

SU/20/29

February 24, 2020

**The Acting Chair's Summing Up
Nicaragua—2019 Article IV Consultation
Executive Board Meeting 20/19
February 21, 2020**

Executive Directors agreed with the thrust of the staff appraisal. They noted that the authorities' determined policy response had contained the impact of the fiscal and financial sector shocks in 2018 and 2019. Nonetheless, with domestic and external vulnerabilities persisting, they emphasized the importance of measures to preserve macroeconomic and financial stability and restore confidence. They stressed that commitment to prudent policies will remain important. The careful design and communication of reforms will also be crucial in ensuring their social acceptability. Continued support from development partners, in collaboration with the Fund, will be important.

Directors considered that the fiscal position outlined in the 2020 budget is adequate to support the economic recovery. They underscored the importance of rebalancing public expenditures in the short term to generate fiscal space for spending on social safety nets, critical social programs, and efficient investments. Over the medium term, the fiscal deficit will need to be gradually reduced to ensure sustainability, together with reforms to strengthen the financial position of state-owned enterprises and the pension system. It will be important to strike the right balance to provide enough expansionary impulse to medium-term economic growth. Greater fiscal transparency will be needed in assessing fiscal risks and enhancing fiscal governance.

Directors highlighted the need to increase the international reserves coverage to support the crawling peg exchange regime and restore external buffers. Keeping inflation low while adopting structural reforms to raise productivity will increase competitiveness and resilience to shocks.

Directors welcomed the resilience of the financial sector to recent confidence shocks but called for further efforts to mitigate risks from the elevated level of distressed assets. Enhancing crisis preparedness, strengthening banking sector supervision, and improving institutional coordination for resolution activities, including adequate resources for the financial safety net, would shield the financial system against downside risks. Directors welcomed the reforms to the AML/CFT framework but stressed the need for further efforts to ensure its effective implementation. They also emphasized the importance of addressing governance weaknesses in line with the recommendations of the 2017 Financial Action Task Force.

Directors recommended the steadfast implementation of structural reforms aimed at restoring investors' confidence and improving the business environment, in consultation with key stakeholders. Strengthening institutions, improving infrastructure, investing in human capital, addressing labor skills bottlenecks, and upgrading technological readiness would improve competitiveness.

Directors urged the authorities to improve the quality and timeliness of economic data with continued Fund technical assistance.

It is expected that the next Article IV consultation with Nicaragua will be held on the standard 12-month cycle.