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The survival of companies depends on the relationships they establish with other stakeholders. These relationships shape the value creation chain of the entity and influence its ability to generate economic benefits. However, these relationships develop in changing environmental conditions. Changes in external factors can prompt shifts in the behavior of counterparts and the entity, ultimately affecting its revenue-generating capacity.

Among the factors influencing these conditions are environmental, social, and governance (ESG) risks, and among these, those that could be of greater importance in the short, medium, and long term are those related to climate change. Climate change can lead to physical and transitional risks that could impact the safety and soundness of banking institutions and have broader implications for financial stability.

To address climate-related financial risks in the banking sector, the Basel Committee on Banking Supervision (BCBS) issued a guidance document in 2022 on principles for managing and supervising climate-related financial risks. This guidance contributes to the Committee’s efforts to strengthen bank regulation, supervision, and practices worldwide to enhance financial stability. [1]

The document includes 18 high-level principles. Principles 1 to 12 guide banks on effectively managing climate-related financial risks, while Principles 13 to 18 guide prudential supervisors.

The principles aim to strike a balance in improving practices related to managing climate-related financial risks and provide a common baseline for banks with international activities and supervisors while maintaining sufficient flexibility, given the degree of heterogeneity and the evolution of practices in this area. The principles aim to accommodate a diverse range of banking systems. They are intended to be bank-specific and applied proportionately based on the size, complexity, and risk profile of the bank or banking sector for which the authority is responsible.

Specifically, with regard to scenario analysis and stress testing, the principles apply to large banks with international activities and to supervisory and other relevant financial authorities of the Basel Committee member jurisdictions. However, smaller banks and authorities in all jurisdictions can benefit from a structured consideration of the potential impact of climate-related financial risks.

On its part, the International Financial Reporting Standards (IFRS) Foundation announced the establishment of the International Sustainability Standards Board (ISSB) in 2021 to address diversity in disclosure practices concerning sustainability and climate-related disclosures. This new body within the IFRS Foundation aims to develop high-quality corporate sustainability disclosure standards widely accepted globally.

The ISSB has developed two standards (IFRS S1 and S2), issued in June 2023. IFRS S1 and S2 aim to promote comparability by introducing a defined hierarchy of standards, including those issued by other organizations. Given that the ISSB is not the only global standard issuer in this area, other institutions, particularly the Global Reporting Initiative (GRI) and the European Union (EU) have exceeded their regulatory output.

IFRS S1 requires entities to disclose any sustainability-related risks and opportunities expected to impact their cash flows. At the same time, IFRS S2 contains disclosure requirements on climate-related risks and opportunities. Entities can apply these standards regardless of whether the entity's financial information is prepared following IFRS or other generally accepted accounting principles since they are not adopted automatically in countries that have already adopted IFRS.

The Role of CAPTAC-DR in Capacity Development

CAPTAC-DR has incorporated climate change into the bank supervision and regulation workstream in recent years. In this context, CAPTAC-DR, in collaboration with the IMF Monetary and Capital Markets Department, organized a virtual seminar in 2022 to raise awareness of the Network for Greening the Financial System (NGFS) Guide. The objective was to discuss physical risk threats to the financial sector across the region and possible regulatory responses at the Basel Committee on Banking Supervision (BCBS) and supervisory level to mitigate these risks. The seminar was addressed to 65 senior officials from banking and insurance supervisory agencies and central banks involved in regulating, supervising, and analyzing financial stability in member countries of the Central American Council of Financial Supervisors (CCSBSO).

The event also included a session on the current challenges and plans to address climate risk in the region by supervisors from South America and the region. Some CCSBSO supervisory authorities expect to migrate towards IFRS-based reporting systems and reduce perceived differences between existing national accounting standards.

Regarding disclosures, in 2023, regional virtual training was provided to a group of 90 supervisors from CCSBSO member countries to continue supporting countries in understanding the implementation of these standards. During the workshop, profound differences in non-financial reporting and disclosure regulations were observed among member countries of the Committee on Accounting and Financial Standards (CNCF).

Some countries require the submission of a management report or a similar document that includes some disclosures about Environmental, Social, and Governance risks and opportunities. However, producing verifiable quantitative disclosures is a long-term goal for most regional entities and supervisors. Banks should be able to identify the main ESG risks they are exposed to when they lack the necessary skills and resources. They can then produce qualitative narrative scenarios considering plausible outcomes and impacts on operations, regions, and specific portfolios over different periods.
According to the Oxford Dictionary [2], the word “forecast” is defined as: “a statement about what will happen in the future, based on information that is available now”. This definition applies to central banks, as these institutions must make assumptions about what will happen in the future, using the available tools to make informed estimates. They do this in several ways. In this note, we will focus on liquidity forecasts.

The central bank is generally the sole issuer of money or local currency in a country; for example, the Bank of Guatemala is the sole issuer of quetzales. The issuance of currency for a central bank always represents a liability. The most well-known forms of money central banks issue are cash, banknotes, and coins the public uses for payments. Additionally, there are deposits that commercial banks hold in the central bank, which are known as reserves. This form of money is used for payments between commercial banks. Considering what has been previously explained, it is possible to define the liquidity of a central bank as the available balance in the monetary accounts of commercial banks in that institution. In this case, we are not referring to liquidity as the attribute of markets with many transactions and facilitating the exchange of assets for money. For the rest of the article, liquidity always refers to the available balance of banks in their accounts at the central bank.

Many central banks make monetary policy by controlling the cost of liquidity or short-term interest rates. Therefore, they will organize their open market operations (OMOs) with commercial banks (or monetary counterparties) by increasing or decreasing liquidity so that the interest rate is the one that the central bank has established to achieve its inflation objective.[3]

In any case, the central bank needs to forecast the level of liquidity (understood as the balance of banks’ accounts at the central bank) initially to attempt to achieve this balance through OMOs.

Graph 1: Calibration of OMOs

Note: Prepared by CAPTAC-DR team.

Central banks have other counterparts besides commercial banks. An example is the public, which demands cash to make purchases. The amount of cash demanded depends on the number of transactions taking place, the prices of those transactions, and the season. For example, towards the end of the year, there is a higher circulation of cash used to pay for gifts, celebrations, and travels, among other things. The public obtains and returns cash through commercial banks via withdrawals and deposits in their accounts without directly communicating with the central bank.

The government is another non-monetary counterpart, maintaining a deposit account with the central bank that shows transactions related to its daily activities. On the one hand, the government has income primarily from tax collection. On the other hand, it incurs expenses for providing services such as healthcare, energy, water, or the construction of roads, as well as for paying salaries and wages to its workers, among other things. The movements in the government’s account depend on economic growth, price level, and seasonal factors.


[3] A simple example could be the housing market. If house prices are rising due to increased demand relative to the supply of houses, an increase in the relevant interest rate (mortgage rate) will lead to a decrease in buying desires, exerting downward pressure on their price.
For example, annual tax declarations or the payment of certain taxes that occur in a particular month can influence these movements. Moreover, investment expenses such as road construction also depend on political decisions. Contrary to all other economic agents, the central bank can obtain information from the government treasury directly through mechanisms established by contract.

In addition to cash movements and government account transactions, the liquidity level, or the accounts of banks at the central bank also depends on changes in international reserves. When a central bank engages in foreign exchange market operations by buying or selling currencies in exchange for local currency, the level of the international reserves and liquidity changes. These operations depend on the exchange rate regime of the country, as well as movements in the balance of payments. In general, these three significant factors—cash, the government account, and international reserves—are not under the direct control of the central bank, which is why they are known as autonomous liquidity factors.

The Central Banking Operations Division of the Department of Monetary and Capital Markets (MCM) has developed a framework for forecasting liquidity and autonomous factors based on advanced statistical models. This framework is proposed as an additional statistical complementary tool to those found on "traditional institutional" channels (i.e., surveys, contracts) to generate short-term liquidity forecasts to determine the amount of Open Market Operations (OMOs).

During the present phase (2019-25), CAPTAC-DR has so far carried out three bilateral technical assistances to introduce the MCM framework described above. In terms of training, during the pandemic, a virtual workshop was conducted. In addition, the Center will hold in January 2024 an in-person workshop on liquidity forecasting with the region's central banks operating OMOs. The purpose of these activities is to continue the introduction or use of the statistical tools contained in this framework, and for central bank officials to develop their estimation capabilities.

Central banks forecast liquidity using information they receive contractually from the Treasury (for flows in local or foreign currency, such as external debt payments) and from surveys conducted with commercial banks. Additionally, they can use statistical tools that rely on time series characteristics such as trend, cycle, and seasonality (for example, the high demand for cash in December).
A tax or administrative management reform can be defined as strengthening the tax administration and its service and control practices. This reform does not involve changes in the tax base, tax rates or taxpayers.

Tax administrations must undertake reforms as economies evolve to improve revenue collection capacity. Given this, the question arises of whether it is possible to quantify the impact of such reforms through tax revenues. There is a gap in the literature on this subject; only a few empirical studies attempt to bridge the gap between theory and practice.

The Fiscal Affairs Department of the International Monetary Fund (IMF FAD) has conducted a study to close this gap by employing two different econometric methodologies to estimate the outcomes of tax reforms affecting revenues. The study conducted by Adan et al. (2023) [4] has the following findings: 1) Strengthening tax administration overall is associated with a significant increase in revenue; 2) It takes time for a tax reform to lead to an improvement in revenue; 3) Several specific indicators of tax administrations are strongly correlated with each other and associated with better tax performance.

Considering the study's findings, the next question that arises is, what can tax administrations in the region do to determine the outcomes of the reforms implemented? Emphasis is placed on the last mentioned finding to answer this. The information considered in the study comes from the International Survey on Revenue Administration (ISORA) and the Tax Administration Diagnostic Assessment Tool (TADAT).

Using these two tools within the tax administration makes it possible to determine strengths, weaknesses, practices, measurement indices, and critical components that allow for a reflective analysis of overall tax performance. This analysis can later be compared with the actual collection after a time lag.

By having accurate and comparable information derived from the completion of ISORA and the use of TADAT, it is possible to measure the impact of tax reforms on revenue over time. Given the importance of using ISORA and TADAT, FAD has conducted worldwide training on filling out ISORA. In collaboration with CAPTAC-DR, a training session on filling out ISORA in the CAPDR region took place last September. Regarding TADAT, CAPTAC-DR aims to conduct periodic assessments of tax administrations in the region and provide follow-up on specific issues for their strengthening.

**Summary of Capacity Development Activities**

**Tax Administration**

- Technical assistance was provided to five countries in the region between July and October. In El Salvador, a preliminary compliance improvement plan was developed and audit procedures for the Value-Added Tax (VAT) were strengthened. In Honduras, transfer pricing risks were classified, and key aspects for the modernization of SAR were defined. In Nicaragua, compliance risk management was supported by identifying external sources of information. Panama was supported in strengthening the operational process of the large taxpayer’s unit and compliance risk management. Meanwhile, in the Dominican Republic, actions were proposed to control preferential treatment in VAT and income tax.

- Four virtual regional seminars were held on the conceptual framework of risk management, international auditing, taxpayer services, and training on completing the International Survey on Revenue Administration (ISORA).

**Customs Administration**

- Costa Rica received technical assistance to continue improving its risk analysis and implementing an audit plan focused on sensitive sectors to enhance its compliance. In El Salvador, a mission was carried out to refine its customs compliance improvement plan, and in Guatemala, a mission was conducted to prepare a risk indicator dashboard. Honduras received an assessment from the IMF’s Fiscal Affairs Department (FAD) and CAPTAC-DR to identify challenges in adopting comprehensive risk management. Additionally, it officially launched its customs modernization program, developed with support from the Center.

- Twenty-four auditors and risk analysts from the customs in the region participated in the second edition of the “Course for Specialization in Post-Clearance Audit” organized by CAPTAC-DR, with the support of the Institute of Fiscal Studies, the Customs of Spain, and the IDB.
• In Costa Rica, two technical assistance initiatives were conducted, one focused on budgeting with a gender perspective and the other on digitizing treasury management. El Salvador received a mission to support the review of accounting policy for implementing the third group of the International Public Sector Accounting Standards (IPSAS). Honduras received support to improve cash flow management. The Dominican Republic received joint support from the FAD and CAPTAC-DR to conduct the Public Investment Management Assessment (PIMA), including the climate change module.

• Two regional virtual activities were conducted to introduce gender-focused budgeting and trust management in a single account. The resident advisor of the Center, Marta Cubillo, participated in the seminar of the Government Treasuries Forum of Latin America with a presentation on surplus liquidity management.

• The Center continues to support the supervisory authorities in Costa Rica under the National Financial System Supervision Council to strengthen the current regulatory and supervisory framework for supervising domestic financial conglomerates. It also provided supervisors from the Dominican Banking Authority training on managing the Internal Capital Adequacy Assessment Process (ICAAP) and stress testing.

• At the regional level, CAPTAC-DR provided virtual training to supervisors from member countries of the Central American Council of Superintendents of Banks, Insurance and Other Financial Institutions on the new international sustainability and climate standards (IFRS S1 and IFRS S2), supporting countries in understanding the implementation of these standards.

• In Guatemala, CAPTAC-DR carried out the first of three scheduled technical assistance sessions to assist the Bank of Guatemala in developing a new macroeconomic model (MM) for policy analysis and forecasting to support its monetary policy decisions. The area continued to support the coordination of MCM technical assistance on central banking digital currencies in Honduras and Guatemala.

• This quarter, the area prepared a workshop on statistical liquidity forecasting models, which had to be postponed due to the temporary suspension of IMF missions to Guatemala as a consequence of the protests in October and will be held next January.
In Costa Rica, the module for managing accrued interest was evaluated, and the review of the compilation process below the line was continued. Additionally, support was provided to El Salvador to strengthen the compilation and dissemination of Public Finance Statistics (GFS) and public sector debt statistics. Nicaragua received technical assistance in compiling GFS following the Government Finance Statistics Manual (GFSM 2014).

A regional webinar on the care economy was conducted, marking the third one delivered in the Center on this topic. This training session was on extensions of the central framework of the System of National Accounts 2008 (SNA 2008).

In Costa Rica, the module for managing accrued interest was evaluated, and the review of the compilation process below the line was continued. Additionally, support was provided to El Salvador to strengthen the compilation and dissemination of Public Finance Statistics (GFS) and public sector debt statistics. Nicaragua received technical assistance in compiling GFS following the Government Finance Statistics Manual (GFSM 2014).

A regional workshop on the functional classification of public expenditure was conducted. Additionally, regional meetings of working groups on macroeconomic statistics were held with the support of the Central American Monetary Council and the Council of Ministers of Finance of Central America, Panama, and the Dominican Republic.

Assistance was provided to the National Institute of Statistics and Census (Instituto Nacional de Estadística y Censo, INEC) of Panama in updating the basket for the Consumer Price Index (CPI) within the framework of its latest Income and Expenditure Survey. Also, support was given in developing price indices for imports and exports for Panama and the Colon Free Zone. Furthermore, assistance was provided in rebasing the Monthly Economic Activity Indicator (Indicador Mensual de Actividad Económica, IMAE) to 2018, the reference year for the national accounts.
Free Online Courses in Spanish from the IMF Institute for Capacity Development

Reform Management Fundamentals: Establishing a Reform Program (VITARA-RMF)

Apply before:
- April 01th, 2024

- Government Officials, register here.
- General Public, register here.

Course Description:
- This course explains the key concepts of reform management, the process of preparing a tax administration reform program, the key governance and management provisions of tax administration reforms, and the management of administration reform projects.

VITARA - Reform Management Specific Topics: Managing a Reform Program (VITARA-RMS)

Apply before:
- April 01th, 2024

- Government Officials, register here.
- General Public, register here.

Course Description:
- This course introduces tools and methods for planning, monitoring, and reporting of tax administration reform programs; approaches to resourcing reforms and managing resourcing risks and stresses; successful change management practices, and the concept of post-implementation evaluation.

Programming and Financial Policies, Part 2: Program Design (FPP.2x)

Apply before:
- March 4th, 2024

- Government Officials, register aquí.
- General Public, register aquí.

Course Description:
- This course is especially for officials from ministries of finance, economy and planning, and central banks, who provide advice on macroeconomic policy or are involved in the implementation of such policies.
Balance of Payments and International Investment Position Statistics (BOP-IIPx)

Apply before:
• March 4th, 2024

Course Description:
• Government Officials, register here.
• General Public, register here.

Government Finance Statistics (GFSx)

Apply before:
• March 4th, 2023

Course Description:
• Government Officials, register here.
• General Public, register here.

VITARA - Strategic Management (VITARA-SMG)

Apply before:
• March 4th, 2024

Course Description:
• Government Officials, register here.
• General Public, register here.

This course imparts fundamental knowledge on the concepts related to the strategic management of a tax administration. The different plans that the tax administrations draw up for the execution of their strategies are also highlighted, to later explain the content, the schedule, the resources and the tasks necessary to formulate a plan distributed in different stages.
Analysis of tax gaps
PAB-AIP (VGAPx)

Apply before:
• March 4th, 2024

Course Description:

• Government Officials, register here.

This online course, delivered by the Fiscal Affairs Department, teaches how to prepare and run the VAT Gap Estimation Model (VGEM) of the IMF’s Revenue Administration Tax Gap Analysis Program (RA-GAP).

Public Sector Debt Statistics (PSDSx)

Apply before:
• March 4th, 2024

Course Description:

• Government Officials, register here.
• General Public, register here.

This course analyzes the coverage and accounting standards applicable to public sector debt, its valuation, its classification, important methodological issues, and the sources and methods used to compile the statistics.

Debt Sustainability Framework for Low Income Countries (LIC DSFX)

Apply before:
• March 4th, 2024

Course Description:

• Government Officials, register here.
• General Public, register here.

The course explains all the steps to apply the low-income country debt sustainability framework. First, the data needed, and the tools used to realistically assess the plausibility of macroeconomic projections are determined. Later in the course it is explained how to calculate through the debt sustainability framework the capacity of a country to repay its debt, which is used to determine the thresholds of the debt burden indicators.
Financial Programming and Policies, Part 1: Macroeconomic Accounts and Analysis (FPP.1x)

Apply before:
• March 4th, 2024

Course Description:

• Government Officials, register here.
• General Public, register here.

In this course, taught by the Training Institute, the basic principles or concepts necessary to carry out financial programming are explained; the main characteristics of the four large macroeconomic sectors (real, fiscal, external and monetary), and how they are related to each other. For each sector, the course presents the accounting framework, the interpretation of variables and indicators of these accounts and the basic analysis of the accounts.