicaragua's quota is SDR 130 million.

2/ Includes augmentation of 5 percent of quota approved in September 2008.

3/ Includes disbursement for completion of second and third reviews, each for SDR 11.9 million.

4/ Original program contemplated 6 reviews.

5/ A re-phasing of pending SDR 23.9 million into three disbursements is being assumed. Dates for disbursements are tentative.

**Table 12. Nicaragua: Financial Soundness Indicators: Core and Encouraged Sets, and Structure and Performance, 2005–10 (In percent, unless otherwise indicated)**

	2005	2006	2007	2008	2009	2010 1/
<b>I. Core set (deposit taking institutions)</b>						
<b>Capital adequacy</b>						
Regulatory Tier 1 capital to risk-weighted assets 2/	13.6	8.5	8.3	8.4	10.2	11.9
Regulatory capital to risk-weighted assets	13.8	14.5	14.2	15.3	16.5	16.5
<b>Asset quality</b>						
Nonperforming loans to total gross loans	2.1	2.0	2.5	3.0	3.3	3.4
Nonperforming loans to total gross loans 3/	7.2	6.2	5.2	6.7	10.9	11.1
Nonperforming loans net of provisions to capital	19.0	16.2	10.2	17.2	33.4	30.5
<b>Sectoral distribution of loans</b>						
Commercial	28.4	28.1	27.6	32.8	35.7	35.0
Agricultural	11.2	9.5	8.6	9.6	9.5	9.0
Consumer	28.3	30.0	31.6	29.6	26.2	25.4
Construction	13.0	13.5	13.4	14.1	15.6	16.1
Industrial	10.3	10.0	9.0	7.8	9.5	11.7
Others	8.8	9.1	9.9	6.2	3.5	2.8
<b>Earnings and profitability</b>						
Return on assets	2.6	2.4	2.2	1.8	0.5	0.0
Return on equity	29.7	25.1	22.5	18.1	4.8	-0.3
Interest margin to assets	8.0	8.0	9.1	9.1	8.7	7.7
Noninterest expenses to gross income	68.6	68.8	70.1	73.2	81.2	87.0
<b>Liquidity</b>						
Liquid assets to total assets	18.9	21.9	19.4	21.2	29.5	31.5
Liquid assets to total short-term liabilities	150.5	172.8	137.3	118.0	139.4	114.3
<b>Exposure to FX risk</b>						
Net open position in foreign exchange to capital	81.1	75.3	81.7	94.7	81.4	88.0
<b>II. Encouraged set (deposit taking institutions)</b>						
Capital to assets	9.8	10.3	10.7	10.8	10.5	10.1
Interest margin to total assets	8.0	8.0	9.1	9.1	8.7	7.7
Foreign currency-denominated loans to total loans	84.5	83.7	83.1	84.5	87.2	88.7
Foreign currency-denominated liabilities to total liabilities	70.6	70.4	70.3	72.4	74.5	74.5
Foreign currency deposits (in percent of GIR)	191.7	152.9	144.4	147.6	125.1	147.1
Ratio of real estate loans to total loans	13.2	13.5	13.4	14.1	15.6	16.1
Large exposures to capital	59.1	48.0	45.3	--	16.5	19.3
Personnel expenses to noninterest expenses	39.5	38.9	41.4	41.3	41.0	39.9
Spread between reference lending and deposit rates	13.1	13.1	14.1	13.0	13.3	13.4
Customer deposits to total (non-interbank) loans	146.7	123.6	110.1	105.4	130.3	162.0
<b>III. Structure and performance of the financial sector</b>						
<b>Number of institutions 4/</b>	9	9	10	10	9	9
<b>Bank concentration</b>						
Number of banks accounting for at least						
25 percent of total assets	1	1	1	1	1	1
75 percent of total assets	8	8	9	9	8	8
<b>Total assets (in millions of córdobas)</b>	45,826	54,164	64,484	71,791	79,754	92,474
<b>Total assets (in percent of GDP)</b>						
Private commercial	56.2	58.2	61.4	58.2	63.8	69.3
<b>Bank deposits (percentage of GDP)</b>						
Private commercial	43.2	41.7	43.3	39.6	63.8	51.4
<b>Dollarization and maturity structure</b>						
Assets in foreign currency						
as percentage of banking system assets	61.4	65.2	66.8	69.5	70.2	69.8
<b>Contingent and off-balance sheet accounts</b>						
(as percentage of total assets)	11.1	19.3	21.5	18.9	17.7	16.9

Sources: Superintendency of Banks; and Central Bank of Nicaragua.

1/ Data through July 2010.

2/ In 2006 a regulatory change narrowed the definition of Tier 1 capital.

3/ NPLs including restructured and reprogrammed loans.

4/ In 2009, HSBC (with deposits less than one percent of total deposits) closed its operations in Nicaragua.



## Appendix 1. Letter of Intent



### GOBIERNO DE NICARAGUA

October 30, 2010

**Mr. Dominique Strauss-Kahn**

Managing Director  
International Monetary Fund  
Washington, D.C.

Dear Mr. Strauss-Kahn:

1. The Nicaraguan economy has begun recovering from the global financial crisis. The Government of Reconciliation and National Unity (GRUN) commitment to achieving macroeconomic stability has served to counteract the effects of the crisis. All the quantitative performance criteria for December 2009 and June 2010 under the Extended Credit Facility (ECF) arrangement have been met, and various steps have been taken to strengthen fiscal consolidation in 2010 and 2011, while safeguarding social and investment expenditure.<sup>1</sup> The extension of the ECF arrangement through December 2011 is designed to provide a framework within which macroeconomic consolidation can be enhanced, the implementation of the reform agenda will move forward, and expectations can be better anchored amidst an international environment characterized by persistent uncertainties.

#### Macroeconomic framework for 2010–11

2. After declining by 1.5 percent in 2009, gross domestic product (GDP) is expected to grow by approximately 3 percent per year during the period 2010–11, reflecting a recovery of both external and domestic demand. After recording a historically low level of 0.9 percent in 2009, inflation is expected to reach around 7 percent in 2010, reflecting the rise in the prices of oil and other commodities. Looking forward, inflation is expected to post a slight decline in 2011, and to end the year in the range of 6–7 percent. In line with

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<sup>1</sup> For a purely technical reason, the ceiling on nonconcessional external debt was formally not observed, as an existing US\$200 million contingent credit line with the Central American Bank of Economic Integration secured in 2009 (and contemplated in the program) was renewed in August, 2010. The renovation of this credit line—which has not been activated—had not been explicitly foreseen in the TMU. We are requesting a waiver of nonobservance of the above mentioned performance criterion.

the economic recovery, the deficit in the current account of the balance of payments is expected to increase, to around 16 percent of GDP for 2010–11. The primary sources of its funding are projected to remain foreign direct investment and official foreign aid, allowing gross international reserves coverage to remain stable.

### **Fiscal policy**

3. The government will continue implementing a prudent fiscal policy for the remainder of 2010 and during 2011. In this respect, a Supplement to the General Budget of the Republic for 2010 has been approved by the National Assembly, consistent with a reduction in the deficit (after grants) of approximately 0.9 percent of GDP compared to the program. This deficit reduction is largely attributable to larger-than-programmed tax revenues, partly reflecting the impact of the reform of the Fiscal Equity Law at end-2009. The government remains committed to strengthening the finances of the Social Security Institute (INSS); for this purpose, an increase of one percentage point in the rate of contribution to the social security system has been implemented since January 2010. As of December 2010, the ECF will include a quantitative performance criterion on the INSS' overall balance after grants. These measures will help to ensure that the overall deficit for the consolidated public sector (CPS) does not exceed 2.3 percent of GDP in 2010. For 2011, the government has sent to the National Assembly a budget for the central government consistent with a deficit of 1.5 percent of GDP, including 0.7 percent of GDP of expenditure necessary to organize the 2011 presidential elections. This will further strengthen the position of the consolidated public sector, which is projected to post a deficit of 2.2 percent of GDP. The monitorable wage bill will remain constant in GDP terms during 2011. In the event that revenue collection is better than programmed, the options for its use will be examined in the second half of the year.

4. To preserve fiscal sustainability while meeting Nicaragua's social and infrastructure needs, the government will continue to focus on further strengthening the tax and pension systems. On the subject of pensions, the INSS—in consultation with an inter-institutional commission—has prepared a report which sets out a range of options for improving the system's financial position while gradually correcting its actuarial deficit. This report will be published for general circulation in October this year (*prior action*). At the same time, the INSS' investment regulations will be evaluated to ensure that the INSS' portfolio is managed in line with best international practices. Regarding the tax system, the authorities will continue to assess their options for further streamlining exemptions and exonerations, and establishing transfer pricing regulations. The authorities will seek to ensure that minimum wage increases are kept in line with inflation and economic growth.

### **Monetary and financial policy**

5. Monetary policy will remain centered on ensuring adequate international reserve coverage and managing financial system liquidity. Adjusted net international reserves (NIR-Adjusted, excluding SDR allocations), which recorded a larger-than-programmed increase despite the impact of the global crisis, will fall each year around US\$40 million both in 2010 and 2011. These declines will be attributable partly to a reduction in

commercial banks' deposits at the central bank as credit begins to recover and to smaller net security placements by the monetary authority. The central bank will maintain the rate of crawl of the exchange rate of 5 percent per year.

6. The financial sector remained sound during the economic slowdown. The monetary and financial authorities will adopt further measures to safeguard the soundness of the financial system (e.g., on-site supervision), and maintain loan-loss provisioning at adequate levels. The new rules pertaining to the "Law on the Promotion and Use of Credit Cards" will help to protect those credit card users that are less financially experienced, thereby enhancing the soundness of the financial system. In the event of a decision to amend or replace the current law, the government will ensure that the legislative framework fosters the sound development of the financial sector, without changing the current policy whereby interest rates are set freely between the parties.

### Financing policy

7. The economic program for 2010 and for 2011 will be financed primarily with concessional resources from international cooperation, and strict control will be maintained on non-concessional indebtedness. The authorities will pursue the gradual development of the domestic debt market, while strengthening the management of public debt, in cooperation with the Fund and the World Bank. Loan disbursements for budgetary assistance in the amount of US\$42.5 million in 2010, and approximately US\$40 million in 2011 are projected, along with further measures to obtain additional resources from multilateral institutions and the donor community. In the context of the HIPC Initiative, further efforts will be made to restructure external debt pending relief.

### Supplementary agenda

8. **Electricity sector reforms.** Further progress has been made in improving the finances and services of the electricity sector, and in increasing the supply of electricity generation.

- a. To continue reducing distribution losses, in July 2010 the National Assembly approved a reform of the legal framework broadening the range of residential customers liable to fines for irregularities in using and paying for electricity, and ensuring that the distribution company make the investments necessary to curb technical losses and improve the quality of service. The hike in electricity prices (of approximately 7 percent) in May 2010 corrected the discrepancies with generation costs, and will serve to normalize flows within the sector. In particular, the state-owned electricity company (ENEL) will begin making steady reductions in its debts to fuel suppliers. In turn, the central government will continue guaranteeing through the budget the payments of its electric power bill as well as the energy consumption subsidies for customers paying subsidized rates, pensioners, and disadvantaged neighborhoods.

- b. Ongoing efforts are being made to increase the supply of electricity generation, with private sector participation and support from official aid. In 2009–10, a total of 220MW of generation, including 60MW with renewable sources of energy, will have been installed. It is expected that during the period 2011–14, power generation projects will be completed that will provide 490MW in additional generation capacity. This will enable less efficient units to be kept on standby, while changing Nicaragua’s power generation matrix to reduce the country’s dependence on oil.

9. **Enhanced monitoring of the uses of official foreign aid.** The fifth report on cooperation (incorporating data at end-June 2010) will be published by end-October 2010. As part of the effort to enhance the monitoring and transparency of foreign aid, the sixth report on cooperation (incorporating data for end-2010) will include detailed information on the uses of foreign aid. This report is expected to be published by end-March 2011 (*structural benchmark*). The government will ensure that the use of foreign aid pose no fiscal contingencies and will consult with the Fund to avoid that the use of such aid put the economic program at risk.

10. **Strengthening of the public administration.** With financial and technical assistance from the World Bank and the Inter American Development Bank (IDB), specific steps are being taken in the following areas: (i) the publication in March 2010 of a monthly report on monitoring the physical implementation of the Public Investment Program for the purpose of improving investment expenditure management; (ii) the adoption of a new Procurement Law by the National Assembly in October 2010, with the aim of improving the efficiency and transparency of government purchases in line with international best practice; (iii) the elaboration of a study, with assistance from the IDB and the Fund, to assess the budgeting for permanent and temporary positions in the central government, including options for improving the system going forward (*structural benchmark*); and (iv) the Office of the Comptroller General of the Republic (CGR) published in 2010 the audit of the budget for 2008, and will finalize that of 2009 by end-June 2011.

11. **Progress in the area of tax and customs administration.** The implementation of a work plan, developed with the help of the Regional Technical Assistance Center (CAPTAC-DR), has begun with the purpose of: (i) strengthening oversight activities; (ii) improving the mechanisms for monitoring and expediting payment of refunds; and (iii) streamlining the management of the large taxpayers unit. The regulations for implementing the reform of the Fiscal Equity Law (approved at end-2009) have been completed and implemented.

12. **Institutional strengthening of the central bank.** In July 2010, the National Assembly approved a new Central Bank Charter with the aim of consolidating its institutional strength, improving the instruments for monetary policy, and ensuring greater accountability. The 2010 audited financial statements, prepared pursuant to the new charter, will be published in March 2011. In the meantime, the financial statements for 2007–09 submitted by the audit firms and approved by the central bank were published in October 2010.

13. **Reform and regulation of the microfinance sector and cooperatives.** The government remains committed to ensuring the sound development of the microfinance sector and, more generally, to instilling a payment-oriented culture. Accordingly, microfinance entities are being monitored to assess the impact of the process for the restructuring of past-due micro credits. With the aim of enhancing the supervision, transparency, and efficiency of the sector, the government, by end-November 2010, will seek the approval of a law to regulate and manage the sector, in particular, the regulatory framework applicable to unsupervised microfinance institutions. Concurrently, enhanced efforts will be made to monitor the activities of financial cooperatives by strengthening the supervisory agency.

14. In view of the progress recorded in relation to the ECF arrangement and the framework for implementing the remaining policies, the government requests the completion of the fourth and fifth reviews of the program, the corresponding waiver, the re-phasing of the disbursements under the arrangement and the approval of the fifth and sixth disbursements totaling SDR 12.8 million, as well as the extension of the program by one year. Program performance will be monitored through two additional reviews, anticipated for mid-April and mid-October 2011, respectively, and the quantitative performance criteria for end-December 2010 and end-June 2011. Performance criteria and the structural agenda for the next 12 months, as well as the prior actions for the completion of the fourth and fifth reviews are presented in LOI Tables 1 and 2. We believe that the policies described in this letter are sufficient to meet the objectives of our program and we stand ready to take additional measures that may be needed for this purpose. We will consult with the Fund in advance of any revisions to the policies described in this letter, as well as the adoption of additional measures, in accordance with IMF policies on such consultations.

Sincerely yours,

/s/

Antenor Rosales Bolaños  
President  
Central Bank of Nicaragua

/s/

Alberto Guevara Obregón  
Minister  
Ministry of Finance and Public Credit

LOI Table 1. Nicaragua: Quantitative Performance Criteria and Indicative Targets, 2009-11 1/

	2009		2010				2011	
			Jan-Jun		Jan-Dec		Jan-Jun	
	Adj. Prog.	Prel.	Adj. Prog.	Prel.	Prog.	Prop. Prog.	Prop. Prog.	Jan-Dec Prop. Prog.
<b>Performance Criteria (Jan-Dec 2010, Jan-Jun 2011, indicative targets otherwise)</b>								
	<i>(In millions of Córdobas)</i>							
1. Floor on combined public sector overall balance, after grants 2/	-5,934	-3,899	-736	133	-4,415	-3,097	-1,844	-3,314
2. Floor on Social Security Institute (INSS) overall balance, after grants	N.A.	784	N.A.	981	N.A.	1,415	1,016	1,495
3. Ceiling on change in net domestic assets of the central bank 3/	1,118	-1,409	-906	-989	763	1,560	680	1,573
Cumulative flows from end-June 2010 4/						2,549	3,230	4,122
	<i>(In millions of US dollars)</i>							
4. Floor on change in net international reserves of the central bank 3/	-55	102	-10	10	-20	-35	-70	-40
Cumulative flows from end-June 2010 4/						-45	-115	-85
5. Continuous ceiling on nonconcessional external debt contracted or guaranteed by the consolidated public sector	0	0	0	0	0	0	0	0
6. Continuous ceiling on the accumulation of new external arrears of the combined public sector	0	0	0	0	0	0	0	0
<b>Indicative targets</b>								
	<i>(In millions of Córdobas)</i>							
1. Ceiling on central government primary expenditure 5/	28,256	28,713	13,530	13,446	29,160	30,916	16,802	34,370
2. Floor on poverty-related expenditures of the central government 6/	16,746	17,024	8,218	8,218	16,863	18,919	9,178	20,474
3. Ceiling on monitorable wage bill	N.A.	10,153	N.A.	4,885	N.A.	11,288	5,901	12,599
<b>Memorandum items</b>								
Stock of NIR (adjusted, US\$ millions)	655	811	645	821	635	776	707	736

Sources: Central Bank of Nicaragua; Ministry of Finance; and Fund staff estimates/projections.

1/ Cumulative flows starting at the beginning of the calendar year. Targets for end-December 2009 and end-June 2010 are those set during the second and third reviews (EBS/09/157). Definitions are specified in the TMU, including adjusters. N.A. indicates not applicable.

2/ Adjusted by any excess of project loans aboved programmed levels for up to US\$15 million in 2010 and US\$55 million in 2011. Adjusted in 2011 by any use of US\$49.5 million of a grant to ENACAL received in 2009.

3/ Adjusted for deviations in budget support external loans compared to programmed leves both in 2010 and 2011.

4/ The targets for NDA and NIR-Adjusted are defined as cumulative flows from June 2010.

5/ Adjusted for deviations in observed grants and project-loans compared to programmed amounts.

6/ Adjusted for deviations in external loans and grants compared to programmed levels, as specified in TMU.

**LOI Table 2. Nicaragua: Prior Actions and New Structural Benchmarks, 2011 1/**

		<b>Date</b>	<b>Status</b>
Publication of technical proposal on options to reform the pension system and reduce its actuarial gap	PA		
Submission to National Assembly of a Supplementary Budget for 2010 consistent with program objectives	PA		Done
Submission to National Assembly of a Budget for 2011 consistent with program objectives	PA		Done
Publication of Aid Report with fuller disclosure on uses of aid flows.	SB	End-March 2011	
Complete study assessing the scope for productivity gains and rationalizing government employment practices.	SB	End-August 2011	

1/ SB= Structural benchmark; PA= Prior action.

## Appendix 2. Changes to the Technical Memorandum of Understanding

OCTOBER 30, 2010

All aspects of the Technical Memoranda of Understanding, issued on September 4, 2007, August 28, 2008 and October 16, 2009, respectively, remain valid, except for new revisions incorporated in the October 15 letter of intent and those indicated below.

### A. Definitions

1. The targets for the quantitative and indicative performance criteria are defined as cumulative annual flows. The targets for the performance criteria for the Adjusted Net International Reserves and Net Domestic Assets are defined as cumulative flows from June 30, 2010 (Technical Memorandum of Understanding, October 16, 2009). The program exchange rates for 2010 and 2011 are 21.4 and 22.4 Córdobas per U.S. dollars, respectively.
2. The overall balance after grants for the Nicaraguan Social Security Institute (INSS) is defined as INSS' total income plus foreign grants minus INSS' total expenditures. INSS' income is defined on a cash basis and includes contributions to the social security (payments of current and overdue contributions), current income from investments and other current revenue. INSS' expenditures are defined on a cash basis and include operational expenses (pensions, other benefits, and administrative expenses), other current expenditures, medical expenses, current transfers to the private sector, and capital expenditures.
3. The monitorable wage bill is defined as the sum of the central government's wage bill and its decentralized agencies plus transfers received by employees of the central government and the rest of the public sector in the form of extra-budgetary bonuses. For 2010-11, the monitorable wage bill includes transfers in the form of extra-budgetary bonuses of US\$31 million, and US\$43 million (of which US\$20 million through June 2011), respectively, financed through a grant from the Venezuelan cooperation arrangement.<sup>1</sup>
4. The following paragraph will be added to paragraph 21 of the September 2007 Technical Memorandum of Understanding: "The ceiling excludes the contingent credit line for 12 months renewed by the Central Bank of Nicaragua on August 20, 2010 with the Central American Bank of Economic Integration (CABEI) by US\$ 200 million, as well as any subsequent extensions or renewals of this credit line."

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<sup>1</sup> An analogous treatment will be given to the primary expenditure of the Central Government.



## B. Quantitative Targets

5. The quantitative performance criteria will include a floor on the overall balance of the INSS after grants, as defined above.
6. Indicative targets will include a ceiling on the monitorable wage bill, as defined above.
7. The program targets for the quantitative performance criteria for end-December 2010 and June 2011, as well as the indicative targets for end-December 2011 are detailed in Table 1.

TMU Table 1. Nicaragua: Quantitative Performance Criteria and Indicative Targets, 2009-11 1/

	2009		2010				2011	
	Adj. Prog.	Prel.	Jan-Jun Adj. Prog.	Jan-Jun Prel.	Jan-Dec Prog.	Jan-Dec Prop.	Jan-Jun Prop.	Jan-Dec Prop.
<b>Performance Criteria (Jan-Dec 2010, Jan-Jun 2011, indicative targets otherwise)</b>								
	<i>(In millions of Córdoba)</i>							
1. Floor on combined public sector overall balance, after grants 2/	-5,934	-3,899	-736	133	-4,415	-3,097	-1,844	-3,314
2. Floor on Social Security Institute (INSS) overall balance, after grants	N.A.	784	N.A.	981	N.A.	1,415	1,016	1,495
3. Ceiling on change in net domestic assets of the central bank 3/	1,118	-1,409	-906	-989	763	1,560	680	1,573
Cumulative flows from end-June 2010 4/					2,549		3,230	4,122
	<i>(In millions of US dollars)</i>							
4. Floor on change in net international reserves of the central bank 3/	-55	102	-10	10	-20	-35	-70	-40
Cumulative flows from end-June 2010 4/						-45	-115	-85
5. Continuous ceiling on nonconcessional external debt contracted or guaranteed by the consolidated public sector	0	0	0	0	0	0	0	0
6. Continuous ceiling on the accumulation of new external arrears of the combined public sector	0	0	0	0	0	0	0	0
<b>Indicative targets</b>								
	<i>(In millions of Córdoba)</i>							
1. Ceiling on central government primary expenditure 5/	28,256	28,713	13,530	13,446	29,160	30,916	16,802	34,370
2. Floor on poverty-related expenditures of the central government 6/	16,746	17,024	8,218	8,218	16,863	18,919	9,178	20,474
3. Ceiling on monitorable wage bill	N.A.	10,153	N.A.	4,885	N.A.	11,288	5,901	12,599
<b>Memorandum items</b>								
Stock of NIR (adjusted, US\$ millions)	655	811	645	821	635	776	707	736

Sources: Central Bank of Nicaragua; Ministry of Finance; and Fund staff estimates/projections.

1/ Cumulative flows starting at the beginning of the calendar year. Targets for end-December 2009 and end-June 2010 are those set during the second and third reviews (EBS/09/157). Definitions are specified in the TMU, including adjusters. N.A. indicates not applicable.

2/ Adjusted by any excess of project loans above programmed levels for up to US\$15 million in 2010 and US\$55 million in 2011. Adjusted in 2011 by any use of US\$49.5 million of a grant to ENACAL received in 2009.

3/ Adjusted for deviations in budget support external loans compared to programmed levels both in 2010 and 2011.

4/ The targets for NDA and NIR-Adjusted are defined as cumulative flows from June 2010.

5/ Adjusted for deviations in observed grants and project-loans compared to programmed amounts.

6/ Adjusted for deviations in external loans and grants compared to programmed levels, as specified in TMU.

## C. Adjustors

8. The target for the consolidated public sector (CPS) overall balance for 2011 will be adjusted *downwards* by any use of the US\$49.5 million grant to ENACAL received in December 2009 for the purpose of implementing water and sanitation projects financed by the *Instituto de Credito Oficial* (ICO), acting as the financial agent of the Spanish Government.

9. The CPS balance target for 2010 will be adjusted *downwards* up to US\$15 million by the cumulative amount of any excess of project-related external loans compared to the programmed amounts. For 2011, the above-mentioned target will be adjusted *downwards* up to US\$55 million by the cumulative amount of any excess of project-related external loans compared to the programmed amounts.

10. The NIR-Adjusted target for 2010-11 will be adjusted *downwards* in the event of any shortfalls in external budget support loans compared to the programmed amounts, up to a maximum of US\$40 million in 2010, and also in 2011. Similarly, in such a case the Net Domestic Assets will be adjusted *upwards* up to US\$40 million in 2010 and in 2011.

11. The NIR-Adjusted target for 2010-11 will be adjusted *upwards* in the event of any excess in external budget support loans compared to the programmed amounts. Similarly, in such a case the Net Domestic Assets will be adjusted *downwards*.

12. The indicative target on primary expenditure of the central government for 2010-11 will be adjusted *upwards* if the sum of budgetary grants of the central government (both tied and untied) and project-related external loans of the central government exceeds programmed levels; similarly, it will be adjusted *downwards* in the event of any shortfalls relative to the programmed amounts. In the case of project-related external loans, the maximum adjustment will be of US\$15 million in 2010 and US\$55 million in 2011.

13. The adjustments related to external financing will be applied to the updated projections in Table 2.

**TMU Table 2. Programmed External Financing 2010-11**  
(in millions of US\$)

	External loans	Budget support loans 1/	Project- related loans	<i>of which ,</i> Project related loans to CG	External grants 2/	<i>of which ,</i> Grants to CG	Budget support grants	Project- related grants	Total financing	Budget support	Project- related
	(a=b+c)	(b)	(c)	(c')	(d=e+f)	(d')	(e)	(f)	(g=a+d)	(h=b+e)	(i=c+f)
Cumulative from January 2010											
Q1-10	34	0	34	26	15	15	0	15	49	1	49
Q2-10	91	0	91	74	44	41	1	43	135	1	134
Q3-10	153	0	153	123	102	94	21	81	255	21	234
Q4-10	246	43	203	158	192	183	21	171	438	64	375
Cumulative from January 2011											
Q1-11	36	0	36	25	25	20	0	25	62	0	62
Q2-11	86	0	86	63	68	56	0	68	154	0	153
Q3-11	177	40	137	103	113	95	0	113	290	40	250
Q4-11	238	40	198	154	187	164	0	187	425	40	385

1/ Excludes IMF.

2/ Excludes extra-budgetary grants to finance wage bonus

14. The indicative target on poverty-reducing spending will be adjusted *downwards* for any *shortfalls* of external financing related to the poverty programs specified in Table 3. Similarly, the indicative target on poverty-reducing spending will be adjusted *upwards* for any *excess* of external financing related to the poverty programs specified in Table 3.

**TMU Table 3. Nicaragua: Central Government Poverty Spending and Financing, 2009-11**  
(in C\$ millions)

	2009		2010				2011	
			Jan.- Jun.		Jan.-Dec.		Jan.- Jun.	Jan.-Dec.
	Prog.	Prel.	Prog.	Prel.	Prog.	Prop. Prog	Prog	Prop. Prog
<b>Poverty Spending</b>	<b>16,215</b>	<b>17,024</b>	<b>7,452</b>	<b>8,218</b>	<b>16,863</b>	<b>18,919</b>	<b>9,178</b>	<b>20,474</b>
Domestic Financing	9,387	9,665	4,947	4,947	10,132	10,632	5,432	11,681
<b>External Financing</b>	<b>6,828</b>	<b>7,359</b>	<b>2,505</b>	<b>3,271</b>	<b>6,731</b>	<b>8,287</b>	<b>3,746</b>	<b>8,793</b>
Grants	1,667	1,902	875	905	1,807	2,563	1,085	2,898
Loans	2,295	2,748	669	948	2,227	2,898	1,105	2,667
Debt Relief	2,865	2,709	961	1,418	2,697	2,826	1,556	3,228

Source: Ministry of Finance and Public Credit.

## D. Supplementary Agenda

15. **Strengthening of the Biannual Report on External Aid Flows.** The report corresponding to the year 2010 will include a group of tables detailing the source and economic sector of foreign aid flows (showing separately flows to the public and private sectors, and in each case, distinguishing between foreign grants and loans). Such information

will also be shown in a disaggregated manner by project of the public sector (financed by both grants and loans) and of the private sector (financed by grants). Regarding the flows linked to the oil-related cooperation, the report will include detailed information about the transfer programs, social loans, and others, in particular those prioritized by the National Plan of Human Development. The publication of such a report before end-March 2011 will constitute a structural benchmark.

16. **Preparation of a study on Central Government employment.** The Ministry of Finance and Public Credit will prepare a study to assess the procedures in place for the budgeting of permanent and temporary positions in the central government; the study will include options for improving the system going forward. The terms of reference for this study will be formulated before end-December 2010 in consultation with Fund staff and the Inter-American Bank of Development (IDB), which will be also consulted during the preparation process. A preliminary report will be ready before end-March 2011 and the final report will be completed before end-August 2011. The presentation of the final report will constitute a structural benchmark.

## E. Safeguards

17. Some of the recommendations of the 2009 update safeguards assessment have been implemented and a new agenda with additional measures has been established.

**TMU Table 4. Safeguards Implementation of Recommendations Timetable, 2010-11**

Measure	Date	Status	Proposed Date
1. Presentation of semi-annual status reports on the implementation of International Financial Reporting Standards (IFRS).	Oct-09	Done	
2. Publication of audited financial statements and auditor's opinion for 2007 and 2008.	Nov-09	Done	
3. Adoption of a revised Internal Audit Charter which would bring the internal audit practices in line with the Institute of Internal Auditors.	Jun-09	In progress	Jun-11
4. Conducting an external quality assessment of the Internal Audit Department.	Jun-09	Done	
5. Publication of the financial statements and auditors' opinions for 2010 in line with the new Central Bank Charter	Mar-11		

## F. Provision of Information and Monitoring

18. **Electricity Sector.** With the purpose of strengthening the monitoring of the electricity sector, the regulating body (INE) will publish a quarterly report on the energy market with monthly information. This report will include the following: (i) the effective tariff applied and the tariff resulting from the application of the formula; (ii) the electricity production split by generation source (hydroelectric, thermal, wind power, geothermal) for each of the generation companies with any type of public sector ownership; (iii) the purchases and payments executed by the distribution companies to the generation companies with any type of public sector ownership; (iv) the volumes and values of fuel used in electricity generation, as well as the value of effected payments of such bill by generation companies with any type of public sector ownership; (v) the volume (in GWh) of electricity distributed, the volume and value of billed electricity, as well as the payments received for billed electricity by the distribution companies. The first report will correspond to the year 2010, and will be available by end-March 2011.

19. **Public Enterprise Debt.** The Ministry for Finance and Public Credit will prepare twice a year (in March and September) a report on the debt by public enterprises (showing separately external and domestic debt, and including within those categories the type of creditor), with information for end-December and end-June, respectively. This report will complement the debt report that is already being produced and that includes debt of the Central Government and the Central Bank. The first report will be available in March 2011, and will include information corresponding to the year 2010.

20. **Financial System.** The authorities will provide Fund staff (on a monthly basis), the stock of deposits of the major depositors of the supervised financial entities, grouped by sectors. This information will be provided for the first time by end-October 2010.

21. **Micro-finance Institutions.** The Superintendence of Banks and other Financial Entities will prepare a biannual report (containing information with a 3-month lag) on the performance of the non-supervised micro-financial institutions with loans exceeding US\$8 million as of end-June 2009. The report will include information on loans by sector, financial obligations (including their source split into foreign institutions, domestic institutions, and social investors), portfolio quality (including current, non-performing, restructured and postponed), provisions and capital. The first of these reports will include information for 2010 and will be available before end-March 2011.

INTERNATIONAL MONETARY FUND

NICARAGUA

**Fourth and Fifth Reviews Under the Three-Year Arrangement Under the Extended Credit Facility, Requests for Extension of the Arrangement, Rephasing of Access, and Waiver of Nonobservance of Performance Criterion, and Financing Assurances Review—Informational Annex**

Prepared by the Western Hemisphere Department

November 1, 2010

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**Annex I–Relations with the Fund**  
(As of September 30, 2010)

**I. Membership Status:** Joined: March 14, 1946; Article VIII

<b>II. General Resources Account:</b>	<b>SDR Million</b>	<b>Percent Quota</b>
Quota	130.00	100.00
Fund holdings of currency	130.01	100.01
Reserve Tranche Position	0.00	0.00
Lending to the Fund		
Notes Issuance		
Holdings Exchange Rate		

<b>III. SDR Department:</b>	<b>SDR Million</b>	<b>Percent Allocation</b>
Net cumulative allocation	124.54	100.00
Holdings	104.87	84.21

<b>IV. Outstanding Purchases and Loans:</b>	<b>SDR Million</b>	<b>Percent Quota</b>
ECF Arrangements	95.88	73.75

**V. Latest Financial Arrangements:**

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF <sup>1/</sup>	Oct 05, 2007	Dec 04, 2010	78.00	54.10
ECF <sup>1/</sup>	Dec 13, 2002	Dec 12, 2006	97.50	97.50
ECF <sup>1/</sup>	Mar 18, 1998	Mar 17, 2002	148.96	115.32

<sup>1/</sup> Formerly PRGF.

**VI. Projected Payments to Fund <sup>2/</sup>**

(SDR Million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2010	2011	2012	2013	2014
Principal		1.39	8.36	10.74	14.42
Charges/Interest	0.01	0.06	0.29	0.26	0.23
Total	0.01	1.45	8.64	11.00	14.65

<sup>2/</sup> When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

**VII. Implementation of HIPC Initiative:**

I. Commitment of HIPC assistance	Enhanced Framework
Decision point date	Dec 2000
Assistance committed	



by all creditors (US\$ Million) <sup>1</sup>	3,308.00
<i>Of which:</i> IMF assistance (US\$ million)	82.20
(SDR equivalent in millions)	63.54
Completion point date	Jan 2004

## II. Disbursement of IMF assistance (SDR Million)

Assistance disbursed to the member	63.54
Interim assistance	2.55
Completion point balance	60.99
Additional disbursement of interest income <sup>2</sup>	7.62
<b>Total disbursements</b>	<b>71.16</b>

## VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):

A.	MDRI-eligible debt (SDR Million) <sup>3</sup>	140.48
	Financed by: MDRI Trust	91.79
	Remaining HIPC resources	48.70
B.	Debt Relief by Facility (SDR Million)	

	Eligible Debt		
Delivery Date	GRA	PRGT	Total
January 2006	N/A	140.48	140.48

## IX. Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

## X. EXCHANGE RATE ARRANGEMENTS:

In December 1995, the Monetary Board of the central bank approved the **unification of the exchange rate system** effective January 1, 1996. With the unification of the exchange rate, all previous exchange restrictions on payments and transfers for current international transactions and multiple currency practices were eliminated. The central bank buys/sells any

<sup>1</sup> Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point.

<sup>2</sup> Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

<sup>3</sup> The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

amount of foreign currency from/to financial institutions at the official exchange rate, and implements a crawling peg system. For 2006, the monthly crawl remained at an annual rate of 5 percent.

As of November 1, 2010, the exchange rate in the official market was C\$21.71 per U.S. dollar.

#### **XI. ARTICLE IV CONSULTATION:**

The last consultation was completed by the Executive Board on July 9, 2010, (SM/10/156). It is expected that the next Article IV consultation with Nicaragua will be held on a standard 24-month cycle subject to the provisions of the decision on consultation cycles approved by the Board on July 15, 2002.

#### **XII. FSAP PARTICIPATION:**

An FSAP update was completed in October 2009, and the Financial System Stability Assessment report for Nicaragua was issued on April 28, 2010.

#### **XIII. TECHNICAL ASSISTANCE:**

Nicaragua has received substantial technical assistance. The schedule below details assistance provided since 2007.

<b>Dept.</b>	<b>Purpose</b>	<b>Time of Delivery</b>
FAD	Follow-up on pension reform	April 2010
FAD	Public financial management (performance budgeting)	April 2010
FAD	Revenue administration (CAPTAC, follow-up)	February 2010
FAD	Revenue administration assessment (CAPTAC)	November 2009
FAD	Public Financial Management (joint with WB)	May 2009
FAD	Public Financial Management (Diagnostic mission)	March 2007
MCM	Risk-based Supervision	April 2010
MCM	MTDS follow up	April 2010
MCM	Financial sector supervision	March 2010
MCM	Risk-based Supervision	January 2010
MCM	Risk-based Supervision	December 2009
MCM	Risk-based Supervision	November 2009
MCM	FSAP update mission	October 2009
MCM	Risk-based Supervision	September 2009
MCM	Pre-FSAP mission	August 2009
MCM	Medium-term debt strategy	July 2008
MCM	Central Bank Independence and Recapitalization	April 2008
MCM	Capital Markets Study Presentation	September 2007
MCM	Regional Project of Harmonization of Monetary and Financial Statistics in Central America and the Dominican Republic	March 2007

MCM	Discuss with authorities--Monetary & Exchange Rate Policy	April 2007
STA	Balance of payments statistics	October 2010
STA	Producer price index	September 2010
STA	International Investment Position	March 2010
STA	Government finance statistics	February 2010
STA	Balance of payments, international investment position	April 2009
STA	Producer price index	December 2008
STA	Monetary statistics	April 2008
STA	National accounts	January 2008
STA	Producer price index	September 2007
STA	Monetary statistics	February 2007
STA	Balance of payments statistics	February 2007

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#### **XIV. RESIDENT REPRESENTATIVE:**

Mr. Gabriel Di Bella assumed the position of Resident Representative in Nicaragua in February 2010.

## Annex II– Nicaragua: Bank-Fund Country Level Joint Managerial Action Plan, 2010-11<sup>4</sup>

Products	Mission timing	Expected delivery
<b>A. Mutual information on relevant work programs</b>		
<b>The Fund work program</b>		
<b>Strategy:</b> The IMF-supported program entails macroeconomic policies anchored on containing expenditures, paving the way for fiscal consolidation, and protecting the external position. It also includes measures to improve the monitoring and reporting on the sources and uses of foreign aid flows. Technical assistance will focus on tax administration, improving financial regulation and oversight, and on improvements in statistics.		
Fourth and Fifth Reviews	September 8-17, 2010	Board discussion in November 2010
Sixth Review	End-February 2011	Board discussion in April 2011
Seventh Review	September 2011	Board discussion in October 2011
FAD: TA Revenue administration	Two missions in 2011	Aide-memoire at the end of the mission
MCM: Regulation/Supervision–Risk-Based Supervision	Six missions	Aide-memoire at the end of the mission
MCM: Stress Testing	Two missions in late 2010 and 2011	TA report at the end of the final mission
STA: Government finance statistics and Producer price statistics	Two missions in 2011	Aide-memoire at the end of the mission
<b>The World Bank program</b>		
<b>Strategy:</b> The Bank's operations and analytical activities under the Country Assistance Strategy 2008-2012 will aim at stimulating productivity and competitiveness, developing human capital (improving social equity and opportunity) and strengthening governance and accountability. Additionally, to complement fiscal consolidation and improved public financial management, the Bank will support the government in removing bottlenecks to inclusive growth and development.		
<b>A. Lending</b>		
A.1. Rural Transport Logistics and Roads Project	November, 2010	Board presentation by January 2012
A.2. Public Financial Management Modernization Project	December, 2010	Board presentation by January 2012
A.3. Social Protection	October 4-7, 2010	Board presentation by January 2010
A.4. Improving Community and Family Health Care Services	No date assigned yet	Board presentation by TBD

<sup>4</sup> The Fund and the World Bank teams agreed to maintain regular monthly communication and exchange of information and to set a more structured semi-annual discussion in the context of the JMAP.

Project	No date assigned yet	Board presentation TBD
A.5. Additional Finance Roads Rehabilitation and Maintenance Project IV	January 10-18, 2011	Board presentation TBD
A.6. Land Administration		
B. Technical assistance		
B.1. Nicaragua Public Sector Advisory Services	No mission.	Delivery to client by September 2011
B.2. Innovations for Rural Women's Economic Empowerment	October 11-15, 2010	Delivery to client by May 2011
B.3. Poverty Monitor and Policy Evaluation II	October 11-15, 2010	Delivery to client by May 2011
B.4. Strategic Implementation Planning Framework	August 30 – September 4, 2010	Delivery to client by February 2011
C. Analytical Work		
C.1. Country Economic Memorandum	November 15-19, 2010	Delivery to client by September 2011
C.2. MTDS Follow up	May 24-28, 2010	Delivery to client by December 2010
C.3. DeMPA Assessment	September 22-29, 2010	Delivery to client by November 2010

**Annex III—Relations with the Inter-American Development Bank**  
(As of October 15, 2010)

**Statement of IDB Loans**

(In millions of U.S. dollars)

<b>Year</b>	<b>Purpose</b>	<b>Amount</b>
2007	National transmission investments to support SIEPAC	12.5
	Electricity Sector Support Program I	32.7
	Hospital Infrastructure	20.0
	Social Housing II	15.0
2008	Electricity Sector Support Program II	40.2
	Rural Sector	20.0
	Fiscal Management and Social Expenditure Reform I	20.0
2009	Storm-water Drainage and Development Management Sub-Watershed III Managua	13.0
	Urban Welfare Program for Children in Extreme Poverty	15.0
	Electricity Sector Support Program III	20.0
	Supplementary Road Infrastructure for Competitiveness Program	43.5
	Global Multi-sector Credit Program	20.0
	Fiscal Management and Social Expenditure Reform II	40.5
	Foreign Trade Support Program	10.0
	Agricorp (Non-sovereign)	30.5
	National Sustainable Electrification and Renewable Energy Program	30.5
2010	San Jacinto-Tizate Geothermal Power Project	40.0
	Environmental Program for Disaster Risk and Climate Change	10.0
	Proposal for an additional financing of cost overruns	4.5
	Public Sector Financial Management System Modernization Project	10.0
	<i>Support to Transportation Sector I (pending approval)</i>	20.2
	<i>National Program of Tourism (pending approval)</i>	10.0
	<i>Support to the Improvement of the Fiscal Management and Social (pending approval)</i>	42.5
	<i>Potable Water Program for Managua (pending approval)</i>	30.0
	<i>Comprehensive Child Care Program - PAININ StageIV (pending approval)</i>	12.5

**IDB Loan Commitments and Disbursements**

As of October 15, 2010, there were 31 projects in the IDB's current sovereign loan portfolio with a total commitment US\$678.3 million, and an undisbursed balance of US\$367.7 million. Basic infrastructure (roads and energy) accounts for over half the portfolio. Nicaragua is one of four IDB borrowing member countries to receive highly-concessional loans from the Fund for Special Operations (FSO). Nicaragua receives a lending blend of 50 percent from the FSO and 50 percent from the Ordinary Capital. The annual sovereign lending envelop depends on the availability of FSO funding as well as an allocation formula that encompasses policy performance, project performance, per capita income and population. The allocation for Nicaragua was US\$80.2 million per annum in 2007 and 2008. In early 2009, the overall FSO funding for the four low-income countries was increased as a counter-cyclical response to the global economic crisis, and Nicaragua's allocation increased to US\$162.0 million for 2009 and US\$170.2 million for 2010.

**Technical Assistance**

As of October 15, 2010, there were 35 non-reimbursable technical cooperations (for public sector) in execution with an approved commitment of US\$14.9 million and an available balance of US\$6.4 million. The Multilateral Investment Fund has: (i) 21 non-reimbursable technical cooperation (including regional operations) in execution with an approved commitment of US\$13.1 million and an available balance of US\$8.5 millions; and (ii) 3 loans in execution from the Small Program Entrepreneurship with an approved commitment of US\$1.3 million and an available balance of US\$0.5 million.

**Recent Agreements**

The current country strategy with Nicaragua was approved by the Board in February 2009.

## Annex IV—Statistical Issues

(As of October 26, 2010)

### I. Assessment of Data Adequacy for Surveillance

**General:** Data provision has some shortcomings, but is broadly adequate for surveillance. Most affected areas are government financing statistics and monetary statistics.

#### **National accounts:**

National accounts are compiled in accordance with the United Nations *System of National Accounts (SNA93)*. GDP estimates with 1994 as the base year are available up to the second quarter of 2010. Annual surveys for agriculture, mining, manufacturing, domestic trade, and services are regularly collected to estimate GDP by the production approach.

The revised GDP estimate for 1994 resulted in a 67.1 percent higher level of economic activity than measured by the previous 1994 estimate. On average, the revised GDP series was 70 percent higher than the old series for the period 1994-1999. Per capita GDP in dollar terms increased from \$478 to \$779 for 2000. This downward bias of Nicaraguan GDP estimates was distributed across the value added of all economic activities and expenditure components, except for changes in inventories, since they were overestimated in the previous series. The impact of the revision on the GDP growth rate was around one and a half percentage points from 1994 to 1997 and one third of a percentage point for 1998 and 1999, when the old series was discontinued.

STA provided technical assistance in quarterly national accounts to the Central Bank of Nicaragua in June 2005 and January 2008. The new quarterly GDP series at current and at constant prices were published in October 2008. Given that the base year of the national accounts is 16 years old, the Central Bank of Nicaragua (BCN) is currently in the process of changing the base year of the national accounts to 2006. The project had some delays, but the estimates for the new base year are expected to be ready soon. Preliminary accounts for the household sector are available and the accounts for other institutional sectors are being compiled.

#### **Price statistics:**

The consumer price index (CPI), with expenditure weights derived from a (1998/99) household expenditure survey, was introduced in 2001. The CPI covers Managua and eight other cities and is published monthly. Expenditures (weights) and prices in rural areas are excluded. The base year of the CPI was updated from 1994 to 1999, reflecting the improvement in the varieties of basket, the number of respondents reporting prices, and the number of prices collected per month. The CPI is calculated on the geometric average and imputations for missing prices are made. However, the base, basket, and weights of the CPI need updating.

The producer price index (PPI) (July 2006=100) covers a sample of small and medium-size establishments, as well as goods for processing establishments in the tax-free zones (i.e., “la maquila”). Compilation of a PPI began in 1999, and its public release started in May 2004. Historical data are available from 1992. STA provided technical assistance for improving the PPI in January 2006, September 2007, December 2008, and September 2010. The September 2010 mission helped authorities develop a work plan for expanding the coverage to the service sector.



**Government finance statistics (GFS).** The fiscal ROSC mission in 2002 and the data ROSC mission in 2005 both found serious weaknesses in fiscal data. In general, government finance statistics are not fully aligned with international standards. The transactional coverage of GFS is still partial in comparison with the *GFSM 2001* requirements. Coverage and sectorization issues can be partially explained by the Public Administration Law, which excludes the judicial and legislative branches from the data coverage of the central administration. The fiscal data also present large discrepancies between the overall balance compiled by the Ministry of Finance and Public Credit (MHCP) and the financing data compiled by the BCN. Therefore, stronger collaboration is needed between the MHCP and the BCN to derive more accurate and timely estimates of external and domestic financing of the nonfinancial public sector. A 2004 GFS mission recommended that the envisaged Integrated System of Financial Management be made to support the compilation of GFS data and gradual migration to the *GFSM 2001*. These recommendations were reiterated by the FAD/STA mission in June 2006. An STA mission conducted in February 2010 found that the authorities are making significant progress in implementing the *GFSM 2001* methodology but some issues are still pending. The MHCP disseminates government finance statistics (GFS) covering only the central administration, and compiles annual GFS for the nonfinancial public sector (NFPS) for internal use and for reporting to the Western Hemisphere Department. The BCN reports budgetary central government data, albeit with considerable delay, for publication in the International Financial Statistics. In 2006 the MHCP reported GFS data for publication in the *GFS Yearbook*.

**Monetary finance statistics:** Monetary statistics are, in general, consistent with the *Monetary and Financial Statistics Manual (MFSM)*, 2000. Further improvements in the sectorization of accounts of the ODCs would improve the usefulness of the data, particularly for assessing net credit to central government. Reconciliation with fiscal data also poses problems due to differences in institutional coverage and basis for recording. In April 2008, STA provided technical assistance to help harmonize monetary and financial statistics in the Central American region. A standardized report form (SRFs) for credit cooperatives and insurance companies was compiled based on their accounting records for December 2007.

**External sector statistics:** Balance of payments statistics broadly follow the concepts and definitions set out in the fifth edition of the *Balance of Payments Manual (BPM5)*, within the limits set by the availability of information sources.

Resident institutional units are defined in conformity with *BPM5*'s concepts of economic territory, residency, and center of economic interest. However, coverage of the private sector is incomplete, in both the current and financial accounts. There are major coverage weaknesses in areas such as services, compensation of border employees, and financial transactions. In February 2007, a STA mission found that the downsizing of staff at the BCN and additional workload unrelated to compiling external sector statistics, have resulted in limited progress in implementing previous STA recommendations.

With few exceptions, all data are provided on a quarterly basis. Monthly updates on exports and imports and condensed BOP tables are available from the BCN website, with varying lags. Debt data are updated continuously at the BCN and are regularly available but coverage needs improvement—particularly for the external debt of public enterprises, banks, and the nonfinancial private sector.

STA provided technical assistance for improving the balance of payments and the international investment position in April 2009 and April 2010. In October 2010, CAPTAC provided technical assistance for improving the compilation of services statistics in the goods and services account of the balance of payments. A one-week TA mission on international investment position statistics also visited Managua in March 2010. A ROSC on the balance of payments was conducted in 2005.

## **II. Data Standards and Quality**

Nicaragua has participated in the General Data Dissemination System (GDDS) since February 2005, but metadata and plans for improvements have not been updated since January 2005

Data ROSC published in December 2005.

**Nicaragua: Table of Common Indicators Required for Surveillance**  
(As of October 19, 2010)

	Date of latest observation	Date received	Frequency of Data <sup>7</sup>	Frequency of Reporting <sup>7</sup>	Frequency of Publication <sup>7</sup>	Memo Items:	
						Data Quality – Methodological soundness <sup>8</sup>	Data Quality – Accuracy and reliability <sup>9</sup>
Exchange Rates	10/15/2010	10/18/2010	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	10/15/2010	10/18/2010	D	D	D		
Reserve/Base Money	10/15/2010	10/18/2010	D	D	D	O, LO, LO, LO	LO, O, LO, LO, LO
Broad Money	10/15/2010	10/18/2010	D	D	D		
Central Bank Balance Sheet	9/2010	10/1/2010	M	M	M		
Consolidated Balance Sheet of the Banking System	9/2010	10/1/2010	M	M	M		
Interest Rates <sup>2</sup>	9/2010	10/2010	W	W	W		
Consumer Price Index	9/2010	10/2010	M	M	M	O, LO, LO, LO	LO, LO, LO, O, LO
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – General Government <sup>4</sup>	6/2010	8/03/2010	M	M	M	LO, LNO, LNO, LO	O, O, O, O, LO
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – Central Government	6/2010	8/03/2010	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	6/2010	9/2010	Q	Q	Q		
External Current Account Balance	6/2010	8/09/2010	Q	Q	Q	LO, LO, LNO, LO	LO, O, LO, LO, LO
Exports and Imports of Goods and Services	8/2010	9/2010	M	M	M		
GDP/GNP	Q2/2010	9/2010	Q	Q	Q	O, O, O, LO	LO, O, LO, O, LNO
Gross External Debt	7/2010	8/2010	M	M	M		
International Investment Position <sup>6</sup>	2009	2/2010	A	A	A		

<sup>1</sup>Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

<sup>2</sup>Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup>Foreign, domestic bank, and domestic nonbank financing.

<sup>4</sup>The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>5</sup>Including currency and maturity composition.

<sup>6</sup>Includes external gross financial asset and liability positions vis-à-vis nonresidents.

<sup>7</sup>Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).

<sup>8</sup>Reflects the assessment provided in the data ROSC published on December 8, 2005, and based on the findings of the mission that took place during January 11-26, 2005) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

<sup>9</sup>Same as footnote 7, except referring to international standards concerning source data, assessment and validation of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

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FOR IMMEDIATE RELEASE  
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International Monetary Fund  
Washington, D.C. 20431 USA

## **IMF Executive Board Concludes Fourth and Fifth Review Under Nicaragua's Extended Credit Facility and Approves Extension of the Arrangement**

The Executive Board of the International Monetary Fund (IMF) today completed the fourth and fifth reviews of Nicaragua's economic performance under the three-year Extended Credit Facility (ECF). The Executive Board also approved an extension of the arrangement through December 4, 2011.

The extension involves a re-phasing of disbursements already scheduled in the arrangement. A total of SDR 12.8 million (equivalent to US\$19.97 million) will be made available immediately upon completion of the reviews, while the rest will be disbursed in two equal tranches of SDR 5.55 million (about US\$8.66 million), during 2011. Total disbursements so far had been of SDR 54.1 million (about US\$84.41 million).

All quantitative performance criteria through end-December 2009 and end-June 2010 were met with margins, except for the one on the ceiling for non-concessional external debt, which for a technical reason was not observed and the Executive Board approved a waiver. Good progress has been made in moving forward the structural agenda.

The Executive Board approved the three-year ECF (formerly PGRF) arrangement for SDR 71.5 million (about US\$111.6 million) in October 2007 (see [Press Release No. 07/224](#)). In September 2008, the Board increased financial support under the program by SDR 6.5 million (about US\$10.14 million) to help Nicaragua cope with the natural disasters of 2007 (see [Press Release No. 08/204](#)).

Following the Executive Board discussion on Nicaragua, Mr. Murilo Portugal, Deputy Managing Director and Acting Board Chair, issued the following statement:

"The Nicaraguan economy is recovering gradually from the effects of the global financial crisis. The pickup in activity in 2010 has been broad based and balanced, exports are growing faster than anticipated, and the financial system remains stable and liquid. Real GDP growth is expected to reach 3 percent this year and the balance-of-payments position

has improved. “The authorities strengthened their economic program for the remainder of this year and for 2011 to mitigate risks, protect the external position, and pave the way for further fiscal consolidation.

“Reducing the still high public debt remains a key challenge. The authorities’ decision to use part of the stronger-than-expected revenues to lower the fiscal deficit in 2010 is appropriate, as is their commitment to a prudent fiscal stance in 2011. In the medium term, continued efforts to contain current expenditure growth, while creating space for investment and well-targeted poverty spending, remain critical. Bold progress is needed in enhancing tax administration, broadening the tax base, improving the actuarial situation of the pension system, and in reforming employment practices in the public sector.

“Recent progress in the implementation of key structural reforms is encouraging. The approval of a new central bank charter, the strengthening of the electricity law, the publication of a study on pension reform options, and the adoption of a new procurement law are important advances. In addition, improvements in reporting and monitoring of foreign aid flows will help foster confidence and mobilize donor support. Maintaining the momentum of structural reforms will be critical to boost Nicaragua’s growth potential, improve living standards, and reduce poverty.

“The banking system remains sound, but uncertainties about the economic outlook call for continued enhanced supervision. Implementing the recommendations of the recent Financial Sector Assessment Program (FSAP) Update should be a key priority, as is the adoption of strengthened regulations of the microfinance and cooperatives sectors.”

**Statement by Carlos Perez-Verdia, Executive Director for Nicaragua and Johny Gramajo-Marroquin, Senior Advisor to the Executive Director**  
**November 19, 2010**

We thank the staff for a concise and well-written report. On their behalf, we would like to express their appreciation to management and staff for the willingness to maintain a close engagement with the country.

In general terms, the Nicaraguan Authorities agree with staff's appraisal and recommendations. Nevertheless, they would like to convey that they do not share staff's opinion regarding the country's current political framework. In spite of the aforementioned and as a signal of their commitment to maintain transparency—in line with the Fund's policy on this matter—our Nicaraguan authorities consent to the publication of the staff report.

Performance under the ECF arrangement has been satisfactory, reflecting the Government of Nicaragua's commitment to the ECF-supported program, based on the conviction that it will help underpin macroeconomic stability and effectively support their social and infrastructure policies. All quantitative performance criteria through end-June were met with margins, except the ceiling on non-concessional external debt, which, for strictly technical reasons, was not observed. The authorities have moved forward regarding the implementation of the supplementary agenda, reaching important steps, particularly those related to reforms in the electricity sector, a new Central Bank Charter, the approval of a new procurement law in line with international practices, and steps taken to strengthen fiscal consolidation in 2010 and 2011. Based on the aforementioned, we request the completion of the fourth and fifth reviews, the waiver of nonobservance of performance criterion as well as a one-year extension of the ECF arrangement, the corresponding rephrasing of the remaining access, and the approval of the SDR12.8 million disbursement.

Taking into account the international environment characterized by persistent uncertainties, our authorities believe that the extension of the ECF arrangement will play a crucial role in effectively supporting the authorities' prudent macroeconomic management, which will help maintain confidence and anchor expectations during the next year, while allowing for further implementation of the reform agenda.

### **Recent Developments and outlook for 2010-11**

During 2009-10, implementation of sound macroeconomic policies has been targeted at maintaining macroeconomic stability and helping mitigate the effects of the crisis. In the recovery phase, that commitment to ensuring macroeconomic stability is still strong and important steps geared toward fiscal consolidation in the remainder of 2010 and during 2011, while safeguarding social and investment expenditure, have already been taken.

The Nicaraguan economy has been recovering at a good pace with broad-based growth of 5.9 percent (y/y) during the first semester of 2010. Currently, growth of at least 3 percent is expected for the whole year (1.75 - 2.0 percent envisaged in the program); similar growth is

expected for 2011. On the demand side, although investment is rising at a slower pace than consumption, there are signs of further recovery.

After recording a historically low level of 0.9 percent in 2009, inflation is projected to reach around 7 percent in 2010, reflecting the higher economic activity and the rise in prices of oil and other relevant commodities. A slight decline is expected for 2011, between 6-7 percent.

The current account deficit is expected to increase in line with higher economic activity to around 16 percent of GDP for 2010-11. The deficit will be financed by FDI and official foreign aid, allowing international reserves coverage to remain stable.

### **Fiscal Policy**

The Government has implemented a prudent fiscal policy during 2010 which will continue in 2011. In that context, the National Assembly approved a supplement to the 2010 budget which is consistent with a reduction in the fiscal deficit (after grants) of around 0.9 percent of GDP with respect to the program. This result stems from larger-than-programmed tax revenues, reflecting stronger economic activity and the effects of the fiscal reform of 2009.

There is agreement between the authorities and the staff that Social Security Institute (INSS) finances must be strengthened. In that sense, we would like to underscore that the Government of Nicaragua has already taken specific measures aimed at preserving fiscal sustainability, even when they involved significant political costs, including the approval of an increase of 1 percentage point in the rate of contribution to the social security system, implemented as of January 2010. In addition, the authorities have agreed to include a quantitative performance criterion on the INSS' overall balance for December 2010. Furthermore, INSS—in consultation with an inter-institutional commission—prepared a report that sets out a range of options for improving the system's financial position while gradually correcting its actuarial deficit, which was published for general circulation last October .

The authorities will continue to assess their options for further streamlining exemptions and exonerations, and for establishing transfer pricing regulations. In addition, they will seek to ensure that minimum wage increases are maintained in line with inflation and economic growth.

Against this background, the overall deficit for the consolidated fiscal sector for 2010 will not exceed 2.3 percent of GDP (3.1 percent in 2009). As part of the measures aimed at preserving fiscal sustainability, it is worth mentioning that for 2011 the authorities have submitted to the National Assembly a budget for the central government consistent with a deficit of 1.5 percent of GDP, which includes 0.7 percent of GDP expenditure necessary to conduct the 2011 presidential elections. Our authorities would like to stress that, considering the election cost, the 2.2 percent of GDP deficit programmed for the consolidated public sector in 2011 is a strong signal of fiscal consolidation.

Nicaragua will also continue its best efforts to secure the debt relief required from Non-Paris Club bilateral creditors. However, in spite of the important progress made so far,



approximately US\$1.1 billion in debt relief have yet to be secured from this group of creditors. Full creditor participation is crucial to ensure successful implementation of the HIPC initiative in Nicaragua and external debt sustainability over the long term.

## **Monetary and Financial Policy**

Monetary policy will be aimed at ensuring adequate international reserve coverage and maintaining orderly liquidity conditions in the financial system. Although the monetary program envisages a decrease in adjusted net international reserves of around US\$40 million both in 2010 and 2011, it is worth mentioning that stocks of reserves by end 2010 are estimated to reach levels well above the original targets. Such consolidation in gross reserves levels is consistent with maintaining ratios of monetary base coverage above two times, contributing to safeguard confidence on the current exchange rate arrangement. After two years of net issuance of central bank papers, aimed at managing the excess of financial system's liquidity, the monetary authority is programming to start reducing its debt with a view to strengthen its financial position and satisfy market demand for liquidity in line with economic activity recovery. In terms of foreign exchange policy, the central bank will maintain the rate of crawl of the exchange rate of 5 percent per year.

The financial system has weathered the crisis relatively well; although nonperforming loans have increased and bank profitability has fallen, liquidity and solvency ratios have remained at adequate levels. The monetary and financial authorities will adopt further measures to safeguard the soundness of the financial system, including onsite supervision and keeping loan-loss provisioning at adequate levels.

The Nicaraguan authorities would like to emphasize that policy response to strengthen the financial safety net in the early stage of the international financial crisis proved to be effective to strengthen confidence on the financial system and the exchange regime. In that sense, the contingent credit line with the Central American Bank of Economic Integration was renewed by the Central Bank of Nicaragua in August 2010.

## **Supplementary Agenda**

Our authorities are convinced that the supplementary agenda is well focused and critical to underpin medium-term macroeconomic stability and foster their poverty reduction strategy.

Regarding the electricity sector, further improvements in its finances and services have been accomplished, while boosting electricity generation. In order to reduce distribution losses, in July 2010 the National Assembly approved a reform of the legal framework widening the range of residential customers liable to fines for irregularities in the use and payment of electricity, and ensuring that the distribution company makes necessary investments to restrain technical losses and improve the quality of service. The increase in electricity prices of around 7 percent in May 2010, corrected the discrepancies with generation costs.

Regarding external aid, as part of the effort to strengthen the monitoring and transparency in the use of foreign aid, the Fifth Report on Cooperation, incorporating information up to end-June 2010, was recently published, and the Sixth Report (incorporating data for end-2010)

will include detailed information on the subject. In addition, the Government will ensure that the use of foreign aid generates no fiscal contingencies.

On the fiscal side, with financial and technical assistance from the World Bank and the IDB, authorities are taking concrete actions with the aim of improving expenditure procedures and promoting efficiency and transparency. At the same time, efforts are under way to reinforce tax and customs administration with a view to strengthen oversight processes and the mechanisms for controlling payment of refunds, and to improve management of the large taxpayers unit.

Regarding the financial sector, the National Assembly approved in July 2010 a new Central Bank Charter which consolidates institutional strength, improves the instruments for monetary policy, and ensures greater accountability. Drawing on the central bank's strategic planning and latest FSAP discussions, the monetary authority is currently working on revamping its monetary instruments with a view to continue supporting the crawling peg regime but also to manage liquidity in a more efficient way and to promote money market development. Short term FSAP recommendations regarding *Safety Nets, Crisis Management and Banking Resolution* as well as *Money and Debt Markets, and Liquidity Management* have already been addressed.

The government remains committed to promote the sound development of microcredit and, more broadly, the payment culture. In that sense, with the aim of enhancing supervision, transparency and efficiency of the microfinance sector, by end-November 2010 the authorities will seek approval of a law to regulate and manage the sector, in particular the regulatory framework applicable to unsupervised microfinance intermediaries. Alongside, enhanced efforts will be made to monitor the activities of financial cooperatives by strengthening the supervisory agency.

Finally, our authorities want to underscore their continued commitment to the objectives and policies established in the ECF arrangement as they are convinced that it will effectively support their economic and social policies. Going forward, authorities anticipate the Executive Board's approval of the extension of the ECF and will continue to consult with Fund staff on all matters relating to policies under the program.