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Nicaragua: Letter of Intent, and Technical Memorandum of
Understanding

October 30, 2010

The following item is a Letter of Intent of the government of Nicaragua, which describes the policies that Nicaragua intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Nicaragua, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.



GOBIERNO DE NICARAGUA

October 30, 2010

Mr. Dominique Strauss-Kahn

Managing Director
International Monetary Fund
Washington, D.C.

Dear Mr. Strauss-Kahn:

1. The Nicaraguan economy has begun recovering from the global financial crisis. The Government of Reconciliation and National Unity (GRUN) commitment to achieving macroeconomic stability has served to counteract the effects of the crisis. All the quantitative performance criteria for December 2009 and June 2010 under the Extended Credit Facility (ECF) arrangement have been met, and various steps have been taken to strengthen fiscal consolidation in 2010 and 2011, while safeguarding social and investment expenditure.¹ The extension of the ECF arrangement through December 2011 is designed to provide a framework within which macroeconomic consolidation can be enhanced, the implementation of the reform agenda will move forward, and expectations can be better anchored amidst an international environment characterized by persistent uncertainties.

Macroeconomic framework for 2010–11

2. After declining by 1.5 percent in 2009, gross domestic product (GDP) is expected to grow by approximately 3 percent per year during the period 2010–11, reflecting a recovery of both external and domestic demand. After recording a historically low level of 0.9 percent in 2009, inflation is expected to reach around 7 percent in 2010, reflecting the rise in the prices of oil and other commodities. Looking forward, inflation is expected to post a slight decline in 2011, and to end the year in the range of 6–7 percent. In line with

¹ For a purely technical reason, the ceiling on nonconcessional external debt was formally not observed, as an existing US\$200 million contingent credit line with the Central American Bank of Economic Integration secured in 2009 (and contemplated in the program) was renewed in August, 2010. The renovation of this credit line—which has not been activated—had not been explicitly foreseen in the TMU. We are requesting a waiver of nonobservance of the above mentioned performance criterion.

the economic recovery, the deficit in the current account of the balance of payments is expected to increase, to around 16 percent of GDP for 2010–11. The primary sources of its funding are projected to remain foreign direct investment and official foreign aid, allowing gross international reserves coverage to remain stable.

Fiscal policy

3. The government will continue implementing a prudent fiscal policy for the remainder of 2010 and during 2011. In this respect, a Supplement to the General Budget of the Republic for 2010 has been approved by the National Assembly, consistent with a reduction in the deficit (after grants) of approximately 0.9 percent of GDP compared to the program. This deficit reduction is largely attributable to larger-than-programmed tax revenues, partly reflecting the impact of the reform of the Fiscal Equity Law at end-2009. The government remains committed to strengthening the finances of the Social Security Institute (INSS); for this purpose, an increase of one percentage point in the rate of contribution to the social security system has been implemented since January 2010. As of December 2010, the ECF will include a quantitative performance criterion on the INSS' overall balance after grants. These measures will help to ensure that the overall deficit for the consolidated public sector (CPS) does not exceed 2.3 percent of GDP in 2010. For 2011, the government has sent to the National Assembly a budget for the central government consistent with a deficit of 1.5 percent of GDP, including 0.7 percent of GDP of expenditure necessary to organize the 2011 presidential elections. This will further strengthen the position of the consolidated public sector, which is projected to post a deficit of 2.2 percent of GDP. The monitorable wage bill will remain constant in GDP terms during 2011. In the event that revenue collection is better than programmed, the options for its use will be examined in the second half of the year.

4. To preserve fiscal sustainability while meeting Nicaragua's social and infrastructure needs, the government will continue to focus on further strengthening the tax and pension systems. On the subject of pensions, the INSS—in consultation with an inter-institutional commission—has prepared a report which sets out a range of options for improving the system's financial position while gradually correcting its actuarial deficit. This report will be published for general circulation in October this year (*prior action*). At the same time, the INSS' investment regulations will be evaluated to ensure that the INSS' portfolio is managed in line with best international practices. Regarding the tax system, the authorities will continue to assess their options for further streamlining exemptions and exonerations, and establishing transfer pricing regulations. The authorities will seek to ensure that minimum wage increases are kept in line with inflation and economic growth.

Monetary and financial policy

5. Monetary policy will remain centered on ensuring adequate international reserve coverage and managing financial system liquidity. Adjusted net international reserves (NIR-Adjusted, excluding SDR allocations), which recorded a larger-than-programmed increase despite the impact of the global crisis, will fall each year around US\$40 million both in 2010 and 2011. These declines will be attributable partly to a reduction in

commercial banks' deposits at the central bank as credit begins to recover and to smaller net security placements by the monetary authority. The central bank will maintain the rate of crawl of the exchange rate of 5 percent per year.

6. The financial sector remained sound during the economic slowdown. The monetary and financial authorities will adopt further measures to safeguard the soundness of the financial system (e.g., on-site supervision), and maintain loan-loss provisioning at adequate levels. The new rules pertaining to the "Law on the Promotion and Use of Credit Cards" will help to protect those credit card users that are less financially experienced, thereby enhancing the soundness of the financial system. In the event of a decision to amend or replace the current law, the government will ensure that the legislative framework fosters the sound development of the financial sector, without changing the current policy whereby interest rates are set freely between the parties.

Financing policy

7. The economic program for 2010 and for 2011 will be financed primarily with concessional resources from international cooperation, and strict control will be maintained on non-concessional indebtedness. The authorities will pursue the gradual development of the domestic debt market, while strengthening the management of public debt, in cooperation with the Fund and the World Bank. Loan disbursements for budgetary assistance in the amount of US\$42.5 million in 2010, and approximately US\$40 million in 2011 are projected, along with further measures to obtain additional resources from multilateral institutions and the donor community. In the context of the HIPC Initiative, further efforts will be made to restructure external debt pending relief.

Supplementary agenda

8. **Electricity sector reforms.** Further progress has been made in improving the finances and services of the electricity sector, and in increasing the supply of electricity generation.

- a. To continue reducing distribution losses, in July 2010 the National Assembly approved a reform of the legal framework broadening the range of residential customers liable to fines for irregularities in using and paying for electricity, and ensuring that the distribution company make the investments necessary to curb technical losses and improve the quality of service. The hike in electricity prices (of approximately 7 percent) in May 2010 corrected the discrepancies with generation costs, and will serve to normalize flows within the sector. In particular, the state-owned electricity company (ENEL) will begin making steady reductions in its debts to fuel suppliers. In turn, the central government will continue guaranteeing through the budget the payments of its electric power bill as well as the energy consumption subsidies for customers paying subsidized rates, pensioners, and disadvantaged neighborhoods.

b. Ongoing efforts are being made to increase the supply of electricity generation, with private sector participation and support from official aid. In 2009–10, a total of 220MW of generation, including 60MW with renewable sources of energy, will have been installed. It is expected that during the period 2011–14, power generation projects will be completed that will provide 490MW in additional generation capacity. This will enable less efficient units to be kept on standby, while changing Nicaragua’s power generation matrix to reduce the country’s dependence on oil.

9. **Enhanced monitoring of the uses of official foreign aid.** The fifth report on cooperation (incorporating data at end-June 2010) will be published by end-October 2010. As part of the effort to enhance the monitoring and transparency of foreign aid, the sixth report on cooperation (incorporating data for end-2010) will include detailed information on the uses of foreign aid. This report is expected to be published by end-March 2011 (*structural benchmark*). The government will ensure that the use of foreign aid pose no fiscal contingencies and will consult with the Fund to avoid that the use of such aid put the economic program at risk.

10. **Strengthening of the public administration.** With financial and technical assistance from the World Bank and the Inter American Development Bank (IDB), specific steps are being taken in the following areas: (i) the publication in March 2010 of a monthly report on monitoring the physical implementation of the Public Investment Program for the purpose of improving investment expenditure management; (ii) the adoption of a new Procurement Law by the National Assembly in October 2010, with the aim of improving the efficiency and transparency of government purchases in line with international best practice; (iii) the elaboration of a study, with assistance from the IDB and the Fund, to assess the budgeting for permanent and temporary positions in the central government, including options for improving the system going forward (*structural benchmark*); and (iv) the Office of the Comptroller General of the Republic (CGR) published in 2010 the audit of the budget for 2008, and will finalize that of 2009 by end-June 2011.

11. **Progress in the area of tax and customs administration.** The implementation of a work plan, developed with the help of the Regional Technical Assistance Center (CAPTAC-DR), has begun with the purpose of: (i) strengthening oversight activities; (ii) improving the mechanisms for monitoring and expediting payment of refunds; and (iii) streamlining the management of the large taxpayers unit. The regulations for implementing the reform of the Fiscal Equity Law (approved at end-2009) have been completed and implemented.

12. **Institutional strengthening of the central bank.** In July 2010, the National Assembly approved a new Central Bank Charter with the aim of consolidating its institutional strength, improving the instruments for monetary policy, and ensuring greater accountability. The 2010 audited financial statements, prepared pursuant to the new charter, will be published in March 2011. In the meantime, the financial statements for 2007–09 submitted by the audit firms and approved by the central bank were published in October 2010.

13. **Reform and regulation of the microfinance sector and cooperatives.** The government remains committed to ensuring the sound development of the microfinance sector and, more generally, to instilling a payment-oriented culture. Accordingly, microfinance entities are being monitored to assess the impact of the process for the restructuring of past-due micro credits. With the aim of enhancing the supervision, transparency, and efficiency of the sector, the government, by end-November 2010, will seek the approval of a law to regulate and manage the sector, in particular, the regulatory framework applicable to unsupervised microfinance institutions. Concurrently, enhanced efforts will be made to monitor the activities of financial cooperatives by strengthening the supervisory agency.

14. In view of the progress recorded in relation to the ECF arrangement and the framework for implementing the remaining policies, the government requests the completion of the fourth and fifth reviews of the program, the corresponding waiver, the re-phasing of the disbursements under the arrangement and the approval of the fifth and sixth disbursements totaling SDR 12.8 million, as well as the extension of the program by one year. Program performance will be monitored through two additional reviews, anticipated for mid-April and mid-October 2011, respectively, and the quantitative performance criteria for end-December 2010 and end-June 2011. Performance criteria and the structural agenda for the next 12 months, as well as the prior actions for the completion of the fourth and fifth reviews are presented in LOI Tables 1 and 2. We believe that the policies described in this letter are sufficient to meet the objectives of our program and we stand ready to take additional measures that may be needed for this purpose. We will consult with the Fund in advance of any revisions to the policies described in this letter, as well as the adoption of additional measures, in accordance with IMF policies on such consultations.

Sincerely yours,

/s/

Antenor Rosales Bolaños
President
Central Bank of Nicaragua

/s/

Alberto Guevara Obregón
Minister
Ministry of Finance and Public Credit

LOI Table 1. Nicaragua: Quantitative Performance Criteria and Indicative Targets, 2009-11 1/

	2009		2010				2011	
	Adj. Prog.	Prel.	Jan-Jun		Jan-Dec		Jan-Jun	Jan-Dec
			Adj. Prog.	Prel.	Prog.	Prop. Prog.	Prop. Prog.	Prop. Prog.
Performance Criteria (Jan-Dec 2010, Jan-Jun 2011, indicative targets otherwise)								
<i>(In millions of Córdoba)</i>								
1. Floor on combined public sector overall balance, after grants 2/	-5,934	-3,899	-736	133	-4,415	-3,097	-1,844	-3,314
2. Floor on Social Security Institute (INSS) overall balance, after grants	N.A.	784	N.A.	981	N.A.	1,415	1,016	1,495
3. Ceiling on change in net domestic assets of the central bank 3/ Cumulative flows from end-June 2010 4/	1,118	-1,409	-906	-989	763	1,560	680	1,573
						2,549	3,230	4,122
<i>(In millions of US dollars)</i>								
4. Floor on change in net international reserves of the central bank 3/ Cumulative flows from end-June 2010 4/	-55	102	-10	10	-20	-35	-70	-40
						-45	-115	-85
5. Continuous ceiling on nonconcessional external debt contracted or guaranteed by the consolidated public sector	0	0	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	0	0
Indicative targets								
<i>(In millions of Córdoba)</i>								
1. Ceiling on central government primary expenditure 5/	28,256	28,713	13,530	13,446	29,160	30,916	16,802	34,370
2. Floor on poverty-related expenditures of the central government 6/	16,746	17,024	8,218	8,218	16,863	18,919	9,178	20,474
3. Ceiling on monitorable wage bill	N.A.	10,153	N.A.	4,885	N.A.	11,288	5,901	12,599
<u>Memorandum items</u>								
Stock of NIR (adjusted, US\$ millions)	655	811	645	821	635	776	707	736

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

1/ Cumulative flows starting at the beginning of the calendar year. Targets for end-December 2009 and end-June 2010 are those set during the second and third reviews (EBS/09/157). Definitions are specified in the TMU, including adjustors. N.A. indicates not applicable.

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 levels 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.

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

		Date	Status
Publication of technical proposal on options to reform the pension system and reduce its actuarial gap	PA		
Submission to National Assembly of a Supplementary Budget for 2010 consistent with program objectives	PA		Done
Submission to National Assembly of a 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	
Complete study assessing the scope for productivity gains and rationalizing government employment practices.	SB	End-August 2011	

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

Changes to the Technical Memorandum of Understanding

OCTOBER 30, 2010

All aspects of the Technical Memoranda of Understanding, issued on September 4, 2007, August 28, 2008 and October 16, 2009, respectively, remain valid, except for new revisions incorporated in the October 15 letter of intent and those indicated below.

A. Definitions

1. The targets for the quantitative and indicative performance criteria are defined as cumulative annual flows. The targets for the performance criteria for the Adjusted Net International Reserves and Net Domestic Assets are defined as cumulative flows from June 30, 2010 (Technical Memorandum of Understanding, October 16, 2009). The program exchange rates for 2010 and 2011 are 21.4 and 22.4 Córdobas per U.S. dollars, respectively.

2. The overall balance after grants for the Nicaraguan Social Security Institute (INSS) is defined as INSS' total income plus foreign grants minus INSS' total expenditures. INSS' income is defined on a cash basis and includes contributions to the social security (payments of current and overdue contributions), current income from investments and other current revenue. INSS' expenditures are defined on a cash basis and include operational expenses (pensions, other benefits, and administrative expenses), other current expenditures, medical expenses, current transfers to the private sector, and capital expenditures.

3. The monitorable wage bill is defined as the sum of the central government's wage bill and its decentralized agencies plus transfers received by employees of the central government and the rest of the public sector in the form of extra-budgetary bonuses. For 2010-11, the monitorable wage bill includes transfers in the form of extra-budgetary bonuses of US\$31 million, and US\$43 million (of which US\$20 million through June 2011), respectively, financed through a grant from the Venezuelan cooperation arrangement.²

4. The following paragraph will be added to paragraph 21 of the September 2007 Technical Memorandum of Understanding: "The ceiling excludes the contingent credit line for 12 months renewed by the Central Bank of Nicaragua on August 20, 2010 with the Central American Bank of Economic Integration (CABEI) by US\$ 200 million, as well as any subsequent extensions or renewals of this credit line."

² An analogous treatment will be given to the primary expenditure of the Central Government.

B. Quantitative Targets

5. The quantitative performance criteria will include a floor on the overall balance of the INSS after grants, as defined above.
6. Indicative targets will include a ceiling on the monitorable wage bill, as defined above.
7. The program targets for the quantitative performance criteria for end-December 2010 and 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, 2009-11 1/

	2009		2010				2011	
	Adj. Prog.	Prel.	Adj. Prog.	Prel.	Jan-Dec Prog.	Prop. Prog.	Jan-Jun Prog.	Jan-Dec Prog.
Performance Criteria (Jan-Dec 2010, Jan-Jun 2011, indicative targets otherwise)								
<i>(In millions of Córdoba)</i>								
1. Floor on combined public sector overall balance, after grants 2/	-5,934	-3,899	-736	133	-4,415	-3,097	-1,844	-3,314
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<i>(In millions of US dollars)</i>								
4. Floor on change in net international reserves of the central bank 3/ Cumulative flows from end-June 2010 4/	-55	102	-10	10	-20	-35	-70	-40
5. Continuous ceiling on nonconcessional external debt contracted or guaranteed by the consolidated public sector	0	0	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	0	0
Indicative targets								
<i>(In millions of Córdoba)</i>								
1. Ceiling on central government primary expenditure 5/	28,256	28,713	13,530	13,446	29,160	30,916	16,802	34,370
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Memorandum items								
Stock of NIR (adjusted, US\$ millions)	655	811	645	821	635	776	707	736

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

- 1/ Cumulative flows starting at the beginning of the calendar year. Targets for end-December 2009 and end-June 2010 are those set during the second and third reviews (EBS/09/157). Definitions are specified in the TMU, including adjusters. N.A. indicates not applicable.
- 2/ Adjusted by any excess of project loans above 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 levels 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.

C. Adjustors

8. The target for the consolidated public sector (CPS) overall balance for 2011 will be adjusted *downwards* by any use of the US\$49.5 million grant to ENACAL received in December 2009 for the purpose of implementing water and sanitation projects financed by the *Instituto de Credito Oficial* (ICO), acting as the financial agent of the Spanish Government.

9. The CPS balance target for 2010 will be adjusted *downwards* up to US\$15 million by the cumulative amount of any excess of project-related external loans compared to the programmed amounts. For 2011, the above-mentioned target will be adjusted *downwards* up to US\$55 million by the cumulative amount of any excess of project-related external loans compared to the programmed amounts.
10. The NIR-Adjusted target for 2010-11 will be adjusted *downwards* in the event of any shortfalls in external budget support loans compared to the programmed amounts, up to a maximum of US\$40 million in 2010, and also in 2011. Similarly, in such a case the Net Domestic Assets will be adjusted *upwards* up to US\$40 million in 2010 and in 2011.
11. The NIR-Adjusted target for 2010-11 will be adjusted *upwards* in the event of any excess in external budget support loans compared to the programmed amounts. Similarly, in such a case the Net Domestic Assets will be adjusted *downwards*.
12. The indicative target on primary expenditure of the central government for 2010-11 will be adjusted *upwards* if the sum of budgetary grants of the central government (both tied and untied) and project-related external loans of the central government exceeds programmed levels; similarly, it will be adjusted *downwards* in the event of any shortfalls relative to the programmed amounts. In the case of project-related external loans, the maximum adjustment will be of US\$15 million in 2010 and US\$55 million in 2011.
13. The adjustments related to 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 (a=b+c)	Budget support loans 1/ (b)	Project-related loans (c)	of which,	External grants 2/ (d=e+f)	of which,	Budget support grants (e)	Project-related grants (f)	Total financing (g=a+d)	Budget support (h=b+e)	Project-related (i=c+f)
				Project related loans to CG (c')		Grants to CG (d')					
Cumulative from January 2010											
Q1-10	34	0	34	26	15	15	0	15	49	1	49
Q2-10	91	0	91	74	44	41	1	43	135	1	134
Q3-10	153	0	153	123	102	94	21	81	255	21	234
Q4-10	246	43	203	158	192	183	21	171	438	64	375
Cumulative from January 2011											
Q1-11	36	0	36	25	25	20	0	25	62	0	62
Q2-11	86	0	86	63	68	56	0	68	154	0	153
Q3-11	177	40	137	103	113	95	0	113	290	40	250
Q4-11	238	40	198	154	187	164	0	187	425	40	385

1/ Excludes IMF.

2/ Excludes extra-budgetary grants to finance wage bonus

14. 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, 2009-11
(in C\$ millions)

	2009		2010				2011	
	Prog.	Prel.	Jan.- Jun.		Jan.-Dec.		Jan.- Jun.	Jan.-Dec.
			Prog.	Prel.	Prog.	Prop.	Prog.	Prop.
Poverty Spending	16,215	17,024	7,452	8,218	16,863	18,919	9,178	20,474
Domestic Financing	9,387	9,665	4,947	4,947	10,132	10,632	5,432	11,681
External Financing	6,828	7,359	2,505	3,271	6,731	8,287	3,746	8,793
Grants	1,667	1,902	875	905	1,807	2,563	1,085	2,898
Loans	2,295	2,748	669	948	2,227	2,898	1,105	2,667
Debt Relief	2,865	2,709	961	1,418	2,697	2,826	1,556	3,228

Source: Ministry of Finance and Public Credit.

D. Supplementary Agenda

15. **Strengthening of the Biannual Report on External Aid Flows.** The report corresponding to the year 2010 will include a group of tables detailing the source and economic sector of foreign aid flows (showing separately flows to the public and private sectors, and in each case, distinguishing between foreign grants and loans). Such information

will also be shown in a disaggregated manner by project of the public sector (financed by both grants and loans) and of the private sector (financed by grants). Regarding the flows linked to the oil-related cooperation, the report will include detailed information about the transfer programs, social loans, and others, in particular those prioritized by the National Plan of Human Development. The publication of such a report before end-March 2011 will constitute a structural benchmark.

16. **Preparation of a study on Central Government employment.** The Ministry of Finance and Public Credit will prepare a study to assess the procedures in place for the budgeting of permanent and temporary positions in the central government; the study will include options for improving the system going forward. The terms of reference for this study will be formulated before end-December 2010 in consultation with Fund staff and the Inter-American Bank of Development (IDB), which will be also consulted during the preparation process. A preliminary report will be ready before end-March 2011 and the final report will be completed before end-August 2011. The presentation of the final report will constitute a structural benchmark.

E. Safeguards

17. Some of the recommendations of the 2009 update safeguards assessment have been implemented and a new agenda with additional measures has been established.

TMU Table 4. Safeguards Implementation of Recommendations Timetable, 2010-11

Measure	Date	Status	Proposed Date
1. Presentation of semi-annual status reports on the implementation of International Financial Reporting Standards (IFRS).	Oct-09	Done	
2. Publication of audited financial statements and auditor's opinion for 2007 and 2008.	Nov-09	Done	
3. Adoption of a revised Internal Audit Charter which would bring the internal audit practices in line with the Institute of Internal Auditors.	Jun-09	In progress	Jun-11
4. Conducting an external quality assessment of the Internal Audit Department.	Jun-09	Done	
5. Publication of the financial statements and auditors' opinions for 2010 in line with the new Central Bank Charter	Mar-11		

F. Provision of Information and Monitoring

18. **Electricity Sector.** With the purpose of strengthening the monitoring of the electricity sector, the regulating body (INE) will publish a quarterly report on the energy market with monthly information. This report will include the following: (i) the effective tariff applied and the tariff resulting from the application of the formula; (ii) the electricity production split by generation source (hydroelectric, thermal, wind power, geothermal) for each of the generation companies with any type of public sector ownership; (iii) the purchases and payments executed by the distribution companies to the generation companies with any type of public sector ownership; (iv) the volumes and values of fuel used in electricity generation, as well as the value of effected payments of such bill by generation companies with any type of public sector ownership; (v) the volume (in GWh) of electricity distributed, the volume and value of billed electricity, as well as the payments received for billed electricity by the distribution companies. The first report will correspond to the year 2010, and will be available by end-March 2011.

19. **Public Enterprise Debt.** The Ministry for Finance and Public Credit will prepare twice a year (in March and September) a report on the debt by public enterprises (showing separately external and domestic debt, and including within those categories the type of creditor), with information for end-December and end-June, respectively. This report will complement the debt report that is already being produced and that includes debt of the Central Government and the Central Bank. The first report will be available in March 2011, and will include information corresponding to the year 2010.

20. **Financial System.** The authorities will provide Fund staff (on a monthly basis), the stock of deposits of the major depositors of the supervised financial entities, grouped by sectors. This information will be provided for the first time by end-October 2010.

21. **Micro-finance Institutions.** The Superintendence of Banks and other Financial Entities will prepare a biannual report (containing information with a 3-month lag) on the performance of the non-supervised micro-financial institutions with loans exceeding US\$8 million as of end-June 2009. The report will include information on loans by sector, financial obligations (including their source split into foreign institutions, domestic institutions, and social investors), portfolio quality (including current, non-performing, restructured and postponed), provisions and capital. The first of these reports will include information for 2010 and will be available before end-March 2011.