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NICARAGUA

November 2020

REQUESTS FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT AND DISBURSEMENT UNDER THE RAPID CREDIT FACILITY —PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR NICARAGUA

In the context of the Requests for Purchase under the Rapid Financing Instrument and Disbursement under the Rapid Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 20, 2020, following discussions that ended on October 16, 2020, with the officials of Nicaragua on economic developments and policies underpinning the IMF arrangements under the Rapid Financing Instrument and Rapid Credit Facility. Based on information available at the time of these discussions, the staff report was completed on November 6, 2020.
- A **Statement by the Executive Director** for Nicaragua.

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PRESS RELEASE

PR 20/349

IMF Executive Board Approves US$185.3 million in Emergency Support to Nicaragua to Address the Covid-19 Pandemic

FOR IMMEDIATE RELEASE

- The IMF Executive Board approved today Nicaragua's request for emergency financial assistance of US$185.32 million to help the country meet urgent balance of payments needs stemming from the COVID-19 pandemic.
- Emergency financing will be used to accommodate urgently needed health related and social spending.
- The authorities will transfer one half of the emergency funds to the United Nations Office for Project Services (UNOPS) and the World Food Programme (WFP) that will assist with the transparent execution of targeted expenditure.

Washington, DC – November 20, 2020: The Executive Board of the International Monetary Fund (IMF) today approved Nicaragua's request for emergency financial assistance for a total amount of about US$185.32 million to help the country meet urgent balance of payment needs stemming from the COVID-19 pandemic. This assistance is provided under two instruments: the Rapid Credit Facility (RCF) equivalent to SDR 43.33 million (about US$61.77 million, or 16.7 percent of quota), and the Rapid Financing Instrument (RFI) equivalent to SDR 86.67 million (about US$123.55 million or 33.3 percent of quota).

The pandemic comes on top of a two-year recession in Nicaragua. Faced with sharply lower revenues and a severe tightening in available financing, the COVID-19 crisis has added severe strains to an already weak macroeconomic outlook. To alleviate the impact on the most vulnerable, the authorities are scaling up public health expenditure and social assistance.

The RCF/RFI financing would help to address urgent balance of payments needs, provide resources to strengthen the health system and support the population most affected by the pandemic, preserve fiscal space and catalyze other concessional financing. Once the crisis abates, the authorities intend to implement fiscal measures to ensure debt sustainability and structural reforms to promote inclusive growth.

The authorities have taken important actions to enhance fiscal transparency, especially related to COVID-19 spending. The Ministry of Finance has begun to publish the details of all COVID-19 related spending and of all public procurement contracts on its website. All COVID-19 related spending will be subject to an independent external audit within a year. The government has also sought the assistance of the United Nations Office for Project Services (UNOPS) and the World Food Programme (WFP) for the execution of emergency spending. The authorities have committed to transfer one half of the emergency funds received from the IMF to both agencies. The UNOPS will assist with the execution of health care spending, while the WFP will implement an emergency agricultural-support program to ensure adequate food supply.

Following the Executive Board's discussion on Nicaragua, Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, issued the following statement:

"The COVID-19 pandemic is exacerbating existing economic challenges, creating additional urgent fiscal and balance of payments needs. The IMF's emergency financing under the Rapid Credit Facility and Rapid Financing Instrument will help address the balance of payments need while financing increased health and social spending. It will also catalyze further assistance from other multilateral institutions, critical to close the remaining financing gap and ease the adjustment burden."

"A widening of the budget deficit this year to preserve public health and contain the economic impact of the pandemic is appropriate. Continued commitment to enhance transparency in public spending and ensure the good use of emergency financing remains important. The authorities are committed to safeguard medium-term debt sustainability and rebuild buffers once the pandemic abates."

"To facilitate the recovery and counter future shocks, the authorities intend to maintain the accommodative monetary policy stance and safeguard the stability of the financial system. They are committed to making continued efforts to undertake structural reforms over the medium term, including strengthening governance and transparency, and tackling corruption."

NICARAGUA

November 6, 2020

REQUESTS FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT AND DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

EXECUTIVE SUMMARY

- **Context.** Nicaragua faces an acute crisis as the COVID-19 shock comes on top of a two- year recession. So far, the speed of transmission of the pandemic in Nicaragua, in terms of officially confirmed cases, has been slower than in neighboring countries, but this may understate the true spread of the disease. The pandemic is expected to produce the third year of consecutive recession and lead to large fiscal and external financing needs given the impact of voluntary distancing and regional and global spillovers. The very limited fiscal space, eroded by the ongoing recession and the limited external financing, constrains the authorities' ability to self-finance the emergency response.

- **Request for Fund support.** The authorities are requesting emergency financial support equivalent in total to 50 percent of quota (SDR 130 million or about US$183 million), comprising a purchase under the Rapid Financing Instrument (RFI, SDR 86.67 million, 33.33 percent of quota) and a disbursement under the Rapid Credit Facility (RCF, SDR 43.33 million, 16.67 percent of quota) under the "exogenous shock" window. This emergency support is appropriate given Nicaragua's urgent balance of payments needs. Nicaragua is assessed to have sustainable debt and adequate capacity to repay the Fund.

- **Policy recommendations.** The priority is to provide adequate resources to strengthen the health system and support the population most affected and vulnerable. Once the COVID-19 shock subsides, fiscal policy priority should focus on preserving fiscal sustainability, rebuilding buffers, and strengthening resilience. Resuming fiscal consolidation will be the key to ensure fiscal sustainability over the medium-term. The authorities' have committed to continue enhancing fiscal transparency, especially related to emergency fiscal spending, and addressing identified governance weaknesses and strengthening the anti-corruption and anti–money laundering/combating the financing of terrorism (AML/CFT) frameworks. Monetary and financial sector policies should continue to be geared toward preserving financial stability and adequate levels of liquidity in the system.

Approved By
Aasim M. Husain (WHD) and Maria Gonzalez (SPR)

Discussions took place virtually during July 30-October 16, 2020. The team comprised Roberto Garcia-Saltos (head), F. Javier Arze del Granado, Sandra Marcelino (all WHD), Juan Manuel Jauregui (SPR), Miguel A. Otero Fernandez (MCM), and Ivana Rossi (LEG). Gerardo Peraza, Regional Resident Representative, and Manuel Coronel (OED) also participated in the discussions. Mariana Sans and Madina Toshmuhamedova (WHD) assisted the team.

CONTENTS

ANNEX

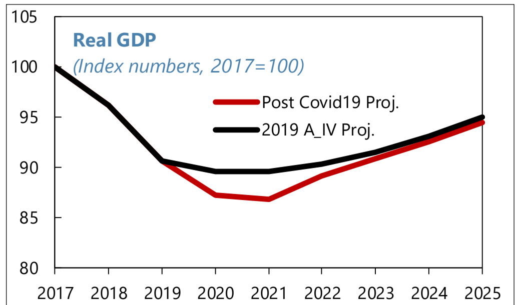
APPENDIX

CONTEXT, RECENT DEVELOPMENTS, AND OUTLOOK

1. **Over the past two years, Nicaragua's economy has been under stress.** Social unrest and its aftermath eroded confidence and caused large capital and bank deposit outflows that resulted in a protracted contraction in output and placed severe strains on the population. Nevertheless, the external and financial buffers accumulated over the years and determined policy responses during 2018–19 safeguarded macroeconomic stability. In the first quarter of 2020, the contraction in formal sector employment and bank credit showed signs of abating, possibly signaling the end of the protracted downturn, but the accumulated sharp contraction in bank credit and financing flows, coupled with weaker confidence, implied weaker medium-term economic growth prospects.

2. **The COVID-19 pandemic will accentuate the ongoing recession.**

- *The outlook for 2020 is for a deeper recession than previously projected, with significant humanitarian consequences.* Preliminary estimates suggest that real GDP growth will fall to -5.5 percent in 2020, marking the third year of consecutive contraction and implying a cumulative decline of about 14 percent since 2017. The global slowdown will reduce tourism, maquila exports, foreign direct investment (FDI), and remittances, as Nicaragua is highly integrated directly and indirectly (through neighboring countries) with the U.S. economy. Lower external demand will further deteriorate firms' financials, aggravate already tight financial constraints in both the private and public sectors, and push up unemployment, which in turn will reduce consumption and investment. Domestically, local community transmission will cause significant supply and demand disruptions that will reinforce each other as voluntary restrictions on movement intensify. In view of the large cumulative contraction in output, the impact on the vulnerable will be especially large, and poverty is likely to accelerate. Assuming that the pandemic fades, global activity rebounds, and domestic confidence improves, real GDP growth would gradually recover starting in 2021, but reaching projected pre-COVID-19 levels will be protracted.



Sources: National authorities and IMF staff calculations

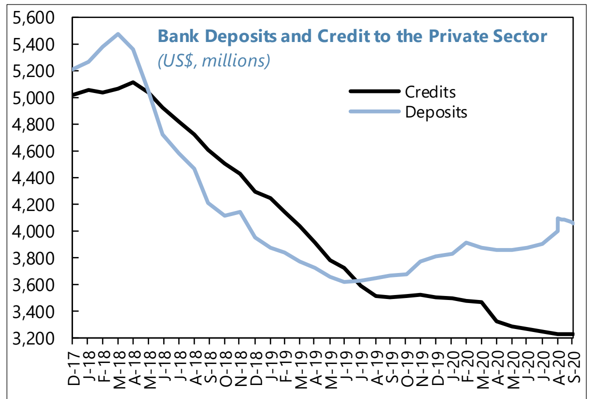
Impact of COVID-19
(Percent of GDP)

	2020		Δ
	Pre-COVID	Post-COVID	change
GDP growth (%)	-1.2	-5.5	-4.3
Inflation (%)	5.0	3.7	-1.2
Fiscal deficit (CPS)	2.7	6.2	3.5
Public debt (CPS)	52.5	57.4	5.0
Credit growth (%)	2.3	-3.6	-5.9

Source: IMF staff calculations.

- *The COVID-19 shock is likely to exacerbate existing vulnerabilities in the financial sector and to hamper the modest recovery Nicaraguan banks were expecting*. The weak recovery in deposits and credit over the past few months has halted, and the accumulated reductions in deposit and credit flows since April 2018 remain sizeable.

- Banks remain vulnerable to deposit outflows and new flows of distressed loans. The high degree of dollarization makes the financial sector a potential amplifier of the shock, should liquidity dry up. In the current context, certain small and medium-sized financial institutions may prove to be more vulnerable because of their relatively weaker financial position.



Source: National authorities

3. **The balance of payments has weakened,resulting in an urgent balance of payment financing need.** On account of the COVID-19 external shock, in 2020 the current account surplus is expected to be lower than the projected pre-COVID levels.[1] Similarly, weaker global prospects will translate into significantly lower FDI and portfolio flows. Preliminary estimates point to a large balance of payments gap, which in the absence of additional international financial support would imply a sizable decrease in international reserves.[2]

Balance of Payments: COVID-19 Impact
(In millions of U.S. dollars)

	2020		
	Pre-COVID	Post-COVID	Δ Difference
Current account	140	63	-77
Trade f.o.b.	-793	-870	-77
Exports	3,531	3,206	-325
Imports (non-maquila)	4,324	4,076	-247
Non-trade	933	933	1
Of which: Tourism	393	181	-212
Remittances	1,677	1,344	-334
Foreign direct investment	327	119	-207
Portfolio investment	-3	-3	0
Other 1/	-512	-511	1
BOP Financing gap	**-48**	**-332**	**-284**
(In percent of GDP)	-0.4	-2.8	-2.4
Potential financing	**48**	**332**	**284**
Potential IMF (RCF/RFI) 2/	-7	177	183
Other IFIs	...	79	79
Change in reserves (increase, -)	55	76	21
Unidentified financing	...	0	0

Source: IMF staff calculations
1/ Includes capital account.
2/ Net use of IMF resources.

RISKS

4. **The main risk to the outlook is a greater-than-expected severity of the pandemic.** Uncertainty is compounded by the impact of COVID-19 on the global economy and by the speed and magnitude of its spread in Nicaragua.

[1] The post-COVID projections are based on the following assumptions relative to 2019: tourism is assumed to decline by 65 percent, while remittances and maquila exports are projected to fall by 20 percent and 22 percent, respectively, due to lower external demand. Similarly, a weaker global outlook is assumed to reduce net FDI by 75 percent.

[2] Specific government entities and individuals in Nicaragua are subject to certain international sanctions, which have sharply reduced Nicaragua's access to external financing. In December 2018, the U.S. government enacted the Nicaragua Human Rights and Anticorruption Act, which severely restricts Nicaragua's external funding. Canada followed suit imposing sanctions on targeted Nicaraguan nationals. For European Union members, the Council of the European Union imposed targeted sanctions (October 2019) and later imposed sanctions on individuals (May 2020), which have been renewed in October 2020. The United Kingdom (May 2020) and Switzerland (June 2020) have also imposed similar sanctions as those of the European Union.

The projections assume that the spread of the pandemic will be contained at moderate levels, and activity will resume moderately by the fourth quarter of 2020. However, the situation could evolve along a more negative trajectory, including due to the effects of new waves of COVID-19, and/or the continuing sanctions. Should this occur, additional measures to strengthen domestic health services and provide support to vulnerable populations would be needed. In addition, an intensification of health security risks could negatively affect the investment climate and recovery prospects. Furthermore, there is a risk that social tensions could rise, further worsening confidence. Taking into consideration these downside risks the authorities should develop contingency plans and strengthen their preparedness to take further policy actions if warranted in the fiscal, monetary, and financial sectors. Governance reform is also key to address corruption vulnerabilities and to buttress sustainable and inclusive growth.

Fiscal Accounts: COVID-19 Impact 1/

	2020		
	Pre-COVID	Post-COVID	Δ Difference
	(In percent of GDP)		
Revenues	30.3	29.2	-1.2
Of which: Taxes	17.6	17.5	-0.1
Payroll contrib.	6.6	6.6	-0.1
Grants	0.6	0.5	-0.1
Other	5.5	4.6	-0.9
Expenditure	33.1	35.4	2.4
Current primary	25.3	27.0	1.7
Of which: INSS	0.8	1.6	0.8
Interest payments	1.6	1.6	0.0
Capital and net lending	6.2	6.9	0.7
Overall balance	**-2.7**	**-6.2**	**-3.5**
(In millions U.S. dollars)	-340	-740	-401
	(In millions of U.S. dollars)		
Potential financing	**340**	**740**	**401**
Potential IMF (RCF/RFI) 2/	-7	177	183
Other External Financing	509	588	79
Use of gov. deposits	74	128	54
Other Domestic Financing	-237	-153	84

Source: IMF staff calculations.
1/ Accounts reported in this table reflect the consolidated public sector.
2/ Net use of IMF resources.

AUTHORITIES' RESPONSE TO THE CRISIS

5. **Health conditions and response.** The speed of transmission of the pandemic in Nicaragua, in terms of officially confirmed cases, has increased rapidly in recent months with 4,225 confirmed cases and 151 fatalities by October 6. In response to COVID-19, the government declared a state of national alert and set protocols for epidemiological surveillance, prevention, diagnosis, and treatment. However, no mandatory quarantine measures or lockdowns are in effect, though voluntary distancing measures are disrupting economic activity, especially in the tourism, retail, and maquila sectors.

Fiscal Policy Response to COVID-19

	Cordobas (million)	% GDP	US$ (million)
Total Expenditure	**9,005**	**2.2**	**259.1**
COVID-19 Related:			
Health spending 1/	5,181	1.3	149.0
Support to food production 2/	637	0.2	18.3
Water deferred payments 3/	400	0.1	11.5
Budget support:			
INSS (historical debt)	2,086	0.5	60.0
External debt amortization (IDB and CABEI)	702	0.2	20.2

Sources: National authorities and IMF staff calculations.
1/ Includes pharmaceutical costs, medical supplies and equipment, management of infectious materials and personal protective equipment.
2/ Implemented with the support of the World Food Programme.
3/ Benefits targeted to approximately 662,745 water users.

6. Fiscal policy has appropriately been geared to design and implement plans to mitigate the impact of pandemic. The authorities plan to introduce fiscal measures of about 1.6 percent of GDP to cover additional health care expenses (1.3 percent of GDP) and targeted temporary social assistance measures (0.3 percent of GDP), including support to food production and water deferred payments.[3]

7. The fiscal situation is expected to deteriorate over the next two years. The overall fiscal impact of the pandemic is estimated to widen the fiscal deficit by 3.5 percent of GDP in 2020. The main elements explaining this deterioration are reduced tax revenues and social security contributions in nominal terms due to the contraction in domestic demand and the surge in job losses—especially in the formal sector. In addition, expenditures wil rise in the areas of health care and social assistance, basic alimentary assistance for the most vulnerable, and some other social support in response of the COVID-19 pandemic. Preliminary estimates point to large fiscal financing needs. Of these needs, IMF support (which the CBN could channel to the Ministry of Finance as budget support, see ¶17), would cover only around 46 percent, while the remaining would be covered by other IFIs—including from ongoing projects— and domestic financing.

8. The government has sought the assistance of the United Nations Office for Project Services (UNOPS) and the World Food Programme (WFP) to increase the impact, efficiency, and transparency of public spending. The UNOPS will assist with the execution of a large share of health care spending, including the purchase of medicines, lab tests, and personal protective equipment. This program would be executed over six months and would extend medical coverage for geographical areas most affected by the pandemic and would target priority groups, which account for a population of approximately 1.5 million. The WFP will implement an emergency agricultural-support program to ensure the country's continuity of adequate food supply. The package will be defined according to the potential production profile reported in the national agriculture census and will target 24,640 households. Among the targeted group, about 40 percent of the package will be directed to female producers to alleviate the adverse effects of the COVID-19 on women.

Programs Operated by UNOPS and the World Food Program

Managing Institution	Amount	Type of Program	Target Population
UNOPS	40 percent of RCF/RFI, SDR 52 million	Provision of medical supplies, medicines, desinfectant and antiseptic solutions.	More than 1.5 million people (about 23 percent of total population) considered the most vulnerable population: persons over 60 years, children under 2 years, pregnant women and population with pre-existing conditions.
WFP	10 percent of RCF/RFI, SDR 13 million	Support the production of food.	24,260 farmers nationwide.

Source: National authorities.

[3] Some of these measures are contingent on receiving IMF support.

9. The authorities began publishing the financial statements of the five largest state-owned enterprises to enhance fiscal transparency. The combined assets of these companies, namely ENATREL, ENEL, PETRONIC, EPN, and ENACAL account for about 22 percent of GDP, and average profitability ratios have been consistently declining since 2015. Based on preliminary analysis using the IMF's SOE Health Check tool, liquidity and solvency ratios are flagged at high risks levels compared to predetermined benchmarks

10. The authorities remain committed to protect fiscal discipline once the effects of the pandemic dissipate. The authorities plan to unwind the temporary pandemic-related fiscal measures and adopt corrective actions to rebuild fiscal buffers (in the form of government deposits) and ensure fiscal sustainability over the medium term. In doing so, the authorities have underscored the importance of ensuring transparency and accountability while safeguarding spending on critical social programs and creating fiscal space for strengthening the social safety net. To date, the authorities have not officially requested debt service suspension under the G20 bilateral debt moratorium initiative (which would suspend debt service payments of US$10.8 million) and are discussing with the World Bank whether their participation would constrain other important sources of non-concessional financing.

11. The Central Bank of Nicaragua (CBN) has implemented several policy measures in response to the shock. The CBN activated a Risk Committee, composed of the CBN, the Superintendency of Banks and Other Financial Institutions (SIBOIF), and the Association of Private Banks of Nicaragua (ASOBAN), to ascertain that their business continuity plan can ensure adequate financial system liquidity and regular functioning of the payment system and critical supply chains. Since March 2020, the CBN has reduced the reference interest rates by 250 basis points, and in June announced a plan to reduce reserve requirements contingent on private banks actions to expand credit. Under this plan, valid until June 30, 2022 banks may reduce the ratio of required reserves in local currency to as low as 4.5 percent (from 15 percent). In addition, in June 2020 the SIBOIF introduced a new temporary financial regulation, effective until December 2020, allowing forbearance on loan-loss provisions by banks for loans granted before March 31, 2020. To protect financial stability, the authorities committed to not extending the new temporary financial regulation beyond December 2020 and publicly disclose on a quarterly basis the stock of loans covered under these provisions.

POLICY RECOMMENDATIONS

12. Staff supports the fiscal measures planned and taken by the authorities to confront the pandemic. Given large downside risks, the authorities should have a contingency plan ready to secure adequate resources to protect priority spending and contain the effects of the COVID-19 outbreak and its implications for vulnerable members of the population. Once the COVID-19 shock subsides, fiscal policy priority should focus on preserving fiscal sustainability, rebuilding buffers and strengthening resilience. In order to avoid an additional financing gap in 2021 and

2022, as well as to safeguard fiscal sustainability, preliminary estimates, included in the baseline scenario point to the need to adopt a fiscal consolidation plan with permanent measures of at least 3 percent of GDP over the period 2021–23.

13. Staff welcomes the authorities' decisions to adopt a comprehensive approach to improve fiscal transparency and enhance accountability through a robust anti-corruption framework. As indicated in the letter of intent, the authorities have made a strong effort to improve the transparency and accountability of fiscal operations and to ensure that emergency spending reaches the intended population.

- The authorities enacted regulations that enable current and future online publication, within one week of contracting of all public procurement contracts (prior action). Online publication, which has already started and so far covers operations since September 25, 2020, contains contract amounts, the specific nature of the goods or services procured and their price per unit (where applicable), the names of the awarded entities and their beneficial owner(s), and the names of the public officials awarding the contracts. Consistent with this action, the Ministry of Finance has also published on its website monthly details of all COVID-19 related spending, as well as basic information on all COVID-19 related contracts signed since June 2020.

- The authorities, in consultation with IMF staff, have formulated the terms of reference for the hiring of an independent external auditor for all COVID-19 related expenditures (prior action). The audit will be conducted within a year of approval of the RCF/RFI disbursement and will also cover funds channeled through third parties. For transparency purposes, the authorities will publish the audit results within two weeks of its finalization. This action will contribute to the efficiency of spending and will provide lessons to strengthen existing systems.

- To enhance fiscal transparency and accountability, the authorities began to publish the financial statements of the five largest state-owned enterprises— namely ENATREL, ENEL, PETRONIC, EPN, and ENACAL— covering the period 2015–19 (prior action). The authorities have committed to gradually expand the annual reporting of financial statements to include all state-owned enterprises, including audit reports from the comptroller general. The authorities have requested Fund technical assistance to conduct a fiscal transparency assessment exercise.

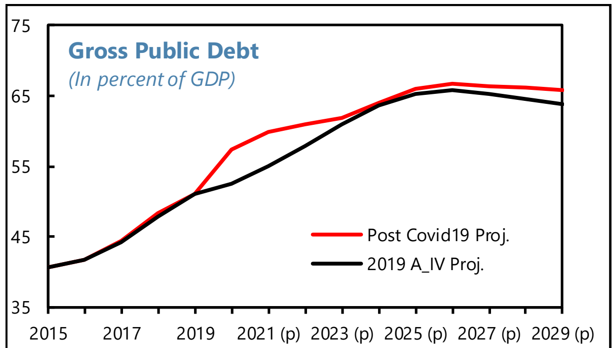
- Addressing identified weaknesses in the AML/CFT framework. In February 2020, Nicaragua was included in the Financial Action Task Force (FATF) list of "Jurisdictions under Increased Monitoring" (also known as the "Grey List"). In response, the authorities made a high-level political commitment to implement an action plan with reforms in four key areas: (1) identification and understanding of money laundering and terrorism financing risks; (2) more proactive pursuit of international cooperation to support money laundering investigation; (3) supervision of the implementation of AML/CFT requirements by the reporting entities (financial and non-financial institutions); and (4) appropriate measures to prevent legal persons and arrangements from being misused for criminal purposes and ensuring that accurate and up–to–date basic and beneficial ownership information is available on a timely basis. Nicaragua has committed to make progress on some portions of the Action Plan by early 2021 and to full implementation of the plan by May 2021. The COVID-19 crisis may impact Nicaragua's capacity to fully implement the plan, and the FATF may consider extending the deadline; however, failing to meet the requirements under the action plan could result in additional risks and further actions. In addition to meeting the plan with the FATF, and enhancing the fight against corruption, the authorities should update the asset declaration regime with a focus on politically exposed persons. Swift action in these areas will help protect the integrity of financial transactions, mitigate exposure to illicit flows, relieve potential pressure on correspondent banking relationships and mitigate financial stability risks.

14. Monetary and financial sector policies should ensure adequate levels of liquidity in the system and preserve financial stability. The expansionary measures are broadly appropriate in the current context, but their impact on fostering credit expansion is uncertain given the underlying weakness in confidence impeding the recovery in the demand for bank credit. Efforts should be made to preserve liquidity in the financial system and to ensure that banks are well prepared for additional deterioration in the quality of their loan portfolios. In particular, the authorities should take the following steps:

- Target banks' adequate valuation of assets and collateral, ensuring proper loan classification and the timely identification and provisioning of distressed assets.
- Ensure that any potential credit restructuring by banks and extraordinary forbearance measures are subject to the ongoing transparency requirements, limited in time, and targeted only to solvent borrowers with viable prospects under normal conditions but that may temporarily fall short of liquidity to service their debt.
- Consider the use of macroprudential policy tools to preserve financial stability.
- Expedite the enhancement of the insolvency and foreclosure framework, including procedures to allow for the reorganization of viable enterprises and the quick liquidation of non-viable enterprises.
- Enhance crisis preparedness, including through contingency planning and strengthened coordination among official agencies for resolution activities.

DEBT SUSTAINABILITY

15. Risks of external debt distress and risk of overall debt distress are both assessed as moderate. Under the updated low-income country debt sustainability assessment framework, Nicaragua's risk of external debt distress is assessed as moderate with limited space to absorb shocks. Over the 10-year projection horizon, all external debt burden indicators under the baseline scenario remains below the threshold, but the present value (PV) of public and the publicly guaranteed (PPG) external debt-to-GDP ratio breach the threshold under standardized stress scenarios. The overall risk of public debt distress is also assessed as moderate. The PV of the public debt-to-GDP ratio is projected to be below the threshold under the baseline scenario, but it is projected to surpass the threshold under most standardized stress scenarios, notably lower GDP growth and realization of contingent liability shocks. The baseline scenario assumes that the government adopts a multi-year fiscal consolidation with permanent measures of at least 3 percent of GDP and unwinds the temporary programs implemented in response to COVID-19. The reduction in the fiscal deficit during 2021–23 equals 3.6 percent of GDP, which staff deems feasible in order to cover a projected fiscal gap for those years, and to bring debt on a firmly declining path by 2025.



Sources: National authorities and IMF staff calculations.

MODALITIES OF SUPPORT

16. The requested emergency financing assistance is in aggregate 50 percent of quota (SDR 130 million or about US$183 million) and comprises a purchase under the RFI and a disbursement under the RCF. With per capita income above the prevailing operational International Development Association cutoff and given that the updated Debt Sustainability Analysis (DSA) deems the risk of debt distress to remain moderate, Nicaragua qualifies as a "presumed blender." Therefore, the requested emergency financing assistance would consist of resources under both the RCF and the RFI in the ratio of 1:2, respectively. With the requested aggregate level of access at 50 percent of quota, SDR 43.33 million (16.67 percent of quota) would thus be provided under the "exogenous shock" window of the RCF and SDR 86.67 million (33.33 percent of quota) under the RFI. The proposed access level represents about 1.5 percent of GDP, which is the average amount for presumed blenders. Nicaragua meets the eligibility requirements for support under the RCF/RFI, as its urgent balance of payments need is caused primarily by sudden exogenous shocks, not by a withdrawal of financial support by donors. Given the urgency of the balance of payments need, it is currently not feasible to design an upper-credit-tranche-quality Fund-supported program due to high degree of uncertainty regarding the duration and scale of the COVID-19 shock. Other sources of gross public external financing in 2020 amount to US$562 million, which includes financing to ongoing projects with international institutions amounting to US$443 million, bilateral ongoing projects for US$40 million, and new disbursements by international institutions in response to COVID-19 for US$79 million (Inter-American Development Bank: US$54 million; World Bank: US$13.1 million: Central American Bank for Economic Integration: US$11.7 million).

17. The capacity to repay the Fund would remain adequate. Nicaragua has no external sovereign arrears to official or private creditors and is current in servicing its remaining outstanding obligations to the IMF (amounting to SDR 4.06 million, equivalent to 1.56 percent of quota). Including the proposed RFI purchase and RCF disbursement, in 2024 projected Fund obligations would peak at 2.2 percent of gross international reserves and 1.1 percent of exports of goods and services (compared with an average of 3.7 percent of gross international reserves and 2.3 percent of exports of goods and services for the five blending emergency assistance arrangements for COVID-19 approved as of May 2020). The proposed access therefore does not impair debt sustainability.

18. The authorities plan to have the potential RFI purchase and RCF disbursement to the BCN be on-lent to the government to provide budget support. Upon Board's approval of the emergency financial support and its subsequent approval by the Nicaragua's National Assembly, in their letter of intent, the authorities confirm that a memorandum of understanding (MOU) will be established —before the Fund's disbursement—between the CBN and the Ministry of Finance on the respective responsibilities for servicing financial obligations to the Fund. Emergency financing from the Fund will be on-lent from the CBN to the Government as budget support, and the authorities have indicated that they have chosen to then promptly transfer half of the funds to two 3rd party institutions that will assist with a transparent execution and enhanced targeting of public expenditure. The MOU will specify that the authorities intend that 40 percent (SDR 52 million) of the RCF/RFI emergency assistance will be directed to the UNOPS for the implementation of the emergency health care program, and 10 percent of the RCF/RFI emergency assistance (SDR 13 million) will be directed to the WFP for the implementation of the emergency food production program. The authorities have committed to undergo a safeguards assessment (the last update was completed in January 2009), which must be completed before Executive Board approval of any subsequent arrangement to which the safeguards policy applies. The authorities agree to provide Fund staff with the necessary central bank audit reports and to authorize the external auditors of the CBN to hold discussions with staff. Furthermore, the authorities' recent decision to resume the periodic online publication of economic information required to evaluate the economic situation is welcome.

AUTHORITIES' VIEWS

19. The COVID-19 crisis comes on top of a two-year economic contraction testing the resilience of Nicaragua's strong economic fundamentals and buffers accumulated over the past decade. Given the limited external financing and diminished buffers, the COVID-19 shock is producing a significant and unexpected balance of payments need.

20. The authorities are determined to protect Nicaragua's macroeconomic stability, rebuild adequate buffers, and strengthen resilience after the COVID-19 crisis abates. They have adopted an accommodating fiscal stance and several temporary actions to restart bank lending. However, these efforts will not be enough to close external and fiscal financing gaps in 2020. They have coupled these with some international reserves drawdown and expect support from multilateral agencies, including the IMF. The authorities are committed to unwinding the temporary programs implemented in response to the pandemic and are preparing a contingency plan to secure adequate resources to protect priority spending. With assistance from the IMF, they are committed to safeguarding social and poverty reduction expenditures while implementing a multi-year fiscal consolidation to bring the debt-to-GDP ratio to a firmly declining path. The authorities welcome staff' s advice on financial sector policies and have started implementing some of the suggested measures e.g., those related to transparency.

21. The authorities are committed to following the highest standards for fiscal transparency. To mitigate risks related to governance and corruption vulnerabilities, they enacted regulations that enable the online publication of beneficial owner(s) of all public procurement contracts, including COVID-19 related. To ensure emergency spending reaches the intended population, the authorities have asked the UNOPS to help execute the emergency health care program and the WFP to help execute the emergency food program. The authorities are taking the necessary steps to ensure that the use of emergency financing remains transparent and accountable, including the hiring of an independent firm to audit all COVID-19 related expenditures through July 2021.

STAFF APPRAISAL

22. The COVID-19 pandemic accentuates Nicaragua's ongoing economic vulnerabilities. The pandemic is expected to produce the third consecutive year of recession and lead to large fiscal and external financing needs, given the effect of voluntary distancing measures and the impact of global and regional spillovers. The very limited fiscal space, eroded by the ongoing recession and the limited external financing, constrains the authorities' ability to self-finance the emergency response. Nicaragua faces an urgent balance of payments need that, if unaddressed, could lead to an immediate and severe economic disruption.

23. The planned easing of the fiscal position in 2020 in response to the pandemic is appropriate. Once the crisis subsides, however, the focus needs to shift to rebuilding buffers and strengthening resilience. Staff is encouraged by the authorities' commitment to allow the temporary-pandemic-related fiscal measures to lapse and adopt corrective actions to ensure a firmly declining path of the public debt-to-GDP ratio over the medium-term, and to adopt of a fiscal responsibility law consistent with macroeconomic stability in the medium-term.

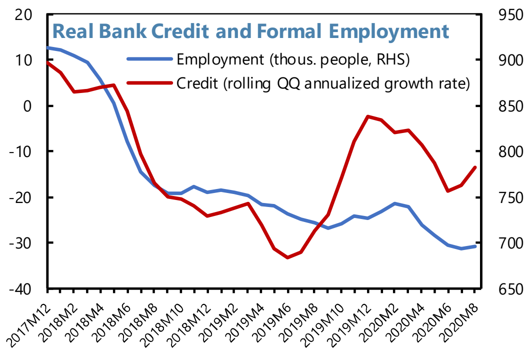
24. Improving the efficiency and transparency of public spending is crucial to building public confidence. In this regard, staff welcome the authorities' recent actions and further commitment to establishing mechanisms to carefully track, record, and publish all expenditures related to the emergency response and more broadly to improve state-owned enterprises' oversight and advance governance and anti-corruption reforms. This would help strengthen public financial management transparency and accountability while contributing to building the government's social spending and emergency response capacity.

25. Efforts to ensure adequate levels of provisions, capital, and liquidity in the financial system are important to preserve financial stability. Staff encourages the authorities to continue maintaining financial stability and to closely monitor the banks' timely identification and provisioning of distressed assets, as well as the levels of capital and liquidity in the financial system amid the existing vulnerabilities exacerbated by the COVID-19 pandemic. Staff welcomes the publication of aggregated data on the extraordinary bank forbearance measures. Staff also welcomes the authorities' commitment to addressing identified weaknesses in the AML/CFT framework in the coming months.

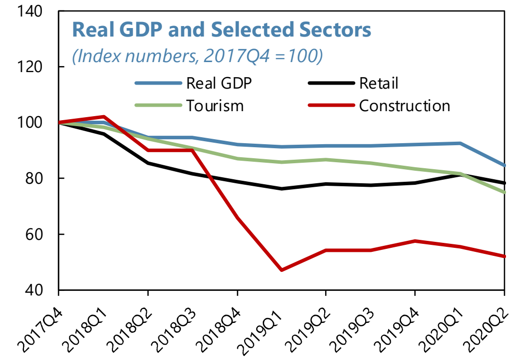
26. Staff supports the proposed purchase under the RFI and disbursement under the RCF. The request for a disbursement of 50 percent of quota is justified by the scale of the COVID-19 shock on Nicaragua, creating an urgent balance of payments need. It is not feasible to design an upper-credit-tranche-quality Fund-supported program given the urgency of the balance of payments need and the high degree of uncertainty regarding the duration and scale of the COVID-19 impact. RCF/RFI financing will be disbursed to the central bank and will be on-lent to the government to provide financing for virus-related spending to mitigate the social and humanitarian impact of the pandemic. Staff welcomes the authorities' initiative to invite the UNOPS and the WFP to ensure a sound targeting mechanism for health care spending and to implement and execute the emergency food production program. The authorities' commitment to prudent policies, including the resumption of sustained fiscal adjustment once the crisis abates, will help ensure debt sustainability. The authorities have provided all the information requested for an assessment of the impact of COVID-19 and the policies taken and planned in response to the pandemic and have reiterated their commitment to continue providing the information required to conduct surveillance. Staff assesses Nicaragua's capacity to repay the Fund as adequate.

Figure 1. Nicaragua: Indicators of Real Sector Activity

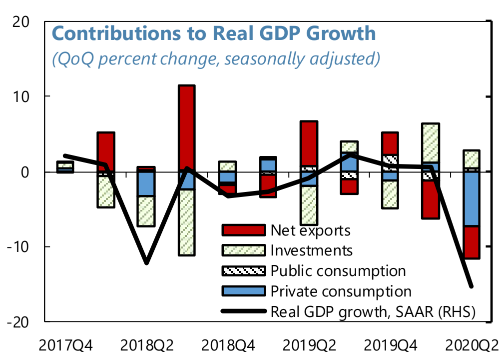
After a 2-year recession, recent indicators showed signs of a tepid recovery by end 2019...



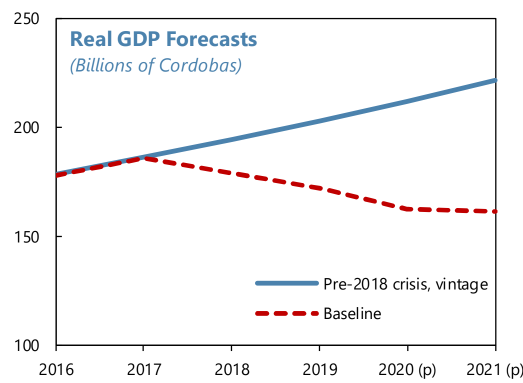
...with some improvements up to early in 2020 in some sectors ...



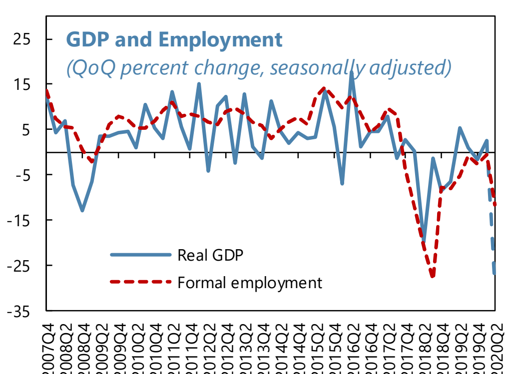
...despite a large depressed aggregate demand.



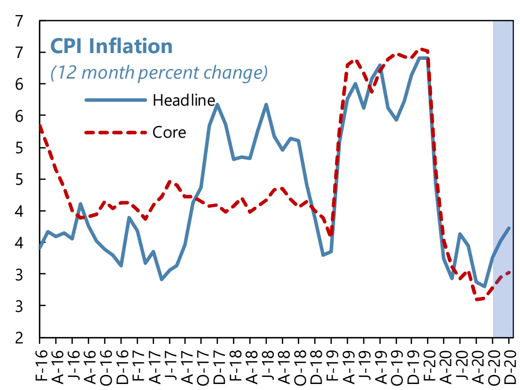
However, COVID-19 will deepen the contraction relative to pre-crisis forecast...



...exacerbating unemployment and informality.



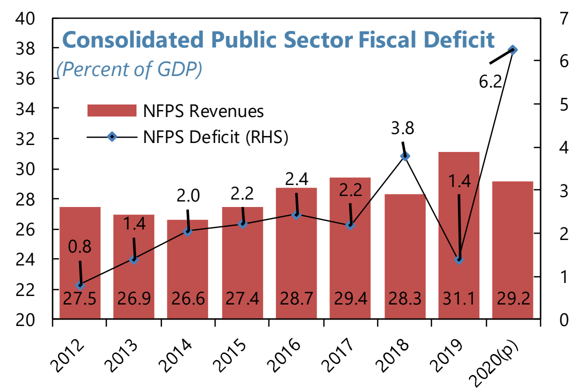
Inflation is expected to be contained due to subdued demand.



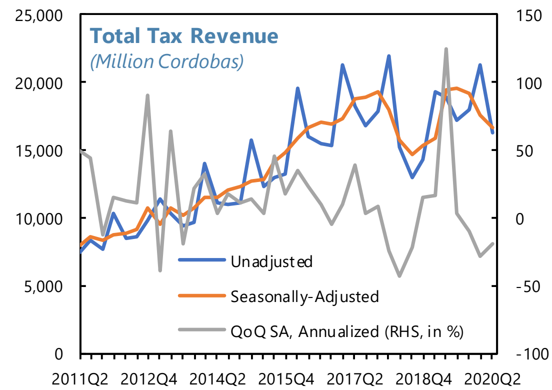
Sources: National authorities and IMF staff calculations.

Figure 2. Nicaragua: Fiscal Developments

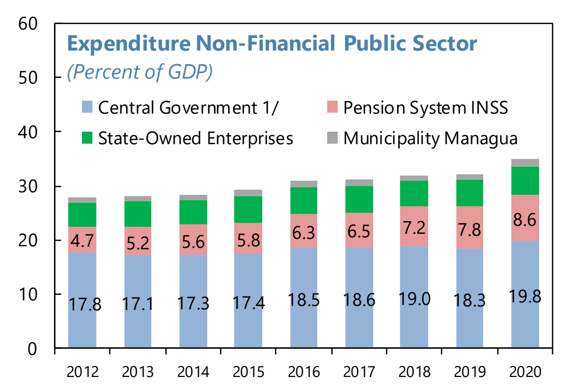
A fiscal reform reduced the fiscal deficit in 2019. Nevertheless, the deficit will increase in 2020 because of the COVID-19 pandemic



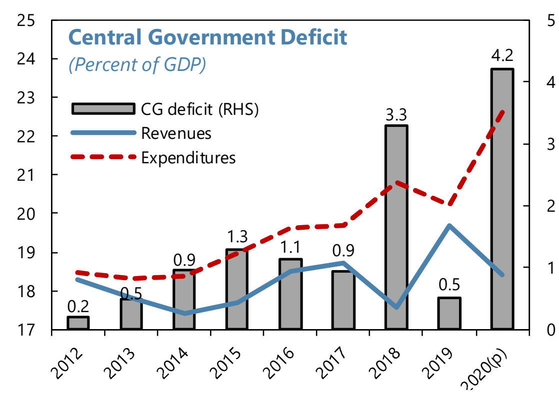
Central government's tax collections dropped significantly through the second quarter of 2020.



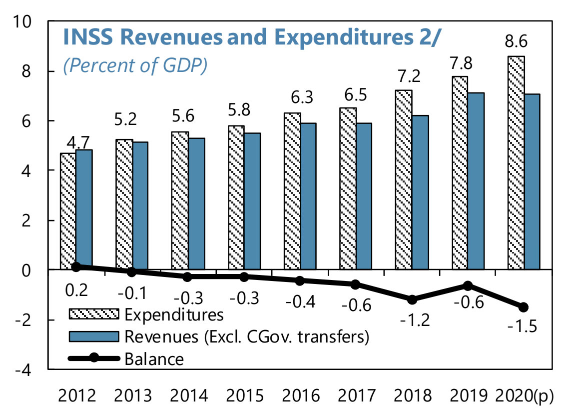
Increasing pension system (INSS) expenses will be financed by central government transfers.



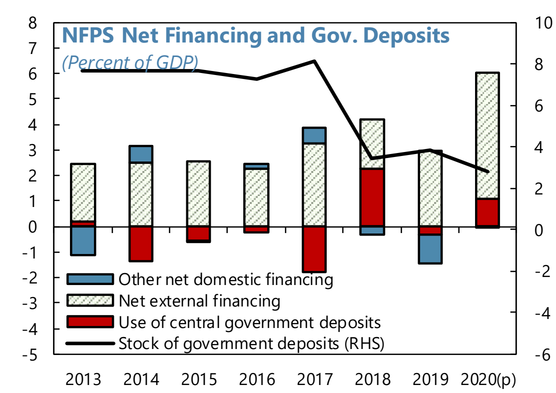
Central government revenues will fall sharply in 2020 while higher health care costs and mitigation measures will increase public expenditures.



The pension system deficit increased as lenient pension access rules outpace increased contributions.



Government deposits are expected to be used to cover for higher financing needs amid limited external financing.



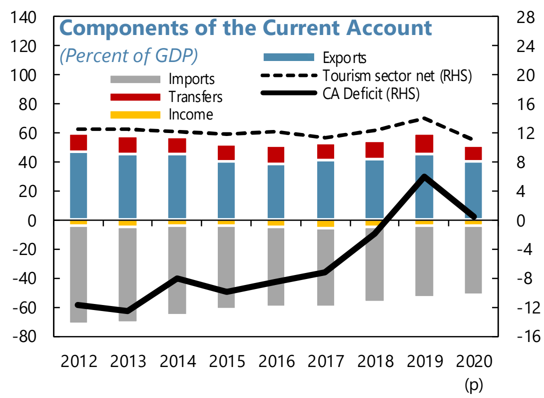
Sources: National authorities and IMF staff calculations.

1/ In 2018 central govenment expenditure does not include a transfer to INSS for 1.2 % of GDP, as partial payment of central government's historical debt to the INSS.

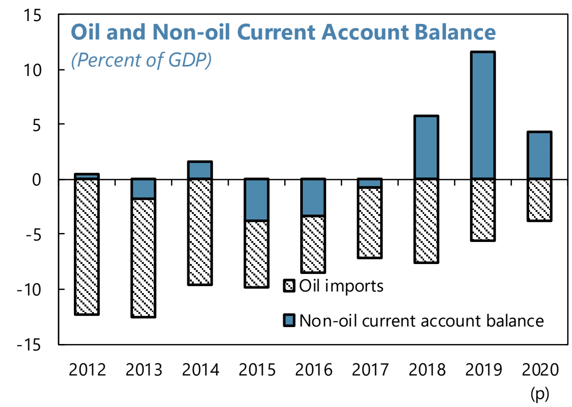
2/ INSS revenue and balance reported do not iclude a transfers from central government.

Figure 3. Nicaragua: External Sector

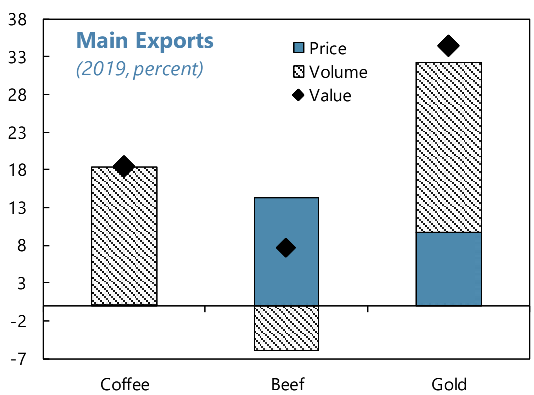
A CA surplus for second consecutive year is projected ….



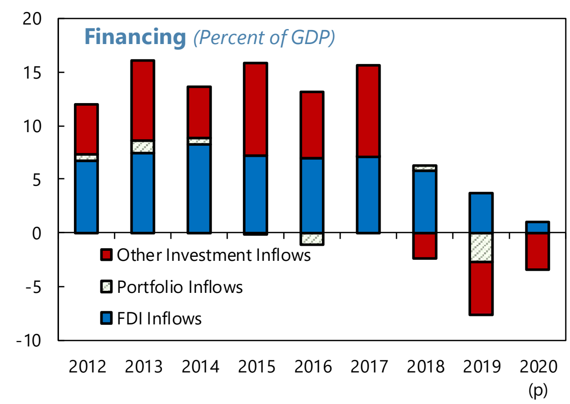
…driven by an improvement in the non-oil current account…



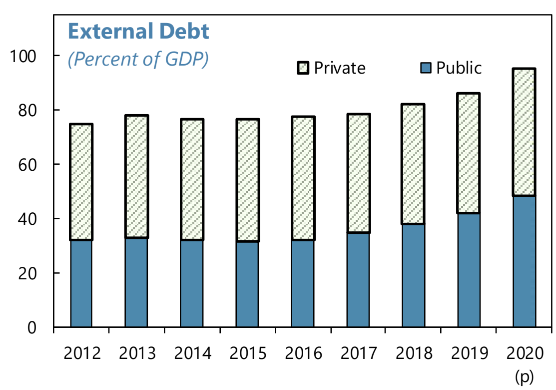
…sustained by commodity export growth.



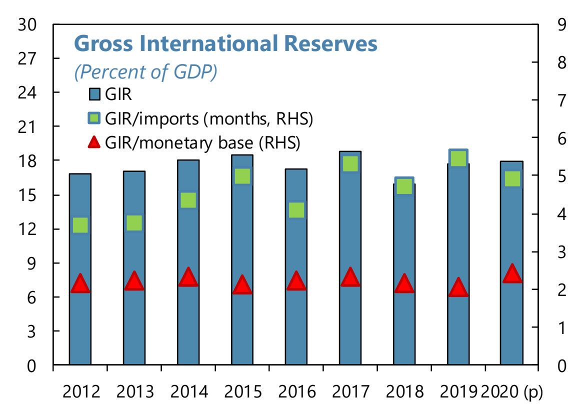
Large capital outflows are projected for a third year in a row.



External debt continues to increase.



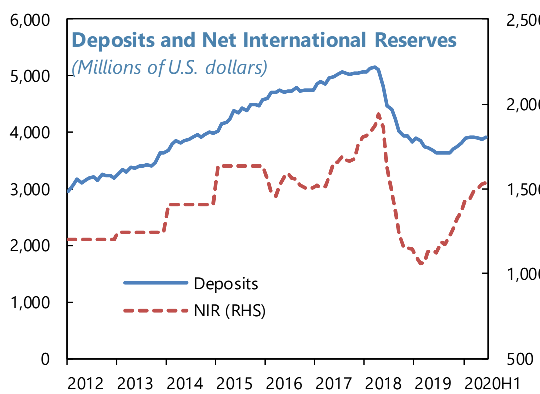
Gross international reserves and coverage are projected to decline.



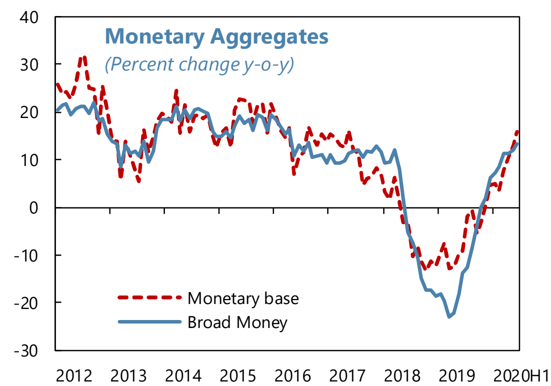
Sources: National authorities and IMF staff calculations.

Figure 4. Nicaragua: Monetary Sector Developments

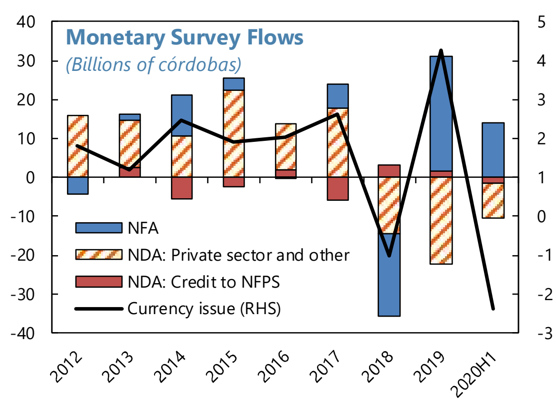
Deposits and NIR fragile recovery in 2019 started to stall in 2020.



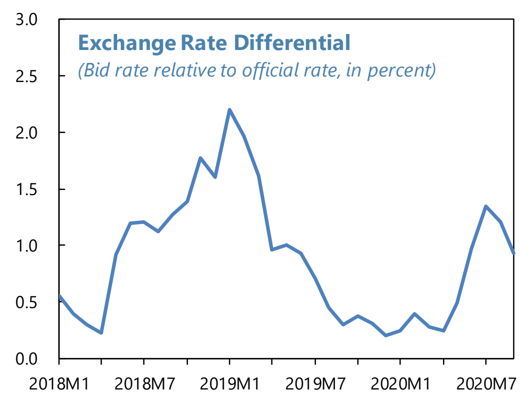
While money demand had exhibited some improvements in 2019…



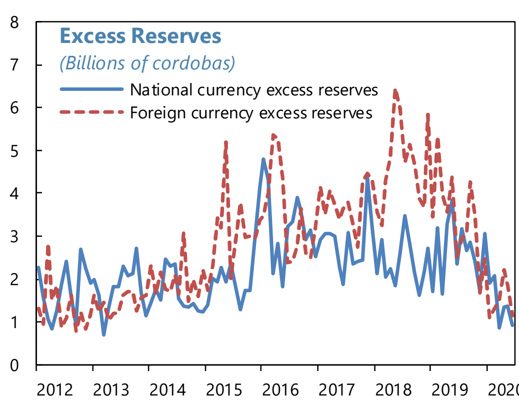
…the private sector continues to face credit contraction.



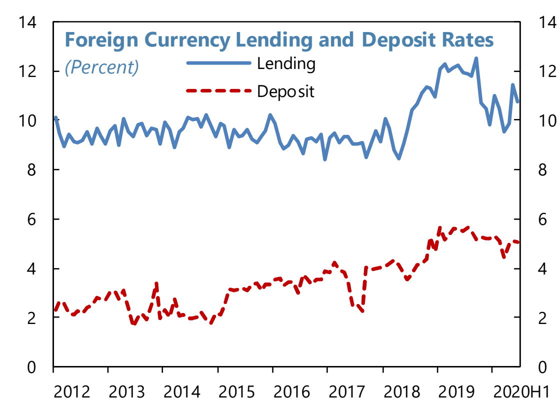
Pressures in the FOREX market are less intense



However, the financial system maintained high levels of FX reserves.



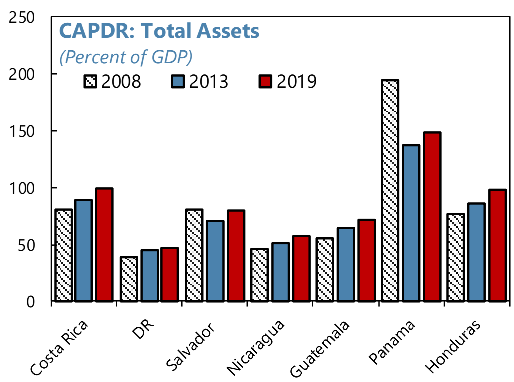
While deposit rates increased to maintain deposits, lending rates fell to boost credits.



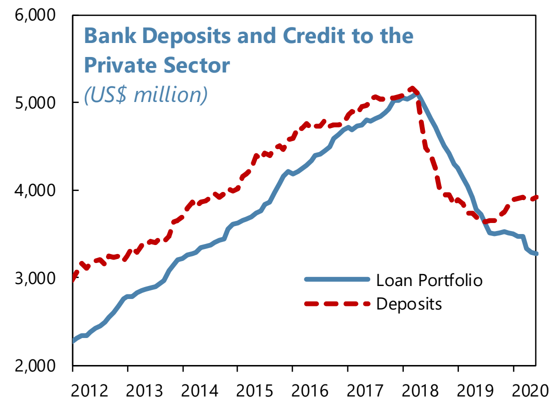
Sources: National authorities and IMF staff calculations.

Figure 5. Nicaragua: Financial Sector Developments

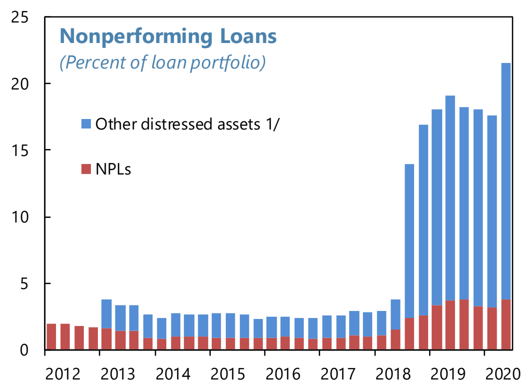
As a result of the socio-political events, Nicaragua's financial system stopped advancing in the CA region in 2019.



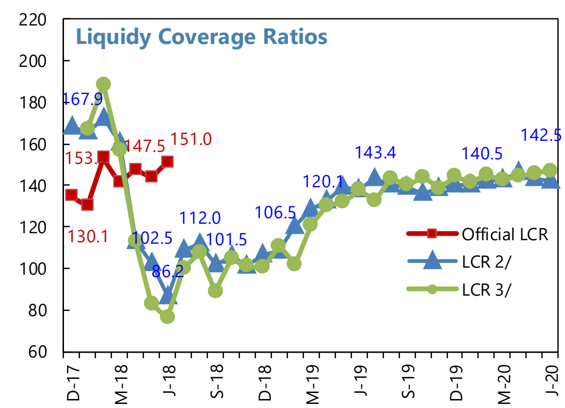
The weak recovery in deposits and credit over the last few months has halted.



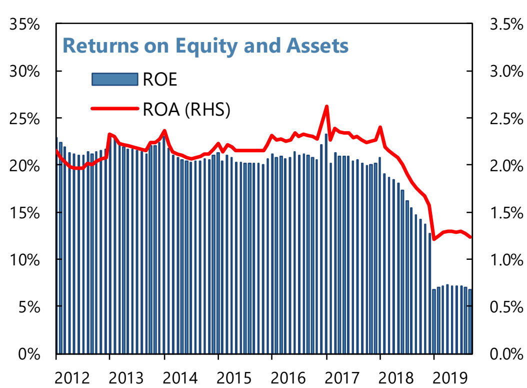
Asset quality has deteriorated sharply from historically very low levels of NPLs.



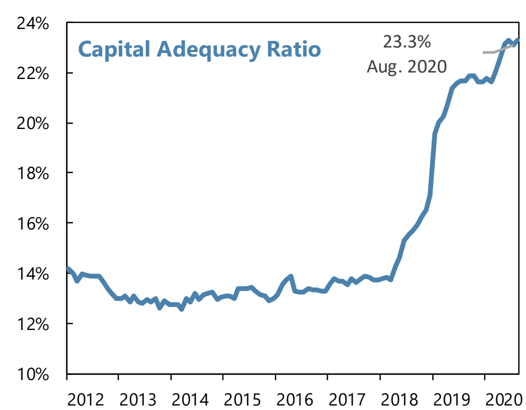
However, financial institutions maintained adequate levels of liquidity.



As a result of the economic downturn, the financial system withstood a sharp fall in profitability.



Capital adequacy, excluding forborne loans, remains, however, well above the minimum requirement.



Sources: National authorities and IMF staff calculations.
1/ Adding restructured, refinanced loans and forborne loans.
2/ Liquid assets to deposits at risk.
3/ Liquid assets + net cash flows / deposits at risk + BCN liquidity flows.

Table 1. Nicaragua: Selected Social and Economic Indicators, 2015–25

I. Social and Demographic Indicators

GDP per capita (current US$, 2018)	2,022	Income share held by the richest 10 percent (2014)	37.2
GNI per capita (Atlas method, current US$, 2017)	2,090	Unemployment (percent of labor force, 2018)	5.5
GINI Index (2014)	46.2	Poverty rate (national pov. line, in percent, 2016)	24.9
Population (millions, 2018)	6.5	Adult literacy rate (percent, 2015)	82.5
Life expectancy at birth in years (2017)	74.1	Infant mortality rate (per 1,000 live births, 2017)	14.8

II. Economic Indicators

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
					Prel.			Projections			
Output	(Annual percentage change; unless otherwise specified)										
GDP growth	4.8	4.6	4.6	-4.0	-3.9	-5.5	-0.5	2.7	2.0	1.8	2.1
GDP (nominal, US$ million)	12,757	13,286	13,786	13,064	12,535	11,850	11,937	12,319	12,627	12,916	13,287
Prices											
GDP deflator	7.6	4.6	4.1	3.6	4.7	3.9	4.3	3.5	3.5	3.5	3.5
Consumer price inflation (period average)	4.0	3.5	3.9	4.9	5.4	3.9	4.3	3.5	3.5	3.5	3.5
Consumer price inflation (end of period)	3.1	3.1	5.7	3.9	6.1	3.7	3.5	3.5	3.5	3.5	3.5
Saving and investment (percent of GDP)											
Gross domestic investment	**29.3**	**27.6**	**29.9**	**23.9**	**17.1**	**18.3**	**19.8**	**22.3**	**25.1**	**27.6**	**30.1**
Private sector	21.8	20.2	22.0	16.1	10.4	10.4	11.5	14.1	17.0	19.2	21.6
Public sector	7.5	7.4	8.0	7.7	6.8	7.9	8.3	8.1	8.1	8.4	8.5
Gross national savings	**19.4**	**19.2**	**22.8**	**22.0**	**23.2**	**18.9**	**19.6**	**21.7**	**24.2**	**26.3**	**28.0**
Private sector	14.6	14.4	17.7	19.3	18.8	18.0	16.7	17.4	19.4	22.5	24.6
Public sector	4.8	4.8	5.0	2.7	4.4	0.9	2.9	4.3	4.8	3.8	3.4
Exchange rate											
Period average (Cordobas per US$)	27.3	28.6	30.1	31.6	33.1	...	...	...	...	...	...
End of period (Cordobas per US$)	27.9	29.3	30.8	32.3	33.8	...	...	...	...	...	...
Fiscal Sector	(Percent of GDP)										
Consolidated public sector (overall balance after grants)	**-2.2**	**-2.4**	**-2.2**	**-3.8**	**-1.4**	**-6.2**	**-4.6**	**-3.1**	**-2.6**	**-3.9**	**-4.3**
Revenue (Incl. grants)	27.4	28.7	29.4	28.3	31.1	29.2	30.1	30.7	31.0	30.7	31.1
Expenditure	29.6	31.2	31.6	32.1	32.5	35.4	34.6	33.8	33.6	34.7	35.4
of which: Central Government overall balance [1/]	**-1.3**	**-1.1**	**-0.9**	**-3.2**	**-0.6**	**-4.2**	**-2.6**	**-0.9**	**-0.4**	**-1.6**	**-2.0**
Revenue	17.7	18.5	18.7	17.6	19.6	18.4	19.1	19.9	20.1	20.0	20.0
Expenditure	19.0	19.6	19.7	20.8	20.2	22.6	21.7	20.8	20.6	21.6	22.0
Cash payments for operating activities	14.9	15.3	15.1	16.7	16.7	19.0	18.1	17.2	16.9	17.6	17.9
Net cash outflow: investments in NFAs	4.0	4.3	4.5	3.5	3.5	3.6	3.7	3.6	3.6	4.0	4.1
of which: Social Security Institute (INSS) overall balance	**-0.3**	**-0.4**	**-0.6**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Revenue	5.5	5.9	5.9	7.4	7.8	8.6	8.7	8.1	7.3	7.6	7.7
Expenditure	5.8	6.3	6.5	7.2	7.8	8.6	8.7	8.1	7.3	7.6	7.7
Money and financial	(Annual percentage change)										
Broad money	19.5	9.4	11.7	-18.7	6.2	-0.6	7.7	6.3	6.4	7.8	6.9
Credit to the private sector	23.5	17.5	16.0	-8.7	-15.6	-3.6	3.0	3.1	4.2	4.6	5.2
of which bank credit to the private sector	22.7	16.7	12.6	-10.2	...	...	...	...	...	...	...
Net domestic assets of the banking system	19.2	11.0	8.8	-7.7	-15.0	2.6	-1.9	1.3	1.5	2.6	3.2
Non-performing loans to total loans (ratio)	0.9	0.9	1.0	2.4	...	...	...	...	...	...	...
Regulatory capital to risk-weighted assets (ratio)	13.0	13.5	13.8	17.0	...	...	...	...	...	...	...
External sector	(Percent of GDP, unless otherwise indicated)										
Current account	-9.9	-8.5	-7.2	-1.9	6.0	0.5	-0.2	-0.6	-0.9	-1.3	-2.2
of which: oil imports	6.1	5.2	6.4	7.6	5.6	3.8	4.4	4.4	4.3	4.3	4.3
Capital and financial account	15.0	9.8	11.1	1.7	-1.8	-3.3	1.8	1.9	2.5	3.4	3.8
of which: FDI	7.2	7.0	7.0	5.8	3.7	1.0	1.3	1.4	1.6	2.2	3.2
Gross international reserves (US$ million) [2/]	2,353	2,296	2,593	2,080	2,214	2,138	2,315	2,482	2,654	2,862	3,038
In months of imports excl. maquila	5.0	4.1	5.3	4.7	5.5	4.9	4.9	4.8	4.8	4.8	4.8
Net international reserves (US$ million) [3/]	1,601	1,506	1,802	1,146	1,374	1,388	1,502	1,674	1,846	2,004	2,153
In months of imports excl. maquila	3.4	2.7	3.7	2.6	3.4	3.2	3.2	3.2	3.3	3.4	3.4
Public sector debt [4/]	40.7	41.7	44.4	48.4	51.0	57.4	60.0	60.9	61.8	64.1	66.0
Domestic public debt	9.1	9.5	9.5	10.2	8.9	8.6	8.8	9.1	9.3	11.1	12.9
External Public Debt	31.7	32.2	34.9	38.2	42.1	48.9	51.2	51.8	52.5	53.0	53.2
Private sector external debt	45.0	45.2	43.6	44.0	44.2	46.9	46.1	44.4	42.9	41.7	40.2

Sources: National authorities; World Bank; and IMF staff calculations.

[1/] Central government deficit and INSS revenue in 2018 include a 1.2 percent of GDP for repayment of INSS historical debt. Similar transfers are projected in 2020-25.

[2/] Excludes the Deposit Guarantee Fund for Financial Institutions (FOGADE).

[3/] Excludes resources from the Deposit Guarantee Fund for Financial Institutions (FOGADE), and reserve requirements for FX deposits.

[4/] Assumes that HIPC-equivalent terms were applied to the outstanding debt to non-Paris Club bilaterals. Does not include SDR allocations. From 2016 onwards includes data on the domestic debt of SOEs and municipalities; while prior to 2016, the stock of domestic debt of SOEs and municipalities is based on the capitalization of flows.

Table 2a. Nicaragua: Operations of the Budgetary Central Government, 2015–25, GFSM 2001

(In Millions of Cordobas)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
					Prel.			Projections			
Cash receipts from operating activities	**61,470**	**70,328**	**77,593**	**72,404**	**81,668**	**74,882**	**80,756**	**89,529**	**95,438**	**99,936**	**105,298**
Taxes	54,725	62,163	68,662	64,454	73,281	67,702	73,435	80,715	86,002	90,111	94,916
Income and property[1/]	21,832	25,599	28,557	29,258	33,037	30,727	31,250	33,666	36,017	37,449	39,046
Indirect[2/]	30,576	33,862	37,315	32,746	37,612	34,473	39,304	42,849	45,046	47,462	50,155
Trade	2,317	2,703	2,702	2,058	2,125	1,975	2,321	3,599	4,289	4,515	4,991
Other taxes	90	90	88	460	507	527	560	601	650	684	723
Grants	2,787	3,540	3,746	2,761	2,402	2,041	1,990	1,940	2,178	2,178	2,302
Other revenue	3,959	4,625	5,186	5,189	5,985	5,138	5,331	6,875	7,258	7,647	8,081
Cash payments for operating activities	**51,897**	**58,094**	**62,755**	**67,699**	**69,245**	**77,403**	**76,337**	**77,299**	**80,257**	**87,984**	**94,295**
Compensation of employees[3/]	20,547	22,736	24,957	31,678	30,301	35,074	37,499	36,789	35,175	38,776	41,574
of which: excluding transfers to INSS	20,547	22,736	24,957	26,796	27,614	28,921	30,273	31,970	33,604	35,406	37,415
Use of goods and services	8,589	11,239	11,763	10,690	11,296	15,677	12,669	13,289	13,904	15,649	16,537
Interest[4/]	3,050	3,755	4,449	4,551	5,410	5,293	4,208	4,231	7,091	7,641	8,449
Subsidies	5,693	5,995	6,503	5,187	5,727	5,150	5,166	5,266	5,656	5,838	6,137
Grants	12,239	12,513	13,605	14,013	14,759	15,560	14,930	15,839	16,440	17,983	19,380
Social benefits	1,224	1,423	1,332	1,447	1,536	434	1,655	1,663	1,755	1,850	1,954
Other expense	556	433	146	133	216	214	210	223	236	248	262
Net cash inflow from operating activities	**9,573**	**12,234**	**14,839**	**4,705**	**12,422**	**-2,521**	**4,420**	**12,230**	**15,181**	**11,951**	**11,003**
Net cash flows from investment in non-financial assets (NFAs):	**14,052**	**16,514**	**18,748**	**18,008**	**14,556**	**14,634**	**15,480**	**16,280**	**17,156**	**19,949**	**21,581**
Purchases of nonfinancial assets	14,058	16,514	18,748	18,008	14,556	14,634	15,480	16,280	17,156	19,949	21,581
Sales of nonfinancial assets	6	0	0	0	0	0	0	0	0	0	0
Cash surplus / deficit	**-4,479**	**-4,280**	**-3,909**	**-13,303**	**-2,134**	**-17,156**	**-11,061**	**-4,050**	**-1,975**	**-7,998**	**-10,578**
Cash flows from financing activities: (1=-2+3+4)	**4,479**	**4,280**	**3,909**	**13,234**	**2,134**	**17,156**	**11,061**	**4,050**	**1,975**	**7,998**	**10,578**
Net acquisition of financial assets other than cash (2)	84	387	668	432	0	0	0	0	0	0	0
Domestic	-66	230	469	432	0	0	0	0	0	0	0
Foreign	150	157	199	0	0	0	0	0	0	0	0
Net incurrence of liabilities (3)	6,448	4,790	10,621	4,186	3,493	12,753	4,261	3,050	1,975	7,998	10,578
Domestic	-502	-921	508	-489	-4,063	-671	2,153	1,128	-1,660	4,602	6,631
Foreign	6,950	5,711	10,113	4,675	7,556	13,424	2,108	1,921	3,636	3,395	3,947
Net cash inflow from financing activities (4=3-2)	6,364	4,403	9,952	3,753	3,493	12,753	4,261	3,050	1,975	7,998	10,578
Use of government deposits (4)	-1,885	-123	-6,043	9,481	-1,360	4,403	6,800	1,000	0	0	0

Sources: National authorities and IMF staff calculations.

[1/] Includes revenue from electricity distributors arising from changes in the electricity tariff.

[2/] Excludes VAT rebates granted as subsidies in the electricity sector.

[3/] Compensation of employees in 2018 includes US$150 million (1.2% of GDP) of central govenrment transfers to the INSS, as repayment of a historical debt. Projections for 2019-24 assume that central government will continue to transfer resources to the INSS in order to close the pension system deficits.

[4/] Interest projections assume that HIPC-equivalent terms were applied to the outstanding debt to non-Paris Club bilaterals. Does not include SDR allocations. Debt service is recorded on payment basis after debt relief.

Table 2b. Nicaragua: Operations of the Budgetary Central Government, 2015–25, GFSM 2001

(In Percent of GDP)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
					Prel.	Projections					
Cash receipts from operating activities	**17.7**	**18.5**	**18.7**	**17.6**	**19.6**	**18.4**	**19.1**	**19.9**	**20.1**	**20.0**	**20.0**
Taxes	15.7	16.3	16.6	15.6	17.5	16.6	17.4	18.0	18.1	18.0	18.0
Income and property[1/]	6.3	6.7	6.9	7.1	8.0	7.6	7.4	7.5	7.6	7.5	7.4
Indirect[2/]	8.8	8.9	9.0	7.9	9.1	8.5	9.3	9.5	9.5	9.5	9.5
Trade	0.7	0.7	0.7	0.5	0.5	0.5	0.5	0.8	0.9	0.9	0.9
Other Taxes	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants	0.8	0.9	0.9	0.7	0.6	0.5	0.5	0.4	0.5	0.4	0.4
Other revenue	1.1	1.2	1.3	1.3	1.4	1.3	1.3	1.5	1.5	1.5	1.5
Cash payments for operating activities	**14.9**	**15.3**	**15.1**	**16.4**	**16.7**	**19.0**	**18.1**	**17.2**	**16.9**	**17.6**	**17.9**
Compensation of employees[3/]	5.9	6.0	6.0	7.7	7.3	8.6	8.9	8.2	7.4	7.8	7.9
of which: excluding transfers to INSS	5.9	6.0	6.0	6.5	6.7	7.1	7.2	7.1	7.1	7.1	7.1
Use of goods and services	2.5	3.0	2.8	2.6	2.7	3.9	3.0	3.0	2.9	3.1	3.1
Interest[4/]	0.9	1.0	1.1	1.1	1.3	1.3	1.0	0.9	1.5	1.5	1.6
Subsidies	1.6	1.6	1.6	1.3	1.4	1.3	1.2	1.2	1.2	1.2	1.2
Grants	3.5	3.3	3.3	3.4	3.6	3.8	3.5	3.5	3.5	3.6	3.7
Social benefits	0.4	0.4	0.3	0.4	0.4	0.1	0.4	0.4	0.4	0.4	0.4
Other expense	0.2	0.1	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Net cash inflow from operating activities	**2.8**	**3.2**	**3.6**	**1.1**	**2.9**	**-0.6**	**1.0**	**2.7**	**3.2**	**2.4**	**2.1**
Net cash flows from investment in non-financial assets (NFAs):	**4.0**	**4.3**	**4.5**	**4.4**	**3.5**	**3.6**	**3.7**	**3.6**	**3.6**	**4.0**	**4.1**
Purchases of nonfinancial assets	4.0	4.3	4.5	4.4	3.5	3.6	3.7	3.6	3.6	4.0	4.1
Sales of nonfinancial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash surplus / deficit	**-1.3**	**-1.1**	**-0.9**	**-3.2**	**-0.5**	**-4.2**	**-2.6**	**-0.9**	**-0.4**	**-1.6**	**-2.0**
Cash flows from financing activities: (1=-2+3+4)	**1.3**	**1.1**	**0.9**	**3.2**	**0.5**	**4.2**	**2.6**	**0.9**	**0.4**	**1.6**	**2.0**
Net acquisition of financial assets other than cash (2)	0.0	0.1	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities (3)	1.9	1.3	2.6	1.0	0.8	3.1	1.0	0.7	0.4	1.6	2.0
Domestic	-0.1	-0.2	0.1	-0.1	-1.0	-0.2	0.5	0.3	-0.4	0.9	1.3
Foreign	2.0	1.5	2.4	1.1	1.8	3.3	0.5	0.4	0.8	0.7	0.7
Net cash inflow from financing activities (4=3-2)	1.8	1.2	2.4	0.9	0.8	3.1	1.0	0.7	0.4	1.6	2.0
Use of government deposits (4)	-0.5	0.0	-1.5	2.3	-0.3	1.1	1.6	0.2	0.0	0.0	0.0

Sources: National authorities and IMF staff calculations.

1/ Includes revenue from electricity distributors arising from changes in the electricity tariff.

2/ Excludes VAT rebates granted as subsidies in the electricity sector.

3/ Compensation of employees in 2018 includes US$150 million (1.2 % of GDP) of central govenrment transfers to the INSS, as repayment of a historical debt. Projections for 2019-24 assume that central government will continue to transfer resources to the INSS in order to close the pension system deficits.

4/ Interest projections assume that HIPC-equivalent terms were applied to the outstanding debt to non-Paris Club bilaterals. Does not include SDR allocations. Debt service is recorded on payment basis after debt relief.

Table 3a. Nicaragua: Operations of the Consolidated Public Sector, 2015–25, GFSM 2001

(In Millions of Cordobas)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Prel.				Proj.			
Budgetary Central Gov. cash surplus/deficit	**-4,484**	**-4,280**	**-3,909**	**-13,234**	**-2,134**	**-17,156**	**-11,061**	**-4,050**	**-1,975**	**-7,998**	**-10,578**
Revenue	61,470	70,328	77,593	72,474	81,668	74,882	80,756	89,529	95,438	99,936	105,298
of which: grants	2,787	3,540	3,746	2,761	2,402	2,041	1,990	1,940	2,178	2,178	2,302
Expenditure	65,955	74,607	81,503	85,708	83,801	92,037	91,817	93,579	97,413	107,933	115,876
Of which: Excluding Transfers to INSS for Hist. debt	65,955	74,607	81,503	80,825	81,114	85,884	84,591	88,761	95,842	104,564	111,717
Social Security Institute (INSS) cash surplus/deficit	**-979**	**-1,630**	**-2,374**	**670**	**5**	**0**	**0**	**0**	**0**	**0**	**0**
Revenue	19,145	22,338	24,494	30,485	32,241	34,870	36,830	36,142	34,800	37,988	40,859
Of which: Excluding Central Government Transfers	19,145	22,338	24,494	25,603	29,554	28,717	29,604	31,323	33,228	34,618	36,700
Of which: Transfers to INSS for Hist. debt	0	0	0	4,882	2,687	6,153	7,226	4,818	1,571	3,369	4,159
Expenditure	20,124	23,967	26,868	29,815	32,236	34,870	36,830	36,142	34,800	37,988	40,859
Managua municipality (ALMA) cash surplus/deficit	**442**	**-556**	**-249**	**267**	**260**	**-674**	**-2,316**	**-1,331**	**-1,207**	**-1,272**	**-1,344**
Revenue	4,451	3,657	4,698	4,136	3,667	5,072	4,872	5,146	5,584	5,883	6,217
of which: grants	198	7	0	1	1	0	0	0	0	0	0
Expenditure	4,009	4,213	4,948	3,869	3,407	5,746	7,188	6,478	6,791	7,155	7,561
Public enterprises cash surplus/deficit [1/]	**-1,686**	**-2,060**	**-2,124**	**-3,817**	**-4,394**	**-6,621**	**-4,823**	**-6,856**	**-7,399**	**-8,060**	**-9,300**
Revenue	15,406	16,626	18,386	15,548	16,889	14,570	16,323	17,425	18,644	19,573	20,651
of which: Grants (external)	806	6	541	0	18	141	270	315	332	350	370
Expenditure	17,093	18,687	20,510	19,365	21,283	21,191	21,146	24,282	26,043	27,633	29,951
Non-financial public sector											
Cash receipts from operating activities	95,193	108,791	120,930	115,064	126,724	117,966	126,597	137,960	147,038	154,045	162,680
Taxes	57,323	65,078	71,989	67,486	76,142	71,138	77,016	84,535	90,187	94,521	99,577
Social contributions	18,194	21,296	23,868	25,369	27,586	26,733	27,405	29,009	30,801	32,377	34,434
Grants	3,866	3,555	4,289	2,764	2,422	2,182	2,260	2,255	2,511	2,536	2,679
Other revenue	15,811	18,862	20,784	19,445	20,574	17,913	19,916	22,161	23,539	24,612	25,990
Cash payments for operating activities	78,668	90,693	100,097	103,856	108,667	114,497	114,336	118,646	124,355	134,917	144,864
Compensation of employees	25,635	28,657	31,299	33,091	33,821	35,055	36,819	38,839	40,780	42,967	45,405
Use of goods and services	14,341	17,695	19,484	17,737	19,527	22,451	18,481	20,617	22,114	25,049	27,261
Interest	3,183	3,770	4,755	4,709	5,466	5,688	4,545	4,796	7,610	8,157	8,965
Subsidies	2,934	3,570	4,279	4,589	4,254	4,326	4,673	4,521	4,844	4,889	5,185
Grants	10,754	11,902	12,575	13,076	12,495	12,939	12,413	13,177	13,630	15,338	16,660
Social benefits	18,122	21,150	24,351	27,483	29,863	30,653	33,667	33,259	32,488	34,682	36,809
Other expense	3,699	3,950	3,354	3,172	3,241	3,386	3,738	3,436	2,890	3,835	4,579
Net cash inflow from operating activities	16,525	18,098	20,833	11,207	18,057	3,468	12,261	19,313	22,683	19,128	17,816
Net cash outflow from investments in NFAs	23,224	26,622	29,487	27,321	24,319	27,919	30,461	31,551	33,264	36,458	39,038
Cash surplus / deficit	**-6,699**	**-8,524**	**-8,654**	**-16,114**	**-6,262**	**-24,451**	**-18,199**	**-12,237**	**-10,581**	**-17,330**	**-21,222**
Central bank (BCN) cash surplus / deficit	**-1,023**	**-741**	**-383**	**465**	**516**	**-974**	**-1,133**	**-1,626**	**-1,919**	**-2,224**	**-1,303**
Consolidated Public Sector cash surplus / deficit	**-7,722**	**-9,264**	**-9,037**	**-15,649**	**-5,746**	**-25,425**	**-19,332**	**-13,864**	**-12,501**	**-19,554**	**-22,525**
Cash flows from financing activities: (1=-2+3+4+5)	**7,724**	**9,267**	**9,039**	**15,649**	**5,746**	**25,425**	**19,332**	**13,864**	**12,501**	**19,554**	**22,525**
Net acquisition of financial assets other than cash (2)	1,214	7	-248	-477	-600	-680	0	0	0	0	0
Net incurrence of liabilities (3)	9,767	9,429	15,721	6,552	7,094	19,367	11,399	11,237	11,197	17,325	21,222
Domestic	737	632	1,945	-1,436	-5,144	-829	-48	1,010	-251	8,523	11,755
Foreign	9,030	8,796	13,775	7,988	12,238	20,196	11,447	10,228	11,448	8,802	9,467
Use of deposits (4)	-1,852	-896	-7,312	9,085	-1,431	4,403	6,800	1,000	-615	5	0
Central bank (BCN) cash surplus/deficit (5)	1,023	741	383	-465	-516	974	1,133	1,626	1,919	2,224	1,303
Memorandum items											
GDP (nominal)	347,707	380,261	414,279	412,207	414,714	406,983	422,297	448,879	473,882	499,297	527,625
Stock of government deposits	N.A.	N.A.	33,716	24,316	25,747	21,344	14,544	13,544	14,159	14,155	0

Sources: National authorities and IMF staff calculations.

[1/] Includes the state-owned airport (EAAI); ports (EPN); oil (PETRONIC); electricity generation, transmission and regulation (ENATREL, ENEL and INE); water and sewer (ENACAL); food (ENABAS); trade and public enterprise corporation (ENIMPORT and CORNAP); telecommunications (TELCOR); technological institute (INATEC); post (CORREOS); and lottery (LOTERIA).

Table 3b. Nicaragua: Operations of the Consolidated Public Sector, 2015–25, GFSM 2001
(In Percent of GDP)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
					Prel.			Projections			
Budgetary central government cash surplus/deficit	**-1.3**	**-1.1**	**-0.9**	**-3.2**	**-0.5**	**-4.2**	**-2.6**	**-0.9**	**-0.4**	**-1.6**	**-2.0**
Revenue	17.7	18.5	18.7	17.6	19.7	18.4	19.1	19.9	20.1	20.0	20.0
of which: grants	0.8	0.9	0.9	0.7	0.6	0.5	0.5	0.4	0.5	0.4	0.4
Expenditure	19.0	19.6	19.7	20.8	20.2	22.6	21.7	20.8	20.6	21.6	22.0
Excluding Transfers to INSS	19.0	19.6	19.7	19.6	19.6	21.1	20.0	19.8	20.2	20.9	21.2
Social Security Institute (INSS) cash surplus/deficit	**-0.3**	**-0.4**	**-0.6**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Revenue	5.5	5.9	5.9	7.4	7.8	8.6	8.7	8.1	7.3	7.6	7.7
Of which: Excluding Central Government Transfers	5.5	5.9	5.9	6.2	7.1	7.1	7.0	7.0	7.0	6.9	7.0
Of which: Transfers to INSS	0.0	0.0	0.0	1.2	0.6	1.5	1.7	1.1	0.3	0.7	0.8
Expenditure	5.8	6.3	6.5	7.2	7.8	8.6	8.7	8.1	7.3	7.6	7.7
Managua municipality (ALMA) cash surplus/deficit	**0.1**	**-0.1**	**-0.1**	**0.1**	**0.1**	**-0.2**	**-0.5**	**-0.3**	**-0.3**	**-0.3**	**-0.3**
Revenue	1.3	1.0	1.1	1.0	0.9	1.2	1.2	1.1	1.2	1.2	1.2
of which : grants	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	1.2	1.1	1.2	0.9	0.8	1.4	1.7	1.4	1.4	1.4	1.4
Public enterprises cash surplus/deficit [1/]	**-0.5**	**-0.5**	**-0.5**	**-0.9**	**-1.1**	**-1.6**	**-1.1**	**-1.5**	**-1.6**	**-1.6**	**-1.8**
Revenue	4.4	4.4	4.4	3.8	4.1	3.6	3.9	3.9	3.9	3.9	3.9
of which: Grants (external)	0.2	0.0	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Expenditure	4.9	4.9	5.0	4.7	5.1	5.2	5.0	5.4	5.5	5.5	5.7
Non-financial public sector				-1.3							
Cash receipts from operating activities	27.4	28.6	29.2	27.9	30.6	29.0	30.0	30.7	31.0	30.9	30.8
Taxes	16.5	17.1	17.4	16.4	18.4	17.5	18.2	18.8	19.0	18.9	18.9
Social contributions	5.2	5.6	5.8	6.2	6.7	6.6	6.5	6.5	6.5	6.5	6.5
Grants	1.1	0.9	1.0	0.7	0.6	0.5	0.5	0.5	0.5	0.5	0.5
Other revenue	4.5	5.0	5.0	4.7	5.0	4.4	4.7	4.9	5.0	4.9	4.9
Cash payments for operating activities	22.6	23.9	24.2	25.2	26.2	28.1	27.1	26.4	26.2	27.0	27.5
Compensation of employees	7.4	7.5	7.6	8.0	8.2	8.6	8.7	8.7	8.6	8.6	8.6
Use of goods and services	4.1	4.7	4.7	4.3	4.7	5.5	4.4	4.6	4.7	5.0	5.2
Interest	0.9	1.0	1.1	1.1	1.3	1.4	1.1	1.1	1.6	1.6	1.7
Subsidies	0.8	0.9	1.0	1.1	1.0	1.1	1.1	1.0	1.0	1.0	1.0
Grants	3.1	3.1	3.0	3.2	3.0	3.2	2.9	2.9	2.9	3.1	3.2
Social benefits	5.2	5.6	5.9	6.7	7.2	7.5	8.0	7.4	6.9	6.9	7.0
Other expense	1.1	1.0	0.8	0.8	0.8	0.8	0.9	0.8	0.6	0.8	0.9
Net cash inflow from operating activities	4.8	4.8	5.0	2.7	4.4	0.9	2.9	4.3	4.8	3.8	3.4
Net cash outflow from investments in NFAs	6.7	7.0	7.1	6.6	5.9	6.9	7.2	7.0	7.0	7.3	7.4
Cash surplus / deficit	**-1.9**	**-2.2**	**-2.1**	**-3.9**	**-1.5**	**-6.0**	**-4.3**	**-2.7**	**-2.2**	**-3.5**	**-4.0**
Central bank (BCN) cash surplus / deficit	**-0.3**	**-0.2**	**-0.1**	**0.1**	**0.1**	**-0.2**	**-0.3**	**-0.4**	**-0.4**	**-0.4**	**-0.2**
Consolidated Public Sector cash surplus / deficit	**-2.2**	**-2.4**	**-2.2**	**-3.8**	**-1.4**	**-6.2**	**-4.6**	**-3.1**	**-2.6**	**-3.9**	**-4.3**
Cash flows from financing activities: (1=-2+3+4+5)	**2.2**	**2.4**	**2.2**	**3.8**	**1.4**	**6.2**	**4.6**	**3.1**	**2.6**	**3.9**	**4.3**
Net acquisition of financial assets other than cash (2)	0.3	0.0	-0.1	-0.1	-0.1	-0.2	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities (3)	2.8	2.5	3.8	1.6	1.7	4.8	2.7	2.5	2.4	3.5	4.0
Domestic	0.2	0.2	0.5	-0.3	-1.2	-0.2	0.0	0.2	-0.1	1.7	2.2
Foreign	2.6	2.3	3.3	1.9	3.0	5.0	2.7	2.3	2.4	1.8	1.8
Use of deposits (4)	-0.5	-0.2	-1.8	2.2	-0.3	1.1	1.6	0.2	-0.1	0.0	0.0
Central bank (BCN) cash surplus/deficit (5)	0.3	0.2	0.1	-0.1	-0.1	0.2	0.3	0.4	0.4	0.4	0.2
Memorandum items											
GDP (nominal)	347,707	380,261	414,279	412,207	414,714	406,983	422,297	448,879	473,882	499,297	527,625
Stock of government deposits			8.1	5.9	6.2	5.2	3.4	3.0	3.0	2.8	0.0

Sources: National authorities and IMF staff calculations.

[1/] Includes the state-owned airport (EAAI); ports (EPN); oil (PETRONIC); electricity generation, transmission and regulation (ENATREL, ENEL, and INE); water and sewer (ENACAL); food (ENABAS); trade and public enterprise corporation (ENIMPORT and CORNAP); telecommunications (TELCOR); technological institute (INATEC); post (CORREOS); and lottery (LOTERIA).

Table 4. Nicaragua: Non-financial Public Sector Gross Financing Requirements, 2015–25[1]

(In Millions of U.S. dollars)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
					Prel.	Projections					
					(Millions of U.S. dollars)						
a. NFPS primary deficit (before grants)	**271**	**290**	**272**	**449**	**97**	**610**	**450**	**266**	**146**	**303**	**376**
CG and public enterprises	235	233	193	470	97	610	450	266	146	303	376
INSS	36	57	79	-21	0	0	0	0	0	0	0
b. Debt service obligations	**360**	**364**	**518**	**416**	**531**	**531**	**510**	**605**	**609**	**623**	**726**
External	108	137	175	196	235	254	266	304	385	396	441
Interest	55	68	79	89	103	97	62	73	138	145	151
Amortization	52	69	96	108	132	157	204	231	247	251	291
Domestic	252	228	343	219	296	277	243	301	224	227	284
Interest	77	77	88	69	78	73	71	63	68	70	79
Amortization of bonds	141	116	221	139	206	191	158	224	142	143	192
Other internal amortizations 2/	34	35	34	12	12	13	15	14	14	14	13
c. Gross financing needs (a+b)	**630**	**655**	**791**	**865**	**629**	**1,140**	**959**	**871**	**756**	**926**	**1,102**
d. Financing sources	**630**	**655**	**791**	**865**	**629**	**1,140**	**959**	**871**	**756**	**926**	**1,102**
External	562	546	696	448	576	808	591	573	619	544	596
Disbursements	383	375	553	361	502	745	527	511	552	479	529
Grants	178	172	143	88	73	64	64	62	67	65	67
Domestic	69	108	95	416	53	332	368	297	137	381	506
Bond issuance (gross)	87	111	123	101	179	148	165	175	191	185	190
Deposits Central Bank	-94	-32	-165	300	-41	128	192	27	0	0	0
Of which CG deficit financing 3/	…	…	…	130	…	…	…	…	…	…	…
Of which INSS hist. debt amortization 4/	…	…	…	170	…	…	…	…	…	…	…
Commercial banks	55	24	-28	-13	-2	0	0	0	0	0	0
Other 5/	20	6	164	28	-82	56	11	95	-54	197	315
					(Percent of GDP)						
a. NFPS primary deficit (before grants)	**2.1**	**2.19**	**2.0**	**3.4**	**0.8**	**5.1**	**3.8**	**2.2**	**1.2**	**2.3**	**2.8**
CG and public enterprises	1.8	1.8	1.4	3.6	0.8	5.1	3.8	2.2	1.2	2.3	2.8
INSS	0.3	0.4	0.6	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
b. Debt service obligations	**2.8**	**2.7**	**3.8**	**3.2**	**4.2**	**4.5**	**4.3**	**4.9**	**4.8**	**4.8**	**5.5**
External	0.8	1.0	1.3	1.5	1.9	2.1	2.2	2.5	3.0	3.1	3.3
Interest	0.4	0.5	0.6	0.7	0.8	0.8	0.5	0.6	1.1	1.1	1.1
Amortization	0.4	0.5	0.7	0.8	1.1	1.3	1.7	1.9	2.0	1.9	2.2
Domestic	2.0	1.7	2.5	1.7	2.4	2.3	2.0	2.4	1.8	1.8	2.1
Interest	0.6	0.6	0.6	0.5	0.6	0.6	0.6	0.5	0.5	0.5	0.6
Amortization of bonds	1.1	0.9	1.6	1.1	1.6	1.6	1.3	1.8	1.1	1.1	1.4
Other internal amortizations 2/	0.3	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
c. Gross financing needs (a+b)	**4.9**	**4.9**	**5.7**	**6.6**	**5.0**	**9.6**	**8.0**	**7.1**	**6.0**	**7.2**	**8.3**
d. Financing sources	**4.9**	**4.9**	**5.7**	**6.6**	**5.0**	**9.6**	**8.0**	**7.1**	**6.0**	**7.2**	**8.3**
External	4.4	4.1	5.0	3.4	4.6	6.8	5.0	4.7	4.9	4.2	4.5
Disbursements	3.0	2.8	4.0	2.8	4.0	6.3	4.4	4.2	4.4	3.7	4.0
Grants	1.4	1.3	1.0	0.7	0.6	0.5	0.5	0.5	0.5	0.5	0.5
Domestic	0.5	0.8	0.7	3.2	0.4	2.8	3.1	2.4	1.1	3.0	3.8
Bond issuance (gross)	0.7	0.8	0.9	0.8	1.4	1.2	1.4	1.4	1.5	1.4	1.4
Deposits Central Bank	-0.7	-0.2	-1.2	2.3	-0.3	1.1	1.6	0.2	0.0	0.0	0.0
Of which CG deficit financing 3/	…	…	…	1.0	…	…	…	…	…	…	…
Of which INSS hist. debt amortization 4/	…	…	…	1.3	…	…	…	…	…	…	…
Commercial banks	0.4	0.2	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other and unidentified 5/	0.2	0.0	1.2	0.2	-0.7	0.5	0.1	0.8	-0.4	1.5	2.4

Sources: National authorities and IMF staff calculations.

1/ Includes the central government, Social Security Institute (INSS); Managua municipality (ALMA); state-owned airport (EAAI); ports (EPN); oil (PETRONIC); electricity generation, transmission and regulation (ENATREL, ENEL, INE); water and sewer (ENACAL); food (ENABAS); trade and public enterprise corporation (ENIMPORT and CORNAP); telecommunications (TELCOR); technological institute (INATEC); post (CORREOS); and lottery

2/ Includes CG amortization of bank recapitalization bonds and non-NFPS debts.

3/ Includes Central government deficit financing for US 341 mn, which in the revised 2018 budget is financed by a new bond issuance.

4/ Includes US$150 million (1.2 % of GDP) of central govenrment transfers to the INSS, a part of a repayment of a historical debt. Projections for 2019-24 assume that central government will continue to transfer resources to the INSS in order to close the pension system deficits (specific amounts reported in Table 3a and Table 3b).

5/ Includes SOE suppliers, INSS other investments, floating debt, and privatization receipts.

Table 5a. Nicaragua: Summary Accounts of Central Bank and Financial System, 2015–25

(In Billions of Cordobas, unless otherwise specified)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
					Prel.			Projections			
I. Central Bank											
Net foreign assets[1/]	**26.4**	**30.4**	**42.1**	**21.9**	**27.9**	**23.2**	**38.1**	**46.5**	**55.5**	**66.5**	**76.0**
Net international reserves[2/]	44.7	44.2	55.5	37.0	46.5	48.4	53.9	61.9	70.3	78.6	86.5
Net international reserves (billions of US$)[2/]	1.6	1.5	1.8	1.1	1.4	1.4	1.5	1.7	1.8	2.0	2.2
Net domestic assets	**-7.6**	**-9.6**	**-18.7**	**0.5**	**-1.2**	**2.4**	**-12.5**	**-19.8**	**-27.9**	**-37.6**	**-45.5**
Net claims on nonfinancial public sector	37.5	37.1	31.8	41.1	39.6	43.2	49.2	49.4	48.5	47.6	46.8
Net credit to banks	-37.0	-36.4	-40.6	-31.0	-31.4	-30.5	-50.9	-58.3	-65.1	-73.6	-79.2
of which: reserves	-29.3	-29.8	-31.9	-28.0	-24.5	-19.6	-24.9	-26.5	-28.4	-30.7	-32.9
Capital accounts	0.6	1.7	2.8	3.4	4.4	5.4	5.5	5.8	5.9	6.0	4.9
Other items (net)	-8.8	-12.0	-12.9	-13.1	-13.6	-15.8	-16.4	-16.8	-17.3	-17.7	-18.1
Currency issue	**18.8**	**20.8**	**23.4**	**22.4**	**26.7**	**25.6**	**25.6**	**26.7**	**27.6**	**28.9**	**30.5**
II. Other Depository Corporations[4/]											
Net foreign assets	**-7.3**	**-11.5**	**-17.1**	**-17.8**	**5.6**	**6.4**	**5.3**	**5.4**	**5.6**	**5.8**	**5.9**
Net foreign assets (billions of US$)	-0.3	-0.4	-0.6	-0.6	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Net domestic assets	**135.2**	**151.0**	**173.0**	**141.9**	**123.5**	**122.8**	**135.6**	**144.9**	**155.0**	**168.2**	**180.5**
Net claims on Central Bank[3/]	40.7	40.1	44.9	39.0	37.6	40.0	55.7	63.9	70.6	78.5	84.4
Net credit to other financial corporations	0.1	-1.0	-0.8	-0.9	-2.0	-0.2	-5.3	-4.9	-5.6	-6.7	-6.9
Net credit to non-financial public sector	0.7	2.9	2.5	-3.8	-0.6	-1.4	-1.4	-2.3	-1.3	1.2	3.1
Credit to private sector	118.7	139.5	161.9	147.8	125.1	120.3	123.9	127.7	133.1	139.2	146.3
Capital accounts	-20.5	-25.0	-29.2	-32.4	-36.4	-35.8	-37.1	-39.4	-41.6	-43.9	-46.4
Other items (net)	-4.5	-5.6	-6.4	-7.8	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0
Liabilities	**127.8**	**139.5**	**155.9**	**124.1**	**129.1**	**129.3**	**140.9**	**150.3**	**160.6**	**174.0**	**186.4**
Deposits in domestic currency	16.0	15.5	18.0	13.7	16.2	16.2	17.7	18.9	20.2	21.9	23.4
Deposits in foreign currency	111.9	124.0	137.9	110.3	112.9	113.0	123.2	131.4	140.4	152.1	162.9
III. Depository Corporations											
Net foreign assets	**19.1**	**18.9**	**25.0**	**4.1**	**33.5**	**29.6**	**43.4**	**52.0**	**61.1**	**72.2**	**81.9**
Net foreign assets (billions of US$)	0.7	0.6	0.8	0.1	1.0	0.9	1.2	1.4	1.6	1.8	2.0
Net domestic assets	**123.5**	**137.0**	**149.0**	**137.5**	**116.9**	**119.9**	**117.7**	**119.2**	**121.0**	**124.2**	**128.1**
Net credit to non-financial public sector	38.3	40.0	34.3	37.4	39.0	41.9	47.8	47.1	47.3	48.8	49.9
Credit to private sector	118.8	139.6	162.0	147.9	124.8	120.3	123.9	127.8	133.1	139.2	146.4
Net credit to other financial corporations	0.1	-1.0	-0.8	-0.9	-2.0	-0.2	-5.3	-4.9	-5.6	-6.7	-6.9
Capital accounts	-20.0	-23.3	-26.3	-29.0	-32.0	-30.3	-31.6	-33.6	-35.7	-37.8	-41.5
Other items (net)	-13.7	-18.3	-20.1	-17.8	-12.9	-11.7	-17.2	-17.1	-18.0	-19.4	-19.8
Broad money	**142.5**	**155.9**	**174.1**	**141.6**	**150.4**	**149.6**	**161.1**	**171.2**	**182.1**	**196.4**	**210.0**
Memorandum items	(Percent change, y-o-y, unless otherwise specified)										
Gross reserves (billions of US$)[5/]	2.4	2.3	2.6	2.1	2.2	2.1	2.3	2.5	2.7	2.9	3.0
Adjusted NIR (billions of US$)[2/]	1.60	1.51	1.80	1.15	1.37	1.39	1.50	1.67	1.85	2.00	2.15
In months of imports excl. maquila[2/]	2.9	3.1	4.1	2.8	3.2	2.9	2.9	3.0	3.1	3.2	3.2
Monetary base[6/]	24.7	-1.8	13.6	-9.0	16.7	-14.0	4.6	4.7	4.2	5.2	5.9
Currency issue	11.3	10.8	12.6	-4.3	19.1	-4.1	0.2	4.2	3.5	4.5	5.6
Deposits in Cordobas	16.6	4.0	11.2	-16.5	9.7	0.1	9.0	6.7	6.9	8.3	7.1
Deposits in FX currency	13.0	11.7	10.8	-21.2	-6.5	0.1	9.0	6.7	6.9	8.3	7.1
Credit to private sector	23.5	17.5	16.0	-8.7	-15.6	-3.6	3.0	3.1	4.2	4.6	5.2
Broad money	19.5	9.4	11.7	-18.7	6.2	-0.6	7.7	6.3	6.4	7.8	6.9
Broad money velocity	2.4	2.4	2.4	2.9	2.8	2.7	2.6	2.6	2.6	2.5	2.5

Sources: National authorities and IMF staff calculations.

[1/] Net international reserves minus medium- and long-term net foreign assets of the Central Bank.

[2/] Excludes resources from the Deposit Guarantee Fund for Financial Institutions (FOGADE), and reserve requirements for FX deposits.

[3/] Reserves and holdings of securities issued by Central Bank.

[4/] Banking system and other financial institutions.

[5/] Excludes the Deposit Guarantee Fund for Financial Institutions (FOGADE).

[6/] Currency in circulation plus bank reserves in national currency.

Table 5b. Nicaragua: Summary Accounts of Central Bank and Financial System, 2015–25

(Annual flows, in Billions of Cordobas, unless otherwise specified)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
					Prel.	Projections					
				I. Central Bank							
Net foreign assets[1/]	**14.5**	**3.9**	**11.8**	**-20.3**	**6.0**	**-4.7**	**14.9**	**8.4**	**9.0**	**10.9**	**9.5**
Net international reserves[2/]	8.0	-0.6	11.3	-18.5	9.5	1.9	5.6	8.0	8.4	8.3	7.9
Net international reserves (billions of US$)[2/]	0.2	-0.1	0.3	-0.7	0.2	0.0	0.1	0.2	0.2	0.2	0.1
Net domestic assets	**-12.6**	**-1.9**	**-9.2**	**19.3**	**-1.7**	**3.6**	**-14.9**	**-7.3**	**-8.1**	**-9.7**	**-7.9**
Net claims on nonfinancial public sector	-2.1	-0.4	-5.3	9.3	-1.5	3.6	6.0	0.2	-0.9	-0.9	-0.8
Net credit to banks	-5.3	0.6	-4.2	9.6	-0.4	0.9	-20.4	-7.4	-6.9	-8.5	-5.6
of which: reserves	-5.3	-0.4	-2.2	3.9	3.5	4.9	-5.3	-1.7	-1.8	-2.4	-2.2
Capital accounts	-4.7	1.1	1.1	0.6	1.0	1.0	0.0	0.3	0.1	0.1	-1.1
Other items (net)	-0.4	-3.2	-0.9	-0.2	-0.5	-2.2	-0.5	-0.4	-0.4	-0.5	-0.4
Currency issue	**1.9**	**2.0**	**2.6**	**-1.0**	**4.3**	**-1.1**	**0.1**	**1.1**	**0.9**	**1.2**	**1.6**
				II. Other Depository Corporations							
Net foreign assets	**-11.2**	**-4.2**	**-5.6**	**-0.7**	**23.4**	**0.8**	**-1.2**	**0.2**	**0.2**	**0.2**	**0.1**
Net foreign assets (billions of US$)	-0.4	-0.1	-0.2	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Net domestic assets	**33.0**	**15.8**	**22.0**	**-31.1**	**-18.4**	**-0.7**	**12.8**	**9.2**	**10.1**	**13.2**	**12.2**
Net claims on Central Bank[3/]	6.3	-0.6	4.8	-5.9	-1.4	2.4	15.6	8.2	6.7	7.9	5.9
Net credit to other financial corporations	1.1	-1.1	0.2	-0.1	-1.0	1.8	-5.1	0.4	-0.7	-1.1	-0.2
Net credit to non-financial public sector	-0.3	2.2	-0.5	-6.2	3.1	-0.8	-0.1	-0.9	1.1	2.5	1.9
Credit to private sector	22.6	20.8	22.4	-14.1	-22.8	-4.8	3.6	3.8	5.3	6.1	7.2
Capital accounts	-3.5	-4.5	-4.2	-3.2	-4.0	0.7	-1.3	-2.3	-2.2	-2.2	-2.5
Other items (net)	6.8	-1.1	-0.8	-1.4	7.7	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	**21.8**	**11.7**	**16.4**	**-31.8**	**5.0**	**0.2**	**11.6**	**9.4**	**10.3**	**13.4**	**12.4**
Deposits in domestic currency	5.1	-0.5	2.5	-4.2	2.5	0.0	1.5	1.2	1.3	1.7	1.6
Deposits in foreign currency	16.8	12.1	13.9	-27.5	2.6	0.1	10.2	8.2	9.0	11.7	10.8
				III. Depository Corporations							
Net foreign assets	**3.3**	**-0.2**	**6.2**	**-21.0**	**29.4**	**-3.9**	**13.8**	**8.6**	**9.2**	**11.1**	**9.7**
Net foreign assets (billions of US$)	0.1	0.0	0.2	-0.7	0.9	-0.1	0.4	0.2	0.2	0.2	0.2
Net domestic assets	**19.9**	**13.6**	**12.0**	**-11.5**	**-20.6**	**3.0**	**-2.3**	**1.6**	**1.8**	**3.2**	**4.0**
Net credit to non-financial public sector	-2.4	1.8	-5.7	3.1	1.6	2.9	5.9	-0.7	0.2	1.6	1.1
Credit to private sector	22.6	20.8	22.4	-14.1	-23.1	-4.5	3.6	3.8	5.3	6.1	7.2
Net credit to other financial corporations	1.1	-1.1	0.2	-0.2	-1.0	1.8	-5.1	0.4	-0.7	-1.1	-0.2
Capital accounts	-8.3	-3.3	-3.0	-2.7	-3.0	1.7	-1.3	-2.0	-2.1	-2.1	-3.6
Other items (net)	6.9	-4.6	-1.8	2.4	4.9	1.1	-5.4	0.1	-1.0	-1.3	-0.4
Broad money	**23.2**	**13.4**	**18.2**	**-32.5**	**8.8**	**-0.8**	**11.5**	**10.1**	**10.9**	**14.3**	**13.6**

Sources: National authorities and IMF staff calculations.

[1/] Net international reserves minus medium and long-term net foreign assets of the Central Bank.

[2/] Excludes resources from the Deposit Guarantee Fund for Financial Institutions (FOGADE), and reserve requirements for FX deposits.

[3/] Reserves and holdings of securities issued by the Central Bank.

Table 6. Nicaragua: Quasi-Fiscal Balance of the Central Bank, 2015–25

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
					Prel.	Projections					
					(Millions of Cordobas)						
Revenue	**991**	**1,413**	**1,570**	**2,674**	**2,761**	**1,189**	**782**	**502**	**275**	**39**	**1,801**
Interest	530	738	1,229	2,140	2,666	1,090	679	394	162	-80	1,678
Foreign deposits	6	17	49	94	159	53	20	14	1	-15	92
Notes and bonds	284	423	632	1,070	1,415	605	227	154	17	-171	1,295
Loans of the BCN	230	285	489	844	1,034	199	182	161	143	122	77
On MTI bonds (fluctuation in price)	8	10	38	97	23	55	21	14	2	-16	46
Other revenues	461	676	340	534	117	99	103	108	113	119	123
Of which: recapitalization transfers	373	491	263	181	22	0	0	0	0	0	0
Expenditure	**2,014**	**2,154**	**1,953**	**2,028**	**2,244**	**2,163**	**1,915**	**2,128**	**2,195**	**2,263**	**3,104**
Administrative	998	1,101	864	751	831	1,123	872	1,015	1,090	1,144	1,184
Interest	1,016	1,053	1,089	1,277	1,413	1,040	1,043	1,114	1,105	1,119	1,919
External debt	101	112	131	174	544	424	335	242	137	66	1,276
BCN securities	461	443	411	560	218	68	160	300	389	453	525
Bonds (banking)	226	225	222	217	210	196	177	153	129	103	77
Other	229	272	324	304	157	174	197	223	252	284	42
Quasi-fiscal balance	**-1,023**	**-741**	**-383**	**646**	**516**	**-974**	**-1,133**	**-1,626**	**-1,919**	**-2,224**	**-1,303**
					(Percent of GDP)						
Revenue	**0.3**	**0.4**	**0.4**	**0.6**	**0.7**	**0.3**	**0.2**	**0.1**	**0.1**	**0.0**	**0.3**
Interest	0.2	0.2	0.3	0.5	0.6	0.3	0.2	0.1	0.0	0.0	0.3
Foreign deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Notes and bonds	0.1	0.1	0.2	0.3	0.3	0.1	0.1	0.0	0.0	0.0	0.2
Bonds (banking)	0.1	0.1	0.1	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
On MTI bonds (fluctuation in price)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenues	0.1	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: recapitalization transfers	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	**0.6**	**0.6**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.6**
Administrative	0.3	0.3	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2
Interest	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.4
External debt	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.2
BCN securities	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1
Bonds (banking)	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.0
Quasi-fiscal balance	**-0.3**	**-0.2**	**-0.1**	**0.2**	**0.1**	**-0.2**	**-0.3**	**-0.4**	**-0.4**	**-0.4**	**-0.2**

Sources: National authorities and IMF staff calculations.

Table 7. Nicaragua: Balance of Payments, 2015–25

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
					Prel.	Projections					
	(In millions of U.S. dollars; unless otherwise indicated)										
Current account	**-1,260**	**-1,127**	**-987**	**-243**	**756**	**63**	**-26**	**-68**	**-111**	**-170**	**-287**
Trade account	-2,514	-2,497	-2,370	-1,604	-1,055	-870	-1,137	-1,184	-1,311	-1,465	-1,610
Exports f.o.b.	2,904	2,865	3,305	3,301	3,366	3,206	3,251	3,503	3,751	3,974	4,253
Maquila (net)	447	598	696	732	650	506	522	535	518	500	481
Coffee	415	420	527	436	517	520	535	568	583	589	596
Others	2,042	1,846	2,082	2,133	2,200	2,180	2,194	2,399	2,650	2,885	3,176
Imports f.o.b. (non-maquila)	5,419	5,362	5,675	4,905	4,421	4,076	4,389	4,687	5,061	5,439	5,863
Petroleum products	777	690	884	996	700	449	530	539	549	555	568
Others	4,642	4,672	4,791	3,909	3,722	3,627	3,858	4,148	4,513	4,884	5,294
Services (net)	229	392	527	402	519	85	250	119	58	26	-3
Of which: tourism receipts	528	642	841	544	515	181	340	400	451	495	514
Income (net)	-489	-634	-712	-652	-466	-471	-471	-459	-418	-361	-376
Of which: payments on direct investments	308	443	486	453	228	150	142	146	150	153	158
Of which: public sector interest payments	201	224	276	285	326	330	328	341	337	278	291
Transfers (net)	1,515	1,612	1,567	1,611	1,758	1,319	1,333	1,456	1,559	1,630	1,702
Of which: Remittances	1,193	1,264	1,391	1,501	1,682	1,344	1,385	1,524	1,646	1,728	1,814
Capital and Financial account, capital(+), financial(-)	**1,910**	**1,308**	**1,525**	**220**	**-221**	**-395**	**209**	**237**	**315**	**442**	**501**
Financial account	**-1,535**	**-1,106**	**-1,347**	**-107**	**324**	**461**	**-141**	**-166**	**-243**	**-368**	**-425**
Direct investment (net)	-922	-924	-971	-763	-469	-119	-158	-168	-204	-279	-428
Portfolio investment [1/]	1	140	-2	-60	342	3	-27	-30	-33	-36	-40
Other investment	-614	-321	-375	716	451	578	44	32	-7	-54	42
Of which : general government	-331	-306	-457	-253	-360	-329	-324	-281	-305	-228	-238
Capital account	**375**	**202**	**178**	**113**	**103**	**66**	**68**	**70**	**72**	**74**	**76**
Errors and omissions	-419	-204	-225	-468	-377	0	0	0	0	0	0
Overall balance	**231**	**-23**	**313**	**-491**	**159**	**-332**	**183**	**169**	**204**	**272**	**214**
Financing	**-231**	**23**	**-313**	**491**	**-159**	**332**	**-183**	**-169**	**-204**	**-272**	**-214**
Change in GIR (increase, -)	**-204**	**52**	**-292**	**510**	**-145**	**76**	**-177**	**-167**	**-171**	**-209**	**-176**
Change in NIR (increase, -) [2/]	-231	23	-313	657	-229	-13	-114	-172	-172	-158	-149
Change in FX reserve requirement, CB bills and CABEI (increase, -)	27	29	22	-144	95	90	-63	5	1	-51	-27
Exceptional financing and IMF loans/credit	**-27**	**-29**	**-22**	**-19**	**-13**	**255**	**-6**	**-1**	**-33**	**-64**	**-38**
IMF lending	0	0	0	0	0	183	0	0	0	0	0
IMF repayments	-27	-29	-22	-19	-13	-6	-6	-1	-33	-64	-38
Other IFIs	0	0	0	0	0	78	0	0	0	0	0
Unidentified financing	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
	(In percent of GDP; unless otherwise indicated)										
Current account	**-9.9**	**-8.5**	**-7.2**	**-1.9**	**6.0**	**0.5**	**-0.2**	**-0.6**	**-0.9**	**-1.3**	**-2.2**
Trade account	-19.7	-18.8	-17.2	-12.3	-8.4	-7.3	-9.5	-9.6	-10.4	-11.3	-12.1
Exports f.o.b.	22.8	21.6	24.0	25.3	26.9	27.1	27.2	28.4	29.7	30.8	32.0
Imports f.o.b. (non-maquila)	42.5	40.4	41.2	37.5	35.3	34.4	36.8	38.0	40.1	42.1	44.1
Services (net)	1.8	3.0	3.8	3.1	4.1	0.7	2.1	1.0	0.5	0.2	0.0
Of which: tourism receipts	4.1	4.8	6.1	4.2	4.1	1.5	2.8	3.3	3.6	3.8	3.9
Income (net)	-3.8	-4.8	-5.2	-5.0	-3.7	-4.0	-3.9	-3.7	-3.3	-2.8	-2.8
Of which: payments on direct investments	2.4	3.3	3.5	3.5	1.8	1.3	1.2	1.2	1.2	1.2	1.2
Of which: public sector interest payments	1.6	1.7	2.0	2.2	2.6	2.8	2.7	2.8	2.7	2.1	2.2
Transfers (net)	11.9	12.1	11.4	12.3	14.0	11.1	11.2	11.8	12.4	12.6	12.8
Of which: Remittances	9.4	9.5	10.1	11.5	13.4	11.3	11.6	12.4	13.0	13.4	13.7
Capital and financial account	**15.0**	**9.8**	**11.1**	**1.7**	**-1.8**	**-3.3**	**1.8**	**1.9**	**2.5**	**3.4**	**3.8**
Financial account	**-12.0**	**-8.3**	**-9.8**	**-0.8**	**2.6**	**3.9**	**-1.2**	**-1.4**	**-1.9**	**-2.9**	**-3.2**
Direct investment (net)	-7.2	-7.0	-7.0	-5.8	-3.7	-1.0	-1.3	-1.4	-1.6	-2.2	-3.2
Portfolio investment [1/]	0.0	1.0	0.0	-0.5	2.7	0.0	-0.2	-0.2	-0.3	-0.3	-0.3
Other investment	-4.8	-2.4	-2.7	5.5	3.6	4.9	0.4	0.3	-0.1	-0.4	0.3
Of which : general government	-2.6	-2.3	-3.3	-1.9	-2.9	-2.8	-2.7	-2.3	-2.4	-1.8	-1.8
Capital account	**2.9**	**1.5**	**1.3**	**0.9**	**0.8**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**
Errors and omissions	-3.3	-1.5	-1.6	-3.6	-3.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**1.8**	**-0.2**	**2.3**	**-3.8**	**1.3**	**-2.8**	**1.5**	**1.4**	**1.6**	**2.1**	**1.6**
Financing	**-1.8**	**0.2**	**-2.3**	**3.8**	**-1.3**	**2.8**	**-1.5**	**-1.4**	**-1.6**	**-2.1**	**-1.6**
Change in GIR (increase, -)	**-1.6**	**0.4**	**-2.1**	**3.9**	**-1.2**	**0.6**	**-1.5**	**-1.4**	**-1.4**	**-1.6**	**-1.3**
Change in NIR (increase, -)	-1.8	0.2	-2.3	5.0	-1.8	-0.1	-1.0	-1.4	-1.4	-1.2	-1.1
Change in FX reserve requirement, CB bills and CABEI (increase, -)	0.2	0.2	0.2	-1.1	0.8	0.8	-0.5	0.0	0.0	-0.4	-0.2
Exceptional financing	**-0.2**	**-0.2**	**-0.2**	**-0.1**	**-0.1**	**2.2**	**-0.1**	**0.0**	**-0.3**	**-0.5**	**-0.3**
Unidentified financing	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:											
Net reserves (millions of U.S. dollars) [2/]	1,601	1,506	1,802	1,146	1,374	1,388	1,502	1,674	1,846	2,004	2,153
In months of imports (t+1) (excluding maquila)	3.4	2.7	3.7	2.6	3.4	3.2	3.2	3.2	3.3	3.4	3.4
As a ratio of monetary base	1.5	1.5	1.7	1.2	1.3	1.6	1.7	1.9	2.0	2.2	2.3
Total public external debt (in percent of GDP) [3/]	31.7	32.2	34.9	38.2	42.1	48.9	51.2	51.8	52.5	53.0	53.2
Nominal GDP (millions of U.S. dollars)	12,757	13,286	13,786	13,064	12,535	11,850	11,937	12,319	12,627	12,916	13,287

Sources: National authorities and IMF staff calculations.
1/Includes financial derivatives
2/Excludes FOGADE (deposit guarantee fund), and net reserves exclude also FX reserve requirements, FX CB bills and CABEI.
3/Assumes HIPIC_equivalent terms were aplied to the outstanding debt no non-Paris Club bilaterals. Exclude SDR allocation.

Table 8. Nicaragua: External Financing Needs and Sources, 2015–25

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
					Prel.			Projections			
					(In millions of U.S. dollars)						
a. Current account deficit, excluding interest payments	**1,059**	**903**	**712**	**-42**	**-1,082**	**-394**	**-302**	**-273**	**-225**	**-108**	**-3**
b. Debt service obligations	782	1,065	1,057	1,059	1,150	1,174	1,213	1,252	1,251	1,138	1,184
Public debt (Government/Central Bank)	153	185	228	246	331	345	354	392	463	448	493
Interest	58	71	83	94	119	109	71	78	141	174	180
Amortization	94	114	145	152	212	236	283	314	323	274	313
Private debt	629	880	829	813	820	829	859	859	788	690	692
Interest	143	153	193	191	207	221	257	263	196	103	110
Amortization	486	727	636	621	613	607	602	597	592	586	581
c. Gross financing needs (a+b)	**1,840**	**1,968**	**1,768**	**1,016**	**69**	**780**	**911**	**979**	**1,026**	**1,030**	**1,181**
d. Financing sources (e+f+g+h+i+j+k+l)	**1,840**	**1,968**	**1,768**	**1,016**	**69**	**780**	**911**	**979**	**1,026**	**1,030**	**1,181**
e. Capital account flows (net)	375	202	178	113	103	66	68	70	72	74	76
f. Foreign direct investment (net)	922	924	971	763	469	119	158	168	204	279	428
g. Public sector borrowing (gross, borrowing + amortization)	425	420	602	405	572	566	607	595	628	502	551
Of which:											
World Bank				58	72	90	84	91	95	108	133
IDB				139	156	207	157	173	148	149	150
CABEI				166	235	272	294	293	337	304	328
Bonds											
h. Other capital flows	349	399	331	-755	-917	-303	261	314	326	448	340
(gross, borrowing + amortization) / Portfolio capital flows (net) [1/]											
i. Change in gross reserves (+ decrease)	-204	52	-292	510	-145	76	-177	-167	-171	-209	-176
Change in net reserves (+ decrease) [2/]	-231	23	-313	657	-229	-13	-114	-172	-172	-158	-149
Change in reserve requirement (+ decrease)	27	29	22	-144	95	90	-63	5	1	-51	-27
j. IMF credit and loans (net, loans - credit)	-27	-29	-22	-19	-13	177	-6	-1	-33	-64	-38
k. Other IFIs	0	0	0	0	0	78	0	0	0	0	0
l. Unidentified financing	0	0	0	0	0	0	0	0	0	0	0
m. Financing gap (c-d)	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
					(Percent of GDP)						
a. Current account deficit, excluding interest payments	**8.3**	**6.8**	**5.2**	**-0.3**	**-8.6**	**-3.3**	**-2.5**	**-2.2**	**-1.8**	**-0.8**	**0.0**
b. Debt service obligations	**6.1**	**8.0**	**7.7**	**8.1**	**9.2**	**9.9**	**10.2**	**10.2**	**9.9**	**8.8**	**8.9**
Public debt (Government/Central Bank) 3/	1.2	1.4	1.7	1.9	2.6	2.9	3.0	3.2	3.7	3.5	3.7
Interest	0.5	0.5	0.6	0.7	0.9	0.9	0.6	0.6	1.1	1.3	1.4
Amortization	0.7	0.9	1.1	1.2	1.7	2.0	2.4	2.5	2.6	2.1	2.4
Private debt	4.9	6.6	6.0	6.2	6.5	7.0	7.2	7.0	6.2	5.3	5.2
Interest	1.1	1.2	1.4	1.5	1.6	1.9	2.1	2.1	1.6	0.8	0.8
Amortization	3.8	5.5	4.6	4.8	4.9	5.1	5.0	4.8	4.7	4.5	4.4
c. Gross financing needs (a+b)	**14.4**	**14.8**	**12.8**	**7.8**	**0.5**	**6.6**	**7.6**	**7.9**	**8.1**	**8.0**	**8.9**
d. Financing sources (e+f+g+h+i+j+k+l)	**14.4**	**14.8**	**12.8**	**7.8**	**0.5**	**6.6**	**7.6**	**7.9**	**8.1**	**8.0**	**8.9**
e. Capital account flows (net)	2.9	1.5	1.3	0.9	0.8	0.6	0.6	0.6	0.6	0.6	0.6
f. Foreign direct investment (net)	7.2	7.0	7.0	5.8	3.7	1.0	1.3	1.4	1.6	2.2	3.2
g. Public sector borrowing (gross, borrowing + amortization)	3.3	3.2	4.4	3.1	4.6	4.8	5.1	4.8	5.0	3.9	4.1
Of which:											
World Bank				0.4	0.6	0.8	0.7	0.7	0.8	0.8	1.0
IDB				1.1	1.2	1.7	1.3	1.4	1.2	1.2	1.1
CABEI				1.3	1.9	2.3	2.5	2.4	2.7	2.4	2.5
Bonds											
h. Other capital flows (gross, borrowing + amortization) /	2.7	3.0	2.4	-5.8	-7.3	-2.6	2.2	2.5	2.6	3.5	2.6
Portfolio capital flows (net) [1/]											
i. Change in gross reserves (+ decrease)	-1.6	0.4	-2.1	3.9	-1.2	0.6	-1.5	-1.4	-1.4	-1.6	-1.3
Change in net reserves (+ decrease)	-1.8	0.2	-2.3	5.0	-1.8	-0.1	-1.0	-1.4	-1.4	-1.2	-1.1
Change in reserve requirement (+ decrease)	0.2	0.2	0.2	-1.1	0.8	0.8	-0.5	0.0	0.0	-0.4	-0.2
j. IMF credit and loans (net, loans - credit)	-0.2	-0.2	-0.2	-0.1	-0.1	1.5	-0.1	0.0	-0.3	-0.5	-0.3
k. Other IFIs	0.0	0.0	0.0	0.0	0.0	0.7	0.0	0.0	0.0	0.0	0.0
l. Unidentified financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
m. Financing gap (c-d)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Sources: National authorities and IMF staff calculations.
1/Includes errors and omissions.
2/Excludes FOGADE (deposit guarantee fund), and net reserves exclude also FX reserve requirements, FX CB bills and CABEI.
3/Assumes HIPIC_equivalent terms were aplied to the outstanding debt no non-Paris Club bilaterals. Exclude SDR allocation.

Table 9. Nicaragua: Medium-Term Macroeconomic Framework, 2015–25

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
					Prel.			Projections			
Growth and prices					(Percent)						
GDP growth	4.8	4.6	4.6	-4.0	-3.9	-5.5	-0.5	2.7	2.0	1.8	2.1
GDP deflator	7.6	4.6	4.1	3.6	4.7	3.9	4.3	3.5	3.5	3.5	3.5
Consumer price inflation (average)	4.0	3.5	3.9	4.9	5.4	3.9	4.3	3.5	3.5	3.5	3.5
Consumer price inflation (e.o.p.)	3.1	3.1	5.7	3.9	6.1	3.7	3.5	3.5	3.5	3.5	3.5
Public finances					(Percent of GDP)						
Consolidated public sector											
Revenue	27.4	28.7	29.4	28.3	31.1	29.2	30.1	30.7	31.0	30.7	31.1
Expenditure	29.6	31.2	31.6	32.1	32.5	35.4	34.6	33.8	33.6	34.7	35.4
Overall balance, after grants	-2.2	-2.4	-2.2	-3.8	-1.4	-6.2	-4.6	-3.1	-2.6	-3.9	-4.3
Public sector debt[1/]	40.7	41.7	44.4	48.4	51.0	57.4	60.0	60.9	61.8	64.1	66.0
Balance of payments					(Percent of GDP, unless otherwise specified)						
Current account	-9.9	-8.5	-7.2	-1.9	6.0	0.5	-0.2	-0.6	-0.9	-1.3	-2.2
US$million	-1,260	-1,127	-987	-243	756	63	-26	-68	-111	-170	-287
Gross reserves (US$million)[2/]	2,353	2,296	2,593	2,080	2,214	2,138	2,315	2,482	2,654	2,862	3,038
In months of imports excl. maquila[2/]	5.0	4.1	5.3	4.7	5.5	4.9	4.9	4.8	4.8	4.8	4.8
Net international reserves (US$million)[2/]	1,601	1,506	1,802	1,146	1,374	1,388	1,502	1,674	1,846	2,004	2,153
Memorandum items											
GDP (US$million)	12,757	13,286	13,786	13,064	12,535	11,850	11,937	12,319	12,627	12,916	13,287

Sources: National authorities and IMF staff calculations.

[1/] Assumes that HIPC-equivalent terms were applied to the outstanding debt to non-Paris Club bilaterals. Does not include SDR allocations. From 2016 onwards includes preliminary data on the domestic debt of SOEs and municipalities. Prior to 2016, the stock of domestic debt of SOEs and municipalities is calculated based on the capitalization of flows.

[2/] Excludes the Deposit Guarantee Fund for Financial Institutions (FOGADE).

Table 10. Nicaragua: Saving-Investment Balance, 2015–25
(In Percent of GDP, unless otherwise specified)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
					Prel.			Projections			
Gross national disposable income	**108.0**	**107.4**	**106.2**	**107.3**	**110.3**	**107.2**	**107.2**	**108.1**	**109.0**	**109.8**	**110.0**
Nominal GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Net factor payments from abroad	-3.8	-4.8	-5.2	-5.0	-3.7	-4.0	-3.9	-3.7	-3.3	-2.8	-2.8
Net transfers from abroad	11.9	12.1	11.4	12.3	14.0	11.1	11.2	11.8	12.4	12.6	12.8
Consumption	**88.6**	**88.2**	**83.4**	**85.3**	**87.1**	**88.3**	**87.6**	**86.4**	**84.9**	**83.5**	**82.0**
Public sector[1/]	14.1	14.5	14.4	15.2	15.6	17.2	15.9	16.1	16.1	16.6	16.8
Private sector	74.6	73.7	69.0	70.1	71.5	71.1	71.7	70.3	68.7	67.0	65.2
Gross domestic investment	**29.3**	**27.6**	**29.9**	**23.9**	**17.1**	**18.3**	**19.8**	**22.3**	**25.1**	**27.6**	**30.1**
Public sector[1/]	7.5	7.4	8.0	7.7	6.8	7.9	8.3	8.1	8.1	8.4	8.5
Private sector	21.8	20.2	22.0	16.1	10.4	10.4	11.5	14.1	17.0	19.2	21.6
National saving	**19.4**	**19.2**	**22.8**	**22.0**	**23.2**	**18.9**	**19.6**	**21.7**	**24.2**	**26.3**	**28.0**
Public sector	4.8	4.8	5.0	2.7	4.4	0.9	2.9	4.3	4.8	3.8	3.4
Private sector	14.6	14.4	17.7	19.3	18.8	18.0	16.7	17.4	19.4	22.5	24.6
External saving	**9.9**	**8.5**	**7.2**	**1.9**	**-6.0**	**-0.5**	**0.2**	**0.6**	**0.9**	**1.3**	**2.2**
Public sector	2.7	2.7	2.9	5.0	2.4	7.1	5.4	3.8	3.3	4.6	5.2
Private sector	7.1	5.8	4.2	-3.1	-8.4	-7.6	-5.2	-3.3	-2.4	-3.3	-3.0
Memorandum items											
Exports of goods and services	40.2	39.1	41.6	42.4	45.5	40.8	42.7	44.3	45.5	46.3	47.1
Imports of goods and services	58.1	54.9	55.0	51.6	49.8	47.4	50.1	52.9	55.4	57.5	59.3

Sources: National authorities and IMF staff calculations.

1/Projections are based on national accounts data increased with growth rates from the fiscal projections.

Table 11. Nicaragua: Selected Sustainable Development Goals

SDG Goal	Indicator	2010	2014	2018 or latest available
SDG1 No Poverty	Poverty rate (national poverty line, %)	42.5	29.6	24.9 (2016)
SDG2 Zero Hunger	Prevalence of undernourishment (%)	20.9	17.0	16.2 (2016)
SDG3 Good Health and Well-Being	Life expectancy at birth (years)	72.4	73.4	73.9 (2016)
	Maternal mortality ratio (per 100,000 live births)	112.0	103.0	98 (2015)
	Infant mortality rate, under 5 (per 1,000 lives)	20.4	19.0	18.3
SDG4 Quality Education	Adult literacy rate (%)	82.6	...	...
	School enrollment, preprimary (% gross)	55.6	...	...
	School enrollment, primary (% gross)	120.6	...	...
	School enrollment, secondary (% gross)	73.4	...	...
SDG5 Gender Equality	Seats held by women in parliament (% of total seats)	20.7	40.2	44.6 (2019)
SDG6 Clean Water and Sanitation	Population using safe drinking water services (%)	51.0	51.3	51.6 (2017)
	Population using at least basic sanitation services (%)	68.4	72.4	74.4 (2017)
SDG7 Affordable and Clean Energy	Population with primary reliance on clean fuels and technology (%)	45.0	51.0	54.0 (2017)
	Renewable energy share in the total final energy consumption (%)	52.5	51.2	46.8 (2016)
SDG8 Decent Work and Economic Growth	Number of automated teller machines (ATMs) per 100,000 adults	8.4	16.0	17.7 (2017)
	Number of commercial bank branches per 100,000 adults	6.8	7.6	11.2 (2017)
SDG9 Industry, Innovation and Infraestructure	Research and development expenditure as a proportion of GDP (%)	0.08	0.09	0.11 (2015)

Source: United Nations, World Bank.

Table 12. Nicaragua: Indicators of Capacity to Repay the Fund, 2020–30
(In Millions of SDRs, unless otherwise specified)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Fund obligations based on existing credits											
Principal	2.4	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Fund obligations based on existing and prospective credits											
Principal	2.4	1.7	0.0	0.0	43.3	43.3	8.7	8.7	8.7	8.7	8.7
Charges and interest	0.5	0.9	1.0	1.0	0.9	0.4	0.1	0.1	0.1	0.1	0.1
In percent of gross international reserves	0.2	0.2	0.1	0.1	2.2	2.1	0.4	0.4	0.4	0.3	0.3
In percent of exports of goods and services	0.1	0.1	0.0	0.0	1.1	1.0	0.2	0.2	0.2	0.2	0.2
In percent of debt service 1/	0.1	0.1	0.0	0.0	0.9	0.9	0.2	0.2	0.2	0.2	0.2
In percent of GDP	0.0	0.0	0.0	0.0	0.5	0.5	0.1	0.1	0.1	0.1	0.1
In percent of quota	1.1	1.0	0.4	0.4	17.0	16.8	3.4	3.4	3.4	3.4	3.4
Stock of Fund credit outstanding											
In millions of SDRs	131.7	130.0	130.0	130.0	86.7	43.3	34.7	26.0	17.3	8.7	0.0
In millions of USD	186.9	186.3	187.4	188.2	125.9	63.1	50.4	37.8	25.2	12.6	0.0
In percent of gross international reserves	8.7	8.0	7.6	7.1	4.4	2.1	1.6	1.1	0.7	0.3	0.0
In percent of exports of goods and services	3.9	3.7	3.4	3.3	2.1	1.0	0.8	0.6	0.3	0.2	0.0
In percent of debt service 1/	3.2	3.1	2.9	2.8	1.8	0.9	0.7	0.5	0.3	0.2	0.0
In percent of GDP	1.6	1.6	1.5	1.5	1.0	0.5	0.4	0.3	0.2	0.1	0.0
In percent of quota	51	50	50	50	33	17	13	10	7	3	0
Net use of Fund credit	127.2	-2.6	-1.0	-1.0	-44.2	-43.7	-8.8	-8.7	-8.7	-8.7	-8.7
Disbursements	130.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	2.8	2.6	1.0	1.0	44.2	43.7	8.8	8.7	8.7	8.7	8.7
Memorandum items:											
Nominal GDP (US$ mn)	11,850	11,937	12,319	12,627	12,916	13,287	13,825	14,506	15,272	16,084	16,940
Exports of goods and services (US$ mn)	4,830	5,096	5,453	5,747	5,987	6,265	6,495	6,857	7,324	7,684	8,040
Gross International Reserves (US$ mn)	2,138	2,315	2,482	2,654	2,862	3,038	3,163	3,340	3,519	3,707	3,868
Total external public debt service (US$ mn) 1/	5,791	6,106	6,379	6,624	6,848	7,065	7,240	7,379	7,563	7,743	7,898
Quota (SDR mn)	260	260	260	260	260	260	260	260	260	260	260

Sources: IMF staff estimates and projections.

1/ Total external public debt service includes IMF repurchases and repayments.

Annex I. Joint Bank-Fund Debt Sustainability Analysis[1]

Risks of external debt distress and overall risk of debt distress are both assessed as moderate with limited space to absorb shocks, which is unchanged relative to the previous DSA of February 2020. The baseline scenario assumes that the government adopts a multi-year fiscal consolidation plan with permanent measures of at least 3 percent of GDP and unwinds the temporary programs implemented in response to COVID-19. The reduction in the fiscal deficit over 2021–23 equals 3.6 percent of GDP that allows to lower the debt level over those years. Under the baseline scenario, external debt burden indicators, remain below the threshold. However, the present value (PV) of public and publicly guaranteed (PPG) external debt-to-GDP ratio breaches over an extended period under the most extreme shock scenario and contingent liability tailored shock which is related to the external cooperation with Venezuela. The overall risk of public debt distress is also assessed as moderate. The PV of public debt-to-GDP ratio is projected to be below the threshold under the baseline scenario, but it is projected to surpass the threshold under the most extreme shock scenario, notably lower GDP growth, and realization of contingent liability shock. Were external financing envisaged under the baseline not to materialize in the near and/or medium term, the authorities would be prepared to implement contingency measures to ensure debt sustainability.

Risk of External Debt Distress:	Moderate[2]
Overall Risk of Debt Distress:	Moderate
Granularity in the Risk Rating:	Limited space to absorb shocks
Application of Judgment:	No
Macroeconomic Projections:	Real GDP at -5.5 percent in 2020. Reduced exports, tourism, remittances, and FDI effect a current account deterioration of more than 5½ percentage points of GDP in 2020. [3] Protracted negative effects in activity, exports, remittances and inflows are projected.
Financing Strategy:	Same as previous DSA with additional financing needs filled by RFI/RCF, other multilateral institutions (i.e. WB[4] and IADB).
Realism Tools Flagged:	None
Mechanical Risk Rating under the External DSA:	Moderate
Mechanical Risk Rating under the Public DSA:	Moderate

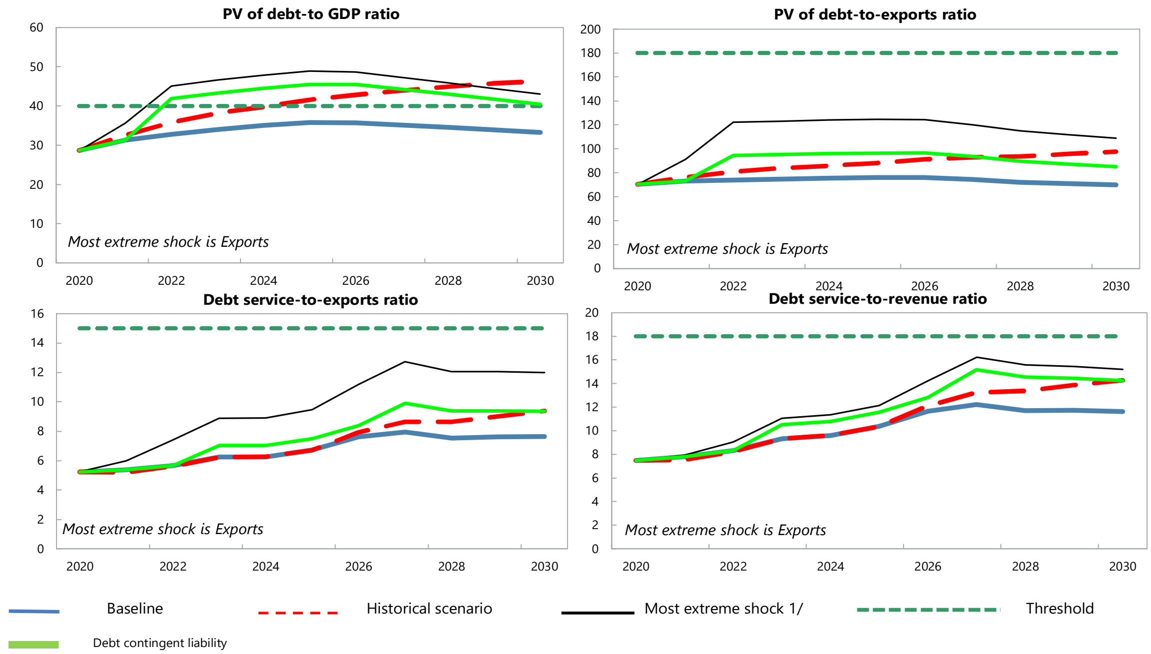
[1] Debt coverage is the same as in the previous DSA reported in February 2020.

[2] Nicaragua's Composite Indicator score is 2.94 which is based on October 2019 WEO and 2018 CPIA and the classification of debt-carrying capacity is medium.

[3] Historical data for the current account balance has been revised with respect to the last Bank-IMF DSA (February 2020).

[4] In response to the COVID-19 pandemic, the World Bank is making available, on humanitarian grounds, an emergency health loan of US$13.1 million, due for Board review in November 2020.

Figure AI.1. Nicaragua: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2020–30



Customization of Default Settings		
	Size	Interactions
Tailored Tests		
Combined CLs	No	
Natural Disasters	No	No
Commodity Prices 2/	No	No
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	3.5%	3.5%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	20	20
Avg. grace period	4	4

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: National authorities and IMF staff calculations.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

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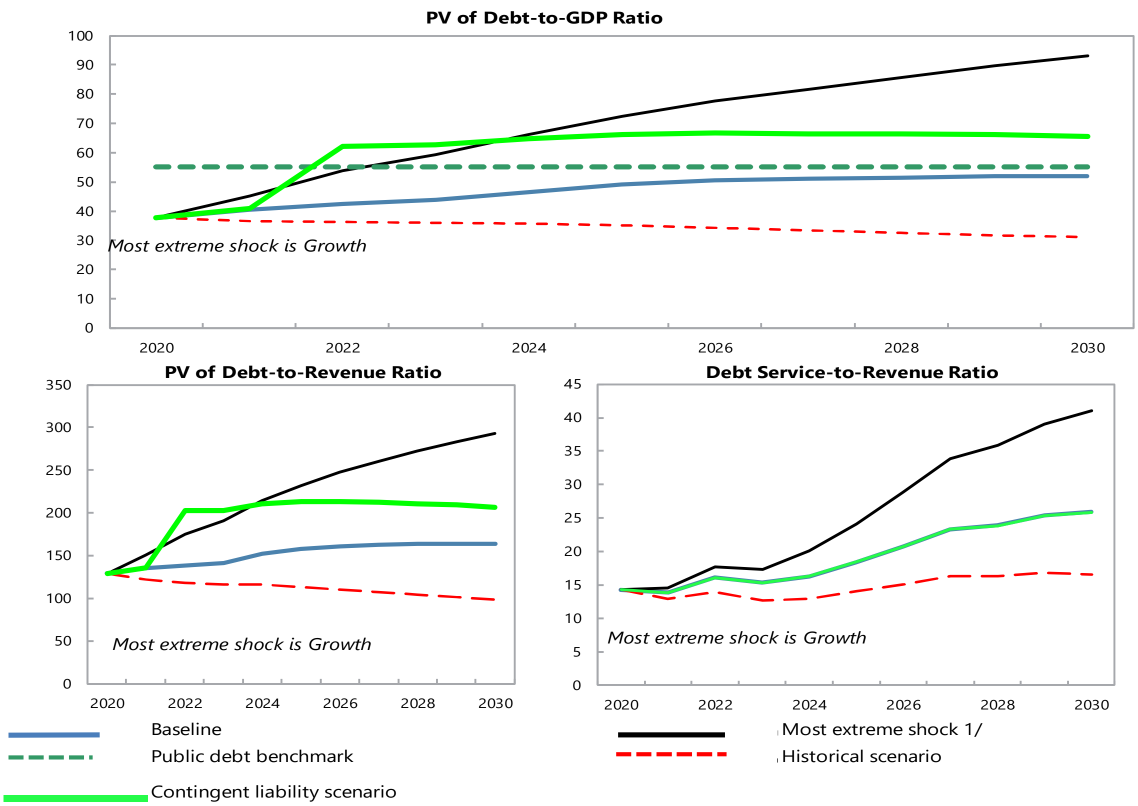
Figure AI.2. Nicaragua: Indicators of Public Debt Under Alternative Scenarios, 2020–30



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	55%	55%
Domestic medium and long-term	45%	45%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	3.5%	3.5%
Avg. maturity (incl. grace period)	20	20
Avg. grace period	4	4
Domestic MLT debt		
Avg. real interest rate on new borrowing	1.5%	1.5%
Avg. maturity (incl. grace period)	5	5
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	0.0%	0.0%

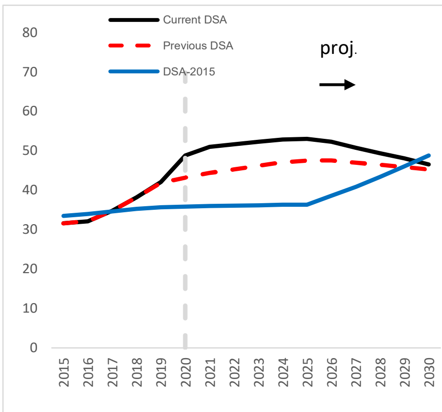
* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: National authorities and IMF staff calculations.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

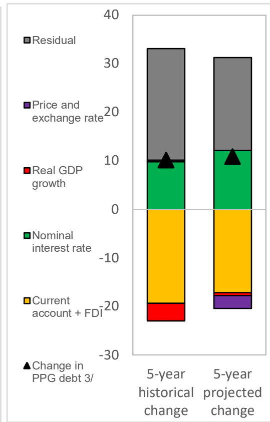
Figure AI.3. Nicaragua: Drivers of Debt Dynamics-Baseline Scenario

External debt

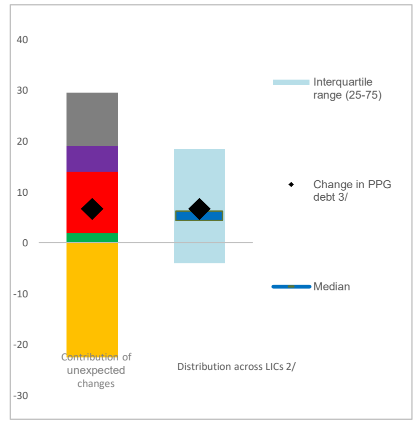
Gross Nominal PPG External Debt
(in percent of GDP; DSA vintages)



Debt-creating flows
(percent of GDP)

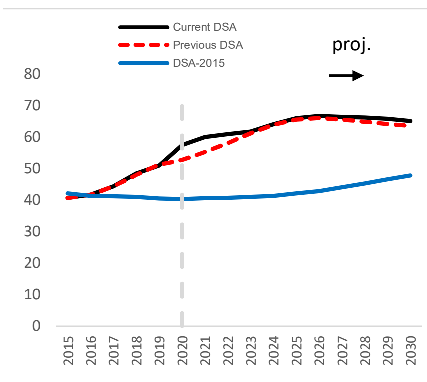


Unexpected Changes in Debt 1/
(past 5 years, percent of GDP)

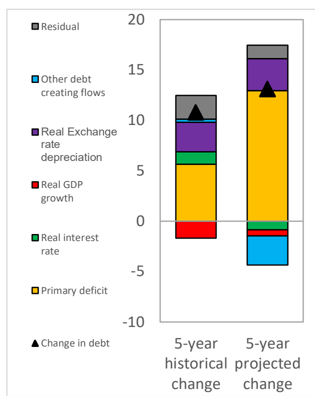


Public debt

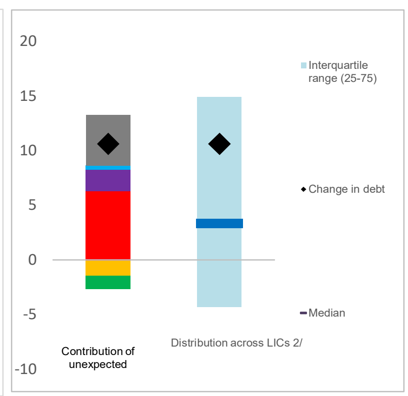
Gross Nominal Public Debt
(in percent of GDP; DSA vintages)



Debt-creating flows
(percent of GDP)



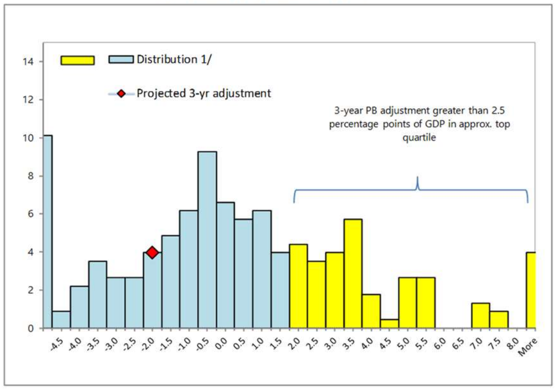
Unexpected Changes in Debt 1/
(past 5 years, percent of GDP)



Sources: National authorities and IMF staff calculations.
1/ Difference between anticipated and actual contributions on debt ratios.
2/ Distribution across LICs for which LIC DSAs were produced.
3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

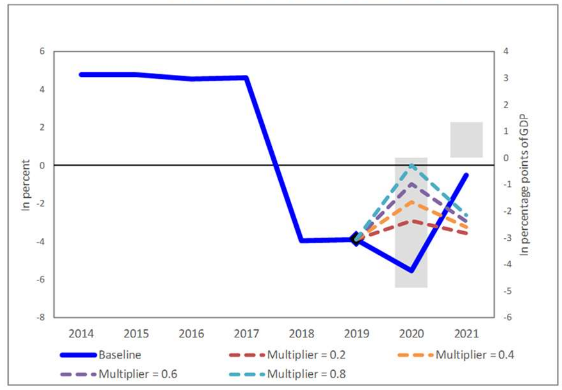
Figure AI.4. Nicaragua: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



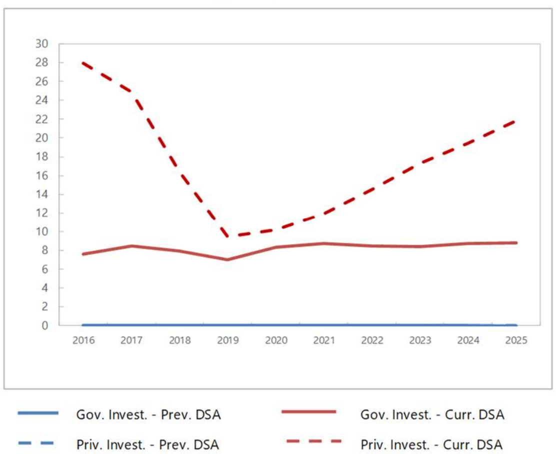
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/
(Percent and Percentage points of GDP)

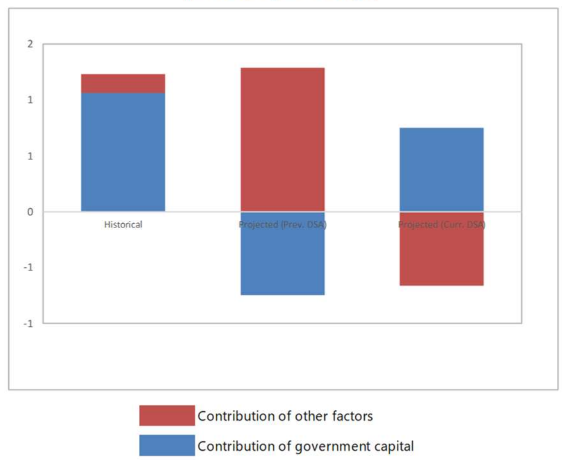


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)

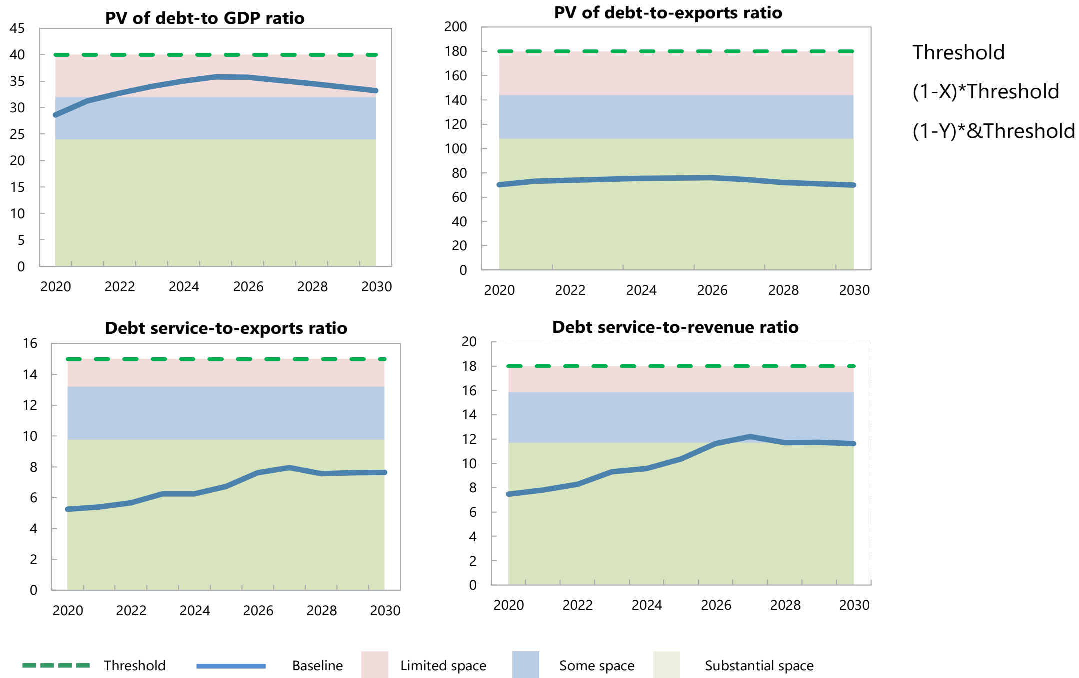


Contribution to Real GDP growth
(percent, 5-year average)



Sources: National authorities and IMF staff calculations.

Figure AI.5. Nicaragua: Qualification of the Modern Category, 2020–30 1/



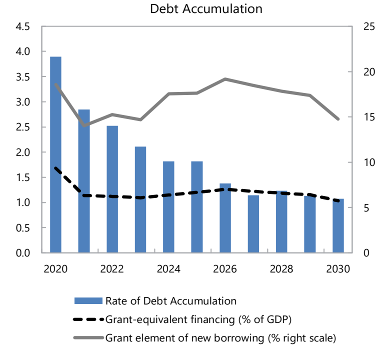
Sources: National authorities and IMF staff calculations.
1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

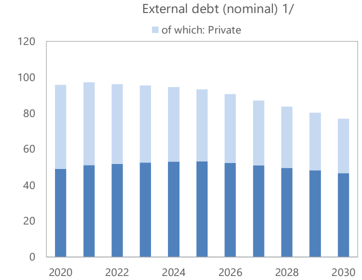
Table AI.1. Nicaragua: External Debt Sustainability Framework, Baseline Scenario, 2017–40

(In Percent of GDP, unless otherwise specified)

	Actual			Projections								Average 8/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
External debt (nominal) 1/	78.5	82.3	86.4	95.7	97.3	96.1	95.4	94.7	93.4	76.9	51.6	77.4	90.1
of which: public and publicly guaranteed (PPG)	34.9	38.2	42.1	48.9	51.2	51.8	52.5	53.0	53.2	46.6	35.2	34.3	50.7
Change in external debt	1.0	3.8	4.1	9.3	1.6	-1.1	-0.7	-0.7	-1.3	-3.4	-2.7		
Identified net debt-creating flows	-2.7	0.4	-6.3	3.5	-0.6	-3.4	-2.6	-2.5	-3.0	-3.3	-1.7	-2.2	-2.4
Non-interest current account deficit	5.1	-0.3	-8.4	-2.9	-2.5	-2.2	-1.6	-0.5	0.3	0.4	0.6	5.7	-0.7
Deficit in balance of goods and services	13.4	9.2	4.3	6.6	7.4	8.6	9.9	11.1	12.1	12.0	12.6	15.9	10.5
Exports	41.6	42.4	45.5	40.8	42.7	44.3	45.5	46.3	47.1	47.5	45.4		
Imports	55.0	51.6	49.8	47.4	50.1	52.9	55.4	57.5	59.3	59.5	58.1		
Net current transfers (negative = inflow)	-11.4	-12.3	-14.0	-11.1	-11.2	-11.8	-12.4	-12.6	-12.8	-12.7	-13.0	-12.5	-12.4
of which: official	-1.0	-0.7	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5		
Other current account flows (negative = net inflow)	3.1	2.8	1.3	1.6	1.2	0.9	0.9	1.0	1.0	1.2	0.9	2.3	1.1
Net FDI (negative = inflow)	-7.0	-5.8	-3.7	-1.0	-1.3	-1.4	-1.6	-2.2	-3.2	-3.3	-2.3	-6.8	-2.5
Endogenous debt dynamics 2/	-0.8	6.5	5.8	7.5	3.2	0.2	0.6	0.1	-0.1	-0.5	0.0		
Contribution from nominal interest rate	2.0	2.2	2.4	2.4	2.8	2.8	2.4	1.8	1.8	1.8	1.6		
Contribution from real GDP growth	-3.5	3.3	3.3	5.1	0.5	-2.5	-1.9	-1.7	-1.9	-2.3	-1.5		
Contribution from price and exchange rate changes	0.6	1.1	0.1	...	...	...	...	...	...	...	...		
Residual 3/	3.7	3.5	10.4	5.8	2.2	2.2	1.9	1.8	1.7	-0.1	-1.0	4.3	1.5
of which: exceptional financing	0.0	0.0	0.0	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	23.2	28.6	31.3	32.7	34.0	35.0	35.8	33.2	27.7		
PV of PPG external debt-to-exports ratio	...	...	50.9	70.3	73.2	74.0	74.7	75.5	75.9	69.9	60.9		
PPG debt service-to-exports ratio	14.4	15.5	1.5	5.2	5.4	5.7	6.2	6.3	6.7	7.6	8.2		
PPG debt service-to-revenue ratio	21.2	23.7	2.2	7.5	7.8	8.3	9.3	9.6	10.4	11.6	11.5		
Gross external financing need (Million of U.S. dollars)	1488.4	883.9	2.7	1140.6	1272.4	1328.1	1346.7	1329.9	1332.0	1436.8	1826.5		
Key macroeconomic assumptions													
Real GDP growth (in percent)	4.6	-4.0	-3.9	-5.5	-0.5	2.7	2.0	1.8	2.1	3.0	3.0	3.3	1.6
GDP deflator in US dollar terms (change in percent)	-0.8	-1.3	-0.2	0.1	1.2	0.5	0.5	0.5	0.8	2.2	3.5	1.0	1.2
Effective interest rate (percent) 4/	2.7	2.6	2.8	2.6	2.9	2.9	2.6	1.9	2.0	2.4	3.1	2.4	2.4
Growth of exports of G&S (US dollar terms, in percent)	10.6	-3.4	3.0	-15.3	5.5	7.0	5.4	4.2	4.6	4.6	6.2	7.7	3.4
Growth of imports of G&S (US dollar terms, in percent)	3.9	-11.1	-7.4	-10.0	6.6	8.9	7.4	6.1	6.1	5.2	5.2	4.1	4.6
Grant element of new public sector borrowing (in percent)	...	...	...	18.6	14.0	15.2	14.7	17.6	17.6	14.8	6.0	...	16.8
Government revenues (excluding grants, in percent of GDP)	28.3	27.7	30.5	28.6	29.5	30.2	30.4	30.2	30.6	31.2	32.5	26.6	30.4
Aid flows (in Million of US dollars) 5/	142.7	87.6	73.2	162.4	157.6	159.3	162.5	179.9	195.5	206.9	184.6		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	1.7	1.1	1.1	1.1	1.1	1.2	1.0	0.7	...	1.2
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	25.1	23.5	24.6	25.0	27.6	27.1	25.4	18.4	...	26.3
Nominal GDP (Million of US dollars)	13,786	13,064	12,535	11,850	11,937	12,319	12,627	12,916	13,287	16,940	28,808		
Nominal dollar GDP growth	3.8	-5.2	-4.0	-5.5	0.7	3.2	2.5	2.3	2.9	5.3	6.6	4.3	2.8
Memorandum items:													
PV of external debt 7/	...	...	67.4	75.5	77.4	77.1	76.9	76.7	76.0	63.5	44.2		
In percent of exports	...	...	148.2	185.2	181.3	174.2	169.1	165.4	161.1	133.7	97.2		
Total external debt service-to-exports ratio	30.5	30.5	26.7	33.3	34.0	32.5	30.4	27.8	27.4	23.8	17.8		
PV of PPG external debt (in Million of US dollars)			2906.5	3394.3	3731.9	4033.0	4292.6	4522.0	4756.5	5622.8	7970.7		
(PVt-PVt-1)/GDPt-1 (in percent)				3.9	2.8	2.5	2.1	1.8	1.8	1.1	0.8		
Non-interest current account deficit that stabilizes debt ratio	4.2	-4.1	-12.5	-12.3	-4.1	-1.1	-0.8	0.3	1.7	3.8	3.3		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**Yes**





Sources: National authorities and IMF staff calculations.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

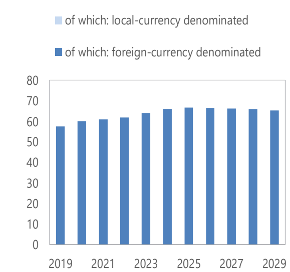
Table AI.2. Nicaragua: Public Sector Debt Sustainability Framework, Baseline Scenario, 2017–40

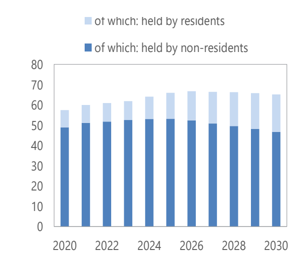
(In Percent of GDP, unless otherwise specified)

	Actual			Projections								Average 6/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
Public sector debt 1/	44.4	48.4	51.0	57.4	60.0	60.9	61.8	64.1	66.0	65.2	60.7	44.2	63.7
of which: external debt	34.9	38.2	42.1	48.9	51.2	51.8	52.5	53.0	53.2	46.6	35.2	34.3	50.7
Change in public sector debt	2.7	4.0	2.6	6.4	2.5	1.0	0.9	2.3	1.9	-0.7	-0.8		
Identified debt-creating flows	0.2	5.8	3.0	6.8	2.0	0.5	0.5	1.9	1.5	-0.9	-1.2	-0.4	1.0
Primary deficit	0.9	2.5	-0.2	4.7	3.4	1.9	0.9	2.2	2.3	1.0	0.9	0.6	2.1
Revenue and grants	29.4	28.3	31.1	29.2	30.1	30.7	31.0	30.7	31.1	31.7	33.0	28.0	30.9
of which: grants	1.0	0.7	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5		
Primary (noninterest) expenditure	30.3	30.8	30.9	33.9	33.4	32.6	31.9	32.9	33.4	32.7	33.8	28.5	33.0
Automatic debt dynamics	-0.7	3.4	2.8	3.2	0.3	-1.1	-0.4	-0.2	-0.7	-2.0	-2.1		
Contribution from interest rate/growth differential	-1.5	2.3	2.1	2.8	0.1	-1.8	-1.3	-1.2	-1.3	-1.9	-1.2		
of which: contribution from average real interest rate	0.3	0.5	0.2	-0.2	-0.2	-0.3	-0.1	-0.1	0.0	0.1	0.6		
of which: contribution from real GDP growth	-1.8	1.8	2.0	3.0	0.3	-1.6	-1.2	-1.1	-1.3	-1.9	-1.8		
Contribution from real exchange rate depreciation	0.8	1.1	0.7	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.3	-1.1	-1.6	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	-0.3
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.3	-1.1	-1.6	-0.2	0.0	0.0	0.0	0.0	0.0		
Residual	2.5	-1.8	-0.4	0.1	0.7	1.2	1.2	1.3	1.0	0.2	-0.4	0.8	0.6
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	32.6	37.6	40.5	42.4	43.8	46.6	49.1	52.0	53.4		
PV of public debt-to-revenue and grants ratio	...	...	104.6	129.0	134.8	137.8	141.5	151.6	157.8	163.9	161.8		
Debt service-to-revenue and grants ratio 3/	10.0	8.4	9.7	14.3	13.8	16.1	15.3	16.3	18.4	25.9	14.9		
Gross financing need 4/	3.8	4.8	2.8	8.8	7.5	6.8	5.6	7.2	8.0	9.2	5.8		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	4.6	-4.0	-3.9	-5.5	-0.5	2.7	2.0	1.8	2.1	3.0	3.0	3.3	1.6
Average nominal interest rate on external debt (in percent)	2.0	1.9	1.8	1.2	1.2	1.3	1.8	1.9	1.9	2.1	3.1	1.6	1.8
Average real interest rate on domestic debt (in percent)	4.4	3.7	2.3	2.8	2.8	2.6	2.7	2.6	2.1	1.6	1.4	2.0	2.2
Real exchange rate depreciation (in percent, + indicates depreciation)	2.1	2.4	1.5	...	...	...	...	...	...	...	...	0.3	...
Inflation rate (GDP deflator, in percent)	4.1	3.6	4.7	3.9	4.3	3.5	3.5	3.5	3.5	3.5	3.5	6.0	3.6
Growth of real primary spending (deflated by GDP deflator, in percent)	5.5	-2.2	-3.5	3.4	-1.8	0.2	-0.3	5.1	3.5	2.5	3.4	5.0	2.1
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-1.8	-1.6	-2.8	-1.8	0.8	0.9	0.0	-0.2	0.3	1.7	1.6	-2.0	0.8
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**Yes**

Public sector debt 1/





Sources: National authorities and IMF staff calculations.

1/ Coverage of debt: The central government plus social security, central bank, government-guaranteed debt. Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table AI.3. Nicaragua: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2020–30

(In Percent)

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of debt-to GDP ratio											
Baseline	29	31	33	34	35	36	36	35	35	34	33
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	29	33	36	38	40	**42**	**43**	**44**	**45**	**46**	**46**
A2. Alternative Scenario: ALBA debt contingent liability scenario	29	31	**42**	**43**	**45**	**45**	**45**	**44**	**43**	**42**	**40**
B. Bound Tests											
B1. Real GDP growth	29	33	37	39	40	**41**	**40**	40	39	38	38
B2. Primary balance	29	30	32	33	34	35	35	35	34	33	33
B3. Exports	29	36	**45**	**47**	**48**	**49**	**49**	**47**	**46**	**44**	**43**
B4. Other flows 3/	29	33	37	38	39	**40**	40	39	38	37	36
B5. Depreciation	29	39	37	39	40	**41**	**41**	**40**	40	39	39
B6. Combination of B1-B5	29	37	**40**	**42**	**43**	**44**	**44**	**43**	**42**	**41**	40
C. Tailored Tests											
C1. Combined contingent liabilities	29	34	35	37	38	39	40	39	39	38	37
C2. Natural disaster	29	35	37	39	**41**	**42**	**43**	**43**	**42**	**42**	**42**
C3. Commodity price	29	31	33	34	35	36	36	35	35	34	33
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	70	73	74	75	76	76	76	74	72	71	70
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	70	76	81	84	86	88	91	93	94	96	98
A2. Alternative Scenario: ALBA debt contingent liability scenario	70	73	95	95	96	96	97	94	90	87	85
B. Bound Tests											
B1. Real GDP growth	70	73	74	75	76	76	76	74	72	71	70
B2. Primary balance	70	71	73	73	74	75	75	73	71	70	69
B3. Exports	70	91	122	123	124	125	124	120	115	112	109
B4. Other flows 3/	70	78	83	84	85	85	85	83	80	78	76
B5. Depreciation	70	73	67	67	68	69	69	67	66	65	64
B6. Combination of B1-B5	70	86	83	92	93	94	93	91	88	86	84
C. Tailored Tests											
C1. Combined contingent liabilities	70	80	80	81	83	84	85	83	81	80	79
C2. Natural disaster	70	84	85	87	89	91	93	92	90	90	90
C3. Commodity price	70	73	74	75	76	76	76	74	72	71	70
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	5	5	6	6	6	7	8	8	8	8	8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	5	5	6	6	6	7	8	9	9	9	9
A2. Alternative Scenario: ALBA debt contingent liability scenario	5	5	6	7	7	8	8	10	9	9	9
B. Bound Tests											
B1. Real GDP growth	5	5	6	6	6	7	8	8	8	8	8
B2. Primary balance	5	5	6	6	6	7	7	8	7	7	8
B3. Exports	5	6	7	9	9	9	11	13	12	12	12
B4. Other flows 3/	5	5	6	7	7	7	8	9	8	8	8
B5. Depreciation	5	5	6	6	6	6	7	7	7	7	7
B6. Combination of B1-B5	5	6	7	7	7	8	9	10	9	9	9
C. Tailored Tests											
C1. Combined contingent liabilities	5	5	6	6	7	7	8	8	8	8	8
C2. Natural disaster	5	6	6	7	7	7	8	9	8	8	9
C3. Commodity price	5	5	6	6	6	7	8	8	8	8	8
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	7	8	8	9	10	10	12	12	12	12	12
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	7	8	8	9	10	10	12	13	13	14	14
A2. Alternative Scenario: ALBA debt contingent liability scenario	7	8	8	10	11	12	13	15	15	14	14
B. Bound Tests	7	8	8	10	11	12	13	15	15	14	14
B1. Real GDP growth	7	8	9	11	11	12	13	14	13	13	13
B2. Primary balance	7	8	8	9	10	10	11	12	12	12	11
B3. Exports	7	8	9	11	11	12	14	16	16	15	15
B4. Other flows 3/	7	8	9	10	10	11	13	13	13	13	13
B5. Depreciation	7	10	10	11	12	13	14	14	13	14	13
B6. Combination of B1-B5	7	8	10	11	11	12	14	15	14	14	14
C. Tailored Tests											
C1. Combined contingent liabilities	7	8	9	10	10	11	12	13	12	12	12
C2. Natural disaster	7	8	9	10	10	11	12	13	13	13	13
C3. Commodity price	7	8	8	9	10	10	12	12	12	12	12
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18

Sources: National authorities and IMF staff calculations.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table AI.4. Nicaragua: Sensitivity Analysis for Key Indicators of Public Debt, 2020–30

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	PV of debt-to GDP ratio										
Baseline	29	31	33	34	35	36	36	35	35	34	33
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	29	33	36	38	40	**42**	**43**	**44**	**45**	**46**	**46**
A2. Alternative Scenario: ALBA debt contingent liability scenario	29	31	**42**	**43**	**45**	**45**	**45**	**44**	**43**	**42**	40
B. Bound Tests											
B1. Real GDP growth	29	33	37	39	40	**41**	**40**	40	39	38	38
B2. Primary balance	29	30	32	33	34	35	35	35	34	33	33
B3. Exports	29	36	**45**	**47**	**48**	**49**	**49**	**47**	**46**	**44**	**43**
B4. Other flows 3/	29	33	37	38	39	**40**	40	39	38	37	36
B5. Depreciation	29	39	37	39	40	**41**	**41**	**40**	40	39	39
B6. Combination of B1-B5	29	37	**40**	**42**	**43**	**44**	**44**	**43**	**42**	**41**	40
C. Tailored Tests											
C1. Combined contingent liabilities	29	34	35	37	38	39	40	39	39	38	37
C2. Natural disaster	29	35	37	39	**41**	**42**	**43**	**43**	**42**	**42**	**42**
C3. Commodity price	29	31	33	34	35	36	36	35	35	34	33
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
	PV of debt-to-exports ratio										
Baseline	70	73	74	75	76	76	76	74	72	71	70
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	70	76	81	84	86	88	91	93	94	96	98
A2. Alternative Scenario: ALBA debt contingent liability scenario	70	73	95	95	96	96	97	94	90	87	85
B. Bound Tests											
B1. Real GDP growth	70	73	74	75	76	76	76	74	72	71	70
B2. Primary balance	70	71	73	73	74	75	75	73	71	70	69
B3. Exports	70	91	122	123	124	125	124	120	115	112	109
B4. Other flows 3/	70	78	83	84	85	85	85	83	80	78	76
B5. Depreciation	70	73	67	67	68	69	69	67	66	65	64
B6. Combination of B1-B5	70	86	83	92	93	94	93	91	88	86	84
C. Tailored Tests											
C1. Combined contingent liabilities	70	80	80	81	83	84	85	83	81	80	79
C2. Natural disaster	70	84	85	87	89	91	93	92	90	90	90
C3. Commodity price	70	73	74	75	76	76	76	74	72	71	70
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
	Debt service-to-exports ratio										
Baseline	5	5	6	6	6	7	8	8	8	8	8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	5	5	6	6	6	7	8	9	9	9	9
A2. Alternative Scenario: ALBA debt contingent liability scenario	5	5	6	7	7	8	8	10	9	9	9
B. Bound Tests											
B1. Real GDP growth	5	5	6	6	6	7	8	8	8	8	8
B2. Primary balance	5	5	6	6	6	7	7	8	7	7	8
B3. Exports	5	6	7	9	9	9	11	13	12	12	12
B4. Other flows 3/	5	5	6	7	7	7	8	9	8	8	8
B5. Depreciation	5	5	6	6	6	6	7	7	7	7	7
B6. Combination of B1-B5	5	6	7	7	7	8	9	10	9	9	9
C. Tailored Tests											
C1. Combined contingent liabilities	5	5	6	6	7	7	8	8	8	8	8
C2. Natural disaster	5	6	6	7	7	7	8	9	8	8	9
C3. Commodity price	5	5	6	6	6	7	8	8	8	8	8
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
	Debt service-to-revenue ratio										
Baseline	7	8	8	9	10	10	12	12	12	12	12
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	7	8	8	9	10	10	12	13	13	14	14
A2. Alternative Scenario: ALBA debt contingent liability scenario	7	8	8	10	11	12	13	15	15	14	14
B. Bound Tests	7	8	8	10	11	12	13	15	15	14	14
B1. Real GDP growth	7	8	9	11	11	12	13	14	13	13	13
B2. Primary balance	7	8	8	9	10	10	11	12	12	12	11
B3. Exports	7	8	9	11	11	12	14	16	16	15	15
B4. Other flows 3/	7	8	9	10	10	11	13	13	13	13	13
B5. Depreciation	7	10	10	11	12	13	14	14	13	14	13
B6. Combination of B1-B5	7	8	10	11	11	12	14	15	14	14	14
C. Tailored Tests											
C1. Combined contingent liabilities	7	8	9	10	10	11	12	13	12	12	12
C2. Natural disaster	7	8	9	10	10	11	12	13	13	13	13
C3. Commodity price	7	8	8	9	10	10	12	12	12	12	12
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18

Sources: National authorities and IMF staff calculations.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

Appendix I. Letter of Intent

Managua, Nicaragua
November 6, 2020

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C.

Dear Ms. Georgieva:

1. Last January, the Government of Nicaragua started preparations to face the inevitable effects of the COVID-19 pandemic with the creation of the National Inter-institutional Commission for the Early Detection, Care and Prevention of COVID-19. Since then, we have declared a state of national alert and set protocols for epidemiological surveillance, prevention, diagnosis, and treatment per international recommendations. Despite these efforts, as of October 6 we have reported 4,225 cases of COVID-19 with 151 deaths. The pandemic is stressing the relatively modest capabilities of our country's health system.

2. The COVID-19 crisis comes on top of a two-year economic contraction that placed the Nicaraguan economy under severe stress, testing the resilience of our strong economic fundamentals and buffers accumulated over the past decade. Handling this protracted economic situation with limited external financing has left our fiscal, external, and financial buffers significantly diminished. As a result of the pandemic, we are facing a sudden reduction in tourism, maquila exports and foreign direct investment, which are critical to the Nicaraguan economy. Our preliminary projections indicate that real GDP will contract by 4.5 percent in 2020, marking the third year of economic contraction. Given the limited external financing and diminished buffers, the COVID-19 shock is producing a significant and unexpected balance of payments need.

3. To protect our citizens and the economy, our government has adopted several measures.

- Accommodative fiscal stance. The overall fiscal impact of the pandemic in 2020 is estimated to widen the fiscal deficit by 4.7 percentage points of GDP relative to 2019. The main elements explaining this deterioration are reduced tax revenues and social security contributions, due to the contraction in domestic demand and the surge in job losses, and additional expenditures to mitigate the impact of COVID-19. These expenditures include health-care expenses to build up medical services capacity to match the present and projected increase in hospitalizations; emergency agriculture sector production support; and measures to protect water services for distressed households. We welcome and embrace the collaboration of the United Nations Office for Project Services (UNOPS) to ensure a sound targeting mechanism for health care spending;

and of the World Food Program (WFP) to implement the emergency food program. About 40 percent of the emergency food program will be directed to female producers to alleviate the adverse effects of the COVID-19 on women.

- Revenue administration measures. In order to limit revenue losses during the pandemic we intend to implement short-term revenue measures, including: (1) strengthening and implementing the business continuity plan; (2) continue implementing remote work policies; and (3) enhancing communication and remote support for taxpayers.

- Since last March, the Central Bank of Nicaragua (CBN) has reduced the reference interest rates by 250 basis points and activated a business continuity plan to ensure the provision of financial services and maintain adequate liquidity throughout the banking system. In June 2020 the CBN announced a plan to reduce reserve requirements contingent on private banks' actions to expand credit. Under this plan, valid until June 30, 2022, banks can reduce temporarily the ratio of required reserves in local currency to as low as 4.5 percent (from 15 percent). In addition, in June 2020 the Superintendency of Banks introduced a new temporary financial regulation, effective until December 2020, allowing forbearance on loan-loss provisions by banks on loans granted before March 31, 2020. To protect financial stability, we are committed to not extending the new temporary financial regulation beyond December 2020 and publicly disclose on a quarterly basis the stock of loans covered under these provisions.

4. Against this backdrop, the Government of Nicaragua requests emergency financing from the IMF to address an urgent balance of payments need equivalent to 50 percent of quota (SDR 130 million or about US$183 million); SDR 43.33 million (16.67 percent of quota) would thus be provided under the "exogenous shock" window of the Rapid Credit Facility (RCF) and SDR 86.67 million (33.33 percent of quota) under the Rapid Financing Instrument (RFI). Coupled with some drawdown of our reserves and support from other multilateral agencies, this disbursement will help us fill external and fiscal financing gaps in 2020.

5. We are determined to protect Nicaragua's macroeconomic stability, rebuild adequate buffers, and strengthen resilience after the COVID-19 crisis abates. We are committed to unwinding the temporary programs implemented in response to COVID-19 and are confident that our fiscal operations will be fully financed during 2020. Considering the downside risks related to the pandemic, we are preparing a contingency plan to secure adequate resources to protect priority spending. In addition, we commit to implement a multi-year fiscal consolidation of at least 3 percent of GDP in permanent measures over 2021–23 to bring the debt-to-GDP ratio to a firmly declining path over the medium term and improve fiscal policy planning by adopting a responsible and macroeconomically consistent medium-term fiscal framework. For this purpose, we have requested technical assistance from the IMF's Fiscal Affairs Department. A recalibration of public spending priorities will also allow us to generate fiscal space for additional government support to social programs.

6. We are committed to follow the highest standards for fiscal transparency, to mitigate any risks related to governance and corruption vulnerabilities, and to ensure that emergency spending reaches the intended population.

- We have already enacted regulations that enable the online publication of beneficial owner(s) of all public procurement contracts (prior action, Table 1). The publication of contracts (under bidding and tender processes), which began October 15, 2020, contains contract amounts, the specific nature of the goods or services procured and their price per unit (where applicable), the names of the awarded entities and their beneficial owner(s), and the names of the public officials awarding the contracts (see website www.gestion.nicaraguacompra.gob.ni/siscae/portal).

- We recognize the importance of ensuring that emergency spending is properly accounted for and began publishing all COVID-19 related contracts signed since June 2020 (see website http://www.nicaraguacompra.gob.ni/contratos-covid-19/Contratos%20Covid%2019). In addition, we have consulted with IMF staff the terms of reference for an external, independent firm to audit all COVID-19 related expenditures, including funds channeled through the UNOPS and the WFP (prior action, Table 1).

- To enhance fiscal transparency, we began to publish the financial statements of the five largest state-owned enterprises—namely ENATREL, ENEL, PETRONIC, EPN, and ENACAL— covering the period 2015–19. We are determined to gradually expand the annual reporting of financial statements to all state-owned enterprises, including audit reports from the Comptroller General (prior action, Table 1). To achieve the highest standards of fiscal transparency and accountability we have requested IMF technical assistance to conduct a fiscal transparency assessment exercise.

- In addition, we are taking the necessary steps to ensure that the use of emergency financing remains transparent and accountable. In particular, we will: (1) hire, in line with the agreed terms of reference, an external, independent firm to audit all COVID-19 related expenditures through July 2021 and to publish the results of such audit on the government's website within two weeks of its finalization; (2) adhere to best practices in procuring and awarding contracts; (3) facilitate the tracking and reporting of the use of resources by channeling externally sourced emergency assistance through a dedicated subaccount of the treasury single account.

- We renew our commitment to implement swift reforms to enhance governance and combat corruption in line with the latest Article IV recommendations. We plan to strengthen the effectiveness of our anti-money laundering/combating the financing of terrorism framework in accordance with the action plan already agreed with the Financial Action Task Force.

7. The Government of Nicaragua will continue its open dialogue with the IMF. We are committed to ensuring ongoing macroeconomic stability and do not intend to introduce or intensify exchange and trade restrictions or take other measures that would compound Nicaragua's balance of payments difficulties. In line with our monetary and exchange rate policy, we will maintain the free convertibility of our currency and we do not intend to impose new or intensify existing

restrictions on payments and transfers for current international transactions, or multiple currency practices nor to enter into bilateral payments agreements, which are inconsistent with Article VIII of the IMF's Articles of Agreement. We have revamped the online publication of economic statistics through the public institutions and CBN websites, to help in assessing the economic outlook.

8. In line with the IMF safeguards policy, we commit to undergoing a safeguards assessment in connection with the emergency financial support from the Fund. We will provide IMF staff, as in current practice, with the Central Bank of Nicaragua's most recently completed external audit reports and authorize our external auditors to hold discussions with IMF staff. Upon Board's approval of the balance of payments support to be on-lent to the government, and its subsequent approval by the Nicaragua's National Assembly, a memorandum of understanding will be established —before the Fund's disbursement— between the Central Bank of Nicaragua and the Ministry of Finance on the respective responsibilities for servicing financial obligations to the IMF. In order for the UNOPS to help us execute the emergency health care program and for the WFP to help us execute our emergency food program we will timely, upon receipt of the RCF/RFI funds, transfer the US dollar equivalent to 40 percent of SDR 130 million to the UNOPS and 10 percent of SDR 130 million to the WFP, according to the agreements to be subscribed with the UNOPS and the WFP.

We authorize the IMF to publish this letter of intent and the staff report for the request for disbursement under this emergency financial support.

Respectfully,

/s/	/s/
Leonardo Ovidio Reyes Ramirez President of the Central Bank of Nicaragua	Ivan Acosta Montalvan Minister of Finance and Public Credit of Nicaragua

Table AI.1. Nicaragua: Prior Actions

Measures	Objective	Completion Date	Verification indicators
Enacted regulations that enable the publication of the beneficial owner(s) of all public procurement contracts.	Strengthen transparency in the use of public resources.	September 24, 2020	Published the Administrative Circular CA-DGCE – SP-11-2020 on the General Directorate of State Procurement (DGCE) website: http://www.nicaraguacompra.gob.ni/normativa. Began on October 15, the publication of beneficial ownership for all new public procurement contracts: www.gestion.nicaraguacompra.gob.ni/siscae/portal
Published all COVID-19 related public contracts. Formulated the terms of reference for the hiring of an independent external auditor for COVID-19 related expenditures.	Enhance governance by ensuring a transparent and comprehensive reporting of procurement contracts.	October 15, 2020	Began publication in the following website: http://www.nicaraguacompra.gob.ni/contratos-covid-19/Contratos%20Covid%2019
Published the financial statements of the five largest state-owned enterprises namely ENATREL, ENEL, PETRONIC, EPN, and ENACAL, covering the period 2015-19 and commit to gradually expand the annual reporting of financial statements to all SOEs, including audit reports from the Comptroller General.	Increase transparency on the financial position of state-owned enterprises.	September 17, 2020	Published on state-owned enterprises websites: ENATREL: http://www.enatrel.gob.ni/informes/ ENEL: https://www.enel.gob.ni/index.php/informes-financieros PETRONIC: https://www.petronic.com.ni/ EPN: www.epn.com.ni ENACAL: https://www.enacal.com.ni/estadosfinancieros/index.html

Statement by Mr. Bevilaqua, Executive Director for Nicaragua, Mr. Saraiva, Alternate Executive Director for Nicaragua, and Mr. Coronel, Advisor to the Executive Director for Nicaragua
November 20, 2020

1. On behalf of our Nicaraguan authorities, we welcome the actions taken by the IMF in providing prompt support to its membership in response to the COVID-19 pandemic and its subsequent economic shock, which has impacted both small and large economies across the world with unprecedented severity. Our authorities also thank staff for the laborious work and very constructive dialogue, which resulted in a particularly strong case for Nicaragua's RCF-RFI request to fight the pandemic and its dire economic effects.

The pandemic and the government's health response

2. **The pandemic did not catch Nicaragua off-guard**. The country's health services, albeit still modest, have reached historically high levels of coverage. Within the last decade and a half, the Government either built or renovated 18 hospitals, increased public health personnel by two-thirds, and quadrupled the public health budget. The early official designation of 19 hospitals to treat the patients affected by COVID-19 has been critical to minimize the human toll of the pandemic. The need for heightened medical attention has put a strain on the country's health service capacity, but hospitals have thus far held up well. However, mobilizing additional resources, both human and material, has proven challenging and costly.

3. **The Government declared a state of national alert following the WHO announcement that COVID-19 had reached pandemic levels.** In March, the Government started implementing epidemiological surveillance protocols at the national level and sanitary control measures at all entry ports. Also, it started campaigning for sanitary and preventive measures—instead of adopting compulsory lockdowns which would have had serious consequences for the economy and the most vulnerable segments of society given that the country was still reeling from a two-year economic recession. These decisions also considered the reality that 40 percent of the population in Nicaragua live in rural areas and 80 percent of the urban workforce cannot secure their livelihood working from home. As of November 16, health authorities reported 5,661 cases of COVID-19 and, lamentably, 158 fatalities from this illness.

The pandemic inflicted a severe blow to the economy

4. **The pandemic struck at a moment Nicaragua was recouping from a two-year recession that had left the economy in a vulnerable position.** In the first quarter, GDP growth reached 1.7 percent year-on-year, and the authorities were projecting 1.6 percent yearly growth for 2020. As a result of the COVID-19 shock, the second quarter registered a 7.9 percent year-on-year contraction, leading unemployment to increase, tax revenues and social security contributions to decline, and firms and households to enter a period of financial stress. Growth in the second semester is expected to improve somewhat, supported by

agricultural production and commercial activity. All things considered, the Central Bank of Nicaragua (BCN) has revised its GDP growth projection to a contraction of 4.5 percent in 2020, marking the country's third consecutive year of negative growth. For 2021, a modest recovery of 0.5 percent is now being projected. Headwinds include a near sudden stop of tourism, reduced maquila exports, a general slowdown of commercial activity, and a steep drop in foreign direct investment, similar to other countries in the region.

5. **The COVID-19 shock has opened a sizable gap in the balance of payments, aggravated by the country's limited access to external financing and diminished buffers.** Surprisingly, remittances performed better than expected providing some welcome support. The balance of payments financing gap in 2020 is estimated at US$332 million (2.9 percent of GDP), not accounting for the negative impact of Hurricanes Eta and Iota, which made landfall on November 3rd and November 16th, respectively, in the same area of the Caribbean coast of Nicaragua.[1]

The authorities' mitigation measures

6. **The authorities' acted swiftly and decisively.** A fiscal expenditure plan amounting to 1.6 percent of GDP has been developed, focusing on bolstering further healthcare capacity and ensuring emergency food security as well as the affordability of water services for the most vulnerable segments of the population. The Government has also taken measures to minimize revenue collection losses given the challenges posed by the pandemic. The BCN has supported financial stability and addressed banks' liquidity needs by reducing the reference interest rates and reserve requirements. The Superintendency of Banks has temporarily allowed forbearance on loan-loss provisions for credit that was deemed solvent before the shock. These measures have been framed within the country's fiscal and financial constraints in a way that safeguards fiscal and debt sustainability, facilitates the unwinding of the pandemic related temporary measures, and avoids false expectations and moral hazard.

The case for RCF-RFI eligibility is compelling

7. **The amount requested for emergency assistance under the RCF-RFI, 50 percent of quota (SDR130 million), would fill 55 percent of the country's projected, pre-Hurricanes Eta and Iota, balance of payments gap, with 23 percent of the gap being filled by other IFIs and the remainder by a drawdown in international reserves.** The case for urgent balance of payments need and support for health-related fiscal expenditures are clearly established, so are debt sustainability and adequate capacity to repay the Fund. Also, Nicaragua has a solid payment track record and a proven commitment to fiscal discipline and macroeconomic stability.

[1] The government's preliminary official reports indicate that damages from Hurricane Eta amount to about US$178.4 million, of which US$36.4 million are needed to attend urgent emergency assistance needs. The damage caused by Hurricane Iota is still being assessed. Thanks to the timely and effective mobilization of the national emergency response and prevention system, no human losses resulted from Hurricane Eta.

8. **Our Nicaraguan authorities have also agreed to conducting a safeguards assessment of the central bank.** Moreover, governance, accountability, and transparency enhancing measures on the use of the requested funds have been or are being implemented, including the online publication of beneficial owners of all public procurement contracts, the hiring of an independent auditor to audit pandemic-related spending, the publication of the financial statements of the main state-owned enterprises. In addition, the BCN and the National Institute of Statistics have taken the opportunity to revamp the online publication of economic statistics through their institutional websites.

9. **Our Nicaraguan authorities embrace the collaboration with the World Food Program (WFP) and the United Nations Office for Project Services (UNOPS).** These partners will help the Government on the implementation of the food security—which focuses on female-led efforts—and health components of the emergency assistance package. Half the RCF-RFI resources will be allocated to such efforts. The Government has a long-standing and productive relationship with both agencies and is fully committed to making this modality of support an effective and agile tool to deal with the pandemic and its humanitarian effects. The other half of the RCF-RFI disbursement would be channeled as direct budget support to accommodate other crisis-related expenditures.

10. **As fleshed out in the Letter of Intent (LOI), our Nicaraguan authorities are committed to safeguarding the country's macroeconomic stability, rebuilding buffers, and strengthening resilience as the pandemic crisis subsides**. They have also prepared a contingency plan to secure adequate resources to protect priority spending in case of a pandemic relapse, and they are fully committed to implementing a multi-year fiscal consolidation of 3 percent of GDP, consistent with the medium-term fiscal framework and debt sustainability.

Final Remarks

11. **Our Nicaraguan authorities have navigated through the pandemic shock with resolve and were able to preserve macroeconomic stability.** In dealing with the crisis, some encouraging developments are noteworthy. Economic activity has been protected to some extent by a positive evolution of commodity exports, and the labor market is already showing some signs of recovery. Furthermore, the supportive monetary policy stance and subdued inflation helped to bolster the stability of the exchange rate and the financial sector. On top of that, remittances have been performing much better than forecast immediately after the shock. The prudent stance taken by the authorities have leveraged on the favorable developments and helped some incipient recovery of buffers, as is clearly the case of international reserves and bank deposits. Agriculture and commerce are likely to continue their positive performance throughout the year, outperforming expectations and cushioning to some extent the adverse economic effects of the pandemic shock.

12. **Our Nicaraguan authorities are encouraged by the leadership of the IMF Managing Director**. Since the onset of the crisis, the IMF Managing Director has called for global solidarity and support to the poorest and most vulnerable countries as a matter of global priority. Our authorities also appreciate the long-standing working dialogue with the IMF and

continue to draw on the Fund's expertise and capacity development agenda. In the context of the preparation of the RCF-RFI, Nicaragua has requested a fiscal transparency evaluation as part of a broader technical assistance agenda on fiscal issues and is presently working with MCM and STA on securing additional technical support to strengthen the soundness of the financial system and the robustness and timeliness of economic statistics.