

**FOR  
AGENDA**

EBS/08/101  
Supplement 2

August 28, 2008

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Nicaragua—First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Review of Financing Assurances, and Requests for Waiver of Nonobservance of Performance Criteria and Augmentation of Access—Informational Annex**

The attached informational annex is being issued as a supplement to the paper on the first review under the three-year arrangement under the Poverty Reduction and Growth Facility for Nicaragua, the review of financing assurances, and requests for a waiver of nonobservance of performance criteria and augmentation of access (EBS/08/101, 8/28/08), which is tentatively scheduled for discussion on **Wednesday, September 10, 2008**. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of Nicaragua indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Mr. Cubeddu (ext. 36231), Ms. Jenkner (ext. 35861), and Mr. Di Bella (ext. 37483) in WHD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Monday, September 8, 2008; and to the European Commission, the European Investment Bank, and the Inter-American Development Bank, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being distributed in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

NICARAGUA

**First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Review of Financing Assurances, and Requests for Waiver of Nonobservance of Performance Criteria and Augmentation of Access**

**Informational Annex**

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

Approved by David J. Robinson (WHD) and Anthony Boote (PDR)

August 28, 2008

Contents	Page
I. Fund Relations.....	2
II. Relations with the World Bank Group.....	7
III. Relations with the Inter-American Development Bank.....	9
IV. Statistical Issues.....	10

**I. ANNEX I—FUND RELATIONS**

(As of July 31, 2008)

I. **Membership Status: Joined: March 14, 1946; Article VIII since July 30, 1964.**II. **General Resources Account:**

	<b>SDR Million</b>	<b>Percent of Quota</b>
Quota	130.00	100.00
Fund Holdings of Currency	130.01	100.01

III. **SDR Department:**

	<b>SDR Million</b>	<b>Percent of Allocation</b>
Net cumulative allocation	19.48	100.00
Holdings	0.21	1.06

IV. **Outstanding Purchases and Loans:**

	<b>SDR Million</b>	<b>Percent of Quota</b>
PRGF arrangements	53.68	41.29

V. **Financial Arrangements:**

<b>Type</b>	<b>Approval Date</b>	<b>Expiration Date</b>	<b>Amount Approved (SDR Million)</b>	<b>Amount Drawn (SDR Million)</b>
PRGF	Oct. 05, 2007	Oct. 04, 2010	71.50	11.90
PRGF	Dec. 13, 2002	Dec. 12, 2006	97.50	97.50
PRGF	Mar. 18, 1998	Mar. 17, 2002	148.96	115.32

**VI. Projected Payments to Fund (with Board-approved HIPC Assistance):**  
(SDR million; based on existing use of resources and present holdings of SDRs)

	<b>Forthcoming</b>				
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Principal				<u>1.39</u>	<u>8.36</u>
Charges/Interest	<u>0.43</u>	<u>0.86</u>	<u>0.86</u>	<u>0.86</u>	<u>0.83</u>
Total	<u>0.43</u>	<u>0.86</u>	<u>0.86</u>	<u>2.25</u>	<u>9.19</u>

**VII. Implementation of HIPC Initiative:**

	<b>Enhanced Framework</b>
Commitment of HIPC assistance	
Decision point date	December 2000
Assistance committed	
by all creditors (US\$ million) <sup>1</sup>	3,308.00
<i>Of which:</i> IMF assistance (US\$ million)	82.20
(SDR equivalent in millions)	63.54
Completion point date	January 2004
Disbursement of IMF assistance (SDR million)	
Assistance disbursed to the member	63.54
Interim assistance	2.55
Completion point balance	60.99
Additional disbursement of interest income <sup>2</sup>	7.62
<b>Total Disbursements</b>	<b>71.16</b>

**VIII. Implementation of MDRI Assistance:**

A. Total Debt Relief (SDR Million) <sup>3</sup>	140.48
<i>Of which:</i> MDRI	91.79
HIPC	48.70
B. Debt Relief by Facility (SDR Million)	

<sup>1</sup> Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts can not be added.

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

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

<u>Delivery Date</u>	<b>Eligible Debt</b>		
	<u>GRA</u>	<u>PRGF</u>	<u>Total</u>
January 2006	N/A	140.48	140.48

#### IX. **Safeguards Assessments:**

An update safeguards assessment mission to the Central Bank of Nicaragua (BCN) was completed on November 7, 2007. The assessment found that the BCN's safeguards framework had been weakened by the non-completion of audits of financial statements from 2004 onwards, coupled with the non-implementation of priority recommendations of the 2003 assessment in the legal and financial reporting areas. The assessment also found that high level governance oversight by the audit committee could be strengthened. The assessment recommended several specific measures aimed at mitigating safeguards risks, in particular, by re-establishing timely completion and publication of the audited financial statements, and strengthening Board oversight of the strategic plan to implement International Financial Reporting Standards. The BCN authorities concurred with the report's main recommendations, and have either taken action or are committed to further steps to strengthen the institution and its control mechanisms, including formalizing the oversight role of the Audit Committee.

#### 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. The monthly crawl remains at an annual rate of 5 percent.

As of July 31, 2008, the exchange rate in the official market was C\$19.45 per U.S. dollar.

#### XI. **Article IV Consultation:**

The last consultation was completed by the Executive Board on January 18, 2006 (IMF Country Report No. 05/201). It is expected that the next Article IV consultation with Nicaragua will be held in October 2008 in tandem with the second review of the PRGF. An Ex-post Assessment was completed in February 2007.

## XII. Technical Assistance:

<b>Dept.</b>	<b>Purpose</b>	<b>Time of Delivery</b>
FAD	Public Financial Management (follow-up)	June 2008
FAD	Revenue administration	March 2008
FAD	Public Financial Management	November 2007
FAD	TA Diagnostic mission	March 2007
FAD	Revenue administration	March 2006
FAD	Revenue administration	November 2005
FAD/LEG	Fiscal responsibility legislation	September 2004
FAD	Tax administration expert in Managua	April 2004–06
FAD	Tax administration	October 2003
FAD	Tax reform	March 2003
FAD	ROSC fiscal transparency module	November 2001
FAD	Mission to review energy taxation and advise on the system of exemptions, exonerations, tax holidays, and other incentives with regard to the major indirect taxes major indirect taxes	January 2000
LEG	Banking resolution	July 2004
MCM	Central Bank Finances	April 2008
MCM	Regional Project of Harmonization of Monetary and Financial Statistics in Central America and the Dominican Republic	March 2007
MCM	Banking legislation and banking supervision	September 2003
MCM	Banking supervision	October 2002
MCM	Banking restructuring	November 2001
MCM	Assessing BCN's debt sustainability and streamline its open market operations, with special focus on providing liquidity to BCN's securities and increase their marketability	July 2001
MCM	Workshop on payments system	January 27–29, 1999
MCM	Consultancy on introducing an exchange rate band	October 1999
OIA	Mission to assess the management, organizational structure, and internal control systems and procedures of the Superintendency of Banks and Other Financial Institutions	February 2000
<b>Dept.</b>	<b>Purpose</b>	<b>Time of Delivery</b>
STA	Quarterly National Accounts	February 2008
STA	Producer Price Index	September 2007
STA	Balance of Payments Statistics	February 2007
STA	Price statistics	January 2006
STA	Money and Banking Statistics	October 2005
STA	National Accounts Statistics	June 2005
STA	ROSC Data Module	January 2005
STA	Monetary and finance statistics	November 2003

STA	National accounts	November 2001
STA	Monetary and finance statistics	November 2001
STA	Monetary and finance statistics	September 2001
STA	Money and banking statistics	June–July 1999

**XIII. Resident Representative:**

Mr. Humberto Arbulú-Neira assumed the position of resident representative in Nicaragua in August 2004.

## II. ANNEX II—RELATIONS WITH THE WORLD BANK GROUP

(As of July 25, 2008)

### I. FINANCIAL RELATIONS

#### Bank Loans and IDA Credits

(In millions of U.S. dollars)

	IBRD	IDA	Total
<del>Fully disbursed loans and credits</del>	<del>229.6</del>	<del>1,267.6</del>	<del>1,497.3</del>
Credits/loans currently undisbursed	0.0	149.0	149.0
<b>Total (net of cancellations)</b>	<b>229.6</b>	<b>1,416.6</b>	<b>1,646.3</b>
Of which			
Repaid	223.9	1,015.91	1,239.89
Borrower obligations	0.0	343.34	343.34

#### World Bank/IDA Loan Commitments and Disbursements

1. As of July 25, 2008, total loans/credits committed and undisbursed from the World Bank/IDA amounted to US\$1,646.3 million. The currently active portfolio consists of 11 projects for a total commitment of US\$210.6 million, of which US\$149 million remain to be disbursed. Areas covered in the current portfolio include: education, health, transport, telecommunications, rural energy, rural development, natural disaster prevention, land administration, public sector reform (PSTAC), access to financial services and emergency recovery credit. Portfolio performance is satisfactory with only one project rated Moderately Unsatisfactory.

2. On October 11, 2007, the World Bank Board approved a new Country Partnership Strategy for Nicaragua (CPS) for an indicative total of US\$240 million for FY2008–12. Recent conclusion of IDA 15 allocations added an additional US\$12.7 million to that total, and on July 25 2008, the World Bank Board approved two projects worth US\$40 million: an SME Dynamic Development project (US\$20 million credit) and a Rural Water and Sanitation project (US\$20 million, of which \$19.7 million is grant).

#### Plans for the Next 12 Months

3. There are two operations pending Board approval in 2008: a Development Policy Credit for US\$20 million, with tentative Board date in late September, and an Urban Water and Sanitation project for US\$45 million, with expected Board date in November.

4. Moreover, two operations, totaling US\$17 million, are currently under formulation to address the impact of the food price shock: (i) US\$10 million in the form of a supplementary

credit to support the Ministry of Agriculture's emergency program to boost production of basic grains; and (ii) a US\$ 7 million grant, awarded from the Food Price Crisis Response Trust Fund, to support the government's efforts to help mitigate the effects of price increases on the extreme poor. Both operations will be processed under the Global Food Response Program framework.

### III. ANNEX III—RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

(As of August 18, 2008)

#### I. FINANCIAL RELATIONS

##### Statement of IDB Loans

(In millions of U.S. dollars)

Year	Purpose	Amount
2005	Social investment program– FISE	45.0
	NDP support program	40.1
2006	Acoyapa-CR border - Road integration program	49.5
	Social sector program in support of the ERCERP	30.0
	Comprehensive child care program	15.0
	Multiple works in water and sanitation	30.0
2007	National transmission investments to support SIEPAC	12.5
	Electric Sector I	32.7
	Hospital infrastructure	20.0
	Social housing II	15.0
2008	<i>(Programming)</i>	
	<i>Electric Sector II</i>	<i>40.2</i>
	<i>Rural Sector</i>	<i>20.0</i>
	<i>Fiscal Management and Social Expenditure Reform</i>	<i>20.0</i>

##### IDB Loan Commitments and Disbursements

As of mid-August 2008, there are 29 projects in the IDB's loan portfolio for US\$677.1 million, with an undisbursed balance of US\$320.1 million. The FSO (Fund of Special Operations) allocation for 2007–08 was US\$80.2 million, the same amount allocated for Ordinary Capital.

##### Recent Technical Assistance

As of mid-August 2008, there are 49 non-reimbursable technical cooperation operations (include Multilateral Investment Fund and Social Entrepreneurship Program) in execution for US\$21.03 million. The IDB's program for 2008 also includes FSO new non-reimbursable technical cooperation projects for US\$1.36 million.

##### Recent Agreements

The last Nicaragua's country strategy update was approved by the Board in May, 2005. A new country strategy is expected to be approved in 2008.

## IV. ANNEX IV—STATISTICAL ISSUES

### Introduction

1. Economic data provided to the Fund are broadly adequate for surveillance although shortcomings in government financing data and monetary statistics hamper economic analysis. Nicaragua has participated in the General Data Dissemination System (GDDS) since February 2005.

2. The Central Bank of Nicaragua (BCN) produces a monthly bulletin and an annual report covering developments in the monetary, fiscal, external, and real sectors. The BCN also disseminates a wide array of statistical information in a timely fashion through its website ([www.bcn.gob.ni](http://www.bcn.gob.ni)).

### Real sector and price statistics

3. National accounts are compiled in broad accordance with the United Nations System of National Accounts (*1993 SNA*). The BCN started a project for changing the base year of the national accounts and completing the implementation of the *1993 SNA* by compiling the complete set of accounts by institutional sector. Estimates for the previous year are included in the Annual Report of the BCN, which is released in March. In July revised figures are disseminated simultaneously to all users on the BCN website.

4. 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 methodological treatment of missing prices and quality changes require review.

### Monetary and Financial Statistics

5. Monetary statistics are, in general, consistent with the *Monetary and Financial Statistics Manual (MFSM), 2000*. While the scope of the Central Bank Survey is in line with the MFSM, the Other Depository Corporations survey (ODC) excludes the accounts of credit and savings cooperatives, which are deposit-taking corporations. In addition, 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.

### Balance of Payments Statistics

6. 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. Nicaragua provided methodological notes describing the compilation methods that were included in Part 3 of the *2007 Balance of Payments Statistics Yearbook*. Compilation of the International Investment Position began in 2005; series for the

period 2001–06 are available on the BCN website and in the Fund’s *International Financial Statistics (IFS)*.

7. 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 weaknesses in coverage of 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.

8. 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. Nicaragua is to be part of an intended two-year Central American Harmonization Project on External Sector Statistics to begin around mid-FY2009.

#### **Government Finance Statistics (GFS)**

9. The fiscal ROSC mission in 2002 and the data ROSC mission in 2005 both found serious weaknesses in the fiscal data. In general, government finance statistics are not fully aligned with international standards. 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 MoF and the financing data compiled by the BCN. Therefore, stronger collaboration is needed between the MoF and the BCN to derive more accurate and timely estimates of external and domestic financing of the nonfinancial public sector. In 2004, an STA mission produced a plan of action to improve fiscal data and proposed the creation of a working group for GFS compilation. The mission also 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.

10. The Ministry of Finance (MoF) disseminates GFS covering only the central administration. The MoF also 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 2007 the MoF reported GFS data for publication in the *Government Finance Statistics Yearbook*.

**ANNEX IV. TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE**  
(As of August 13, 2008)

	Date of latest observation	Date received	Frequency of Data <sup>7</sup>	Frequency of Reporting <sup>7</sup>	Frequency of Publication <sup>7</sup>	Memo Items:	
						Data Quality – Methodological soundness <sup>8</sup>	Data Quality – Accuracy and reliability <sup>9</sup>
Exchange Rates	06/08	7/15/08	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	1/30/08	01/31/08	D	D	D		
Reserve/Base Money	4/08	5/15/08	D	D	D		
Broad Money	1/30/08	01/31/08	D	D	D	O, LO, LO, LO	LO, O, LO, LO, LO
Central Bank Balance Sheet	4/08	2/14/08	M	M	M		
Consolidated Balance Sheet of the Banking System	12/07	2/14/08	M	M	M		
Interest Rates <sup>2</sup>	06/08	7/18/08	W	W	W		
Consumer Price Index	05/08	7/11/08	M	M	M	O, LO, LO, LO	LO, LO, LO, O, LO
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – General Government <sup>4</sup>	11/07	01/20/08	M	M	M	LO, LNO, LNO, LO	O, O, O, LO
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – Central Government	11/07	01/20/08	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	09/07	01/08	Q	Q	Q		
External Current Account Balance	Q4/07	6/17/08	Q	Q	Q	LO, LO, LNO, LO	LO, O, LO, LO, LO
Exports and Imports of Goods and Services	11/07	01/20/08	M	M	M		
GDP/GNP	2006	4/07	A	A	A	O, O, O, LO	LO, O, LO, O, LNO
Gross External Debt	09/07	01/20/08	M	M	M		
International Investment Position <sup>6</sup>	2005	6/07	A	A	A		

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

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

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

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

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