

SUR/10/65

July 12, 2010

**The Acting Chair's Summing Up
Nicaragua—2010 Article IV Consultation
Executive Board Meeting 10/70
July 9, 2010**

Executive Directors agreed with the thrust of the staff appraisal. They noted that Nicaragua's policy response, which balanced supporting demand in the near term and safeguarding macroeconomic stability, helped the economy weather the global crisis. With an incipient recovery currently underway, Directors noted that policies now need to shift toward consolidating public finances while continuing to protect the poor.

Directors welcomed the authorities' commitment to reduce the fiscal deficit in 2010, including through the approval of a revenue-enhancing tax reform. However, they raised concerns about slippages on public sector wages and encouraged the authorities to adopt compensatory measures to keep spending at prudent levels, while avoiding off-budget operations. Directors stressed the importance of safeguarding infrastructure and social spending while containing the growth in current spending.

Directors noted that placing public debt on a firmly declining path would require broadening the tax base and reducing budget rigidities and the imbalances of the pension system. They encouraged the authorities to initiate a public consultation process to discuss options to place the pension system on a sound financial footing. Securing debt-relief from non-Paris club creditors also remains a priority.

Directors supported the authorities' prudent management of monetary policy and efforts to increase international reserve coverage. They emphasized the need to improve the Central Bank's monetary operations toolkit and welcomed the authorities' intention to strengthen the accountability and independence of the Central Bank by modifying its charter.

Directors welcomed efforts to safeguard the stability of the banking system in the wake of the global crisis. They stressed the need to remain vigilant to a further deterioration in loan quality and welcomed the recent adoption of stricter provisioning rules to protect capital buffers. Directors noted the importance of implementing the FSAP Update recommendations while resisting initiatives that could undermine creditor rights. They

encouraged the authorities to adopt a legal framework that would strengthen the regulation of the microfinance sector.

Reforms in the energy sector are necessary to improve Nicaragua's competitiveness. Directors welcomed efforts to reduce losses in distribution and encouraged the authorities to establish transparent criteria for adjusting tariffs. Directors noted that a predictable and sound regulatory framework was essential to secure private investment in renewable generation and limit quasi-fiscal risks.

Directors underscored the need to improve the effectiveness of public spending to reduce poverty and boost growth over the medium term. Efforts should continue in strengthening procurement and audit procedures as well as the transparency and accountability of official assistance.

Directors noted that strengthening governance and the business climate are essential to strengthen growth and improve living standards, including by leveraging gains from recent trade agreements and regional integration efforts.

It is expected that the next Article IV consultation with Nicaragua will be held in accordance with the Executive Board decision on the consultation cycle for members with Fund arrangements.