May 2011
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Nicaragua: Sixth Review Under the Extended Credit Facility and Financing Assurances Review —Staff Report; Press Release on the Executive Board Discussion.

In the context of the sixth review under the extended credit facility and financing assurances review , the following documents have been released and are included in this package:

- The staff report for the Sixth Review Under the Extended Credit Facility and Financing Assurances Review, prepared by a staff team of the IMF, following discussions that ended on March 10, 2011, 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 April 13, 2011. 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.

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

Sixth Review Under the Extended Credit Facility 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)

April 13, 2011

EXECUTIVE SUMMARY

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. On November 19, 2010, the Board completed the fourth and fifth reviews of the ECF and approved an extension of the arrangement through December 4, 2011. The extension entailed 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, 2010.

Recent developments and outlook. GDP grew faster than projected in 2010, and the outlook remains broadly favorable despite risks stemming from the global environment. Fiscal performance was stronger than envisaged, with the public sector deficit ending 2010 at 1.4 percent of GDP. The balance of payments surplus was US$280 million (4 percent of GDP) higher than projected. The authorities have published detailed information on the sources and uses of Venezuelan aid flows for 2010. All quantitative performance criteria through end-December 2010 were met with margins, although the three indicative fiscal targets were narrowly missed.

Program understandings. Against the background of stronger-than-projected revenue performance, the target for the consolidated public sector deficit for 2011 will be lowered, from 2.2 to 1.8 percent of GDP. Government savings will increase further if revenues exceed the revised projections. On the structural front, the authorities will continue improving public financial management and the quality of expenditures; adopt a legal framework for the microfinance sector; and take further steps to enhance the transparency of external assistance.

Discussions. A team comprising Messrs. Gelos (head), Brousseau, Samake (all WHD), Ms. Bersch (SPR), and Mr. Fenochietto (FAD) visited Managua, Nicaragua, during February 28-March 10. The team was assisted by Mr. Di Bella (Resident Representative). The team met with Central Bank President Rosales, Deputy Finance Minister Acosta, Presidential Adviser Arce, other senior officials, members of the National Assembly, and representatives of the private sector and the donor community. Mr. Gramajo (OED) joined key policy discussions.

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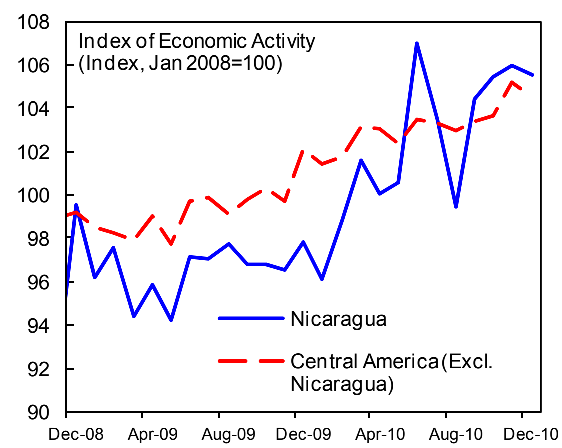
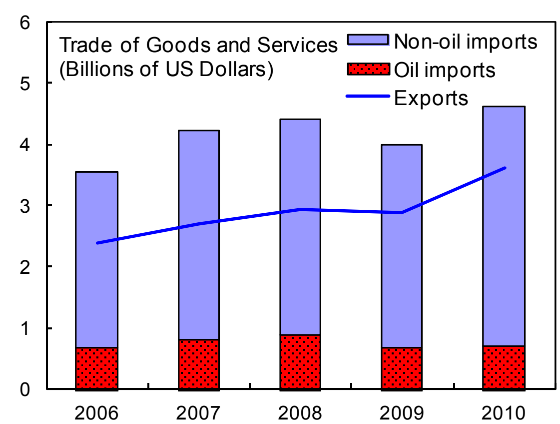
I. Developments Since the Fourth and Fifth Reviews[1]

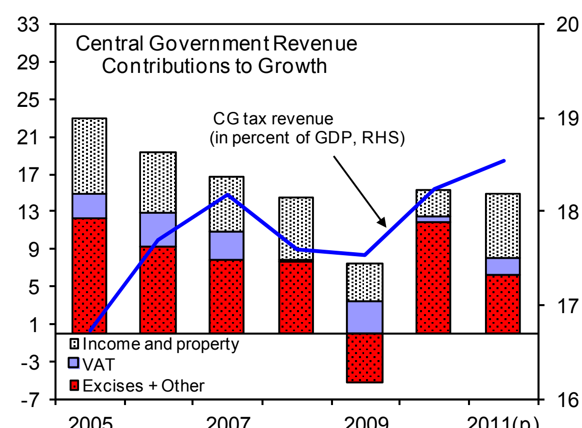
1. **With presidential elections scheduled for November, President Ortega remains ahead in the polls.** Surveys show challengers Arnoldo Alemán (from the center-right PC/PLC coalition) and Fabio Gadea (who leads a coalition of former PLC and Sandinista party members) lagging behind President Ortega by substantial margins. The opposition and donors are requesting that the government allow for international monitoring of the elections.



2. **GDP grew faster than projected in 2010.** Output growth in 2010 reached 4.5 percent, compared to 3 percent projected at the time of the last review, contributing to close even more the still negative output gap. Private consumption and investment were the key drivers on the demand side, and commerce and manufacturing on the supply side. Annual CPI inflation ended the year at 9.2 percent, influenced by strong rainfall-related food price increases in October-November. Core inflation remained contained at 5.2 percent (y/y).



3. **The balance of payments has strengthened.** High export growth (26 percent y/y) outpaced import growth (20 percent y/y), helping to keep the external current account deficit below US$1 billion (14.8 percent of GDP), broadly in line with projections. Lower-than-expected outflows by banks and higher FDI resulted in a surplus in the balance of payments and raised NIR (adjusted) about US$140 million over the program target.



4. **Fiscal performance was stronger than programmed.** The central government recorded a deficit of 1.0 percent of GDP, compared to a program target of 1.1 percent. Firm control over expenditures (which stayed virtually flat in real terms compared to 2009) and higher-than-programmed tax revenues (mainly from excises and the VAT) were key to

[1] Completed on November 19, 2010 (Country Report No. 10/376).

this outturn, which is remarkable considering that there was a shortfall of 0.8 percent of GDP in official grants.[2] The deficit of public enterprises also was lower than projected (0.7 percent of GDP against 1.2 percent in the program), mainly owing to lower-than-projected investment outlays of the state-owned water and sewage company (ENACAL). Overall, the public sector deficit is estimated to have declined to 1.4 percent of GDP (from 3.1 percent of GDP in 2009). Notwithstanding higher-than expected expenditures by the Social Security Institute (INSS) and a lower-than-anticipated growth rate in the number of contributors, the institution met its target through the realization of capital gains. A central government budget for 2011 consistent with program objectives was approved by the National Assembly in December.

5. **Bank credit to the private sector has resumed, and bank profitability is recovering.** After declining through August 2010, bank credit (in real terms) has begun to recover, with lending to agriculture and trade activities gaining strength. The share of nonperforming loans has fallen to 8.0 percent and the average return on assets has returned to 1.0 percent (from close to zero in mid-2010). Deposits in local and foreign currency continued to rise, in part fueled by foreign aid flows, and banks' liquidity, while declining somewhat, has remained high.

6. **There has been some progress on the structural agenda.** In early April, the authorities have published more comprehensive information on the sources and uses of foreign aid, including details on the cooperation with Venezuela[3] (end-March structural benchmark), and have been sharing with staff information on deposit categories that allow for a monitoring of those funds. The terms of reference for a study on employment practices in the public sector have been finalized.[4] The study on options to reform the pension system is being discussed with unions and employers. Progress toward adopting a new regulatory framework for microfinance institutions has, however, been slow.

7. **All quantitative performance criteria for end December 2010 were met with margins.** However, the end-year indicative targets for primary expenditures, poverty-related spending, and the wage bill were narrowly missed.[5]

II. Macroeconomic Outlook and Risks

8. **Growth prospects for 2011 are somewhat more favorable than envisaged at the last review but international commodity price developments pose risks.** Given the

[2] The bulk (about 80 percent) of the tax revenue overperformance in 2010 (0.5 percent of GDP) is attributable to higher growth, with the rest due to stronger-than-expected effects of the tax reform and efficiency gains.

[3] Available online at: http://www.bcn.gob.ni/publicaciones/eventuales/index.html?&val=2

[4] Completion of the study is a structural benchmark for end-August. At the request of the authorities, the deadline is proposed to be moved to end-September.

[5] In the case of primary expenditures and poverty related expenditures, the deviation was equivalent to about 1.5 percent of the adjusted targets; in the case of the wage bill, it was lower than 0.1 percent of the target.

upswing in international food and oil prices and the high pass-through to consumer prices in Nicaragua (Box 1), staff has revised upward its inflation projection for end-2011 to 8.5-9.5 percent (6.7 percent previously). Higher oil prices also raised the projected external current account deficit to 17.8 percent of GDP (from 16 percent previously). Real GDP is now projected to grow by 3.5 percent (compared to 3 percent at the last review), reflecting a larger carryover from 2010 on the positive side, and higher oil and food prices on the negative side. Downside risks continue to be related to an unsettled political environment (which could strain further the relation with donors, compromising future aid flows as well as uncertainties about global conditions, including stronger-than-projected commodity price increases.

Nicaragua: Key Economic Indicators, 2009–14

	2009	2010		2011		2012	2013	2014
		Prog.[1/]	Prel.	Prog.[1/]	Rev. Prog.		Proj.	
Real GDP growth (percent)	-1.5	3.0	4.5	3.0	3.5-4.0	3.7	4.0	4.0
Inflation (end of period, in percent)	0.9	7.0	9.2	6.7	8.5-9.5	7.3	7.3	7.0
Combined public sector balance[2/]	-3.1	-2.3	-1.4	-2.2	-1.8	-1.5	-1.4	-1.1
Central government overall balance[2/]	-2.8	-1.1	-1.0	-1.5	-1.1	-0.8	-0.7	-0.5
Current account deficit[2/]	-13.4	-16.5	-14.8	-16.0	-17.8	-16.5	-15.3	-14.5
Gross reserves[3/]								
US$ million	1,573	1,519	1,799	1,499	1,743	1,800	1,922	2,068
Months of imports excl. maquilas	4.9	4.1	4.7	3.8	3.9	3.9	4.0	4.1

[1/]Staff Report for the Fourth and Fifth Reviews under the ECF arrangement (EBS/10/198, November 2, 2010).
[2/]Percent of GDP.
[3/]Includes the SDR allocation for SDR 105.1 million (US$165 million) of September 2009.

Box 1. The Impact of Commodity Prices on CPI Inflation

The pass-through from international commodity prices to headline inflation in Nicaragua is relatively high, partly reflecting a relatively large share of food prices in the consumption basket. However, the actual pass-through at any point in time depends on several factors, including the output gap and the policy reaction. During the food price shock of 2007-08—when international prices soared by about 50 percent—, the inflationary impact in Nicaragua was broadly in line with the prediction of the econometric estimates. In 2011, the pass through is likely to be smaller since the output gap is still negative.

Country	Shares in CPI		Estimated Pass-Through /1		Increase in inflation 7/07-7/08 (percentage points)
	Food	*Fuel/Transp.*	*Food*	*Oil*	*CPI*
Costa Rica	17.0	18.2	0.14	0.10	5.4
Dominican Republic	29.1	9.2	0.32	0.04	8.5
El Salvador	26.3	12	0.35	0.08	6.5
Guatemala	38.8	10.9	0.16	0.11	8.6
Honduras	34.2	2.9	0.14	0.02	7.5
Nicaragua	**30.9**	**8.9**	**0.21**	**0.08**	**13.9**
Panama	32.0	13.0	0.16	0.05	5.4

[1]/Based on augmented Phillips-curve estimations for individual countries including lagged inflation, the output gap, nominal effective depreciation, and international food and oil price changes.

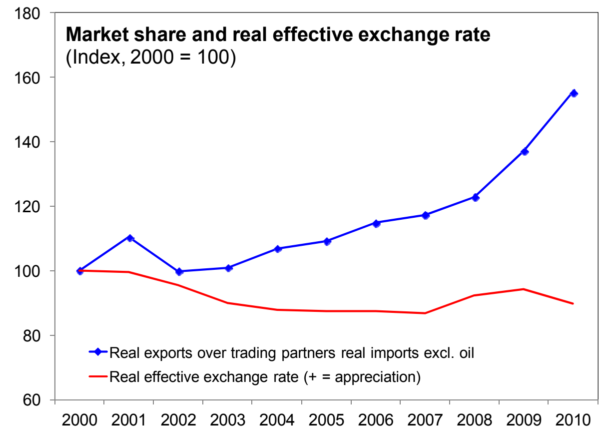
Box 2. Developments in External Competitiveness

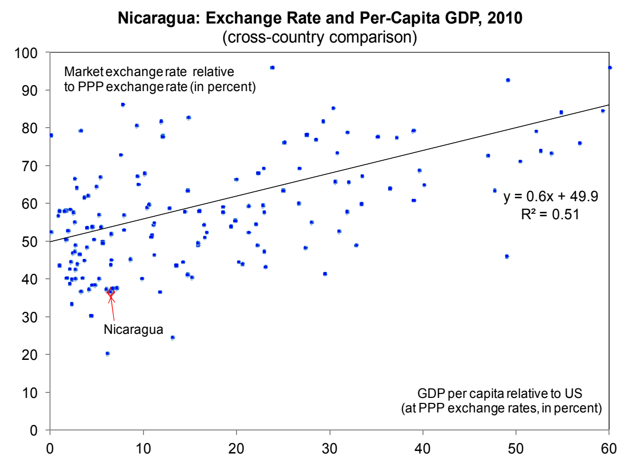
Competitiveness indicators have improved since the last full real exchange rate assessment conducted for the 2010 Article IV consultation:

- **In 2010, Nicaragua's real effective exchange rate depreciated somewhat and exports continued to rise.** Following a rise of some 8 percent in 2008-2009, the real effective exchange rate has depreciated mildly last year. Nicaragua's competitiveness, as measured by its share in trading partners' non-oil imports, has improved considerably and the export sector continues to attract substantial foreign direct investment. It is important to note, however, that part of the recent rise in exports is related to a trade compensation agreement between Nicaragua and Venezuela.

- **Relative to its income level, the real exchange rate has some room to appreciate**. In a simple cross-country comparison accounting for Balassa-Samuelson effects, Nicaragua's real exchange rate remains below the level suggested by its relative income.

- **Estimation of a simple equilibrium exchange rate model also suggests some improvement in competitiveness.** Over time, real exchange rate movements in Nicaragua can be largely explained by terms of trade fluctuations. Estimation of a simple cointegrating relationship between the two variables suggests that the real exchange rate is broadly in line with this fundamental, with a slight movement toward undervaluation compared to last year.





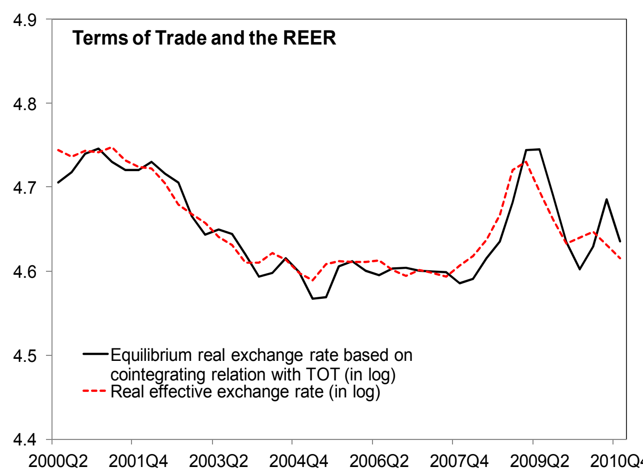
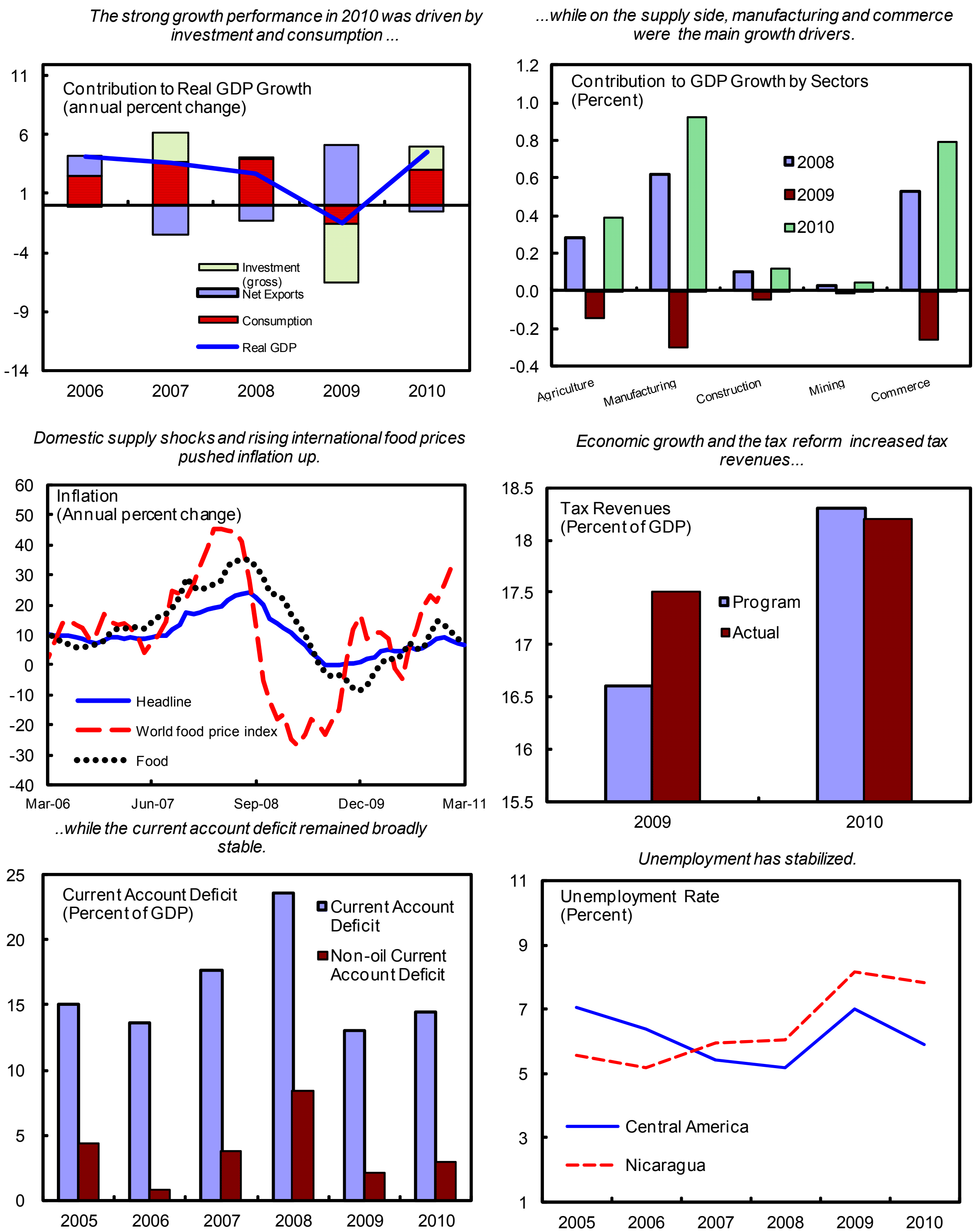
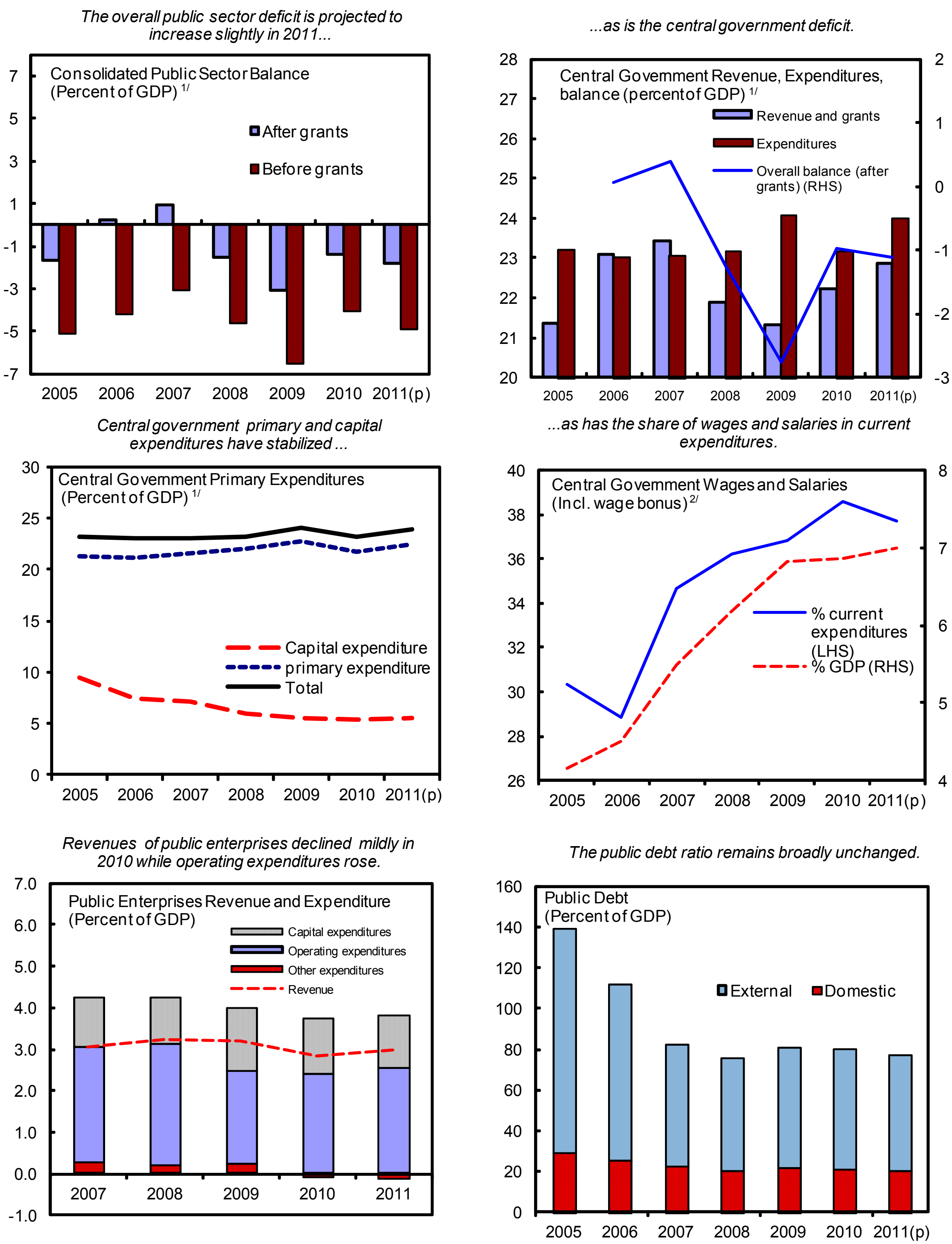


Figure 1. Nicaragua: Recent Economic Developments



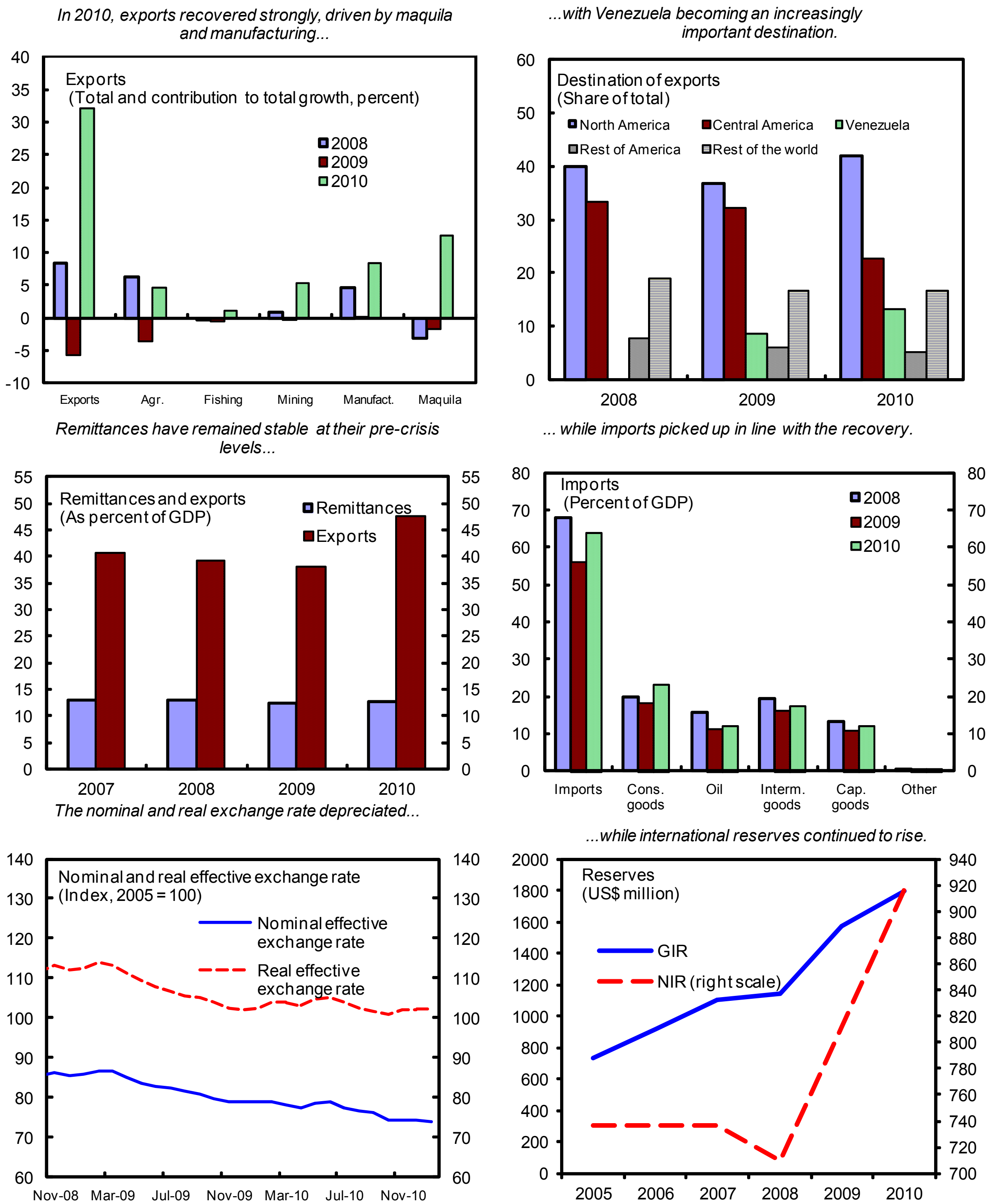
Source: Nicaraguan authorities; and Fund staff calculations.

Figure 2. Nicaragua: Selected Fiscal Indicators, 2005–11



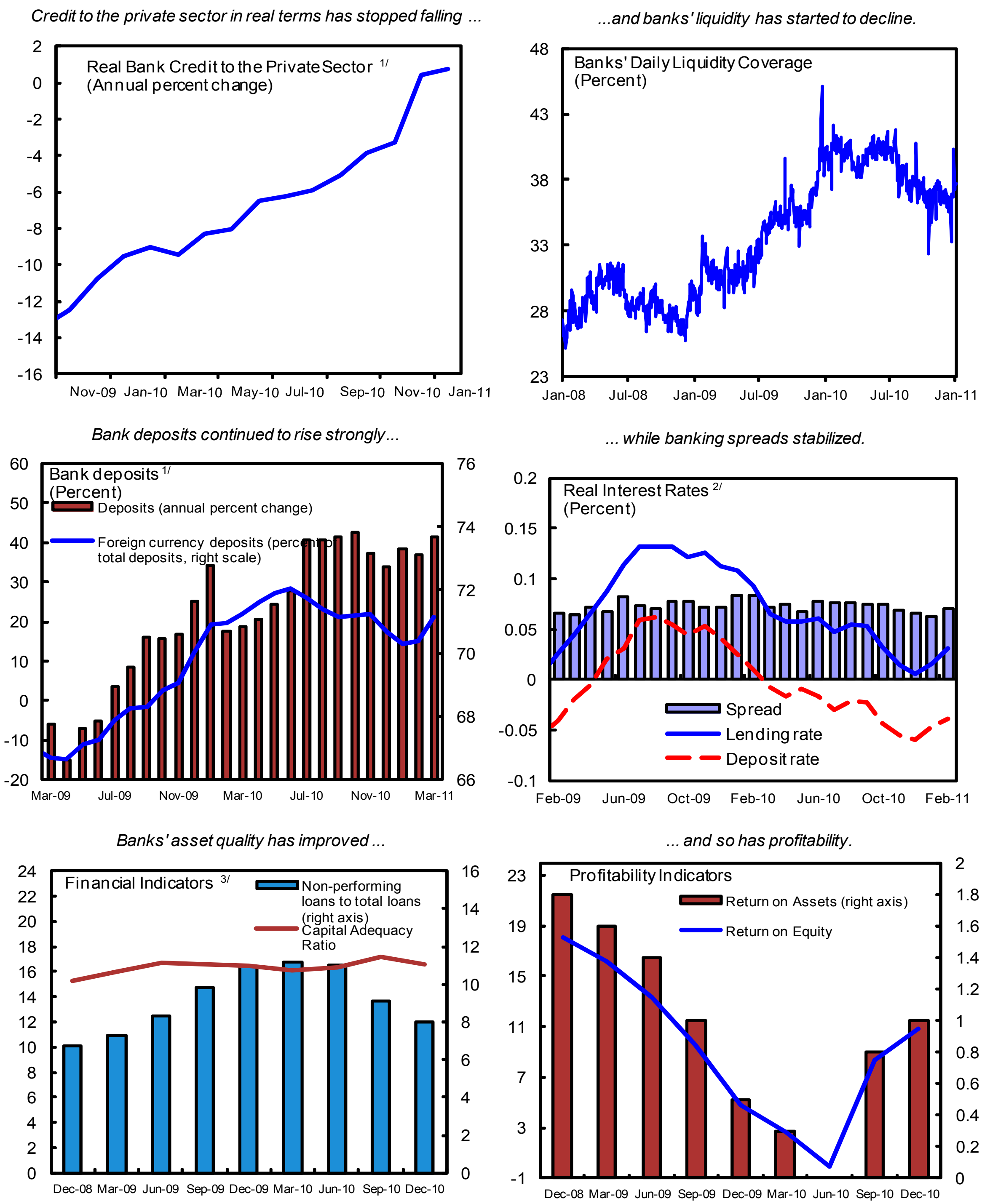
Source: Nicaraguan Authorities; and Fund staff calcullations
1/ Includes the 2010-11 wage bonus.
2/ In 2007, the salaries of teachers and service staff from autonomous colleges were transferred from municipalities to the central government budget.

Figure 3. Nicaragua: External Sector Developments



Source: Nicaraguan authorities; and Fund staff estimates.

Figure 4. Nicaragua: Monetary and Financial Sector Developments



Sources: Nicaraguan authorities; and Fund staff calculations.

1/ Deflated by CPI.
2/ Ex-post real interest rates based on CPI inflation.
3/ Excluding restructured and reprogrammed loans.

III. Policy Discussions

9. **Staff argued that high public debt and risks to the outlook called for continued fiscal caution in 2011.** Although strong (nominal and real) GDP growth, coupled with a higher-than-expected yield of the 2009 tax reform, have boosted fiscal revenues, staff reiterated the need to keep government expenditures in check and accelerate the pace of fiscal consolidation. The authorities expected to face increasing social demands as a result of rising commodity prices, but generally agreed that the high public debt levels and the expected deterioration in Nicaragua's terms of trade called for maintaining a prudent fiscal stance.

A. Fiscal Policy

10. **The authorities plan to take advantage of the strong projected revenues to reduce the central government's deficit to 1.1 percent of GDP.** Revenue projections for 2011 have been revised upward (by the equivalent of about US$75 million), under a conservative forecast that maintains the ratio to GDP constant despite tax buoyancy. The authorities plan to use the higher revenues in programs that mitigate the impact of higher food and oil prices on the poor as well as to increase capital expenditure, lower public sector borrowing, and effect legally-mandated transfers to municipalities, universities, and the Supreme Court. Despite these expenditures the share of government spending in GDP (including spending to organize the elections) would be 0.7 percentage points lower than previously envisaged. The authorities have recently submitted to the National Assembly a supplementary budget consistent with the revenue and expenditure projections agreed with staff. Barring an unexpected deterioration in external conditions, the authorities are committed to save any revenue overperformance, which gives large upside potential to this year's fiscal outcome.

Nicaragua: Central Government, 2011

	Previous indicative targets	Proposed targets	Previous indicative targets	Proposed targets
	(In C$ million)		(In percent of GDP)	
Revenues	29,942	31,600	20.0	20.0
Expenditures	36,838	37,955	24.7	24.0
Current[1/]	28,551	29,299	19.1	18.5
Capital	8,287	8,656	5.5	5.5
Overall Balance (after grants)	-2,253	-1,773	-1.5	-1.1

[1/]Includes wage bonus.

11. **The overall public sector deficit will decline to 1.8 percent of GDP in 2011.** The combined financial outlook for public enterprises remains broadly similar to earlier projections. Despite higher oil prices, the generation costs of the state electricity company ENEL will be lower than projected earlier, as last year's strong rainfalls will enable a shift toward hydrolectric generation. The social security institute (INSS) will continue to keep its

administrative costs in check; the target for its overall balance at end 2011, however, has been adjusted downward as a result of higher pension obligations.[6] The new public sector deficit target entails an improvement in the cyclically adjusted overall deficit of about one percentage point of GDP relative to 2010.[7]

12. **The program aims to protect social and investment spending while containing the wage bill.** Pro-poor spending is expected to reach 13.3 percent of GDP in 2011 (12.9 percent in 2010), reflecting higher targeted subsidies. Investment spending (including that of public enterprises) is expected to increase from 6.8 to 7.1 percent of GDP, while the wage bill (including the off-budget bonus) will be about 0.3 percentage points below earlier projections and remain constant as a share of GDP. The program includes adjustors that allow increases in pro-poor spending financed by new grants, as well as higher public investment (of up to 0.8 percent of GDP) if new external concessional loans become available. Staff urged the authorities to develop an exit strategy for the extrabudgetary wage bonus.[8]

13. **Staff urged the authorities to continue implementing fiscal reforms.** Staff noted that there was substantial scope for resource mobilization, including through the further elimination of the still extensive tax exemptions (e.g. on corporate income taxes and the VAT). Both the authorities and staff agreed that, following the publication of reform options for the pension system, the implementation of concrete proposals would be key to ensure the system's medium-term sustainability. While the various stakeholders (workers, employers, and the government) have started to discuss the options proposed, the authorities explained that a reform of this importance would have to be undertaken by the incoming government following the presidential elections.

B. Monetary, Exchange Rate, and Financial Sector Policies

14. **Monetary policy in 2011 will be geared at containing inflation pressures and protecting the reserve position.** The monetary program envisages maintaining close to 90 percent of the NIR overperformance of 2010 in reserves (around US$126 million), and using the rest to accommodate the pick up in bank credit and the recent reduction in reserve

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[6] Pensions are linked to minimum wages, which have increased by more than envisaged. The law mandates that the adjustment in minimum wages in any given year has to at least equal the sum of real GDP growth and CPI inflation in the previous year.

[7] The program targets for June 2011 have been adjusted in line with the new annual targets.

[8] On the plans for the extrabudgetary bonus beyond 2011, the authorities indicated that the government would be in office until early January 2012 and therefore were not in a position to formulate or commit to policies after the end of its term.

requirements (from 16.25 to 15 percent).[9] Reflecting an expected increase in money demand related to the economic recovery, currency in circulation is projected to rise slightly more than nominal GDP during the year. At the same time, the rate of crawl of the exchange rate will remain at 5 percent. The authorities plan to take advantage of the favorable near-term prospects for the balance of payments (including strong FDI flows) to strengthen the country's reserve position.

Nicaragua: Microfinance Sector, 2006--10

	2006	2007	2008	2009	2010[1/]
Loans					
US$ million	180.3	224.8	253.2	220.1	172.7
Percent GDP	3.4	4.0	4.1	3.6	2.7
NPLs					
US$ million	2.5	5.2	15.2	26.2	34.3
Percent of loans	1.4	2.3	6.0	11.9	19.9
Clients (thousands)	308	341	350	293	274

Source: ASOMIF; and IMF staff calculations.
[1/] Through June 2010. Includes micro finance entities that are members of the association ASOMIF; excludes banks.

15. **Progress continues to be made in improving bank regulation and supervision.** Recent regulatory changes in capital requirements to improve the quality of capital and take account of off-balance sheet and exchange-rate risks will contribute to strengthen the banking sector and avoid an excessively procyclical lending behavior during the current upswing. Staff noted that while capital buffers remained ample, these changes may require capital injections at the faster-growing banks in the future. The authorities noted their commitment to continue implementing enhanced supervision measures, including on-site supervision, to monitor the health of banks' lending portfolio and the risks stemming from the concentration of deposits.[10] They will also continue to strengthen the prudential framework, including by adopting norms toward cross-border consolidated supervision. Stress-testing methods will start to be applied on a pilot basis. Staff welcomed these efforts and suggested giving consideration to reducing the currently large room for discretion in the regulatory framework.

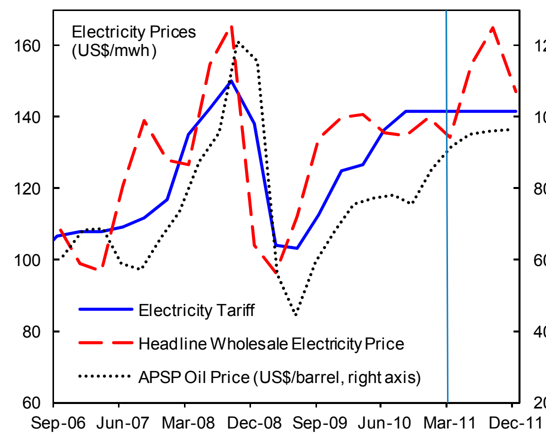
16. **The authorities plan to enact a new regulatory framework for micro finance institutions by end-July** (proposed structural benchmark). With the help of the World Bank, last year the authorities made a proposal for a new regulatory framework for microfinance institutions, which met with some resistance in the sector. A new draft with a broader scope is currently being prepared. Staff and the authorities agreed that improving governance, strengthening internal and external controls, and establishing adequate regulatory and supervisory mechanisms would be key to boost confidence in the sector. In addition, staff stressed the importance of strengthening creditor rights, improving the payment culture, and

[9] The impact of the lower reserve requirements on credit growth is not expected to be large since liquidity requirements are currently not binding for most banks.
[10] Deposits are concentrated in 2-3 large banks that hold substantial liquidity buffers; the evolution of deposits in recent months has been fairly stable.

re-establishing a free market for interest rates.[11] As a first step toward enhancing the supervision of cooperatives, its oversight agency (INFOCOOP) will enact regulations mandating the publication of financial cooperatives' financial statements.[12]

C. Structural Policies

17. **The high oil price projected for 2011 will create significant challenges to the electricity sector.** Until recently, electricity tariffs had been broadly aligned with generation costs. In March, the government announced that tariffs would remain unchanged through the end of the year. The measure will create a gap of US$40-45 million (0.6 percent of GDP); the authorities plan to cover this gap with concessional funds from the Venezuelan oil collaboration scheme. Staff urged the authorities to reconsider this measure in June, and at that time —if oil prices remained high— implement a gradual tariff adjustment. More generally, staff argued that efforts should be made to target subsidies as much as possible to vulnerable segments of society. To ensure the proper functioning of the sector, the government is committed to remain current on its payments of electricity and of the subsidies for social tariffs.



18. **Efforts are underway to improve the situation of the public water and sewage company, ENACAL.** Mainly as a result of poor management in the past, the company has been foregoing revenues from tariff collections, not carrying out its investment program, and has started to accumulate arrears with domestic suppliers. The authorities plan to remedy this problem with investments to reduce water losses and improve collection. In addition, they have asked the regulating agency (INAA) to review the tariff structure.

19. **Public financial management will be strengthened.** The forthcoming study on employment in the public sector will pave the way for rationalizing practices in this area and should enable productivity gains. In addition, the authorities are assessing their social spending programs to improve their quality, and ensure the protection of the most vulnerable. On investment expenditures, staff welcomed the continued publication of the progress report

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[11] Current legal regulations cap interest rates of microfinance loans at levels that are generally below the operational and financial costs of loans.

[12] Financial cooperatives comprise about five percent of all cooperatives and include CARUNA, the institution that channels the flows related to the oil cooperation agreement with Venezuela.

on the Public Investment Program, and encouraged the authorities to improve project selection and monitoring. Staff and the authorities agreed on the importance of starting to publish the audited financial statements of public enterprises to improve transparency and control of budget allocations.

20. **The authorities remain committed to contain the macroeconomic risks from external aid flows.** The recently published external aid report shows that only part of the large Venezuela-related inflows in 2010 were spent, mostly on transportation and electricity subsidies and other social programs.[13] The authorities reiterated their commitment to consult with staff to avoid that any potential use of these funds compromises the targets under the program.

IV. External Financing

21. **Budget financing.** As in 2010, the overall fiscal deficit is expected to be fully financed with external resources, which will also allow to cover domestic amortizations. The program envisages official financing for US$242 million, of which budget support from the IDB together with the disbursements under the ECF represent some US$62 million. The projection assumes no budget-support loans from the World Bank. The program includes an adjustor whereby higher-than-programmed external budget support loans will be used to build international reserves.

22. **Financing assurances.** Negotiations continue to obtain debt relief on HIPC-equivalent terms from non-Paris Club bilateral creditors and one pending claim (for US$22.8 million) from the commercial debt buy-back operation of October 2007. While debt relief was secured from Algeria, Poland, and Venezuela (for about US$210 million) during 2007–09, debt to non-Paris Club bilateral creditors pending relief stood at US$1.6 billion (24 percent of GDP) by end-2010. Libya recently agreed to grant debt relief for around US$196 million (out of a total of US$314 million owed to the country) but the relief has not been formalized. Staff urged the authorities to continue making progress with non-Paris Club creditors.

23. **Safeguards.** The Central Bank published its financial statements corresponding to 2007-09 late last year, and published the statement for 2010 in March.

[13] The rest of the funds remain deposited at commercial banks.

V. Staff Appraisal

24. **The economic recovery continues.** Economic growth has remained balanced, with investment expected to be the main driver during 2011. Export growth continues to be strong, and the balance of payments remains in surplus. The pick up in activity has been accompanied by a mild recovery in lending, while the financial system has remained stable.

25. **Performance under the program has been good.** All end-December performance criteria were met with margins, although, regrettably, the indicative fiscal targets were missed by small amounts. The authorities published a strengthened external aid report.

26. **Prudent policies are necessary to guard against the risks from the global environment.** Continued high oil prices could interrupt the economic recovery, and the upswing in international food prices entails risks for inflation, which would affect the poor disproportionately. These factors reinforce the case for prudent macroeconomic and fiscal management notwithstanding the favorable prospects for government revenues.

27. **The decision to contain spending in a context of growing revenues is appropriate.** The fiscal targets for 2011 strike a reasonable balance between addressing urgent needs and taking advantage of the cyclical position to deepen fiscal consolidation. Staff welcomes the authorities' commitment to save any revenue overperformance.

28. **Reducing Nicaragua's high public debt remains a key priority.** Lowering the debt ratio will help foster growth, increase the room to maneuver following adverse shocks, and allow shifting resources to priority areas. Further efforts to mobilize resources should be undertaken, including through the elimination of remaining tax exemptions. The discussion of options to reform the pension system should move to the adoption of a concrete proposal. Continued improvements in public financial management to enhance the effectiveness of fiscal spending are necessary.

29. **Exchange-rate and monetary policy have contributed to macroeconomic stability.** The central bank's liquidity management has been consistent with the crawling peg regime, and has smoothed out transitory pressures, while central bank net credit to the public sector has remained negative. That said, the high level of dollarization will continue to limit the scope for mitigating second round effects from international commodity price shocks.

30. **The recovery in bank profitability and lending is welcome, but continued vigilance is important.** Supervisory attention will need to shift to reduce vulnerabilities during the new lending cycle. The concentration of large deposits in some institutions also warrants careful monitoring. The recent regulatory changes on capital adequacy in line with FSAP recommendations are welcome, and efforts to implement the remaining recommendations should continue. Looking forward, the prudential framework should be strengthened further by adopting norms for cross-border consolidated supervision, and improving the assessment of market, liquidity and operational risks.

31. **Adopting a regulatory framework for microfinance entities remains critical to restore confidence in the sector.** That framework should include rules on internal governance, on external and internal controls, as well as on information disclosure. In addition, the institutional setup for regulation and supervision of the sector would have to be revamped. Market-determined interest rates, a strengthening of creditor rights, and the restoration of a sound payment culture will be key to revitalize micro lending.

32. **Higher oil prices call for an improved system of targeted electricity subsidies.** The blanket freeze of electricity tariffs should be reassessed, and replaced with better-targeted schemes aimed at the most vulnerable segments of the population. In addition, it will be crucial to avoid a renewed build up of arrears in the electricity sector.

33. **Staff welcomes the recent progress in reporting and monitoring of foreign aid flows.** Further gains in transparency, such as the publication of the financial statements of the entities through which the oil-collaboration funds are channeled, will be important to improve program monitoring and macroeconomic management, and help mobilize donor support. The authorities will need to remain watchful that the use of these funds does not endanger macroeconomic stability or compromise program objectives.

34. **Staff recommends the completion of the sixth review under the ECF arrangement and the completion of the Financing Assurances Review.**

Table 1a. Nicaragua: Quantitative Performance Criteria and Indicative Targets, 2010-11[1/]

	2010		2011			
	Jan-Dec		Jan-Jun		Jan-Dec	
	Adj. Prog.	Prel.	Prog.	Prop. Prog.	Prog.	Prop. Prog.
Performance Criteria (Jan-Dec 2010, Jan-Jun 2011, indicative targets otherwise)						
	(In millions of Córdobas)					
1. Floor on combined public sector overall balance, after grants[2/]	-3,418	-1,982	-1,844	-875	-3,314	-2,896
2. Floor on Social Security Institute (INSS) overall balance, after grants	1,415	1,492	1,016	982	1,495	1,400
3. Ceiling on change in net domestic assets of the central bank[3/]	1,560	-182	680	230	1,573	2,348
Cumulative flows from end-June 2010[4/]	2,549	807	3,230	1,037	4,122	3,155
	(In millions of US dollars)					
4. Floor on change in net international reserves of the central bank[3/]	-35	105	-70	-70	-40	-55
Cumulative flows from end-June 2010[4/]	-45	95	-115	25	-85	40
5. Continuous ceiling on nonconcessional external debt contracted or guaranteed by the consolidated public sector	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
Indicative targets						
	(In millions of Córdobas)					
1. Ceiling on central government primary expenditure[5/]	29,953	30,439	16,802	16,747	34,370	35,460
2. Floor on poverty-related expenditures of the central government[6/]	18,368	18,107	9,178	9,542	20,474	21,103
3. Ceiling on monitorable wage bill	11,288	11,301	5,901	6,088	12,599	12,850
Memorandum items						
Stock of NIR (adjusted, US$ millions)	776	917	707	847	736	862

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

[1/]Cumulative flows starting at the beginning of the calendar year. Definitions are specified in the TMU, including adjusrors.

[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.

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

		Date	Status
Submission to National Assembly of a Supplementary 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	Done
Assembly approval of a regulatory framework for institutions operating in the microfinance industry[2/]	SB	End-July 2011	
Complete study assessing the scope for productivity gains and rationalizing government employment practices[3/]	SB	End-August 2011	

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

[2/]Proposed new SB.

[3/]It is proposed that the completion date for this SB be moved to end-September 2011.

Table 2. Nicaragua: Selected Social and Economic Indicators, 2008–14

I. Social and Demographic Indicators

Main export products: coffee, sugar (ethanol), meat, gold.			
GDP per capita (current U.S. dollars, 2009)	1,083	Income shared by highest 10 percent	
Population (millions, 2009)	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

	2008	2009	2010		2011		2012	2013	2014
			Prog.[1/]	Prel.	Prog.[1/]	Rev. Prog.		Proj.	
Real sector					(In percent)				
GDP growth	2.8	-1.5	3.0	4.5	3.0	3.5	3.7	4.0	4.0
GDP deflator	15.0	3.9	5.6	6.0	6.5	9.2	8.4	7.3	7.1
Consumer price inflation									
End of period	13.8	0.9	7.0	9.2	6.7	8.6	7.3	7.3	7.0
Period average	19.8	3.7	5.7	5.5	6.4	8.7	8.4	7.3	7.1
External sector					(In US$ millions)				
Current account	-1,570	-832	-1,052	-969	-1,067	-1,256	-1,243	-1,229	-1,233
Exports of goods, f.o.b	2,530	2,390	2,969	3,157	3,221	3,677	3,964	4,243	4,533
Imports of goods, f.o.b.	-4,731	-3,929	-4,592	-4,792	-4,865	-5,625	-5,911	-6,190	-6,491
Of which: oil	-963	-676	-904	-751	-881	-984	-1,029	-1,045	-1,077
Capital and financial account[2/ 3/]	1,535	1,224	987	1,164	1,036	1,176	1,299	1,352	1,379
					(In percent of GDP)				
Current account	-24.6	-13.4	-16.5	-14.8	-16.0	-17.8	-16.5	-15.3	-14.5
Exports of goods, f.o.b	39.7	38.5	46.6	48.2	48.4	52.2	52.5	52.9	53.3
Imports of goods, f.o.b.	-74.2	-63.2	-72.0	-73.1	-73.1	-79.8	-78.3	-77.2	-76.3
Of which: oil	-15.1	-10.9	-14.2	-11.5	-13.2	-14.0	-13.6	-13.0	-12.7
Capital and financial account[2/ 3/]	24.1	19.7	15.5	17.8	15.6	16.7	17.2	16.9	16.2
Fiscal sector									
Central government overall balance, after grants	-1.2	-2.8	-1.1	-1.0	-1.5	-1.1	-0.8	-0.7	-0.5
Revenues	19.0	18.9	19.7	19.7	20.0	20.0	20.3	20.4	20.5
Expenditures[4/]	23.2	24.1	24.2	23.2	24.7	24.0	23.0	22.8	22.6
Grants[4/]	2.9	2.4	3.3	2.5	3.1	2.9	1.9	1.7	1.6
Rest of NFPS overall balance	0.4	0.9	-0.2	0.4	0.0	0.0	0.1	0.0	0.0
Central bank balance	-0.7	-1.2	-1.0	-0.9	-0.7	-0.7	-0.8	-0.7	-0.6
Combined public sector (CPS) overall balance	-1.5	-3.1	-2.3	-1.4	-2.2	-1.8	-1.5	-1.4	-1.1
Financing	1.5	3.1	2.3	1.4	2.2	1.8	1.5	1.4	1.1
External	1.9	3.9	3.0	3.4	2.8	2.5	2.2	2.1	1.9
Domestic (including CB operating balance)	-0.3	-0.8	-0.8	-1.9	-0.6	-0.6	-0.7	-1.8	-1.3
CPS overall balance, before grants	-4.6	-6.5	-5.8	-4.0	-5.7	-4.9	-3.8	-3.4	-3.0
Public sector debt									
Total	75.5	80.9	82.3	80.3	79.4	78.2	75.0	72.1	69.4
Domestic	20.4	22.0	19.8	21.2	19.1	20.9	20.4	19.9	19.6
External[5/]	55.1	58.9	62.6	59.2	60.3	57.3	54.7	52.3	49.8
Memorandum items:									
GDP (US$ million)	6,372	6,214	6,375	6,551	6,659	7,050	7,547	8,021	8,510
Gross reserves (US$ m)[3/]	1,141	1,573	1,519	1,799	1,499	1,743	1,800	1,922	2,068
(in months of imports excl. maquilas)	*2.9*	*4.9*	*4.1*	*4.7*	*3.8*	*3.9*	*3.9*	*4.0*	*4.1*
Net international reserves[3/]	1,030	1,423	1,349	1,632	1,314	1,576	1,676	1,839	2,026
Net international reserves (adjusted)[6/]	710	811	776	917	736	862	944	1,088	1,256
SDR allocations	…	165	165	165	165	165	165	165	165
Observed reserves on foreign deposits	320	447	408	550	412	550	567	586	605
Short-term liabilities	111	150	170	167	185	167	164	164	164
Oil price (average, US$/bbl)	97.0	61.8	76.2	79.0	78.8	107.2	108.0	105.5	104.5

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

[1/] Staff Report for the Fourth and Fifth Reviews under the ECF arrangement (EBS/10/198, November 2, 2010).

[2/] Figure for 2011 includes budget support that covers the financing gap.

[3/] Starting in 2009, figures include the SDR allocation for SDR105.1 million (US$165 million) of September 2009.

[4/] Figures 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 the September 2009 SDR allocation and reserve requirements of commercial banks in foreign currency.

Table 3a. Nicaragua: Operations of the Central Government, 2008–14
(in millions of Córdobas)

	2008	2009	2010		2011				2012	2013	2014
			Dec.		June		Dec.		Dec.		
			Prog.[1/]	Prel.	Prog.[1/]	Rev. Prog.	Prog.[1/]	Rev. Prog.	Proj.		
Total Revenue	**23,468**	**23,859**	**26,863**	**27,575**	**14,409**	**15,451**	**29,942**	**31,600**	**36,103**	**40,373**	**45,271**
Tax	21,730	22,175	24,889	25,586	13,272	14,343	27,813	29,254	33,504	37,472	42,039
Income and property	7,002	7,865	8,570	8,481	4,343	5,457	9,607	10,150	11,476	12,877	14,344
VAT	3,139	3,885	3,964	4,028	2,155	2,136	4,357	4,486	5,081	5,695	6,503
Excises	3,338	3,339	5,438	5,542	3,054	2,948	6,053	6,119	7,086	7,907	8,896
Other	8,251	7,086	6,917	7,535	3,720	3,802	7,796	8,499	9,861	10,993	12,296
Nontax and current transfers	1,739	1,684	1,975	1,989	1,137	1,109	2,129	2,346	2,600	2,901	3,232
Total Expenditure	**28,578**	**30,424**	**32,960**	**32,430**	**17,965**	**17,910**	**36,838**	**37,955**	**40,859**	**45,130**	**49,892**
Current expenditures[2/]	21,063	23,410	25,402	24,866	14,065	14,069	28,551	29,299	31,145	33,950	37,467
Wages and salaries[3/]	7,629	8,615	9,640	9,603	5,179	5,192	10,923	11,050	11,421	12,235	13,424
of which : bonus	0	0	659	670	449	462	973	1,002	0	0	0
Goods and services	4,831	4,652	5,343	4,863	3,265	3,154	6,113	6,477	6,603	7,258	8,004
Interest	1,447	1,711	2,045	1,991	1,163	1,163	2,468	2,495	2,649	2,655	2,760
of which : external	515	553	638	595	368	369	802	802	907	949	1,101
Current transfers[4/]	7,156	8,432	8,375	8,409	4,457	4,559	9,047	9,277	10,472	11,803	13,279
Capital Expenditures[2/]	7,417	6,977	7,558	7,564	3,900	3,841	8,287	8,656	9,714	11,180	12,424
Domestically financed	1,839	904	729	1,699	1,225	1,368	1,166	1,708	1,568	2,091	2,643
Externally financed	5,578	6,073	6,830	5,866	2,575	2,472	7,121	6,948	8,146	9,089	9,782
Net lending	98	37	0	0	0	0	0	0	0	0	0
Overall balance (before grants)	**-5,110**	**-6,565**	**-6,097**	**-4,855**	**-3,556**	**-2,459**	**-6,896**	**-6,355**	**-4,756**	**-4,756**	**-4,621**
Grants[5/]	3,574	3,080	4,549	3,504	1,700	1,796	4,643	4,582	3,389	3,457	3,491
of which: Project-related[6/]	2,977	2,742	3,454	2,396	1,251	1,334	3,670	3,580	3,389	3,457	3,491
Primary balance (after grants)	**-89**	**-1,774**	**497**	**640**	**-693**	**500**	**215**	**722**	**1,283**	**1,355**	**1,630**
Overall balance (after grants)	**-1,537**	**-3,485**	**-1,548**	**-1,351**	**-1,856**	**-663**	**-2,253**	**-1,773**	**-1,367**	**-1,300**	**-1,130**
Net Financing	**1,537**	**3,485**	**1,548**	**1,351**	**1,856**	**663**	**2,253**	**1,773**	**1,367**	**1,300**	**1,130**
External	1,865	4,019	3,245	3,458	926	641	3,215	3,245	3,360	3,841	4,120
Amortizations	-735	-911	-1,040	-922	-498	-498	-1,131	-1,131	-1,397	-1,792	-2,171
Disbursements	2,600	4,930	4,285	4,380	1,424	1,138	4,347	4,376	4,757	5,633	6,291
Project-related[6/]	2,600	3,331	3,376	3,470	1,424	1,138	3,451	3,368	4,757	5,633	6,291
BOP support	0	1,599	910	910	0	0	896	1,008	0	0	0
Domestic	-328	-535	-1,697	-2,107	930	22	-963	-1,472	-1,993	-2,541	-2,990
Central Bank	932	-824	-846	-2,204	644	645	-518	-182	-236	-248	-261
Commercial Banks	-147	-19	0	66	0	0	0	0	0	0	0
Amortizations (gross)	-2,320	-2,313	-2,864	-2,864	-1,852	-1,852	-3,006	-3,006	-2,617	-3,106	-3,551
Bonds issuance[7/]	867	2,414	2,769	2,555	2,240	2,128	2,912	2,800	860	813	822
Other[8/]	340	207	-756	340	-102	-899	-351	-1,084	0	0	0
Privatization	0	1	0	0	0	0	0	0	0	0	0
Memorandum items:											
Monitorable wage bill[9/]	9,119	10,153	11,288	11,301	5,901	6,088	12,599	12,850	13,302	14,392	15,792
Poverty related expenditure	16,468	17,024	18,919	18,107	9,178	9,542	20,474	21,103	23,844	26,741	30,027
Central Government primary spending[10/]	27,130	28,713	30,916	30,439	16,802	16,747	34,370	35,460	38,210	42,475	47,132
Election-related Spending	0	0	0	159	0	0	1,046	723	320	0	0

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

[1/] Staff Report for the Fourth and Fifth Reviews under the ECF arrangement (EBS/10/198, November 2, 2010).
[2/] Starting in 2008, a portion of capital spending was reclassified to current spending, namely wages and goods and services.
[3/] For 2010 and 2011, 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/] For 2010 and 2011, 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/] The proposed program for 2011 includes payment of C$329 million of ENACAL debt that was absorbed by the central government. It also includes a debt net out of old Central Government debt with ENEL for C$866 million, with zero net effect.
[9/] It includes the wage bill of all decentralized agencies of the central government; and the extra-budgetary wage bonus.
[10/] It includes the extra-budgetary wage bonus.

Table 3b. Nicaragua: Operations of the Central Government, 2008–14
(in percent of GDP)

	2008	2009	2010		2011		2012	2013	2014
			Prog.[1/]	Prel.	Prog.[1/]	Rev. Prog.		Proj.	
Total Revenue	**19.0**	**18.9**	**19.7**	**19.7**	**20.0**	**20.0**	**20.3**	**20.4**	**20.5**
Tax	17.6	17.5	18.3	18.3	18.6	18.5	18.8	18.9	19.0
Income and property	5.7	6.2	6.3	6.1	6.4	6.4	6.5	6.5	6.5
VAT	2.5	3.1	2.9	2.9	2.9	2.8	2.9	2.9	2.9
Excises	2.7	2.6	4.0	4.0	4.1	3.9	4.0	4.0	4.0
Other	6.7	5.6	5.1	5.4	5.2	5.4	5.5	5.5	5.6
Nontax and current transfers	1.4	1.3	1.5	1.4	1.4	1.5	1.5	1.5	1.5
Total Expenditure	**23.2**	**24.1**	**24.2**	**23.2**	**24.7**	**24.0**	**23.0**	**22.8**	**22.6**
Current expenditures[2/]	17.1	18.5	18.7	17.8	19.1	18.5	17.5	17.1	17.0
Wages and salaries[3/]	6.2	6.8	7.1	6.9	7.3	7.0	6.4	6.2	6.1
of which : bonus	0.0	0.0	0.5	0.5	0.7	0.6	0.0	0.0	0.0
Goods and services	3.9	3.7	3.9	3.5	4.1	4.1	3.7	3.7	3.6
Interest	1.2	1.4	1.5	1.4	1.7	1.6	1.5	1.3	1.2
of which : external	0.4	0.4	0.5	0.4	0.5	0.5	0.5	0.5	0.5
Current transfers[4/]	5.8	6.7	6.2	6.0	6.1	5.9	5.9	6.0	6.0
Capital Expenditures[2/]	6.0	5.5	5.6	5.4	5.5	5.5	5.5	5.6	5.6
Domestically financed	1.5	0.7	0.5	1.2	0.8	1.1	0.9	1.1	1.2
Externally financed	4.5	4.8	5.0	4.2	4.8	4.4	4.6	4.6	4.4
Net lending	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (before grants)	**-4.1**	**-5.2**	**-4.5**	**-3.5**	**-4.6**	**-4.0**	**-2.7**	**-2.4**	**-2.1**
Grants5/	2.9	2.4	3.3	2.5	3.1	2.9	1.9	1.7	1.6
of which: Project-related[4/]	2.4	2.2	2.5	1.7	2.5	2.3	1.9	1.7	1.6
Primary balance (after grants)	**-0.1**	**-1.4**	**0.4**	**0.5**	**0.1**	**0.5**	**0.7**	**0.7**	**0.7**
Overall balance (after grants)	**-1.2**	**-2.8**	**-1.1**	**-1.0**	**-1.5**	**-1.1**	**-0.8**	**-0.7**	**-0.5**
Net Financing	**1.2**	**2.8**	**1.1**	**1.0**	**1.5**	**1.1**	**0.8**	**0.7**	**0.5**
External	1.5	3.2	2.4	2.5	2.2	2.1	1.9	1.9	1.9
Amortizations	-0.6	-0.7	-0.8	-0.7	-0.8	-0.7	-0.8	-0.9	-1.0
Disbursements	2.1	3.9	3.1	3.1	2.9	2.8	2.7	2.8	2.8
Project-related[6/]	2.1	2.6	2.5	2.5	2.3	2.1	2.7	2.8	2.8
BOP support	0.0	1.3	0.7	0.7	0.6	0.6	0.0	0.0	0.0
Domestic	-0.3	-0.4	-1.2	-1.5	-0.6	-0.9	-1.1	-1.3	-1.4
Central Bank	0.8	-0.7	-0.6	-1.6	-0.3	-0.1	-0.1	-0.1	-0.1
Commercial Banks	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortizations (gross)	-1.9	-1.8	-2.1	-2.0	-2.0	-1.9	-1.5	-1.6	-1.6
Bonds issuance[7/]	0.7	1.9	2.0	1.8	1.9	1.8	0.5	0.4	0.4
Other[8/]	0.3	0.2	-0.6	0.2	-0.2	-0.7	0.0	0.0	0.0
Privatization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Monitorable wage bill[9/]	7.4	8.0	8.3	8.1	8.4	8.1	7.5	7.3	7.1
Poverty related expenditure	13.3	13.5	13.9	12.9	13.7	13.3	13.4	13.5	13.6
Central Government primary spending[10/]	22.0	22.7	22.7	21.8	23.0	22.4	21.5	21.4	21.3
Election-related Spending	0.0	0.0	0.0	0.1	0.7	0.5	0.2	0.0	0.0

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

[1/]Staff Report for the Fourth and Fifth Reviews under the ECF arrangement (EBS/10/198, November 2, 2010).

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

[3/]For 2010 and 2011, 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/]For 2010 and 2011, 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/]The proposed program for 2011 includes payment of C$329 million of ENACAL debt that was absorbed by the central government. It also includes a debt net out of old Central Government debt with ENEL for C$866 million, with zero net effect.

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

[10/]It includes the extra-budgetary wage bonus.

Table 4a. Nicaragua: Operations of the Combined Public Sector, 2008–14
(in millions of Córdobas)

	2008	2009	2010		2011				2012	2013	2014
			Dec.		June		Dec.		Dec.		
			Prog.[1/]	Prel.	Prog.[1/]	Rev. Prog.	Prog.[1/]	Rev. Prog.	Proj.		
Central government overall balance	**-1,536**	**-3,485**	**-1,548**	**-1,351**	**-1,856**	**-663**	**-2,253**	**-1,773**	**-1,367**	**-1,300**	**-1,130**
Revenue	23,468	23,859	26,863	27,575	14,409	15,451	29,942	31,600	36,103	40,373	45,271
Expenditure[2/]	28,578	30,424	32,960	32,430	17,965	17,910	36,838	37,955	40,859	45,130	49,892
Current	21,063	23,410	25,402	24,866	14,065	14,069	28,551	29,299	31,145	33,950	37,467
of which: interest	1,447	1,711	2,045	1,991	1,163	1,163	2,468	2,495	2,649	2,655	2,760
Capital and net lending[3/]	7,515	7,013	7,558	7,564	3,900	3,841	8,287	8,656	9,714	11,180	12,424
Grants[4/]	3,574	3,080	4,549	3,504	1,700	1,796	4,643	4,582	3,389	3,457	3,491
Social Security Institute (INSS) balance	**1,536**	**784**	**1,415**	**1,492**	**1,016**	**982**	**1,495**	**1,400**	**1,648**	**1,591**	**1,703**
Contributions and revenues	7,129	7,783	9,438	9,627	5,097	5,117	10,465	10,339	11,948	13,333	15,000
Payments and expenses	5,593	6,999	8,026	8,135	4,083	4,136	8,973	8,942	10,300	11,742	13,298
Grants	0	0	3	0	1	1	3	3	0	0	0
Managua municipality (ALMA) balance	**-53**	**60**	**-15**	**86**	**269**	**14**	**-16**	**-23**	**-20**	**-17**	**-15**
of which: Grants	15	31	17	23	5	7	14	14	19	19	19
Overall Public Enterprises balance[5/]	**-970**	**255**	**-1,633**	**-960**	**-742**	**-667**	**-1,519**	**-1,366**	**-1,511**	**-1,647**	**-1,767**
Revenue	3,994	4,035	3,993	3,972	2,242	2,348	4,518	4,718	5,357	6,038	6,793
Expenditure	5,223	5,048	5,813	5,085	3,244	3,227	6,552	6,387	7,468	8,250	9,098
Grants[6/]	259	1,268	187	154	260	212	515	303	600	565	538
Central Bank (BCN) operating balance	**-848**	**-1,514**	**-1,316**	**-1,249**	**-532**	**-542**	**-1,021**	**-1,133**	**-1,422**	**-1,388**	**-1,326**
Overall CPS balance (after grants)	**-1,872**	**-3,899**	**-3,097**	**-1,982**	**-1,844**	**-875**	**-3,314**	**-2,896**	**-2,672**	**-2,762**	**-2,535**
Primary balance (after grants)	-405	-2,167	-1,026	46	-670	320	-821	-340	46	395	865
Total interest	1,467	1,733	2,071	2,028	1,175	1,196	2,492	2,555	2,718	3,156	3,400
Net Financing	**1,872**	**3,899**	**3,097**	**1,982**	**1,844**	**875**	**3,314**	**2,896**	**2,672**	**2,762**	**2,535**
External	2,301	4,874	4,134	4,706	1,415	898	4,187	3,880	3,869	4,096	4,110
Amortizations	-754	-931	-1,060	-940	-508	-508	-1,152	-1,152	-1,292	-1,473	-1,918
Disbursements[4/]	3,055	5,805	5,194	5,647	1,923	1,406	5,339	5,032	4,730	5,037	5,429
Domestic	-1,277	-2,488	-2,353	-3,973	-103	-565	-1,895	-2,118	-2,619	-2,722	-2,901
Central Bank	786	-865	578	-780	1,067	1,456	-490	-99	-236	-248	-261
Commercial Banks	951	392	-1,239	-2,243	-491	664	-132	957	1,076	1,201	1,337
Amortizations (gross)	-1,823	-2,069	-1,829	-1,828	-1,665	-1,719	-2,063	-2,110	-1,819	-2,059	-2,264
Bonds issuance[7/]	587	807	1,371	1,156	1,152	1,053	1,454	1,455	-1,639	-1,616	-1,714
Others[8/]	-1,778	-753	-1,235	-279	-166	-2,017	-665	-2,321	0	0	0
of which: Caruna[9/]	486	48	-718	-681	-35	-35	-107	146	0	0	0
Central Bank (BCN) operating balance	848	1,514	1,316	1,249	532	542	1,021	1,133	1,422	1,388	1,326
Memorandum items:											
Quasi-fiscal activities of ALBA[10/]	5,679	4,798	11,033	11,033	4,282	4,282	8,733	8,733	9,818	10,956	12,205
CPS primary balance (before grants)	-4,252	-6,545	-5,783	-3,634	-2,635	-1,695	-5,996	-5,242	-3,961	-3,646	-3,183
CPS overall balance (before grants)	-5,719	-8,278	-7,853	-5,662	-3,809	-2,891	-8,489	-7,798	-6,679	-6,802	-6,583

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

[1/] Staff Report for the Fourth and Fifth Reviews under the ECF arrangement (EBS/10/198, November 2, 2010).

[2/] For 2010 and 2011, 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. For 2010 and 2011, 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.

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

[8/] The proposed program for 2011 includes a debt net out of old central government debt with ENEL for C$866 million, with zero net effect. It also nets out a payment by the central government to ENEL for C$65 million of a former ENACAL debt.

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

[10/] 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, 2008–14
(in percent of GDP)

	2008	2009	2010		2011		2012	2013	2014
			Prog.[1/]	Prel.	Prog.[1/]	Rev. Prog.		Proj.	
Central government overall balance	**-1.2**	**-2.8**	**-1.1**	**-1.0**	**-1.5**	**-1.1**	**-0.8**	**-0.7**	**-0.5**
Revenue	19.0	18.9	19.7	19.7	20.0	20.0	20.3	20.4	20.5
Expenditure[2/]	23.2	24.1	24.2	23.2	24.7	24.0	23.0	22.8	22.6
Current	17.1	18.5	18.7	17.8	19.1	18.5	17.5	17.1	17.0
of which : interest	1.2	1.4	1.5	1.4	1.7	1.6	1.5	1.3	1.2
Capital and net lending[3/]	6.1	5.5	5.6	5.4	5.5	5.5	5.5	5.6	5.6
Grants[4/]	2.9	2.4	3.3	2.5	3.1	2.9	1.9	1.7	1.6
Social Security Institute (INSS) balance	**1.2**	**0.6**	**1.0**	**1.1**	**1.0**	**0.9**	**0.9**	**0.8**	**0.8**
Contributions and revenues	5.8	6.2	6.9	6.9	7.0	6.5	6.7	6.7	6.8
Payments and expenses	4.5	5.5	5.9	5.8	6.0	5.7	5.8	5.9	6.0
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Managua municipality (ALMA) balance	0.0	0.0	0.0	0.1	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	0.0	0.0	0.0
Overall Public Enterprises balance[5/]	**-0.8**	**0.2**	**-1.2**	**-0.7**	**-1.0**	**-0.9**	**-0.9**	**-0.8**	**-0.8**
Revenue	3.2	3.2	2.9	2.8	3.0	3.0	3.0	3.0	3.1
Expenditure	4.2	4.0	4.3	3.6	4.4	4.0	4.2	4.2	4.1
Grants[6/]	0.2	1.0	0.1	0.1	0.3	0.2	0.3	0.3	0.2
Central Bank (BCN) operating balance	-0.7	-1.2	-1.0	-0.9	-0.7	-0.7	-0.8	-0.7	-0.6
Overall CPS balance (after grants)	**-1.5**	**-3.1**	**-2.3**	**-1.4**	**-2.2**	**-1.8**	**-1.5**	**-1.4**	**-1.1**
Primary balance (after grants)	-0.3	-1.7	-0.8	0.0	-0.5	-0.2	0.0	0.2	0.4
Total interest	1.2	1.4	1.5	1.4	1.7	1.6	1.5	1.6	1.5
Net Financing	**1.5**	**3.1**	**2.3**	**1.4**	**2.2**	**1.8**	**1.5**	**1.4**	**1.1**
External	1.9	3.9	3.0	3.4	2.8	2.5	2.2	2.1	1.9
Amortizations	-0.6	-0.7	-0.8	-0.7	-0.8	-0.7	-0.7	-0.7	-0.9
Disbursements[4/]	2.5	4.6	3.8	4.0	3.6	3.2	2.7	2.5	2.5
Domestic	-1.0	-2.0	-1.7	-2.8	-1.3	-1.3	-1.5	-1.4	-1.3
Central Bank	0.6	-0.7	0.4	-0.6	-0.3	-0.1	-0.1	-0.1	-0.1
Commercial Banks	0.8	0.3	-0.9	-1.6	-0.1	0.6	0.6	0.6	0.6
Amortizations (gross)	-1.5	-1.6	-1.3	-1.3	-1.4	-1.3	-1.0	-1.0	-1.0
Bonds issuance[7/]	0.5	0.6	1.0	0.8	1.0	0.9	-0.9	-0.8	-0.8
Others[8/]	-1.4	-0.6	-0.9	-0.2	-0.4	-1.5	0.0	0.0	0.0
of which : Caruna[9/]	0.4	0.0	-0.5	-0.5	-0.1	0.1	0.0	0.0	0.0
Central Bank (BCN) operating balance	0.7	1.2	1.0	0.9	0.7	0.7	0.8	0.7	0.6
Memorandum items:									
Quasi-fiscal activities of ALBA[10/]	4.6	3.8	8.1	7.9	5.8	5.5	5.5	5.5	5.5
CPS primary balance (before grants)	-3.4	-5.2	-4.2	-2.6	-4.0	-3.3	-2.2	-1.8	-1.4
CPS overall balance (before grants)	-4.6	-6.5	-5.8	-4.0	-5.7	-4.9	-3.8	-3.4	-3.0

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

1/ Staff Report for the Fourth and Fifth Reviews under the ECF arrangement (EBS/10/198, November 2, 2010).

2/ For 2010 and 2011, 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. For 2010 and 2011, 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.

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

8/ The proposed program for 2011 includes a debt net out of old central government debt with ENEL for C$866 million, with zero net effect. It also nets out a payment by the Central Government to ENEL for C$65 million of a former ENACAL debt.

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

10/ 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		2011			
			Dec.		June		Dec.	
			Prog.[1/]	Prel.	Prog.[1/]	Rev. Prog.	Prog.[1/]	Rev. Prog.
Exchange rate (córdobas/US$, period average)	19.4	20.3	21.4	21.4	22.4	22.4	22.4	22.4
Net international reserves (adjusted)[2/]	**-532**	**2068**	**-748**	**2249**	**-1561**	**-1568**	**-896**	**-1,233**
(In US$ millions)	-27	102	-35	105	-70	-70	-40	-55
Net domestic assets	**494**	**-1,409**	**1,560**	**-182**	**680**	**230**	**1,573**	**2,348**
Net credit to public sector (NFPS)[3/]	3,230	-808	-846	-2,204	644	645	-518	-182
Net credit to central government	932	-824	-846	-2,204	644	645	-518	-182
Net credit to RNFPS	2,299	16	0	0	0	0	0	0
Net credit to the financial system	-694	-1,529	-117	-198	64	-280	-27	-130
Operational losses	848	1,514	1,316	1,249	532	542	1,021	1,133
Central bank bonds (net)	-3,102	-875	854	708	-780	-941	583	1,010
Medium- and long-term foreign liabilities	258	329	383	362	219	252	493	525
Other	-47	-38	-30	-98	2	11	21	-9
Currency	**-38**	**659**	**812**	**2,067**	**-880**	**-1,339**	**677**	**1,115**
Memorandum items:								
Gross reserves (US$ million, stock)[4/]	1,141	1,573	1,519	1,799	1,457	1,745	1,499	1,743
Net international reserves	1,030	1,423	1,349	1,632	1,280	1,567	1,314	1,576
Net international reserves (adjusted)[2/]	**710**	**811**	**776**	**917**	**707**	**847**	**736**	**862**
SDR allocations	…	165	165	165	165	165	165	165
Observed reserves on foreign deposits	320	447	408	550	408	556	412	550
Short-term liabilities	111	150	170	167	178	178	185	167
Central Bank paper (stock)	7,321	8,626	8,138	9,118	9,121	10,288	7,947	8,540
in percent of GDP	*7.1*	*6.9*	*6.0*	*6.5*	*6.1*	*6.5*	*5.3*	*5.4*
Currency (stock)	5,499	6,157	6,969	8,225	6,089	6,886	7,646	9,339
Year-on-year growth (percent)	*-0.7*	*12.0*	*13.2*	*33.6*	*13.2*	*13.7*	*9.7*	*13.6*

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

1/ Staff Report for the Fourth and Fifth Reviews under the ECF arrangement (EBS/10/198, November 2, 2010).

2/ Program definition. Includes deposit insurance fund (FOGADE), and excludes 2009 SDR allocation and actual reserves of commercial banks in foreign currency.

3/ Includes only "Titulos Especiales de Inversion."

4/ Starting in 2009, figures include the SDR allocation for SDR105.1 million (US$165 million) of September 2009.

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		2011			
			Dec.		June		Dec.	
			Prog. 1/	Prel.	Prog. 1/	Rev. Prog.	Prog. 1/	Rev. Prog.
					Commercial banks 2/			
Net international reserves (adjusted)	**2,330**	**5,770**	**7,576**	**3,273**	**1,882**	**673**	**3,764**	**1,794**
(in US$ millions)	117	284	355	153	84	30	168	80
Net domestic assets	**868**	**-1,541**	**3,874**	**6,054**	**620**	**2,417**	**1,627**	**4,794**
Net credit to nonfinancial public sector	-794	-692	-630	1,713	228	-309	184	1,270
Net credit to the financial system	-572	-1,488	-610	-3,868	-807	-499	-779	-1,287
Net credit to the private sector	5,142	-3,479	-264	2,539	708	624	4,134	6,052
Medium- and long-term foreign liabilities	-1,271	879	322	1,048	129	310	-699	522
Other net assets	-1,637	3,239	5,055	4,623	362	2,291	-1,213	-1,764
Liabilities	**3,198**	**4,229**	**11,450**	**9,326**	**2,502**	**3,090**	**5,391**	**6,588**
					Financial sector 3/			
Net international reserves (adjusted) 4/	**1,741**	**7,838**	**6,828**	**5,522**	**321**	**-895**	**2,868**	**561**
(in US$ millions)	90	385	320	259	14	-40	128	25
Net domestic assets	**1,362**	**-2,950**	**5,434**	**5,872**	**1,301**	**2,646**	**3,200**	**7,142**
Net credit to nonfinancial public sector	2,436	-1,501	-1,476	-491	872	336	-335	1,088
Net credit to the private sector	5,142	-3,479	-264	2,539	708	624	4,134	6,052
Medium- and long-term foreign liabilities	-1,012	1,207	705	1,409	348	563	-207	1,048
Other net assets	-5,204	822	6,469	2,415	-627	1,123	-393	-1,046
Of which: Other financial institutions	-1,282	-3,150	-488	-4,814	-373	-710	-583	-1,274
Liabilities to the private sector	**3,103**	**4,888**	**12,262**	**11,394**	**1,622**	**1,751**	**6,068**	**7,703**
Memorandum items:								
Credit to the private sector (percent of GDP)	37.6	34.3	31.3	32.4	29.0	29.1	31.3	32.5
Credit to the private sector (annual growth rate)	12.5	-7.5	-0.6	5.9	0.0	10.7	9.7	13.3
Foreign currency deposits (percent of total)	68.5	71.8	71.8	73.1	75.8	73.1	73.5	73.2

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

1/ Staff Report for the Fourth and Fifth Reviews under the ECF arrangement (EBS/10/198, November 2, 2010).
2/ Includes Financiera Nicaraguense.
3/ Includes Central Bank of Nicaragua.
4/ Program definition (for Central bank NIR Adjusted). Includes deposit insurance fund (FOGADE), and excludes the September 2009 SDR allocation and actual reserves of commercial banks in foreign currency.

Table 7. Nicaragua: Balance of Payments, 2008–16[1/]

(In millions of U.S. dollars; unless otherwise indicated)

	2008	2009	2010		2011		2012	2013	2014	2015	2016
			Prog.[2/]	Prel.	Prog.[2/]	Rev. Prog.			Proj.		
Current account	**-1,570**	**-832**	**-1,052**	**-969**	**-1,067**	**-1,256**	**-1,243**	**-1,229**	**-1,233**	**-1,196**	**-1,158**
According to BPM5 [3/]	-1,517	-760	-1,031	-947	-1,067	-1,256	-1,243	-1,229	-1,233	-1,196	-1,158
Trade balance	-2,201	-1,540	-1,623	-1,636	-1,644	-1,947	-1,947	-1,948	-1,959	-1,909	-1,883
Exports, f.o.b.	2,530	2,390	2,969	3,157	3,221	3,677	3,964	4,243	4,533	4,837	5,161
Imports, f.o.b.	-4,731	-3,929	-4,592	-4,792	-4,865	-5,625	-5,911	-6,190	-6,491	-6,746	-7,044
Of which: oil imports	-963	-676	-904	-751	-881	-984	-1,029	-1,045	-1,077	-1,125	-1,122
Services	-269	-148	-184	-222	-196	-225	-225	-224	-224	-224	-223
Receipts	460	496	489	472	517	535	562	591	625	660	697
Payments	-729	-644	-673	-694	-713	-760	-787	-815	-849	-884	-920
Income	-240	-263	-267	-284	-268	-279	-307	-335	-363	-411	-433
Credits	23	6	7	9	7	7	8	8	8	8	8
Debits	-263	-269	-274	-293	-275	-286	-314	-342	-371	-419	-441
Of which: official interest	-36	-33	-38	-31	-42	-35	-41	-48	-57	-91	-101
Transfers to the private sector	1,140	1,118	1,023	1,173	1,041	1,195	1,236	1,277	1,313	1,347	1,381
Of which: remittances	818	768	808	823	841	865	901	940	976	1,012	1,049
Capital account	**1,535**	**1,224**	**924**	**1,164**	**980**	**1,114**	**1,234**	**1,287**	**1,314**	**964**	**930**
Official	479	714	319	395	311	278	293	283	260	243	186
Official transfers	347	300	192	186	187	174	170	163	156	143	127
Of which: grants	347	300	192	186	187	174	170	163	156	143	127
Disbursements	219	330	203	285	198	180	201	204	209	231	231
Amortization	-75	-81	-71	-71	-72	-73	-78	-84	-105	-132	-172
Other	-13	165	-6	-5	-3	-3	0	0	0	0	0
Private	1,057	511	606	770	669	836	941	1,004	1,053	721	744
Foreign direct investment	626	434	450	508	502	658	604	630	655	681	707
Capital Transfers	52	99	16	17	3	3	0	0	0	0	0
Of which: ALBA collaboration	22	55	0	0	0	0	0	0	0	0	0
Financial system and other capital flows	379	-23	139	244	164	175	337	374	398	40	36
Assets	-67	-211	-562	-278	-164	-149	-75	-25	10	40	40
Medium- and long-term liabilities	527	196	438	460	397	272	412	399	388	0	-4
Of which: ALBA collaboration[4/ 5/]	293	232	516	487	380	382	397	390	385	0	-1
Other, including errors and omissions[6/]	-81	-8	263	62	-69	52	0	0	0	0	0
Overall balance	**-35**	**392**	**-128**	**195**	**-88**	**-142**	**-9**	**57**	**81**	**-232**	**-228**
Change in external assets (- increase)[7/]	-38	-432	54	-226	20	56	-56	-122	-146	232	228
Exceptional financing	72	40	11	30	12	24	0	0	0	0	0
Financing gap[8/]	**...**	**...**	**63**	**...**	**56**	**62**	**65**	**65**	**65**	**...**	**...**
IMF	...	...	20	...	16	17	...	...	...	...	...
World Bank	...	...	0	...	0	0	...	...	...	...	...
IDB	...	...	43	...	40	45	...	...	...	...	...
Bilaterals and other multilaterals	...	...	0	...	0	0	...	...	...	...	...
Memorandum items:											
Current account (in percent of GDP)	**-24.6**	**-13.4**	**-16.5**	**-14.8**	**-16.0**	**-17.8**	**-16.5**	**-15.3**	**-14.5**	**-13.3**	**-12.1**
According to BPM5 [3/]	-23.8	-12.2	-16.2	-14.5	-16.0	-17.8	-16.5	-15.3	-14.5	-13.3	-12.1
Excluding official interest	-23.2	-11.7	-15.6	-14.0	-15.4	-17.3	-15.9	-14.7	-13.8	-12.3	-11.1
Non-oil, excluding interest	-8.1	-0.8	-1.4	-2.5	-2.2	-3.4	-2.3	-1.7	-1.2	0.2	0.7
Alba-related flows (in percent of GDP)	**7.2**	**7.1**	**8.7**	**7.6**	**5.7**	**6.6**	**5.3**	**4.9**	**4.5**	**0.0**	**0.0**
FDI	2.1	2.4	0.6	0.2	0.0	1.1	0.0	0.0	0.0	0.0	0.0
Oil collaboration	5.0	4.7	8.1	4.9	5.7	6.0	5.8	5.4	5.0	0.0	0.0
Others[5/]	0.5	0.1	0.0	2.5	0.0	-0.6	-0.5	-0.5	-0.5	0.0	0.0
Gross reserves[7/]	1,141	1,573	1,519	1,799	1,499	1,743	1,800	1,922	2,068	1,835	1,607
in months of imports excl. maquilas	2.9	4.9	4.1	4.7	3.8	3.9	3.9	4.0	4.1	3.5	3.0
Oil price (average, US$/bbl)	97.0	61.8	76.2	79.0	78.8	107.2	108.0	105.5	104.5	105.0	106.0

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

[1/] Assuming that outstanding debt to non-Paris Club bilaterals is settled on HIPC-equivalent terms in 2011. Debt service is measured on accrual basis. The presentation has been revised to reflect methodological changes in the classification of services and income and the measurement of NGO transfers.

[2/] Staff Report for the Fourth and Fifth Reviews under the ECF arrangement (EBS/10/198, November 2, 2010).

[3/] Untied grants are recorded above the line.

[4/] A portion of ALBA-related flows is being used to finance off-budget transport subsidies and wage bonuses in 2010 and 2011.

[5/] 2010 includes a bilateral loan of US$ 163 million to Alba-Caruna provided under different terms than the oil collaboration, i.e., 5 years maturity, 1 year grace and 2 percent interest.

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

[7/] 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.

[8/] Includes expected IMF disbursements and budget support loans and grants for 2011. The financing gap estimated for 2012-14 is preliminary and its financing is unidentified. Disbursements made in 2010 are included in official disbursements.

Table 8. Nicaragua: External Financing Requirements, 2008–16[1/]

(In millions of U.S. dollars)

	2008	2009	2010		2011		2012	2013	2014	2015	2016
			Prog.[2/]	Prel.	Prog.[2/]	Rev. Prog.			Proj.		
Gross financing requirements	**-1,696**	**-1,181**	**-1,075**	**-1,271**	**-1,122**	**-1,276**	**-1,377**	**-1,436**	**-1,483**	**-1,096**	**-1,102**
Current account deficit (excluding official transfers)	-1,570	-832	-1,052	-969	-1,067	-1,256	-1,243	-1,229	-1,233	-1,196	-1,158
Public debt amortization	-75	-81	-71	-71	-72	-73	-78	-84	-105	-132	-172
GIR accumulation (-)[3/]	-38	-432	54	-226	20	56	-56	-122	-146	232	228
Other official[3/ 4/]	-13	165	-6	-5	-3	-3	0	0	0	0	0
Gross financing sources	**1,696**	**1,181**	**1,012**	**1,271**	**1,066**	**1,213**	**1,312**	**1,371**	**1,418**	**1,096**	**1,102**
Foreign direct investment and capital transfers	678	534	466	525	505	661	604	630	655	681	707
Debt financing from private creditors, net	379	-23	139	244	164	175	337	374	398	40	36
Official transfers	347	300	192	186	187	174	170	163	156	143	127
Of which: grants	347	300	192	186	187	174	170	163	156	143	127
Official disbursements (medium- and long-term loans)	219	330	203	285	198	180	201	204	209	231	231
Net Exceptional Financing	72	40	11	30	12	24	0	0	0	0	0
Financing gap	...	...	**63**	**0**	**56**	**62**	**65**	**65**	**65**	**...**	**...**
IMF	…	…	20	...	16	17	...	...	...	...	...
World Bank	…	…	0	...	0	0	...	...	...	...	...
IDB	…	…	43	...	40	45	...	...	...	...	...
Bilaterals and Other Multilaterals	…	…	0	...	0	0	...	...	...	...	...
Memorandum items:											
Official disbursements	219	330	266	285	254	242	266	269	274	231	231
Gross international reserves (GIR)[5/]	1,141	1,573	1,519	1,799	1,499	1,743	1,800	1,922	2,068	1,835	1,607
In months of imports of G&NFS excl. maquilas	2.9	4.9	4.1	4.7	3.8	3.9	3.9	4.0	4.1	3.5	3.0
Change GIR (+ = increase)[3/]	38	432	-54	226	-20	-56	56	122	146	-232	-228

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/]Staff Report for the Fourth and Fifth Reviews under the ECF arrangement (EBS/10/198, November 2, 2010).

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

[4/]Includes public external assets.

[5/]Starting in 2009, figures include the SDR allocation for SDR105.1 million (US$165 million) of September 2009.

Table 9. Nicaragua: Nonfinancial Public Sector Gross Financing Requirements, 2008–14

	2008	2009	2010		2011		2012	2013	2014
			Prog.[1/]	Prel.	Prog.[1/]	Rev. Prog.		Proj.	
					(In US$ millions)				
a. NFPS primary deficit (before grants)	**176**	**247**	**209**	**111**	**222**	**183**	**108**	**91**	**72**
CG and public enterprises	255	286	275	181	288	246	178	156	137
INSS	-79	-39	-66	-70	-67	-63	-70	-64	-66
b. Debt service obligations	**209**	**232**	**232**	**224**	**255**	**260**	**248**	**270**	**292**
External	66	72	80	72	87	88	96	108	131
Interest	27	27	30	28	36	36	41	48	57
Amortization	39	45	50	44	51	51	55	60	74
Domestic	143	160	153	152	167	172	151	162	161
Interest	49	58	67	67	75	78	74	79	74
Amortization	94	102	86	85	92	94	77	83	87
c. Gross financing needs (a+b)	**385**	**479**	**441**	**336**	**476**	**443**	**355**	**362**	**364**
d. Financing sources	**385**	**479**	**441**	**336**	**476**	**443**	**355**	**362**	**364**
External	**356**	**451**	**466**	**436**	**469**	**443**	**371**	**367**	**365**
Project	325	355	372	342	386	354	371	367	365
Grants	167	148	171	120	187	174	170	163	156
Loans	158	207	201	221	198	180	201	204	209
Budget support	32	97	94	94	83	90	0	0	0
Grants[2/]	32	18	51	52	43	45	0	0	0
Loans[3/]	0	79	43	43	40	45	0	0	0
Domestic	**28**	**28**	**-25**	**-100**	**8**	**0**	**-16**	**-5**	**-1**
Central Bank	41	-43	27	-36	-22	-4	-10	-10	-10
Commercial banks	49	69	-58	-105	-6	43	46	49	52
Other	-62	1	6	41	35	-39	-51	-44	-43
					(In percent of GDP)				
a. NFPS primary deficit (before grants)	**2.8**	**4.0**	**3.3**	**1.7**	**3.3**	**2.6**	**1.4**	**1.1**	**0.8**
CG and public enterprises	4.1	4.7	4.3	2.8	4.3	3.5	2.4	1.9	1.6
INSS	-1.3	-0.6	-1.0	-1.1	-1.0	-0.9	-0.9	-0.8	-0.8
b. Debt service obligations	**3.3**	**3.8**	**3.6**	**3.4**	**3.8**	**3.7**	**3.3**	**3.4**	**3.4**
External	1.0	1.2	1.2	1.1	1.3	1.2	1.3	1.3	1.5
Interest	0.4	0.4	0.5	0.4	0.5	0.5	0.5	0.6	0.7
Amortization	0.6	0.7	0.8	0.7	0.8	0.7	0.7	0.7	0.9
Domestic	2.3	2.6	2.4	2.3	2.5	2.4	2.0	2.0	1.9
Interest	0.8	0.9	1.1	1.0	1.1	1.1	1.0	1.0	0.9
Amortization	1.5	1.7	1.3	1.3	1.4	1.3	1.0	1.0	1.0
c. Gross financing needs (a+b)	**6.2**	**7.8**	**6.9**	**5.1**	**7.2**	**6.3**	**4.7**	**4.5**	**4.3**
d. Financing sources	**6.2**	**7.8**	**6.9**	**5.1**	**7.2**	**6.3**	**4.7**	**4.5**	**4.3**
External	**5.7**	**7.3**	**7.3**	**6.7**	**7.1**	**6.3**	**4.9**	**4.6**	**4.3**
Project	5.2	5.8	5.8	5.2	5.8	5.0	4.9	4.6	4.3
Grants	2.7	2.4	2.7	1.8	2.8	2.5	2.3	2.0	1.8
Loans	2.5	3.4	3.2	3.4	3.0	2.5	2.7	2.5	2.5
Budget support	0.5	1.6	1.5	1.4	1.3	1.3	0.0	0.0	0.0
Grants[2/]	0.5	0.3	0.8	0.8	0.7	0.6	0.0	0.0	0.0
Loans[3/]	0.0	1.3	0.7	0.7	0.6	0.6	0.0	0.0	0.0
Domestic	**0.5**	**0.5**	**-0.4**	**-1.5**	**0.1**	**0.0**	**-0.2**	**-0.1**	**0.0**
Central Bank	0.6	-0.7	0.4	-0.6	-0.3	-0.1	-0.1	-0.1	-0.1
Commercial banks	0.8	1.1	-0.9	-1.6	-0.1	0.6	0.6	0.6	0.6
Other	-1.0	0.0	0.1	0.6	0.5	-0.5	-0.7	-0.5	-0.5

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

[1/] Staff Report for the Fourth and Fifth Reviews under the ECF arrangement (EBS/10/198, November 2, 2010).

[2/] Figures for 2010 and 2011 include grant from Venezuela to finance an extra-budgetary wage bonus.

[3/] Figures for 2010 and 2011 assume disbursement of IDB budget support loan for US$43 million and US$45 million respectively.

Table 10. Nicaragua: Indicators of Capacity to Repay the Fund, 2011–16

	2011	2012	2013	2014	2015	2016
Fund obligations based on existing and prospective credit[1/]						
In millions of SDRs	1.5	8.7	11.1	14.7	19.5	21.1
In millions of U.S. dollars	2.3	13.7	17.3	23.0	30.3	32.8
In percent of exports of goods and nonfactor services	0.1	0.3	0.4	0.4	0.6	0.6
In percent of external public debt service	2.1	11.5	13.0	14.2	13.6	12.0
In percent of quota	1.1	6.7	8.5	11.3	15.0	16.3
In percent of gross international reserves	0.1	0.8	0.9	1.1	1.7	2.0
Fund credit outstanding						
In millions of SDRs	118.4	110.0	99.3	84.9	65.7	44.8
In millions of U.S. dollars	185.3	171.9	154.9	132.3	102.3	69.6
In percent of exports of goods and nonfactor services	4.4	3.8	3.2	2.6	1.9	1.2
In percent of external public debt service	172.5	144.3	116.6	81.7	46.0	25.5
In percent of quota	91.1	84.6	76.4	65.3	50.5	34.5
In percent of gross international reserves	10.6	9.6	8.1	6.4	5.6	4.3
Memorandum items						
Exports of goods and services (millions of U.S. dollars)	4,213	4,526	4,834	5,157	5,497	5,859
External public debt service (millions of U.S. dollars)	107	119	133	162	222	274
Quota (millions of SDRs)	130	130	130	130	130	130
Quota (millions of U.S. dollars)	204	203	203	203	202	202
Gross international reserves (millions of U.S. dollars)[2/]	1,743	1,800	1,922	2,068	1,835	1,607
SDR per U.S. dollars (period average)	0.6	0.6	0.6	0.6	0.6	0.6

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 ECF Arrangement

Date	Proposed Schedule		Conditions	Status
	In millions of SDRs	In percent of quota[1/]		
Oct. 5, 2007	11.90	9.2	Board approval of PRGF arrangement	Completed
Sep. 10, 2008[2/]	18.40	14.2	Observance of end-Dec 2007 performance criteria and completion of first review	Completed
Nov. 2, 2009[3/]	23.80	18.3	Observance of end-Jun and end-Dec 2008 performance criteria and completion of second and third reviews.	Completed
Nov. 19, 2010[4/ 5/]	12.80	9.8	Observance of end-Dec 2009 and end-Jun 2010 performance criteria and completion of fourth and fifth reviews.	Completed
Apr. 29, 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	
Total	**78.00**	**60.0**		

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, 2008–10 (In percent, unless otherwise indicated)

	2008	2009				2010			
		Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
I. Core set (deposit taking institutions)									
Capital adequacy									
Regulatory Tier 1 capital to risk-weighted assets[1/]	15.3	16.0	16.7	16.6	16.5	16.1	16.4	17.2	16.6
Regulatory capital to risk-weighted assets	9.0	9.5	10.0	10.6	10.9	11.0	11.8	11.1	11.1
Asset quality									
Nonperforming loans to total gross loans	3.0	2.8	3.0	3.5	3.3	3.2	3.5	2.5	3.0
Nonperforming loans to total gross loans[2/]	6.7	7.3	8.3	9.8	10.9	11.2	11.0	9.1	8.0
Nonperforming loans net of provisions to capital	17.2	19.5	25.3	30.8	33.4	34.7	30.7	23.1	20.3
Sectoral distribution of loans									
Commercial	32.8	34.5	34.8	34.1	35.7	36.4	35.5	32.9	35.3
Agricultural	9.6	9.2	7.9	8.9	9.5	7.9	8.2	10.3	11.8
Consumer	29.6	28.5	28.6	27.9	26.2	25.6	25.4	25.9	24.0
Construction	14.1	14.6	15.3	15.6	15.6	16.0	16.1	16.5	15.4
Industrial	7.8	8.4	9.8	9.6	9.5	10.9	11.9	11.9	11.2
Others	6.2	4.8	3.6	3.9	3.5	3.3	2.9	2.6	2.3
Earnings and profitability									
Return on assets	1.8	1.6	1.4	1.0	0.5	0.3	0.0	0.8	1.0
Return on equity	18.1	16.2	13.3	9.5	4.8	2.7	-0.1	8.3	10.8
Interest margin to assets	9.1	8.9	8.7	8.3	8.7	8.2	7.8	7.3	7.0
Noninterest expenses to gross income	73.2	74.2	75.9	78.6	81.2	83.6	82.5	83.7	83.0
Liquidity									
Liquid assets to total assets	21.2	22.5	24.5	26.7	29.5	30.4	31.5	29.9	28.7
Liquid assets to total short-term liabilities	118.0	127.4	137.7	134.0	139.4	138.0	121.0	113.4	120.8
Exposure to FX risk									
Net open position in foreign exchange to capital	94.7	101.5	90.8	92.4	81.4	97.7	86.6	89.1	99.4
II. Encouraged set (deposit taking institutions)									
Capital to assets	10.8	11.0	11.0	10.7	10.5	10.3	10.3	10.2	10.2
Interest margin to total assets	9.1	8.9	8.7	8.3	8.7	8.2	7.8	7.3	7.0
Foreign currency-denominated loans to total loans	84.5	85.5	85.9	86.1	87.2	88.1	87.5	89.0	89.8
Foreign currency-denominated liabilities to total liabilities	72.4	71.0	72.4	72.9	74.5	72.9	74.3	74.2	74.1
Foreign currency deposits (in percent of GIR)	147.6	151.9	152.5	131.2	125.1	139.1	149.6	146.7	131.3
Ratio of real estate loans to total loans	14.1	14.6	15.3	15.6	15.6	16.0	16.1	16.5	15.4
Large exposures to capital	4.1	3.2	4.1	3.9	3.5	3.1	2.7	2.2	5.1
Personnel expenses to noninterest expenses	41.3	42.2	42.3	42.0	41.0	39.4	40.0	39.8	39.1
Spread between reference lending and deposit rates	13.0	13.0	13.2	13.3	13.3	13.1	13.3	12.7	12.6
Customer deposits to total (non-interbank) loans	105.4	109.8	118.8	126.3	130.3	144.3	159.6	165.2	157.9
III. Structure and performance of the financial sector									
Number of institutions[3/]	10	10	10	9	9	9	9	8	8
Total assets (in millions of cordobas)	71,791	73,444	75,538	77,049	79,754	85,052	91,508	88,757	91,681
Bank concentration									
Number of banks accounting for at least									
25 percent of total assets	1	1	1	1	1	1	1	2	2
75 percent of total assets	9	9	9	8	8	8	8	6	6
Private commercial	58.2	58.7	60.4	61.6	63.8	63.7	68.6	66.5	68.7
Private commercial	39.6	39.5	41.3	42.9	45.2	45.9	50.8	50.7	52.8
Dollarization and maturity structure									
Banking system assets as percentage of GDP	58.2	58.7	60.4	61.6	63.8	63.7	68.6	66.5	68.7
Assets in foreign currency as percentage of banking system assets	69.5	68.7	68.0	68.6	70.2	68.2	68.9	70.3	72.0
Contingent and off-balance sheet accounts (as percentage of total assets)	18.9	19.5	17.4	17.5	17.7	17.1	17.1	17.7	17.7

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

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

2/ NPLs including restructured and reprogrammed loans.

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

Attachment I: Letter of Intent

GOVERNMENT OF NICARAGUA

April 8, 2011

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C.

Dear Mr. Strauss-Kahn:

1. The Nicaraguan economy has continued to perform well. All quantitative performance criteria for December 2010 under the Extended Credit Facility (ECF) have been met; this has fostered macroeconomic stability, while further advancing fiscal consolidation, protecting social expenditure, and strengthening the international reserves position. The supplementary agenda also has made headway. For the remainder of 2011, the Government of Reconciliation and National Unity (GRUN) will continue implementing prudent macroeconomic policies, with particular attention to the potential impact of increases in international commodity prices on the economy.

Macroeconomic framework 2011

2. Following a decline of 1.5 percent in 2009, gross domestic product (GDP) recovered in 2010, growing at a rate of 4.5 percent, supported by increases in domestic and external demand. For 2011, the recovery in GDP is expected to continue, albeit at a slower pace (in the range of 3.5–4 percent), reflecting the impact of higher oil prices. Inflation in 2010 rose to 9.2 percent, due in part to the impact of heavy rain falls in September and October on the supply of foodstuffs in the basic consumption basket. In 2011, inflation is expected to hover around 8.5-9.5 percent, primarily reflecting the impact of increases in international agricultural and energy commodities. In line with the economic recovery, the external current account deficit in 2010 rose to around 14.8 percent of GDP. The decline in the terms of trade expected for this year will result in a further deterioration in the current account deficit, which may reach 18 percent of GDP by year end. It is expected that the current account deficit will continue to be financed with foreign direct investment and

official cooperation flows (to the public and private sectors), which will help to maintain a sound international reserves position.

Fiscal policy

3. The government will continue implementing a prudent fiscal policy during 2011. The government has sent to the National Assembly an amendment to the General Budget of the Republic that will lower the central government deficit after grants by approximately 0.4 percentage points of GDP relative to the program. Attaining this new target will be facilitated by the more favorable outlook for tax revenues, reflecting the higher level of economic activity, as well as changes in income tax withholding for commercial banks. The increased resources will be used primarily to lower government borrowing and increase the budgetary provisions required by the programs of electricity subsidies for pensioners and disadvantaged neighborhoods, and for food transfers. At the same time, the Nicaraguan Social Security Institute (INSS) will continue strengthening its management in order to achieve a surplus of at least 0.9 percent of GDP. These policies will help to ensure that the overall deficit of the consolidated public sector (CPS) does not exceed 1.8 percent of GDP during 2011 and that the monitorable wage bill as a share of GDP remains constant. In the event that tax revenue collection exceeds the new projected level, and in the absence of new shocks that alter the macroeconomic environment, the excess resources will be used to reduce domestic debt.

4. The government will continue its efforts to improve the effectiveness of public expenditure—in particular, expenditure on social programs. Accordingly, the authorities are preparing a report assessing the implementation of the National Human Development Plan during the period 2009–10 on the basis of surveys jointly financed by the World Bank (WB) and the Inter-American Development Bank (IDB); it is expected that this report (including publication of the surveys) will be completed in August 2011. With respect to the tax system, the government will continue exploring ways of reducing the number of exemptions, and of establishing a regulation on transfer prices. Tripartite discussions will continue among workers, the business community, and the government to study the range of options for improving the financial position of the pension system while gradually correcting its actuarial deficit. At the same time, the authorities will continue assessing INSS' investment regulations to ensure that its portfolio management is in line with international best practices.

Monetary and Financial Policy

5. Monetary policy will remain focused on protecting international reserves, containing inflation, and maintaining adequate levels of liquidity in the banking system in a context of rising international commodity prices. Following the increase of over US$100 million observed in 2010, adjusted net international reserves (NIR-Adjusted, excluding SDR allocations) are expected to decline by US$55 million in 2011. The decline will be the result of lower commercial banks' deposits at the central bank and placements of securities by the monetary authority. The rate of crawl of the exchange rate will be maintained at 5

percent during 2011. The Central Bank has published its audited financial statements for 2010, prepared in the context of its new Central Bank Charter.

6. The banking system is stable. Commercial banks continued restructuring their credit portfolios during 2010 and their profitability is expected to improve in 2011. The recent implementation of norms on the computation of minimum capital requirements is an appropriate macroprudential measure that will allow for balanced credit growth. The monetary and financial authorities will continue to implement measures to safeguard the soundness of the financial system including on-site supervision, to monitor the quality of credit portfolios and indicators of deposit concentration. In addition, the Superintendence of Banks and Other Financial Institutions plans to start implementing the stress test methodology on a pilot basis. The government will ensure that the legislative framework promotes the sound development of credit markets, including by keeping the policy of market-based determination of interest rates.

External Financing

7. Concessional resources will remain important for the financing of the government's economic program, and budgetary assistance flows are projected to reach to US$45 million. Concessional resources will continue to be allocated to financing social programs and investment in infrastructure; nonconcessional borrowing will be strictly controlled, while efforts will be stepped-up to obtain increased access to concessional resources; and the management of public debt will continue to be strengthened, in cooperation with the IMF and the World Bank. In the context of the HIPC Initiative, further efforts will be made to restructure external debt pending relief.

Supplementary agenda

8. **Electric power sector.** The significant increase in oil prices will pose major challenges for the electricity sector during 2011. The average cost of electric power generation has outpaced the tariffs currently in effect. To forestall the impact that a sharp increase in electricity tariffs would have on economic activity and households, the government announced that aid resources from Venezuela will cover the gap between costs and tariffs. Use of these resources will not create public debt. The government will review the situation in the electric power sector in June, in order to establish, if necessary, a tariff adjustment timetable; the government will also assess options for more effective targeting of subsidies. To ensure the normal functioning of the sector, the central government will guarantee through the budget the payments of its electricity bill and of the energy consumption subsidies for customers paying social tariffs, pensioners, and disadvantaged neighborhoods.

9. **Water and sewerage.** In cooperation with the World Bank, the IDB, and the Spanish foreign aid authorities, the Nicaraguan Water and Sewerage Enterprise (ENACAL) will continue implementing its infrastructure investment program, which will enable ENACAL to improve its service and reduce the levels of unbilled water. At the same time,

ENACAL will continue its efforts to collect overdue bills, and the Nicaraguan Water Regulation Agency (INAA) will begin reviewing the need to adjust water tariffs.

10. **Strengthened monitoring of external aid flows**. The central bank has published the sixth report on cooperation, including detailed information on the uses of foreign aid in 2010. The government will continue to ensure that the use of foreign aid does not generate fiscal contingencies or sharp fluctuations in the level of bank deposits, and will consult with the Fund to ensure that the use of such aid is in line with the economic program.

11. **Strengthening of the public administration**. With financial and technical assistance from the World Bank and the IDB, specific steps are being taken in the following areas: (i) the terms of reference for a study to assess the budgeting for permanent and temporary positions in the central government have been completed; (ii) the Office of the Comptroller General of the Republic will publish an audit of the National Budget for the year 2009 by end-June 2011; the government will also take steps to ensure that public enterprises publish their audited financial statements; (iii) further progress has been made in strengthening tax and customs administration based on a work plan implemented with assistance from the Regional Technical Assistance Center (CAPTAC-DR); the government will also seek approval of a new Customs Law consistent with best practices; and (iv) further efforts will be made to strengthen liquidity management, in order to bring about a reduction in floating debt, while revising the coupon on new public debt issues to reflect the decline in market financing costs.

12. **Reform of the microfinance sector and strengthened monitoring of cooperatives.** The government remains committed to promoting the sound development of microcredit and of a payment-oriented culture in general. In this respect, before end-July 2011 the government will secure the approval of a Law providing a regulatory framework for entities operating in the microfinance sector with the aim of strengthening supervision, transparency, and efficiency in the sector (*new structural benchmark*). Also the monitoring of the activities of cooperatives will be stepped-up. Specifically, the oversight authority will issue rules to establish standard criteria to facilitate the publication of the audited financial statements of savings and credit cooperatives.

13. In view of the progress in implementing the ECF and the framework submitted for the remaining policies, we hereby request approval of the sixth review and seventh disbursement of the ECF in the amount of SDR 5.55 million. Performance under the remainder of the program will be evaluated on the basis of an additional review expected to occur in mid-October 2011, and in accordance with quantitative performance criteria for end-June 2011, which are included in Table 1. Prior actions and structural benchmarks through end-2011 are shown in Table 2. The government believes that the policies described in this letter are sufficient to meet the objectives of our economic program and we stand ready to take additional measures that may be needed for this purpose. In addition, we will consult with Fund staff regarding any measures that could have a potential impact on the program.

Sincerely yours,

/s/	/s/
Antenor Rosales Bolaños	Alberto Guevara Obregón
President	Minister
Central Bank of Nicaragua	Ministry of Finance and Public Credit

Table 1. Nicaragua: Quantitative Performance Criteria and Indicative Targets, 2010-11 1/

	2010		2011			
	Jan-Dec		Jan-Jun		Jan-Dec	
	Adj. Prog.	Prel.	Prog.	Prop. Prog.	Prog.	Prop. Prog.
Performance Criteria (Jan-Dec 2010, Jan-Jun 2011, indicative targets otherwise)						
	(In millions of Córdobas)					
1. Floor on combined public sector overall balance, after grants 2/	-3,418	-1,982	-1,844	-875	-3,314	-2,896
2. Floor on Social Security Institute (INSS) overall balance, after grants	1,415	1,492	1,016	982	1,495	1,400
3. Ceiling on change in net domestic assets of the central bank 3/	1,560	-182	680	230	1,573	2,348
Cumulative flows from end-June 2010 4/	2,549	807	3,230	1,037	4,122	3,155
	(In millions of US dollars)					
4. Floor on change in net international reserves of the central bank 3/	-35	105	-70	-70	-40	-55
Cumulative flows from end-June 2010 4/	-45	95	-115	25	-85	40
5. Continuous ceiling on nonconcessional external debt contracted or guaranteed by the consolidated public sector	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
Indicative targets						
	(In millions of Córdobas)					
1. Ceiling on central government primary expenditure 5/	29,953	30,439	16,802	16,747	34,370	35,460
2. Floor on poverty-related expenditures of the central government 6/	18,368	18,107	9,178	9,542	20,474	21,103
3. Ceiling on monitorable wage bill	11,288	11,301	5,901	6,088	12,599	12,850
Memorandum items						
Stock of NIR (adjusted, US$ millions)	776	917	707	847	736	862

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

1/ Cumulative flows starting at the beginning of the calendar year. Definitions are specified in the TMU, including adjustors.

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

3/ Adjusted by shortfalls/excess in budget support external loans compared to programmed levels in both 2010 and 2011.

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

5/ Adjusted by any shortfalls/excess in observed grants and project-loans with respect to programmed amounts.

6/ Adjusted for shortfalls/excess in external loans and grants as specified in TMU.

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

		Date	Status
Submission to National Assembly of a Supplementary 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	Done
Assembly approval of a regulatory framework for institutions operating in the micfrofinance industry 2/	SB	End-July 2011	
Complete study assessing the scope of productivity gains and rationalizing government employment practices 3/	SB	End-August 2011	

1/ SB=Structural Benchmark; PA=Prior Action

2/ Proposed new SB

3/ It is proposed that the completion date for this SB is moved to end-September 2011

Attachment II: Nicaragua—Changes to the Technical Memorandum of Understanding
April 8, 2011

All aspects of the Technical Memoranda of Understanding issued on September 4, 2007, August 28, 2008, October 21, 2009, and November 2, 2010, respectively, remain valid, except for new revision incorporated in the April 8 letter of intent and those indicated below.

A. Definitions

1. The monitorable wage bill for 2010-11 includes transfers of US$31.3 million and US$44.7 million (of which US$20.6 million through June 2011) financed through a grant from the Venezuelan cooperation arrangement.[14]

B. Quantitative Targets

2. The program targets for the quantitative performance criteria for end-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, 2010-11 1/

	2010		2011			
	Jan-Dec		Jan-Jun		Jan-Dec	
	Adj. Prog.	Prel.	Prog.	Prop. Prog.	Prog.	Prop. Prog.
Performance Criteria (Jan-Dec 2010, Jan-Jun 2011, indicative targets otherwise)						
	(In millions of Córdobas)					
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	(In millions of US dollars)					
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Cumulative flows from end-June 2010 4/	-45	95	-115	25	-85	40
5. Continuous ceiling on nonconcessional external debt contracted or guaranteed by the consolidated public sector	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
Indicative targets						
	(In millions of Córdobas)					
1. Ceiling on central government primary expenditure 5/	29,953	30,439	16,802	16,747	34,370	35,460
2. Floor on poverty-related expenditures of the central government 6/	18,368	18,107	9,178	9,542	20,474	21,103
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Memorandum items						
Stock of NIR (adjusted, US$ millions)	776	917	707	847	736	862

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

1/ Cumulative flows starting at the beginning of the calendar year. Definitions are specified in the TMU, including adjustors.

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

3/ Adjusted by shortfalls/excess in budget support external loans compared to programmed levels in both 2010 and 2011.

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

5/ Adjusted by any shortfalls/excess in observed grants and project-loans with respect to programmed amounts.

6/ Adjusted for shortfalls/excess in external loans and grants as specified in TMU.

[14] An analogous treatment will be given to the primary expenditure of the Central Government.

C. Adjustors

3. The target for the consolidated public sector (CPS) overall balance for 2011 will be adjusted *downwards* by up to the equivalent of US$55 million (i.e., C$1232 million at the program exchange rate) by the amount of any execution of investment projects above programmed levels financed with project-related external loans. This amount includes the use of a loan for US$24 million disbursed in December 2010 by the IDB and the BCIE for the construction of hydroelectricity power stations for the Nicaraguan Electricity Corporation (ENEL).

4. The NIR-Adjusted target for 2011 will be adjusted *downwards* by up to US$45 million in the event of shortfalls in external budget support loans compared to the programmed amounts. In that case, the target for net domestic assets will be adjusted *upwards* by up to US$45 million.

5. The adjustors related to the 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	*of which*, Project related loans to CG	**External grants 2/**	*of which*, 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	35	0	35	26	16	15	1	15	50	1	50
Q2-10	94	0	94	74	44	40	1	44	138	1	137
Q3-10	123	0	123	96	89	83	22	67	212	22	190
Q4-10	266	43	223	162	142	134	22	120	408	65	343
Cumulative from January 2011											
Q1-11	24	0	24	17	25	21	0	25	49	0	49
Q2-11	63	0	63	51	69	60	0	69	132	0	132
Q3-11	162	45	117	97	119	108	0	119	281	45	236
Q4-11	225	45	180	150	174	160	0	174	399	45	354

1/ Excludes IMF.
2/ Excludes extra-budgetary grants to finance w age bonus

6. 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, 2010-11
(in C$ millions)

	2010		2011			
	Jan.-Dec.		Jan.- Jun.		Jan.-Dec.	
	Prog.	Prel.	Prog.	Prop. Prog	Prog.	Prop. Prog
Poverty Spending	**18,919**	**18,107**	**9,178**	**9,542**	**20,474**	**21,103**
Domestic Financing	10,632	10,371	5,432	5,869	11,681	11,900
External Financing	**8,287**	**7,737**	**3,746**	**3,673**	**8,793**	**9,203**
Grants	2,563	2,294	1,085	853	2,898	2,976
Loans	2,898	2,642	1,105	1,030	2,667	3,000
Debt Relief	2,826	2,801	1,556	1,790	3,228	3,228

Source: Ministry of Finance and Public Credit.

D. Supplementary Agenda

7. **Study on Central Government employment**. The Ministry of Finance and Public Credit will provide to Fund staff a preliminary report in line with the terms of reference agreed on with the IDB, and broadly described in Country Report No. 10/376. The final report will be ready before end-September 2011, and its presentation to Fund staff will constitute a structural benchmark.

8. **Regulatory framework for the micro-finance sector**. In consultation with Fund staff and other multilateral organizations, the government will prepare a draft law to promote the development of micro credit. This draft law will establish, at the minimum, internal governance rules, internal and external controls, prudential rules, and mechanisms for the provision of data for the institutions that operate in the micro-finance sector. In addition, the law will define the mechanisms and institutions that will regulate and supervise micro financing entities. Approval of a law with these characteristics by the National Assembly before end-July 2011 will be a structural benchmark.

E. Provision of Information and Monitoring

9. **Continued production and publication of reports.** The information described in Section F of Annex II of Country Report No. 10/376 will continue to be provided according to the terms described therein. In particular, the reports described in paragraphs 18, 19, and 21 will start to be published electronically. The Report on External Aid flows will continue to be published biannually in electronic form.

10. **Analysis of the effectiveness of public social spending.** With the aim of measuring the quality of public spending, the Office of Economic Studies at the Ministry of Finance and Public Credit will produce a study on the redistributive impact of public expenditures. The study will also include aggregate indicators to measure the effectiveness and efficiency of public spending. The study will be used to support budget formulation, so that resources are assigned to priority social spending and to the best-performing programs. A draft will be available before end-June 2011, and the final version will be available before end-September 2011.

11. **Progress Report on the Implementation of the National Development Plan.** Using, among other sources, the results from the new surveys on poverty financed by the IDB, the government will produce a progress report on the attainment of the objectives established in the National Development Plan for 2009-10. The report will be available before end-August 2011, in time for the last review under the current ECF.

12. **Financial statements of the financial cooperatives.** In consultation with technical staff of the Central Bank, the Cooperatives' Regulatory and Supervisory Entity (INFOCOOP) will prepare regulations for the timely publication of the audited financial

statements by the financial cooperatives, on a standard, comparable basis. These regulations will be finalized and published before end-July 2011.

13. **Financial assets of the Nicaraguan Social Security Institute (INSS).** With the aim of continuing to strengthen the management of the financial assets of the INSS, the institute's annual statistical report for the year 2010 will include information on the composition of its financial assets, on changes in the composition of these assets over the last 12 months, and on the average actual return of the portfolio; the report also will include projections of the size and return of the portfolio for the following years. The statistical report for the year 2010 will be published before July 2011.

INTERNATIONAL MONETARY FUND

NICARAGUA

Sixth Review under the Three-Year Arrangement under the Extended Credit Facility and Financing Assurances Review—Informational Annex

Prepared by the Western Hemisphere Department

April 14, 2011

Contents Page

Annex I–Relations with the Fund

(As of March 31, 2011)

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

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	130.00	100.00
Fund holdings of currency (Exchange Rate)	130.01	100.01
Reserve Tranche Position	0.00	0.00

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	124.54	100.00
Holdings	104.84	84.18

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ECF Arrangements	108.68	83.60

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF [1/]	Oct 05, 2007	Dec 04, 2011	78.00	66.90
ECF [1/]	Dec 13, 2002	Dec 12, 2006	97.50	97.50
ECF [1/]	Mar 18, 1998	Mar 17, 2002	148.96	115.32

[1/] Formerly PRGF.

VI. Projected Payments to Fund [2/]

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

	Forthcoming				
	2011	2012	2013	2014	2015
Principal	1.39	8.36	10.74	14.42	19.18
Charges/Interest	0.07	0.35	0.33	0.30	0.26
Total	1.46	8.71	11.06	14.71	19.43

[2/] 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:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	Dec 2000
Assistance committed by all creditors (US$ Million) [1/]	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 [2/]	7.62
Total disbursements	71.16

[1/] 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 can not be added.

[2/] 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.

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

I.	MDRI-eligible debt (SDR Million)[1/]	140.48
	Financed by: MDRI Trust	91.79
	Remaining HIPC resources	48.70

II. Debt Relief by Facility (SDR Million)

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

[1/] 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.

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

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Decision point - point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

Interim assistance - amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

Completion point - point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 2 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

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 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 April 13, 2011, the exchange rate in the official market was C$22.1859 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.

Dept.	Purpose	Time of Delivery
FAD	Customs Revenue Administration (CAPTAC, follow-up)	March 2011
FAD	Revenue administration (CAPTAC, follow-up)	November 2010
FAD	Customs Revenue administration (CAPTAC)	September 2010
FAD	Revenue administration (CAPTAC, follow-up)	September 2010
FAD	Revenue Administration Audit (CAPTAC)	May 2010
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	Financial Sector Supervision	
MCM	Training on stress-testing	March 2011
MCM	Financial sector supervision	February 2011
MCM	Risk-based Supervision	October 2010
MCM	Monetary policy- Liquidity forecasting	October 2010
MCM	Risk-based Supervision	August 2010
MCM	Risk-based Supervision	August 2010
MCM	MTDS follow up	April 2010
MCM	Financial sector supervision	April 2010
MCM	Risk-based Supervision	March 2010
MCM	Risk-based Supervision	January 2010
MCM	Risk-based Supervision	December 2009
MCM	FSAP update mission	November 2009
MCM	Risk-based Supervision	October 2009
MCM	Pre-FSAP mission	September 2009
MCM	Medium-term debt strategy	August 2009
MCM	Central Bank Independence and Recapitalization	July 2008
MCM	Capital Markets Study Presentation	April 2008
MCM		September 2007

MCM	Regional Project of Harmonization of Monetary and Financial Statistics in Central America and the Dominican Republic	March 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

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[1]

Products	Mission timing	Expected delivery
A. Mutual information on relevant work programs		
The Fund work program		
Strategy: 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.		
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
The World Bank program		
Strategy: 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.		
A. Lending		
A.1. Rural Roads Infrastructure Improvement Project	End of May, 2011	Board presentation by February 2012
A.2. Secondary Education Quality and Equity Improvement	Beginning of May, 2011	Board presentation by March 2012
A.3. Land Administration	July, 2011	Board Presentation by April, 2013
B. Economic and Sector Work (ESW) and Technical Assistance (TA).		

[1] 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.

B.1.. NI Poverty Monitor & Policy Evaluation II (TA)	TBD	Delivery to client by May 2011
B.2. NI Education for all Coordination (TA)	Beginning of May, 2011	Delivery to client by November, 2011
B.3. Country Economic Memorandum (ESW)	May, 2011	Delivery to client by January 2012
B. 4. GAP – Innovations for rural women's economic empowerment (TA)	TBD	Delivery to client by May 2012

Annex III—Relations with the Inter-American Development Bank

(As of March 31, 2011)

Statement of IDB Loans
(In millions of U.S. dollars)

Year	Purpose	Amount
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
2010	National Sustainable Electrification and Renewable Energy Program	30.5
	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
	Support to Transportation Sector I	20.2
	National Program of Tourism	10.0
	Support to the Improvement of the Fiscal Management and Social	42.5
	Potable Water Program for Managua	30.0
	Comprehensive Child Care Program - PAININ StageIV	12.5
2011	*Improving Family and Community Health in Highly Vulnerable Municipalities (pending approval)*	*20.0*
	National Sustainable Electrification and Renewable Energy Program (pending approval)	*22.0*
	Support to the Transportation Sector II (pending approval)	*34.2*
	Housing Program and Integral Upgrading of the Habitat (pending approval)	*20.0*
	Comprehensive Child Care Program, Stage V (pending approval)	*20.0*
	Improving Social Protection and Health expenditures and Public Management (pending approval	*55.0*

IDB Loan Commitments and Disbursements

As of March 31, 2011, there were 30 projects in the IDB's current sovereign loan portfolio with a total commitment of US$659.9 million, and an undisbursed balance of US$379.5 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. For 2011, the FSO allocation increased to US$171.2 million.

Technical Assistance

As of March 31, 2011, there were 31 non-reimbursable technical cooperations (for the public sector) in execution with an approved commitment of US$15.8 million and an available balance of US$8.2 million. The Multilateral Investment Fund has: (i) 19 non-reimbursable technical cooperations (including regional operations) in execution with an available balance of US$7.2 millions; and (ii) 3 loans in execution from the Social Entrepreneurship Program with an approved commitment of US$1.6 million and an available balance of US$1.2 million.

Recent Agreements

The current country strategy with Nicaragua was approved by the Board in February 2009. A new country strategy for the period 2012-2017 is expected to be approved next year.

Annex IV—Statistical Issues

(As of April 13, 2011)

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 fourth 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. Quarterly GDP series at current and at constant prices with 1994 as the base year were published in October 2008. The Central Bank of Nicaragua (BCN) is currently in the process of changing the base year of the national accounts to 2006 in accordance with the methodology of the *System of National Accounts 2008*. In January 2011, CAPTAC-DR provided assistance on the production of quarterly national accounts harmonized with the annual accounts using 2006 as the new base year. The project had some delays, but the estimates for the new base year are expected to be ready soon. Production accounts, supply and use table, and the majority of accounts for other institutional sectors have been compiled with 2006 as the base year. Preliminary estimates for the period 2006-2008 are expected to be released in November 2011. **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[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:	
						Data Quality – Methodological soundness[8]	Data Quality – Accuracy and reliability[9]
Exchange Rates	4/12/2011	4/12/2011	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	4/12/2011	4/12/2011	D	D	D		
Reserve/Base Money	4/7/2011	4/12/2011	D	D	D	O, LO, LO, LO	LO, O, LO, LO, LO
Broad Money	4/7/2011	4/12/2011	D	D	D		
Central Bank Balance Sheet	3/2011	4/12/2011	M	M	M		
Consolidated Balance Sheet of the Banking System	12/2010	3/8/2011	M	M	M		
Interest Rates[2]	4/2011	4/2011	W	W	W		
Consumer Price Index	3/2011	4/2011	M	M	M	O, LO, LO, LO	LO, LO, LO, O, LO
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	12/2011	3/1/2011	M	M	M	LO, LNO, LNO, LO	O, O, O, O, LO
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	12/2011	3/1/2011	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	12/2011	3/1/2011	Q	Q	Q		
External Current Account Balance	12/2011	3/1/2011	Q	Q	Q	LO, LO, LNO, LO	LO, O, LO, LO, LO
Exports and Imports of Goods and Services	12/2011	3/1/2011	M	M	M		
GDP/GNP	Q3/2010	3/2011	Q	Q	Q	O, O, O, LO	LO, O, LO, O, LNO
Gross External Debt	12/2010	3/2011	M	M	M		
International Investment Position[6]	2010	3/2011	A	A	A		

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, 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 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
April 27, 2011

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Sixth Review of Nicaragua's Extended Credit Facility and approves US$8.95 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the sixth review of Nicaragua's economic performance under its Extended Credit Facility (ECF). The decision was taken on a lapse of time basis (a process in which the Board approves the completion of a review without convening formal discussions) and allows an immediate disbursement to Nicaragua of an amount equivalent to SDR 5.55 million (about US$ 8.95 million).

The Executive Board approved a three-year ECF (formerly known as the Poverty Reduction and Growth Facility) in the amount of SDR 71.5 million (about US$111 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 million) to help Nicaragua cope with the natural disasters of 2007 (see Press Release No. 08/204). In November 2010, the Executive Board approved an extension of the arrangement through December 4, 2011.

Economic performance in 2010 was satisfactory. Real Gross Domestic Product (GDP) grew by 4.5 percent, supported by strong consumption and investment, fiscal performance (especially tax revenues) was stronger than envisaged, and the balance of payments strengthened. Bank credit to the private sector started to recover, while the financial system remained liquid and profitable. All quantitative performance criteria through end-December 2010 were met with margins, although the three indicative fiscal targets were narrowly missed.

Prospects for 2011 are broadly favorable, although high international commodity prices will put pressures on inflation and the external current account deficit. Against this background, the authorities' economic program seeks to strike a balance between mitigating the effects of higher fuel and food prices on the poor and taking advantage of the strong revenue prospects to deepen fiscal consolidation. In line with this, the overall public sector deficit will be kept below 2 percent of GDP and the ratio of public debt to GDP will decline. Monetary policy will be geared at keeping inflation within single digits and protecting international reserves. On the structural front, the authorities plan to continue improving public financial management and the quality of expenditures; adopt a legal framework for the microfinance sector; and take further steps to enhance the transparency of external assistance.