INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/53

NICARAGUA

January 2023

2022 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR NICARAGUA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2022 Article IV consultation with Nicaragua, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its January 23, 2023 consideration of the staff report that concluded the Article IV consultation with Nicaragua.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 23, 2023 following discussions that ended on November 15, 2022 with the officials of Nicaragua on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 4, 2023.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the IMF staff.
- A **Statement by the Executive Director** for Nicaragua.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

© 2023 International Monetary Fund

IMF Executive Board Concludes 2022 Article IV Consultation with Nicaragua

FOR IMMEDIATE RELEASE

Washington, DC – **January 27, 2023:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Nicaragua.

Prudent macroeconomic policies, substantial pre-crisis buffers (primarily government deposits) and official external financial assistance helped Nicaragua's economy rebound from a protracted contraction during 2018-2020, caused by the socio-political crisis of 2018, two major hurricanes in 2020, and the pandemic. Real GDP grew by 10.3 percent in 2021 and is projected to have grown by 4 percent in 2022, supported by external demand, remittances, and high prices for commodity exports. Gross international reserves have doubled since end-2018 (to over US$4 billion; about 6 months of imports, excluding *maquila*). Bank deposits are growing, reaching the pre-crisis level (in Córdobas).

Real GDP growth is expected to moderate to 3 percent in 2023, due mainly to the global slowdown. Inflation—which reached 11.4 percent in November 2022, primarily due to import price increases—is projected to decline in 2023 in line with lower growth and an expected significant decline in global inflation.

In the medium-term, real GDP is expected to grow by about 3½ percent, below the pre-crisis historical average, as credit to the private sector and private investment cautiously recover. The favorable outlook is subject to uncertainty and risks on the downside, primarily due to external developments, natural disasters, or a deterioration in the business climate and stricter international sanctions.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They noted the strong economic recovery and favorable outlook. Directors welcomed the authorities' commitment to continued prudent policies to strengthen policy buffers, economic growth, and resilience, given downside risks and vulnerabilities to natural disasters. They underscored the need for further efforts to improve the business climate, transparency, and governance.

Directors called for strengthening medium-term fiscal consolidation to safeguard fiscal sustainability and external stability. This would require streamlining other current expenditures, improving the targeting of subsidies and unwinding crisis-related spending measures while preserving adequate social spending and reducing poverty, addressing imbalances in the

---

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

social security system and state-owned enterprises (SOEs), and strengthening domestic revenue mobilization.

Directors underscored the need to continue raising the reference interest rate to maintain the interest-rate differential with the U.S., consistent with the crawling exchange rate peg regime and financial and external stability.

Directors welcomed the sound banking sector capital and liquidity buffers and called for further strengthening the financial sector by increasing provisions for distressed assets, preserving sound lending practices as credit rebounds, enhancing the crisis preparedness framework, and expanding the prudential supervisory perimeter.

Directors welcomed the improvements in the AML/CFT framework and Nicaragua's recent exit from the FATF grey list. They encouraged the authorities to strengthen the effectiveness of the framework further, including in the non-profit sector.

Directors welcomed recent steps toward increasing fiscal transparency. They commended the authorities for publishing their first fiscal risks report and the first external audit report on the use of COVID-19 funds. Directors also encouraged the authorities to publish all audit reports and financial statements of state-owned enterprises.

Directors noted the steps taken to enhance governance and anticorruption frameworks, but stressed the need for further efforts to address remaining shortcomings. They emphasized the need to strengthen the asset declaration regime for public officials and prioritize reviews of politically exposed persons to strengthen anti-corruption efforts. They also recommended ensuring whistleblower protection, fair and impartial access to the court system and to recourse in legal proceedings, to support property rights, contract enforcement, and investment protection.

Directors welcomed the authorities' commitment to improve the quality and consistency of statistics, building on Fund technical assistance recommendations.

Nicaragua: Selected Economic Indicators, 2019–23

	2019	2020	2021	2022	2023
				Projections	
Output		(Annual percent change)			
Real GDP	-3.8	-1.8	10.3	4.0	3.0
Real GDP (nominal, US$ million)	12,611	12,586	14,001	15,737	17,233
Consumer price inflation (period average)	5.4	3.7	4.9	10.2	8.4
Consumer price inflation (end of period)	6.1	2.9	7.2	11.2	6.1
Central Government		(In percent of GDP)			
Revenue (Incl. grants)	19.6	19.2	21.3	19.5	19.0
Expenditure 1/	20.1	21.5	22.6	21.0	19.6
Current	16.6	17.1	16.7	16.4	15.0
Capital	3.5	4.4	5.8	4.6	4.7
Overall balance (after grants)	-0.5	-2.3	-1.2	-1.6	-0.7
Total public sector gross debt 2/	50.2	57.8	56.9	58.1	56.1
External	41.6	46.6	45.3	45.2	44.3
Domestic	8.6	11.2	11.6	12.9	11.8
Money and Credit		(Annual percent change, end of period)			
Broad money	6.2	15.6	13.8	14.9	10.8
Credit to the private sector	-15.6	-3.6	5.3	8.2	9.5
Net domestic assets of the banking system	-15.0	-6.3	2.4	7.9	15.9
Non-performing loans to total loans (ratio)	3.2	3.7	2.4	…	…
External sector		(In millions of U.S. dollars, unless otherwise indicated)			
Current account	754	497	-317	-271	-305
(percent of GDP)	6.0	3.9	-2.3	-1.7	-1.8
Gross official reserves 3/	2,199	3,003	3,828	4,286	4,344
Months of imports excl. maquila	5.0	7.1	6.5	6.3	6.3
Memorandum Items					
Nominal GDP (billions of Córdobas)	417.2	432.3	492.9	565.1	631.1
Per capita GDP, US$	1,924	1,937	2,141	2,382	2,581
Córdoba/U.S. dollar (period average)	33.1	34.3	35.2	…	…

Sources: National authorities and IMF staff calculations.

1/ Central government expenditure include transfers to INSS for repayments of historical debt.

2/ Assumes that HIPC-equivalent terms were applied to the outstanding debt to non-Paris Club bilaterals. Does not include SDR allocations.

3/ Excludes the Deposit Guarantee Fund for Financial Institutions (FOGADE).

NICARAGUA

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION

January 4, 2023

KEY ISSUES

Context. Substantial pre-crisis buffers (primarily government deposits), prudent policies, and official external financial assistance helped Nicaragua recover well from a protracted downturn during 2018-2020 caused by the socio-political crisis of 2018, two major hurricanes in 2020, and the pandemic. Real gross domestic product (GDP) grew by 10.3 percent in 2021 and is projected to grow by 4 percent in 2022, despite hurricane Julia that affected the country in October. Inflation on an annual basis reached 11.4 percent in November 2022, mostly due to increases in import prices. The authorities introduced fiscal measures to mitigate the impact of the increases in oil and wheat prices, and also increased the reference interest rate. Bank deposits are growing strongly and reached the pre-crisis level (in Córdobas). Gross international reserves have doubled since end-2018 (to over US$4 billion; about 6 months of imports, excluding *maquila*).

Outlook and Risks. Real GDP is expected to grow by 3 percent in 2023, sustained by the recovery of domestic demand, in turn underpinned by remittances. Inflation is projected to moderate, in line with lower growth, and the significant expected decline in import prices and global inflation next year. Medium-term real GDP growth is expected to converge to 3½ percent, below the pre-crisis growth rates for Nicaragua, as credit to the private sector and investment cautiously recover. Risks to the outlook are mostly to the downside. A more severe global downturn and further external monetary tightening than expected, or a prolongation of Russia's war in Ukraine, could lower demand from trading partners as well as remittances growth, further raise inflation, and pose risks of fiscal slippages. The fiscal position could be strained by natural disasters. Business climate deterioration and stricter international sanctions pose elevated risks to trade and financing flows.

Focus. Prudent fiscal, monetary, and financial policies will be needed to continue strengthening policy buffers and support growth in the context of vulnerabilities and risks. Discussions also focused on policies to achieve sustained medium-term growth, including raising labor force participation, strengthening governance, and increasing resilience to natural disasters.

Key Policy Recommendations:

- *Safeguard fiscal sustainability*. Build fiscal space while reallocating expenditures to support growth, improving taxation and better targeting subsidies.
- *Continue raising the reference interest rate*. Maintain the interest rate differential with the U.S. policy interest rate consistent with the exchange rate crawling peg regime and financial stability.
- *Strengthen financial system resilience* by improving provisioning for distressed assets, enhancing the crisis preparedness framework, and expanding the prudential supervisory perimeter.
- *Support medium-term growth* through a continued adequate policy mix, continued investment in infrastructure, and connectivity, enhancing the business climate, and increasing labor force participation.
- *Enhance* fiscal transparency, public financial management, the governance, anti-corruption, and Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) frameworks, and align them with international standards. Proper application and effective implementation of the AML/CFT frameworks, publication of all audit reports of the use of public funds, public access to the asset declaration system, and reviews of the asset declarations of politically exposed persons will improve perceptions of corruption, and thereby support growth. Ensuring fair and impartial access to the court system and adequate recourse in all legal proceedings would help support property rights, contract enforcement, and investment.

Approved By
James Morsink (WHD) and Maria Gonzalez (SPR)

Discussions took place virtually during November 3-4, 2022 and in person in Managua, Nicaragua during November 8–15, 2022. The mission team comprised Alina Carare (Head), Sandra Marcelino and Julien Reynaud (all WHD), Metodij Hadzi-Vaskov (CAPDR Regional Resident Representative), Camilo Enciso (LEG) and Miguel Otero (MCM). Manuel Coronel, Bruno Saraiva (all OED) and Alejandro Fiorito (WHD) participated in some meetings. Santiago Texidor Mora (LEG) contributed to the staff report and Nicolas Fernandez-Arias, Alejandro Fiorito, and Mario Mansilla (all WHD) contributed to the preparations of the mission. Alejandro Fiorito, Eliana Herrera Porras and Julia Munoz (all WHD) assisted the team through research assistance and editorial support.

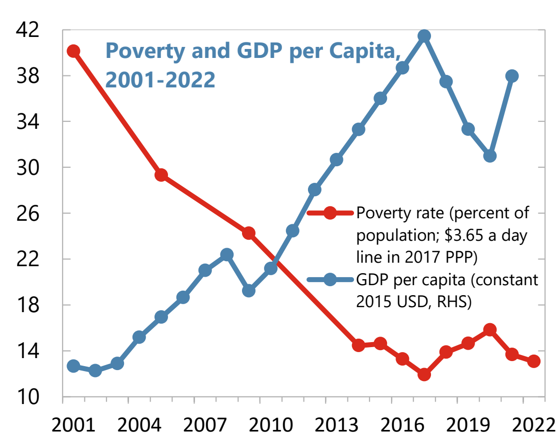
CONTENTS

TABLES

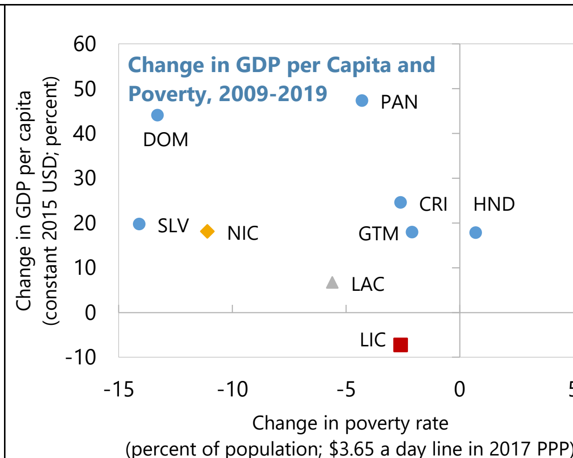
ANNEXES

ECONOMIC AND POLITICAL CONTEXT

1. **Steady economic growth and falling poverty for much of the past two decades was interrupted by the socio-political crisis in 2018, two major hurricanes in 2020, and the pandemic.**[1] Employment declined during the pandemic, especially in labor-intensive sectors. Appropriate fiscal, monetary and financial policies, and substantial pre-crisis buffers (primarily government deposits) have helped Nicaragua recover well from these shocks. The government's policy priorities have now shifted to mitigate the impact of the increases in oil and food prices, managing the exit from accommodative policies, and adjusting public finances to tighter financial conditions. The authorities also aim to boost sustainable medium-term growth.



Sources: World Bank Macro Poverty Outlook and World Development Indicators.



Sources: World Bank Macro Poverty Outlook and World Development Indicators.
Note: Data for Guatemala is for 2014 and 2018 and LIC data is up to 2018.

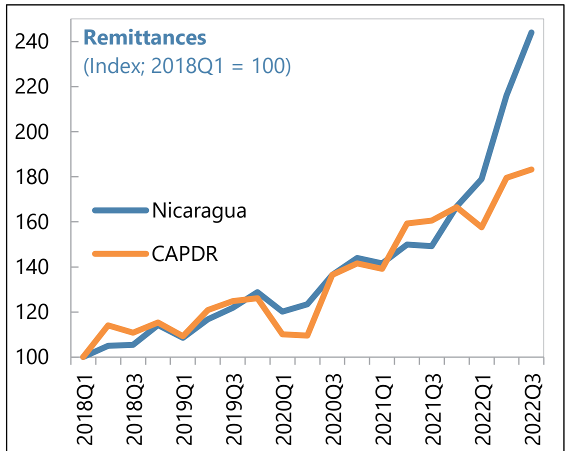
2. **Political challenges persist.** Following the election in November 2021 of President Ortega to a fourth consecutive five-year term, a number of countries (the United States, the European Union, the United Kingdom, Canada, and others) have broadened the targeted sanctions against numerous high-level officials from the executive, legislative, and judicial branches. These broadened sanctions were triggered by the arrests ahead of the 2021 presidential elections of aspiring presidential candidates, journalists, and businessmen. In addition, the United States government enacted the RENACER Act on November 10, 2021,[2] which directs the U.S. leadership at international financial institutions to advocate for increased oversight with respect to any financial or technical assistance (TA) for projects in Nicaragua. It also requires ensuring that any loan is administered through a financially independent entity from the government. On October 24, 2022, the U.S. government has expanded the possible set of available tools and authorities, to further increase targeted sanctions on trade and investment.

[1] Poverty is defined as the share of the population living at or below the international poverty line of US$3.65 per day (2017 PPP).
[2] The Reinforcing Nicaragua's Adherence to Conditions for Electoral Reform Act.

RECENT DEVELOPMENTS

3. **The macroeconomic policy responses to the pandemic and the 2020 hurricanes were appropriate.** The government provided relief to vulnerable households, procured COVID-19 tests, executed an effective immunization campaign (vaccination rate of 88 percent as of mid-November 2022), and rebuilt infrastructure. External financing was provided by multilaterals, including IMF emergency assistance approved in November 2020.[3]

4. **The economy has rebounded strongly since 2021.** Real GDP grew by 10.3 percent in 2021 and 5 percent in the first half of 2022, aided by external demand, buoyant global prices of gold, coffee, and meat, strong remittances, and the return of FDI (mainly in gold mining). By the end of 2021 the level of real GDP has surpassed its pre-crisis (end-March 2018) value (Figure 1). Real GDP is expected to grow by 4 percent in 2022, supported by the continued recovery of domestic demand, underpinned by unusually strong remittances, decoupling from broader regional trends (Central America, Panama, and Dominican Republic, CAPDR), particularly since mid-2021 (text chart, and ¶28).[4] The government's preliminary estimate of the damage from hurricane Julia in October 2022 is about 2½ percent of GDP, with a large portion in infrastructure. The annual GDP growth projections are not much affected, due to offsetting positive factors.[5]



Sources: National authorities and IMF staff calculations.

5. **Higher import prices led to an increase in inflation since end-December 2020**. Headline CPI inflation reached 11.4 percent as of November 2022 (y-o-y). The food basket, which represents 70 percent of the basic consumption basket, increased by around 20 percent y-o-y over the same period. Core inflation, non-tradable and producer price indices are also trending up (see Box 1).[6]

6. **Notwithstanding strong revenue performance, the consolidated public sector (CPS) deficit is expected to widen in 2022, due primarily to spending on untargeted measures to address higher prices.** The CPS deficit narrowed to 1.4 percent of GDP in 2021. In the first eight months of 2022, total revenue grew 15.5 percent y-o-y in nominal terms, while total expenditures

[3] Purchase under the Rapid Financing Instrument and the Rapid Credit Facility of 50 percent of quota (equivalent to US$186.8 million; or 1.5 percent of GDP). Half of this amount was executed by the government and the other half by the United Nations Office for Project Services (UNOPS) and the World Food Program (WFP).
[4] Remittances grew an average 45 percent year-on-year over the first nine months of 2022 (compared to about 10 percent yearly growth over 2017-2021).
[5] Although agricultural production is expected to be lower in 2022Q4 and possibly in 2023, in 2022 real GDP growth will be supported by social assistance, and in 2023 by increased public investments for reconstruction.
[6] The increase in inflation has been mainly driven by the food and transportation components, but in recent months inflation from restaurants, hotels, and retailed home goods have been picking up as well.

grew by 12.5 percent y-o-y. As a result, the CPS balance was in surplus. In May 2022, the authorities adopted temporary untargeted fiscal measures to mitigate the impact of oil and wheat price increases on households, which are estimated at 1.2 percent of GDP for 2022, set to expire by end-year (see text table).[7] Reflecting these measures, the CPS deficit is projected to widen to 3.3 percent of GDP in 2022. Financing needs are fully covered in 2022 due to a new concessional loan of US$200 million from the Central American Bank for Economic Integration (CABEI), which will cover the new measures for gas and fuel subsidies, and a new pandemic loan from the World Bank of US$116 million.

Stabilization Measures amid Rising Oil Prices

Measures	Estimated Cost for 2022		
	Millions of C$	Millions of US$	Percent of GDP
1. Electricity rate subsidy	1,783.5	49.2	0.32
2. Water rate subsidy	392.0	10.5	0.07
3. Gasoline and diesel subsidy	3,973.1	110.5	0.70
4. Liquified gas subsidy	261.9	7.2	0.05
5. Collective transport subsidy	178.3	4.9	0.03
6 Wheat reserves imports	281.4	7.8	0.05
Total Estimated Cost	**6,870.2**	**190.1**	**1.22**

Sources: National authorities and IMF staff calculations.

7. **The recovery in domestic demand and the rise in oil prices swung the current account balance into deficit.** Following the current account surplus recorded in 2020, the current account balance recorded a deficit of 2.3 percent of GDP in 2021. The rise in main export prices and a relatively robust external demand continue to support the increase in exports in 2022. In 2021 strong remittances inflows (15½ percent of the GDP) helped to partially offset the import surge, which along with the recovery of foreign direct investment (FDI) and the special drawing rights (SDR) allocation (US$354 million)[8] allowed the continued accumulation of gross international reserves (GIR). These trends continued in 2022, with GIR reaching US$4.3 billion by end-June 2022 (about 6 months of imports, excluding *maquila).*[9]

8. **The external position at end-2021 was moderately stronger than the level implied by fundamentals and desired policies, given the sustained capital inflows.** The current account (CA) and real effective exchange rate (REER) models of the multi-country External Balance Assessment (EBA)-lite assessment show moderate real undervaluation around 5 percent, and the External Sustainability (ES) approach finds that the net international investment position (NIIP) is sustainable in the medium term (Annex I). Gross international reserves (GIR) have doubled in U.S. dollars since end-2018, but are on the lower end of the recommended range of 5.3 to 8.9 months of *non-maquila* imports estimated using the Fund's adequacy metric, due mostly to the rapidly recovering imports.[10]

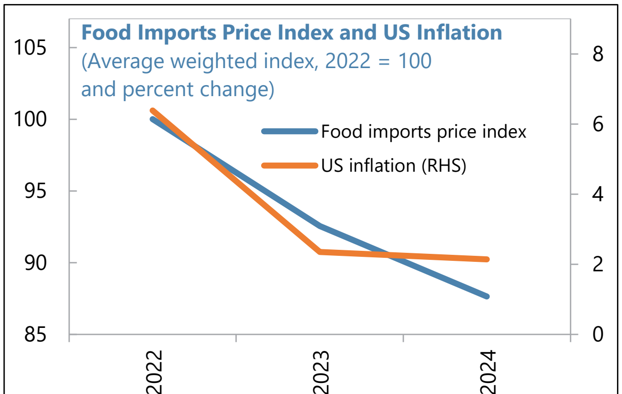
[7] Some of these measures are price caps on gasoline, fertilizers, and wheat, which are expected to dampen inflation.
[8] The SDR allocation has been maintained at the BCN.
[9] Maquila are imports of intermediate inputs by foreign companies that export from Nicaragua.
[10] Among other characteristics the Fund Assessing reserve Adequacy (ARA) metric takes into account that Nicaragua is a low-income country and has a crawling exchange rate regime. The range is estimated using a variety of opportunity costs for holding reserves.

9. The central bank of Nicaragua has tightened the monetary stance. The Central Bank of Nicaragua (BCN) has raised its reference rate by a cumulative 350 basis points since February 2022 (compared to an increase of 425 basis points in the United States), to maintain exchange rate and financial stability, the main goal of monetary policy. The Córdoba rate of crawl against the U.S. dollar remains at 2 percent per year.

10. Reported capital and liquidity ratios are above the required levels, but the level of distressed assets remains high, and provisioning is low (Annex II). As of September 2022, reported capital adequacy ratio (CAR) remains high,[11] and banks continue operating with comfortable levels of liquidity (although these narrowed recently).[12] Bank deposits[13] continue to grow (12.4 percent y-o-y), surpassing pre-crisis aggregate level (in Córdobas). Bank credit is also rebounding and reached 12 percent y-o-y growth, but the stock remains 25 percent lower than in March 2018. Although reported Non-Performing Loans (NPLs) have been falling in the past two years to 1.9 percent, the level of distressed assets[14] remains significant (12.1 percent). Profitability of banks has improved since 2021, given the credit rebound and decline in distressed assets as well as the low provisioning of other distressed assets.

OUTLOOK AND RISKS

11. GDP growth and inflation are expected to slow, given the tightening of fiscal and monetary policies, and the global slowdown (Box 2). In 2023 real GDP is projected to grow by 3 percent and inflation to fall gradually to 6 percent, primarily on the back of decelerating food import prices, and a decline in global inflation (text chart). In the medium term, real GDP growth is expected to converge to 3.5 percent (see Medium-Term Growth section) due to sustained domestic demand. This growth rate remains below pre-crisis and historical average rates, as investors and creditors are expected to remain cautious. Private consumption growth and the associated increase in imports are supported by remittances and FDI, albeit they are conservatively projected at lower growth rates than historical averages.



Source: World Economic Outlook.
Note: The index is a weighted average of corn, rice, palm oil, and non-alcoholic beverages prices, which are 75% of food imports.

12. Risks to the outlook are mostly to the downside, primarily due to global headwinds (details in Annex III). A more severe global downturn than currently incorporated into the baseline

[11] Average CAR of the financial system is 20 percent.
[12] Liquid assets represent 37.9 percent of short-term liabilities compared to 36.7 percent in March 2018. In addition, the Liquidity Coverage Ratio (LCR) is 285 percent, well beyond the minimum requirement of 100 percent.
[13] Deposits from the public held by banks. Data provided by Superintendency of Banks and Financial Institutions (SIBOIF).
[14] Including restructured, refinanced, and forborne loans, as well as repossessed assets.

scenario (Tables 1-7), further monetary tightening (in the U.S.), or a prolongation of Russia's war in Ukraine, could result in lower exports growth due to a decline in demand from trading partners, tighter financial conditions, and lower remittances growth. Continued inflationary pressures could pose risks to food affordability, and the fiscal position. Fiscal balances, economic activity and social outcomes could be strained by natural disasters, given Nicaragua's high exposure and economic dependence on climate sensitive sectors (Annex VI). A deterioration in the business climate and stricter international sanctions pose elevated risks to trade[15] and financing flows, and thereby growth.[16] Risks could intensify should the quality of financial assets deteriorate. Materialization of such risks would require adjustment of fiscal and monetary policies (see Risk Assessment Matrix in Annex III), enhancing financial provisions and frameworks, and acceleration of structural reforms to enhance competitiveness, facilitate job creation, strengthen economic resilience, and support the most vulnerable.

13. Nicaragua is assessed at moderate risk of debt distress (see Debt Sustainability Analysis, DSA). Over the medium-term, the expiration of various subsidies and social benefits, as well as the announced medium-term budget plans for 2023-2026, will lead to a narrowing of the consolidated nonfinancial public sector deficit, and a decline in public debt to 54 percent of GDP by end-2027. Although compared to 2020 the debt path and space to absorb shocks have improved, Nicaragua remains at moderate overall risk of external and public debt distress. This is a similar risk rating assessment to the DSA conducted in 2020.[17] Nevertheless, vulnerabilities to external shocks, natural disasters and contingent liabilities remain elevated, requiring strengthening policy buffers as external financing is expected to remain limited (see DSA ¶12).

Authorities' Views

14. The authorities broadly agreed with staff's views on the outlook and risks, differing in the medium-term growth projection by about ¾ percentage points, as they expect higher investment. They also expect trade to continue to be an engine for growth, in the context of implementation of the Memorandum of Understanding to join the Belt and Road Initiative signed in early 2022 with China.[18] The authorities emphasized their commitment to a prudent policy mix to ensure the economy can sustain further external shocks. On inflation, the authorities also broadly agreed with staff's views, and emphasized that they do not see risks of food insecurity, if inflation would rise higher than expected, given the large role of the agricultural sector in the economy and in exports, the solid performance of food production during previous shocks, as well as the extensive social programs in place.

---

[15] In July 2022 Nicaragua was excluded from the list of countries benefitting from low U.S. import duties on raw sugar for the fiscal year starting in October 2022, affecting about US$83 million in sugar exports (2.3 percent of total goods exports).

[16] Regional trade flows and with the U.S. could be impacted if Nicaragua's participation in the Dominican Republic-Central America Free Trade Agreement (CAFTA-DR) is revised. The RENACER Act requires a review of CAFTA if there is deterioration in democracy.

[17] WB-IMF Nicaragua LIC DSA, November 2020.

[18] On November 25, 2022, Nicaragua has also signed agreements on cybersecurity and transport and authorized the signing of an agreement on cooperation and mutual assistance in customs matters with the Russian Federation.

POLICY DISCUSSIONS

Prudent fiscal, monetary, and financial policies will need to remain in place to strengthen policy buffers and be able to rely on them in case risks materialize. Discussions also focused on policies to boost sustainable medium-term growth, including raising labor force participation, strengthening governance, and increasing resilience to natural disasters.

A. Ensuring Fiscal Sustainability

15. The authorities are committed to prudent fiscal policy to safeguard fiscal sustainability, as outlined in the 2023 budget and medium-term plan. In 2023, the fiscal policy challenge will be to unwind crisis related measures while maintaining adequate levels of social spending to reduce poverty. Staff's baseline projections (tables 5-6) incorporate a consolidation at the central government level of 2 percent of GDP over 2023-2026, consisting mostly of the termination of temporary crisis and pandemic-related measures as presented in the 2023 budget. However, staff's projections also include increased targeted social spending of ½ percent of GDP to alleviate poverty. Over the medium term, the overall fiscal deficit in the consolidated public sector will stem mainly from imbalances in the finances of the social security system (INSS) and the state-owned enterprises (SOEs).[19] Addressing those imbalances, and enhancing buffers given that Nicaragua is vulnerable to natural disasters, is paramount for debt sustainability.

16. While the projected unidentified fiscal financing needs are not large, about 3¾ percent of GDP over 2023-27, prospects for new financial support on highly concessional terms remain limited. Pandemic-related aid is waning, and new financial assistance from international financial institutions (IFIs) other than CABEI is projected to be limited over the medium-term, given the RENACER ACT. Staff recommend pursuing policies consistent with transparent and concessional lending, including from bilateral sources and IFIs, to not jeopardize debt sustainability. There is room to increase domestic financing with Treasury bonds. However, this would raise debt servicing costs, as interest rates are expected to continue to rise. Also, increased domestic financing of the government could crowd out credit to the private sector. Accessing international bond markets will also raise debt servicing costs, given the expected increases in U.S. Treasury bond interest rates and the risk premium Nicaragua will need to pay above those rates.[20]

17. To reduce public debt to its pre-crisis level of 45 percent of GDP, staff recommended the adoption of additional permanent measures of 1¾ percent of GDP. To make space for building buffers, strengthening social safety nets, and increasing public investment, the following 1¾ percent of GDP additional measures are recommended over the medium-term:

[19] Discussions to reduce the growing deficit in INSS are ongoing. A possible measure is to change the minimum number of contributions required to receive a reduced pension.
[20] While S&P raised the long-term credit rating of the sovereign from B- to B in October 2022, citing continued economic recovery and macroeconomic stability, it also noted that the rationale for the rating includes institutional weaknesses, especially weak checks and balances and rule of law, and that the downside scenario could include a deterioration in the rating due to political tensions.

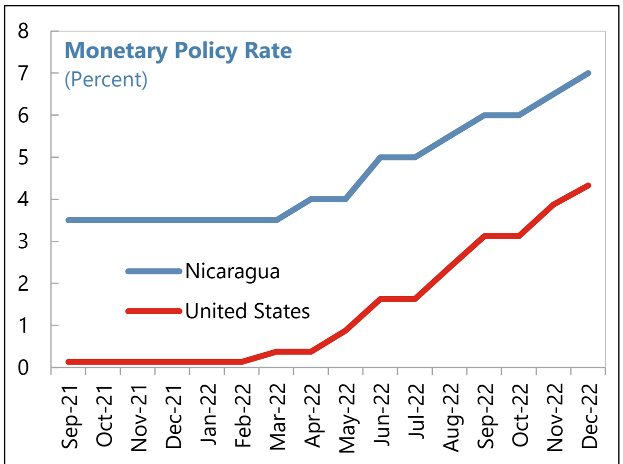
- Streamline VAT exemptions and improve taxation in selected sectors, e.g., the digital and mining sectors, as recommended by Fund technical assistance. Strengthen tax risk management and tax audit procedures to improve voluntary compliance and strengthen domestic revenue mobilization (0.7 percent of GDP).
- Reduce current expenditures (primarily on wages and goods and services; 0.8 percent of GDP).
- Adjust and improve the targeting of long-standing subsidies to reduce imbalances from the affected SOEs (0.3 percent of GDP).

Authorities' Views

18. The authorities are determined to ensure macroeconomic stability and safeguard fiscal sustainability while maintaining adequate levels of social spending to reduce poverty and support inclusive growth. Despite the introduction of temporary fiscal measures to mitigate the impact of the rise in imported oil and food products, the authorities remain committed to prudent fiscal policies and intend to increase savings given the country's vulnerability to natural disasters. The authorities underscored that they have already implemented an important tax reform in 2019, and for any additional buffers needed they would seek concessional loans from the international community.

B. Maintaining Exchange Rate Stability

19. The central bank has broadly maintained the interest differential with the United States, consistent with the exchange rate crawling peg regime. A consistent policy mix is needed to maintain the crawling peg regime, with appropriately tight fiscal and monetary policies. The authorities expect to tighten monetary policy further in view of the expected increases in rates in the U.S. Staff recommended that increases in the reference interest rate should maintain the interest differential with the U.S. policy rate consistent with the exchange rate crawling peg and financial stability. Commercial bank deposits at the central bank have increased, offsetting the contraction of currency in circulation due to a significant accumulation of government deposits at the central bank. Central bank foreign exchange net sales have remained negative since 2019, showing that the monetary policy rate increases in 2022 have been sufficient to maintain the crawling peg amid U.S. monetary tightening.



Sources: BCN and Federal Reserve.

20. In the medium term, continued reserve accumulation is needed to support the exchange rate regime. Given rising inflation, the appropriate stance of monetary policy is broadly similar in Nicaragua and the United States. Therefore, implementing sound domestic monetary policy does not require the use of reserves to maintain the crawl rate. The multi-year fiscal consolidation envisaged by the authorities is expected to continue to support external stability. Staff expect a continuation of reserves accumulation in the medium-term, albeit at lower rate, as reflected in the baseline scenario.

Authorities' Views

21. The authorities remain committed to prudent monetary and exchange rate policies. The authorities agree with staff on the need for tightening domestic monetary policy in case of further policy rate hikes by the Federal Reserves Bank, but stressed that to maintain the exchange rate stability the pace of tightening does not need to be fully synchronized with the U.S. and there are limits to the reference rate increases, given the costs they entail to the economy (e.g., reduced demand to credit, high debt servicing costs). The authorities see the crawling peg as a key nominal anchor. The authorities assess that the current level of gross international reserves is adequate for potential shocks. They also emphasized that the country was able to sustain three large consecutive shocks during 2018-2020, and that the prudent policy mix will maintain a stable external balance as the economy grows, and strong remittances and foreign direct investment will continue to support the accumulation of reserves.

C. Maintaining Financial Sector Stability and Resilience

22. The low provisioning ratio of distressed assets is a concern. The two extraordinary temporary forbearance measures (known as "aliviados") expired in 2019 and 2020 and the total stock of distressed assets[21] has been falling from its peak of 22.6 percent as of September 2020. However, it remains significant at 12.1 percent, six times the NPL stock. In addition, the level of provisions relative to total distressed assets is lower than pre-crisis.[22] The authorities should extend the provisioning framework beyond NPLs, to be able to increase provisions of restructured loans and other distressed assets.

23. The rebound in credit to the economy and FX risk warrant close oversight. Although bank credit[23] remains below its pre-crisis level, the authorities should ensure that the rebound is coupled with sound and prudent lending policies.[24] In addition, they recently reactivated countercyclical provisioning and should consider further macroprudential tools if necessary, such as higher risk weights for unsecured lending. Foreign exchange risk also warrants attention given the high level of dollarization.[25]

[21] Comprised of NPLs, restructured, refinanced, and forborne loans, as well as repossessed assets.
[22] As of September 2022, the level of provisions relative to NPLs is higher than pre-crisis (272 percent vs. 226 percent), but provisions relative to total distressed assets declined significantly (43 percent compared to their pre-crisis level of 86 percent).
[23] Bank credit defined as gross credit to the economy provided by the credit institutions under SIBOIF's supervision (7 commercial banks, 1 development bank and 2 financing companies).
[24] By September 2022, bank credit y-o-y growth accelerated to 12.0 percent (measured in U.S. dollar) and has reached all sectors except for mortgages. Data provided by SIBOIF.
[25] More than 90 percent of credit and 70 percent of deposits are denominated in U.S. dollar.

24. Crisis preparedness arrangements need to be further strengthened. The authorities should update the resolution framework and align it with best international practices (Financial Stability Board Key Attributes) taking into account the size, structure and complexity of the Nicaraguan financial system; the resolution toolkit needs to be reviewed and work on recovery and resolution planning needs to start. The authorities should also enhance the existing arrangements between the different entities involved in crisis preparedness and management, and consider conducting crisis simulation exercises. The authorities could create a subcommittee of the Financial Stability Committee (FSC) to deal with crisis situations.

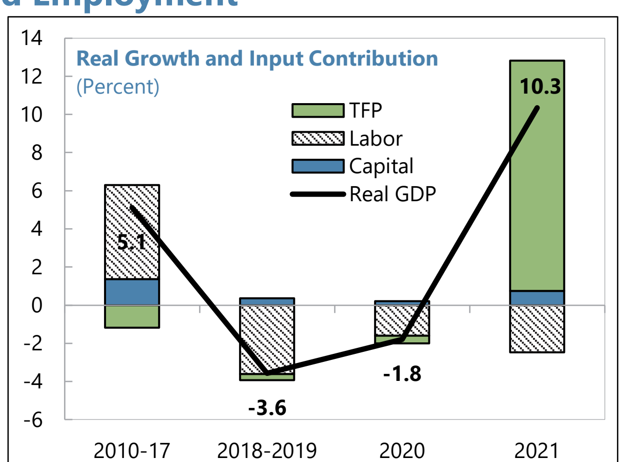
25. The authorities should expand the prudential supervisory perimeter. Although microfinance companies and credit and savings cooperatives are estimated to represent less than 10 percent of the financial system's assets, the authorities should overcome data gaps for credit and savings cooperatives and start their oversight, following a principle of proportionality, and finalize the capital requirements legislation for microfinance companies, to continue to minimize risks and maintain the stability of the financial system. The Fund stands ready to provide technical assistance to the authorities on all issues above, to enhance financial stability. In this context, the 2019 Financial Sector Stability Report (FSSR) roadmap could be implemented.

Authorities' Views

26. The authorities remain committed to further strengthening the resilience of the financial sector. They stressed the high level of provisions relative to NPLs and the reactivation of the countercyclical provisioning to provide a cushion against the recent credit rebound. They agree to further improve the level of provisions relative to other distressed assets and revisit their current regulation. The authorities also agree to enhance their crisis preparedness framework and align it with best international practices. As per the recommendation to expand the prudential supervisory perimeter, the authorities consider that credit and savings cooperatives do not pose a systemic risk given their small relative size, but they will address current data gaps and start their oversight, prioritizing the supervision of the largest institutions.

D. Boosting Medium-Term Growth and Employment

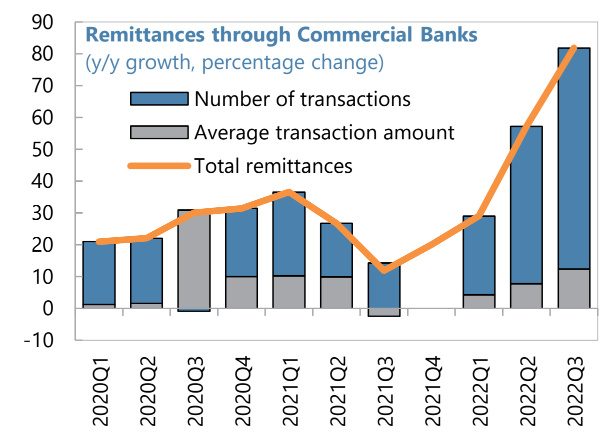
27. An updated growth accounting exercise suggests that Nicaragua could reach a higher medium-term growth rate than was expected in the 2019 Article IV staff report (Annex IV). During 2018-2020 the growth contraction was mostly due to investment contraction (12½ percent of GDP), which in turn led to a decline in the capital stock, and a revision of growth potential. Investment started recovering in 2020, and by end-2021 increased 6¼ percent of GDP. In the medium-term, the investment-to-GDP ratio is expected to



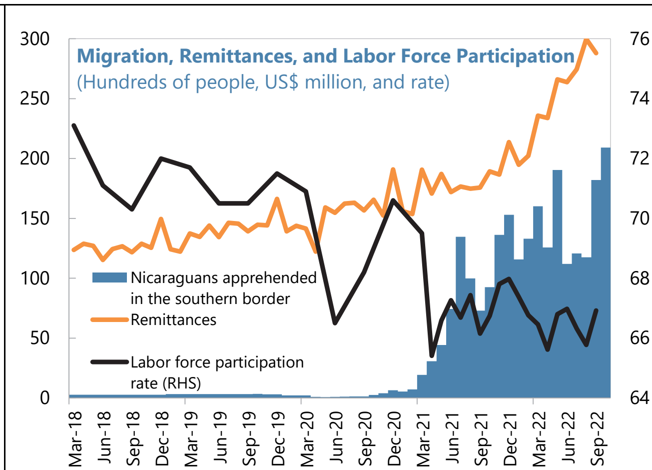
Source: BCN.

gradually recover to its historical average, in line with further credit recovery and FDI (sustained by low wages and consisting mainly of the finalization of existing projects). Moreover, the labor contribution is expected to remain muted, as labor participation has yet to recover fully, and emigration increased significantly since mid-2021 (see text charts).[26] As a result, real GDP growth is projected to increase to 3½ percent by 2025, which is below the pre-crisis average (2011-17) growth rate of 5.2 percent.

28. To achieve higher medium-term growth, policies to increase labor force participation and a more supportive business environment are needed. Since 2018, the labor contribution to growth has been negative (text chart). In 2021, the labor force participation rate fell to 67.1 percent, even though the unemployment rate declined to 3.7 percent. Policies to increase the labor contribution to output growth could include tax simplification and other measures to support formal jobs creation (Annex V). To support capital accumulation, continued investment in infrastructure and connectivity are needed. Most importantly, investment growth could also be supported by enhancing the business climate. Government institutions and frameworks need to be strengthened in the areas of contract enforcement, protecting property rights, and resolving insolvencies, and additional governance and anti-corruption reforms[27] are needed to strengthen competitiveness (see next section). Changes affecting the business environment should also be prepared in consultation with all stakeholders to improve business climate.



Sources: National authorities and IMF staff calculations.
Note: Commercial banks represent about 70% of total remittances transactions by value in the latest quarters. Data for 2021Q4 is not available.



Sources: CBP and BCN.
Note: apprehensions pre-2020 are monthly averages computed using yearly totals.

---

[26] Labor informality is expected to remain elevated. Even as emigration reduces labor supply, given the wage differential between the formal and informal sector, staff assumes it will take time for the economy to adjust. Hence staff assumes zero labor contribution to growth by 2027.

[27] The Perception of Corruption index of the Transparency International has been deteriorating since 2017 (from a score of 26 in 2017, with 90 percent confidence interval between 24 to 28, to a score of 20 in 2021, with a confidence interval between 18.4 to 21.6, respectively). The drop is larger than observed in most regional peers during the same time, and Nicaragua remains the second lowest in Latin American and Caribbean.

Authorities' Views

29. The authorities concurred with staff that policy solutions are needed to increase the employment contribution to growth to support higher potential medium-term growth, which they see at 4 percent. The authorities are committed to attract more investment and mitigate the decline in labor force participation to ensure a higher medium-term economic growth. They see informal employment as a cushion for those who lose their formal jobs, and as a crucial contributor to the dynamism of the economy They underscored that while emigration is a new phenomenon, that could explain the decline in the labor force participation recently, among others—following the 2018 socio-political event, and the pandemic, coupled with the strong job market in the United States—more analysis is needed to understand its long term impact. The authorities concur that there is a need to enhance policies to support higher productivity.

E. Strengthening Governance

30. Nicaragua has enacted extensive legal reforms aimed to improve the AML/CFT framework, but further efforts are needed to strengthen effective implementation. In recent years, the authorities have adopted a comprehensive set of reforms to bring the legal framework in line with international standards on: (i) understanding risks; (ii) enhancing international cooperation; (iii) improving the supervision of reporting entities; and (iv) implementing appropriate measures to prevent legal entities from being misused for criminal purposes. As a result, the Financial Action task Force (FATF) Plenary of October 2022 welcomed Nicaragua's progress and removed it from the list of jurisdictions subject to increased monitoring (the Grey list). Nevertheless, FATF was also strongly concerned by the potential misapplication of the FATF standards, resulting in the suppression and closure of a large part of the Nicaragua's non-profit sector (see Annex VII). The regulation of non-for-profit organizations to prevent their misuse by illicit actors is not targeted to prevent unintended consequences, and enforcement efforts, including against politically exposed persons, are not sufficient. Therefore, further work is needed to ensure proper and effective implementation in line with international standards. Going forward, Nicaragua should prioritize ensuring timely access to accurate beneficial ownership information, further refining risk assessment and AML/CFT risk-based supervision of banks and guaranteeing that money laundering offences are investigated and prosecuted in a fair and independent manner, and ill-gotten proceeds are properly confiscated.

31. The government has made efforts to improve fiscal transparency and it needs to enhance further fiscal governance and strengthen public financial management (see Informational Annex, and Annexes VII-IX). As per their commitment under the RCF/RFI, the authorities have been publishing on the Finance Ministry's website details of pandemic-related spending and procurement contracts, including beneficiary ownership.[28] The first independent external audit report on all pandemic-related use of funds has been published. It covers the execution of funds from April 1, 2020 to May 31, 2021, including the transfers from the government

[28] https://www.gestion.nicaraguacompra.gob.ni/siscae/portal/adquisiciones-gestion/busquedaProcedimientosVigentes?proc_estado=VIGENTE and https://www.nicaraguacompra.gob.ni/contratos-covid-19/Contratos%20Covid%2019.

to the United Nations Office for Project Services (UNOPS) and the World Food Program (WFP) of the share of IMF emergency funds.[29] In line with IMF and World Bank's TA recommendations (see Informational Annex), a first fiscal risks report was published in May 2022.[30] To enhance fiscal governance and improve public financial management, the authorities need to continue to publish all the audit reports regarding the use of pandemic-related funds, promptly publish the annual financial statements of the central government and their audit reports, performed by the Comptroller General Office. The expanded publication and coverage in fiscal reports, including of all SOEs should also be undertaken.

32. The state has taken steps to enhance governance and anticorruption frameworks, and further efforts are needed to strengthen these frameworks and their effective application, since shortcomings remain. The Comptroller General Office has introduced a platform to collect asset declarations from all public officials, has undertaken efforts to collect them, and has taken steps to sanction some non-compliant public officials. A strategic national plan aimed at ensuring access to justice has been adopted and it started to be implemented. However, the asset declarations regime has shortcomings that prevent effective detection, oversight, and sanctioning of potential serious corruption cases. While petty corruption infractions have continued to be prosecuted, detection of possible corruption cases at *all* levels of government remain challenging, partly due to deficiencies of the asset declarations regime, lack of whistleblower protection norms, insufficient implementation of access to information provisions, and insufficient training of public officials. Ensuring fair and impartial access to the court system and to recourse in legal proceedings, remains challenging. As such, staff recommend that the Comptroller General Office takes additional measures to ensure public access to the asset declarations, digital reporting, and to prioritize reviews of declarations of politically exposed persons. The adoption of norms on whistleblower protection, effective implementation of access to information provisions, and enhanced training of public officials on corruption detection and reporting would bolster authorities' capacity to detect and prosecute possible acts of corruption at *all* levels of government. Ensuring fair and impartial access to the court system and to recourse in legal proceedings, would support business climate and growth, promote property rights, contract enforcement, and investment protection (see Annex VII).

33. The BCN has taken steps to implement the recommendations of the November 2021 safeguards assessment. This includes establishing an Audit Committee to oversee financial reporting and the audit mechanisms, and strengthening its external auditor selection process. A number of priority recommendations from the assessment remain work-in-progress; in particular, legal amendments to strengthen the central bank autonomy, a medium-term recapitalization strategy and a plan to restart the transition to International Financial Reporting Standards (IFRS).

[29] See the publication of the report on the government's website:
http://www.hacienda.gob.ni/hacienda/documentosdgtec/infocovid19.html
A second audit is planned to cover the period after May 31, 2021 and to be published in May 2023.
[30] The annual fiscal risks report is published online.

Authorities' Views

34. **The authorities agreed with staff recommendations to enhance effectiveness of the AML framework application**. The authorities are committed to continue to strengthen the effectiveness of the AML/CFT framework, and to work with the Group of Financial Action for Latin America (GAFILAT) on avoiding unintended consequences for the implementation of FATF Recommendation 8, concerning Non-Profit Organizations that are compliant.

35. **The authorities broadly agreed to enhance fiscal transparency and governance.** The authorities noted that a second report covering the execution of the COVID-19 funds during June 1, 2021, and May 31, 2022, is expected to be published in May 2023 and UNOPS is expected to publish their audit report of the execution of the first part of the COVID-19 funds executed by them in November 2023. In addition, the authorities are committed to publishing the annual financial statements of the central government as well as their audit reports, and will expand the publication and coverage of fiscal reports, including all SOEs.

36. **The authorities agreed with staff to strengthen the governance, anticorruption framework and their effective application, as well as the rule of law.** The authorities noted the importance of improving detection of possible acts of corruption, and underscored they have sufficient capacity to determine the most appropriate legal instruments to be used to support the alignment of their anticorruption and rule of law frameworks to best international practices. The authorities agreed with the need to enhance fair and impartial access to courts and to adequate recourse in all legal proceedings, as means to ensure property rights, contract enforcement, and investment protection.

37. **The authorities are committed to continue to work on the implementation of the Safeguards Assessment**. The authorities stressed that central bank is independent in its policy formulation and operations, and therefore amending its law and outlining a recapitalization plan are desirable actions that are a work in progress. They do not consider that transitioning to the IFRS is a priority and there is a need to develop capacity first.

STATISTICS

38. **Efforts are needed to improve data coverage, timeliness, and frequency of statistics, to better assess risks, and improve confidence.** While statistics are broadly adequate for surveillance, the timeliness and frequency of certain published reports have deteriorated since 2018. Efforts are needed to expand sources of data (e.g., in the real sector and incorporate the results of the household survey in the national accounts; harmonize public sector debt with external sector debt data. See Annex VIII). Despite extensive technical assistance (TA) to improve statistical methodology, statistical publication has not yet returned to a more predictable timetable, but the data coverage remain appropriate for surveillance and the authorities are working with International Monetary Fund Statistics department and Central America and Panama technical Assistance Center (CAPTAC) on implementing several TA recommendations to remedy the issues.

Authorities' Views

39. **The authorities remain committed to improve the timeliness, quality, and consistency of statistics**. They have reallocated data publication to relevant agencies, e.g., debt and public finance statistics are now published on the website of the Ministry of Finance. They continue to build on the Fund's technical assistance to strengthen macroeconomic data.

STAFF APPRAISAL

40. **Economic activity is recovering well, supported by appropriate macroeconomic and financial policies**. International official financing, including International Monetary Fund emergency assistance, and pre-crisis buffers (primarily government deposits) also helped the economy to cope with the pandemic and the reconstruction efforts after the two consecutive hurricanes of November 2020. After contracting about 9 percent over 2018-20, real GDP grew by 10.3 percent in 2021, and is expected to grow by 4 percent in 2022, sustained by private consumption and exports, given favorable export prices. Strong remittances, large FDI projects and the SDR allocation in August 2021 allowed the continued accumulation of gross international reserves to about US$4.3 billion by end-June 2020 (6 months of imports, excluding *maquila*). Staff assess that the external position is moderately stronger than the levels implied by fundamentals and desired policies.

41. **Nicaragua's economic outlook is favorable, although subject to uncertainty and risks to the outlook are on the downside, primarily due to global headwinds**. Real GDP growth is expected to moderate to 3 percent in 2023, due to weaker external demand and tighter external financial conditions. Over the medium term, real GDP growth is projected to converge to its potential of about 3½ percent, below the pre-crisis average growth rate for Nicaragua, given the cautious recovery in investment and credit to the private sector. Risks to the outlook are on the downside: a more severe global downturn that could affect demand for Nicaraguan exports and remittances growth, further external monetary tightening and higher import prices than expected, natural disasters. A deterioration in the business climate and stricter international sanctions could pose elevated risks to trade and financing flows.

42. **Prudent monetary, fiscal, and financial policies need to continue, to build resilience and achieve sustained medium-term growth**. Staff support the policy mix, of appropriately tight fiscal and monetary policies, needed to strengthen buffers amid global uncertainty, accumulate reserves and maintain an interest rate differential with the U.S. consistent with the exchange rate crawling peg. Staff recommend sustained efforts to improve the business climate and structural reforms to increase formal employment, will also help curb emigration and strengthen the social security accounts.

43. **The fiscal policy needs to consolidate to safeguard fiscal sustainability**. Staff consider the planned fiscal policy in 2023 is appropriate given the global environment, and support improving the consolidated public sector deficit primarily through the unwinding of the crisis-related measures and the continued consolidation at the central government level. Over the

medium term, a sustainable approach to fiscal policy should continue, to implement durable measures that would further reduce public debt—which is currently about 57 percent of GDP—and enhance buffers given the country's vulnerability to natural disasters and expected tighter global financial conditions.

44. While banks seem well capitalized and liquid, the resilience of the financial sector could be further strengthened. Bank deposits are growing and reported NPLs are low, but the level of distressed assets remains high and low provisioned. Staff recommends increasing the level of provisions for distressed assets and ensuring that sound lending practices are preserved as credit rebounds. Staff recommends maintaining financial stability through aligning the crisis preparedness framework with best international practices, expanding the prudential supervisory perimeter, and continuing to closely monitor FX risk given the high degree of dollarization.

45. Building on recent achievements, the authorities should continue strengthening the AML/CFT framework. Nicaragua has implemented a comprehensive set of legal reforms to align its AML/CFT framework with international standards. As a result, the FATF has announced its removal from the "Grey list". Staff recommend the proper application of the AML/CFT framework and support the authorities' efforts to strengthen its effectiveness.

46. Staff welcomes the publication of the first fiscal risks report in May 2022 and urge the authorities to sustain efforts for greater fiscal transparency. Staff welcome the authorities' commitment to publish all the external audit reports on the use of all COVID-19 funds; a first report covering the execution until May 2021 has been published end-November 2022. The Comptroller General Office has taken steps to strengthen the spending oversight of the use of public funds, yet increased efforts are needed to ensure risk-based audits and publication of audit reports.

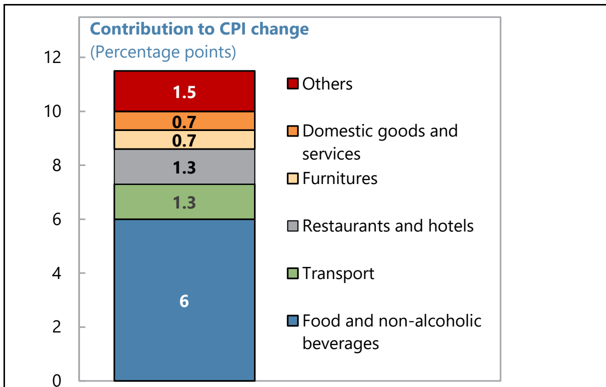
47. The state has taken steps to enhance governance and anticorruption frameworks, and further efforts are needed to strengthen these frameworks and their effective application, since shortcomings remain. The Comptroller General Office has introduced a platform to collect asset declarations of public officials. Staff recommend that the Comptroller General Office takes additional measures to ensure public access to these declarations, digital reporting, and to prioritize reviews of politically exposed persons. To support business climate and growth, staff recommend that the state strengthens the capacity to detect and prosecute possible acts of corruption at *all* levels of government by fully implementing the Law of Access to Public Information and enacting norms that ensure whistleblower protection. Ensuring fair and impartial access to the court system and to recourse in legal proceedings, would support property rights, contract enforcement, and investment protection.

48. Staff welcome the authorities' intentions to continue building on technical assistance recommendations to improve the quality and consistency of statistics, which is critical to assess risks, better formulate policies, and improve business confidence.

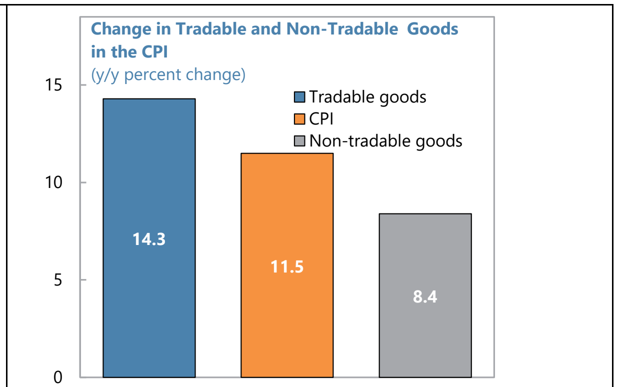
49. Staff recommend that the next Article IV consultation takes places on the standard 12 - months cycle.

Box 1. Inflation and Food Affordability

By September 2022 over half of the Nicaraguan CPI yearly increase was due to the increase in food and non-alcoholic beverages prices (text chart). The pass-through on the transportation subset of the basket of the global surge in oil price has been somehow limited, due to the implemented temporary gasoline subsidies and long-standing transport prices controls.



Source: INIDE.

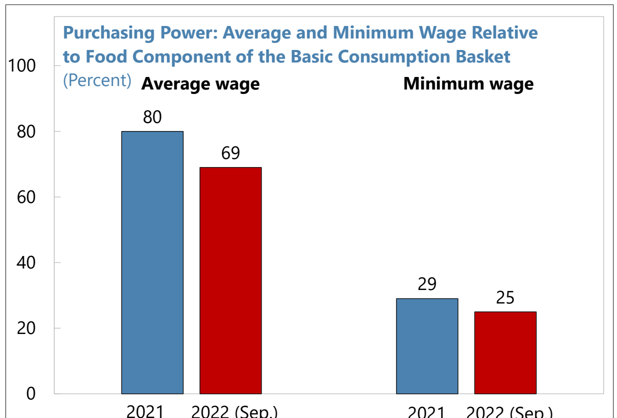


Source: INIDE.

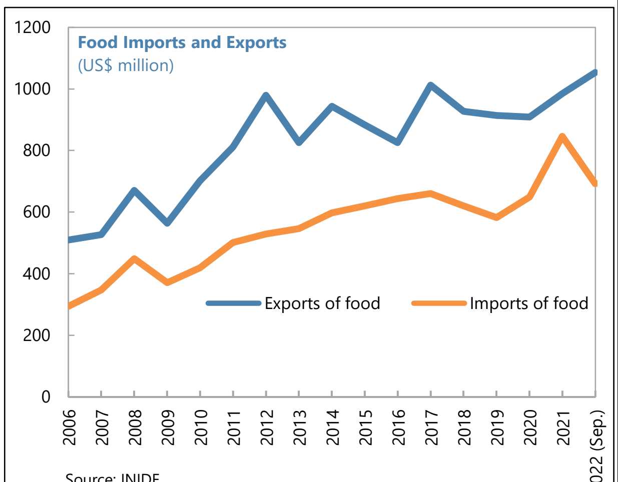
A large part of the price increases is due to import prices; tradable goods prices increased by over 14 percent, above the headline CPI annual change, while non-tradable goods prices grew at a slower rate.

Food inflation increased by 21 percent year-on-year in September 2022, while the basic consumption basket, a smaller basket than the CPI, grew 16 percent over the same period. Given that food represents 70 percent of the total basic consumption basket, this points to potential food affordability issues. Average wages stagnated or decreased in some sectors over the last two years. Staff estimates that the loss in purchasing parity is over 10 percentage points. However, in comparison, minimum wages increased over the last two years (3 percent in 2021 and 7 percent in 2022), the loss in purchasing power was about 4 percentage points (text chart). Going forward, if risks to inflation materialize, and inflation increases more than expected, there might be risks to food affordability.

Food security does not appear at risk. Nicaragua is a net exporter of food (text chart) and has minor trade links with Russia and Ukraine. In 2022, the total food trade balance is estimated to have reached about US$360 million over the first nine months, or 2.3 percent of GDP. In comparison, total goods imported from Russia and Ukraine (not just food), represented less than US$90 million.



Source: INIDE.

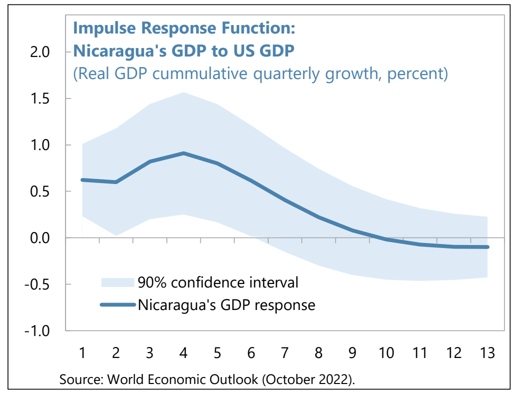


Source: INIDE.

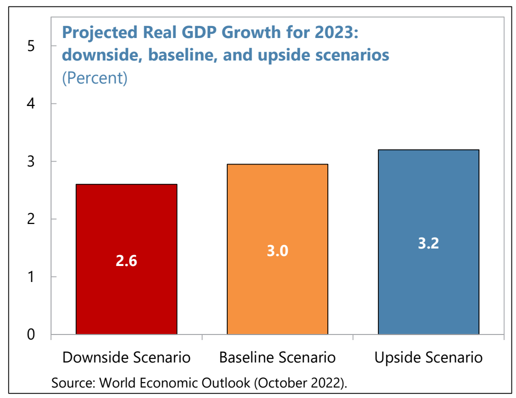
Box 2. Real GDP Projections

Using a vector autoregressive model (VAR), staff estimate the response of Nicaraguan economic activity from external developments, primarily its main economic trading partner, the United States. Domestic variables used are Nicaraguan real GDP growth and exports, and the external variables are the U.S. real GDP growth and policy interest rate, as well as the international gold price. All variables are at the quarterly frequency in year-on-year growth rates, from 1996Q1 to 2022Q2, from the BCN or the IMF's World Economic Outlook (WEO, October 2022) published databases.[1] The model also includes a dummy variable to account for natural disasters, set as exogenous variable (i.e., defined as not being affected by the other variables in the specification), with data from EM-DAT.

The main result is that a 1 percentage point increase in the U.S. real GDP growth translates into a significative cumulative response in the Nicaraguan GDP growth of about 0.9 percentage points after 3 quarters (text chart). This is consistent with the fact that the United States is an important trade partner and source of external private financing through remittances, tourism, and FDI.[2]



In a baseline scenario, with projections for the United States real GDP growth as of October 2022 IMF WEO, the US policy rate, international gold price, and the demand of Nicaraguan exports proxied by the projected imports to the United States until end-2027, the Nicaraguan real GDP growth is estimated to reach 3½ - 3¾ percent over the period, consistent with staff's growth accounting analysis and as shown in the macroframework Tables. Moreover, if the U.S. real GDP would be lower by ½ standard-deviation and higher than in the October WEO projection for the year 2023, everything else equal, the resulting Nicaraguan real GDP growth range would be 2.6 to 3.2 percent respectively, around the baseline scenario of about 3 percent growth in 2023 (text chart) shown in the macroframework Tables.

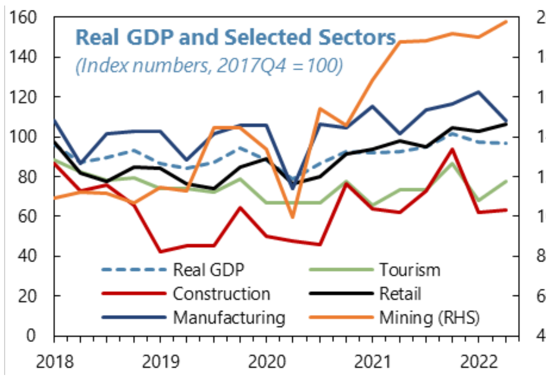


[1] Quarterly GDP for Nicaragua is available as far back as 2006. For data prior to that, we proxied GDP growth by the Index of Economic Activity (IMAE) which are highly correlated.

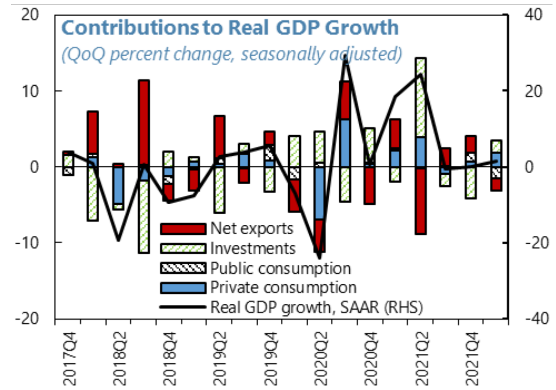
[2] The U.S. represents about 75 percent of exports, 60 percent of imports, 75 percent of remittances, and ⅓ of FDI sources.

Figure 1. Nicaragua: Real Sector

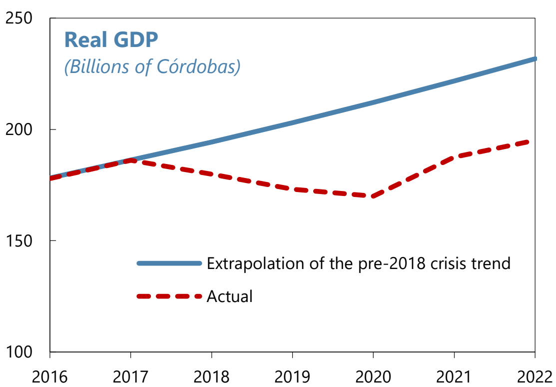
Mining, manufacturing, and retail activity are driving growth…



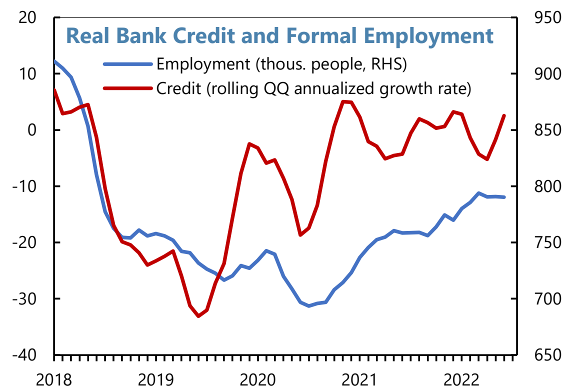
…and aggregate demand recovered.



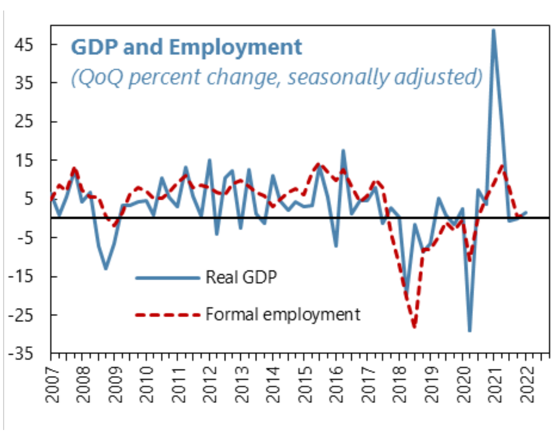
Precrisis real GDP level has been surpassed…



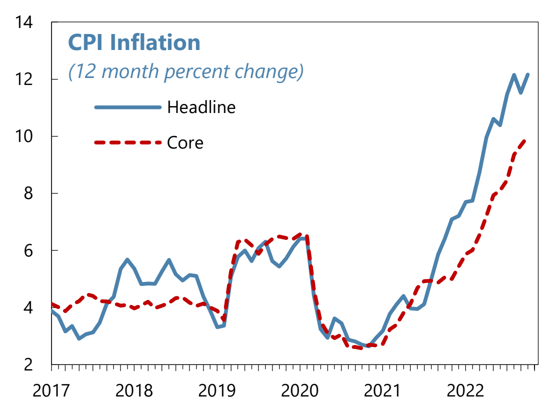
…and the recovery continued in 2022, but real credit growth and employment remain below pre-crisis levels.



While formal employment is somewhat recovering,…



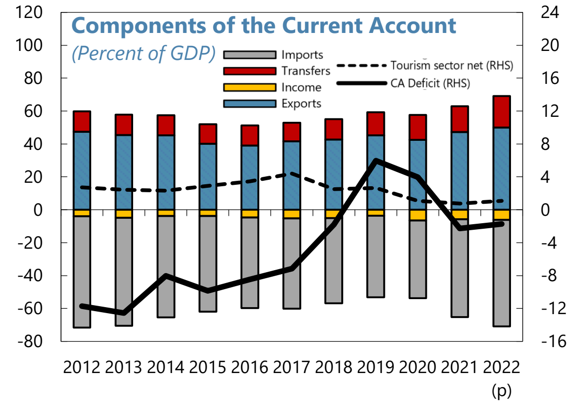
…the two-digit inflation is now the main policy challenge.



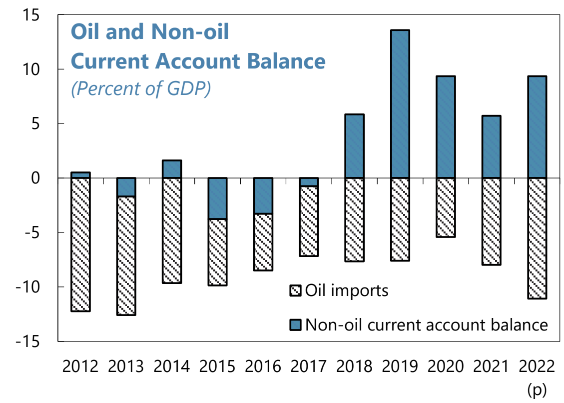
Sources: National authorities and IMF staff calculations.

Figure 2. Nicaragua: External Sector

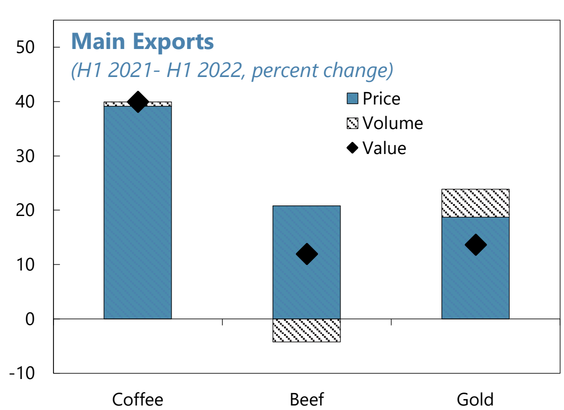
Imports surged driven by demand and commodity prices, and the CA swung into a deficit.



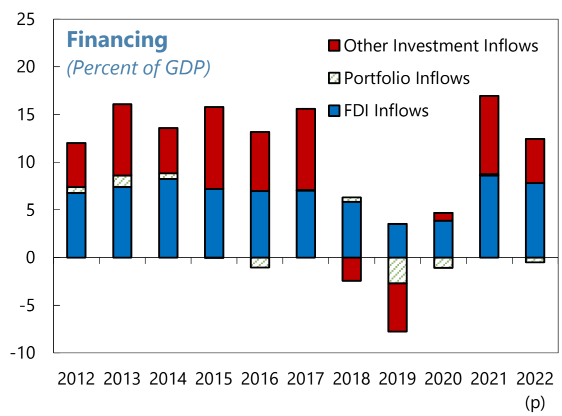
Higher international fuel prices reflected in a rising oil imports bill.



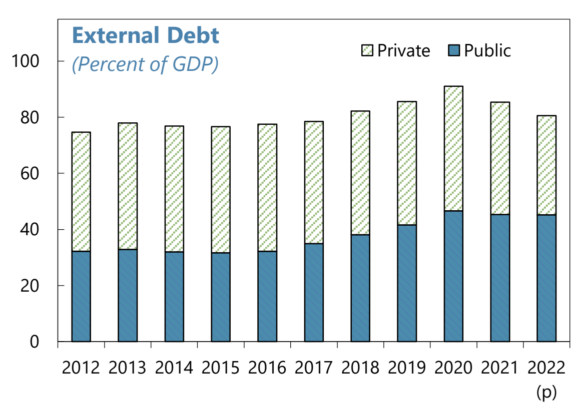
Traditional exports remain buoyant thanks to coffee, beef, and gold…



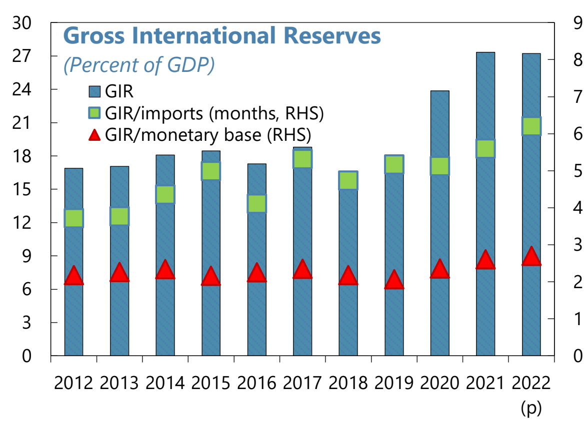
…while capital inflows are normalizing.



Public external debt plateaued…



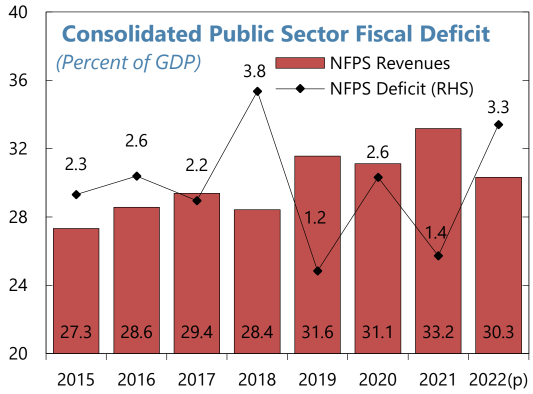
…and international reserves reached historic highs.



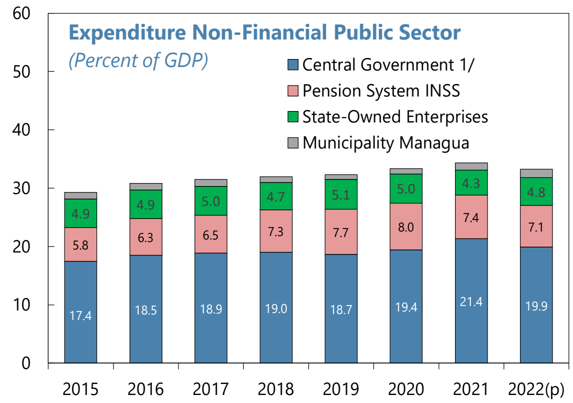
Sources: National authorities and IMF staff calculations.

Figure 3. Nicaragua: Fiscal Sector

Fiscal deficit increased due to the pandemic and will further widen amid new subsidies…

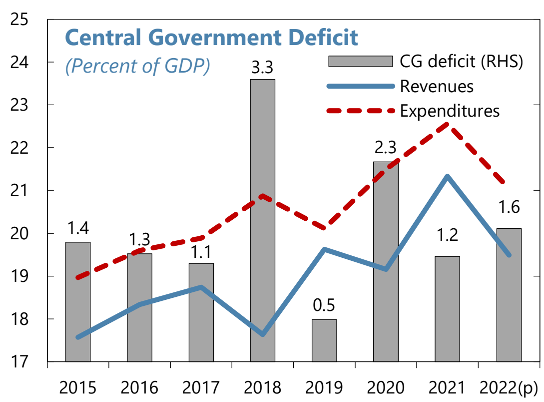


…as central government transfers to state-owned enterprises increased.

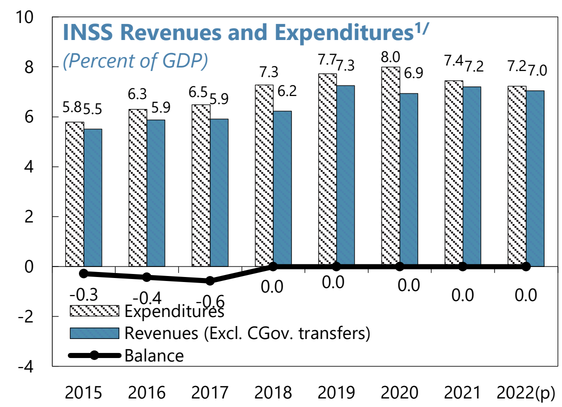


1/ Central government excludes transfers to INSS

Central government revenues will fall in 2022 while higher energy costs and mitigation measures will increase public expenditures.

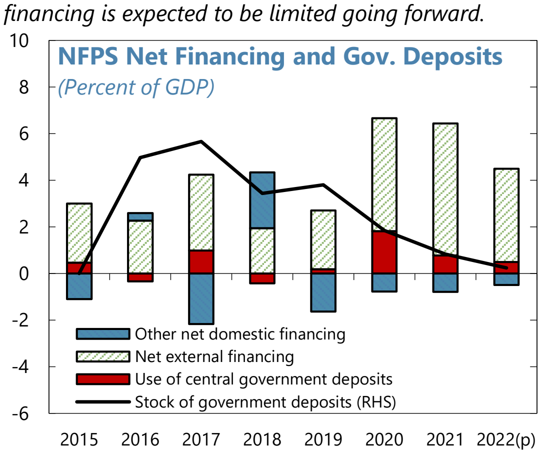


The pension system deficit increased as contributions fell since 2020.

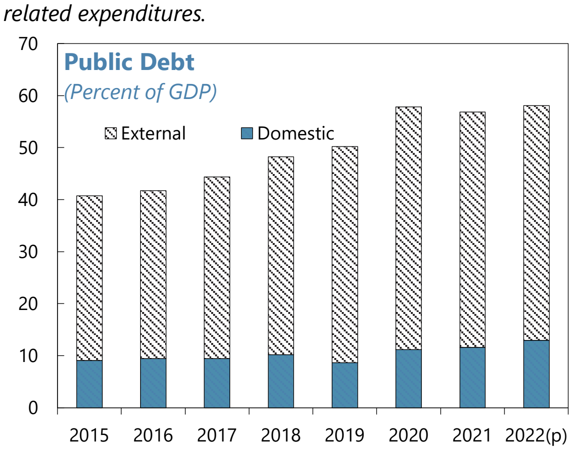


1/ In this chart revenue and balance exclude central government transfers.

While external financing and government deposits covered higher financing needs over the last 2 years, financing is expected to be limited going forward.



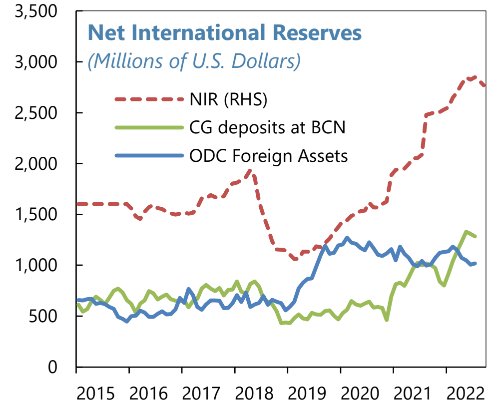
Public debt increased as a result of external financing extended to cover the pandemic and the hurricanes related expenditures.



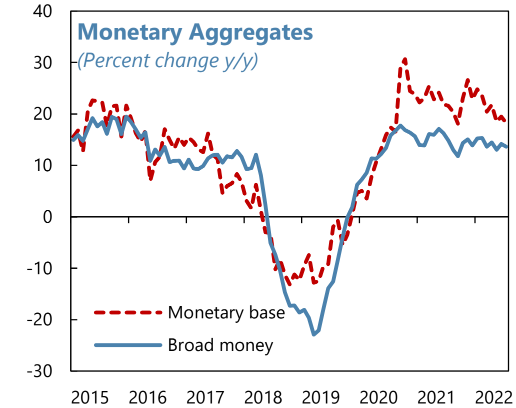
Sources: National authorities and IMF staff calculations.

Figure 4. Nicaragua: Monetary Sector

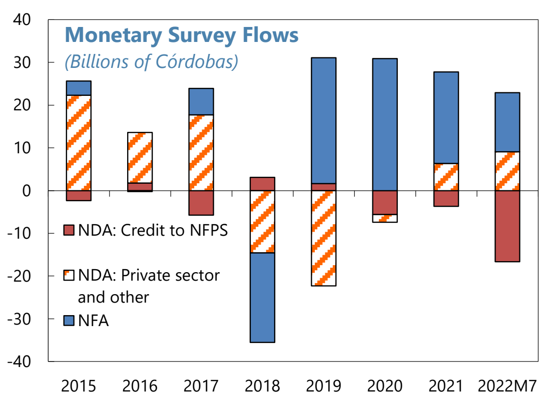
Fast growth in NIR in 2022, matching accumulation of CG deposits and decumulation of ODC foreign assets.



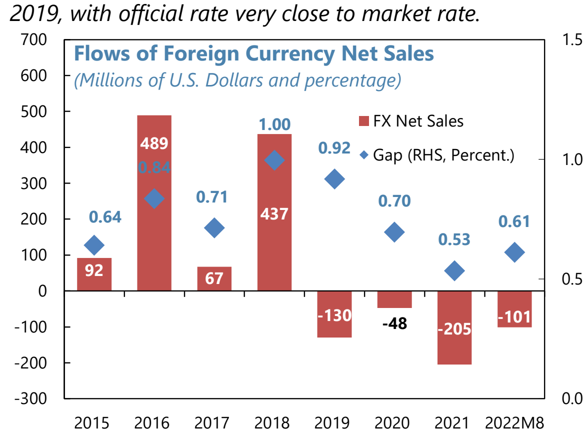
Monetary base and broad money are growing rapidly since late 2020; slowing down slightly in 2022 through July.



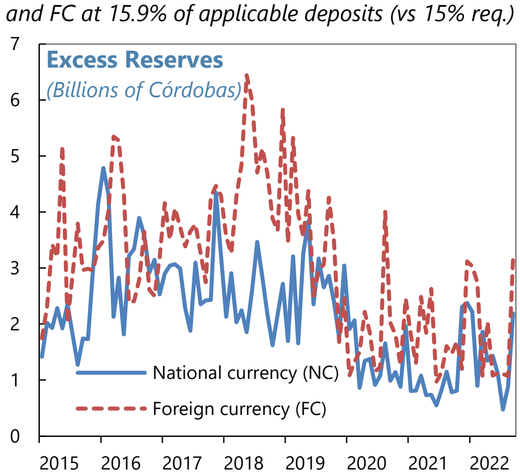
Credit to private sector recovering since 2021. In 2022 through July, NFA and NDA offset NFPS deposits.



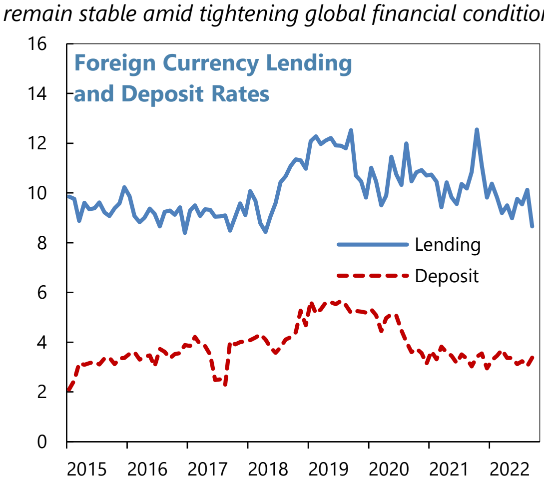
BCN FX net sales remain negative and muted since 2019, with official rate very close to market rate.



Excess reserves are decreasing rapidly in 2022. In July, NC and FC at 15.9% of applicable deposits (vs 15% req.)



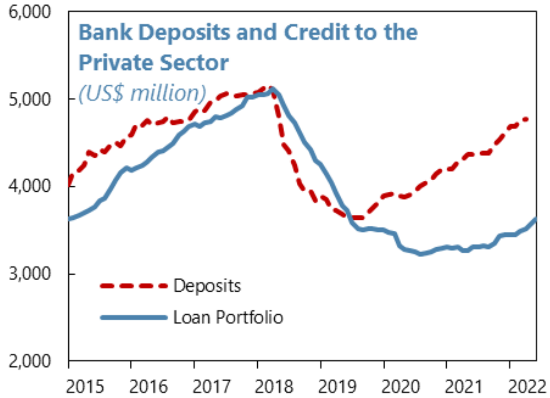
Lending and deposit rates declined since 2018 crisis; remain stable amid tightening global financial conditions.



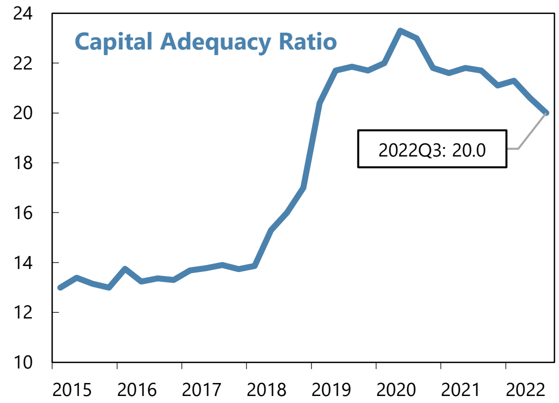
Sources: National authorities and IMF staff calculations.

Figure 5. Nicaragua: Financial Sector

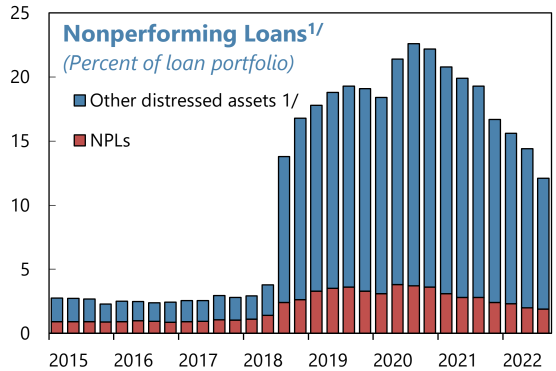
Bank deposits recovered strongly, but the level of credit to the private sector is well below pre-crisis levels.



The lower level of credit since mid-2018 was accompanied by a strengthening of banks' capital.

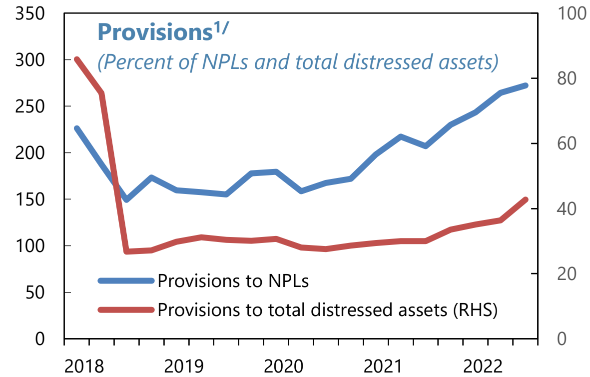


NPLs have been falling since 2021, but the level of distressed assets remains significant.



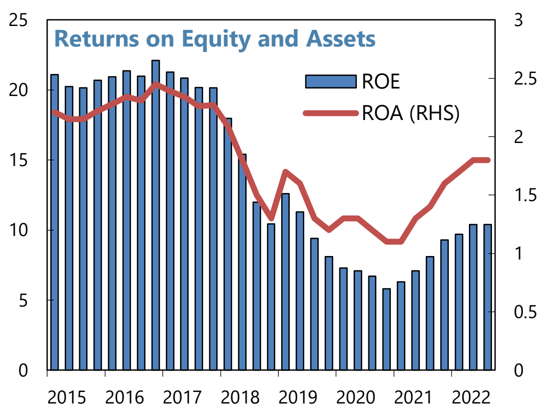
1/ Adding restructured, refinanced loans and forborne loans.

Provisioning seems strong relative to NPLs, but lags behind relative to distressed assets.

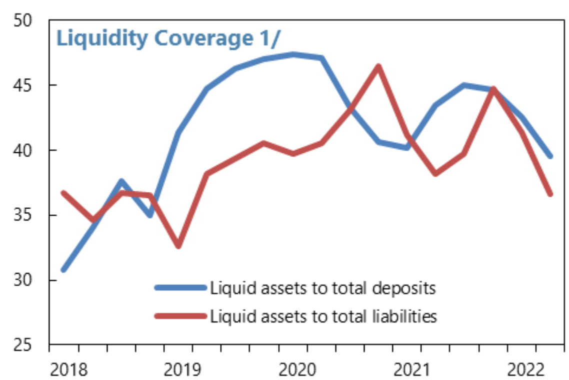


1/ Adding restructured, refinanced loans and forborne loans to NPLs.

The financial system is recovering profitability since the sharp fall in 2018.



Banks operate with comfortable liquidity.



1/ Adding restructured, refinanced loans and forborne loans to NPLs.

Sources: National authorities and IMF staff calculations.

Table 1. Nicaragua: Selected Economic and Social Indicators, 2017–23

I. Social and Demographic Indicators

GDP per capita (current US$, 2021)	2,141.0	Income share held by the richest 10 percent (2014)	37.2
GNI per capita (Atlas method, current US$, 2021)	2,010	Unemployment (percent of labor force, 2020)	11.1
GINI Index (2014)	46.2	Poverty rate (national pov. line, in percent, 2016)	24.9
Population (millions, 2020)	6.5	Adult literacy rate (percent, 2015)	82.6
Life expectancy at birth in years (2019)	74.7	Infant mortality rate (per 1,000 live births, 2020)	13.8

II. Economic Indicators

	2017	2018	2019	2020	2021	2022	2023
					Prel.	Projections	
Output			(Annual percentage change; unless otherwise specified)				
GDP growth	4.6	-3.4	-3.8	-1.8	10.3	4.0	3.0
GDP (nominal, US$ million)	13,786	13,025	12,611	12,586	14,001	15,737	17,233
Prices							
GDP deflator	4.1	2.7	5.5	5.5	3.3	10.2	8.4
Consumer price inflation (period average)	3.9	4.9	5.4	3.7	4.9	10.2	8.4
Consumer price inflation (end of period)	5.7	3.9	6.1	2.9	7.2	11.2	6.1
Saving and investment (percent of GDP)							
Gross domestic investment	**29.9**	**24.1**	**17.4**	**19.3**	**23.6**	**23.5**	**24.0**
Private sector	22.0	16.5	10.8	11.4	14.0	14.8	15.0
Public sector	8.0	7.6	6.6	7.8	9.7	8.7	9.0
Gross national savings	**22.8**	**22.3**	**23.4**	**23.2**	**21.4**	**21.8**	**22.2**
Private sector	17.9	19.6	18.8	18.9	13.9	17.0	16.2
Public sector	4.8	2.7	4.5	4.3	7.4	4.8	6.0
Exchange rate							
Period average (Cordobas per US$)	30.1	31.6	33.1	34.3	35.2	…	…
End of period (Cordobas per US$)	30.8	32.3	33.8	34.9	35.6	…	…
Fiscal Sector				(Percent of GDP)			
Consolidated public sector (overall balance after grants)1/	**-2.2**	**-3.8**	**-1.2**	**-2.6**	**-1.4**	**-3.3**	**-2.6**
Revenue (Incl. grants)	29.4	28.4	31.6	31.1	33.2	30.3	29.6
Expenditure	31.6	32.3	32.8	33.7	34.6	33.7	32.2
of which: Central Government overall balance 2/	**-17.7**	**-18.9**	**-0.5**	**-2.3**	**-1.2**	**-1.6**	**-0.7**
Revenue	2.2	1.9	19.6	19.2	21.3	19.5	19.0
Expenditure	19.9	20.9	20.1	21.5	22.6	21.0	19.6
Cash payments for operating activities	15.3	16.6	16.6	17.1	16.7	16.4	15.0
Net cash outflow: investments in NFAs	4.5	3.5	3.5	4.4	5.8	4.6	4.7
of which: Social Security Institute (INSS) overall balance3/	**-0.6**	**0.1**	**0.2**	**0.0**	**0.3**	**0.0**	**0.0**
Revenue	5.9	7.4	7.9	8.0	7.7	7.2	6.9
Expenditure	6.5	7.3	7.7	8.0	7.4	7.2	6.9
Money and financial				(Annual percentage change)			
Broad money	11.7	-18.7	6.2	15.6	13.8	14.9	10.8
Credit to the private sector	16.0	-8.7	-15.6	-3.6	5.3	8.2	9.5
Net domestic assets of the banking system	8.8	-7.7	-15.0	-6.3	2.4	7.9	15.9
Non-performing loans to total loans (ratio)	1.0	2.6	3.2	3.7	2.4	…	…
Regulatory capital to risk-weighted assets (ratio)	13.8	17.1	21.6	21.8	21.1	…	…
External sector			(Percent of GDP, unless otherwise indicated)				
Current account	-7.2	-1.8	6.0	3.9	-2.3	-1.7	-1.8
of which: oil imports	6.4	7.6	7.6	5.4	8.0	11.1	9.5
Capital and financial account	11.8	1.8	-1.9	3.0	11.8	9.4	6.3
of which: FDI	7.0	5.9	3.5	3.9	8.6	7.8	5.1
Gross international reserves (US$ million)3/	2,593	2,080	2,199	3,003	3,828	4,286	4,344
In months of imports excl. maquila	4.6	4.3	5.0	7.1	6.5	6.3	6.3
Net international reserves (US$ million)4/	1,802	1,146	1,374	1,887	2,531	2,792	2,917
In months of imports excl. maquila	3.2	2.3	3.1	4.4	4.3	4.1	4.2
Public sector debt 5/	44.4	48.3	50.2	57.8	56.9	58.1	56.1
Domestic public debt	9.5	10.2	8.6	11.2	11.6	12.9	11.8
External Public Debt	34.9	38.0	41.6	46.6	45.3	45.2	44.3
Private sector external debt	43.6	44.2	44.0	44.4	40.1	35.4	32.1
Memorandum items:							
Bank credit (annual percentage change)	8.5	-13.9	-17.4	-5.6	4.5	…	…

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

1/ The consolidated public sector comprises the central government, social security and the municipality of Managua, the state-owned enterprises and the central bank.

2/ Central government deficit and INSS revenue in 2018 include a 1.2 percent of GDP for repayment of INSS historical debt. Similar transfers for 2020-27.

3/ Excludes the Deposit Guarantee Fund for Financial Institutions (FOGADE).

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

5/ Assumes that HIPC-equivalent terms were applied to the outstanding debt to non-Paris Club bilaterals. Does not include SDR allocations.
Includes data on the domestic debt of SOEs and municipalities.

Table 2. Nicaragua: Medium-Term Macroeconomic Framework, 2017–27

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Prel.			Projections			
Growth and prices					(Annual percentage change)						
Real GDP growth	4.6	-3.4	-3.8	-1.8	10.3	4.0	3.0	3.3	3.5	3.5	3.5
Output gap[1/]	5.0	0.8	-3.4	-6.2	0.9	1.1	0.4	0.2	0.0	0.0	0.0
Consumer price inflation (end of period)	5.7	3.9	6.1	2.9	7.2	11.2	6.1	4.8	4.0	4.0	4.0
					(Percent of GDP, unless otherwise indicated)						
Consolidated public sector											
Revenue (Incl. grants)	29.4	28.4	31.6	31.1	33.2	30.3	29.6	29.7	29.7	29.8	29.7
Expenditure	31.6	32.3	32.8	33.7	34.6	33.7	32.2	32.1	31.7	31.9	31.8
Primary fiscal balance	-3.3	-2.5	0.3	-1.1	0.0	-1.8	-0.9	-0.8	-0.5	-0.6	-0.6
Cyclically adjusted primary fiscal balance (NFPS	-1.4	-3.0	0.9	0.6	-0.1	-2.0	-0.9	-0.8	-0.5	-0.5	-0.5
Overall balance, after grants	-2.6	-3.8	-1.2	-2.6	-1.4	-3.3	-2.6	-2.4	-2.0	-2.0	-2.1
Public sector debt	41.7	48.3	50.2	57.8	56.9	58.1	56.1	55.3	54.5	54.3	54.2
Balance of payments											
Current account	-7.2	-1.8	6.0	3.9	-2.3	-1.7	-1.8	-2.4	-2.6	-2.6	-2.5
Gross international reserves (US$ million)[2/]	2,593	2,080	2,199	3,003	3,828	4,286	4,344	4,345	4,552	4,867	5,157
In months of imports excl. maquila	4.6	4.3	5.0	7.1	6.5	6.3	6.3	5.9	5.8	5.9	5.9
Net international reserves (U.S.$ million)[3/]	1,802	1,146	1,374	1,887	2,531	2,792	2,917	2,877	2,956	3,116	3,247

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

1/ Percentage change between real GDP and real potential GDP as a share of real potengial GDP.

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.

Table 3. Nicaragua: Savings Investment Balance, 2017–27

(Percent of GDP, unless otherwise specified)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Prel.			Projections			
Gross national disposable income	**106.2**	**107.4**	**110.2**	**108.7**	**109.8**	**113.0**	**110.7**	**110.9**	**110.9**	**110.9**	**111.0**
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	-5.2	-5.0	-3.7	-6.6	-5.8	-6.1	-5.8	-5.6	-5.7	-5.8	-5.8
Net transfers from abroad	11.4	12.4	13.9	15.3	15.6	19.1	16.5	16.5	16.6	16.8	16.8
Consumption	**83.4**	**85.1**	**86.9**	**85.5**	**88.4**	**91.2**	**88.5**	**88.9**	**88.6**	**87.9**	**88.0**
Public sector[1/]	14.4	14.8	15.1	15.0	14.2	14.4	14.1	13.9	13.7	13.4	13.5
Private sector	69.0	70.3	71.8	70.5	74.2	76.8	74.4	75.0	75.0	74.5	74.5
Gross domestic investment	**29.9**	**24.1**	**17.4**	**19.3**	**23.6**	**23.5**	**24.0**	**24.4**	**24.9**	**25.6**	**25.5**
Public sector[1/]	8.0	7.6	6.6	7.8	9.7	8.7	9.0	8.9	8.9	9.1	8.6
Private sector	22.0	16.5	10.8	11.4	14.0	14.8	15.0	15.5	16.0	16.5	16.9
National saving	**22.8**	**22.3**	**23.4**	**23.2**	**21.4**	**21.8**	**22.2**	**22.1**	**22.3**	**23.0**	**23.0**
Public sector	4.8	2.7	4.5	4.3	7.4	4.8	6.0	6.1	6.4	6.6	6.2
Private sector	17.9	19.6	18.8	18.9	13.9	17.0	16.2	16.0	15.9	16.4	16.8
External saving	**7.2**	**1.8**	**-6.0**	**-3.9**	**2.3**	**1.7**	**1.8**	**2.4**	**2.6**	**2.6**	**2.5**
Public sector	3.1	4.9	2.1	3.5	2.2	3.9	3.0	2.8	2.5	2.5	2.5
Private sector	4.1	-3.1	-8.1	-7.5	0.0	-2.2	-1.2	-0.4	0.1	0.1	0.1
Memorandum items											
Exports of goods and services	41.6	42.7	45.3	42.4	47.3	50.0	47.2	47.1	47.1	47.1	47.2
Imports of goods and services	55.0	51.9	49.6	47.2	59.3	64.7	59.7	60.4	60.6	60.7	60.7

Sources: National authorities and IMF staff calculations.

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

Table 4. Nicaragua: Balance of Payments, 2017-27

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Prel.	Projections					
	(In millions of U.S. dollars; unless otherwise indicated)										
Current account	**-987**	**-234**	**754**	**497**	**-317**	**-271**	**-305**	**-434**	**-497**	**-529**	**-544**
Trade account	-2,370	-1,604	-1,056	-928	-1,876	-2,757	-2,765	-3,022	-3,237	-3,418	-3,608
Exports f.o.b.	3,305	3,301	3,365	3,561	4,296	4,405	4,452	4,691	4,940	5,201	5,488
Maquila (net)	696	732	650	702	774	709	720	792	782	829	878
Coffee	527	436	535	515	605	820	768	783	794	813	834
Others	2,082	2,133	2,181	2,344	2,917	2,876	2,963	3,116	3,364	3,559	3,776
Imports f.o.b. (non-maquila)	5,675	4,905	4,421	4,489	6,172	7,162	7,217	7,714	8,177	8,620	9,097
Petroleum products	884	996	958	681	1,116	1,743	1,643	1,665	1,725	1,817	1,899
Others	4,791	3,909	3,464	3,809	5,056	5,419	5,574	6,049	6,452	6,803	7,198
Services (net)	527	411	519	330	187	444	614	582	627	662	697
Of which: tourism receipts	841	544	515	199	184	516	679	758	815	860	908
Income (net)	-712	-652	-466	-826	-815	-963	-1,005	-1,026	-1,097	-1,191	-1,242
Of which: payments on direct investments	486	453	228	340	644	723	752	760	801	846	892
Of which: public sector interest payments	276	285	326	529	190	291	348	368	403	459	469
Transfers (net)	1,567	1,611	1,758	1,920	2,187	3,005	2,850	3,032	3,210	3,419	3,608
Of which: Remittances	1,391	1,501	1,682	1,851	2,147	3,006	2,855	3,041	3,223	3,433	3,623
Capital and Financial account, capital(+), financial(-)	**1,620**	**240**	**-242**	**374**	**1,658**	**1,480**	**1,093**	**1,143**	**1,263**	**1,293**	**1,285**
Financial account	**-1,442**	**-121**	**349**	**-263**	**-1,592**	**-1,426**	**-1,044**	**-1,090**	**-1,207**	**-1,234**	**-1,223**
Direct investment (net)	-971	-763	-444	-489	-1,206	-1,233	-871	-925	-978	-1,058	-1,116
Portfolio investment 1/	-2	-60	342	135	-17	77	61	74	74	77	80
Other investment	-470	702	451	90	-369	-270	-234	-239	-302	-254	-187
Of which : general government	-455	-253	-317	-610	-792	-630	-466	-446	-472	-582	-434
Capital account	**178**	**120**	**108**	**111**	**66**	**54**	**50**	**53**	**56**	**59**	**62**
Errors and omissions	-320	-497	-380	-263	-507	-750	-700	-650	-500	-450	-450
Overall balance	**313**	**-491**	**133**	**608**	**834**	**459**	**88**	**59**	**266**	**314**	**291**
Financing	**-313**	**491**	**-133**	**-608**	**-834**	**-459**	**-88**	**-59**	**-266**	**-314**	**-291**
Change in GIR (increase, -)	**-292**	**510**	**-120**	**-782**	**-833**	**-458**	**-58**	**-1**	**-208**	**-314**	**-291**
Change in NIR (increase, -) 2/	-313	657	-229	-512	-644	-261	-125	40	-79	-160	-131
Change in FX reserve requirement, CB bills and CABEI (increase, -)	22	-144	110	-292	-180	-197	67	-41	-129	-154	-160
Exceptional financing and IMF loans/credit	**-22**	**-19**	**-13**	**174**	**-2**	**-1**	**-30**	**-58**	**-58**	**0**	**0**
IMF lending	0	0	0	181	0	0	0	0	0	0	0
IMF repayments	-22	-19	-13	-7	-2	-1	-30	-58	-58	0	0
Other IFIs	0	0	0	0	0	0	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	**-7.2**	**-1.8**	**6.0**	**3.9**	**-2.3**	**-1.7**	**-1.8**	**-2.4**	**-2.6**	**-2.6**	**-2.5**
Trade account	-17.2	-12.3	-8.4	-7.4	-13.4	-17.5	-16.0	-16.5	-16.7	-16.8	-16.8
Exports f.o.b.	24.0	25.3	26.7	28.3	30.7	28.0	25.8	25.6	25.6	25.5	25.5
Imports f.o.b. (non-maquila)	41.2	37.7	35.1	35.7	44.1	45.5	41.9	42.1	42.3	42.3	42.3
Services (net)	3.8	3.2	4.1	2.6	1.3	2.8	3.6	3.2	3.2	3.2	3.2
Of which: tourism receipts	6.1	4.2	4.1	1.6	1.3	3.3	3.9	4.1	4.2	4.2	4.2
Income (net)	-5.2	-5.0	-3.7	-6.6	-5.8	-6.1	-5.8	-5.6	-5.7	-5.8	-5.8
Of which: payments on direct investments	3.5	3.5	1.8	2.7	4.6	4.6	4.4	4.1	4.1	4.1	4.1
Of which: public sector interest payments	2.0	2.2	2.6	4.2	1.4	1.8	2.0	2.0	2.1	2.3	2.2
Transfers (net)	11.4	12.4	13.9	15.3	15.6	19.1	16.5	16.5	16.6	16.8	16.8
Of which: Remittances	10.1	11.5	13.3	14.7	15.3	19.1	16.6	16.6	16.7	16.8	16.8
Capital and financial account	**11.8**	**1.8**	**-1.9**	**3.0**	**11.8**	**9.4**	**6.3**	**6.2**	**6.5**	**6.3**	**6.0**
Financial account	**-10.5**	**-0.9**	**2.8**	**-2.1**	**-11.4**	**-9.1**	**-6.1**	**-6.0**	**-6.2**	**-6.1**	**-5.7**
Direct investment (net)	-7.0	-5.9	-3.5	-3.9	-8.6	-7.8	-5.1	-5.0	-5.1	-5.2	-5.2
Portfolio investment 1/	0.0	-0.5	2.7	1.1	-0.1	0.5	0.4	0.4	0.4	0.4	0.4
Other investment	-3.4	5.4	3.6	0.7	-2.6	-1.7	-1.4	-1.3	-1.6	-1.2	-0.9
Of which : general government	-3.3	-1.9	-2.5	-4.8	-5.7	-4.0	-2.7	-2.4	-2.4	-2.9	-2.0
Capital account	**1.3**	**0.9**	**0.9**	**0.9**	**0.5**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**
Errors and omissions	-2.3	-3.8	-3.0	-2.1	-3.6	-4.8	-4.1	-3.5	-2.6	-2.2	-2.1
Overall balance	**2.3**	**-3.8**	**1.1**	**4.8**	**6.0**	**2.9**	**0.5**	**0.3**	**1.4**	**1.5**	**1.4**
Financing	**-2.3**	**3.8**	**-1.1**	**-4.8**	**-6.0**	**-2.9**	**-0.5**	**-0.3**	**-1.4**	**-1.5**	**-1.4**
Change in GIR (increase, -)	**-2.1**	**3.9**	**-0.9**	**-6.2**	**-5.9**	**-2.9**	**-0.3**	**0.0**	**-1.1**	**-1.5**	**-1.4**
Change in NIR (increase, -)	-2.3	5.0	-1.8	-4.1	-4.6	-1.7	-0.7	0.2	-0.4	-0.8	-0.6
Change in FX reserve requirement, CB bills and CABEI (increase, -)	0.2	-1.1	0.9	-2.3	-1.3	-1.3	0.4	-0.2	-0.7	-0.8	-0.7
Exceptional financing and IMF loans/credit	**-0.2**	**-0.1**	**-0.1**	**1.4**	**0.0**	**0.0**	**-0.2**	**-0.3**	**-0.3**	**0.0**	**0.0**
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:											
Gross international reserves (US$ million) 3/	2,593	2,080	2,199	3,003	3,828	4,286	4,344	4,345	4,552	4,867	5,157
In months of imports excl. maquila	4.6	4.3	5.0	7.1	6.5	6.3	6.3	5.9	5.8	5.9	5.9
As a ratio of monetary base	2.4	2.2	2.1	2.4	2.6	2.7	2.5	2.5	2.6	2.6	2.7
Net reserves (US$ millions) 4/	1,802	1,146	1,374	1,887	2,531	2,792	2,917	2,877	2,956	3,116	3,247
In months of imports excl. maquila	3.2	2.3	3.1	4.4	4.3	4.1	4.2	3.9	3.8	3.8	3.7
As a ratio of monetary base	1.7	1.2	1.3	1.5	1.7	1.8	1.7	1.7	1.7	1.7	1.7
Total public external debt (in percent of GDP)	34.9	38.0	41.6	46.6	45.3	45.2	44.3	44.9	45.4	45.8	45.1
Nominal GDP (millions of U.S. dollars)	13,786	13,025	12,611	12,586	14,001	15,737	17,233	18,324	19,331	20,400	21,528

Sources: National authorities and IMF staff calculations.

1/Includes financial derivatives

2/Assumes HIPIC_equivalent terms were aplied to the outstanding debt no non-Paris Club bilaterals. Exclude SDR allocation.

3/ Excludes the Deposit Guarantee Fund for Financial Institutions (FOGADE).

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

Table 5a. Nicaragua: Operations of the Budgetary Central Government, 2017–27

(Millions of Córdobas, unless otherwise specified; GFSM 2001)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Prel.			Projections			
Cash receipts from operating activities	**8,966**	**7,950**	**81,866**	**82,820**	**105,134**	**110,133**	**119,659**	**131,177**	**141,938**	**152,781**	**164,499**
Taxes	0	0	73,279	74,347	94,056	100,365	110,615	120,842	130,749	140,738	151,535
Income and property[1/]	28,557	29,258	33,036	32,470	40,753	45,770	51,123	56,131	60,399	65,013	69,980
Indirect[2/]	37,315	32,746	37,612	39,036	49,410	50,958	55,541	60,238	65,555	70,563	75,954
Trade	2,702	2,058	2,125	2,340	3,309	3,124	3,439	3,920	4,199	4,517	4,907
Other taxes	88	460	506	501	583	512	513	553	597	644	694
Grants	3,779	2,761	2,594	2,013	2,581	1,808	895	1,557	1,675	1,803	1,941
Other revenue	5,187	5,189	5,993	6,460	8,497	7,960	8,149	8,778	9,514	10,241	11,023
Cash payments for operating activities	**63,543**	**67,727**	**69,362**	**73,742**	**82,359**	**92,890**	**94,472**	**102,713**	**108,963**	**116,272**	**127,709**
Compensation of employees[3/]	25,612	31,678	30,301	32,547	31,862	34,053	37,226	39,893	42,123	43,726	47,423
of which: excluding transfers to INSS	25,612	26,796	27,614	28,042	29,392	33,032	36,171	38,421	40,472	41,179	47,423
Use of goods and services	11,355	10,690	11,306	11,320	13,649	14,692	16,410	17,798	19,151	20,614	23,042
Interest[4/]	4,393	4,551	5,269	5,277	6,182	6,928	7,192	7,119	7,253	7,865	8,590
Subsidies	6,311	5,577	5,707	6,297	5,641	12,849	7,574	8,214	8,102	8,721	9,388
Grants	14,140	13,589	15,009	16,184	18,005	17,282	19,291	22,200	24,276	26,672	29,929
Social benefits	1,332	1,447	1,536	1,889	6,847	6,781	6,311	6,845	7,366	7,928	8,534
Other expense	400	195	234	229	173	306	468	644	693	746	803
Net cash inflow from operating activities	**-54,577**	**-59,777**	**12,503**	**9,077**	**22,775**	**17,243**	**25,187**	**28,463**	**32,975**	**36,509**	**36,790**
Net cash flows from investment in non-financial assets (NFAs):	**18,836**	**18,042**	**14,561**	**19,177**	**28,826**	**26,022**	**29,406**	**30,526**	**31,374**	**32,185**	**32,084**
Purchases of nonfinancial assets	18,839	18,043	14,561	19,177	28,833	26,023	29,408	30,526	31,374	32,185	32,084
Sales of nonfinancial assets	3	1	0	0	7	1	2	0	0	0	0
Cash surplus / deficit	**-73,413**	**-77,819**	**-2,058**	**-10,100**	**-6,051**	**-8,779**	**-4,220**	**-2,063**	**1,601**	**4,324**	**4,706**
Cash flows from financing activities: (1=-2+3+4)	**4,751**	**13,296**	**2,058**	**10,100**	**6,051**	**8,779**	**4,220**	**2,063**	**-1,601**	**-4,324**	**-4,706**
Net acquisition of financial assets other than cash (2)	668	432	-174	389	1,194	355	271	296	311	0	0
Domestic	469	432	-174	389	1,194	355	271	296	311	0	0
Foreign	199	0	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities (3)	2,403	15,209	2,339	1,160	3,965	6,352	-2,766	669	-4,095	-4,324	-4,706
Domestic	-7,640	10,542	-3,296	-11,242	-13,945	-16	-6,995	-6,205	-13,153	-17,707	-14,820
Foreign	10,042	4,667	5,635	12,402	17,910	6,368	4,228	6,874	9,058	13,383	10,113
Net cash inflow from financing activities (4=3-2)	1,735	14,777	2,513	771	2,772	5,997	-3,037	373	-4,406	-4,324	-4,706
Use of government deposits (4)	3,017	-1,481	-456	9,329	3,280	2,782	7,257	1,690	2,805	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 5b. Nicaragua: Operations of the Budgetary Central Government, 2017–27

(Percent of GDP, unless otherwise specified; GFSM 2001)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Prel.			Projections			
Cash receipts from operating activities	**2.2**	**1.9**	**19.6**	**19.2**	**21.3**	**19.5**	**19.0**	**19.2**	**19.3**	**19.3**	**19.3**
Taxes	0.0	0.0	17.4	17.2	19.1	17.8	17.5	17.7	17.8	17.8	17.8
Income and property[1/]	6.9	7.1	7.9	7.5	8.3	8.1	8.1	8.2	8.2	8.2	8.2
Indirect[2/]	9.0	8.0	9.0	9.0	10.0	9.0	8.8	8.8	8.9	8.9	8.9
Trade	0.7	0.5	0.5	0.5	0.7	0.6	0.5	0.6	0.6	0.6	0.6
Other Taxes	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants	0.9	0.7	0.6	0.5	0.5	0.3	0.1	0.2	0.2	0.2	0.2
Other revenue	1.3	1.3	1.4	1.5	1.7	1.4	1.3	1.3	1.3	1.3	1.3
Cash payments for operating activities	**15.3**	**16.5**	**16.6**	**17.1**	**16.7**	**16.4**	**15.0**	**15.0**	**14.8**	**14.7**	**15.0**
Compensation of employees[3/]	6.2	7.7	7.3	7.5	6.5	6.0	5.9	5.8	5.7	5.5	5.6
of which: excluding transfers to INSS	6.2	6.5	6.6	6.5	6.0	5.8	5.7	5.6	5.5	5.2	5.6
Use of goods and services	2.7	2.6	2.7	2.6	2.8	2.6	2.6	2.6	2.6	2.6	2.7
Interest[4/]	1.1	1.1	1.3	1.2	1.3	1.2	1.1	1.0	1.0	1.0	1.0
Subsidies	1.5	1.4	1.4	1.5	1.1	2.3	1.2	1.2	1.1	1.1	1.1
Grants	3.4	3.3	3.6	3.7	3.7	3.1	3.1	3.2	3.3	3.4	3.5
Social benefits	0.3	0.4	0.4	0.4	1.4	1.2	1.0	1.0	1.0	1.0	1.0
Other expense	0.1	0.0	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Net cash inflow from operating activities	**-13.2**	**-14.5**	**3.0**	**2.1**	**4.6**	**3.1**	**4.0**	**4.2**	**4.5**	**4.6**	**4.3**
Net cash flows from investment in non-financial assets (NFAs):	**4.5**	**4.4**	**3.5**	**4.4**	**5.8**	**4.6**	**4.7**	**4.5**	**4.3**	**4.1**	**3.8**
Purchases of nonfinancial assets	4.5	4.4	3.5	4.4	5.9	4.6	4.7	4.5	4.3	4.1	3.8
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	**-17.7**	**-18.9**	**-0.5**	**-2.3**	**-1.2**	**-1.6**	**-0.7**	**-0.3**	**0.2**	**0.5**	**0.6**
Cash flows from financing activities: (1=-2+3+4)	**1.1**	**3.2**	**0.5**	**2.3**	**1.2**	**1.6**	**0.7**	**0.3**	**-0.2**	**-0.5**	**-0.6**
Net acquisition of financial assets other than cash (2)	0.2	0.1	0.0	0.1	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Domestic	0.1	0.1	0.0	0.1	0.2	0.1	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)	0.6	3.7	0.6	0.3	0.8	1.1	-0.4	0.1	-0.6	-0.5	-0.6
Domestic	-1.8	2.6	-0.8	-2.6	-2.8	0.0	-1.1	-0.9	-1.8	-2.2	-1.7
Foreign	2.4	1.1	1.4	2.9	3.6	1.1	0.7	1.0	1.2	1.7	1.2
Net cash inflow from financing activities (4=3-2)	0.4	3.6	0.6	0.2	0.6	1.1	-0.5	0.1	-0.6	-0.5	-0.6
Use of government deposits (4)	0.7	-0.4	-0.1	2.2	0.7	0.5	1.1	0.2	0.4	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 6a. Nicaragua: Operations of the Consolidated Public Sector, 2017–27

(Millions of Córdobas, unless otherwise specified; GFSM 2001)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Prel.			Projections			
Budgetary Central Gov. cash surplus/deficit	**-4,755**	**-13,297**	**-2,058**	**-10,100**	**-6,058**	**-8,781**	**-4,221**	**-2,063**	**1,601**	**4,324**	**4,706**
Revenue	77,627	72,473	81,866	82,820	105,134	110,133	119,659	131,177	141,938	152,781	164,499
of which: grants	3,779	2,761	2,594	2,013	2,581	1,808	895	1,557	1,675	1,803	1,941
Expenditure	82,382	85,770	83,923	92,920	111,192	118,914	123,881	133,239	140,337	148,458	159,793
Of which: Excluding Transfers to INSS for Hist. debt	82,382	80,888	81,236	88,415	108,722	117,892	122,825	131,768	138,686	147,359	157,245
Social Security Institute (INSS) cash surplus/deficit	**-2,374**	**603**	**703**	**-72**	**1,274**	**0**	**0**	**0**	**0**	**0**	**0**
Revenue	24,494	30,483	32,940	34,496	37,981	40,820	43,839	47,213	50,828	54,889	59,714
Of which: Excluding Central Government Transfers	24,494	25,601	30,252	29,991	35,511	39,799	42,784	45,741	49,177	53,790	57,166
Of which: Transfers to INSS for Hist. debt	0	4,882	2,687	4,505	2,470	1,021	1,055	1,472	1,651	1,099	2,547
Expenditure	26,868	29,880	32,237	34,568	36,707	40,820	43,839	47,213	50,828	54,889	59,714
Managua municipality (ALMA) cash surplus/deficit	**-249**	**267**	**260**	**743**	**-946**	**-2,632**	**-2,619**	**-2,841**	**-3,057**	**-3,290**	**-3,542**
Revenue	4,698	4,136	3,667	4,683	5,176	5,565	6,417	6,960	7,489	8,061	8,677
of which: grants	0	1	1	0	0	0	0	0	0	0	0
Expenditure	4,948	3,869	3,407	3,940	6,122	8,197	9,036	9,800	10,545	11,351	12,218
Public enterprises cash surplus/deficit[1/]	**-2,124**	**-3,816**	**-4,477**	**-1,044**	**-51**	**-6,055**	**-7,016**	**-7,954**	**-9,196**	**-12,331**	**-13,221**
Revenue	18,386	15,548	16,944	20,587	20,991	20,959	23,872	25,935	27,907	30,039	32,334
of which: Grants (external)	541	0	18	282	6	0	0	0	0	0	0
Expenditure	20,510	19,364	21,420	21,632	21,042	27,014	30,888	33,889	37,104	42,370	45,556
Non-financial public sector											
Cash receipts from operating activities	120,964	115,062	129,345	133,733	163,344	171,082	186,365	202,523	218,467	236,205	253,141
Taxes	71,989	67,486	76,140	77,907	97,896	104,517	115,454	126,089	136,396	146,815	158,077
Social contributions	23,868	25,367	28,284	27,922	33,364	37,706	40,436	43,260	46,584	51,189	53,943
Grants	4,322	2,764	4,303	4,137	4,535	2,141	1,171	1,687	1,543	1,661	1,788
Other revenue	20,785	19,444	20,618	23,767	27,549	26,719	29,304	31,487	33,944	36,540	39,333
Cash payments for operating activities	100,885	103,884	110,554	115,042	126,723	144,203	148,377	160,693	171,480	183,982	200,353
Compensation of employees	31,954	33,091	33,837	34,393	35,605	40,236	43,979	46,681	49,191	51,736	54,680
Use of goods and services	19,076	17,737	19,639	20,480	20,495	24,701	27,243	29,259	31,221	33,178	37,404
Interest	4,699	4,709	5,308	5,627	6,503	7,381	7,556	7,521	7,676	8,292	9,021
Subsidies	4,087	4,979	4,235	4,178	4,497	11,932	6,261	6,502	6,279	6,769	7,293
Grants	13,110	12,651	14,434	15,289	17,263	14,839	16,443	18,994	20,598	22,899	25,440
Social benefits	24,351	27,482	29,863	32,352	39,200	42,421	44,639	48,153	51,927	56,173	61,207
Other expense	3,608	3,234	3,238	2,723	3,161	2,693	2,256	3,583	4,589	4,935	5,308
Net cash inflow from operating activities	20,079	11,178	18,791	18,691	36,621	26,879	37,987	41,830	46,987	52,223	52,788
Net cash outflow from investments in NFAs	29,575	27,419	24,362	29,164	42,395	43,804	50,499	54,456	58,234	64,273	65,776
Cash surplus / deficit	**-9,496**	**-16,241**	**-5,571**	**-10,473**	**-5,774**	**-16,925**	**-12,512**	**-12,626**	**-11,247**	**-12,050**	**-12,987**
Central bank (BCN) cash surplus / deficit	**227**	**465**	**516**	**-687**	**-1,294**	**-2,003**	**-3,611**	**-3,835**	**-3,408**	**-3,851**	**-5,159**
Consolidated Public Sector cash surplus / deficit	**-9,270**	**-15,777**	**-5,055**	**-11,160**	**-7,068**	**-18,928**	**-16,123**	**-16,461**	**-14,655**	**-15,902**	**-18,147**
Cash flows from financing activities: (1=-2+3+4+5)	**9,272**	**15,778**	**5,055**	**11,160**	**7,068**	**19,469**	**17,466**	**16,693**	**14,060**	**15,148**	**17,216**
Net acquisition of financial assets other than cash (2)	-248	-410	-774	-291	1,194	355	271	296	311	0	0
Net incurrence of liabilities (3)	7,503	17,710	5,324	1,854	3,688	15,039	7,440	12,303	8,158	11,297	12,057
Domestic	-6,202	9,729	-5,149	-19,094	-24,207	-7,585	-9,636	-4,352	-9,816	-11,322	-5,152
Foreign	13,705	7,980	10,474	20,948	27,895	22,624	17,076	16,654	17,974	22,619	17,209
Use of deposits (4)	1,748	-1,877	-527	8,328	3,280	2,782	6,686	851	2,805	0	0
Central bank (BCN) cash surplus/deficit (5)	-227	-465	-516	687	1,294	2,003	3,611	3,835	3,408	3,851	5,159
Memorandum items											
GDP (nominal)	414,279	410,988	417,223	432,263	492,852	565,066	631,146	684,521	736,570	792,844	853,417
Stock of government deposits	33,716	24,316	24,843	16,515	13,235	10,453	3,767	2,916	111	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 6b. Nicaragua: Operations of the Consolidated Public Sector, 2017–27
(Percent of GDP, unless otherwise specified; GFSM 2001)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Prel.	Projections					
Budgetary central government cash surplus/deficit	**-1.1**	**-3.2**	**-0.5**	**-2.3**	**-1.2**	**-1.6**	**-0.7**	**-0.3**	**0.2**	**0.5**	**0.6**
Revenue	18.7	17.6	19.6	19.2	21.3	19.5	19.0	19.2	19.3	19.3	19.3
of which: grants	0.9	0.7	0.6	0.5	0.5	0.3	0.1	0.2	0.2	0.2	0.2
Expenditure	19.9	20.9	20.1	21.5	22.6	21.0	19.6	19.5	19.1	18.7	18.7
Excluding Transfers to INSS	19.9	19.7	19.5	20.5	22.1	20.9	19.5	19.2	18.8	18.6	18.4
Social Security Institute (INSS) cash surplus/deficit	**-0.6**	**0.1**	**0.2**	**0.0**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Revenue	5.9	7.4	7.9	8.0	7.7	7.2	6.9	6.9	6.9	6.9	7.0
Of which: Excluding Central Government Transfers	5.9	6.2	7.3	6.9	7.2	7.0	6.8	6.7	6.7	6.8	6.7
Of which: Transfers to INSS	0.0	1.2	0.6	1.0	0.5	0.2	0.2	0.2	0.2	0.1	0.3
Expenditure	6.5	7.3	7.7	8.0	7.4	7.2	6.9	6.9	6.9	6.9	7.0
Managua municipality (ALMA) cash surplus/deficit	**-0.1**	**0.1**	**0.1**	**0.2**	**-0.2**	**-0.5**	**-0.4**	**-0.4**	**-0.4**	**-0.4**	**-0.4**
Revenue	1.1	1.0	0.9	1.1	1.1	1.0	1.0	1.0	1.0	1.0	1.0
of which: grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	1.2	0.9	0.8	0.9	1.2	1.5	1.4	1.4	1.4	1.4	1.4
Public enterprises cash surplus/deficit[1/]	**-0.5**	**-0.9**	**-1.1**	**-0.2**	**0.0**	**-1.1**	**-1.1**	**-1.2**	**-1.2**	**-1.6**	**-1.5**
Revenue	4.4	3.8	4.1	4.8	4.3	3.7	3.8	3.8	3.8	3.8	3.8
of which: Grants (external)	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	5.0	4.7	5.1	5.0	4.3	4.8	4.9	5.0	5.0	5.3	5.3
Non-financial public sector		-1.2									
Cash receipts from operating activities	29.2	28.0	31.0	30.9	33.1	30.3	29.5	29.6	29.7	29.8	29.7
Taxes	17.4	16.4	18.2	18.0	19.9	18.5	18.3	18.4	18.5	18.5	18.5
Social contributions	5.8	6.2	6.8	6.5	6.8	6.7	6.4	6.3	6.3	6.5	6.3
Grants	1.0	0.7	1.0	1.0	0.9	0.4	0.2	0.2	0.2	0.2	0.2
Other revenue	5.0	4.7	4.9	5.5	5.6	4.7	4.6	4.6	4.6	4.6	4.6
Cash payments for operating activities	24.4	25.3	26.5	26.6	25.7	25.5	23.5	23.5	23.3	23.2	23.5
Compensation of employees	7.7	8.1	8.1	8.0	7.2	7.1	7.0	6.8	6.7	6.5	6.4
Use of goods and services	4.6	4.3	4.7	4.7	4.2	4.4	4.3	4.3	4.2	4.2	4.4
Interest	1.1	1.1	1.3	1.3	1.3	1.3	1.2	1.1	1.0	1.0	1.1
Subsidies	1.0	1.2	1.0	1.0	0.9	2.1	1.0	0.9	0.9	0.9	0.9
Grants	3.2	3.1	3.5	3.5	3.5	2.6	2.6	2.8	2.8	2.9	3.0
Social benefits	5.9	6.7	7.2	7.5	8.0	7.5	7.1	7.0	7.0	7.1	7.2
Other expense	0.9	0.8	0.8	0.6	0.6	0.5	0.4	0.5	0.6	0.6	0.6
Net cash inflow from operating activities	4.8	2.7	4.5	4.3	7.4	4.8	6.0	6.1	6.4	6.6	6.2
Net cash outflow from investments in NFAs	7.1	6.7	5.8	6.7	8.6	7.8	8.0	8.0	7.9	8.1	7.7
Cash surplus / deficit	**-2.3**	**-4.0**	**-1.3**	**-2.4**	**-1.2**	**-3.0**	**-2.0**	**-1.8**	**-1.5**	**-1.5**	**-1.5**
Central bank (BCN) cash surplus / deficit	**0.1**	**0.1**	**0.1**	**-0.2**	**-0.3**	**-0.4**	**-0.6**	**-0.6**	**-0.5**	**-0.5**	**-0.6**
Consolidated Public Sector cash surplus / deficit	**-2.2**	**-3.8**	**-1.2**	**-2.6**	**-1.4**	**-3.3**	**-2.6**	**-2.4**	**-2.0**	**-2.0**	**-2.1**
Cash flows from financing activities: (1=-2+3+4+5)	**2.2**	**3.8**	**1.2**	**2.6**	**1.4**	**3.4**	**2.8**	**2.4**	**1.9**	**1.9**	**2.0**
Net acquisition of financial assets											
other than cash (2)	-0.1	-0.1	-0.2	-0.1	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities (3)	1.8	4.3	1.3	0.4	0.7	2.7	1.2	1.8	1.1	1.4	1.4
Domestic	-1.5	2.4	-1.2	-4.4	-4.9	-1.3	-1.5	-0.6	-1.3	-1.4	-0.6
Foreign	3.3	1.9	2.5	4.8	5.7	4.0	2.7	2.4	2.4	2.9	2.0
Use of deposits (4)	0.4	-0.5	-0.1	1.9	0.7	0.5	1.1	0.1	0.4	0.0	0.0
Central bank (BCN) cash surplus/deficit (5)	-0.1	-0.1	-0.1	0.2	0.3	0.4	0.6	0.6	0.5	0.5	0.6
Memorandum items											
GDP (nominal)	414,279	410,988	417,223	432,263	492,852	565,066	631,146	684,521	736,570	792,844	853,417
Stock of government deposits	8.1	5.9	6.0	3.8	2.7	1.8	0.6	0.4	0.0	0.0	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 7. Nicaragua: Gross Fiscal Financing Requirements, 2017–27[1/]

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Prel.			Projections			
					(Millions of U.S. dollars)						
NFPS primary deficit (before grants) (a)	**303**	**453**	**138**	**262**	**108**	**325**	**167**	**182**	**134**	**139**	**145**
CG and public enterprises	224	472	159	259	144	325	167	182	134	139	145
INSS	79	-19	-21	2	-36	0	0	0	0	0	0
Debt service obligations (b)	**492**	**417**	**512**	**547**	**602**	**798**	**787**	**855**	**878**	**1,096**	**1,175**
External	165	197	231	259	290	336	390	468	494	493	532
Interest	77	89	99	101	107	122	126	133	142	151	162
Amortization	88	108	133	158	182	214	265	335	352	342	370
Domestic	327	220	280	288	312	462	397	387	384	604	643
Interest	88	69	78	71	27	187	200	204	211	238	267
Amortization of bonds	221	140	192	203	271	261	184	169	159	352	363
Other internal amortizations[2/]	18	12	10	13	14	14	14	14	14	14	14
Gross financing needs (a+b)	**796**	**870**	**650**	**808**	**710**	**1,123**	**955**	**1,036**	**1,012**	**1,236**	**1,320**
Financing sources	**796**	**870**	**650**	**808**	**710**	**1,123**	**955**	**1,036**	**1,012**	**1,236**	**1,320**
External	687	448	528	835	1,048	894	755	823	868	970	853
Disbursements	543	361	449	768	975	844	731	781	824	924	804
Grants	144	88	79	67	74	50	24	42	44	46	49
Domestic	109	422	121	-26	-338	229	199	214	144	265	467
Bond issuance (gross)	132	103	154	210	237	266	291	310	327	345	364
Deposits Central Bank	136	-55	24	229	109	77	198	45	74	0	0
Of which CG deficit financing[3/]	…	-225	…	…	…	…	…	…	…	…	…
Of which INSS hist. debt amortization[4/]	…	170	…	…	…	…	…	…	…	…	…
Commercial banks	-28	-4	-40	13	-16	0	0	0	0	0	0
Other[5/]	-131	378	-17	-479	-668	-115	-290	-142	-257	-80	103
					(Percent of GDP)						
NFPS primary deficit (before grants) (a)	**2.2**	**3.5**	**1.1**	**2.1**	**0.8**	**2.1**	**1.0**	**1.0**	**0.7**	**0.7**	**0.7**
CG and public enterprises	1.6	3.6	1.3	2.1	1.0	2.1	1.0	1.0	0.7	0.7	0.7
INSS	0.6	-0.1	-0.2	0.0	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Debt service obligations (b)	**3.6**	**3.2**	**4.1**	**4.3**	**4.3**	**5.1**	**4.6**	**4.7**	**4.5**	**5.4**	**5.5**
External	1.2	1.5	1.8	2.1	2.1	2.1	2.3	2.6	2.6	2.4	2.5
Interest	0.6	0.7	0.8	0.8	0.8	0.8	0.7	0.7	0.7	0.7	0.8
Amortization	0.6	0.8	1.1	1.3	1.3	1.4	1.5	1.8	1.8	1.7	1.7
Domestic	2.4	1.7	2.2	2.3	2.2	2.9	2.3	2.1	2.0	3.0	3.0
Interest	0.6	0.5	0.6	0.6	0.2	1.2	1.2	1.1	1.1	1.2	1.2
Amortization of bonds	1.6	1.1	1.5	1.6	1.9	1.7	1.1	0.9	0.8	1.7	1.7
Other internal amortizations[2/]	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Gross financing needs (a+b)	**5.8**	**6.7**	**5.2**	**6.4**	**5.1**	**7.1**	**5.5**	**5.7**	**5.2**	**6.1**	**6.1**
Financing sources	**5.8**	**6.7**	**5.2**	**6.4**	**5.1**	**7.1**	**5.5**	**5.7**	**5.2**	**6.1**	**6.1**
External	5.0	3.4	4.2	6.6	7.5	5.7	4.4	4.5	4.5	4.8	4.0
Disbursements	3.9	2.8	3.6	6.1	7.0	5.4	4.2	4.3	4.3	4.5	3.7
Grants	1.0	0.7	0.6	0.5	0.5	0.3	0.1	0.2	0.2	0.2	0.2
Domestic	0.8	3.2	1.0	-0.2	-2.4	1.5	1.2	1.2	0.7	1.3	2.2
Bond issuance (gross)	1.0	0.8	1.2	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Deposits Central Bank	1.0	-0.4	0.2	1.8	0.8	0.5	1.1	0.2	0.4	0.0	0.0
Of which CG deficit financing[3/]	…	-1.7	…	…	…	…	…	…	…	…	…
Of which INSS hist. debt amortization[4/]	…	1.3	…	…	…	…	…	…	…	…	…
Commercial banks	-0.2	0.0	-0.3	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other and unidentified[5/]	-1.0	2.9	-0.1	-3.8	-4.8	-0.7	-1.7	-0.8	-1.3	-0.4	0.5

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 (LOTERIA).

[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 2020-26 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 8a. Nicaragua: Summary Accounts of Central Bank and Financial System, 2017–27
(Billions of Córdobas, unless otherwise specified)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Prel.			Projections			
I. Central Bank											
Net foreign assets[1/]	**42.1**	**21.9**	**27.9**	**52.6**	**73.1**	**93.5**	**98.6**	**101.6**	**112.7**	**128.3**	**143.6**
Net international reserves[2/]	55.5	37.0	46.5	65.8	90.0	101.3	107.9	108.5	113.7	122.3	130.0
Net international reserves (billions of US$)[2/]	1.8	1.1	1.4	1.9	2.5	2.8	2.9	2.9	3.0	3.1	3.2
Net domestic assets	**-18.7**	**0.5**	**-1.2**	**-19.1**	**-32.5**	**-46.3**	**-46.2**	**-48.4**	**-56.7**	**-69.1**	**-81.6**
Net claims on nonfinancial public sector	31.8	41.1	39.6	31.2	26.7	28.5	35.0	35.8	37.7	36.7	35.9
Net credit to banks	-40.6	-31.0	-31.4	-48.3	-58.6	-73.9	-81.1	-83.5	-88.2	-99.8	-112.5
of which: reserves	-31.9	-28.0	-24.5	-30.8	-35.8	-32.6	-36.2	-39.3	-42.6	-47.5	-52.4
Capital accounts	2.8	3.4	4.4	6.0	7.2	9.3	10.9	11.2	10.8	11.2	12.5
Other items (net)	-12.9	-13.1	-13.6	-7.9	-7.8	-10.2	-11.0	-11.8	-16.9	-17.2	-17.5
Currency issue	**23.4**	**22.4**	**26.7**	**33.5**	**40.5**	**47.2**	**52.3**	**53.2**	**56.0**	**59.1**	**62.0**
II. Other Depository Corporations[4/]											
Net foreign assets	**-17.1**	**-17.8**	**5.6**	**11.8**	**12.7**	**13.0**	**13.3**	**13.5**	**13.8**	**14.1**	**14.3**
Net foreign assets (billions of US$)	-0.6	-0.6	0.2	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Net domestic assets	**173.0**	**141.9**	**123.5**	**134.2**	**150.5**	**174.0**	**194.0**	**211.7**	**230.3**	**257.9**	**285.8**
Net claims on Central Bank[3/]	44.9	39.0	37.6	52.8	62.7	79.4	87.3	90.4	95.6	107.9	121.2
Net credit to other financial corporations	-0.8	-0.9	-2.0	-1.9	-1.6	-2.7	-2.9	-3.0	-3.1	-3.2	-3.4
Net credit to non-financial public sector	2.5	-3.8	-0.6	2.1	3.0	6.6	11.5	18.6	24.0	30.9	36.6
Credit to private sector	161.9	147.8	125.1	120.4	126.7	137.1	150.1	162.2	174.8	188.1	202.2
Capital accounts	-29.2	-32.4	-36.4	-37.9	-41.0	-47.0	-52.5	-57.0	-61.3	-66.0	-71.0
Other items (net)	-6.4	-7.8	-0.1	-1.3	0.7	0.6	0.5	0.4	0.3	0.3	0.2
Liabilities	**155.9**	**124.1**	**129.1**	**146.0**	**163.3**	**187.0**	**207.3**	**225.2**	**244.1**	**272.0**	**300.1**
Deposits in domestic currency	18.0	13.7	16.2	18.7	23.7	27.1	30.1	32.7	35.4	39.5	43.6
Deposits in foreign currency	137.9	110.3	112.9	127.3	139.6	159.9	177.2	192.5	208.7	232.5	256.6
III. Depository Corporations											
Net foreign assets	**25.0**	**4.1**	**33.5**	**64.4**	**85.8**	**106.5**	**111.8**	**115.1**	**126.4**	**142.3**	**157.9**
Net foreign assets (billions of US$)	0.8	0.1	1.0	1.8	2.4	2.9	3.0	3.1	3.3	3.6	3.9
Net domestic assets	**149.0**	**137.5**	**116.9**	**109.5**	**112.1**	**121.0**	**140.3**	**155.1**	**164.9**	**179.4**	**194.1**
Net credit to non-financial public sector	34.3	37.4	39.0	33.4	29.7	35.1	46.5	54.4	61.7	67.6	72.5
Credit to private sector	162.0	147.9	124.8	120.3	126.7	137.1	150.1	162.2	174.8	188.1	202.2
Net credit to other financial corporations	-0.8	-0.9	-2.0	-1.9	-1.6	-2.7	-2.9	-3.0	-3.1	-3.2	-3.4
Capital accounts	-26.3	-29.0	-32.0	-32.0	-33.8	-37.7	-41.6	-45.8	-50.5	-54.8	-58.5
Other items (net)	-20.1	-17.8	-12.9	-10.3	-8.7	-10.8	-11.8	-12.7	-17.9	-18.3	-18.7
Broad money	**174.1**	**141.6**	**150.4**	**173.9**	**198.0**	**227.5**	**252.1**	**270.2**	**291.3**	**321.7**	**352.0**
Memorandum items				(Percent change, y-o-y, unless otherwise specified)							
Gross reserves (billions of US$)[5/]	2.6	2.1	2.2	3.0	3.8	4.3	4.3	4.3	4.6	4.9	5.2
Adjusted NIR (billions of US$)[2/]	1.80	1.15	1.37	1.89	2.53	2.79	2.92	2.88	2.96	3.12	3.25
In months of imports excl. maquila[2/]	3.2	2.3	3.1	4.4	4.3	4.1	4.2	3.9	3.8	3.8	3.7
Monetary base[6/]	13.6	-9.0	16.7	24.3	18.2	10.3	10.8	2.7	5.9	6.7	5.9
Currency issue	12.6	-4.3	19.1	25.6	21.0	16.5	10.8	1.5	5.3	5.6	4.8
Deposits in Cordobas	11.2	-16.5	9.7	14.7	18.8	14.5	10.8	8.6	8.4	11.4	10.3
Deposits in FX currency	10.8	-21.2	-6.5	18.3	10.2	14.5	10.8	8.6	8.4	11.4	10.3
Credit to private sector	16.0	-8.7	-15.6	-3.6	5.3	8.2	9.5	8.1	7.7	7.6	7.5
Broad money	11.7	-18.7	6.2	15.6	13.8	14.9	10.8	7.2	7.8	10.4	9.4
Broad money velocity	2.4	2.9	2.8	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.4

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 8b. Nicaragua: Summary Accounts of Central Bank and Financial System, 2017–27

(Billions of Córdobas, unless otherwise specified)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Prel.			Projections			
I. Central Bank											
Net foreign assets[1/]	**11.8**	**-20.3**	**6.0**	**24.7**	**20.5**	**20.4**	**5.0**	**3.0**	**11.1**	**15.6**	**15.3**
Net international reserves[2/]	11.3	-18.5	9.5	19.3	24.2	11.3	6.6	0.6	5.2	8.6	7.7
Net international reserves (billions of US$)[2/]	0.3	-0.7	0.2	0.5	0.6	0.3	0.1	0.0	0.1	0.2	0.1
Net domestic assets	**-9.2**	**19.3**	**-1.7**	**-17.9**	**-13.4**	**-13.8**	**0.1**	**-2.2**	**-8.2**	**-12.5**	**-12.4**
Net claims on nonfinancial public sector	-5.3	9.3	-1.5	-8.4	-4.6	1.9	6.4	0.8	1.9	-0.9	-0.9
Net credit to banks	-4.2	9.6	-0.4	-16.9	-10.3	-15.3	-7.2	-2.4	-4.6	-11.7	-12.6
of which: reserves	-2.2	3.9	3.5	-6.3	-5.0	3.2	-3.5	-3.1	-3.3	-4.9	-4.9
Capital accounts	1.1	0.6	1.0	1.6	1.3	2.1	1.6	0.3	-0.4	0.4	1.3
Other items (net)	-0.9	-0.2	-0.5	5.7	0.2	-2.4	-0.8	-0.8	-5.1	-0.3	-0.3
Currency issue	**2.6**	**-1.0**	**4.3**	**6.8**	**7.0**	**6.7**	**5.1**	**0.8**	**2.8**	**3.2**	**2.9**
II. Other Depository Corporations											
Net foreign assets	**-5.6**	**-0.7**	**23.4**	**6.2**	**1.0**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**
Net foreign assets (billions of US$)	-0.2	0.0	0.7	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net domestic assets	**22.0**	**-31.1**	**-18.4**	**10.7**	**16.3**	**23.5**	**20.0**	**17.7**	**18.6**	**27.6**	**27.9**
Net claims on Central Bank[3/]	4.8	-5.9	-1.4	15.2	9.9	16.7	7.9	3.0	5.2	12.3	13.3
Net credit to other financial corporations	0.2	-0.1	-1.0	0.1	0.3	-1.1	-0.2	-0.1	-0.1	-0.1	-0.1
Net credit to non-financial public sector	-0.5	-6.2	3.1	2.7	0.8	3.6	4.9	7.1	5.4	6.9	5.7
Credit to private sector	22.4	-14.1	-22.8	-4.7	6.3	10.4	13.0	12.2	12.6	13.3	14.1
Capital accounts	-4.2	-3.2	-4.0	-1.5	-3.1	-6.0	-5.5	-4.4	-4.3	-4.7	-5.0
Other items (net)	-0.8	-1.4	7.7	-1.1	2.0	-0.1	-0.1	-0.1	-0.1	-0.1	0.0
Liabilities	**16.4**	**-31.8**	**5.0**	**16.9**	**17.2**	**23.7**	**20.3**	**17.9**	**18.9**	**27.9**	**28.1**
Deposits in domestic currency	2.5	-4.2	2.5	2.5	5.0	3.4	2.9	2.6	2.7	4.1	4.1
Deposits in foreign currency	13.9	-27.5	2.6	14.4	12.3	20.3	17.3	15.3	16.2	23.9	24.1
III. Depository Corporations											
Net foreign assets	**6.2**	**-21.0**	**29.4**	**30.9**	**21.4**	**20.7**	**5.3**	**3.3**	**11.3**	**15.9**	**15.6**
Net foreign assets (billions of US$)	0.2	-0.7	0.9	0.9	0.6	0.5	0.1	0.0	0.2	0.3	0.3
Net domestic assets	**12.0**	**-11.5**	**-20.6**	**-7.4**	**2.6**	**8.9**	**19.3**	**14.8**	**9.8**	**14.5**	**14.7**
Net credit to non-financial public sector	-5.7	3.1	1.6	-5.6	-3.7	5.5	11.3	7.9	7.3	5.9	4.9
Credit to private sector	22.4	-14.1	-23.1	-4.5	6.4	10.4	13.0	12.2	12.6	13.3	14.1
Net credit to other financial corporations	0.2	-0.2	-1.0	0.1	0.3	-1.1	-0.2	-0.1	-0.1	-0.1	-0.1
Capital accounts	-3.0	-2.7	-3.0	0.1	-1.8	-3.9	-3.9	-4.2	-4.8	-4.2	-3.7
Other items (net)	-1.8	2.4	4.9	2.6	1.6	-2.0	-1.0	-1.0	-5.2	-0.4	-0.4
Broad money	**18.2**	**-32.5**	**8.8**	**23.5**	**24.0**	**29.6**	**24.6**	**18.1**	**21.1**	**30.4**	**30.3**

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 9. Nicaragua: Quasi-Fiscal Central Bank Balance Sheet, 2017–27

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Prel.			Projections			
						(Millions of Cordobas)					
Revenue	**2,179**	**2,674**	**2,761**	**1,085**	**417**	**453**	**835**	**907**	**980**	**793**	**819**
Interest	1,229	2,140	2,666	1,029	349	352	730	798	867	675	696
Foreign deposits	49	94	159	36	2	0	0	0	0	144	155
Notes and bonds	632	1,070	1,415	602	9	0	0	0	0	466	504
Loans of the BCN	489	844	1,034	199	180	159	139	118	96	46	16
On MTI bonds (fluctuation in price)	38	97	23	4	109	0	0	0	0	16	17
Other revenues	950	535	117	96	119	101	105	109	113	118	122
Of which: recapitalization transfers	872	182	22	41	51	0	0	0	0	0	0
Expenditure	**1,953**	**2,028**	**2,244**	**1,772**	**1,710**	**2,456**	**4,446**	**4,742**	**4,388**	**4,644**	**5,978**
Administrative	864	751	831	775	792	1,015	1,090	1,131	1,174	1,221	1,270
Interest	1,089	1,277	1,413	997	918	1,441	3,356	3,611	3,214	3,423	4,708
External debt	131	174	544	370	200	119	119	119	208	408	1,243
BCN securities	411	560	218	180	439	1,089	3,014	3,269	2,798	2,917	3,395
Bonds (banking)	222	217	210	199	180	156	129	103	75	46	16
Other	324	304	157	84	49	37	42	47	53	53	54
Quasi-fiscal balance	**227**	**646**	**516**	**-687**	**-1,294**	**-2,003**	**-3,611**	**-3,835**	**-3,408**	**-3,851**	**-5,159**
						(Percent of GDP)					
Revenue	**0.5**	**0.7**	**0.7**	**0.3**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
Interest	0.3	0.5	0.6	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
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	0.2	0.3	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Bonds (banking)	0.1	0.2	0.2	0.0	0.0	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	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: recapitalization transfers	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	**0.5**	**0.5**	**0.5**	**0.4**	**0.3**	**0.4**	**0.7**	**0.7**	**0.6**	**0.6**	**0.7**
Administrative	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Interest	0.3	0.3	0.3	0.2	0.2	0.3	0.5	0.5	0.4	0.4	0.6
External debt	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1
BCN securities	0.1	0.1	0.1	0.0	0.1	0.2	0.5	0.5	0.4	0.4	0.4
Bonds (banking)	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Quasi-fiscal balance	**0.1**	**0.2**	**0.1**	**-0.2**	**-0.3**	**-0.4**	**-0.6**	**-0.6**	**-0.5**	**-0.5**	**-0.6**

Sources: National authorities and IMF staff calculations.

Table 10. Nicaragua: Financial Sector Indicators, 2018–22

	2018				2019				2020				2021				2022		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Capital Adequacy Ratio	13.9	15.3	16.0	17.1	20.4	21.6	21.9	21.6	22.0	23.3	23.0	21.8	21.6	21.8	21.7	21.1	21.3	20.6	20.0
NPLs to total loans	1.1	1.5	2.4	2.6	3.3	3.7	3.8	3.2	3.1	3.8	3.7	3.7	3.1	2.7	2.8	2.4	2.2	2.0	1.9
Other distressed assets to total loans	1.8	2.3	11.4	14.2	14.6	15.2	15.6	15.9	15.3	17.7	18.9	18.6	17.8	17.2	16.5	14.3	13.4	12.4	10.2
Total distressed assets to total loans 1/	2.9	3.8	13.8	16.8	17.8	18.9	19.4	19.1	18.4	21.5	22.6	22.2	20.9	20.0	19.3	16.7	15.6	14.4	12.1
Provisions to NPLs	226.3	187.5	149.4	173.3	159.6	157.5	155.3	177.9	179.5	158.6	167.6	172.1	198.0	217.2	207.0	230.2	243.6	264.5	272.3
Provisions to distressed assets 1/	85.9	75.4	26.7	27.1	29.7	31.2	30.3	30.1	30.6	27.9	27.5	28.5	29.3	29.9	30.0	33.5	35.1	36.4	42.8
Return on assets (ROA) 2/	2.1	1.8	1.5	1.3	1.7	1.6	1.3	1.2	1.3	1.3	1.2	1.1	1.1	1.3	1.4	1.6	1.7	1.8	1.8
Return on Equity (ROE) 2/	17.9	15.4	12.0	10.4	12.6	11.3	9.4	8.1	7.3	7.1	6.7	5.8	6.3	7.1	8.1	9.3	9.7	10.4	10.4
Liquid assets to total deposits 3/	30.8	34.1	37.6	35.0	41.4	44.7	46.3	47.0	47.4	47.1	43.3	40.6	40.2	43.5	45.0	44.6	42.5	39.5	38.9
Liquid assets to total liabilities 4/	36.7	34.6	36.7	36.5	32.6	38.2	39.4	40.5	39.7	40.5	43.1	46.5	41.2	38.2	39.7	44.7	41.4	36.6	37.9

Sources: National authorities and IMF staff calculations.
1/ Adding restructured, refinanced and forborne loans, as well as repossessed assets, to NPLs.
2/ 12-month average, except for 2018 that uses annualized data.
3/ Banking system only.
4/ Excluding loans from other Financial Institutions with a maturity over 12

Table 11. Nicaragua: Capacity to Repay the Fund, 2022–32
(Millions of SDRs, unless otherwise specified)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Fund obligations based on existing credits											
Principal	0.0	0.0	43.3	43.3	8.7	8.7	8.7	8.7	8.7	0.0	0.0
Charges and interest	0.0	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Fund obligations based on existing and prospective credits											
Principal	0.0	0.0	43.3	43.3	8.7	8.7	8.7	8.7	8.7	0.0	0.0
Charges and interest	0.0	5.8	5.3	3.7	2.6	2.6	2.6	2.6	2.6	2.6	2.6
In percent of gross international reserves	0.0	0.2	1.5	1.4	0.3	0.3	0.3	0.3	0.2	0.0	0.0
In percent of exports of goods and services	0.0	0.1	0.8	0.7	0.2	0.2	0.1	0.1	0.1	0.0	0.0
In percent of debt service [1/]	0.0	0.1	0.8	0.7	0.2	0.2	0.2	0.1	0.1	0.0	0.0
In percent of GDP	0.0	0.0	0.4	0.3	0.1	0.1	0.1	0.1	0.1	0.0	0.0
In percent of quota	0.0	2.2	18.7	18.1	4.3	4.3	4.3	4.3	4.3	1.0	1.0
Stock of Fund credit outstanding											
In millions of SDRs	130.0	130.0	86.7	43.3	34.7	26.0	17.3	8.7	0.0	0.0	0.0
In millions of USD	172.2	173.3	116.2	58.4	47.0	35.5	23.6	11.8	0.0	0.0	0.0
In percent of gross international reserves	5.3	5.3	3.6	1.7	1.3	0.9	0.6	0.3	0.0	0.0	0.0
In percent of exports of goods and services	2.9	2.8	1.8	0.9	0.7	0.5	0.3	0.1	0.0	0.0	0.0
In percent of debt service [1/]	3.2	3.0	1.9	0.9	0.7	0.5	0.3	0.2	0.0	0.0	0.0
In percent of GDP	1.4	1.3	0.9	0.4	0.3	0.2	0.1	0.1	0.0	0.0	0.0
In percent of quota	50	50	33	17	13	10	7	3	0	0	0
Net use of Fund credit	0.0	-5.8	-48.7	-47.1	-11.3	-11.2	-11.2	-11.2	-11.2	-1.6	-0.6
Disbursements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0
Repayments	0.0	5.8	48.7	47.1	11.3	11.2	11.2	11.2	11.2	2.6	2.6
Memorandum items:											
Nominal GDP (US$ mn)	15,737	17,233	18,324	19,331	20,400	21,528	22,718	23,974	25,300	26,699	28,175
Exports of goods and services (US$ mn)	7,868	8,136	8,630	9,113	9,617	10,160	10,794	11,492	12,250	13,070	13,766
Gross International Reserves (US$ mn)	4,286	4,344	4,345	4,552	4,867	5,157	5,329	5,692	6,592	7,619	8,766
Total external public debt service (US$ mn) [1/]	7,108	7,626	8,236	8,780	9,334	9,706	10,009	10,310	10,759	11,063	11,424
Quota (SDR mn)	260	260	260	260	260	260	260	260	260	260	260
SDR/US$ exchange rate	0.755	0.750	0.746	0.741	0.737	0.733	0.733	0.733	0.733	0.733	0.733

Sources: IMF staff estimates and projections.

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

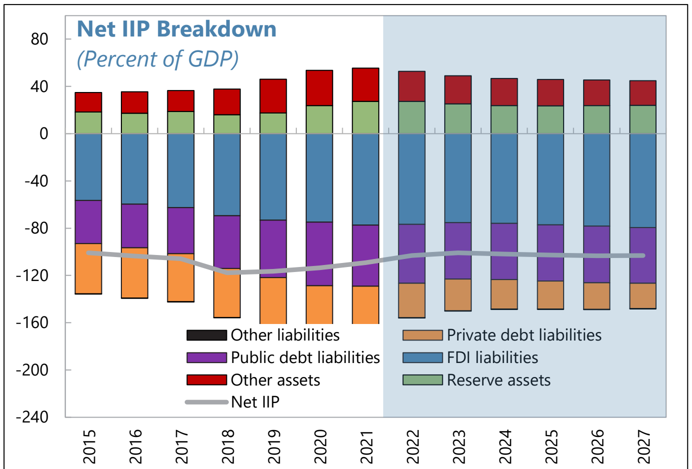
Annex I. External Sector Assessment

Overall Assessment: *The external position of Nicaragua in 2021 was moderately stronger than the level implied by fundamentals and desirable policies according to the current account (CA) and real effective exchange rate (REER) approaches. The net international investment position (IIP) has improved markedly since the socio-political crisis of 2018, as well as since the previous report (2020). According to the external stability (ES) approach, IIP does not require a REER adjustment to be sustainable in the medium term. The trade balance is entirely covered by remittance inflows, which are at a historic high. FDI and medium- to long-maturity public sector debt financed the rest of the current account. As a result, the level of gross international reserves has increased rapidly in recent years, and continued until June 2022, but is still moderately below the level recommended by the ARA metric.*

Potential Policy Responses: *While the external sector position in 2021 was supported by stable funding sources, it depended on significant remittance and FDI flows. In the medium-term, a lapse in these flows is the main risk to external sustainability. In addition, there is risk of a deterioration of the trade balance, should the global downturn be worse than projected, and if the United States imposes heavier sanctions on goods imports from Nicaragua. Amid these risks, Nicaragua should continue to build its stock of international reserves.*

Foreign Assets and Liabilities: Position and Trajectory

Background. The NIIP worsened substantially in 2018, given the sudden stop in capital (a reversal from inflows of about 8½ percent of GDP to outflows of 2½ percent of GDP) and the erosion in confidence in the aftermath of the socio-political crisis. Since 2018 capital inflows, especially FDI have steadily returned, including in 2022Q1, with the net international investment position (NIIP) improving twenty percentage points, since end-2018, of which 10 percent of GDP in 2021, reaching -109 percent of GDP by year-end. The dollar value of NIIP remained roughly constant in 2021, with the improvement relative to GDP driven by the recovery of nominal GDP (also as measured in USD). Nevertheless, there were significant changes in the composition of the net IIP, with increases in reserve assets, other assets, FDI liabilities, and public debt liabilities, alongside a decrease in private debt liabilities. These changes are almost entirely driven by financial account flows rather than valuation effects.



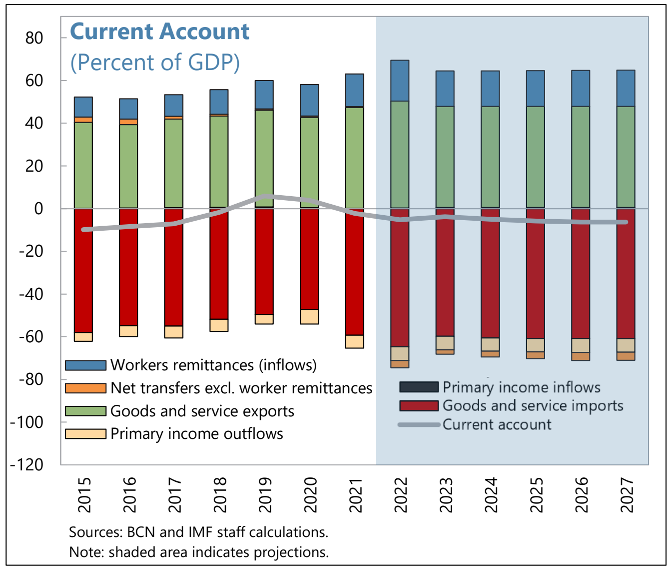
Sources: BCN and IMF staff calculations.
Note: shaded area indicates projections.

Assessment. The ES approach finds the NIIP sustainable. It is encouraging that the increase in public sector external debt has been more than offset by an increase in reserve assets. Moreover, the entire debt stock of the central government (50 percent of GDP) is of medium or long maturity, and it is owed to multilateral or bilateral institutions. Private sector liabilities are also likely stable as the bulk is FDI. Going forward, the NIIP is projected to improve further in 2022 to -102 percent of GDP and to stabilize around 100 percent of GDP in the medium term. This is projected to occur in spite of a gradual decline in reserve and other assets (relative to GDP) via a larger reduction in public and private external debt and other liabilities.

2021 (% GDP)	NIIP: -109	Gross Assets: 55	Debt Assets: 50	Gross Liab.: 165	Debt Liab.: 85

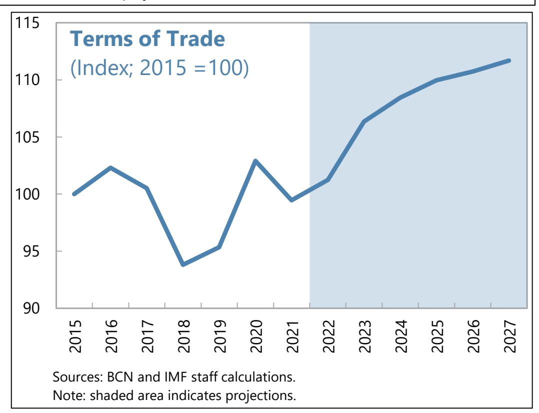
Current Account

Background. Following the 2018 socio-political crisis, lower import demand led to a current account surplus in 2019 (6 percent of GDP) and 2020 (3.9 percent), in contrast to pre-crisis current account deficit (7.2 percent in 2017). With the recovery, in 2021, the current account swung to a deficit of 2.3 percent of GDP, with a recovery in import demand increasing the trade deficit. The reversion of the current account to a deficit was primarily driven by changes in quantities rather than the terms of trade, which deteriorated slightly in 2021.



Sources: BCN and IMF staff calculations.
Note: shaded area indicates projections.

Relative to pre-crisis, the trade balance exhibits a smaller deficit of 13.4 percent of GDP (17.2 percent pre-crisis) and is now fully financed by remittances, which increased from 10.1 percent of GDP in 2017 to 15.7 percent of GDP in 2021. However, the increase in remittances was offset partially by declines in other income sources. Most notably, the services balance of 1.3 percent of GDP in 2021 has not fully recovered to its pre-crisis level (3.8 percent) due to the impact of the pandemic and social crisis on tourism. This implies that, all else equal, a recovery of the trade balance to the 2017 level would yield a current account deficit of about -6.1 percent of GDP, only 1 percent of GDP smaller than in 2017.



Sources: BCN and IMF staff calculations.
Note: shaded area indicates projections.

Assessment. The estimated current account gap in relation to the norm using the EBA Lite model is 1.5 percent of GDP. This result is obtained after accounting for cyclical factors, a COVID-related adjustment for tourism (0.45 percent of GDP) and remittances (-0.24 percent). Domestic policy gaps contributed -1.7 percent of GDP to the current account, with the largest gaps due to the lower than desirable fiscal balance (-1.3 percent) and higher than desirable public health spending (-0.8 percent) reducing the current account balance. On the other hand, analogous policy gaps in trading partners more than offset these contributions, with significant gaps due to the lower than desirable fiscal balances (1.7 percent) and higher than desirable public health spending (0.7 percent). On net, these two policy gaps led to a CA gap of about 0.3 percent of GDP. In addition, excessive capital controls in trading partners contributed another 0.3 percent of GDP and insufficient credit growth in Nicaragua contributed another 0.2 percent of GDP. In aggregate, policy gaps contributed about 1 percent of GDP to the current account gap, with the remainder of about 0.5 percent of GDP reflecting the residual. The magnitude of the current account gap suggests that the 2021 external position is moderately stronger than the level implied by fundamentals and desired policies. With the strong increase in remittances and the rebound in tourism in the first six months of 2022, the current account for 2022 is now estimated to be smaller than in 2021, and, as a result the expected current account gap will be lower for 2022.

Nicaragua: Model Estimates for 2021 (in percent of GDP)

	CA model 1/	**REER model** 1/
	(in percent of GDP)	
CA-Actual	**-2.3**	
Cyclical contributions (from model) (-)	0.4	
COVID-19 adjustor (-) 2/	-0.2	
Additional temporary/statistical factors (-)	0.0	
Natural disasters and conflicts (-)	-0.2	
Adjusted CA	**-2.3**	
CA Norm (from model) 3/	**-3.8**	
Adjustments to the norm (-)	0.0	
Adjusted CA Norm	**-3.8**	
CA Gap	**1.5**	**1.9**
o/w Relative policy gap	0.9	
Elasticity	-0.33	
REER Gap (in percent)	**-4.4**	**-5.8**

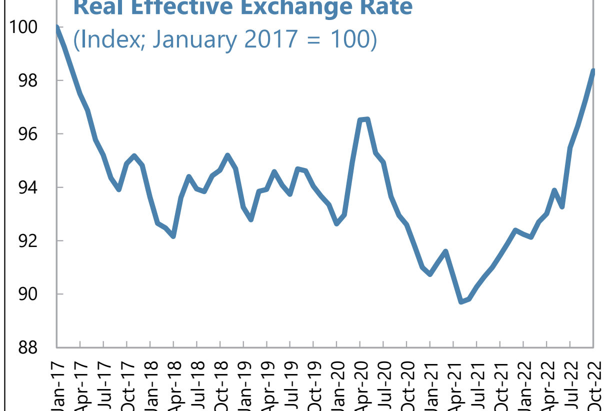
1/ Based on the EBA-lite 3.0 methodology
2/ Additional cyclical adjustment to account for the temporary impact of the tourism (0.45 percent of GDP) and remittances (-0.24 percent of GDP).
3/ Cyclically adjusted, including multilateral consistency adjustments.

Sources: National authorities and IMF staff calculations.

Real Exchange Rate

Background. The average value of the real exchange rate in 2021 was 92.8 and in 2022 remained below 100 with the normalized value of 2010 level. Nominal exchange rate policy in Nicaragua follows a crawling peg at 2 percent depreciation against the U.S. dollar. The real effective exchange rate therefore appreciates if inflation in Nicaragua exceeds that of the United States by more than 2 percent.

Real Effective Exchange Rate
(Index; January 2017 = 100)



Sources: BCN and IMF staff calculations.

After declining in 2017, the real exchange rate remained stable until the Covid-19 pandemic, where it first increased. However, the RER gradually decreased as inflation picked up in the United States. By the end of 2021, and continuing into 2022, substantially higher inflation rates in Nicaragua than in the United States are contributing to a rapid appreciation of the real exchange rate, by about 5 percent in 2022 alone. The latest reading is 97.3, 4.9 percent above the average level in 2021.

Assessment. The REER undervaluation estimated by the EBA Lite CA model (REER model) is 4.4 percent (5.8 percent). These results both indicate that the REER is moderately undervalued relative to that implied by fundamentals and desired policies. For the REER model, however, the gap is largely driven by a model residual, with the policy gap contributing only 1.3 percent to the undervaluation, suggesting that the REER gap is driven by idiosyncratic factors rather than suboptimal policy. This interpretation is bolstered by the fact that the REER model residual decreased from 3 percent to roughly -6 percent between 2020 and 2021. This may reflect atypical inflation dynamics associated with the Covid-19 crisis, particularly high inflation in the United States in late 2020 and 2021, which preceded high inflation in Nicaragua. Over 2022 so far, the BCN tightened its monetary stance (by a cumulative 350 basis points) in line with that of the US (cumulative 425 basis points), and inflation differential with the US has been relatively stable over the first half of 2022.

Capital and Financial Accounts: Flows and Policy Measures

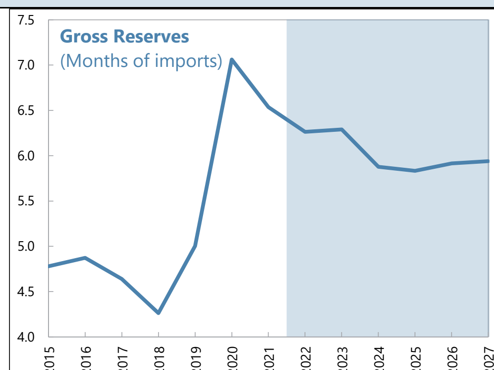
Background. In 2021, the CA deficit of 2.3 percent of GDP was more than fully covered by net FDI inflows of 8.6 percent of GDP and general government external borrowing of 5.8 percent of GDP. 80 percent of FDI inflows were in the form of equity securities. As the current account deficit was substantially lower than the inflow of financing, the economy accumulated significant international reserves (5.9 percent of GDP). This trend continues in 2022, though is expected to slow by year-end, with FDI inflows expected to fall to 5.4 percent of GDP.

Assessment. The financing structure of the current account supports external stability with an important caveat that this depends on the continued high level of remittance inflows, as FDI does not fully cover the trade balance, is expected to decrease in 2022, and is cautiously projected to remain lower than 2021 in the medium term. Aggregate financial and capital account inflows are also not expected to cover the trade balance in the medium term. However, as remittances are expected to remain at above 16 percent of GDP in the medium term, since it does not expect a reduction in emigration, staff does not expect a financing gap to significantly reduce the stock of reserves in the medium term.

FX Intervention and Reserves Level

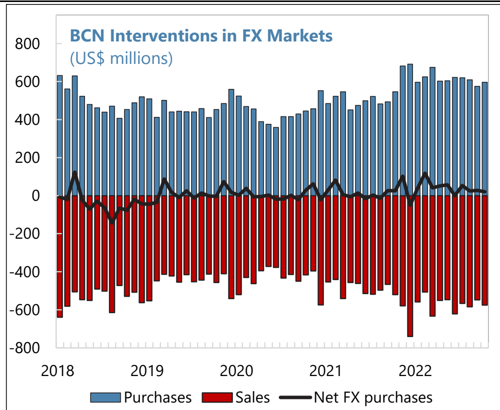
Background. Gross international reserves at end-2021 were US$3.8 billion or 6.5 months of imports. The stock of reserves grew by US$830 million in 2021 (US$1.75 billion since their nadir in end-2018), supported by an increase in FDI inflows outpacing the growing trade deficit. Reserves continue to accumulate in 2022, standing currently at US$4.3 billion, and is expected to remain stable over the medium-term.

The exchange rate regime is a crawling band of 2 percent depreciation against the US dollar. This is implemented



Sources: BCN and IMF staff calculations.
Note: shaded area indicates projections.

largely by setting the policy rate to target the exchange rate. In exceptional circumstances, such as in the aftermath of the socio-political crisis of 2018, the central bank uses FX intervention to stabilize the exchange rate without destabilizing the financial sector. Since the crisis, FX interventions have been symmetric, with slightly positive net purchases of FX, indicating that the monetary policy rate has been sufficient to maintain the crawling band.



Source: BCN.

Assessment. The level of gross international reserves at 6.5 months of imports is on the lower end of the suggested range of 5.3 to 8.9 months of non-maquila imports estimated using the Fund's adequacy metric for LICs, with a range of reserves holding opportunity costs.

Annex II. Resilience of the Financial Sector and Credit Growth

The Nicaraguan financial sector has shown a strong resilience as it withstood two important shocks in the past years. First, a domestic shock, the April 2018 socio-political crisis which led to acute deposit outflows. Two years after, when the financial sector started showing signs of a timid recovery, the global COVID-19 pandemic also affected the Nicaraguan economy and its financial system. The Nicaraguan financial sector was able to cope with both shocks without any bank failure and it now has a high average capitalization and good levels of liquidity. Profitability is gradually improving and reported NPLs are low, although the level of distressed assets is still significant. While deposits strongly recovered since 2020, bank credit is still lagging behind and rebounded only recently. The authorities should ensure that credit growth is coupled with prudent lending policies and increase the level of provisions relative to distressed assets.

1. **Before the socio-political crisis of 2018, the Nicaraguan financial system was healthy and rapidly expanding, in both credit and deposits.** The Nicaraguan financial system was composed of six commercial banks, one development bank and four financing companies and its assets represented 61 percent of GDP. By March 2018, Nicaraguan banks [1] had been growing for several years, both in terms of credit and deposits. They had adequate levels of capital (CAR[2] of 13.9 percent) and liquidity (liquidity ratio[3] of 30.8 percent). Profitability was high (ROA of 2.1 percent and ROE[4] of 17.9 percent) and nonperforming loans (NPLs) were low (1.1 percent).

2. **The socio-political crisis of 2018 was the most difficult shock hitting the economy in the past years.** Starting in April 2018, Nicaraguan banks experienced significant deposit withdrawals that threatened their normal functioning. However, the BCN quickly provided liquidity lines to banks to ensure that they could respond to the deposit outflow. In parallel, Nicaraguan banks started to sharply reduce their credit stock in order to swiftly adapt their balance sheets to the lower levels of available funding. By the end of 2018, deposits[5] had shrunk by 30 percent and gross credit by 11 percent since the beginning of the shock. But by the end of 2019, the cumulative reduction in deposits and gross credit since the beginning of the shock was very similar (29 percent and 30 percent respectively).

3. **The difficult economic situation also translated into a deterioration of the creditworthiness of borrowers.** Reported NPLs quickly went up, reaching 3.8 percent by mid-

[1] When using the term "bank" this Annex refers to all the credit institutions supervised by SIBOIF. Currently, these are seven commercial banks, one development bank and two financing companies and they represent more than 90 percent of the total assets of the financial system. Two of the four financing companies supervised by SIBOIF in March 2018 are no longer supervised by SIBOIF, and a new bank started operations at the end of 2019. The financial system also includes microfinancing companies and credit cooperatives that fall under the scope of CONAMI and MEFCCA respectively, but which are not subject to equivalent prudential supervision.

[2] CAR: Capital Adequacy Ratio. The minimum required level of the capital ratio is 10 percent. In addition, there is a combined capital buffer of 10 percent that banks need to meet to be able to pay out dividends. This combined capital buffer is the result of a capital conservation buffer of 3 percent, in effect since 2017, and an extraordinary capital buffer that was set at 7 percent in November 2018, and which is still in force.

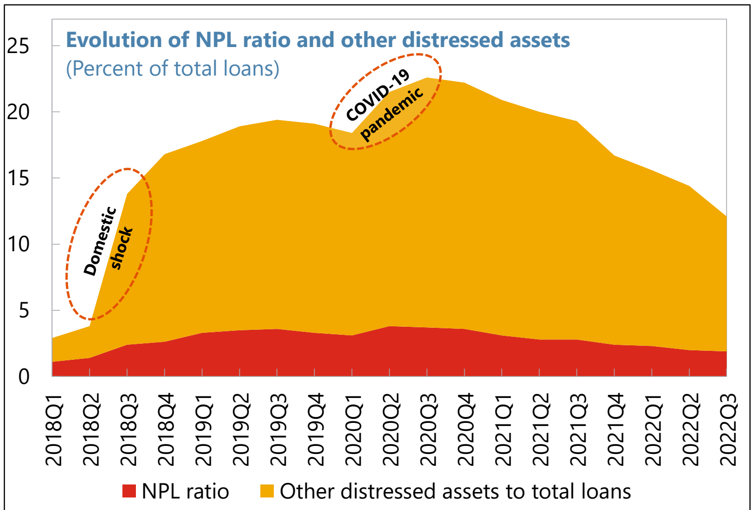
[3] Liquidity ratio=Liquid assets to deposits. Liquid assets are represented by cash, deposits at the central bank and fixed-term securities.

[4] Return on Equity (ROE), Return on Assets (ROA).

[5] Deposits from the public held by banks.

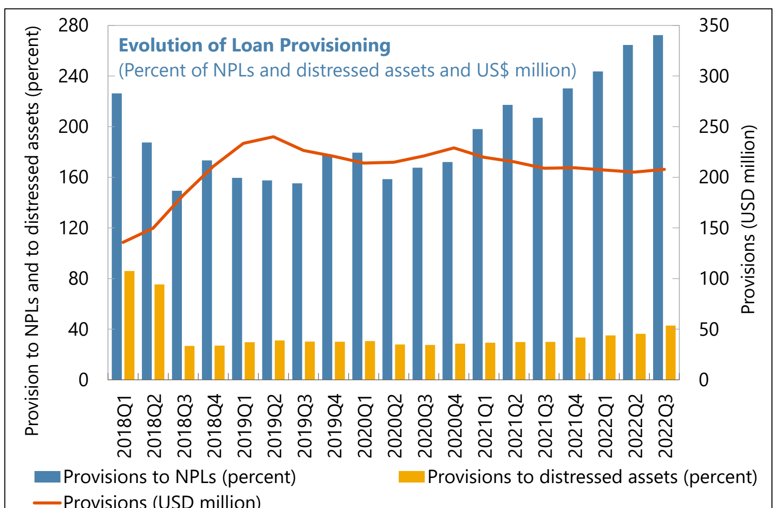
2019. The authorities also granted temporary forbearance to banks until the end of 2019. However forborne loans[6] were reported as performing which led to banks' balance sheets not adequately reflecting the creditworthiness of their borrowers. In addition, many loans still performing were restructured and refinanced by banks during 2018 and 2019. As a result, when adding restructured, refinanced, and forborne loans, as well as repossessed assets, to NPLs, the ratio of total distressed assets to total loans was six-fold the NPL ratio by the end of 2019 (19.1 percent vs. 3.2 percent).

4. **Since April 2020, the COVID-19 global pandemic hit Nicaragua, also affecting the financial system.** Although the effects of the pandemic on the financial system did not impact the recovery of deposits from the previous domestic shock, asset quality was hampered with a further deterioration of banks' credit portfolios. As a result, NPLs and total distressed assets[7] resurfaced until they reached a peak ratio of 3.7 and 22.6 percent by September 2020. The authorities also approved another temporary forbearance measure—this time transparent and subject to strong safeguards, which led to its very limited use by banks. The new forbearance measure expired at the end of 2020. Both NPLs and other distressed assets have followed a declining trend since September 2020, but the total stock of distressed assets is still significant (12.1 in September 2022).



Source: SIBOIF.

5. **The significant increase in distressed assets was not accompanied by a similar increase in the level of provisions.** Although provisions relative to NPLs are now higher than in March 2018 (272 percent in September 2022 vs. 226 percent in March 2018) the level of provisions relative to the total stock of distressed assets is significantly lower (43 percent in September 2022 vs. 86 percent in March 2018). In fact, loan provisions diminished in 2021 and have remained relatively flat since



Source: SIBOIF.

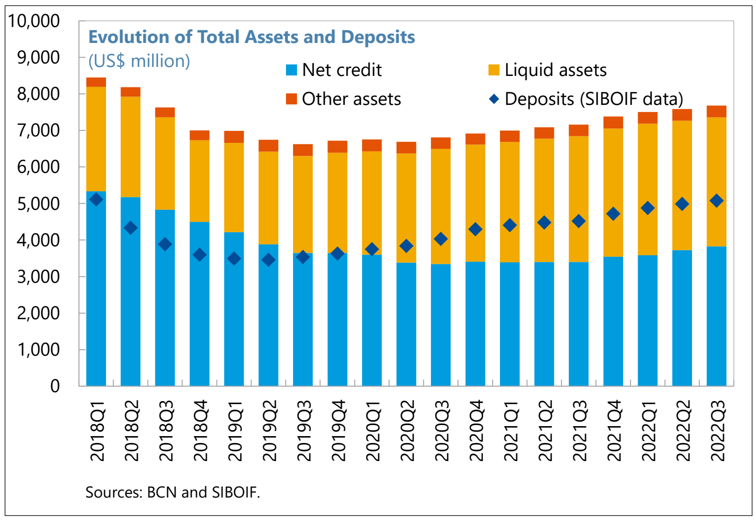
[6] Known as "Aliviados".

[7] When adding restructured, refinanced, and forborne loans, as well as repossessed assets, to NPLs.

then, while the improved provisioning levels are mainly explained by the reduction in the stock of NPLs and total distressed assets. Therefore, the level of provisions should be increased further in other distressed assets such that banks are better protected against downside risks. The low level of provisions for other distressed assets also explains the reported higher capital ratios compared to the ones they would be if more prudent provisioning were in place.[8]

6. **The increasing confidence in the resilience of the financial sector led to a strong recovery of deposits[9].** The recovery started in the third quarter of 2019 (well before the recovery in GDP or the sustained increase in remittances), and it was at the beginning of 2020 that deposits started to register positive y-o-y growth. The deposits' recovery path quickly strengthened by mid-2020 leading to 11 percent y-o-y growth and has been maintained for over two years[10]. This strong growth rate has allowed deposits to surpass pre-crisis levels (measured in Córdobas).

7. **The path of recovery followed in bank credit[11] has been much slower.** Although credit seemed to have reached its trough at the end of 2019, the COVID-19 pandemic hit the economy and borrowers in April 2020, leading to a further reduction of credit that lasted until September 2020. It was only as of June 2021 that bank credit started to register y-o-y growth. This seems to reflect the lower risk appetite of Nicaraguan banks, which preferred to channel excess liquidity to fixed-term investments, both domestic and internationally[12], until the recovery had a strong hold, rather than providing credit to the private sector in a context where the amount of distressed assets in their balance sheets was still significant. In fact, the portion of liquid assets[13] went up from representing 54 percent of the net credit portfolio in March 2018 to consistently reach more than 90 percent of the net credit portfolio since mid-2020.



Sources: BCN and SIBOIF.

8. **More recently, bank credit has experienced a strong rebound**. Credit has picked up the pace since mid-2021 and increased notably in 2022 (from 1.8 percent y-o-y growth in June 2021 to

[8]As of September 2022, the capital ratio would decrease 3 percentage points on average (17 percent instead of 20 percent) if banks would increase their provisions to reach the level relative to total distressed assets that they had in March 2018 (86 percent). When considered individually, one small-medium bank would fall slightly below the minimum capital requirements to reach this level.

[9] Deposits from the public held by banks.

[10] As of September 2022, deposits y-o-y growth was 12.4 percent.

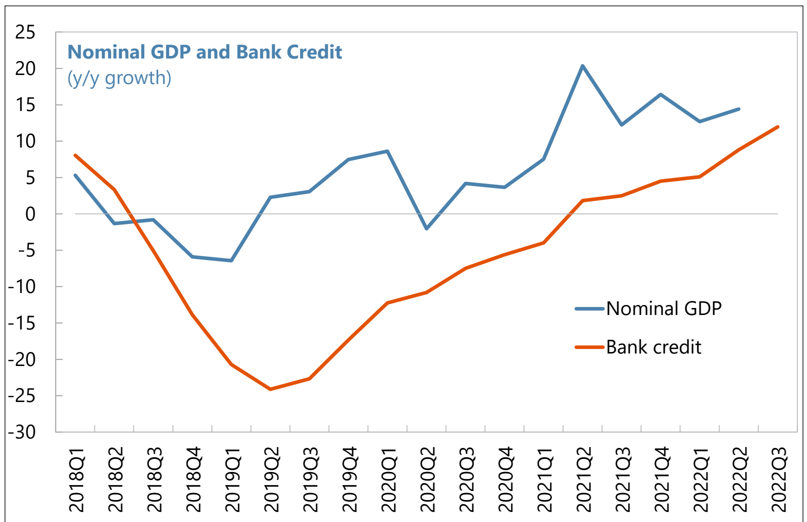
[11] Gross credit provided to the economy by the credit institutions under SIBOIF's supervision (7 commercial banks, 1 development bank and 2 financing companies). Data provided by SIBOIF.

[12] Domestic fixed-term securities are mainly government and central bank securities whereas international fixed-term securities include both government and corporate debt.

[13] Cash, deposits at the central bank and fixed-term securities.

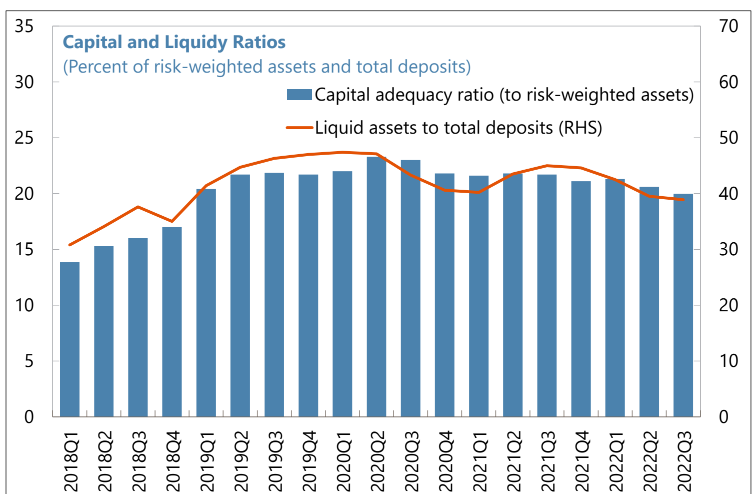
12 percent y-o-y growth in September 2022). This growth was initially driven by consumer credit, but was soon followed by commercial and industrial lending. As of September 2022, these three sectors had double-digit growth, followed by agricultural loans with single-digit growth. Only mortgage growth is still subdued.[14] The authorities should ensure that credit institutions do not loosen their lending standards during this strong rebound. In addition, the authorities recently reactivated countercyclical provisioning and may need to implement further macroprudential measures such as imposing higher risk weights on unsecured lending.

9. However, the stock of bank credit is still below its level prior to April 2018. As of September 2022, the level of credit is 25.1 percent lower than in March 2018 and none of the sectors has recovered to its pre-crisis level yet. On the one hand, a comparison relative to nominal GDP growth indicates that credit growth was initially lagging behind, but recently accelerated almost catching up with GDP growth. On the other hand, some borrowers that had their lines of credit diminished during the 2018 shock have found alternatives to bank domestic lending, as is the case of some exporters which found alternative funding in the region. This could make the recovery of credit to pre-crisis levels more challenging for banks, as they will have to increase lending to existing customers and seek new customers. It is important that this process is done in a manner that ensures that prudent lending policies are preserved. Finally, recent policy rate hikes may slow down current credit growth although this has not been the case to date.



Sources: BCN and SIBOIF.

10. Capital and liquidity buffers were significantly increased in response to the two shocks, whereas banks still remained profitable. The authorities and banks quickly focused on reinforcing the capital and liquidity levels in the financial system in response to the socio-political crisis of 2018 and were able to maintain high buffers since then, even during the COVID-19 pandemic. In fact, since 2019,



Source: SIBOIF.

[14] Data provided in US dollars by the SIBOIF.

Nicaraguan banks have operated with an average capital adequacy ratio above 20 percent[15]. As for liquidity, banks have maintained a ratio of liquid assets[16] to total deposits over 40 percent until recently, whereas their average LCR went from 150 percent at the beginning of 2019 to stay beyond 250 percent since mid-2020. These levels are expected to diminish as credit growth continues. At the same time, banks have managed to remain profitable despite the lower yields of fixed-term securities relative to credit and the higher level of capital. However, this profitability also reflects the low level of provisioning relative to total distressed assets.

[15] Or beyond 18 percent if excluding the development bank "Produzcamos" from the sample.
[16] Liquid assets are represented by cash, deposits at the CB and fixed-term securities.

Annex III. Risk Assessment Matrix[1]

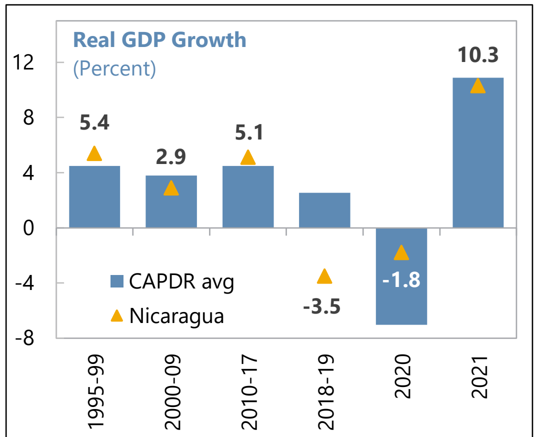
Risks		Policy Response
External		
Commodity price shocks. A combination of continuing supply disruptions (e.g., due to conflicts and export restrictions) and negative demand shocks causes recurrent commodity price volatility and social and economic instability.	**High Likelihood** **Medium Impact**	Provide targeted and time-bound fiscal support measures to the vulnerable segments of the population. Strengthen social safety nets. Tighten monetary policy in case second-round inflation effects materialize. Improve the resilience of supply chains in collaboration with the private sector.
Intensifying spillovers from Russia's war on Ukraine. Further sanctions resulting from the war and related uncertainties exacerbate trade and financial disruptions and commodity price volatility, with Europe, LICs, and commodity-importing EMs among the worst hit.	**High Likelihood** **Medium Impact**	Accelerate structural reforms aimed at increasing competitiveness and strengthening the resilience of the domestic economy.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth slowdown, with outright recessions in some countries, spillovers through trade and financial channels, and downward pressures on some commodity prices. • **U.S.:** Amid persistently high inflation driven by tight labor markets, supply disruptions and continued commodity price shocks, the Fed tightens policies faster and by more than anticipated, resulting in a "hard landing", housing market correction, and a stronger U.S. dollar.	**Medium Likelihood** **High Impact**	Provide coordinated response by monetary and fiscal policies. Calibrate the policy reaction to the depth of the global slowdown and Fed policy spillovers. Accelerate structural reforms aimed at improving market flexibility to accommodate shocks to export demand.
Local Covid-19 outbreaks. Outbreaks in slow-to-vaccinate countries or emergence of more contagious vaccine-resistant variants force new lockdowns or inhibit commerce. This results in extended supply chain disruptions, slower growth, capital outflows, and debt distress in some EMDEs.	**Medium Likelihood** **Medium Impact**	Continue vaccination campaign and prioritize health spending. Monitor pandemic developments and stand ready to introduce new measures. Strengthen social safety nets.
Domestic		
A deterioration in business climate and intensification of sanctions on Nicaragua. The business climate could deteriorate and sanctions on Nicaragua could intensify and broaden, impeding trade, reducing external demand, and curtailing access to external financing.	**Medium Likelihood** **High Impact**	Enhance governance framework and its effective implementation, and accelerate structural reforms to increase competitiveness. Foster diversification and facilitate job creation. Adjust fiscal expenditure, while protecting social spending.
Natural disasters related to climate change. More frequent natural disasters deal severe damage to infrastructure (especially in smaller vulnerable economies) and amplify supply chain disruptions and inflationary pressures, causing water and food shortages and reducing medium-term growth.	**High Likelihood** **Medium Impact**	Enhance climate mitigation and adaptation measures. Prioritize investments for infrastructure resilience. Strengthen disaster risk management and preparedness to provide rapid support to affected population.

[1]The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Annex IV. Output Growth Factor Analysis

The potential GDP growth in Nicaragua, which fell during the protracted downturn, given the investment contraction, is expected to rise over the medium-term. However, at this time the projected growth rate is lower than the rate estimated in the pre-crisis period and over the long term, given the gradual recovery in investment and credit. An increase in labor participation will be crucial to achieve higher and sustained economic growth.

1. Although Nicaragua had a good economic performance during 2010-17, compared to its regional peers, a three-year contractionary period affected factor inputs. Protracted socio-political unrest in 2018-19 led to a severe economic contraction of 7 percent over the two-year period. In top of this shock, in 2020 the real GDP further contracted by 1.8 percent due to the pandemic. During this period the unemployment rate went up by almost a third, to 5 percent on average in 2018-20, while investment decreased by 12½ percentage of the GDP during 2018-19.



Sources: BCN and CAPDR central banks.

2. A reassessment of growth contributing factors is needed given the much stronger than expected rebound. In the midst of the downturn, the 2019 staff report, published in February 2020 evaluated that potential growth rate declined to 3 percent, given the severity of the shocks, and uncertain political developments, and financing prospects. FDI was projected to remain at 2 percent of GDP, 5 percent of GDP below the sustained levels observed pre-crisis. A very modest growth in credit to the private sector was expected, as it was unclear how banks will cope with the rapid loss in deposits and increased in distressed assets. Prudent policies and sold pre-crisis buffers helped Nicaragua weathered the wary storm, along with IMF assistance to help fight the pandemic and start the post-hurricane reconstruction. A robust recovery in the region helped as well, and most importantly depositors and investors' confidence has returned, albeit it remained cautious. Most importantly, investment rebounded 6¼ percent of GDP by end-2021 already, and it continued to grow in 2022. FDI reached 8.6 percent of GDP in 2021, much faster than anticipated in 2020, and credit to the private sector is growing. Thereby a reassessment of growth contributing factors is needed.

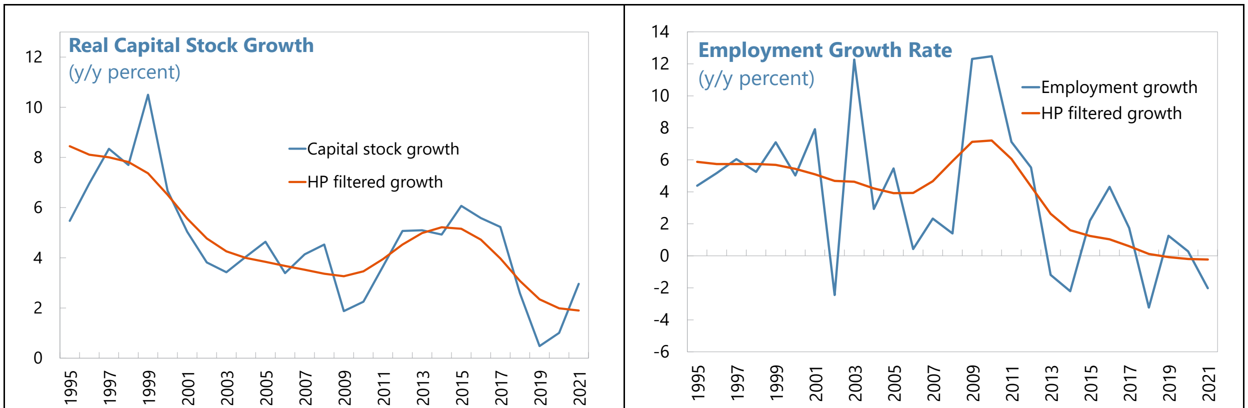
3. Capital stock is the main growth driver of the Nicaraguan economy. The growth accounting update is implemented assuming a Cobb-Douglas production function of the form $Y=A_tK_t^{\alpha}L_t^{(1-\alpha)}$, where K and L represent capital stock and labor factors while A picks up

Text Table 1. Nicaragua: Growth and Input Contribution

	1995-99	2000-09	2010-17	2018-19	2020	2021
Real GDP	**5.4**	**2.9**	**5.1**	**-3.6**	**-1.8**	**10.3**
Capital	3.9	2.1	2.4	0.8	0.5	1.5
Labor	2.8	2.4	1.9	-0.5	0.1	-1.0
Residual	-1.3	-1.6	0.9	-3.8	-2.4	9.9

Sources: Haver and IMF staff estimation.

productivity factors and other residual elements. The analysis is based on annual data (1994-2021) using restricted regressions (that assume constant returns to scale, i.e., elasticities of the production factors add up to 1). This methodology yields estimates for output elasticities for both factors, which assist in estimating their contributions to growth.[1] This exercise and the analysis of the time series yield three stylized facts for this economy: (i) The contribution of capital while positive appears to be trending down since the beginning of the 2000s (Table1); (ii) labor (formal and informal) contribution has become negligible or even negative including during the recovery; and (iii) the residual, incorporating labor productivity elements, has been an important factor in the latest contractionary/recovery cycle. As a result, medium term growth rates of average 5 percent per year, like during the pre-crisis period 2010-17 would require exceptional conditions.



Sources: BCN and IMF staff calculations.

Sources: BCN and IMF staff calculations.

4. Recent performance of the economy suggests that Nicaragua is positioned to return to close to a historical average GDP growth. The regression estimates suggest that GDP growth for the period is in the range of 3-4 percent, at the same time Hodrick-Prescott- filtered GDP data yields a growth mean of 3.5 percent per year in the 20-year lapse prior to the crisis. This suggests that the potential growth rate is 3½ percent per year.

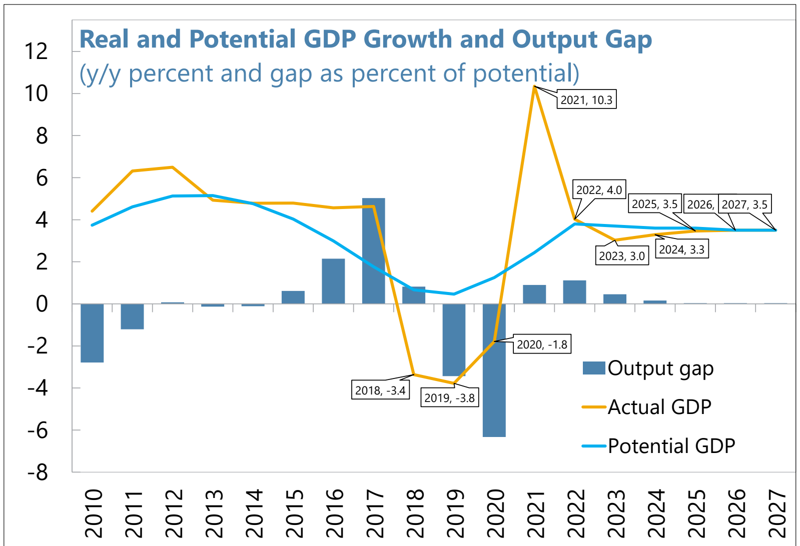
5. While GDP growth in 2022 is estimated at 4 percent, around the historical average, keeping medium term GDP growth in the upper part of the estimated range requires strong conditions. In particular, Nicaragua will need to maintain a level of investment that is similar to the precrisis period. This assumes that the contribution of productivity growth and other factors remains around the average of 2012-17 (1.4 percentage points of the GDP).[2] With the projected investment path in the macroframework (expected to reach about 25 percent of GDP by 2027, same as the historical average over 2006-21, the estimated growth rate is most likely to reach the lower rate of range.

[1] The estimated output elasticities are statistically significant and consistent with prior analyses by Johnson (2012) and Harberger (2007).

[2] During the 2018-20 period the potential output growth was estimated to be 0.75 percent on average.

6. Until now the labor market stayed out of synch with the economic recovery. Specifically, while unemployment went down to 3.7 percent in 2021, the labor participation rate (measured as the proportion of labor force on the working age population) went down by 3.5 percentage points to 67.1 percent. Hence, labor contribution is assumed flat for this exercise. To the extent labor participation and its contribution to growth recovers in the medium run, the Nicaraguan potential GDP growth could be in the range of 4-5 percent.

7. The speed of convergence to potential growth is expected to be gradual, due to the expected global slowdown in 2023 and the gradual recovery in investment. To increase its potential GDP growth in the medium to long term, Nicaragua needs to enable sustained domestic and foreign investment, enhance human capital opportunities and quality, and improve the efficiency of the labor market. These elements would also support productivity growth and lead to a faster convergence to higher potential growth rates.



Sources: BCN and IMF staff calculations.

Annex V. Mitigating the Impact of Economic Downturns on the Labor Market

Despite an economic recovery starting in late 2020, Nicaragua still had 120,784 fewer jobs at end 2021 compared to end 2017 as employment fell by 3.3 percent in this period, resulting in a weakened labor contribution to growth. Understanding the drivers of the labor market performance in Nicaragua in the context of CAPDR[1] countries, will contribute to the appropriate policy recommendations to mitigate the impact of downturns on employment in Nicaragua, ease adjustments and inequalities in the labor market to hasten the employment recovery and thus, support growth.

A. Characteristics and Development of the Labor Market

1. **The labor market in Nicaragua is characterized by high labor force participation rates but low female participation, low unemployment, and persistent underemployment (Figure 1).** Pre-crisis pre-pandemic Nicaragua had a labor force participation rate of 74 percent, reflecting a much lower participation rate for women than men (64 percent versus 80 percent respectively). Unemployment rate was 3 percent, but underemployment was 40 percent.

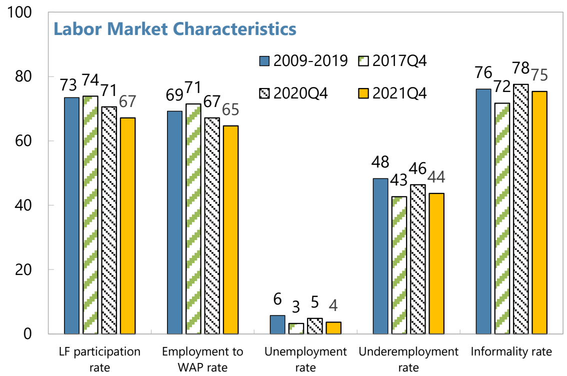
2. **The three-year contraction has set back the progress made in labor market outcomes during the 2009-2019 decade.** At end 2020, the informality rate stood above the average of the last 10 years, underemployment and unemployment rates climbed back up, and labor force participation fell by 8 percent for women, and 5 percent for men. While the rates of informality, unemployment and underemployment fell back owing to the economic recovery in 2021, the labor force participation rate continued to fall.

3. **The increase in informality amidst the fall in economic activity during the pandemic shock is clear evidence of the countercyclical role of informality.** Although Nicaragua was not affected as much as its regional peers (Figure 2), mostly on the account that there has been no official lockdown during the pandemic, by the fourth quarter, its peers were recovering faster on average. Labor markets were severely disrupted, and formal employment suffered across countries. In CAPDR informality accounts for over 60 percent of employment, but there are marked heterogeneities among countries driven to a large extent by the level of economic development and education of the labor force. By end 2021, informality rate in Nicaragua reached 75.5 percent, over 4 percentage points higher than 2017. The high jump in informal employment during this period relative to its peers seems to confirm the relevance of its procyclical role against shocks.

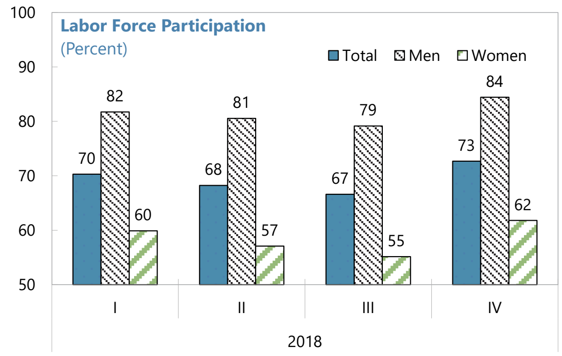
[1] CAPDR countries include Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama.

Figure 1. Nicaragua: Labor Market Characteristics and Development

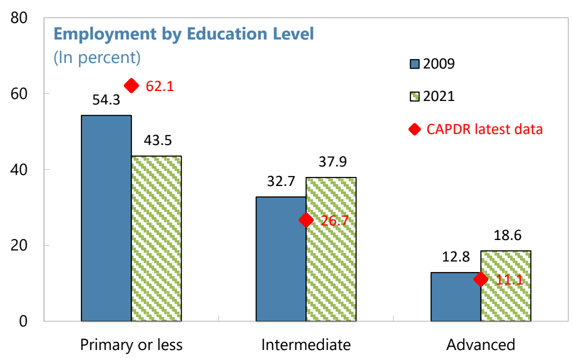
High level of informality and underemployment, low and constant rate of unemployment, high labor force participation…



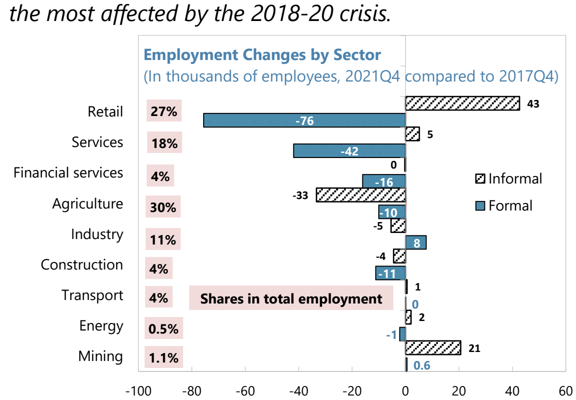
…however, a persistent large gender disparity. In labor force participation rates.



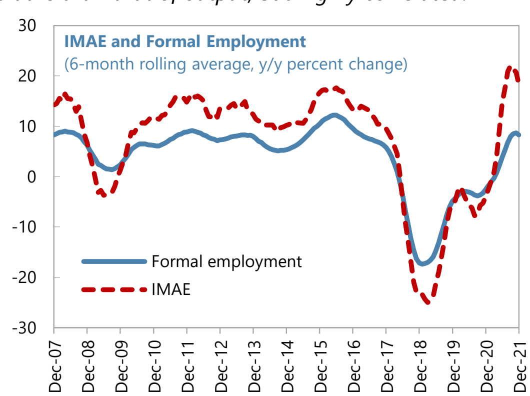
Although education level has improved, it remains low which might hinder transitions within the labor market.



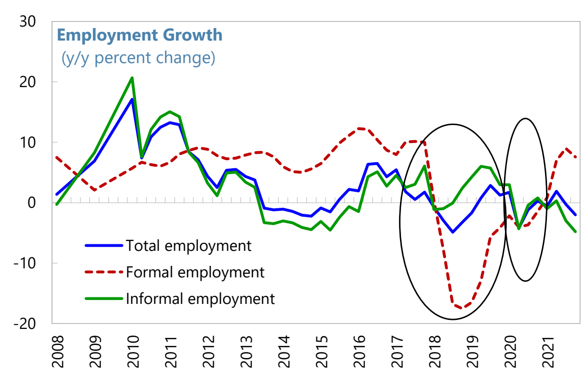
Industries with highest shares in total employment were the most affected by the 2018-20 crisis.



The cyclical component of formal employment is less volatile than that of output, but highly correlated.

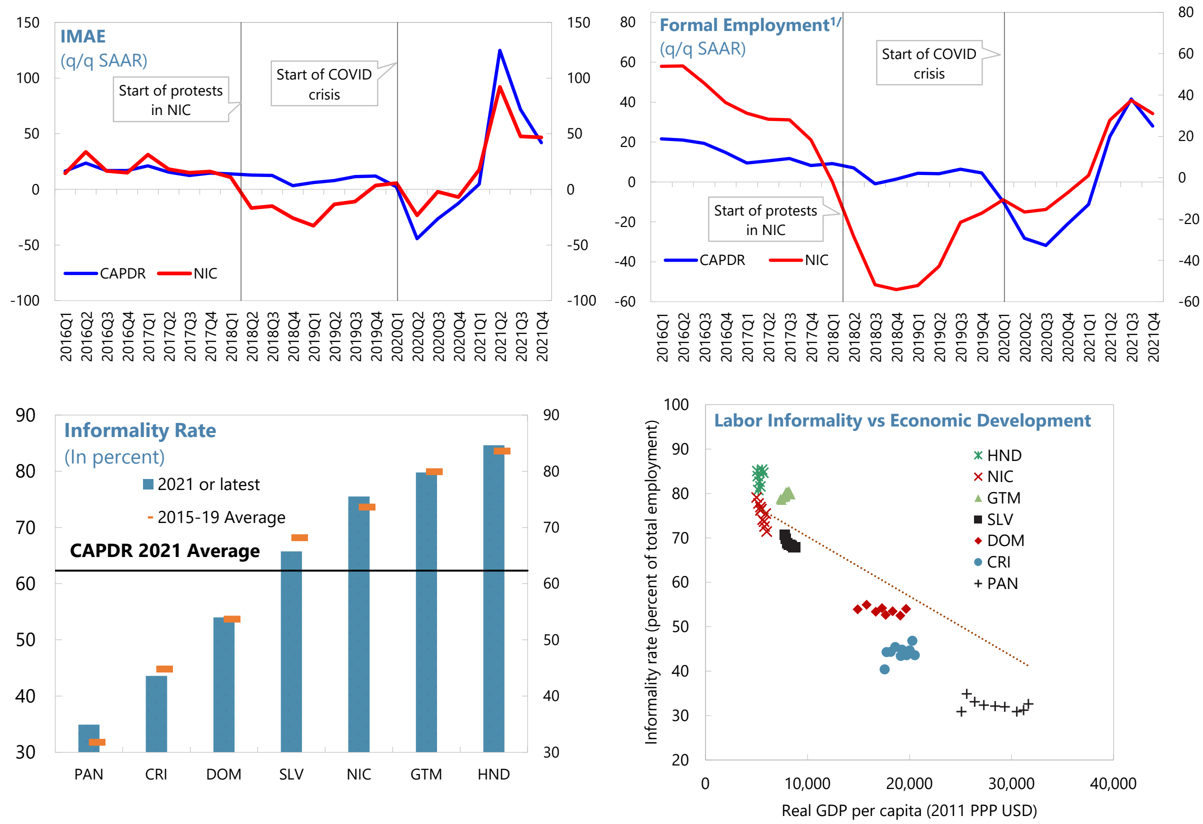


Informality is countercyclical and acted as a buffer during crisis (GFC, 2018 and 2020)



Sources: National authorities and IMF staff calculations.

Figure 2. CAPDR: Economic Activity, Employment, and Informality



Sources: ILO, WEO, national authorities and IMF staff calculations.

1/ Honduras not included. CAPDR avg. only includes available data.

4. The productive structure of Nicaragua's economy and the flexibility of the labor market institutions and regulations have supported the historical high level of informality in Nicaragua.[2] Nicaragua's productive matrix is concentrated in exportable agricultural products with low value-added that allow for the persistence of unproductive sectors and low technology adoption. In addition, micro firms in Nicaragua which have at most two employees and with high turnover are largely prevalent in the country. As it seems the degree of formalization increases with the size of the firm, the prevalence of small firms in Nicaragua indicates that workers are mostly pushed into informality. Selected indicators of the labor market regulations across CAPDR countries (Text Table 1) highlights Nicaragua as being the country in the region amongst the most flexible labor market regulations and with the least active labor market policies.[3]

[2] See Brenes and Cruz (2016) and the report of Hernández (2010).
[3] As confirmed in The Global Competitiveness Report of 2019, WEF.

Text Table 1. CAPDR: Selected Labor Market Regulations

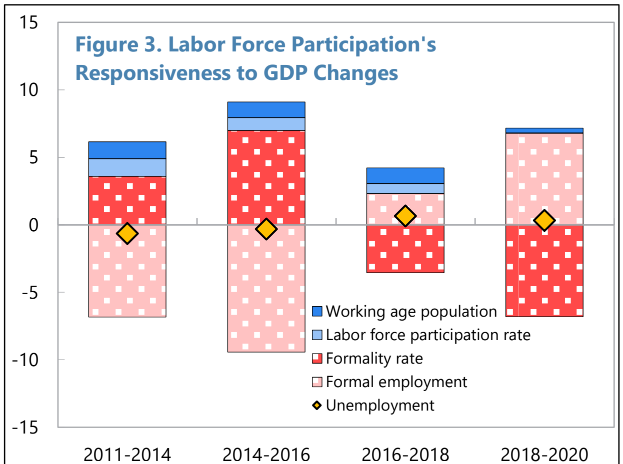
Country	Minimum Wage (US$/month)	Ratio of Minimum Wage to Value Added	Premium for Night Work (% of hourly pay)	Premium for Overtime Work (% of hourly pay)	Paid Annual Leave (in working days)1/	Notice Period for Redundancy Dismissal (in weeks of salary)1/	Severance Pay for Redundancy Dismissal (in weeks of salary)
Costa Rica	614.2	0.4	0	50	12	4.3	14.4
Dominican Republic	315.4	0.3	0	35	16.7	4	22.2
El Salvador	259.2	0.5	25	112.5	11	0	22.9
Guatemala	457.4	0.8	0	50	15	0	27.0
Honduras	505.7	1.7	25	37.5	16.7	7.2	23.1
Nicaragua	248.7	1.0	0	100	30	0	14.9
Panama	612.1	0.3	13	50	22	0	18.1

Source: World Bank Employing Workers indicators, 2020.
1/ For average of tenure.

B. Labor Market Dynamics and Speed of Adjustment

5. Decomposing changes in unemployment reveals the limited fluctuations in unemployment over various phases of the business cycles, while larger fluctuations in informality and participation rates (Figure 3).[4] In Nicaragua the impact of shocks in unemployment is limited, although the socio-political crisis in 2018 brought a larger increase in unemployment rate in the country. On the supply side, the labor participation rate has been an active margin of adjustment, mitigating fluctuations in unemployment, expanding during the good growth years, but stopped growing in the years of GDP contraction. On the demand side, labor formalization has also played an important role in limiting movements in unemployment.

Figure 3. Labor Force Participation's Responsiveness to GDP Changes

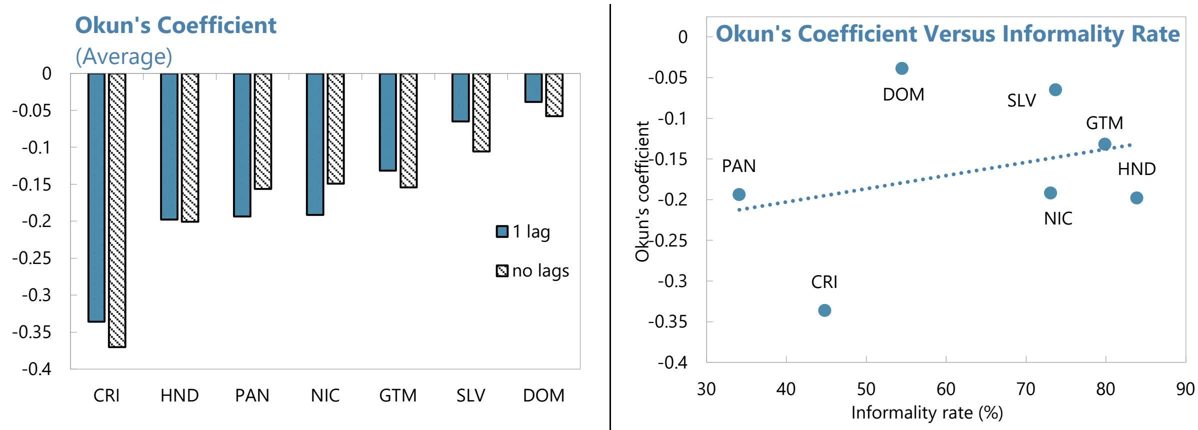


Source: IMF staff calculations.

6. In line with the vast literature, the small Okun coefficients in CAPDR countries suggest that unemployment responds less to output fluctuations than in advanced economies due to the high level of informality (See Figure 4). WHD, REO (2019) estimated the average Okun's coefficient for advanced economies to be about -0.3, while the average coefficient for CAPDR countries is about -0.16. The estimated coefficient for Nicaragua is in the range (-1.9, -1.4) depending on the number of lags used. Loayza (2018) argues that in the absence of unemployment insurance or an adequate social safety net, a low elasticity of unemployment to GDP growth can mitigate the adverse social impacts of recessions (such as increased poverty and crime).

[4] Following David, Lambert, and Toscani (2019) approach to decompose changes in unemployment for CAPDR countries into different margins of adjustment on the supply and demand side relative to a reference period as follows: $u - u^* \approx -(l_F - l_F^*) + (f - f^*) + (part - part^*) + (wap - wap^*)$ (1) where u denotes the unemployment rate; *part* is the labor force participation rate; *wap* working-age population; l_F is the logarithm of formal employment and f is the logarithm of the ratio of formal to total employment (* indicates the value of a variable at the beginning of the period). In this set-up, changes in labor supply are captured by changes in the participation rate and working age population, while changes in demand are reflected by changes in formality.

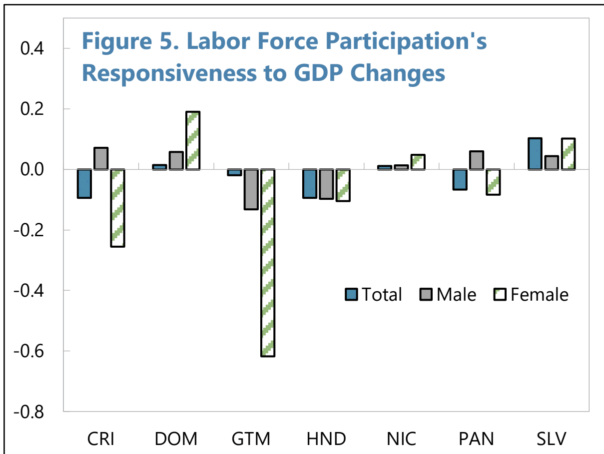
Figure 4. CAPDR: Unemployment and GDP Growth



Source: IMF staff calculations.

7. Sensitivity of labor force participation rates to changes in GDP stands out to be the smallest in Nicaragua relative to its regional peers, but it seems to be mostly for women (Figure 5). The responsiveness of aggregate participation rates to cyclical fluctuations seems to be counter-cyclical in several countries due to changes in female participation rates. Within the region, female participation rates in some countries seem to be very responsive to the cycle, particularly in Guatemala, Dominican Republic, and Costa Rica. The response of female participation to changes in GDP is on average negative for CAPDR countries, indicating that as GDP downturns are more severe, the female participation rate increases thus moving in a countercyclical way.

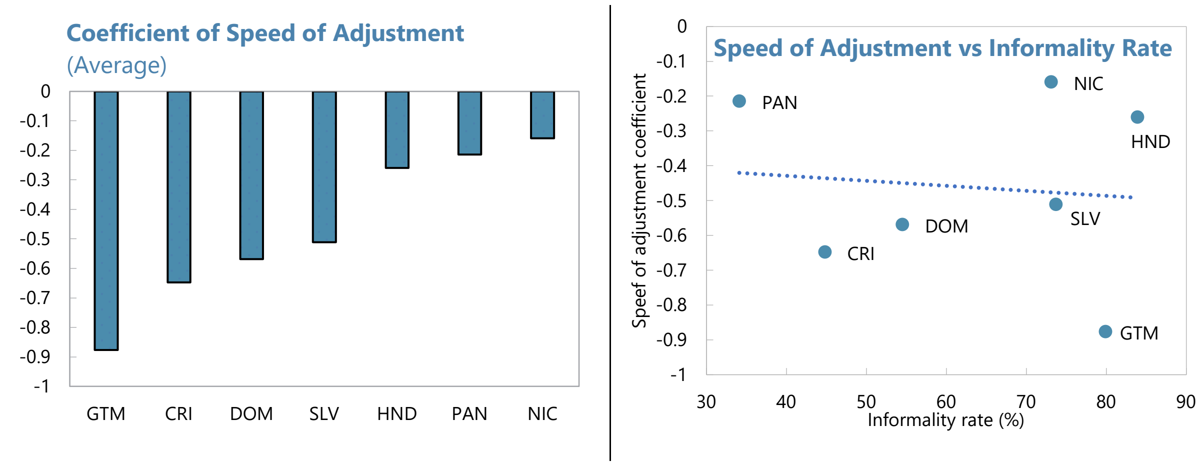
Figure 5. Labor Force Participation's Responsiveness to GDP Changes



Source: IMF staff calculations.

8. Nicaragua has the lowest estimated speed adjustment coefficient of employment to shocks. There is a large degree of heterogeneity across CAPDR countries in the estimated coefficients of the speed at which employment reverts to its long-run level (Figure 6). The average estimated speed of adjustment coefficient for the region is -0.46, which implies that it takes on average about 1.1 years for the region to close half the employment gap (the half-life). In Nicaragua, the estimated speed of adjustment coefficient of -0.16 implies a half-life of about 3.1 years.

Figure 6. CAPDR: Speed of Adjustment



Source: IMF staff calculations.

C. Conclusion and Policy Recommendations

9. The economic and social costs of economic downturns depend not only on the country's ability to mitigate short-term impacts but also on its ability to revert to its potential. In Nicaragua the high degree of informality poses some difficult trade-offs: acting as a buffer for unemployment to GDP shocks, but also making the speed of adjustment of the economy to shocks slower, obstructing labor productivity growth and hampering growth.

10. In this context, policy recommendations would focus on increasing formality gains, implementing structural reforms and protecting procyclical workers. Formality gains could be enhanced by strengthening worker's safety nets, match workers skills and vacancies in the labor market, and decreasing the barriers for formalization and growth of small firms (e.g., simplified taxes). Given that high levels of informality in Nicaragua are due to structural factors, embarking on structural reforms could also strengthen the labor market. While education is one of the main ways to raise the level of human capital, supply-side actions could also be useful, such as facilitating small producers' cooperatives and supporting the agency for agricultural technology research to spur productivity in the countryside. Creating programs of micro-credit to small firms and, specifically, start-ups will help encourage growth. It will be important to also ensure a leveled playing field for female labor force participation. These measures need to be costed and thereby prioritized in terms of available financing.

Annex VI. Building Resilience to Natural Disasters and Climate Change

Given the macro-criticality of climate change for Nicaragua, implementing a comprehensive climate-resilience strategy based on the National Determined Contributions (NDC), investing in resilient infrastructure, and incorporating estimates of risks from climate change to policies are essential to ensure fiscal and external sustainability.

A. Macrocriticality of Climate Change in Nicaragua

1. High exposure and sensitivity make climate change risks macro-critical in Nicaragua. Nicaragua ranked amongst the most severely affected country in the Central America region by extreme weather events during 2000-2019.[1] There were 82 natural disaster events during the period 1960-2021 in Nicaragua, an average of 1.3 natural disasters per year (Text Table 1).[2] Nicaragua also registered the highest average damage per event (2.4 percent of GDP), and the third highest in terms of population affected per event (on average 2.1 percent of total population; Figure 1).[3]

Text Table 1. Nicaragua: Historical-Climate Related Disaster Events, 1960-2021

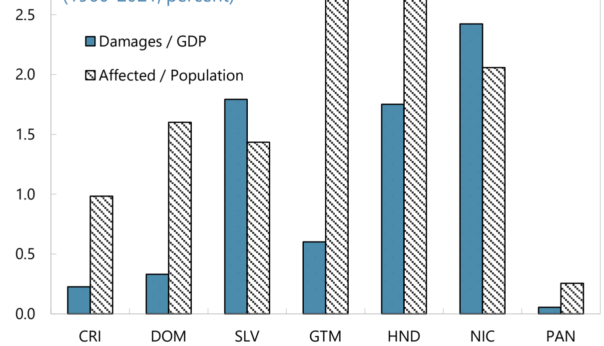
Disaster Type	Number of Events	Total Deaths	Number of People Affected	Total Damage (million US$)
Storm	24	3,955	2,688,877	2,676
Flood	23	515	710,532	2.1
Epidemic	13	122	115,855	0.007
Earthquake	7	10,188	748,175	875
Drought	6	n.a.	1,313,000	18
Volcanic Activity	5	1	321,370	2.7
Wildfire	3	n.a.	16,000	80
Landslide	1	29	5,769	n.a.

Source: EM-DAT.

2. Nicaragua's economic dependence on climate sensitive sectors amplifies the adverse impact of natural disasters and climate change on the economy. Nicaragua relies the most on climate sensitive sectors in CAPDR, in particular agriculture (Figure 2). In 2020, the agriculture and tourism sectors together represented 29 percent of Nicaraguan GDP, 54 percent of exports and 42 percent of total employment. In the agricultural sector, the impact of climate change, or a large natural disaster event, could spark higher food prices and threaten food security. The exposure of employment to climate sensitive sectors could also force more households into poverty (about 13 percent of the population is estimated to live under the poverty line of US$3.65/day in 2022) or migration.

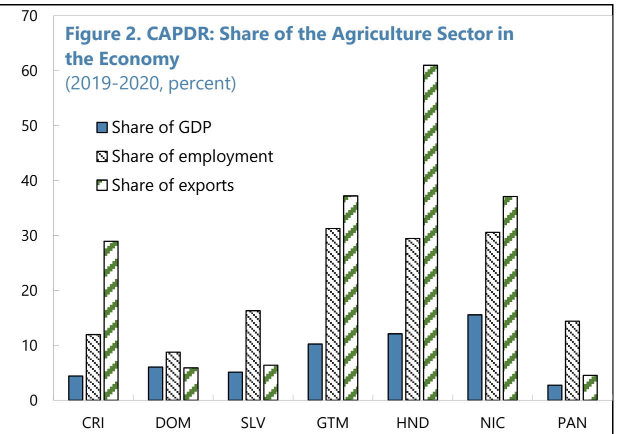
[1] The 2021 Global Climate Risk Index ranks 180 countries by level of exposure and vulnerability to extreme events between 2000 and 2019. Nicaragua ranked 35 preceded by Guatemala (16) and El Salvador (28), and followed by Honduras (44), Dominican Republic (50), Costa Rica (89), and Panama (118).
[2] According to the International Disaster Database maintained by the Center for Research on the Epidemiology of Disasters (EM-DAT).
[3] Affected population comprises people requiring immediate assistance during an emergency situation, including injured and homeless people.

Figure 1. CAPDR: Average Economic Cost of Natural Disasters
(1960-2021, percent)



Sources: EM-DAT International Disaster Database and IMF staff calculations.

Figure 2. CAPDR: Share of the Agriculture Sector in the Economy
(2019-2020, percent)



Sources: WDI and WITS databases and IMF staff calculations.

3. **The impact of disasters on GDP growth and fiscal revenue in Nicaragua is estimated among the highest in CAPDR** (Text Table 2). The updated analysis, as compared to the 2017 Article IV staff report,[4] based on data up to end-2020 shows a higher impact of storms on GDP growth and fiscal revenue, and especially so in Nicaragua compared with the average in CAPDR. This is because in November 2020 hurricanes categories 4 and 5 Eta and Iota had damages of US$999.3 million, equivalent to 8.3 percent of GDP in Nicaragua.

Text Table 2. Nicaragua: Impact of Storms and Floods on GDP and Fiscal Revenue, 1950-2020

GDP Growth (decline, percentage points)	**CAPDR**	**NIC**	**Revenue to GDP Growth (decline, percentage points)**	**CAPDR**	**NIC**
Storm	1.03	4.55	Storm	0.69	3.85
Flood	0.16	0.62	Flood	1.34	1.47
Overall	0.6	2.59	Overall	1.02	2.66

Source: IMF staff estimation.
Note: Panel VAR model.

B. National Objectives and Ongoing Measures

4. **Since 2017 Nicaragua has continued to make progress on strategic plans and policies to address the challenges of climate change.** Strategic plans have mostly been to inform sector-specific plans and annual budgets, which remain largely project–based, reflecting Nicaragua's limited human and financial capacity.

5. **Adaptation is the main climate challenge.** Given the projected higher temperatures in the region, adaptation to persistent changes in climate condition is necessary to reduce negative long-run growth effects.[5] [6] Nicaragua's continuous efforts to implement climate adaptation

[4] See *Nicaragua: Macroeconomic Impact of Climate Change and Disasters*, IMF 2017 Selected Issues, Country Report No. 2017/174.
[5] The regionalized projections from the World Bank Group's Climate Change Knowledge Portal (CCKP) point to the most significant temperature rises occurring in the Pacific North Region by the end of the century, with maximum temperatures projected to rise between 3 to 8°C and a minimum temperatures projected to rise between 2 to 3°C.
[6] See Kahn et all., 2019, "*Long-Term Macroeconomic Effects of Climate Change: A Cross-Country Analysis*", IMF Working Paper WP/19/215.

measures include agricultural diversification and resilience, reforestation, and promotion of renewable and clean energy, including on the hydro sector which contributes about a quarter of the total power supply. Model-based analysis reveal that the magnitude of potential impact of climate change on the agriculture, forest and land use (AFOLU) sector is large.[7] Results suggests that Nicaragua should invest in developing locally suitable AFOLU, most adapted to the climate threats to which the country is projected to be dealing with. Accordingly, Nicaragua has implemented measures for a sustainable and climate resilient coffee and cocoa production with financing from CABEI and FIDA, a reforestation program with support from the World Bank, and an increase in the generation of energy using renewable sources (by 8 percent over the period 2016-19, to 58 percent in 2019). Physical adaptation measures have been supplemented by financial preparedness, including securing insurance coverage from the Caribbean Catastrophe Risk Insurance Facility (CCRIF)[8] in case of excess rainfall, tropical cyclones, and earthquakes. Nicaragua created a National Disaster Fund in 2000 and was also able to acquire contingency lines of credit from the World Bank, CABEI and the InterAmerican Development Bank in the wake of the hurricanes Eta and Iota.

6. Plans to manage the transition to climate policy actions is ongoing, but implementation remains a challenge. Nicaragua's Nationally Determined Contribution (NDC) was last updated in 2020.[9] It provides national policies and plans, including a general framework for effective land, environmental, climate risk management and resilience. The high-level commitment to the national framework is reflected in the 2019 Presidential Decree to establish the National Policy on Mitigation and Adaptation to Climate Change, and the National System of Response to Climate Change.[10] In May 2021, the National Management System for Climate Change and the Secretary for Climate Change to the Presidency (SNGCC) were created to strengthen the coordination and implementation of climate change policies.[11] Disaster risk management is coordinated by the National System for Disaster Prevention, Mitigation and Attention (SINAPRED).

7. Mitigation measures are focused on renewable energy. Although Nicaragua's emissions are globally minuscule (0.08 percent of global Green House Gas (GHG) emission in 2018), a National Committee for the Mitigation of Gas Emission has been established in March 2022 with the objective to oversee the implementation of projects related to the mitigation of GHG emission.[12] The 2020 NDC does not specify a target level of emissions reduction, but it sets a target for renewable energy in total energy generation of at least 65 percent in 2030. Nicaragua also implemented several tax exemptions to promote clean energy and reforestation. In addition to the ratification of various international instruments to promote a sustainable development,[13] Nicaragua has

[7] See the International Food Policy Research Institute (IFPRI) Discussion Paper 01829 "*Climate Change, Agriculture, and Adaptation Options for Nicaragua*."

[8] Since the beginning of its membership with the CCRIF in 2015, Nicaragua has received five payments totaling US$32.25 million, against its earthquake, tropical cyclone, and excess rainfall policies.

[9] See Nicaragua's NDC.

[10] Presidential Decree No. 07-2019, as published on February 11, 2019.

[11] Presidential Decree No. 06-2021, as published on May 10, 2021.

[12] Presidential Decree No. 06-2022, as published on March 16, 2022.

[13] Nicaragua signed the United Nations Framework Convention on Climate Change (UNFCCC) in 1995, the Kyoto Protocol in 1999, the Universal Declaration of the Common Good of Earth and Humanity in 2010 and the Paris Agreement in 2017.

established collaboration agreements with the Latin American Organization for Energy (OLADE) to review and provide input for improvement on the emissions metrics in the energy sector from the consumption of fossil fuels and geothermal energy and joined the UN RELAC initiative "Renewables in Latin America and the Caribbean" in November 2021.

C. Building Disaster Resilience

8. Nicaragua's resilience building is constraint by financing and its ability to protect the financial sector and the vulnerable segment of the population. Despite advances to integrate disaster risk management in public and private decision-making, disasters-related losses remain an economic and fiscal burden. Even as the 2022 Debt Sustainability Analysis (DSA) assessed Nicaragua's risk of debt distress to be moderate and with some fiscal space, the climate resilience building and estimated economic and social costs of natural disasters would require accessing financing and increasing fiscal buffers.

9. In the fiscal area, the following measures could be considered:

- *Reforming taxation*. Although Nicaragua already has implemented several tax exemptions to promote clean energy and reforestation, a carbon tax could be considered to help the shift towards renewable energy sources.[14] The proceeds could be used to finance the National Disaster Fund. Regular assessments of existing exemptions should be carried out to ensure equitability.

- *Incorporating disaster risk management in a comprehensive medium-term fiscal framework* would help better prepare for the realization of disaster shocks. The Ministry of Finance took an important step in this direction by including disaster risks in its first fiscal risks report published in May 2022.[15]

- *Adopting countercyclical fiscal policy* will help to build fiscal space to attend to emergency financing. This would require setting aside fiscal surpluses in years of strong growth to offset the costs of rebuilding in years affected by natural disasters.
- *Mobilizing climate financing* by enhancing project preparation, dialogue with donors and transparency to meet climate and resilience building goals.

- *Introducing natural disaster clauses in sovereign debt contracts* could help mitigate the risks from future climate shocks. Such provisions allow for an automatic extension of debt service should a large natural disaster as defined in the clause occur (i.e., either principal or interest payments or both would be deferred for a specific period), thereby temporarily reducing the sovereign's gross financing needs.

[14] In 2020, Nicaragua's total environmental taxes was 1.3 percent of GDP, of which taxes on energy (including fuel for transport) was the biggest category, accounting for 98 percent of Nicaragua's total environmental taxes. See the IMF Climate Change Dashboard.
[15] See Fiscal risks report.

- *Accessing climate financing in the form of green bonds or debt-for-nature swaps.* This could be guided by the experience of Belize (2021) and Barbados (2022); it requires, however, a strong PFM system.

10. Allowing energy price to reflect its environmental impact, including reforms of existing energy and transportation.

11. In parallel, financial resilience measures could include:

- *Increasing resilience of financial institutions* to climate change risks. This would require including climate change risk in bank stress tests and consequent provisioning for climate risk.

- *Further strengthening the regulatory and supervisory framework* of the financial sector. This would imply adopting actual regulations to require financial institutions to provision against climate risks. Financial supervisors would also need to assess the risks of credit portfolios to climate risks.

- *Layering strategy for disaster risk financing*. This strategy uses a combination of contingent credit lines on concessional interest rates, natural disaster insurance, and funds allocated from international reserves to minimize the costs of hedging natural disasters.

Annex VII. Governance

The Annex summarizes the recommendations and progress made on fiscal transparency, AML/CFT and anti-corruption frameworks, since the 2019 Article IV Staff report, and 2020 RFI report, including based on subsequent TA received, to provide background for the achievements and recommendations presented in section E of this report (Policy Discussions).

A. Fiscal Transparency

1. **FAD conducted a Fiscal Transparency Evaluation (FTE) in March 2022.** The authorities took extensive steps to improve the country's transparency score:

- *Expanded the publication of documents and fiscal analyses on the Ministry of Finance's website*. Tax expenditures are included in the medium-term projections, policy guidelines for the 2023 budget formulation were published in September 2022, losses and damages from natural disasters are reported under the fiscal risks reports, debt sustainability analyses and the quarterly evaluation of public debt are now also published. Further efforts are planned in 2023, including the publication of disaggregated government guarantees under the annual debt report.

- *Established a plan to publish annual financial statements of the central government in March 2023*. The authorities should also plan to audit them by the Supreme Audit Institution (SAI) and strengthen the independence of the SAI.

- *Planned to expand the annual reporting of financial statements in June 2023 to include one more state-owned enterprises (SOEs)* to the five already published. The authorities should aim at including all SOEs and the audit reports of those statements conducted by the Comptroller General Office.

- *Improved the coverage of stocks and flows in published fiscal reports*, and the internal consistency of fiscal data, especially regarding the reconciliation of above and below the line in fiscal balance calculations. In addition, debt and fiscal statistics publication delays have been reduced.

- *Published the first fiscal risks report in May 2022* and will continue to improve reporting of macroeconomic risks, including from SOEs, and publish them annually.

B. Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT)

2. **The National Risk Assessment (NRA) is comprehensive, but there are challenges regarding its implementation**. There has been some low compliance from specific sectors in the implementation of preventive measures to detect and report suspicious transactions such as microfinance sector, real estate, virtual asset service providers, etc. Risks identified include payments

in support of drug trafficking, contraband and tax fraud, public corruption, and donations to finance terrorist activities employing misused Non-Profit Organizations (NPOs).

3. **To prevent the misuse of legal persons, the Beneficial Ownership (BO) Registry seems adequately set up and populated and is being used by the relevant parties.** Most obligated legal entities have provided the necessary BO information. Although access is not public, domestic authorities and financial institutions appear to be accessing it. So far, no foreign entities have requested BO information of entities established in Nicaragua.

4. **The government needs to strengthen effective enforcement**. Although the Financial Intelligence Unit is forwarding further intelligence reports about potential money laundering cases to law enforcement agencies (LEAs), those are not resulting in successful enforcement and confiscation of ill-gotten proceeds. The overall number of ML-related convictions has decreased since 2020; no politically exposed persons–in an environment exposed to corruption-have been convicted in the last five years and only one obligated subject was convicted for money laundering offenses. The coordination and exchange of information between FIU, LEAs and the Judiciary should be further enhanced, and additional resources should be allocated to specialized prosecutors and judges to allow them to act more effectively on their mandate to fight financial crimes**.**

5. **The NRA identified some NPO activities as potential TF risks, but only a small percentage of NPOs were deemed as high risk on the sectorial risk assessment.** The authorities are not appropriately monitoring the sector based on risk and are using excessive interventions and sanctions to close NPOs way beyond the AML/CFT rationale. There was no indication of terrorism financing activities linked to NPOs during the timeframe used for the preparation of the NPO Sectorial Report and the closure of NPOs does not seem to be appropriate or commensurate with the risk. In line with the international standards, unintended consequences against NPOs could be prevented by enhancing the understanding of risks and applying appropriate monitoring of the sector to prevent its misuse while recognizing the important role it plays in channeling well needed support to the community.

C. Governance, Anti-Corruption and Rule of Law

6. **Nicaragua has made some progress on anti-corruption measures since the 2019 Article IV Consultation, but some weaknesses remain, including insufficient enforcement and shortcomings of the legal framework.** The Comptroller General Office has made progress with the implementation of a platform for the collection and management of asset declarations, with the application of sanctions for lack of compliance, and with the publication of audit reports over some state agencies and state-owned enterprises. In addition, effective prosecution of cases of petty corruption has been reported by the Prosecutor General. Training in ethics of public officials has been conducted by the Procuraduría General de la República. However, some deficiencies require attention: the asset declaration regime and its implementation need improvement, the capacity to detect corruption at all levels must be bolstered, and access to the court system and adequate recourse must be ensured as means to ensure property rights, contract enforcement, and investment.

7. Nicaragua must strengthen its asset declaration regime in line with international good practice and enhance effective monitoring and implementation. The legal framework must be improved, by expanding the categories of information requested to ensure it also covers interests and assets beneficially owned and ensuring online publication of declarations of politically exposed persons obligated under the Law of Public Ethics (Ley de Ética Publica). Further, implementation and monitoring must be improved, by ensuring complete migration to electronic submission and oversight[1], and by adopting risk-based approach monitoring.[2] The adoption of these reforms will increase trust in public officials, promote a culture of transparency, and help detect suspicious interests or variation of assets of politically exposed persons and other public officials.

8. The state should develop increased efforts to improve its capacity to detect and prosecute possible acts of corruption at all levels, by adopting and implementing needed legal instruments. Nicaragua has a Law of Access to Public Information that requires additional implementation efforts. Despite progress made with the creation of Transparency Offices in some public institutions, the implementation of *active transparency*[3] mandates under article 20 of the Law remains weak in most sectors – undermining accountability and public oversight. Also, enforceability of the law needs to be strengthened by assigning such role to one specific agency.[4] Further, Nicaragua lacks regulation on whistleblower protection. The adoption of whistleblower protection regulation would help the country to be in line with international anticorruption conventions ratified by Nicaragua and help detect corruption at all levels. Last, some training has been provided to some public officials for the prevention and detection of corruption risks, but additional efforts are needed to ensure that at least all public officials in high-risk positions go through this training and that the effectiveness of learning is duly assessed. Efforts to train key actors from the private sector in this subject is also needed. Addressing these issues, may help prevent and detect corruption and boost anticorruption enforcement.

9. More work is required to guarantee fair and impartial access to the court system, and adequate recourse in all legal proceedings. Nicaragua must take additional steps for ensuring fair and impartial access to the court system, in line with the priorities identified under the Development Plans of the Judicial Power. Further, all citizens must have access to adequate and prompt recourse in all legal proceedings, particularly in those related to the protection of property rights, contract enforcement, and investment protection.

---

[1] According to the Comptroller General, several agencies –particularly of the health and education sectors– have not provided the lists of public officials pertaining to their institutions. Consequently, the Comptroller General cannot issue the individual usernames and passwords that the public officials working for those sectors would require to login and file their asset declarations in the asset declarations portal. Therefore, those public officials have to file their asset declarations manually, which hampers oversight and risk-based audits.

[2] These suggestions are in line with the High Level Principles of the G20 on asset disclosure. For more information, read here: G20_High_Level_Principles_on_Asset_Disclosure_by_Public_Officials_2012.pdf (unodc.org)

[3] *Active transparency* refers to the information that according to Article 20 of the referred law must be proactively published by each obligated subject under the Law, regardless of specific petitions for accessing the information filed by a citizen or organization.

[4] Most countries with Laws on Access of Public Information have created specific tribunals or agencies charged with the oversight of full implementation of the law by all obligated subjects. Other countries have assigned such responsibility to an already existing agency.

Annex VIII. Past Fund Policy Advice

Recommendations	Current Status
Fiscal Policy	
Ensure fiscal sustainability by reviewing expenditures while safeguarding social spending and promoting growth.	Expenditures have been prioritized through budgetary reallocation to mitigate the social impact of recent years external shocks (e.g., pandemic, hurricanes, and food and oil prices increase), in line with financing and while containing spending pressures. However, fiscal sustainability hinges on the ability to control contingent liabilities and build buffers for external shocks.
Improve the operating efficiency and sustainability of INSS and SOEs.	While the March 2019 pension system reforms reduced INSS deficit and the associated transfers from the central government, some of the measures initially announced still need to be implemented (i.e., the change of minimum number of contributions required to receive a reduced pension and the reduction on the minimum pension).
Achieve greater transparency of the fiscal accounts to be able to assess and manage fiscal risks better and enhance fiscal governance.	A fiscal risk unit has been created at the Ministry of Finance and the first fiscal risks report was published in May 2022. On the other hand, efforts to publish financial reports and include all operations of SOEs, decentralized entities and municipalities in the measure of the overall fiscal stance need to be pursued.
Monetary and Financial Policy	
Increase the provisions of distressed loans.	The level of provisions relative to total distressed assets has marginally increased since 2019, but it is still far from its pre-crisis level (36.4 percent in June 2022 vs. 85.9 percent in March 2018).
Develop contingency plans and enhance the framework for bank resolution to increase the resilience of the financial sector and protect it against downside risks.	Actions could include aligning the resolution framework with best international practices and the operationalization of the emergency liquidity assistance facilities established in June 2018.
Expand the scope of loan-inspections and require banks to conduct semi-annual	Supervisory inspections were reportedly intensified but were later challenged by the movement restrictions related to the

Recommendations	Current Status
independent asset quality and collateral valuation reviews.	COVID-19 pandemic. No independent reviews were reported.
Enforce regular financial reporting by the rural credit and savings cooperatives.	This was aimed to be the first step to advance towards the expansion of the prudential supervisory perimeter following a principle of proportionality. No progress was reported.
Adopt the recommendations of the Financial Action Task Force (FATF) to protect the integrity of financial transactions and mitigate the exposure to illicit flows.	See Annex VII.
Strengthen the external position over the medium term to maintain the resilience of the crawling peg exchange rate regime.	Gross international reserves reached a historical high of US$4.3 billion by end-June 2022, due to strong remittances inflows, SDR allocation in August 2021 and recovery of FDI. The accumulation of reserves needs to continue as tailoring domestic monetary policy to domestic conditions will require sufficient reserves to support the exchange rate.
Structural Policy	
Improve competitiveness by strengthening government institutions in the areas of contract enforcement and the efficiency of the legal framework in settling disputes, protection of property rights, investor protection, registering property, and resolving insolvencies.	The state has made progress in strengthening property and land registries, which are managed by the Judicial Power and have been increasingly articulated with other registries and data sources administered by the government. Contract enforcement, dispute settlement, and protection of property rights still faces challenges, as described in Annex VII.
Address supply-side bottlenecks by improving infrastructure, investing in human capital, addressing labor skills bottlenecks, and upgrading technological readiness.	The authorities have engaged in large capital expenditure projects in road infrastructure, water sanitation, and hospital buildings over the recent years. Further investment growth could be supported by enhancing business climate, strengthening the labor market (Annex V), and implementing policies to retain migrants.
Strengthen the existing asset declaration regime for high-level public officials as well as further efforts targeted at politically exposed persons.	Measures to be implemented include: (i) finalize migration to electronic submission; (ii) expand categories of information requested to ensure it also covers interests and assets beneficially-owned; and (iii) streamline public access, ensuring that relevant information from

Recommendations	Current Status
	the declaration is accessible on-line, without requiring a prior consultation process.
Strengthen anti-corruption measures.	See Annex VII.
Statistics and Capacity Development	
Improve data coverage.	Efforts are needed to expand sources of data in the real sector and incorporate the results of the household survey in the national accounts; harmonize public sector debt with external sector debt data; monitor assets and liabilities of public enterprises; and improve coverage of FDI statistics.
Resume the timely publication of data to maintain business confidence and ensure policy credibility.	Despite extensive TAs to improve statistical methodology, statistical publication has not yet returned to a more predictable timetable.
Adhere to the multi-year roadmap of financial sector related TA, as developed under the Financial Sector Stability Review.	Follow up on the 2019 FSSR recommended TAs have been derailed by the need to prioritize efforts to address governance weaknesses and fiscal transparency.

Annex IX. Status of Commitments under the RCF/RFI (November 2020)[1]

This table provides an update on the implementation status of measures to promote good governance and transparency in pandemic-related spending that Nicaragua's authorities committed to take in the context of IMF financing during the pandemic. Major progress has been made in implementing these measures, though further efforts are needed to complete the commitments under the authorities Letter of Intent (LOI).

Authorities' Commitments in LOI	Current Status
Publish procurement contracts of crisis mitigation spending, including beneficial ownership information of companies awarded procurement contracts.	**Done.** Publication of all COVID-related public procurement contracts (under bidding and tender processes) commenced on October 15, 2020. The publications contain 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 the website of the General Directorate of State Procurement (here). As of January 31, 2022, 155 contracts have been published, for a total amount of C$595,208,660.84 and US$179,664,831.58, of which 100 percent are completed (here).
Facilitate the tracking and reporting of the use of COVID-19 related resources by channeling externally sourced emergency assistance through a dedicated subaccount of the treasury single account.	**Done.** To track and report on the use of RCF/RFI-sourced emergency assistance, the authorities opened current accounts in dollars at the central bank and book-entry accounts in Córdobas. These accounts will be audited in the context of the external audits of all COVID-related expenditures.
Conduct an external and independent audit for all COVID-19 related expenditures, including funds channeled through the UNOPS and the WFP.	**Partially implemented.** A first external audit covering all COVID19-related expenditures from April 1, 2020, through May 31, 2021, has been published on the government's website (here). A second audit is planned to cover the period June 1, 2021, to May 31, 2022 and be published in May 2023.

[1] Nicaragua—Requests for Purchase Under the Rapid Financing Instrument and Disbursement Under the Rapid Credit Facility

Authorities' Commitments in LOI	Current Status
Publish the financial statements of all state-owned enterprises (SOEs), including audit reports from the Comptroller General.	**Partially implemented**. The five largest state-owned enterprises—namely ENATREL, ENEL, PETRONIC, EPN, and ENACAL—publish online the financial statements covering the period 2015–20, including the external and independent audit reports, as well as the certification of the control body of the Republic, for ENATREL, ENEL and ENACAL. However, the authorities have still to expand the publications to other SOEs.
Strengthen the effectiveness of anti-money laundering/combating the financing of terrorism (AML/CFT) framework in accordance with the action plan already agreed with the Financial Action Task Force.	**In progress.** The authorities have developed a more comprehensive and robust AML/CFT risk-identification and understanding that includes and covers all relevant stakeholders and sectors: in that regard, they have expanded obligatory objects, including lawyers, public notaries, public accountants, exchange houses, and remittance companies. In 2021, the National AML/CFT/CFP Commission approved the National Risk Strategy, which resulted in the formulation of an Action Plan for the period 2021-25. The FATF found that the Action Plan has aligned the AML/CFT framework with international standards. Work is needed to properly and effectively implement it (and fully implement the Plan).

INTERNATIONAL MONETARY FUND

NICARAGUA

January 4, 2023

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Western Hemisphere Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

Financial Position in the Fund

(As of December 16, 2022)

Membership Status: Joined: March 14, 1946; Article VIII

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	260.00	100.00
Fund holdings of currency (Exchange Rate)	314.18	120.84
Reserve Tranche Position	32.50	12.50
SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	373.74	100.00
Holdings	281.04	75.20
Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
RFI Emergency Assistance	86.67	33.33
RCF Loans	43.33	16.67

Latest Financial Commitments:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF[1]	October 5, 2007	October 31, 2011	78.00	78.00
ECF[1]	December 13, 2002	December 12, 2006	97.50	97.50
ECF[1]	March 18, 1998	March 17, 2002	148.96	115.32

Type	Date of Commitment	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RCF	November 20, 2020	December 7, 2020	43.33	43.33
RFI	November 20, 2020	December 7, 2020	86.67	86.67

Projected Payments to Fund:
(SDR Million; based on existing use of resources and present holdings of SDRs):

	2022	2023	2024	2025	2026
Principal		--	43.34	43.34	8.67
Charges/Interest		5.81	5.34	3.74	2.33
Total		5.81	48.67	47.07	11.27

[1] Formerly PRGF.

Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	Dec 2000
Assistance committed by all creditors (US$ Million) [2]	3,308.00
Of which: IMF assistance (US$ million)	82.20
(SDR equivalent in millions)	63.54
Completion point date	Jan 2004
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	63.54
Interim assistance	2.55
Completion point balance	60.99
Additional disbursement of interest income [3]	7.62
Total disbursements	71.16

Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million) [4]	140.48
Financed by: MDRI Trust	91.79
Remaining HIPC resources	48.70
II. Debt Relief by Facility (SDR Million)	

	Eligible Debt		
Delivery date:	**GRA**	**PRGT**	**Total**
January 2006	N/A	140.48	140.48

Implementation of Catastrophe Containment and Relief (CCR) Trust: Not Applicable

Exchange Arrangements:

The currency of Nicaragua is the Nicaraguan córdoba. Nicaragua's de jure and de facto exchange rate regime is classified as a crawling peg. The central bank buys/sells any amount of foreign currency from/to financial institutions at the official exchange rate. In November 2020, the monthly crawl has been reduced to an annual rate of 2 percent, from 3 percent since November 2019 and 5 percent since December 2004. As of December 16, 2022, the official exchange rate was C$36.2019 per U.S. dollar.

Nicaragua has accepted the obligations under Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions, except for an exchange restriction arising out of Nicaragua's participation in the SUCRE regional payments arrangement (Unitary System of Regional Compensation of Payments).

[2] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

[3] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

[4] The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

Article IV Consultation:

The previous consultation was completed by the Executive Board on February 21, 2020 (Country Report No. 2020/059).

Safeguards Assessment:

An update safeguard assessment of the Banco Central de Nicaragua (BCN) was completed in November 2021. The assessment found that progress in implementing safeguards recommendations has been limited since the previous assessment in 2009. Despite legal amendments in 2010, vulnerabilities persist in legal safeguards for the BCN's autonomy and transparency and accountability practices. In addition, financial reporting and internal audit continue to deviate from international standards. That said, while the central bank law does not provide for an Audit Committee, the BCN has since established one in line with the safeguards recommendation to provide oversight of audit and control processes. The external audit mechanism has also been enhanced through formalization of a Board-approved auditor selection and rotation policy.

Financial Sector Assessment Program (FSAP) Participation:

An FSAP update was completed in October 2009, and the Financial System Stability Assessment report for Nicaragua was issued on April 28, 2010. A Financial Sector Stability Review (FSSR) was conducted in January-February 2019.

Technical Assistance:

Nicaragua has received substantial technical assistance. The schedule below details assistance provided since December 2019 and planned for 2023 (indicated in italics).

Department	Purpose	Time of Delivery
	Fiscal	
CAPTAC	Risk Management	Jan., April & November 2020
CAPTAC	Risk Management	April, Sept. & November 2021
CAPTAC	Risk Management	January 2022
FAD	Fiscal Transparency, Control of COVID-19 Spending, and Supervision of State-Owned Enterprises	November 2020
FAD	Fiscal Risks Related to State-Owned Enterprises	April-June 2021
CAPTAC	Macroeconomic fiscal risks, FRAT tool	November 2021
CAPTAC	Tax Audit	March 2022
FAD	Fiscal Transparency Evaluation	March 2022
CAPTAC/FAD	Tax Administrations	August 2022
CAPTAC	Strengthen Tax Audit Procedures	September 2022
CAPTAC	Strengthen Risk Management	November 2022
CAPTAC	*Strengthen Risk Management (planned)*	*2023*
CAPTAC	*Strengthen Tax Audit Procedures (planned)*	*2023*
CAPTAC	*Fiscal risks (planned)*	*2023*

Department	Purpose	Time of Delivery
CAPTAC	*Budget preparation (planned)*	*2023*
CAPTAC	*Post clearance audit (planned)*	*2023*
CAPTAC	*Improving risk analysis on customs clearance (planned)*	*2023*
	Monetary and Financial Sector	
CAPTAC/MCM	Monetary Operations Scoping Mission	August 2021
CAPTAC	Liquidity Forecasting and Management	November 2021
CAPTAC	Central Bank's Foreign Exchange Operations	October 2022
CAPTAC	External Auditors' Support to Credit Risk Supervision	February-March 2021
CAPTAC	*Semi Structural Model Update (planned)*	*2023*
CAPTAC	*Interbank Money Market Development (planned)*	*2023*
CAPTAC	*Operationalization of ELA Framework (planned)*	*2023*
CAPTAC	*Off- site supervision (planned)*	*2023*
CAPTAC	*Investor education program (planned)*	*2023*
	Statistics	
CAPTAC	External Sector Statistics	April 2020
CAPTAC	National Accounts Statistics	June & October 2020
CAPTAC	Producer Price Index	August 2020 & March 2022
CAPTAC	Government Accounts and Harmonization with GFSM 2014	October 2020
CAPTAC	Government Finance Statistics (GFS)	July-Aug. & December 2021
CAPTAC	National Accounts Statistics (NAS)	June-July 2021
CAPTAC	Quarterly NAS and seasonal adjustment	August 2021
CAPTAC	Public Debt Statistics	September-October 2021
CAPTAC	Quarterly Supply and Use Table	February 2022
CAPTAC	Quarterly National Accounts Statistics (2008 SNA)	April 2022
CAPTAC	GFS and Public Sector Debt Statistics	February & August 2022
CAPTAC	Quarterly NAS and Economic Surveys	November 2022
CAPTAC	*Price statistics (planned)*	*2023*
CAPTAC	*Government Finance Statistics (planned)*	*2023*
CAPTAC	*Public Debt Statistics (planned)*	*2023*

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank: http://www.worldbank.org/en/country/nicaragua

Interamerican Development Bank: https://www.iadb.org/en/countries/nicaragua/overview

Central American Bank for Economic Integration: https://www.bcie.org/en/member-countries/founders/republic-of-nicaragua

MAIN WEBSITES OF DATA

Central Bank of Nicaragua (https://www.bcn.gob.ni/)

National accounts

Monthly indicator of economic activity (IMAE)

Balance of payments

International reserves

Interest rates

Monetary and financial indicators

Exchange rates

Ministry of Finance (http://www.hacienda.gob.ni/hacienda/finanzaspublicas/finanzas.html)

Fiscal accounts

Central government budget

Public debt

National Institute of Development Information (https://www.inide.gob.ni/)

Consumer price index

Labor and employment

Household income and expenditure survey

Poverty and inequality

Superintendency of Banks (https://www.siboif.gob.ni/)

Balance sheets and income statements

Financial soundness indicators

STATISTICAL ISSUES

(As of December 16, 2022)

I. Assessment of Data Adequacy for Surveillance
General. Data provision is broadly adequate for surveillance but there are numerous data shortcomings in national accounts, fiscal, debt, and external sector statistics. Moreover, the timeliness in the release of statistical information has deteriorated. Further efforts are needed to improve source data in the real sector, particularly for tourism, manufacturing, and retail; incorporate the results of the 2017/18 household survey in the national accounts; harmonize public sector debt with external sector debt data; monitor assets and liabilities of public enterprises; and improve coverage of FDI statistics.
National Accounts. The CBN disseminates national accounts (NA) series with chained volume indices with previous year weights based on 2006. As part of this dataset the annual accounts by institutional sector for 2005-18 are disseminated, in accordance with the recommendations of the System of National Accounts 1993 (1993 SNA), and most relevant recommendations of the 2008 SNA for which source data are available. In March 2017, while releasing the 2016 NA data, the CBN had revised earlier years, specifically the 2010–13 data comprising number of refinements (i.e., update of trade and producer price indices, revised agricultural production, and, in particular, addressed discrepancies between NA and the balance of payments (BOP) trade data in the tax-free zones). Since December 2018, the economic surveys for national accounts are collected by the national statistical institute (INIDE). The CBN has started a project to update the national accounts benchmark to 2019, including continuing the implementation of the main recommendations of the *2008 SNA*. **Price and Labor Statistics.** The consumer price index (CPI) uses expenditure weights derived from a 2006/07 household expenditure survey. The CPI covers Managua and eight other cities and is published monthly. Expenditures (weights) and prices in rural areas are excluded. From April 2017 to March 2018 a Household Income and Expenditure Survey was collected to update the period of reference of the current CPI, this survey covers only urban population. The producer price index (PPI) (July 2006=100) covers a sample of small and medium-size establishments, as well as goods for processing establishments in the maquila sector. There is also scope for expanding the coverage of the PPI to the service sector. Since September 2018, the price quotations and compilation of the CPI and PPI moved from the CBN to INIDE, but the technical validation of both indices remains as the CBN responsibility. As of January 2020, the CPI and the PPI are published by INIDE. Labor market statistics are scarce and unemployment figures are available irregularly during the year.
Government Finance Statistics (GFS). The Ministry of Finance and Public Credit (MHCP) reports annual GFS to STA with the institutional coverage of the budgetary central government (BCG) and social security funds for the publication of the GFS Yearbook while compiling and disseminating fiscal statistics with a monthly frequency on its website with more comprehensive data coverage. Shortcomings of the data submitted to STA include lack of financing data (below the line) and its statistical discrepancy with nonfinancial data (above the line) for the BCG, and limited institutional data coverage for extrabudgetary units (EBUs), local governments, and nonfinancial public corporations (NFPCs).

The MHCP compiles and reports public sector debt statistics (PSDS) for the central government to the joint WB/IMF Quarterly Public Sector Debt Statistics database with the instrument coverage of debt securities and loans. Debt data can be improved by reconciling inconsistencies with external debt data, expanding both the instrument coverage to include other accounts payable and the institutional coverage to include nonfinancial public sector, applying the nominal valuation method for debt instruments and residency criteria according to international standards to adequately account for domestic and external debt securities.

The MHCP would soon publish annual BCG GFS and PSDS data on the SECMCA website in the short term in line with the Central American GFS/PSDS regional harmonization implementation plan where their fiscal data tables need to be presented in the format based on *the Government Finance Statistics Manual 2014 (GFSM 2014)* instead of a national presentation. This expected publication will make Nicaragua be the last CAPTAC-DR member country to adhere to the regional implementation plan; pending tasks include to advance harmonization process, including timeliness, lack of high frequency data and limited public sector coverage.

II. Assessment of Data Adequacy for Surveillance

Monetary and Financial Statistics. The CBN reports monthly monetary statistics for the central bank, other depository corporations, and other financial corporations based on the standardized report forms. These accord with the concepts and definitions of the *Monetary and Financial Statistics Manual and Compilation Guide 2016* (*MFSMCG 2016*). However, the lack of proper sectorization detract from the ability to accurately compile the net credit to central government and the rest of the nonfinancial public sector. The institutional coverage of other depository corporations currently includes commercial banks and finance companies. Data excludes the largest microfinance institution, Caja Rural Nacional (CARUNA), which accepts deposits, and saving and loans cooperatives. Other financial corporations comprise the Banco Produzcamos, most microfinance institutions, insurance corporations, and depository warehouses. The CBN reports the 13 core financial soundness indicators (FSIs) and seven encouraged FSIs for deposit takers with a quarterly frequency.

The CBN reports data on some indicators of the Financial Access Survey (FAS), including mobile and internet banking, mobile money, the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs). CBN does not report gender disaggregated data.

External Sector Statistics. Balance of payments and international investment statistics follow the concepts and definitions set out in the sixth edition of the *Balance of Payments Manual (BPM6),* within the limits set by the availability of information sources. Data is available at least since 2005. Resident institutional units are defined in conformity with *BPM6*'s concepts of economic territory, residency, and center of economic interest, with free trade zones considered residents and included in the item for goods and services. However, the coverage of the private sector is incomplete for the current and financial accounts and there is difficulty in obtaining a higher level of information on the nonfinancial private debt and other assets and liabilities with nonresidents. Considerable advance has been made in implementing *BPM6*, but direct investment stocks are estimated accumulating transactions and there are still shortcomings challenges in recording some of the standard components of the direct investment position, due to lack of information. The large errors and omissions in the balance of payments represent a shortcoming for the assessment of the external sustainability and steam in part from uses related to data sources and quality of reporting; the

persistent negative sign suggests that credit entries have been overstated or debit entries have been understated or omitted. An STA external sector statistics mission (November 2019) identified that data compilation was hampered in part by the lack of sanctions to companies that do not provide data or provide erroneous or incomplete information. Further, consideration could be given to enhancing the IT systems, the institutional arrangements and cross-sectoral collaboration for data-sharing as this would contribute to close data gaps, improve data consistencies and facilitate data validation.
Data Dissemination and Quality. Nicaragua participates in the enhanced General Data Dissemination System (e-GDDS) but has not yet launched a National Summary Data Page (NSDP). Data ROSC was published in December 2005.

Table 1. Nicaragua: Table of Common Indicators Required for Surveillance
(As of December 16, 2022)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:	
						Data Quality- Methodological Soundness[8]	Data Quality – Accuracy and Reliability[9]
Exchange Rates	12/16/2022	12/16/2022	M	M	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	10/31/2022	11/26/2022	M	M	M		
Reserve/Base Money	11/30/2022	12/14/2022	M	M	M		
Broad Money	11/30/2022	12/14/2022	M	M	M	O, LO, LO, LO	LO, O, LO, LO, LO
Central Bank Balance Sheet	11/30/2022	12/14/2022	M	M	M		
Consolidated Balance Sheet of the Banking System	11/30/2022	12/14/2022	M	M	M		
Interest Rates[2]	11/31/2022	12/16/2022	M	M	M		
Consumer Price Index	Nov. 2022	12/07/2022	M	M	M	O, LO, LO, LO	LO, LO, LO, O, LO
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	Oct. 2022	11/11/2022	M	M	M	LO, LNO, LNO, LO	LO, LO, LO, LO
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Oct. 2022	11/11/2022	M	M	M		O, O, O, O, O
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q3 2022	10/31/2022	Q	Q	Q		
External Current Account Balance	Q2 2022	10/26/2022	Q	Q	Q	LO, LO, LO, LNO	LO, LO, LO, LO, LNO
Exports and Imports of Goods and Services	Q3 2022	11/11/2022	Q	Q	Q	LO, LO, LO, LNO	LO, LO, LO, LO, LNO
GDP/GNP	Q2 2022	9/9/2022	A	A	Q	O, O, O, LO	LO, O, LO, O, LNO
Gross External Debt	Q2 2022	10/21/2017	M	M	Q		
International Investment Position[6]	Q2 2022	10/26/2019	Q	Q	Q		

1/ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
2/ Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
3/ Foreign banks, domestic banks, and domestic nonbank financing.
4/ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
5/ Including currency and maturity composition.
6/ Includes external gross financial asset and liability positions vis-à-vis nonresidents.
7/ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).
8/ Reflects the assessment provided in the data ROSC published on December 8, 2005, and based on the findings of the mission that took place during January 11-26, 2005, for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).
9/ Same as footnote 8, except referring to international standards concerning source data, assessment and validation of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

INTERNATIONAL MONETARY FUND

NICARAGUA

January 4, 2023

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved By
James Morsink and Maria Gonzalez (IMF) and Robert R. Taliercio and Marcello Estevão (IDA)

Prepared by staff of the International Monetary Fund and the International Development Association.

Nicaragua: Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	Moderate
Overall risk of debt distress	Moderate
Granularity in the risk rating	Debt is sustainable with some space to absorb shocks
Application of judgment	No

Compared to the previous DSA prepared in the context of the requests for purchase under the RFI and disbursement under the RCF in November 2020, Nicaragua's debt path and space to absorb shocks improved even as the overall and external debt distress risk rating remain moderate.[1] *Under the baseline scenario, external debt burden indicators remain below the threshold. However, the Present Value (PV) of public and Publicly Guaranteed Debt (PPG), and external debt-to-GDP ratio breach the threshold over an extended period under three standardized stress scenarios: an export contraction shock, a capital flows shock, and a combination of external shocks. 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. Downside risks are linked to weaker economic activity, risks of exogenous shocks such as climate-related natural disasters, and uncertainty over external financing as well as associated fiscal pressures that could adversely affect the debt profile.*

[1] The Composite Index (CI) is estimated at 3.01 and is based on the latest World Bank's CPIA and the October 2022 WEO. Nicaragua's debt-carrying capacity remains medium.

PUBLIC DEBT COVERAGE

1. Nicaragua's public debt statistics are reported at the Consolidated Public Sector (CPS) level. The public debt definition used in this Debt Sustainability Analysis (DSA) covers the consolidated debt of the budgetary central government, decentralized entities, the state-owned enterprises guaranteed debt, and the Central Bank of Nicaragua (BCN) (Text Table 1).[2, 3] Consistent with previous DSAs since 2013, this DSA assumes the delivery of expected Heavily Indebted Poor Countries (HIPC) debt relief by Non-Paris Club creditors that have yet to deliver it (see Paragraph 5).

2. The DSA is conducted on a residency basis. In the case of Nicaragua, there are no foreign holdings of local currency debt issued domestically (as in previous DSAs).

Text Table 1. Nicaragua: Public Debt Coverage Under the Baseline Scenario

	Subsectors of the Public Sector	Sub-sectors Covered
1	Central Government	X
2	State and Local Government	
3	Other Elements in the General Government	
4	o/w: Social Security Fund	X
5	o/w: Extra Budgetary Funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central Bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE Debt	

1	The Country's Coverage of Public Debt	The central government plus social security, central bank, government-guaranteed debt		
		Default	Used for the analysis	Reasons for deviations from the default settings
2	Other Elements of the General Government not Captured in 1	0 percent of GDP	0.0	
3	SOE's Debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2.0	
4	PPP	35 percent of PPP stock	2.2	
5	Financial Market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)		9.2	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

Sources: National authorities and IMF staff calculations.

BACKGROUND ON DEBT

3. Amid a strong economic recovery in 2021, Nicaragua's debt trajectory slightly decreased compared to the 2020 DSA (Text Table 2 and Table 2). The economic recovery in 2021 combined with prudent fiscal policy have enabled the fiscal deficit to narrow to 1.4 percent of GDP, which helped contain the debt-to-GDP ratio. Indeed, the stock of public debt decreased by almost a percentage point in 2021, to 56.9 percent of GDP and is expected to reach about 58 percent in 2022 (compared with 61 percent in the 2020 DSA). About 85 percent of total public debt is owed to external creditors (US$7.8 billion), of which 76 percent is owed by the Non-Financial Public Sector (NFPS), and 24 percent by the BCN. Domestic PPG debt amounts to 20.4 percent of total public debt.

[2] There is no non-guaranteed state-owned-enterprises' debt recorded in Nicaragua.
[3] Debt data on extra budgetary funds, non-guaranteed state-owned enterprises, and debt of all state and local governments is not available, therefore these components of the contingent liabilities are at the LIC-DSF default values. The authorities intend to strengthen their capabilities to widen the coverage of debt reporting and monitoring. In the tailored shock scenarios, contingent liability shock is set as 9.2 percent of GDP in 2022.

4. **External PPG debt reached 45.3 percent of GDP in 2021.** All PPG external debt is placed in medium and long-term instruments. On composition, 83 percent of PPG external debt is held by multilaterals, with the largest being the Central American Bank for Economic Integration (CABEI), followed by the Inter-American Development Bank (IDB). Nicaragua is eligible for blended loans from both the IDB and CABEI. The remaining 17 percent is held mostly by Japan, South Korea, Germany, India, and Kuwait.

5. **A large stock of debt to non-Paris Club creditors is still pending debt relief under the HIPC Initiative.**[4] In this report the debt stock has already been adjusted downwards to incorporate total expected debt relief amounts of about US$790 million as of December 2021. This debt corresponds to debt of the BCN. All five non-Paris Club creditors have held negotiations with the authorities on the terms of possible debt relief agreements, but the negotiation and reconciliation process are still ongoing.

Text Table 2. Nicaragua: Public and Private Debt

	Current DSA				DSA Nov. 2020			
	2019	2020	2021	2022	2019	2020	2021	2022
	(in percent of GDP)							
Public Sector Debt	**50.2**	**57.8**	**56.9**	**58.1**	**51.0**	**57.4**	**60.0**	**60.9**
Public Sector External Debt (incl. guarantees)	**41.6**	**46.6**	**45.3**	**45.2**	**42.1**	**48.9**	**51.2**	**51.8**
Medium and long-term debt	41.6	46.6	45.3	45.2	42.1	48.9	51.2	51.8
Short-term debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public Sector Domestic Debt	**8.6**	**11.2**	**11.6**	**12.9**	**8.9**	**8.6**	**8.8**	**9.1**
Medium and long-term debt	7.4	7.7	7.4	12.8	7.6	8.4	8.7	9.0
Short-term debt	1.2	3.5	4.2	0.1	1.2	0.1	0.1	0.1
Private Sector External Debt	**44.0**	**44.4**	**40.1**	**35.4**	**44.2**	**46.9**	**46.1**	**44.4**

Sources: National authorities and IMF staff calculations.

6. **Public domestic debt stood at 11.6 percent of GDP in 2021.** On maturity terms, 63.9 percent of public domestic debt is in medium- and long-term instruments, and 36.1 percent is in short term. On composition, the NFPS debt accounts for 54 percent (most of which is held in the government bonds "*Bonos de la República*"), and the BCN debt accounts for 46 percent.

7. **Private external debt reached 40.1 percent of GDP in 2021.** While private external debt increased by 0.5 percent in nominal terms compared to 2020, the ratio decreased by 4.3 percentage points compared to 2020, due to the sharp real GDP growth in 2021.

MACROECONOMIC ASSUMPTIONS

8. **The economic outlook has improved following a strong recovery in 2021, compared to the 2020 DSA (Text Tables 3 and 4).** Economic activity rebounded strongly in 2021 as real GDP grew by 10.3 percent and is projected to reach 4 percent in 2022, sustained by the recovery of aggregate demand, underpinned by strong remittances. The real GDP surpassed the pre-crisis level (end-2017) by end-2021, and the growth rate in 2022 is broadly in line with the historical average. The reassessment of potential GDP, due to sustained domestic demand, suggests that Nicaragua could achieve long term growth of up to

[4] The decision point and completion point were reached in December 2000 and January 2004, respectively.

3.5 percent from a previous level of 3 percent (estimated in 2020), but well below the 4.5 percent estimated pre-crisis.[5] Fiscal revenues assumptions remain conservative, despite revised growth projections. A gradual recovery in investment sustained by FDI and credit are expected to underpin the gradual rise of potential GDP growth, although they are expected to remain below historical averages. Inflation increased to 7.2 percent in 2021 and it is assumed to average 6.9 percent over the medium term due to the global shocks on food and fuel prices and decline to 4.0 percent over the long term. The banking system remains well capitalized and liquid. Bank deposits continue to grow and credit rebounded (12.4 and 12.0 percent y-o-y, respectively, as of September 2022), which enabled profitability of banks to improve, as total distressed assets declined.[6] The baseline scenario assumes the current crawling peg exchange rate regime is maintained.

Text Table 3. Nicaragua: Medium-Term Macroeconomic Framework

	2020	2021	2022	2023	2024	2025	2026	2027
		Prel.			Projections			
Growth and Prices				(Annual percentage change)				
Real GDP growth	-1.8	10.3	4.0	3.0	3.3	3.5	3.5	3.5
Consumer price inflation (end of period)	2.9	7.2	11.2	6.1	4.8	4.0	4.0	4.0
				(Percent of GDP, unless otherwise indicated)				
Consolidated Public Sector								
Revenue (Incl. grants)	31.1	33.2	30.3	29.6	29.7	29.7	29.8	29.7
Expenditure	33.7	34.6	33.7	32.2	32.1	31.7	31.9	31.8
Overall balance, after grants	-2.6	-1.4	-3.3	-2.6	-2.4	-2.0	-2.0	-2.1
Public sector debt	57.8	56.9	58.1	56.1	55.3	54.5	54.3	54.2
Balance of Payments								
Current account	3.9	-2.3	-1.7	-1.8	-2.4	-2.6	-2.6	-2.5
Gross international reserves (US$ million)	3,003	3,828	4,286	4,344	4,345	4,552	4,867	5,157
In months of imports excl. maquila	7.1	6.5	6.3	6.3	5.9	5.8	5.9	5.9
Net international reserves (U.S.$ million)	1,887	2,531	2,792	2,917	2,877	2,956	3,116	3,247

Sources: National authorities and IMF staff calculations.

9. With the strong recovery and the rise in oil prices, the external position swung into a deficit in 2021, but it is expected to remain below pre-crisis period (around 2½ percent of GDP) due to robust remittances. The economic recovery resulted in a current account deficit in 2021 (from a surplus of 3.9 percent of GDP in 2020). The rise in main export prices (gold, coffee) and a relatively robust external demand supported the increase in exports, and strong remittances (15½ percent of the GDP) helped to partially offset the import surge. Remittances cover the trade balance, and the small current account deficit is financed by the recovery of FDI inflows (mainly in mining). The external position at end-2021 improved

[5] The long-term growth projection is based on a growth accounting exercise, using a neoclassical production function, and based on annual data from 1994 to 2021. The analysis yields a growth mean of 3.5 percent per year, which remains below pre-crisis and historical average rates, as investors and creditors are expected to remain cautious. Private consumption growth and the associated increase in imports are supported by remittances and FDI, albeit they are conservatively projected at lower growth levels than historical averages.

[6] Total distressed assets, comprised of NPLs, restructured, refinanced, and forborne loans, as well as repossessed assets, reached 22.6 percent in September 2020 and fell to 12.1 percent in September 2022.

markedly compared to 2018. By end-June 2022, gross international reserves doubled to over US$4.3 billion; about 6 months of imports (excluding *maquila*), albeit GIR is still at the lower end of the recommended range.[7]

Text Table 4. Nicaragua: Key Macroeconomic Assumptions Underlying the DSA

	2021		2022 - 2025 Avg		2026 - 2036 Avg	
	Previous DSA	Current DSA	Previous DSA	Current DSA	Previous DSA	Current DSA
Real GDP (annual percentage change	-0.5	10.3	2.2	3.5	2.8	3.5
Consumer prices (period average)	1.2	3.3	3.5	6.9	3.5	4.0
			(In percent of GDP)			
Total revenue and grants	30.1	33.2	30.9	29.7	31.9	29.4
Of which: Revenue	29.6	32.3	30.4	29.5	31.4	29.2
Total expenditure	34.6	33.5	34.4	32.4	35.1	32.8
Overall balance	-4.6	-0.3	-3.5	-2.7	-3.2	-3.4
Current account balance	-0.2	-2.3	-1.2	-2.1	-2.0	-2.4

Sources: National authorities and IMF staff calculations.

10. On the fiscal side, the NFPS fiscal primary deficit narrowed in 2021 on the back of recovering revenues, but the implementation of new temporary subsidies to mitigate the impact of rising commodity prices will deteriorate the fiscal position in 2022. Facing rising oil, fuels, energy, wheat, and fertilizers prices, the government adopted in May 2022 a temporary package of new subsidies, costing an estimated 1.2 percent of GDP (Text Table 5). This increase in total subsidies is the key factor behind the projected widening of the CPS deficit to 3.3 percent of GDP in 2022. Net external financing of the CPS increased by 1 percentage point of GDP in 2021 (to 5.7 percent of GDP) but is projected to fall to 4.0 percent of GDP in 2022.

Text Table 5. Nicaragua: Fiscal Policy Measures Amid Rising Oil and Food Prices

Measures	Estimated cost for 2022		
	Millions of C$	Millions of US$	Percent of GDP
1. Electricity rate subsidy	1,783.5	49.2	0.32
2. Water rate subsidy	392.0	10.5	0.07
3. Gasoline and diesel subsidy	3,973.1	110.5	0.70
4. Liquified gas subsidy	261.9	7.2	0.05
5. Collective transport subsidy	178.3	4.9	0.03
6 Wheat reserves imports	281.4	7.8	0.05
Total Estimated Cost	**6,870.2**	**190.1**	**1.22**

Sources: National authorities and IMF staff calculations.

[7] Using the Fund's adequacy metric for a low-income country with a crawling exchange rate, Nicaragua's characteristics, and a range of opportunity costs for holding reserves, the recommended GIR level ranges from 5.3 to 8.9 months of non-maquila imports.

11. Staff projects an amelioration of the fiscal position over 2023-27. A decrease in the overall deficit will be driven by:

- A projected decline in tax revenues in 2022 and 2023 responding to the economic deceleration projected those years amid a dim global outlook compared to 2021 and reverting to a modest increase for the period 2024-27 as economic activity gradually improves.

- Consistent with the authorities' commitment to maintain fiscal prudence in line with available financing, the baseline scenario assumes a reduction in expenditures over 2022-25 (and maintained thereafter). This consolidation, equivalent to about 1½ percentage points cumulative over four years, is assumed to take the form of reduced current expenditures while maintaining adequate levels of social spending to reduce poverty and its impact is already incorporated as one of the determinants of the protracted medium-term growth recovery. In addition, it includes the expiration of crisis and pandemic related temporary measures.

- Over the medium term, the overall fiscal deficit will stem mainly from imbalances in the finances of the Social Security System (INSS) and the state-owned enterprises, particularly energy and transportation agencies. In fact, INSS is assumed to continue receiving transfers from the government as the ongoing discussions have not yet yielded agreed measures to reduce the INSS deficit.

12. On financing mix, the new external financing share is projected to account for about 54 percent over the medium term but decline over the long term (to about 36 percent). Concessional financing is projected to account for about 36 percent of total financing over medium term and 22 percent over long term. We assume limited new external financing from international financial institutions other than from CABEI, as Nicaragua faces international sanctions since 2018, due to the enactment of the RENACER Act by the United States on November 10, 2021. Although there is room to increase domestic financing with Treasury bonds, this would raise debt servicing costs, as interest rates are expected to continue to rise. The authorities are exploring other financing sources, and any new sources should be incurred on concessional and transparent terms to maintain fiscal sustainability.[8]

13. The baseline assumptions are credible. The realism tools suggest significant deviations from recent experience of LICs and Nicaragua's historical experience, reflecting the impact of the three-year contraction on the economy.

- **Drivers of debt dynamics (Figure 3).** Changes between the sum of debt dynamics contributions of 2016-2021 against 2021-2026 reflect the impact of projected GDP growth, after a three-year recession (2018-2020). This crisis period resulted in an increase of external PPG debt as Nicaragua benefited from external aid for the pandemic and two hurricanes. In the projected period, external financing is expected to decline which is also reflected in the projected change in

[8] In January 2022, Nicaragua and China signed a Memorandum of Understanding (MOU) for co-operation on China's Belt and Road Initiative (BRI). Yet, to date, there is no information on expected financing or projects related to this MOU.

external private sector debt. Similar to the 2019 and 2020 DSAs, the unexplained residual in Figure 3 remains significant in the absence of arrears or debt restructuring.

- **Realism of projected fiscal adjustment (Figure 4).** The baseline projected fiscal adjustment of 1 percent of GDP over three years is below the top quartile for LICs. However, the impact of climate change-related natural disasters has not yet been taken into account; this may dampen growth and exert pressure on the fiscal adjustment path. The current baseline incorporates the 2022 fiscal measures to mitigate the impact of food and oil rising prices, estimated at 1.2 percent of GDP and are assumed to be fully unwound in 2023, as announced. In the medium-term, while growth will revert to potential, fiscal revenue remains subdued in the absence of structural reforms to improve tax administration.

- **Consistency between fiscal adjustment and growth (Figure 4).** The baseline projected growth path substantially deviates from the multiplier-based projections owing to the large economic recovery in 2021 from the three-year crisis. Going forward, economic growth is expected to return to potential (3.5 percent).

- **Consistency between investment and growth (Figure 4).** The maintained contribution of public investment to growth in the current DSA reflects government policies to support the economy during the pandemic and the reconstruction after the hurricanes, within the financing envelope. Private investment contribution is cautiously recovering.

COUNTRY CLASSIFICATION AND STRESS TESTS

14. Nicaragua's debt-carrying capacity under the Composite Indicator (CI) rating of 3.01 is assessed as medium, unchanged from the 2020 DSA (Text Table 6). The WB CPIA score of 3.3—has decreased from the 2020 DSA—contributes a large portion of the CI score. Accordingly, the relevant indicative threshold for the medium category are 40 percent for the PV of debt-to-GDP ratio, 180 percent for the PV of debt-to-exports ratio, 15 percent for the debt service-to-exports ratio, and 18 percent for the debt service-to-revenue ratio, respectively (Text Table 7). These thresholds are applicable to the public and publicly guaranteed external debt. The benchmark for the PV of total public debt under medium debt carrying capacity is 55 percent.[9, 10]

[9] As in the previous DSA, the updated three-year moving average CPIA rating was used.

[10] Other components of the CI score are real growth rate, import coverage of reserves, import coverage of reserves squared, remittances, and world economic growth (see specific values in Text Table 6).

Text Table 6. Nicaragua: Calculation of the CI

Components	2019	2020	2021	(A) 10-yr average	(B) Weights	(C) = (A)*(B) 10-yr average	(C) = (A)*(B) Contribution of Components
CPIA	3.44	3.38	3.28	3.36	0.39	1.30	43%
Real growth rate (in percent)	-3.78	-1.79	10.34	2.40	2.72	0.07	2%
Import coverage of reserves (in percent)	35.18	50.58	46.08	39.29	4.05	1.59	53%
Import coverage of reserves^2 (in percent)	12.38	25.58	21.24	15.43	-3.99	-0.62	-20%
Remittances (in percent)	13.34	14.71	15.33	13.74	2.02	0.28	9%
World economic growth (in percent)	2.81	-2.95	6.02	2.90	13.52	0.39	13%
CI Score						3.01	100%

Sources: National authorities and IMF staff calculations.

Text Table 7. Nicaragua: PPG External Debt Thresholds and Total Public Debt Benchmarks

EXTERNAL Debt Burden Thresholds	Weak	Medium	Strong
PV of Debt in % of			
Exports	140	180	240
GDP	30	40	55
Debt Service in % of			
Exports	10	15	21
Revenue	14	18	23

Sources: National authorities and IMF staff calculations.

DEBT SUSTAINABILITY

A. External Debt Sustainability Analysis

15. The evolution of external debt in the baseline scenario is benign. PPG external debt is relatively stable and is expected to decrease gradually to 45.1 percent of GDP over the medium term and up to around 31.6 percent of GDP in 2042 (Table 1; better than the 2017, 2019 and 2020 DSA). The present value of PPG external debt is projected to decline from 31.6 percent to 26.6 percent of GDP over the 10-year projection term and remain well under the threshold of 40 percent (Table 3 and Figure 1). A slight downward path—still under the threshold—can be observed for other solvency (PV of external debt-to-exports from 63.2 to 54.5 percent) and liquidity indicators (debt service-to-exports and debt service-to-revenue from 5.2 to 5.0 percent and from 8.7 to 8.4 percent, respectively) (Figure 1). These dynamics are driven by a consistent recovery in GDP growth over the medium term. At the same time, private external debt is projected to decline as the debt owed to Venezuela is paid down.[11]

[11] Nicaragua's collaboration with Venezuela was agreed upon on April 2007 and based on a broad framework for oil import-related financing as well as other financing (e.g., FDI) and debt servicing schemes (through in-kind repayments). PDVSA, a Venezuelan state-owned oil company, supplied petroleum and was a financial agent for

(continued)

16. Three of the standardized stress scenarios breach the threshold for external PPG debt-to-GDP ratio (Table 3 and Figure 1), a slight improvement relatively to the 2020 DSA. Simulations include standardized tailored shock scenarios[12]—contingent liability, natural disaster, and commodity price shocks (Table 3). The scenario with combination of external shocks in 2022 is the worst performing scenario. It reaches up to 46 percent in the short term over 2024-26, and then decreases below the threshold of 40 percent to around 37 percent of GDP in the long term (Table 3). The scenarios of shocks to exports and capital flows slightly breach the threshold over 2024-2028 but revert to about 35 percent in the long run. Differently from previous DSAs, the contingent liability scenario does not show a breach of the threshold for external PPG debt-to-GDP ratio. Under this scenario, the external PPG debt-to-GDP ratio increased from 32 percent in 2022 to 38 percent in 2024, and then gradually returns to 31 percent over the long term. Thus, only the alternative scenario in which key variables are considered at their historical averages shows a breach of the threshold for external PPG debt-to-GDP ratio and an increased trajectory.

B. Public Sector Debt Sustainability Analysis

17. In the baseline scenario, public debt is projected to peak at 58.1 percent of GDP in 2022 and remain around 55 percent of GDP over the forecast period (Table 2). Public debt is projected to decrease in 2023 to 56.1 percent of GDP as nominal GDP dynamic outpaces debt creating flows and is expected to reach 54.2 percent of GDP by 2027. External PPG debt is projected to decline from around 45.3 percent of GDP in 2021 to 31.6 percent of GDP by 2042. Domestic public debt is projected to increase by 9 percentage points and climb to 21 percent of GDP by 2042 as the primary deficit increases and the average real interest rate on domestic debt remains elevated. Under the baseline scenario there is no breach of the PV of public debt benchmark of 55 percent of GDP while PV of public debt is gradually approaching the benchmark. While the solvency indicator (PV of debt-to-revenues) remains above 130 percent over the projection period, the liquidity indicator (debt service to revenue) shows a gradual increase over the long term (reaching 30.7 percent). The increase in debt service-to-revenue, driven by an increase in public domestic and external interest payments, would reduce fiscal space over the projection period. The increasing interest rate responds to shift to domestic debt issuance, which has a market-determined rate of interest, as well as a gradual decline in concessional resources.

18. The standardized shock scenarios demonstrate a relative strength of public debt sustainability to deviations in the baseline assumptions (Table 4 and Figure 2). Threshold breaches occur under only a shock to GDP growth, while it remains below the threshold under all other standard scenarios. The shock scenario with largest impact on debt-to-GDP ratios is a contraction of GDP by 1.6 and

FDI and other arrangements in Nicaragua. ALBANISA (51% stake owned by PDVSA and 49% stake owned by PETRONIC, Nicaragua's state-owned oil company) imported oil from PDVSA and sold in Nicaragua at market prices. Under the agreement, 100 percent of the oil bill was paid by ALBANISA to PDVSA within 90 days. On behalf of PDVSA, 50 percent of the oil bill (FOB) was then transferred to Caja Rural Nacional (CARUNA), a privately owned Nicaraguan financial cooperative, in the form of a long-term loan (payable over 25 years, with a 2-year grace period, 2 percent interest, and grant element of 30 percent). Of the funds received, 38 percent were used for quasi-fiscal operations (e.g., subsidies and transfers for electricity and transport, and public sector wage bonuses) and the remainder used to finance for-profit projects. Payments to PDVSA for oil or the debt service on oil financing could be made in cash or in kind (WB 2017 Nicaragua SCD).

[12] The combination of these tests is deemed sufficient for Nicaragua.

1.3 percent in 2023 and 2024, respectively (Table 4).[13] On the other hand, the primary balance scenario demonstrates that the public debt path is not sensitive to plausible deviations from the fiscal consolidation plans. Meanwhile, the tailored shocks to natural disasters and commodity prices breach the 55 percent threshold, showing that despite debt sustainability not being sensitive to the standard shocks, it could be at risk from other external shocks.

RISK RATING AND VULNERABILITIES

19. Risks to the outlook are mostly to the downside, primarily due to global headwinds. A more severe global downturn than currently incorporated into the baseline assumptions, further monetary tightening (in the U.S.), or a prolongation of Russia's war in Ukraine, could result in lower growth due to a decline in demand from trading partners, and tighter financial conditions. Continued inflationary pressures could pose risks to food affordability, and the fiscal position. Fiscal balances, economic activity and social outcomes could be strained by natural disasters, given Nicaragua's high exposure and economic dependence on climate sensitive sectors. A further deterioration in the business climate and stricter international sanctions could pose elevated risks to trade and financing flows, and thereby growth. Materialization of such risks would result in larger gross financing needs and debt level, which in turn would require adjustment of fiscal and monetary policies, including through targeted and time-bound fiscal support measures and tighter monetary stance, and acceleration of structural reforms to enhance competitiveness, facilitate job creation, strengthen economic resilience, and support the most vulnerable.

20. Nicaragua's risk of external debt distress is assessed to be moderate with space to absorb shocks under the updated LIC DSA. Under the baseline scenario, all external debt burden indicators remain below the threshold over the 10-year projection horizon. However, under the stress scenario of export shocks, the PV of PPG external debt-to-GDP ratio threshold is breached continuously over the projection horizon. This is also true under the stress scenario of export shocks and under the ALBANISA contingent liability scenario. Nicaragua still has vulnerability of external PPG debt to external shocks and contingent liability risk of the private debt from Venezuela, which were present on past DSAs, calling for the need to strengthen external buffers.

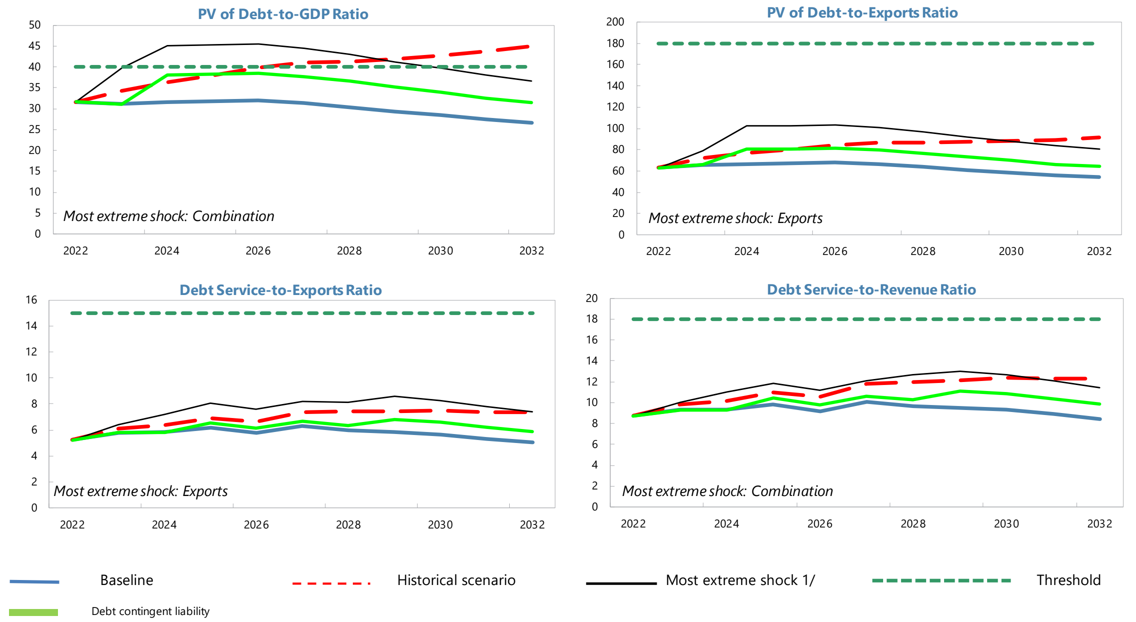
21. Public debt in Nicaragua remains at a moderate risk of debt distress. Under the baseline, PV of public debt-to-GDP ratio is projected to remain below the threshold over the 10-year projection horizon. However, under the stress scenario of growth shocks in 2022–23—even considering the projected 4.0 percent GDP growth in the baseline scenario—the PV of public debt-to-GDP ratio is projected to be on an upward trajectory and above the threshold over the projection horizon. Similarly, under the ALBANISA contingent liability scenario, the PV of public debt-to-GDP ratio is projected to be close to the threshold over the projection horizon.

[13] This standardized scenario is based on 10-year historical average and standard deviation.

AUTHORITIES' VIEWS

22. The authorities broadly agreed with staff's assessment that Nicaragua's debt is sustainable as overall and external debt distress risk rating remain moderate. The authorities also concurred on the vulnerability of external debt to external shocks and of public debt to growth and contingent liability shocks. Given Nicaragua's vulnerabilities, the authorities remain committed in seeking mostly concessional financing, while they continue to develop the domestic government debt market.

Figure 1. Nicaragua: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2022-32



Customization of Default Settings	Size	Interactions
Tailored Stress		
Combined CL	No	
Natural disaster	No	No
Commodity price	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.

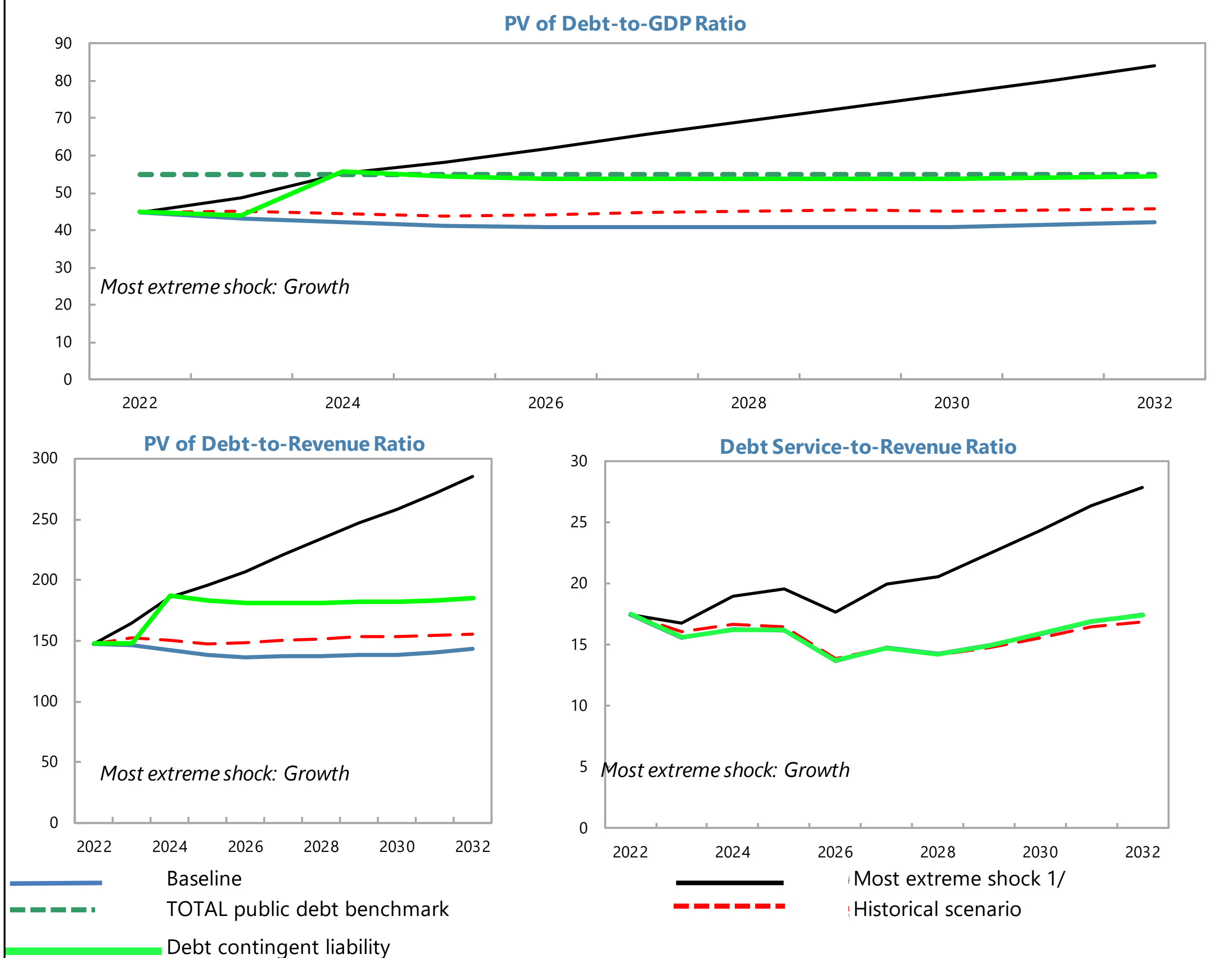
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of Marginal Debt		
External PPG MLT debt	100%	
Terms of Marginal Debt		
Avg. nominal interest rate on new borrowing in USD	2.0%	2.0%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	27	27
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: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. 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 2. Nicaragua: Indicators of Public Debt Under Alternative Scenarios, 2022-32



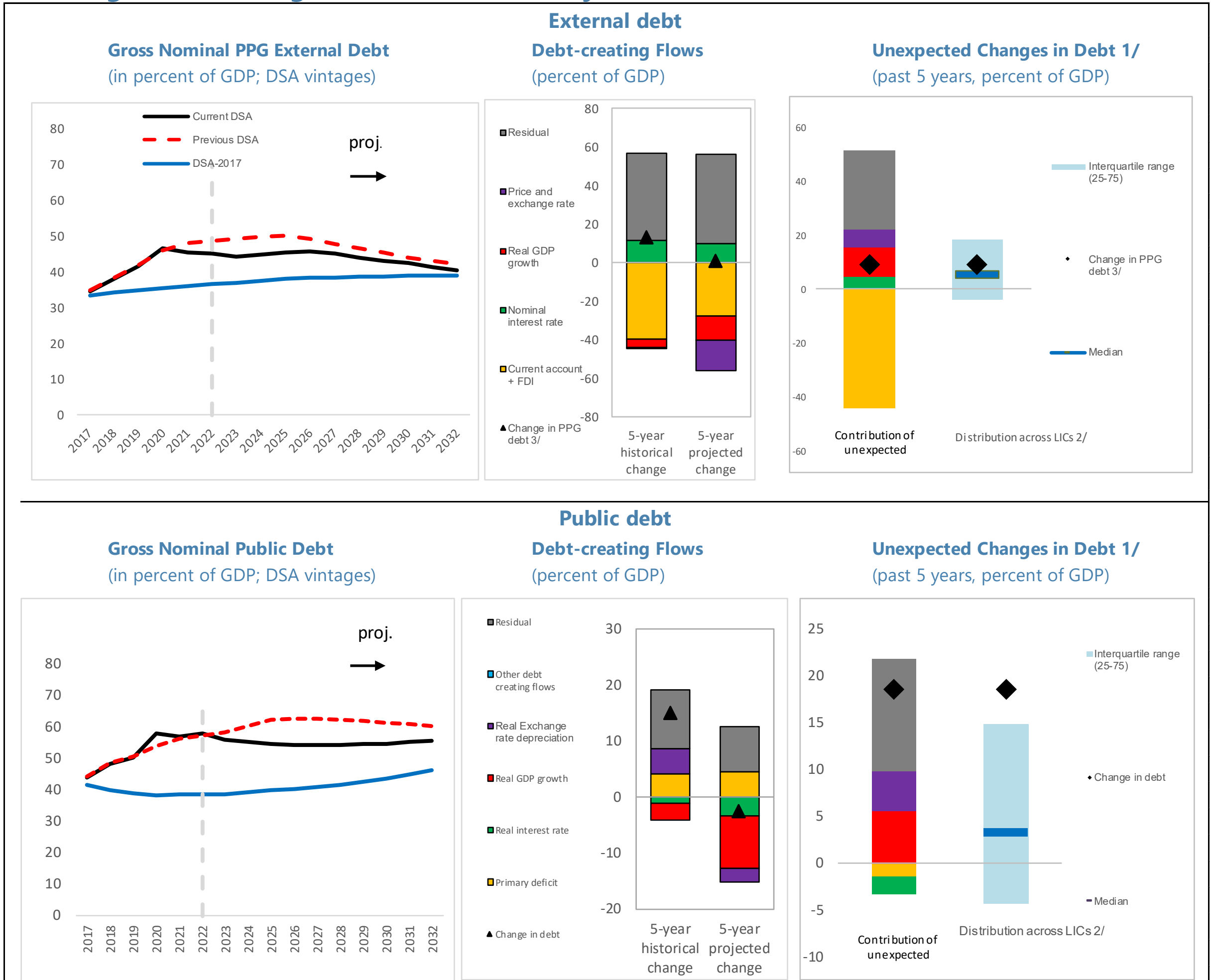
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User Defined
Shares of marginal debt		
External PPG medium and long-term	78%	78%
Domestic medium and long-term	22%	22%
Domestic short-term	0%	0%
Terms of Marginal Debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.0%	2.0%
Avg. maturity (incl. grace period)	27	27
Avg. grace period	4	4
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.0%	0.0%
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: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. 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 extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Nicaragua: Drivers of Debt Dynamics – Baseline Scenario External Debt



1/ Difference between anticipated and actual contributions on debt ratios.

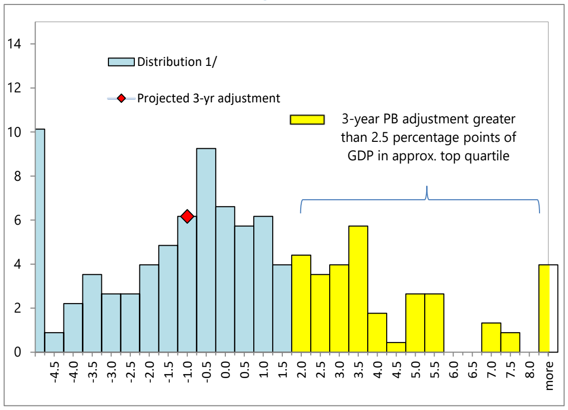
2/ Distribution across LICs for which LIC DSAs were produced.

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.

Sources: Country authorities; and staff estimates and projections

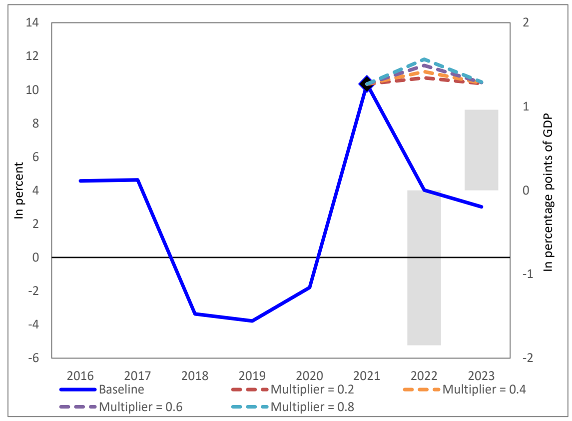
Figure 4. Nicaragua: Realism Tool

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



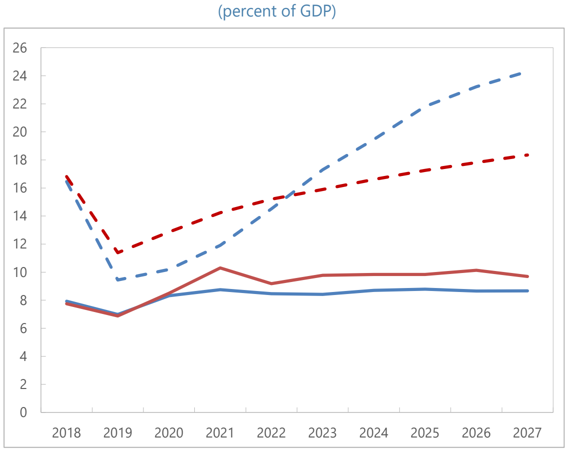
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



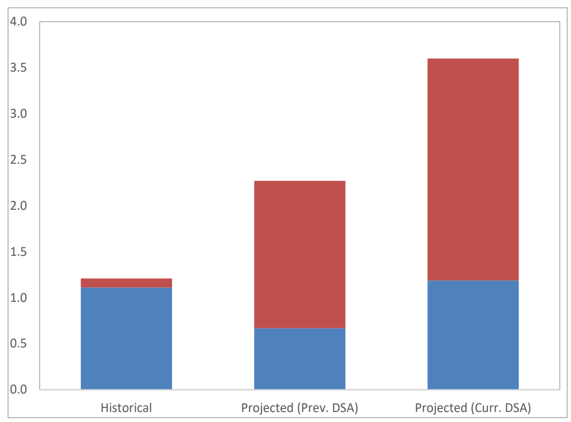
1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



Gov. Invest. - Prev. DSA
Gov. Invest. - Curr. DSA
Priv. Invest. - Prev. DSA
Priv. Invest. - Curr. DSA

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



Contribution of other factors
Contribution of government capital

Figure 5. Nicaragua: Qualification of the Moderate Category, 2022-2032 1/

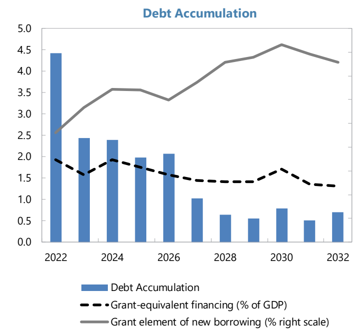
Sources: Country authorities; and staff estimates and projections.

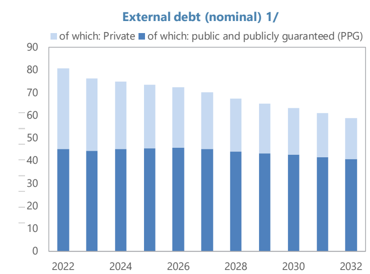
1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

Table 1. Nicaragua: External Debt Sustainability Framework, Baseline Scenario, 2019–42
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
												80.6	69.4
												36.7	43.8
Change in external debt	3.3	5.5	-5.7	-4.8	-4.2	-1.4	-1.3	-1.3	-2.3	-2.1	-1.6		
												-4.1	-5.6
Non-interest Current Account Deficit	-8.4	-7.8	0.9	-0.1	-0.3	0.4	0.5	0.3	0.2	-0.8	3.1	3.2	0.0
Deficit in balance of goods and services	4.3	4.7	12.1	14.7	12.5	13.3	13.5	13.5	13.5	11.1	11.9	13.4	12.8
Exports	45.3	42.4	47.3	50.0	47.2	47.1	47.1	47.1	47.2	48.9	48.0		
Imports	49.6	47.2	59.3	64.7	59.7	60.4	60.6	60.7	60.7	60.0	59.8		
Net current transfers (negative = inflow)	-13.9	-15.3	-15.6	-19.1	-16.5	-16.5	-16.6	-16.8	-16.8	-16.0	-13.5	-13.0	-16.6
of which: official	-1.0	-1.0	-0.9	-0.4	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2		
Other current account flows (negative = net inflow)	1.3	2.7	4.4	4.3	3.7	3.6	3.6	3.6	3.4	4.1	4.7	2.8	3.8
Net FDI (negative = inflow)	-3.5	-3.9	-8.6	-7.8	-5.1	-5.0	-5.1	-5.2	-5.2	-5.0	-5.0	-6.6	-5.3
Endougenous Debt Dynamics 2/	5.1	4.0	-7.8	-1.3	-0.1	-0.4	-0.4	-0.2	-0.1	-0.2	-0.9		
Contribution from nominal interest rate	2.4	3.8	1.4	1.8	2.1	2.0	2.1	2.2	2.3	1.8	0.5		
Contribution from real GDP growth	3.2	1.5	-8.5	-3.1	-2.2	-2.4	-2.5	-2.4	-2.4	-2.0	-1.4		
Contribution from price and exchange rate changes	-0.5	-1.4	-0.7	...	...	...	...	...	...	...	...		
Residual 3/	10.1	13.2	9.9	4.4	1.3	3.6	3.6	3.7	2.8	3.9	1.2	5.4	3.2
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability Indicators													
PV of PPG external debt-to-GDP ratio	...	...	31.1	31.6	31.1	31.5	31.7	32.0	31.3	26.6	19.9		
PV of PPG external debt-to-exports ratio	...	...	65.7	63.2	65.8	66.8	67.2	67.9	66.3	54.5	41.5		
PPG debt service-to-exports ratio	1.5	1.2	1.7	5.2	5.8	5.8	6.2	5.8	6.3	5.0	4.3		
PPG debt service-to-revenue ratio	2.2	1.7	2.5	8.7	9.3	9.3	9.8	9.2	10.1	8.4	7.2		
Gross external financing need (Million of U.S. dollars)	918.9	1125.4	2761.8	3101.0	2804.0	2999.1	3156.5	3246.7	3353.4	3417.7	6123.1		
Key Macroeconomic Assumptions													
Real GDP growth (in percent)	-3.8	-1.8	10.3	4.0	3.0	3.3	3.5	3.5	3.5	3.5	3.5	3.2	3.5
GDP deflator in US dollar terms (change in percent)	0.6	1.6	0.8	8.1	6.3	2.9	2.0	2.0	2.0	2.0	2.0	0.6	3.0
Effective interest rate (percent) 4/	2.8	4.5	1.7	2.4	2.9	2.7	2.9	3.2	3.4	3.2	1.2	2.5	3.1
Growth of exports of G&S (US dollar terms, in percent)	2.8	-6.5	23.9	18.9	3.4	6.1	5.6	5.5	5.6	5.3	5.3	4.5	7.0
Growth of imports of G&S (US dollar terms, in percent)	-7.4	-5.0	39.9	22.6	1.0	7.6	5.9	5.5	5.6	5.5	5.5	3.2	6.8
Grant element of new public sector borrowing (in percent)	...	...	...	23.0	28.4	32.2	32.0	29.9	33.6	37.8	35.4	...	34.1
Government revenues (excluding grants, in percent of GDP)	30.5	30.2	32.3	29.9	29.4	29.4	29.5	29.6	29.5	29.2	28.8	27.9	29.5
Aid flows (in Million of US dollars) 5/	130.1	120.5	128.8	312.6	290.1	430.4	424.6	423.2	434.7	535.4	676.8		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	1.9	1.6	1.9	1.8	1.6	1.4	1.3	1.0	...	1.6
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	27.2	31.0	35.3	34.9	32.9	37.2	42.0	41.1	...	37.6
Nominal GDP (Million of US dollars)	12,611	12,586	14,001	15,737	17,233	18,324	19,331	20,400	21,528	28,175	48,261		
Nominal dollar GDP growth	-3.2	-0.2	11.2	12.4	9.5	6.3	5.5	5.5	5.5	5.5	5.5	3.8	6.6
Memorandum Items:													
PV of external debt 7/	...	...	71.1	66.9	63.1	61.4	59.8	58.5	56.2	44.9	30.0		
In percent of exports	...	...	150.5	133.9	133.7	130.3	126.9	124.0	119.0	91.9	62.5		
Total external debt service-to-exports ratio	26.8	30.3	21.6	23.9	24.5	23.2	22.8	22.0	21.6	16.2	9.6		
PV of PPG external debt (in Million of US dollars)			4350.4	4968.7	5351.4	5763.9	6126.8	6527.6	6737.5	7505.9	9612.5		
(PVt-PVt-1)/GDPt-1 (in percent)				4.4	2.4	2.4	2.0	2.1	1.0	0.7	0.4		
Non-interest current account deficit that stabilizes debt ratio	-11.7	-13.3	6.6	4.7	3.9	1.8	1.8	1.7	2.5	1.3	4.7		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Εα (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, Ε=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

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.

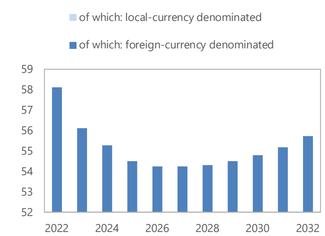
Table 2. Nicaragua: Public Sector Debt Sustainability Framework, Baseline Scenario, 2019–42

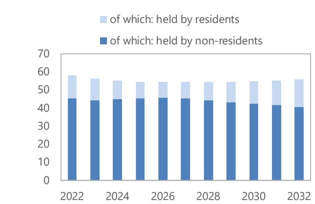
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
Public Sector Debt 1/	50.2	57.8	56.9	58.1	56.1	55.3	54.5	54.3	54.2	55.7	52.3	46.4	55.2
of which: external debt	41.6	46.6	45.3	45.2	44.3	44.9	45.4	45.8	45.1	40.5	31.6	36.7	43.8
Change in Pub;ic Sector Debt	1.9	7.6	-0.9	1.2	-2.0	-0.8	-0.8	-0.3	0.0	0.5	-0.3		
Identified debt-creating flows	2.1	1.5	-5.1	-3.0	-1.6	-1.0	-1.2	-1.2	-1.1	-0.5	1.3	-0.1	-1.2
Primary deficit	-0.3	1.1	0.0	1.8	0.9	0.8	0.5	0.6	0.6	1.3	3.3	0.8	0.9
Revenue and grants	31.6	31.1	33.2	30.3	29.6	29.7	29.7	29.8	29.7	29.4	29.0	29.1	29.7
of which: grants	1.0	1.0	0.9	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.2		
Primary (noninterest) expenditure	31.3	32.2	33.1	32.1	30.5	30.5	30.3	30.4	30.3	30.7	32.3	29.9	30.6
Automatic Debt Dynamics	2.4	0.3	-5.1	-4.9	-2.5	-1.8	-1.8	-1.8	-1.6	-1.8	-2.0		
Contribution from interest rate/growth differential	1.9	0.9	-6.5	-4.9	-2.5	-1.8	-1.8	-1.8	-1.6	-1.8	-2.0		
of which: contribution from average real interest rate	0.0	0.0	-1.1	-2.7	-0.8	0.0	0.1	0.1	0.2	0.0	-0.2		
of which: contribution from real GDP growth	1.9	0.9	-5.4	-2.2	-1.7	-1.8	-1.9	-1.8	-1.8	-1.9	-1.8		
Contribution from real exchange rate depreciation	0.5	-0.6	1.4	...	...	...	...	...	...	...	...		
Other Identified Debt-creating Flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	-0.1	6.1	4.2	4.3	-0.4	0.1	0.5	1.0	1.0	1.0	-1.6	1.4	1.1
Sustainability Indicators													
PV of public debt-to-GDP ratio 2/	...	11.2	43.0	44.8	43.2	42.1	41.1	40.8	40.8	42.1	40.8		
PV of public debt-to-revenue and grants ratio	...	36.0	129.5	147.8	145.9	141.8	138.1	136.7	137.2	143.0	140.8		
Debt service-to-revenue and grants ratio 3/	5.3	3.3	5.3	17.5	15.6	16.2	16.2	13.7	14.7	17.4	30.7		
Gross financing needs 4/	1.4	2.2	1.7	7.1	5.5	5.6	5.4	4.6	4.9	6.4	12.2		
Key Macroeconomic and Fiscal Assumptions													
Real GDP growth (in percent)	-3.8	-1.8	10.3	4.0	3.0	3.3	3.5	3.5	3.5	3.5	3.5	3.2	3.5
Average nominal interest rate on external debt (in percent)	1.8	1.2	2.0	1.8	2.0	2.0	2.0	2.0	2.4	2.1	1.5	1.6	2.1
Average real interest rate on domestic debt (in percent)	1.3	1.2	-2.7	1.4	1.5	4.8	6.9	9.3	11.1	5.7	3.2	1.5	6.6
Real exchange rate depreciation (in percent, + indicates depreciation)	1.0	-1.2	2.8	...	...	...	...	...	...	...	...	1.2	...
Inflation rate (GDP deflator, in percent)	5.5	5.5	3.3	10.2	8.4	5.0	4.0	4.0	4.0	4.0	4.0	5.2	5.1
Growth of real primary spending (deflated by GDP deflator, in percent)	-2.8	1.3	13.5	0.9	-2.3	3.3	2.8	3.9	3.0	3.8	3.9	5.5	2.8
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-2.3	-6.5	0.9	0.6	2.9	1.6	1.3	0.8	0.6	0.8	3.6	-2.6	1.0
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: Country authorities; and staff estimates and projections.

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 3. Nicaragua: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2022-32

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of debt-to GDP ratio											
Baseline	32	31	31	32	32	31	30	29	28	27	27
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	32	36	**40**	**44**	**48**	**51**	**53**	**56**	**59**	**62**	**65**
A2. Alternative Scenario: ALBA debt contingent liability scenario	32	31	38	38	38	38	37	35	34	33	31
B. Bound Tests											
B1. Real GDP growth	32	33	36	37	37	36	35	34	33	32	31
B2. Primary balance	32	32	32	33	33	32	31	30	29	28	28
B3. Exports	32	35	**41**	**42**	**42**	**41**	40	38	37	35	34
B4. Other flows 3/	32	37	**43**	**43**	**43**	**42**	**41**	39	38	36	35
B5. Depreciation	32	39	35	36	36	35	34	33	32	31	30
B6. Combination of B1-B5	32	**40**	**46**	**46**	**46**	**45**	**44**	**42**	**40**	39	37
C. Tailored Tests											
C1. Combined contingent liabilities	32	36	36	37	37	37	36	35	34	33	32
C2. Natural disaster	32	37	38	38	39	39	38	37	37	36	35
C3. Commodity price	32	31	31	32	32	31	30	29	28	27	27
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	63	66	67	67	68	66	64	61	59	56	55
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	63	77	86	94	102	108	113	117	121	126	132
A2. Alternative Scenario: ALBA debt contingent liability scenario	63	66	81	81	81	80	77	73	70	66	64
B. Bound Tests											
B1. Real GDP growth	63	66	67	67	68	66	64	61	59	56	55
B2. Primary balance	63	67	69	69	70	69	66	63	61	58	57
B3. Exports	63	79	103	103	103	101	97	92	88	84	81
B4. Other flows 3/	63	78	91	91	91	89	86	81	78	73	71
B5. Depreciation	63	66	60	61	62	60	58	55	54	51	50
B6. Combination of B1-B5	63	83	87	96	96	94	90	86	82	77	75
C. Tailored Tests											
C1. Combined contingent liabilities	63	76	77	78	79	78	75	72	70	67	66
C2. Natural disaster	63	80	82	83	85	84	82	80	78	75	74
C3. Commodity price	63	66	67	67	68	66	64	61	59	56	55
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	6	6	6	6	6	6	6	6	5	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	5	6	6	7	7	8	8	9	9	9	9
A2. Alternative Scenario: ALBA debt contingent liability scenario	5	6	6	7	6	7	6	7	7	6	6
B. Bound Tests											
B1. Real GDP growth	5	6	6	6	6	6	6	6	6	5	5
B2. Primary balance	5	6	6	6	6	6	6	6	6	5	5
B3. Exports	5	6	7	8	8	8	8	9	8	8	7
B4. Other flows 3/	5	6	6	7	6	7	7	7	7	7	6
B5. Depreciation	5	6	6	6	6	6	6	5	5	5	5
B6. Combination of B1-B5	5	6	7	7	7	7	8	8	8	7	7
C. Tailored Tests											
C1. Combined contingent liabilities	5	6	6	6	6	7	6	6	6	6	5
C2. Natural disaster	5	6	6	7	6	7	7	6	6	6	6
C3. Commodity price	5	6	6	6	6	6	6	6	6	5	5
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	9	9	9	10	9	10	10	9	9	9	8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	9	10	10	11	11	13	13	14	15	15	16
A2. Alternative Scenario: ALBA debt contingent liability scenario	9	9	9	10	10	11	10	11	11	10	10
B. Bound Tests	9	9	9	10	10	11	10	11	11	10	10
B1. Real GDP growth	9	10	11	11	11	12	11	11	11	10	10
B2. Primary balance	9	9	9	10	9	10	10	10	10	9	9
B3. Exports	9	10	10	11	10	11	11	12	12	11	11
B4. Other flows 3/	9	9	10	11	10	11	12	12	12	11	11
B5. Depreciation	9	12	12	12	11	12	12	11	11	10	10
B6. Combination of B1-B5	9	10	11	12	11	12	13	13	13	12	12
C. Tailored Tests											
C1. Combined contingent liabilities	9	9	10	10	10	11	10	10	10	9	9
C2. Natural disaster	9	9	10	10	10	11	10	10	10	10	9
C3. Commodity price	9	9	9	10	9	10	10	9	9	9	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	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.
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 4. Nicaragua Sensitivity Analysis for Key Indicators of Public Debt, 2022-32

	Projections 1/										
	2022	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**
					PV of Debt-to-GDP Ratio						
Baseline	45	43	42	41	41	41	41	41	41	41	42
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	45	45	45	44	44	45	45	45	45	46	46
A2. Alternative Scenario: ALBA debt contingent liability scenario	45	44	**56**	54	54	54	54	54	54	54	54
B. Bound Tests											
B1. Real GDP growth	45	49	**55**	**58**	**62**	**66**	**69**	**73**	**76**	**80**	**84**
B2. Primary balance	45	45	45	44	45	45	46	46	47	48	49
B3. Exports	45	46	51	50	49	49	49	48	48	48	48
B4. Other flows 3/	45	49	53	52	52	52	51	51	50	50	50
B5. Depreciation	45	50	47	44	43	42	40	39	38	37	37
B6. Combination of B1-B5	45	44	44	43	44	44	45	46	46	47	48
C. Tailored Tests											
C1. Combined contingent liabilities	45	51	50	50	50	50	51	51	52	52	53
C2. Natural disaster	45	52	52	52	52	53	54	55	**55**	**56**	**57**
C3. Commodity price	45	46	47	50	52	**56**	**59**	**63**	**66**	**70**	**74**
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.
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
					PV of Debt-to-Revenue Ratio						
Baseline	148	146	142	138	137	137	138	138	139	141	143
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	148	152	150	148	148	150	152	153	153	154	156
A2. Alternative Scenario: ALBA debt contingent liability scenario	18	16	16	16	14	15	14	15	16	17	17
B. Bound Tests											
B1. Real GDP growth	148	165	186	195	207	221	234	247	258	272	285
B2. Primary balance	148	150	151	149	150	152	154	157	159	162	166
B3. Exports	148	156	171	167	165	165	165	164	162	163	164
B4. Other flows 3/	148	165	180	176	174	174	173	172	170	170	170
B5. Depreciation	148	169	159	150	144	140	136	133	129	127	125
B6. Combination of B1-B5	148	147	148	146	146	149	152	154	156	160	163
C. Tailored Tests											
C1. Combined contingent liabilities	148	172	169	167	167	169	171	173	175	178	181
C2. Natural disaster	148	177	175	174	175	178	181	184	187	191	195
C3. Commodity price	148	154	160	166	176	188	199	212	224	238	251
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.
					Debt Service-to-Revenue Ratio						
Baseline	18	16	16	16	14	15	14	15	16	17	17
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	18	16	17	16	14	15	14	15	16	16	17
A2. Alternative Scenario: ALBA debt contingent liability scenario	18	16	16	16	14	15	14	15	16	17	17
B. Bound Tests											
B1. Real GDP growth	18	17	19	20	18	20	21	22	24	26	28
B2. Primary balance	18	16	16	16	14	15	15	15	16	17	18
B3. Exports	18	16	17	17	14	15	15	17	18	19	19
B4. Other flows 3/	18	16	17	17	15	16	16	18	18	19	20
B5. Depreciation	18	16	18	18	15	17	16	16	17	17	17
B6. Combination of B1-B5	18	15	16	16	14	15	14	15	16	17	18
C. Tailored Tests											
C1. Combined contingent liabilities	18	16	17	18	16	17	16	16	17	18	18
C2. Natural disaster	18	16	17	19	16	17	17	17	18	19	19
C3. Commodity price	18	16	16	16	15	17	17	19	21	23	24
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.

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

Statement by Mr. Afonso Bevilaqua, Executive Director for Nicaragua, Mr. Bruno Saraiva, Alternate Executive Director, and Mr. Manuel Coronel, Advisor to the Executive Director for Nicaragua

January 23, 2023

On behalf of our Nicaraguan authorities, we thank staff for the fruitful and candid discussions during the 2022 Article IV mission, held in Managua last November. The authorities welcome the quality, dedication, and professionalism of the IMF team and the analytical value of the staff report. The authorities are also grateful for the consistent cooperation through policy dialogue and technical assistance and look forward to continuing the close engagement with the Fund.

Nicaragua—a small and open market-oriented economy—features a long-standing track record of sound policy implementation underpinned by macroeconomic stability, fiscal discipline, and social inclusion. However, as other small and open economies in Central America, it is highly vulnerable to external shocks and natural disasters, among them, earthquakes, landslides, and—with increasing frequency because of climate change—droughts, hurricanes, and tropical storms. This vulnerability is particularly relevant, given that exports rely substantially on primary agricultural products, and infrastructure damage represents a disproportionately high burden to the economy.

Notwithstanding these vulnerabilities, nimble macroeconomic management supported a successful recovery from the latest sequence of shocks. Staff described the multiple shocks faced by Nicaragua between 2018 and 2020, which disrupted the economy's impressive growth path during the previous decade. The economy slipped into a three-year recession in which GDP contracted by 9 percent cumulatively. The report also accurately describes the authorities' measures on each stage to preserve financial and economic stability as the shocks unfolded. Yet the recovery would have been stronger if the effective macroeconomic measures were supported by timely and adequate external financial assistance.

Since the last Article IV discussion in February 2020, economic conditions have improved markedly. The economy has returned to positive growth and despite downside risks the outlook remains favorable. The main drivers of economic recovery have been exports, remittances, and FDI, which have offset lesser dynamism in tourism, hospitality, and construction. In 2021, real GDP growth rebounded by 10.3 percent, subsequently cooling down to a still robust 5 percent in the first half of 2022. While the global economic slowdown has led to further growth accommodation in the third quarter, preliminary data from the Central Bank of Nicaragua (BCN) suggest that higher remittances-driven-consumption will support growth in Q4, resulting in a projected yearly real growth of 4 percent in 2022. This is in line with both the staff and the authorities' projections, which for the first time in several years have converged.

Some post-pandemic scarring remains, particularly, in labor-intensive sectors such as construction and hospitality, which have not fully recovered. Nevertheless, unemployment has reached its lowest since its five-year peak in 2019, yet while many unemployed workers were absorbed by the informal sector, others have chosen to emigrate. A significant increase in emigration has been a consequence of the job losses brought about by the three-year recession combined with the strong labor demand in the United States. As the authorities expressed during the mission, more analysis is needed to understand the long-term economic and labor market impact of the recent emigration dynamics.

The authorities welcome staff's assessment that the growth outlook is broadly positive and agree that risks are tilted to the downside given the headwinds from external shocks. In 2022, Nicaragua tightened fiscal and monetary policies to cope with higher food and energy prices, tighter financial conditions, and weaker external demand, albeit recognizing the limitations of domestic macroeconomic policies to control the ongoing external shocks. The protracted war in Ukraine, amidst trade-disruptive geopolitical tensions and uncertainties, continue to cloud the global outlook for 2023. Nevertheless, the authorities are slightly more optimistic than staff and expect growth to exceed 3 percent in 2023, buoyed by tailwinds from having joined China's Belt and Road Initiative in early 2022. As staff, the authorities expect inflation to recede in tandem with the global slowdown.

Enhanced public services and infrastructure have supported continued progress in social and sustainable development, despite the hindrances from the adverse scenario. Even under the impact of severe shocks, health and education infrastructure have expanded and improved, coverage of the national electricity grid reached 99 percent of households early last year, and major urban, inter-city, and rural transportation arteries have been built, including a highway connecting the main Caribbean city with the center and pacific regions. Gender equality and citizen security have also been policy priorities, with significant results. The 2022 World Economic Forum Global Gender Gap Report ranks Nicaragua 7th in their gender gap index; and the World Bank shows that homicides are amongst the lowest in Latin America. These achievements notwithstanding, the latest shocks interrupted the sharp downward trend in poverty. That said, the authorities remain committed to protecting the poor and vulnerable, a core principle guiding Nicaragua's policies.

Despite the surge in inflation, effective macroeconomic management has contained the risk of second-round effects and de-anchoring inflation expectations. With the global inflationary escalation, headline inflation in 2022 rose significantly above Nicaragua's long-term trend for the first time in more than a decade. Inflation went from 7.2 percent in 2021 to 11.5 percent as of November 2022. The BCN projects inflation to close 2022 at 11.6 percent, slightly higher than expected by both staff and the authorities. In response, the BCN has gradually increased the reference rate to 7 percent, a level that they expect will restrain price increases, support the crawling peg, and not be excessively detrimental to economic activity. While the authorities have relied on the crawling peg as a key nominal anchor with good results for more than two decades, they are now considering, in line with regional peers, embedding more flexibility within the exchange-rate regime.

Public finances remain underpinned by a strong sense of fiscal discipline. The public sector deficit widened from 1.4 in 2021 to a projected 3.3 percent of GDP in 2023, as the authorities accommodated temporary spending measures to address the social impact of higher prices. However, medium-term budget plans for 2023-26 point towards a gradual narrowing of the deficit, and a decline in public debt to 54 percent of GDP by end-2027. As the economy coped with the multiple shocks, in contrast with regional peers, Nicaragua did not rely on significant debt-financing. As a result, macroeconomic adjustment may have been more painful than otherwise, but the economy started to recover on sounder footing, with improved resilience and debt sustainability.

External sector developments have contributed to the recovery. Remittances in 2022 reached a historic peak and are projected to exceed US$ 3 billion, which is 50 percent higher than 2021 and equivalent to 20.3 percent of GDP. Exports also outperformed expectations at US$ 7.3 billion, an increase of 15.5 percent in value and 5 percent in volume, with respect to 2021. Central Bank reserves, which have increased by a yearly average of 23 percent since 2020, also reached a historic high at US$ 4.4 billion (almost twice their 2018 level). The authorities expect these trends to continue, as they remain committed to a prudent policy mix, and the credit rating agencies are seemingly broadly in line with this view. Fitch rates the country at B- and stable perspective, Moody's at B3 and stable perspective, while S&P has recently upgraded its rating from B- to B, with stable perspective.

The banking system has stabilized and remains well capitalized, highly liquid, and profitable. After experiencing a real-life stress test during the compounded shocks in 2018-2020, and with the support of the BCN's liquidity measures, the financial sector emerged sound and more resilient. Capitalization is significantly higher than regional levels, distress assets continue to decrease, and NPLs fell to 1.9 percent. Credit stock is growing moderately, yet it hasn't reached pre-crisis levels, while bank deposits have already surpassed it. The Bank's Superintendency (SIBOIF) has welcomed staff's advice on enhancing the resolution framework, increasing the level of provisions for distressed assets, and preserving sound lending practices as credit growth gradually rebounds.

External financial support helped mitigate the pandemic crisis, and the authorities have honored their transparency and accountability commitments in the use of funds. Between 2020 and 2021, the Word Bank stepped in with various programs totaling US$216 million to strengthen the response to the pandemic and mitigate the impact of hurricanes Eta and Iota; CABEI and the IDB also contributed with the emergency financing. The IMF joined in the effort in November 2020 with the approval of an RCF/RFI of 50 percent of quota, yet half was disbursed through third party agencies and did not help fill in the BOP gap. The first independent external audit report on all pandemic-related use of funds has already been published. All details of pandemic-related spending and procurement contracts have been published on the Finance Ministry's website, including beneficiary ownership. Unfortunately, execution of external finance by third party agencies have not been as effective as envisaged and have proven to be time-costly, underperforming government implementation capacity and accountability procedures.

The authorities underscore that additional multilateral financial support to tackle climate-change related natural disasters would have strengthened the recovery and

prevented the diversion of critical resources. Nicaragua was hit by two consecutive hurricanes in December 2020, estimated to have caused damage of about US$ 1 billion, or 8 percent of GDP. Last year, hurricane Julia hit the country in October and the authorities preliminary estimate points to damage of about 2½ percent of GDP. Given the difficulties in obtaining additional financing, Nicaragua has drawn scarce budgetary resources to provide support for those most severely affected by natural disasters, complementing financing obtained from IFIs. IMF financing in that circumstance would have been very impactful, especially for the most vulnerable population.

The authorities have a high response rate to IMF policy recommendations. During the present Article IV cycle, the authorities have made good efforts to heed staff's advice on a series of fiscal, monetary, structural, and statistical issues. Significant progress has been made on at least 12 of the 17 items as per past Fund policy advice. The authorities also welcomed staff's inputs on governance and transparency, however, the scope and purview of the Central Bank in these matters is very limited. Most of the advice on these issues seem to be directed towards independent agencies and/or powers of the state, such as the attorney general's office, the comptroller's office, and the legislative and judicial powers. Nevertheless, all agencies and state powers are making progress towards improving the governance and anticorruption frameworks.

The authorities also welcomed the discussions and advice on competitiveness and AML/CFT framework. As highlighted by staff, the Financial Action task Force (FATF) Plenary of October 2022 recognized Nicaragua's progress on AML/CFT and removed it from the list of jurisdictions subject to increased monitoring (the so-called "Grey list"). Nicaragua's financial intelligence unit (UAF) remains committed to addressing all issues of concern in a thorough and timely manner.

In closing, the authorities remain committed to implementing coherent macroeconomic and development policies. In this regard, they continue to count on the Fund's support through policy advice and capacity building, tailored to Nicaragua's specific needs and circumstances.