



NICARAGUA

January 4, 2023

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Western Hemisphere Department
(In consultation with other departments)

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FUND RELATIONS

Financial Position in the Fund

(As of December 16, 2022)

Membership Status: Joined: March 14, 1946; Article VIII

General Resources Account:

	SDR Million	Percent of Quota
Quota	260.00	100.00
Fund holdings of currency (Exchange Rate)	314.18	120.84
Reserve Tranche Position	32.50	12.50

SDR Department:

	SDR Million	Percent of Allocation
Net cumulative allocation	373.74	100.00
Holdings	281.04	75.20

Outstanding Purchases and Loans:

	SDR Million	Percent of Quota
RFI Emergency Assistance	86.67	33.33
RCF Loans	43.33	16.67

Latest Financial Commitments:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF ¹	October 5, 2007	October 31, 2011	78.00	78.00
ECF ¹	December 13, 2002	December 12, 2006	97.50	97.50
ECF ¹	March 18, 1998	March 17, 2002	148.96	115.32
Type	Date of Commitment	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RCF	November 20, 2020	December 7, 2020	43.33	43.33
RFI	November 20, 2020	December 7, 2020	86.67	86.67

Projected Payments to Fund:

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

	2022	2023	2024	2025	2026
Principal		--	43.34	43.34	8.67
Charges/Interest		5.81	5.34	3.74	2.33
Total		5.81	48.67	47.07	11.27

¹ Formerly PRGF.

Implementation of HIPC Initiative:

	<u>Enhanced Framework</u>
I. Commitment of HIPC assistance	
Decision point date	Dec 2000
Assistance committed by all creditors (US\$ Million) ²	3,308.00
Of which: 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 ³	7.62
Total disbursements	71.16

Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million) ⁴	140.48
Financed by: MDRI Trust	91.79
Remaining HIPC resources	48.70
II. Debt Relief by Facility (SDR Million)	

	<u>Eligible Debt</u>		
<u>Delivery date:</u>	<u>GRA</u>	<u>PRGT</u>	<u>Total</u>
January 2006	N/A	140.48	140.48

Implementation of Catastrophe Containment and Relief (CCR) Trust: Not Applicable**Exchange Arrangements:**

The currency of Nicaragua is the Nicaraguan córdoba. Nicaragua's de jure and de facto exchange rate regime is classified as a crawling peg. The central bank buys/sells any amount of foreign currency from/to financial institutions at the official exchange rate. In November 2020, the monthly crawl has been reduced to an annual rate of 2 percent, from 3 percent since November 2019 and 5 percent since December 2004. As of December 16, 2022, the official exchange rate was C\$36.2019 per U.S. dollar.

Nicaragua has accepted the obligations under Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions, except for an exchange restriction arising out of Nicaragua's participation in the SUCRE regional payments arrangement (Unitary System of Regional Compensation of Payments).

² 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. Hence these two amounts cannot be added.

³ 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.

⁴ 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.

Article IV Consultation:

The previous consultation was completed by the Executive Board on February 21, 2020 ([Country Report No. 2020/059](#)).

Safeguards Assessment:

An update safeguard assessment of the Banco Central de Nicaragua (BCN) was completed in November 2021. The assessment found that progress in implementing safeguards recommendations has been limited since the previous assessment in 2009. Despite legal amendments in 2010, vulnerabilities persist in legal safeguards for the BCN's autonomy and transparency and accountability practices. In addition, financial reporting and internal audit continue to deviate from international standards. That said, while the central bank law does not provide for an Audit Committee, the BCN has since established one in line with the safeguards recommendation to provide oversight of audit and control processes. The external audit mechanism has also been enhanced through formalization of a Board-approved auditor selection and rotation policy.

Financial Sector Assessment Program (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. A Financial Sector Stability Review (FSSR) was conducted in January-February 2019.

Technical Assistance:

Nicaragua has received substantial technical assistance. The schedule below details assistance provided since December 2019 and planned for 2023 (indicated in italics).

Department	Purpose	Time of Delivery
	Fiscal	
CAPTAC	Risk Management	Jan., April & November 2020
CAPTAC	Risk Management	April, Sept. & November 2021
CAPTAC	Risk Management	January 2022
FAD	Fiscal Transparency, Control of COVID-19 Spending, and Supervision of State-Owned Enterprises	November 2020
FAD	Fiscal Risks Related to State-Owned Enterprises	April-June 2021
CAPTAC	Macroeconomic fiscal risks, FRAT tool	November 2021
CAPTAC	Tax Audit	March 2022
FAD	Fiscal Transparency Evaluation	March 2022
CAPTAC/FAD	Tax Administrations	August 2022
CAPTAC	Strengthen Tax Audit Procedures	September 2022
CAPTAC	Strengthen Risk Management	November 2022
CAPTAC	<i>Strengthen Risk Management (planned)</i>	2023
CAPTAC	<i>Strengthen Tax Audit Procedures (planned)</i>	2023
CAPTAC	<i>Fiscal risks (planned)</i>	2023

Department	Purpose	Time of Delivery
CAPTAC	<i>Budget preparation (planned)</i>	2023
CAPTAC	<i>Post clearance audit (planned)</i>	2023
CAPTAC	<i>Improving risk analysis on customs clearance (planned)</i>	2023
Monetary and Financial Sector		
CAPTAC/MCM	Monetary Operations Scoping Mission	August 2021
CAPTAC	Liquidity Forecasting and Management	November 2021
CAPTAC	Central Bank's Foreign Exchange Operations	October 2022
CAPTAC	External Auditors' Support to Credit Risk Supervision	February-March 2021
CAPTAC	<i>Semi Structural Model Update (planned)</i>	2023
CAPTAC	<i>Interbank Money Market Development (planned)</i>	2023
CAPTAC	<i>Operationalization of ELA Framework (planned)</i>	2023
CAPTAC	<i>Off- site supervision (planned)</i>	2023
CAPTAC	<i>Investor education program (planned)</i>	2023
Statistics		
CAPTAC	External Sector Statistics	April 2020
CAPTAC	National Accounts Statistics	June & October 2020
CAPTAC	Producer Price Index	August 2020 & March 2022
CAPTAC	Government Accounts and Harmonization with GFSM 2014	October 2020
CAPTAC	Government Finance Statistics (GFS)	July-Aug. & December 2021
CAPTAC	National Accounts Statistics (NAS)	June-July 2021
CAPTAC	Quarterly NAS and seasonal adjustment	August 2021
CAPTAC	Public Debt Statistics	September-October 2021
CAPTAC	Quarterly Supply and Use Table	February 2022
CAPTAC	Quarterly National Accounts Statistics (2008 SNA)	April 2022
CAPTAC	GFS and Public Sector Debt Statistics	February & August 2022
CAPTAC	Quarterly NAS and Economic Surveys	November 2022
CAPTAC	<i>Price statistics (planned)</i>	2023
CAPTAC	<i>Government Finance Statistics (planned)</i>	2023
CAPTAC	<i>Public Debt Statistics (planned)</i>	2023

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank: <http://www.worldbank.org/en/country/nicaragua>

Interamerican Development Bank: <https://www.iadb.org/en/countries/nicaragua/overview>

Central American Bank for Economic Integration: <https://www.bcie.org/en/member-countries/founders/republic-of-nicaragua>

MAIN WEBSITES OF DATA

Central Bank of Nicaragua (<https://www.bcn.gob.ni/>)

National accounts

Monthly indicator of economic activity (IMAE)

Balance of payments

International reserves

Interest rates

Monetary and financial indicators

Exchange rates

Ministry of Finance (<http://www.hacienda.gob.ni/hacienda/finanzaspublicas/finanzas.html>)

Fiscal accounts

Central government budget

Public debt

National Institute of Development Information (<https://www.inide.gob.ni/>)

Consumer price index

Labor and employment

Household income and expenditure survey

Poverty and inequality

Superintendency of Banks (<https://www.siboif.gob.ni/>)

Balance sheets and income statements

Financial soundness indicators

STATISTICAL ISSUES

(As of December 16, 2022)

I. Assessment of Data Adequacy for Surveillance
<p>General. Data provision is broadly adequate for surveillance but there are numerous data shortcomings in national accounts, fiscal, debt, and external sector statistics. Moreover, the timeliness in the release of statistical information has deteriorated. Further efforts are needed to improve source data in the real sector, particularly for tourism, manufacturing, and retail; incorporate the results of the 2017/18 household survey in the national accounts; harmonize public sector debt with external sector debt data; monitor assets and liabilities of public enterprises; and improve coverage of FDI statistics.</p>
<p>National Accounts. The CBN disseminates national accounts (NA) series with chained volume indices with previous year weights based on 2006. As part of this dataset the annual accounts by institutional sector for 2005–18 are disseminated, in accordance with the recommendations of the System of National Accounts 1993 (1993 SNA), and most relevant recommendations of the 2008 SNA for which source data are available. In March 2017, while releasing the 2016 NA data, the CBN had revised earlier years, specifically the 2010–13 data comprising number of refinements (i.e., update of trade and producer price indices, revised agricultural production, and, in particular, addressed discrepancies between NA and the balance of payments (BOP) trade data in the tax-free zones). Since December 2018, the economic surveys for national accounts are collected by the national statistical institute (INIDE). The CBN has started a project to update the national accounts benchmark to 2019, including continuing the implementation of the main recommendations of the 2008 SNA.</p> <p>Price and Labor Statistics. The consumer price index (CPI) uses expenditure weights derived from a 2006/07 household expenditure survey. The CPI covers Managua and eight other cities and is published monthly. Expenditures (weights) and prices in rural areas are excluded. From April 2017 to March 2018 a Household Income and Expenditure Survey was collected to update the period of reference of the current CPI, this survey covers only urban population.</p> <p>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 maquila sector. There is also scope for expanding the coverage of the PPI to the service sector. Since September 2018, the price quotations and compilation of the CPI and PPI moved from the CBN to INIDE, but the technical validation of both indices remains as the CBN responsibility. As of January 2020, the CPI and the PPI are published by INIDE.</p> <p>Labor market statistics are scarce and unemployment figures are available irregularly during the year.</p>
<p>Government Finance Statistics (GFS). The Ministry of Finance and Public Credit (MHCP) reports annual GFS to STA with the institutional coverage of the budgetary central government (BCG) and social security funds for the publication of the GFS Yearbook while compiling and disseminating fiscal statistics with a monthly frequency on its website with more comprehensive data coverage. Shortcomings of the data submitted to STA include lack of financing data (below the line) and its statistical discrepancy with nonfinancial data (above the line) for the BCG, and limited institutional data coverage for extrabudgetary units (EBUs), local governments, and nonfinancial public corporations (NFPCs).</p>

The MHCP compiles and reports public sector debt statistics (PSDS) for the central government to the joint WB/IMF Quarterly Public Sector Debt Statistics database with the instrument coverage of debt securities and loans. Debt data can be improved by reconciling inconsistencies with external debt data, expanding both the instrument coverage to include other accounts payable and the institutional coverage to include nonfinancial public sector, applying the nominal valuation method for debt instruments and residency criteria according to international standards to adequately account for domestic and external debt securities.

The MHCP would soon publish annual BCG GFS and PSDS data on the SECMCA website in the short term in line with the Central American GFS/PSDS regional harmonization implementation plan where their fiscal data tables need to be presented in the format based on *the Government Finance Statistics Manual 2014 (GFSM 2014)* instead of a national presentation. This expected publication will make Nicaragua be the last CAPTAC-DR member country to adhere to the regional implementation plan; pending tasks include to advance harmonization process, including timeliness, lack of high frequency data and limited public sector coverage.

II. Assessment of Data Adequacy for Surveillance

Monetary and Financial Statistics. The CBN reports monthly monetary statistics for the central bank, other depository corporations, and other financial corporations based on the standardized report forms. These accord with the concepts and definitions of the *Monetary and Financial Statistics Manual and Compilation Guide 2016 (MFSMCG 2016)*. However, the lack of proper sectorization detract from the ability to accurately compile the net credit to central government and the rest of the nonfinancial public sector. The institutional coverage of other depository corporations currently includes commercial banks and finance companies. Data excludes the largest microfinance institution, Caja Rural Nacional (CARUNA), which accepts deposits, and saving and loans cooperatives. Other financial corporations comprise the Banco Produzcamos, most microfinance institutions, insurance corporations, and depository warehouses. The CBN reports the 13 core financial soundness indicators (FSIs) and seven encouraged FSIs for deposit takers with a quarterly frequency.

The CBN reports data on some indicators of the Financial Access Survey (FAS), including mobile and internet banking, mobile money, the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs). CBN does not report gender disaggregated data.

External Sector Statistics. Balance of payments and international investment statistics follow the concepts and definitions set out in the sixth edition of the *Balance of Payments Manual (BPM6)*, within the limits set by the availability of information sources. Data is available at least since 2005. Resident institutional units are defined in conformity with *BPM6*'s concepts of economic territory, residency, and center of economic interest, with free trade zones considered residents and included in the item for goods and services. However, the coverage of the private sector is incomplete for the current and financial accounts and there is difficulty in obtaining a higher level of information on the nonfinancial private debt and other assets and liabilities with nonresidents. Considerable advance has been made in implementing *BPM6*, but direct investment stocks are estimated accumulating transactions and there are still shortcomings challenges in recording some of the standard components of the direct investment position, due to lack of information. The large errors and omissions in the balance of payments represent a shortcoming for the assessment of the external sustainability and stem in part from uses related to data sources and quality of reporting; the

persistent negative sign suggests that credit entries have been overstated or debit entries have been understated or omitted. An STA external sector statistics mission (November 2019) identified that data compilation was hampered in part by the lack of sanctions to companies that do not provide data or provide erroneous or incomplete information. Further, consideration could be given to enhancing the IT systems, the institutional arrangements and cross-sectoral collaboration for data-sharing as this would contribute to close data gaps, improve data consistencies and facilitate data validation.

Data Dissemination and Quality. Nicaragua participates in the enhanced General Data Dissemination System (e-GDDS) but has not yet launched a National Summary Data Page (NSDP). Data ROSC was published in December 2005.

Table 1. Nicaragua: Table of Common Indicators Required for Surveillance
(As of December 16, 2022)

	Date of Latest Observation	Date Received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of Publication ⁷	Memo Items:	
						Data Quality-Methodological Soundness ⁸	Data Quality – Accuracy and Reliability ⁹
Exchange Rates	12/16/2022	12/16/2022	M	M	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	10/31/2022	11/26/2022	M	M	M		
Reserve/Base Money	11/30/2022	12/14/2022	M	M	M		
Broad Money	11/30/2022	12/14/2022	M	M	M	O, LO, LO, LO	LO, O, LO, LO, LO
Central Bank Balance Sheet	11/30/2022	12/14/2022	M	M	M		
Consolidated Balance Sheet of the Banking System	11/30/2022	12/14/2022	M	M	M		
Interest Rates ²	11/31/2022	12/16/2022	M	M	M		
Consumer Price Index	Nov. 2022	12/07/2022	M	M	M	O, LO, LO, LO	LO, LO, LO, O, LO
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	Oct. 2022	11/11/2022	M	M	M	LO, LNO, LNO, LO	LO, LO, LO, LO
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	Oct. 2022	11/11/2022	M	M	M		O, O, O, O, O
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Q3 2022	10/31/2022	Q	Q	Q		
External Current Account Balance	Q2 2022	10/26/2022	Q	Q	Q	LO, LO, LO, LNO	LO, LO, LO, LO, LNO
Exports and Imports of Goods and Services	Q3 2022	11/11/2022	Q	Q	Q	LO, LO, LO, LNO	LO, LO, LO, LO, LNO
GDP/GNP	Q2 2022	9/9/2022	A	A	Q	O, O, O, LO	LO, O, LO, O, LNO
Gross External Debt	Q2 2022	10/21/2017	M	M	Q		
International Investment Position ⁶	Q2 2022	10/26/2019	Q	Q	Q		

1/ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

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

3/ Foreign banks, domestic banks, and domestic nonbank financing.

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

5/ Including currency and maturity composition.

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

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

8/ 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).

9/ Same as footnote 8, 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.