INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/18

NICARAGUA

January 2024

2023 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

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 2023 Article IV consultation with Nicaragua, the following documents have been released and are included in this package:

- A **Press Release**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on November 17, 2023, 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 December 21, 2023.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the IMF staff.

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.

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PRESS RELEASE

PR24/15

IMF Executive Board Concludes 2023 Article IV Consultation with Nicaragua

FOR IMMEDIATE RELEASE

Washington, DC – January 19, 2024: On January 16, 2024, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Nicaragua and considered and endorsed the staff appraisal without a meeting.

Nicaragua's economy has remained resilient in the face of multiple shocks, supported by appropriate economic policies, substantial buffers, and multilateral support. After a very strong rebound in 2021, the economy grew at a steady pace since 2022 and is expected to grow by 4 percent in 2023. Inflation is declining, and the central government is maintaining a small surplus and healthy government deposits. Remittances are projected to reach about 28 percent of GDP at end-2023, double their end-2021 level, and supporting a turnaround in the current account balance to a surplus of about 4 percent of GDP in 2023. The foreign exchange inflows and prudent macroeconomic policies, contributed to a rapid accumulation of gross international reserves to US $5 billion by end-October (or about 6 months of imports, excluding *maquila*).

Economic growth is expected to continue over the medium-term, albeit at a slower rate than average. In 2024 and over the medium term, real GDP is projected to grow by about 3½ percent, supported primarily by private consumption. These projected growth rates remain below historical averages (2000-17) of 3.9 percent, given the cautious recovery in investment, limited approved new official financing lower and lower labor contribution to growth due to recent emigration. The external and fiscal positions are assessed to be sustainable under the baseline scenario, given the current policy mix and financing plans.

This positive outlook is accompanied by balanced risks. On the upside, real GDP growth might be higher than projected due to a more sustained recovery in domestic demand, including investment,

[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.

and stronger remittances than projected, especially in the near term. On the downside, a deterioration of the terms of trade, or a more severe global downturn than currently incorporated into the baseline scenario could result in lower exports and remittances growth. Economic activity and social outcomes could be vulnerable to natural disasters, given Nicaragua's high exposure and economic dependence on climate sensitive sectors. In the political environment, stricter and wider international sanctions, could negatively affect the economic outlook.

Executive Board Assessment[2]

In concluding the 2023 Article IV consultation with Nicaragua, Executive Directors endorsed staff's appraisal, as follows:

Nicaragua's economy has remained resilient in the face of multiple shocks, supported by appropriate macroeconomic policies, substantial buffers, and multilateral support. After a very strong rebound in 2021, the economy has continued to grow at a steady pace (about 4 percent in 2023). Inflation is declining, and the central government has maintained a small fiscal surplus and healthy government deposits. Remittances, which doubled since end-2021 are reaching about 28 percent of GDP at end-2023, supporting a turnaround in the current account balance to a projected surplus of about 4 percent of GDP in 2023. The foreign exchange inflows from remittances, sustained FDI, and exports, along with prudent macroeconomic policies, contributed to a rapid accumulation of gross international reserves to US$5 billion by end-October (or about 6 months of imports, excluding *maquila*). The policy mix was consistent and adequate in 2023, with tight fiscal and monetary policies and a continued reserve accumulation, supporting a balanced growth path. The external position at end-2022 was assessed as stronger than the level implied by medium-term fundamentals and desired policies. Nicaragua is assessed at moderate overall risk of external and public debt distress.

Economic growth is expected to continue in 2024 and over the medium term, albeit at a slower rate than historical averages. In 2024 and over the medium term, real GDP is projected to grow by about 3½ percent, supported primarily by private consumption, below historical averages (2000-17) of 3.9 percent, given the cautious recovery in investment, limited approved new official financing, and lower labor contribution to growth due to recent emigration.

This positive outlook is accompanied by balanced risks. On the upside, real GDP growth could be higher than projected due to a more sustained recovery in domestic demand, including investment, and stronger remittances than projected, especially in the near term. On the downside, a deterioration of the terms of trade, or a more severe global downturn than currently incorporated into the baseline scenario could result in lower exports and remittances growth. Economic activity and social outcomes could be vulnerable to natural disasters, given Nicaragua's high exposure and

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

economic dependence on climate-sensitive sectors. Stricter and wider international sanctions could also negatively affect the economic outlook.

Staff supported the authorities' plans to maintain prudent fiscal policy. Staff supported the multi-year fiscal consolidation plans and the authorities' efforts to address the structural imbalances in the social security system (pensions), and enhance buffers given the country's vulnerability to natural disasters. Staff recommended more ambitious fiscal efforts, to entrench fiscal sustainability, build fiscal buffers and create space for higher social and capital spending in the medium term, to reduce poverty, and support growth, through tax administration measures, better targeting subsidies and reallocating current expenditures.

Staff recommended that monetary policy should remain geared towards supporting the exchange rate regime, while safeguarding price stability. Staff supported the authorities' decision to continue adjusting the rate of crawl of the exchange rate and emphasized the need to remain vigilant and adjust monetary and exchange rate policies as needed to support the exchange rate regime, while safeguarding price stability. Staff assessed the fiscal and monetary policy stances as appropriate, and the policy mix supportive of growth. Staff emphasized that continued reserve accumulation over the medium-term is essential to maintain the exchange rate regime.

While banks are well-capitalized and liquid, the resilience of the financial sector could be further enhanced. Staff recommended increasing the level of provisions for distressed assets and supported the authorities' efforts to ensure that sound lending practices are preserved by activating countercyclical buffers as needed and increase the minimum payments for credit cards. Staff encouraged the authorities to align the crisis preparedness framework with best international practices, obtain complete data for credit and savings cooperatives, and expand their oversight if needed. Staff also recommended continuing to monitor FX risks and strengthen FX risk mitigation measures.

Staff welcomed the authorities' efforts to sustain medium-term growth through continued investment in infrastructure and human capital and recommended implementing policies to raise labor force participation and enhance the business climate through strengthening government institutions and frameworks in the areas of contract enforcement, protection of property rights, and resolution of insolvencies.

Staff recommended improving the effective application of the AML/CFT framework. In particular, staff recommended the proper application of the AML/CFT framework, in line with the FATF recommendations, to ensure that Nicaragua continues to fare well in the next evaluation round after being removed from the "gray list" in 2022.

The authorities have taken steps to enhance governance and anti-corruption frameworks, yet major efforts are needed to strengthen these frameworks and their effective application, especially *the rule of law*. Following on the recent progress in the implementation of the Law of Access to public Information and collecting asset declarations of politically exposed persons through the digital platform, staff recommended: (i) publishing the asset declarations of politically exposed persons; (ii) implementing risk-based assessments of these declarations; and (iii) enacting whistleblower protection regulations. To ensure that the anti-corruption and governance frameworks are effective, and property rights, contract enforcement, and investments are protected properly, staff recommended that the government strengthens the *rule of law* by guaranteeing adequate, effective, and fair administrative and judicial recourse to legal proceedings, especially those which have consequences for property rights.

Staff commended the authorities' efforts to improve fiscal transparency and urges that these efforts be sustained through continuing publication of all audit reports regarding the use of pandemic-related funds, promptly publishing the annual financial statements of the central government and their audit reports, and expanding the publication of SOEs financial statements.

Staff recommended continuing to improve data quality and working further to enhance institutional capacity in fiscal, monetary, financial, and statistical issues.

Table 1. Nicaragua: Selected Social and Economic Indicators, 2018-24

I. Social and Demographic Indicators

GDP per capita (current US$, 2022)	2,371.7	Income share held by the richest 10 percent (2014)	37.2
GNI per capita (Atlas method, current US$, 2022)	2,090.0	Unemployment (percent of labor force, 2022)	7.5
GINI Index (2014)	46.2	Poverty rate ($3.65/day line in 2017 PPP, percent, 2014)	14.4
Population (millions, 2022)	6.5	Adult literacy rate (percent, 2015)	82.6
Life expectancy at birth in years (2021)	73.8	Infant mortality rate (per 1,000 live births, 2021)	11.4

II. Economic Indicators

	2018	2019	2020	2021	2022	2023	2024
					Prel.[1/]	Projections	
Output	(Annual percentage change, unless otherwise specified)						
GDP growth	-3.4	-2.9	-1.8	10.3	3.8	4.0	3.5
GDP (nominal, US$ million)	13,025	12,713	12,682	14,145	15,671	17,487	18,910
Prices							
GDP deflator	2.7	5.4	5.4	3.6	8.9	8.9	5.0
Consumer price inflation (period average)	4.9	5.4	3.7	4.9	10.5	8.9	5.0
Consumer price inflation (end of period)	3.9	6.1	2.9	7.2	11.6	6.0	4.8
Saving and investment	(Percent of GDP)						
Gross domestic investment	**24.1**	**17.8**	**19.4**	**23.4**	**21.9**	**19.5**	**19.1**
Private sector	16.5	10.8	11.0	13.0	13.1	12.2	11.9
Public sector	7.6	7.1	8.4	10.3	8.8	7.3	7.2
Gross national savings	**22.3**	**23.8**	**23.0**	**20.3**	**20.6**	**23.5**	**21.5**
Private sector	19.6	19.3	19.1	13.6	13.2	18.1	15.9
Public sector	2.7	4.5	3.9	6.6	7.4	5.4	5.6
Exchange rate							
Period average (córdobas per US$)	31.6	33.1	34.3	35.2	35.9	36.4	36.6
End of period (córdobas per US$)	32.3	33.8	34.8	35.5	36.2	36.6	36.6
Fiscal Sector	(Percent of GDP)						
Consolidated public sector (overall balance after grants)[2/]	**-3.8**	**-1.2**	**-3.0**	**-1.9**	**0.1**	**-0.7**	**-0.5**
Revenue (including grants)	28.4	31.3	30.9	33.0	33.2	30.7	30.4
Expenditure	32.3	32.6	33.9	34.9	33.2	31.4	30.9
of which: Central Government overall balance[3/]	**-3.2**	**-0.5**	**-2.7**	**-1.6**	**0.3**	**0.6**	**0.7**
Revenue	17.6	19.5	19.0	21.1	21.7	20.2	20.3
Expenditure	20.9	20.0	21.8	22.7	21.3	19.6	19.5
Cash payments for operating activities	16.5	16.5	17.3	16.9	16.5	16.4	16.4
Net cash outflow: investments in NFAs	3.5	3.5	4.4	5.8	4.8	3.1	3.1
of which: Social Security Institute (INSS) overall balance[3/]	**0.1**	**0.2**	**0.0**	**0.1**	**-0.1**	**0.0**	**0.0**
Revenue	7.4	7.8	7.9	7.6	7.3	6.8	6.6
Expenditure	7.3	7.7	7.9	7.5	7.4	6.8	6.6
Money and financial	(Annual percentage change)						
Broad money	-18.7	6.2	15.6	13.8	11.3	18.5	10.9
Credit to the private sector	-8.7	-15.6	-3.6	5.3	15.6	15.6	12.0
Net domestic assets of the banking system	-7.7	-15.0	-6.3	2.4	1.4	2.0	6.6
Non-performing loans to total loans (ratio)	2.4	3.1	3.7	2.4	2.2	…	…
Regulatory capital to risk-weighted assets (ratio)	17.0	19.5	23.9	21.1	21.3	…	…
External sector	(Percent of GDP, unless otherwise indicated)						
Current account	-1.8	5.9	3.6	-3.1	-1.3	4.0	2.5
of which: oil imports	7.6	7.5	5.4	7.9	11.3	9.3	9.4
Capital and financial account	1.9	-0.8	4.3	11.4	9.6	7.6	5.4
of which: FDI	5.9	3.5	4.9	8.5	8.2	6.2	5.9
Gross international reserves (US$ million)[4/]	2,080	2,199	3,003	3,828	4,173	5,153	5,734
In months of imports excluding maquila	4.7	5.2	5.1	5.5	5.5	6.1	6.4
Net international reserves (US$ million)[4/]	1,146	1,374	1,887	2,531	3,011	3,818	4,285
In months of imports excluding maquila	2.6	3.2	3.2	3.6	3.9	4.6	4.8
Public sector debt[5/]	47.6	49.1	56.8	54.9	52.0	50.8	49.6
Domestic public debt	9.5	7.9	10.5	10.1	9.5	10.5	9.7
External Public Debt	38.0	41.2	46.3	44.8	42.5	40.3	40.0
Private sector external debt	44.2	43.6	44.1	39.7	35.6	31.6	29.0

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

[1/] Data up to two years back could be revised with the next publication of annual national accounts data.

[2/] The consolidated public sector (CPS) includes the non-financial public sector (NFPS) and the central bank. The NFPS comprises of the budgetary central government, one decentralized institution, one social security fund (INSS), one local government (ALMA), and four non-financial public enterprises.

[3/] Central government deficit and INSS revenue in 2018-2022 include repayments of INSS historical debt. Projections for 2023-2028 assume transfers from the central government will continue to the INSS to close the pension system deficits.

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

[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.

INTERNATIONAL MONETARY FUND

NICARAGUA

December 21, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

KEY ISSUES

Context. The Nicaraguan economy remained resilient through multiple shocks over the past five years, supported by appropriate policies, substantial pre-crisis buffers (primarily government deposits), and multilaterals support. After a strong rebound in 2021, the economy continued to grow at a steady pace in 2022 and through June 2023 (3.8 percent). Inflation slowed down, the fiscal position turned into a surplus, and record-high remittances, sustained Foreign Direct Investment (FDI) and prudent policies supported a continued accumulation of gross international reserves. Banks remain well capitalized, and the loan portfolio is steadily improving with the economic recovery.

Outlook and Risks. In 2024 and the medium-term real Gross domestic Product (GDP) growth is expected to converge to potential (3.5 percent) sustained by domestic demand and remittances. Risks to this outlook include on the upside higher than projected real GDP growth due to sustained recovery in the domestic demand and remittances, especially in the near term, and on the downside a deterioration in the terms of trade, a more severe global downturn than currently incorporated into the baseline scenario, natural disasters, and stricter international sanctions.

Focus. Prudent fiscal, monetary, and financial policies will be needed to continue strengthening policy buffers. Discussions also focused on strengthening governance.

Key Policy Recommendations:

- *Fiscal policy*: entrench fiscal sustainability, increase buffers and fiscal space for social and capital spending, implement 1¼-1¾ percent of GDP in new measures through a combination of higher revenue and lower current expenditure.
- *Monetary policy:* continue to gear monetary policy towards maintaining the exchange rate regime.
- *Financial sector*: address rapid consumer credit growth with macroprudential policy and maintain financial stability through proactive provisioning, enhanced FX risk monitoring, strengthened crisis preparedness, and a larger supervisory perimeter.
- *Boost medium-term growth*: continue to invest in human capital and infrastructure; implement policies to raise labor force participation and enhance the business environment by strengthening government institutions and frameworks in the areas of contract enforcement, protecting property rights, and resolving insolvencies.

- *Governance:* stronger efforts are needed to improve the effective application of the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) framework, the governance and anticorruption frameworks, and the rule of law; continue to improve fiscal transparency, including for state-owned-enterprises (SOEs). In particular, publish asset declarations of politically exposed persons and ensure fair and impartial access to administrative and judicial proceedings, to support property rights, contract enforcement and investment protection.

Approved By
Ana Corbacho (WHD) and Boileau Loko (SPR)

Discussions took place during November 6-17, 2023, in person in Managua, Nicaragua. The mission team comprised Alina Carare (Head), Jessie Kilembe, Juan Pablo Celis, and Alejandro Fiorito (all WHD); Mohamed Diaby (MCM); and Santiago Texidor Mora (LEG). Camilo Enciso (LEG) participated virtually. Manuel Coronel (OED) participated in in-person meetings with the auhtorities and the financial sector, and Bruno Saraiva (OED) participated virtually in the opening and closing meetings. The mission met with Finance Minister Iván Acosta, Central Bank Governor Ovidio Reyes, other senior officials, representatives from banks and free trade zones, and international community. Julia Muñoz and Eliana Porras Herrera (all WHD) assisted the team.

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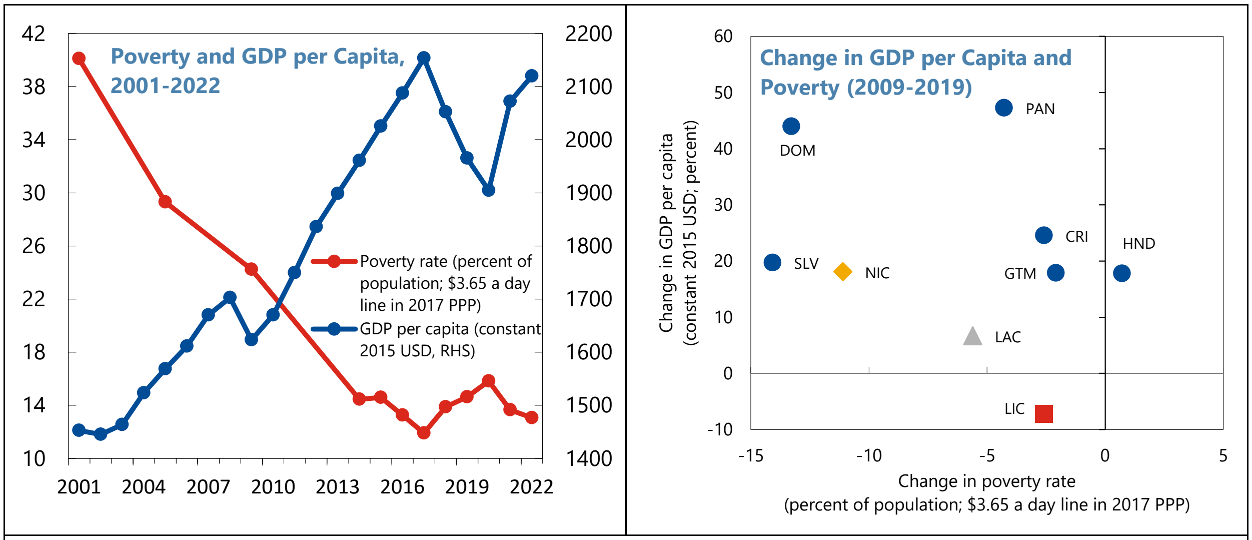
TABLES

ANNEXES

ECONOMIC AND POLITICAL CONTEXT

1. **The Nicaraguan economy remained resilient through multiple shocks over the past five years.** Most of the poverty-reducing gains achieved over the past two decades were maintained during the period of protracted growth caused by the 2018-19 socio-political crisis, the COVID-19 pandemic, the devastating 2020 hurricanes (Eta and Iota), and the period of high global inflation (2021-22). Appropriate fiscal, monetary and financial policies, substantial pre-crisis buffers (primarily government deposits), and multilaterals support[1] have helped Nicaragua recover well and allowed to cushion the impact of these shocks. Going forward, Nicaragua requires sustained social transfers for the most vulnerable and public investment to support growth, further combat poverty, and, when needed, for post-natural disasters reconstruction efforts.



Sources: World Bank Macro Poverty Outlook and World Development Indicators.
Notes: Poverty data for Nicaragua after 2014 are estimates., poverty data for Guatemala is for 2014 and 2018, and poverty LIC data is for 2018.

2. **Political developments might shape the economic landscape**. In 2022-23, citing non-compliance with several laws and national assembly decisions, the authorities closed key business organizations, private universities, and a large share of the not-for-profit organizations (NPOs, ¶31), and revoked citizenship of about 300 people, transferring the property rights to the state, and in some case also some functions covered by NPOs (on health and education). In

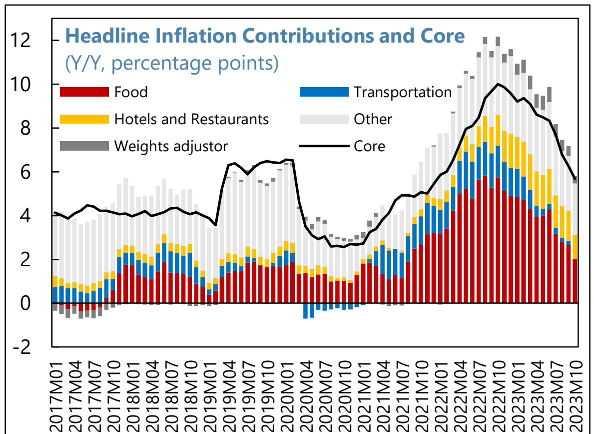
[1] On November 20, 2020, the IMF Executive Board approved emergency financial assistance for about US$185.32 million to help the country meet urgent balance of payment needs stemming from the COVID-19 pandemic, through the Rapid Credit Facility (RCF, about US$61.77 million, or 16.7 percent of quota), and the Rapid Financing Instrument (RFI) (about US$123.55 million or 33.3 percent of quota).

response, the U.S. increased targeted sanctions. By November 2023,[2] more than 1,000 Nicaraguan officials, from the executive, legislative, and judicial branches are under U.S. sanctions (no U.S. visas, and for some frozen assets in the U.S.). Two state-owned mining entities are also under U.S. sanctions. The trade of goods, including gold exports undertaken by international mining companies (primarily from the U.S. and Canada), services, and foreign exchange flows remained unaffected by the sanctions, and are conducted primarily with the U.S., the European Union, and regional peers. In 2022-23 the authorities signed a Free Trade Agreement (FTA) with China and held prospective talks to increase cooperation with Russia, Belarus, and Iran (Box 1).

RECENT ECONOMIC DEVELOPMENTS

3. **After a strong rebound in 2021, the economy continued to grow at a steady pace.** Real GDP grew by 3.8 percent in 2022 supported by private consumption and net exports. Although exports declined in the second quarter of 2023, due to weaker global demand, particularly in livestock and fishing, there was a pickup in private investment, maintaining the growth momentum (3.8 percent in the first half of 2023). On the supply side, most sectors supported economic growth in the first three quarters of 2023, but in particular hotels and restaurants services. After bottoming out at 2.6 percent in December 2022, the unemployment rate increased to 3.5 percent by September 2023, as employment, particularly in free trade zones (maquila), was negatively affected by weaker external demand (Figure 1).

4. **Inflation slowed down considerably in 2023, after peaking in the second half of 2022**. Headline CPI inflation declined from about 12.2 percent (year-on-year) in October 2022 to 6 percent in October 2023, due primarily to a decline in transportation and food prices. Core inflation is also declining—reaching 5.7 percent in October. The month-on-month increases in prices of hotels and restaurants services remained high, due to the sector's ongoing recovery (text chart).



Source: BCN and IMF staff calculations.

[2] Following the 2018 crisis, the United States, the European Union, the United Kingdom, Canada, and other countries imposed targeted sanctions. The United States government also enacted the RENACER Act (The Reinforcing Nicaragua's Adherence to Conditions for Electoral Reform Act) on November 10, 2021, directing the U.S. leadership at international financial institutions to advocate for increased oversight to any financial or technical assistance for projects in Nicaragua. The RENACER Act requires a review of the Dominican Republic–Central America Free Trade Agreement (CAFTA-DR) agreement if there is deterioration in democracy and that any loan is administered through a financially independent entity from the government. In October 2022, the U.S. government has expanded the possible set of available tools and authorities, to further increase targeted sanctions on trade and investment.

5. The consolidated public sector (CPS)[3] balance swung to a small fiscal surplus of 0.1 percent of GDP in 2022, after a deficit of 1.9 percent of GDP in 2021, due primarily to an improvement of the central government balance.[4] The turnaround in the fiscal position was due in equal parts to an increase in tax revenues, buoyed by steady economic performance and the 2019 tax reform, and a moderation in overall spending, particularly, capital expenditures (Annex I), compensation of employees, and social spending (primarily COVID-19 under execution). Subsidies increased due to the introduction of temporary measures to mitigate the impact of the increase in global energy and wheat prices by about 1 percent of GDP. These trends are continuing in 2023 (Figure 3), except for the implementation of the temporary subsidies.

6. Sustained FDI and record-high remittances covered the deterioration in the trade balance and official financing, allowing a continued accumulation of international reserves. In 2022, the trade balance deteriorated due to the increase in the oil import bill and the weakening of global demand. The financial account also deteriorated, due to a decline in official inflows. Sustained FDI inflows (primarily reinvested earnings, see Box 2) and an unprecedent increase in remittances (5.4 percent of GDP) due to the rapid emigration since 2021, alongside prudent macroeconomic policies, supported an increase in gross international reserves (GIR) of about US$350 million. In 2023, GIR accumulated at a faster pace than in 2022 (by about US$1 billion through end-October, reaching about US$5 billion, or 6 months of *non-maquila* imports)[5] as the trade balance recovered due to an improvement in the terms of trade, and remittances continued to increase (by 52 percent year-to-date as of September 2023, Figure 2).

7. The external position at end-2022 was assessed as stronger than the level implied by medium-term fundamentals and desired policies, given record-high workers' remittances. In 2022, the average real effective exchange rate (REER) appreciated by 4.3 percent compared to 2021. The Current Account (CA) and REER models of the multi-country External Balance Assessment (EBA)-lite assessment show real undervaluation of 8.1 percent and 2.5 percent, respectively. The External Sustainability Approach finds the net international investment position (NIIP) sustainable, as the composition of gross liabilities, tilted towards FDI, limits vulnerabilities (Annex II).

8. The Central Bank of Nicaragua (BCN) continued to tighten the monetary policy stance. The BCN raised the monetary reference rate in tandem with the U.S. Federal Reserve between April and December 2022. Until November 2023, even though the U.S. Federal Reserve continued tightening, the BCN held the monetary reference rate constant at 7 percent (text chart). Despite the

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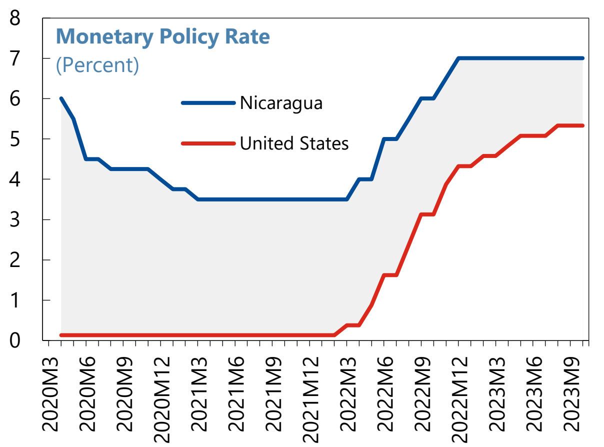
[3] The CPS includes the non-financial public sector (NFPS) and quasi fiscal operations of the central bank. The NFPS comprises the budgetary central government, one decentralized institution, one social security fund (INSS), one local government (ALMA), and four non-financial public enterprises.

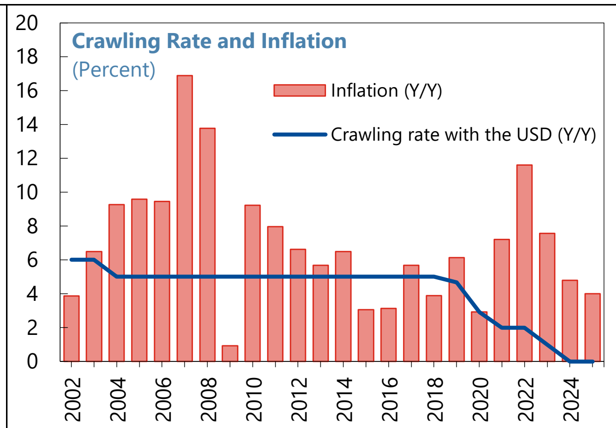
[4] The central government balance improved to a surplus of 0.3 percent of GDP from a deficit of 1.6 percent of GDP in 2021. The improved fiscal position at the CPS level is also due to a narrowing of the public enterprises' deficit, by 0.2 percent of GDP, to 0.1 percent of GDP, and an improvement in the municipalities' positions, both due to a decline in expenditures.

[5] The Fund's assessment of reserves 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. The recommended range is 5.3 to 8.9 months of non-maquila imports.

declining policy interest rate differential with the U.S., there was no depreciation pressure on the nominal exchange rate and net FX sales by the BCN remained negative (Figure 4) due to the large sustained foreign exchange inflows. The BCN decreased the crawling rate of the exchange rate, from 2 percent to 1 percent per year in January 2023, and announced it will change the rate of crawl to 0 in 2024, as reserve accumulation is expected to continue.[6]



Sources: BCN and Federal Reserve.



Source: IMF staff calculations.
Note: 2024-25 are projections.

9. Banks remain well capitalized and liquid, with distressed assets declining along with economic growth. As of end-September 2023, capital adequacy and liquidity ratios for the banks remained high.[7] Bank deposits and net bank credit to the private sector continue to grow steadily (13.1 percent, and 15.6 percent, y-o-y September 2023 as measured in U.S. dollars, respectively). Credit to the private sector experienced a slight deceleration since the beginning of the year though, and it remains well below its pre-crisis level of March 2018. The Non-Performing Loans (NPLs) and distressed assets[8] as a share of total loans continued to fall, reaching 1.2 percent, and 7.9 percent respectively, at end-September 2023 (the latter being well below the peak of over 20 percent in end-2020). Profitability continued to increase steadily in 2022 and 2023 (Figure 5).[9]

[6] This implies no expected nominal depreciation in 2024 within the crawling peg monetary regime. The BCN may adjust the crawling rate in the future, as needed.

[7] Average capital adequacy ratio (CAR) of the financial system is 19.3 percent, declining since 2020 as banks extended loans, increasing their risk weighted assets as a result. The current CAR level is well above the requirement of 10 percent and above the pre-crisis level of 14 percent. Similarly, liquid assets to total liabilities declined, but remained over 33.6 percent.

[8] This measure of distressed assets includes the standard NPLs, plus forborne, restructured, refinanced loans and repossessed assets, along with a special category of restructured loans named "aliviados," introduced during the 2018 crisis and the 2020 pandemic, which did not require provisioning.

[9] Return on equity (ROE) of 12.7 percent and return on assets (ROA) of 2.0 percent in September 2023.

OUTLOOK AND RISKS

10. The economic outlook is favorable, with GDP growth expected to converge to its potential over the medium term.[10] In 2023, real GDP is projected to grow by 4 percent and inflation to fall gradually to 6 percent. Under baseline policies, real GDP growth is expected to grow by 3.5 percent in 2024 and over the medium term, sustained by domestic demand as consumer confidence continues to recover. Medium-term growth is projected to remain below the historical average of 3.9 percent (2000-17), due to expected lower investment[11] and limited labor contribution to growth, given large emigration experienced recently (Annex III). Inflation is expected to decline to 4 percent over the medium term, with declining global inflation. The current account is expected to reach a surplus from 2023,[12] given fiscal consolidation and the steady accumulation of savings, especially in the private sector. Over time, sustained domestic demand will increase imports and deteriorate the trade balance, but steady remittances and prudent policies will continue to support gross international reserves accumulation.[13]

11. There are balanced risks to this outlook (Annex IV). On the upside, real GDP growth could be higher than projected due to stronger domestic demand and growth in the hospitality industry, and higher remittances, especially in the near term. On the downside, a more severe global downturn than in the baseline scenario (Tables 1-10) or a deterioration in the terms of trade[14] could result in lower exports and remittances growth. Over the forecasting horizon, economic activity and social outcomes could be vulnerable to natural disasters, given Nicaragua's high exposure and economic dependence on climate-sensitive sectors (Annex VI in the 2022 Nicaragua Article IV report). Political developments could lead to stricter and wider international sanctions, thereby negatively affecting economic growth.[15, 16]

[10] The strong recovery by 10.3 percent in 2021 created a positive output gap. Potential growth is expected to be 3.5 percent in the medium-term. An in-depth analysis of potential GDP can be found in Annex IV in the 2022 Nicaragua Article IV report.

[11] Over the medium term the government is continuing to consolidate at the central government level, limiting the government's contribution to growth, including through public investment. Gross domestic private investment is projected to remain 5 percent of GDP below the 2018 level, given the slow recovery in credit.

[12] A 5½ percent of GDP turnaround since 2022 to a surplus of about 4 percent of GDP.

[13] Remittances are expected to grow on average 3.6 percent annually over 2024-28, in line with U.S. nominal GDP growth. As remittances grow below the Nicaraguan nominal GDP growth rate, remittances as a percentage of GDP decline from about 28 percent of GDP in 2023 to around 23 percent of GDP by 2028.

[14] Given the high goods exports concentration in three commodities (coffee, beef, and gold, about 70 percent of goods exports) Nicaragua's external position is vulnerable to large swings in commodity prices. Moreover, oil imports represent a large share of the import bill.

[15] 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-DR if there is deterioration in democracy.

[16] Macro-financial risks, although limited, stem from low provisioning to distressed assets, which could be too low if the economic growth subsides, and high loan dollarization, with a limited number of borrowers earning foreign currency. See ¶23-25.

12. Nicaragua is assessed at moderate overall risk of external and public debt distress (Debt Sustainability Analysis, DSA), a similar risk rating assessment to the DSA conducted in 2022.[17] Over the medium-term, the expiration of various subsidies and social benefits, as well as the announced medium-term budget plans for 2024-2027, anchored in continued moderation in current expenditures, will support a gradual decline in public debt to 46.4 percent of GDP by end-2028, from 50.8 projected in 2023. Vulnerabilities to external shocks, natural disasters and contingent liabilities remain elevated, requiring strengthening policy buffers as new external concessional financing is expected to remain limited (DSA ¶12).

Authorities' Views

13. The authorities broadly agreed with staff's assessment on the outlook and risks and reiterated their strong commitment to prudent policies to safeguard macroeconomic and financial stability. The authorities were more optimistic than staff, as they project higher growth over the medium term (4 percent), supported by public and private investment. They agree with staff that prudent fiscal and monetary policies should continue to further increase buffers, which could help mitigate the impact of adverse shocks, if they materialize.

POLICY DISCUSSIONS

Prudent fiscal, monetary, and financial policies will need to remain in place to strengthen policy buffers in case risks materialize. Discussions also focused on policies to boost sustainable medium-term growth and strengthen governance.

A. Enhancing Fiscal Buffers

14. The authorities are committed to continue safeguarding fiscal sustainability and building fiscal buffers. The 2024 budget expects to maintain a fiscal surplus at the central government level of about ¾ percent of GDP. The fiscal stance as outlined in the 2024 budget is appropriate, given solid growth and the need for savings to cover the deficit expected in the social security system (pensions). Over the medium term, staff's baseline projections, based on the government's plans, incorporate a commitment to fiscal prudence. Small surpluses are projected to continue at the central government level, as authorities are already taking measures to reduce expenditures on wages and goods and services.[18] However, capital spending in state-owned enterprises (SOEs) is expected to increase to sustain investment in infrastructure, particularly for water delivery and increasing electrification. Expenditures in the social security system are also projected to increase over the medium term, as the dependency ratio declines, and, with it, the transfers from central governments to cover any deficits. Therefore, under the baseline scenario, the

[17] Nicaragua: 2022 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Nicaragua, January 2023. The public debt path and space to absorb shocks have improved compared to 2022 DSA.

[18] A combination of slow filling of vacancies, and subdued increases in nominal wages. For example, in 2023 nominal wages were increased by 5 percent compared to nominal GDP growth of 13.3 percent.

CPS overall fiscal position over 2023-28 is expected to change from a small surplus in 2023 to a small deficit by 2028. Policy priorities include addressing the growing deficit in the social security system[19] and enhancing fiscal buffers that could be drawn down in a period of need. The main fiscal policy challenge is achieving adequate levels of social spending[20] to reduce poverty and of capital spending to support long-term growth, while also building buffers.

15. Highly concessional borrowing is expected to decline. Nicaragua secured about 7 percent of GDP in external disbursements at concessional terms in 2020-21 (double the historical rates over 2010-19), primarily from CABEI, and also pandemic-related loans from other multilaterals. Over 2024-2025, new concessional financial assistance from multilaterals is projected to be limited, while pandemic loans will be repaid. The government is planning to finance the gross fiscal requirements with the use of government deposits, planned multilateral disbursements from older loans and new debt, including external, and, if needed, commercial debt. Increased financing with domestic and external bonds is possible, but it would raise debt servicing costs, especially in the case of external bonds, given Nicaragua's risk premium.[21]

16. Staff recommended a more ambitious fiscal effort to entrench fiscal sustainability, build fiscal buffers, and create space for higher social and capital spending. Pursuing prudent debt management and financing policies, consistent with transparent and concessional lending, including from bilateral sources and international financial institutions, would help preserve debt sustainability. Staff recommended the adoption of additional measures of 1¼-1¾ percent of GDP[22] over the medium-term:

- Streamline VAT exemptions and improve taxation in selected sectors, e.g., digital and mining, as recommended by technical assistance, and strengthen tax risk management and tax audit procedures to strengthen domestic revenue mobilization; ½ – ¾ percent of GDP.

[19] The financial situation of INSS has deteriorated over the past years due to lower contributions and increased beneficiaries of reduced pensions. In 2018, INSS exhausted its liquid reserves. Authorities implemented pension reforms in 2019. However, some reforms initially announced, have not yet been implemented. These include possible measures to change the minimum number of contributions required to receive a reduced pension and the reduction on the minimum pension. Projections assume that central government will continue to transfer resources to the INSS needed to close the pension system deficit as ongoing discussions have not yet yielded agreed measures.

[20] The government has made efforts to enhance the efficient management and administration of the national welfare system (SNBS) through consolidation of the SNBS into fewer implementing ministries and agencies. However, improving the operating efficiency and sustainability of INSS, as well as further efforts to strengthen the targeting of subsidies are needed. The adoption of a unified registry of beneficiaries could further improve the targeting, effectiveness, and efficiency of public spending.

[21] Nicaragua has not issued Eurobonds so far. While Fitch maintained the long-term credit rating of the sovereign at B- and revised Nicaragua's outlook from stable to positive in June 2023, citing prudent policies and stronger fiscal and external buffers, it also notes downside risks related to political developments including tighter international sanctions and political tensions that could result in a deterioration in the rating.

[22] With these additional measures public debt will decline below 45 percent of GDP by end-2028, and there will be higher spending on infrastructure, human capital, and targeted social transfers, than shown in the baseline.

- Reduce current expenditures (primarily on wages and goods and services); ½ – ¾ percent of GDP.[23]
- Improve the targeting of long-standing subsidies to reduce imbalances from the affected SOEs (0.3 percent of GDP) and create space for investment in infrastructure.[24]

Authorities' Views

17. The authorities are committed to maintain fiscal discipline to strengthen fiscal sustainability and increase fiscal space to support social and public capital spending. Although the current public debt level is sustainable, the authorities agree on the need to maintain prudent fiscal policy, and further lower public debt to bolster fiscal sustainability and continue building fiscal buffers to use them to cushion the economy in case downside risks materialize. The authorities emphasized that ensuring the financial sustainability of INSS (Instituto Nacional de Seguridad Social) remains a priority.

B. Maintaining Exchange Rate Stability

18. Monetary policy should remain geared towards supporting the exchange rate regime, while safeguarding price stability.[25] Substantial foreign exchange inflows and prudent macroeconomic policies are fostering reserve accumulation and have allowed to maintain the monetary reference rate unchanged since December 2022, despite the tightening by the Federal Reserve.[26] Staff supported the authorities' decisions to maintain the crawling peg regime, given the structural characteristics of the economy,[27] and recommended that the authorities monitor foreign exchange flows and remain ready to adjust interest rates and/or the rate of crawl to maintain the exchange rate regime and price stability.[28]

[23] Following up on policy recommendations during 2019 and 2022 Article IV consultation, this recommendation includes raising the quality of public spending and adjusting its composition; in particular, revaluating existing expenditure rigidities to ensure the budget process has enough flexibility to reflect current expenditure priorities.

[24] The largest five SOEs are providing services at non-market prices.

[25] The BCN uses the exchange rate as the nominal anchor for the economy, to support price stability through a crawling peg regime. As the rate of crawls has narrowed over time, to 0 by 2024, this also implies exchange rate stability.

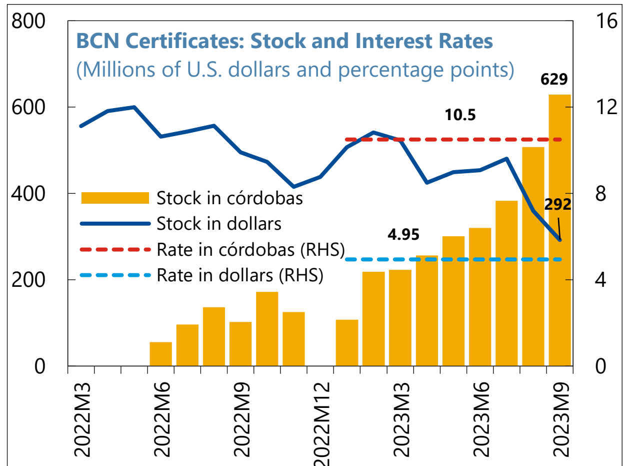
[26] Exchange rate flows have been primarily driven by remittances, which are projected to reach US$4.9 billion or 28 percent of GDP in 2023. Remittances exceeded the goods trade deficit in 2023, and were 4½ times higher than net FDI, and 10 times higher than official government flows. Central bank net sales of foreign exchange are negative, indicating that the combination of maintaining the reference rate at 7 percent and reducing the rate of crawl of the exchange rate was sufficient to maintain the crawling peg regime despite reducing interest rate differential with the U.S.

[27] Exports' structure depending on three main commodities (beef, gold, and coffee) and trading primarily with the U.S., high financial de facto dollarization, and a large informal sector that allows for labor and wage adjustment.

[28] The current and planned crawling peg rate remains below the inflation differential with the U.S. for 2023 and the medium term, helping to further tighten monetary policy and reduce imported inflation.

19. The moderately tight monetary policy stance remains appropriate, consistent with the current policy mix—i.e., tight fiscal policy and continued reserve accumulation, which are supporting the economic recovery and a balanced growth path. Given the small but positive output gap in 2023, and as liquidity in córdobas has been mopped up in recent months, the authorities coordinated fiscal and monetary policy response to safeguard macroeconomic stability while supporting growth.

20. To ensure economic stability, policy coordination needs to continue. Prudent management, clear communication, and enhanced transparency remain crucial to ensure the proper transmission of monetary policy. The communication of exchange rate changes in 2023 was clear and well received by the financial sector (i.e., the changes in the crawling rate for 2023 in January, and for 2024 in August; and the monthly calendar for the exchange rate path, which is now published in advance). Staff welcomed the authorities' decision to increase the tools at their disposal by introducing new instruments in domestic currency with longer maturities (up to one year) to better manage liquidity (text chart), and recommended continued close coordination of fiscal, monetary, exchange rate and financial policies, and adjust the policy mix as needed.[29]



Source: BCN.
Notes: Maturities range from 7 days to 6 months (in domestic currency there are also 12-month). Interest rates refer to annual rates of the 6-month certificates for both currencies.

21. In the medium term, gross international reserves accumulation continues to be necessary to support the exchange rate regime. The multi-year fiscal consolidation envisaged by the authorities at the central government level and the strong and persistent remittances flows are expected to further contribute to external stability and reserves accumulation.

Authorities' Views

22. The authorities agree with staff on the need to continue gearing monetary policy to maintain the exchange rate regime. The authorities remain committed to implementing prudent monetary and exchange rate policies and stand ready to adjust monetary and exchange rate policies as needed. Over the medium-term, the authorities intend to further strengthen liquidity management and monetary policy transmission mechanisms, including the monetary policy reference rate, and deepen capital markets. The authorities deem that their record high foreign

[29] In late 2022, SIBOIF (Superintendence of Banks and Other Financial Institutions) limited banks' investment abroad as a prudential measure amid international financial turmoil. This increased domestic liquidity and partially motivated the additional issuance of domestic BCN certificates. The BCN and the central government coordinate their issuance of instruments to avoid fragmentation in the domestic securities market. Currently, the BCN issues shorter-term securities of up to 1 year and the central government issues longer maturities. Consultation with stakeholders should be maintained and further strengthened.

currency reserves are adequate and agree with staff on the importance of maintaining ample reserve buffers to safeguard exchange rate stability. The authorities emphasized that international reserves accumulation are the result of fiscal consolidation and a tight monetary policy stance.

C. Fostering Financial Sector Stability and Resilience

23. The provisioning ratio of distressed assets could be increased. Staff recommended a more proactive stance for monitoring restructured loans and increasing the level of provisions[30] of other distressed assets beyond NPLs (towards its pre-crisis level) since the level of provisions relative to total distressed assets still remains lower than pre-crisis.[31]

24. The rebound in credit to the economy warrants close oversight in some sectors. Credit growth in personal loans, credit cards, and commercial loans have increased by 32, 23 and 18 percent y-o-y, respectively, due to favorable lending conditions and extensive liquidity. However, the stock of credit in these sectors, overall credit, and credit-to-GDP ratio remain well below pre-crisis level (the latter at 27 percent in September 2023 vs. 38 percent in March 2018). Staff supported the authorities' decisions to implement borrowers'-based measures to mitigate systemic vulnerabilities, including increasing the minimum payment on credit cards from 2 percent to 4 percent of account balance and reactivating the countercyclical provisioning to address any excessive borrowing, which also helps increase capital buffers. The authorities should continue ensuring that the rebound in credit is coupled with sound and prudent lending policies.

25. FX risk also warrants attention given the high level of dollarization. Nicaragua has the highest dollarization level among the non-fully dollarized countries in the CAPDR region (Annex V). Credit dollarization remains steady at around 90 percent of total credit, while deposit dollarization declined from about 75 percent in 2017 to about 70 percent by September 2023. Although FX risk did not represent an issue when deposits and bank balance sheets contracted by almost a third during the 2018-19 socio political crisis, on average, only 15 percent of borrowers generate foreign currency, and hedging instruments (such as future or swaps) are not permitted under domestic law. Staff encouraged the authorities to strengthen measures to mitigate FX risks, by: (i) assigning a higher weight for personal and mortgage loans in foreign currencies in the computation of the capital requirement; (ii) increasing further the risk weights for commercial loans whose debtors do not generate foreign currency; and (iii) ensuring that liquidity coverage is done by currencies (foreign and domestic) in addition to the consolidated currency position.

26. Crisis preparedness arrangements need to be further strengthened. The authorities should update the resolution framework and align it with best international practices (Financial

[30] Including assessing if the NPL/distressed assets classification, regulation and supervision is consistent with best practice. A CAPTAC-DR capacity development mission is scheduled in 2024.

[31] As of end-September 2023, the level of provisions relative to NPLs is much higher than pre-crisis (378.4 percent vs. 226 percent now), due partly to a record low level of NPLs. However, whereas pre-2018 crisis distressed assets represented less than 3 percent of total portfolio, they were provisioned at about 86 percent, while at end-September 2023 distressed assets represent 7.9 percent of total loans and they were provisioned only about 56 percent.

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. Staff encouraged the authorities to: (i) advance their update of the resolution framework plan by enhancing the existing arrangements between the different entities involved in crisis preparedness and management; and (ii) consider conducting crisis simulation exercises. The authorities could create a subcommittee of the Financial Stability Committee to deal with potential crisis.

27. The authorities should expand the prudential supervisory perimeter. To continue to maintain the stability of the financial system, the authorities are encouraged to overcome data gaps for credit and savings cooperatives and start their oversight.[32] The Fund stands ready to provide technical assistance to the authorities on all financial issues, including to support the implementation of the 2019 Financial Sector Stability Report (FSSR) roadmap.

Authorities' Views

28. The authorities are committed to further strengthening the resilience of the financial sector. The authorities emphasized the record-low rate of NPLs and that the level of distressed assets continues to fall. They are also monitoring the evolution of credit to ensure it is in line with financial stability. The authorities agree on the need to update their crisis preparedness framework and emphasize that it first requires amending the laws of the associated supervisory body and guarantee fund. The authorities will continue their oversight of some of the large microfinance institutions and could expand it to cooperatives institutions if they request it and satisfy the necessary conditions for such oversight. While the authorities do not perceive immediate FX risks, they remain committed to monitoring unhedged FX borrowing and strengthening FX risk mitigating measures if needed.

D. Boosting Medium-Term Growth and Employment

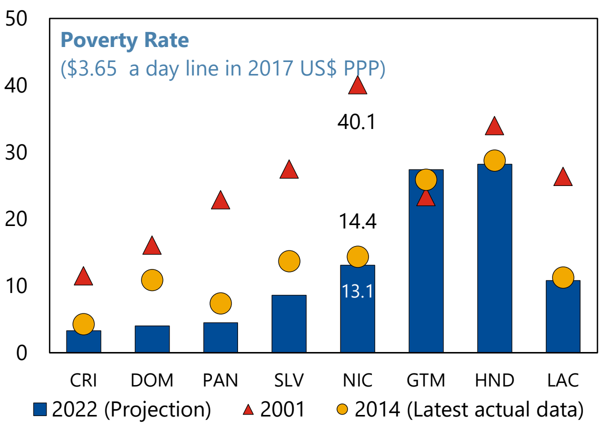
29. To achieve higher medium-term growth and further reduce poverty, persistent policy efforts are needed. Sustained higher medium-term growth would help support further gains on poverty reduction and income convergence (charts). Continued investment in infrastructure and human capital is important, as well as raising the labor force participation rate.[33] The latter is crucial since the labor contribution to growth in the medium term is expected to be lower due to recent rapid emigration (Annex III) and can be achieved through measures supporting formal jobs creation,[34] like tax simplification. Measures to enhance the business climate are also needed to

[32] Following a principle of proportionality, prioritizing largest institutions, and finalizing the capital requirements legislation for microfinance companies.

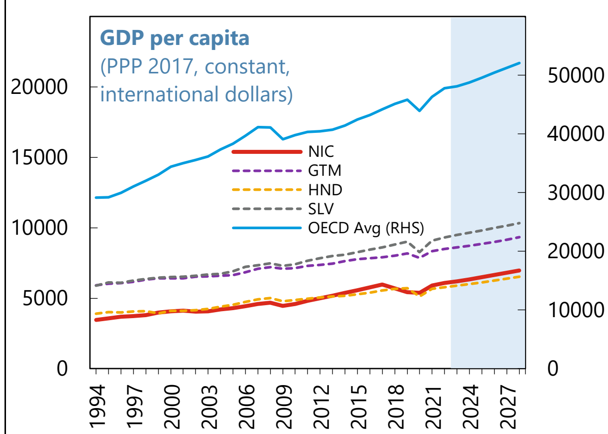
[33] It continues to hover around 66.5-67.5 percent in 2022-23, below 72 percent recorded pre-crisis.

[34] The fiscal policy recommendations to ensure there is fiscal space for social spending would ensure that poverty alleviation will continue, supporting medium-term growth. In addition, adequate spending on human capital is needed, given the recent transfer to the government of various not for profit organization functions on education and health, like the Red Cross.

ensure the present observed increase in private investment is sustained or increased, including: (i) strengthening government institutions and frameworks in the areas of contract enforcement, protection of property rights, and resolution of insolvencies; (ii) reinforcing the dialogue with the business community to ensure their feedback is considered before making changes affecting them; and (iii) strengthening the anti-corruption and governance frameworks, including the rule of law (see next section).[35]



Source: World Bank Macro Poverty and World Development Indicators.



Source: IMF WEO.
Note: The shaded areas indicate projections.

Authorities' Views

30. The authorities concur that there is a need to enhance policies to support potential growth, which they see above 4 percent. They view the existing macroeconomic policy mix being conducive to growth and job creation and are working to secure financing to increase public investment. The authorities affirmed that capital market reforms are needed to catalyze private investment. The authorities also emphasized that the 2024 Budget and medium-term fiscal plans include funding to support human capital enhancement, including to cover expenditures in education and health. The authorities do not see migration as a major drag on long-term growth, as they expect the labor market to adjust given the high underemployment rate (underemployment is estimated at 40 percent). In the medium term, the authorities see China's Free Trade Agreement as an opportunity for export growth and foreign direct investment into the country.

[35] 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 and 28, to a score of 19 in 2022, with a confidence interval between 17 and 21, respectively). The index aggregates data from various sources to provide a measure of perceived corruption in the public sector, based on by businesses', individuals', and country experts' views. Surveys and assessments that are used as inputs for the index include evaluations of the government's ability to enforce integrity mechanisms, e.g., through laws of financial disclosure, of conflict of interest and access to information, and of legal protection of whistleblowers, journalists, and investigators, among others. The drop in Nicaragua's score is considerably larger than observed in most regional peers during the same period.

E. Strengthening Economic Governance, including the Rule of Law

31. Nicaragua has advanced on the improvement of its AML/CFT framework and stronger efforts are needed to ensure the effectiveness and proper application of the framework. Nicaragua has been removed from the Financial Action Task Force (FATF) "gray list" in October 2022 due to strengthening of the AML/CFT legal framework and has followed up on the Latin American FATF Group (GAFILAT) recommendations to enhance the effectiveness of the AML/CFT framework by updating the National Risk Assessment, enacting new regulations that detail the graduation of penalties imposed on NPOs, and improving supervisory activities and outreach. However, stronger efforts are needed to ensure the effective and proper application of the framework. Staff recommended to regulate the sector in a more targeted way, aligned with the risk assessment, to avoid unintended consequences of the potential misapplication of the FATF standards which leads to the closure of a large part of the NPO sector.[36] Conducting outreach on the new amended text of the NPOs Regulation and maintaining constructive discussions with the NPOs to ensure fair and proportionate penalties to help with the continuation of the NPOs' activities, while preventing their misuse for crimes, will also help the sector fulfil its role in the economy. Staff also recommended stronger collaboration between the Judiciary and the Financial Intelligence Unit (UAF) to increase the effectiveness of prosecution of cases using financial intelligence (see Annex VII). Moreover, staff recommended that the authorities, UAF, the Public Interior Ministry (MIGOB), and the National Commission of Microfinance (CONAMI) keep fostering dialogue with entities from the informal sector, including through proactive engagement and with certification efforts for their compliance officers, since the size of the informal economy presents significant AML/CFT challenges.[37]

32. The government has made commendable efforts to improve significantly fiscal transparency over the past years, and it needs to sustain these efforts to enhance fiscal governance (see Annexes VIII-IX). Most commitments and recommendations from the RCF/RFI have been implemented, or partially implemented,[38] as well as recommendations from the 2022 Article IV and the Fiscal Transparency Evaluation. The authorities have: (i) been publishing on the Finance Ministry's website details of pandemic-related spending and procurement contracts, including beneficiary ownership,[39] the independent external audit reports on all pandemic-related use of

[36] Along with recent changes to other regulations.

[37] CONAMI uses a multi-pronged approach to mitigate these risks, through a combination of open-media research and communication with other authorities.

[38] See also Annex VIII.

[39] 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.

public funds,[40] and the audit of financial statements of three of the largest SOEs for 2021 and 2022;[41] (ii) expanded coverage of fiscal reports, including improvement in the frequency and timeliness in the publication of public finance statistics and public finance reports;[42] and (iii) broadened the scope of the public debt report by including local government debt[43] and two fiscal risks reports.[44] To enhance fiscal governance and improve public financial management, staff recommended to continue publishing all the audit reports regarding the use of pandemic-related funds, promptly publishing the annual financial statements of the central government and their audit reports performed by the Comptroller General Office, and expand the publication of SOEs' financial statements. Progress is ongoing on all these fronts.[45]

33. The authorities have taken steps to enhance governance and anti-corruption frameworks, yet major efforts are needed to strengthen these frameworks and their effective application, especially *the rule of law*. The Comptroller General Office has introduced a digital platform to collect asset declarations of public officials and has made significant progress in collecting asset declarations of politically exposed persons. Staff recommend enhancing the effectiveness of the anti-corruption framework by ensuring public access to the declarations of top-level officials, including through their publication, conducting risk-based assessments periodically, and adopting additional measures aimed at preventing conflict of interests in the public administration.[46] To support business climate and growth, the government should strengthen the capacity to detect and prosecute possible acts of corruption at all levels in government by enacting whistleblower protection regulations and providing adequate and effective judicial recourse to

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[40] The first external audit report was published on the government's website in November 2022. It covers the execution of funds from April 1, 2020, to May 31, 2021, including the transfers from the government to the United Nations Office for Project Services (UNOPS) and the World Food Program (WFP) of the share of IMF emergency funds. The second external audit report of all pandemic-related use of public funds for the period covering expenditures from June 1, 2021 until June 30, 2022 has been published in November 2023.

[41] Of the five largest SOEs, ENATREL, ENACAL and EPN have published audited financial statements for 2021 and 2022. While PETRONIC and ENEL have published audited financial statements until 2020. However, authorities have to still expand publications to other SOEs, aiming to publish financial statements of all the SOEs, and their audit reports.

[42] The annual calendar of publications of public finance and debt statistics and the calendar of bond auctions are available online.

[43] The annual and quarterly public debt reports are published online and have broadened coverage to include the debt of one local government; Managua (ALMA) the largest municipality. Authorities continue to sustain efforts, expanding coverage to include debt guarantees disaggregated by beneficiary in the 2022 annual public debt report.

[44] The annual fiscal risks reports are published online. The second fiscal risk report was published in May 2023 in line with IMF and World Bank's TA recommendations (see Informational Annex)

[45] A standardized manual for the consolidation of financial statements and audit reports of the central government, decentralized institutions, and public companies, and to expand coverage of monthly statistics from four to seven SOEs. The three SOEs to be added include ENABAS, EAAI and the National Lottery. The public finance reports and fiscal statistics compiled and published currently include four public companies; ENATREL, ENACAL, ENEL and EPN. The Ministry of Finance expressed the need for CD to train staff to facilitate compilation in accordance with international accounting standards.

[46] On the former, staff recommend that all asset declarations are filed via the newly released digital platform the authorities, as a first step to implement these measures, and on the latter staff recommend implementing awareness-raising campaigns, and training on norms of transparency and access to information and on conflicts of interest.

challenges of decisions on access to information adopted by administrative bodies. Furthermore, staff recommended ensuring fair and impartial access to the court system and to recourse in legal and administrative proceedings to support property rights, contract enforcement, and investment protection. The authorities should also consider adopting reforms that suspend administrative decisions potentially affecting property rights until the administrative acts are considered final.

34. The authorities have taken steps on some of the safeguards assessment recommendations, and further concerted efforts are needed. The BCN has initiated steps to resolve legacy assets and liabilities in its balance sheet. However, a number of priority recommendations from the 2021 assessment remain outstanding; 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).

Authorities' Views

35. While the authorities agreed on the need to continue strengthening the AML/CFT framework and focusing on improving its effectiveness, they also considered that the AML/CFT framework was implemented properly. The closure of NPOs was based on prudential criteria, including the failure to present financial statements. The authorities will continue to work with GAFILAT to ensure they implement all FATF recommendations, including those regarding proper application. They emphasized that no NPO has been closed due to money laundering or terrorism financing allegations.

36. The authorities emphasized their continued commitment to increasing fiscal transparency and enhancing fiscal governance. The authorities are committed to preparing the annual financial statements and audit reports of the central government and expanding the publication and coverage of fiscal reports.

37. The authorities agreed on the need to strengthen anticorruption efforts and acknowledged the importance of ensuring access to adequate and fair legal recourse in administrative and judicial proceedings. The authorities agreed on the need to further strengthen the implementation of the Law on Access to Information and enhance public access to asset declarations of politically exposed persons, rather than the publish these asset declarations. The authorities also acknowledged the importance of continuing access to adequate and fair legal recourse in administrative and judicial proceedings that may impact property rights.

38. The authorities are strengthening the BCN safeguards. In particular, they have started the process of cleaning up the balance sheet from past legacy loans to the economy. The staff's recommendation to move to the IFRS accounting standards will be considered later.

OTHER ISSUES: STATISTICS AND CAPACITY DEVELOPMENT

39. While statistics are broadly adequate for surveillance, work is needed to continue addressing data quality. Data coverage remains appropriate for surveillance. The frequency of publication of fiscal and labor market reports has improved, and the authorities are working with STA and CAPTAC-DR on implementing several TA recommendations. Efforts are required to expand sources of data—e.g., in the real sector, incorporating the results of the household survey in the national accounts and concluding and disseminating the new series with benchmark year 2019, as well as harmonizing public sector debt with external sector debt data (Annex VIII), improve statistical methodologies—for instance, errors and omissions in the BOP are increasing—and no recent data on poverty is available.[47]

40. Nicaragua's Capacity Development (CD) priorities include improving fiscal institutions, maintaining monetary and financial stability, and improving capacity in statistical issues. The authorities' engagement and ownership on these issues continues to be generally robust. Close integration between CD and surveillance activities, as well as coordination with other TA providers remains crucial (Annex X).

Authorities' Views

41. The authorities agreed with staff on the need to improve data quality and emphasized that they are working closely with the IMF and CAPTAC-DR. The authorities have also discussed with staff future plans and possible CD from the IMF.

STAFF APPRAISAL

42. Nicaragua's economy has remained resilient in the face of multiple shocks, supported by appropriate macroeconomic policies, substantial buffers, and multilateral support. After a very strong rebound in 2021, the economy has continued to grow at a steady pace (about 4 percent in 2023). Inflation is declining, and the central government has maintained a small fiscal surplus and healthy government deposits. Remittances, which doubled since end-2021 are reaching about 28 percent of GDP at end-2023, supporting a turnaround in the current account balance to a projected surplus of about 4 percent of GDP in 2023. The foreign exchange inflows from remittances, sustained FDI, and exports, along with prudent macroeconomic policies, contributed to a rapid accumulation of gross international reserves to US$5 billion by end-October (or about 6 months of imports, excluding *maquila*). The policy mix was consistent and adequate in 2023, with tight fiscal and monetary policies and a continued reserve accumulation, supporting a balanced growth path. The

[47] Increasing net errors and omissions point to flows not captured properly. Discussions continue to identify the source and explore possible capacity development. Latest actual data for poverty dates back to 2014. World Bank estimates for more recent years are used throughout this report.

external position at end-2022 was assessed as stronger than the level implied by medium-term fundamentals and desired policies. Nicaragua is assessed at moderate overall risk of external and public debt distress.

43. Economic growth is expected to continue in 2024 and over the medium term, albeit at a slower rate than historical averages. In 2024 and over the medium term, real GDP is projected to grow by about 3½ percent, supported primarily by private consumption, below historical averages (2000-17) of 3.9 percent, given the cautious recovery in investment, limited approved new official financing, and lower labor contribution to growth due to recent emigration.

44. This positive outlook is accompanied by balanced risks. On the upside, real GDP growth could be higher than projected due to a more sustained recovery in domestic demand, including investment, and stronger remittances than projected, especially in the near term. On the downside, a deterioration of the terms of trade, or a more severe global downturn than currently incorporated into the baseline scenario could result in lower exports and remittances growth. Economic activity and social outcomes could be vulnerable to natural disasters, given Nicaragua's high exposure and economic dependence on climate-sensitive sectors. Stricter and wider international sanctions could also negatively affect the economic outlook.

45. Staff supported the authorities' plans to maintain prudent fiscal policy. Staff supported the multi-year fiscal consolidation plans and the authorities' efforts to address the structural imbalances in the social security system (pensions), and enhance buffers given the country's vulnerability to natural disasters. Staff recommended more ambitious fiscal efforts, to entrench fiscal sustainability, build fiscal buffers and create space for higher social and capital spending in the medium term, to reduce poverty, and support growth, through tax administration measures, better targeting subsidies and reallocating current expenditures.

46. Staff recommended that monetary policy should remain geared towards supporting the exchange rate regime, while safeguarding price stability. Staff supported the authorities' decision to continue adjusting the rate of crawl of the exchange rate and emphasized the need to remain vigilant and adjust monetary and exchange rate policies as needed to support the exchange rate regime, while safeguarding price stability. Staff assessed the fiscal and monetary policy stances as appropriate, and the policy mix supportive of growth. Staff emphasized that continued reserve accumulation over the medium-term is essential to maintain the exchange rate regime.

47. While banks are well-capitalized and liquid, the resilience of the financial sector could be further enhanced. Staff recommended increasing the level of provisions for distressed assets and supported the authorities' efforts to ensure that sound lending practices are preserved by activating countercyclical buffers as needed and increase the minimum payments for credit cards. Staff encouraged the authorities to align the crisis preparedness framework with best international practices, obtain complete data for credit and savings cooperatives, and expand their oversight if needed. Staff also recommended continuing to monitor FX risks and strengthen FX risk mitigation measures.

48. Staff welcomed the authorities' efforts to sustain medium-term growth through continued investment in infrastructure and human capital and recommended implementing policies to raise labor force participation and enhance the business climate through strengthening government institutions and frameworks in the areas of contract enforcement, protection of property rights, and resolution of insolvencies.

49. Staff recommended improving the effective application of the AML/CFT framework. In particular, staff recommended the proper application of the AML/CFT framework, in line with the FATF recommendations, to ensure that Nicaragua continues to fare well in the next evaluation round after being removed from the "gray list" in 2022.

50. The authorities have taken steps to enhance governance and anti-corruption frameworks, yet major efforts are needed to strengthen these frameworks and their effective application, especially *the rule of law*. Following on the recent progress in the implementation of the Law of Access to public Information and collecting asset declarations of politically exposed persons through the digital platform, staff recommended: (i) publishing the asset declarations of politically exposed persons; (ii) implementing risk-based assessments of these declarations; and (iii) enacting whistleblower protection regulations. To ensure that the anti-corruption and governance frameworks are effective, and property rights, contract enforcement, and investments are protected properly, staff recommended that the government strengthens the *rule of law* by guaranteeing adequate, effective, and fair administrative and judicial recourse to legal proceedings, especially those which have consequences for property rights.

51. Staff commended the authorities' efforts to improve fiscal transparency and urges that these efforts be sustained through continuing publication of all audit reports regarding the use of pandemic-related funds, promptly publishing the annual financial statements of the central government and their audit reports, and expanding the publication of SOEs financial statements.

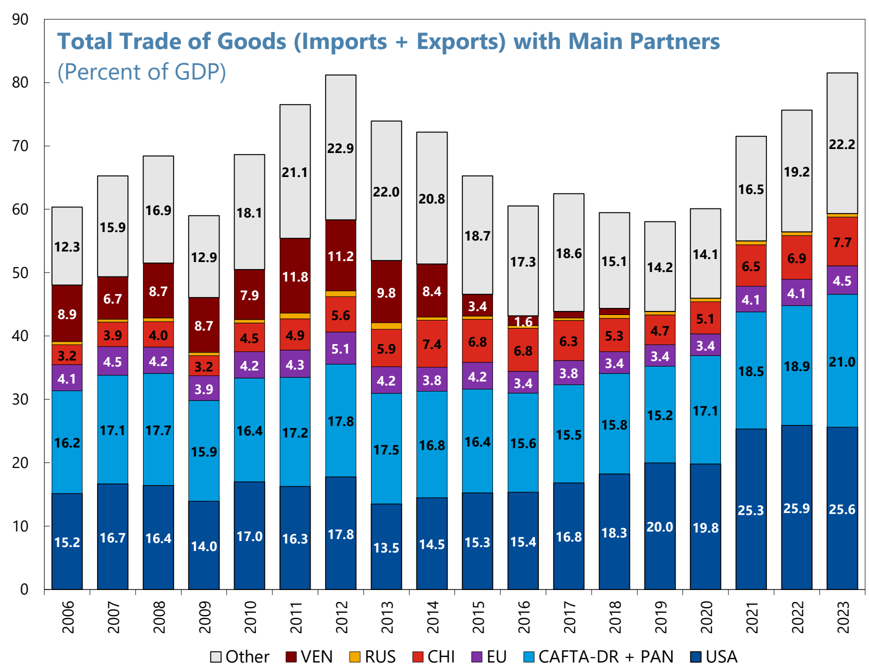
52. Staff recommended continuing to improve data quality and working further to enhance institutional capacity in fiscal, monetary, financial, and statistical issues.

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

Box 1. Nicaragua's International Trade Linkages

Nicaragua's external trade is strongly linked to the U.S. and CAFTA-DR peers.[1] As of 2022, Nicaragua exported 28.7 percent of GDP in goods,[2] of which about half were sent to the U.S. and a quarter to CAPDR countries. Exports are concentrated in manufacturing, agricultural products, and mining, but the majority of non-FTZ exports (about 60 percent, as of June 2023) come from just three products: beef (17.5 percent), coffee (18.4 percent), and gold (23.9 percent). Nicaragua imported 46.5 percent of GDP in goods, with about a fourth coming from the U.S. and another fourth from CAPDR countries.

Over the past two decades, these links have strengthened (text chart). The total external trade (defined as total exports of goods plus total imports of goods) with the U.S., regional peers, and the E.U. has consistently represented close to 50 percent of GDP. In particular, external trade with the U.S. has doubled in the past decade, to 25.6 percent of GDP, with the bulk of the increase (10 percent of GDP) since 2018. External trade with China has also increased over the past two decades, from 2.2 percent of GDP in 2006 to 7.7 percent of GDP, primarily due to imports (with a share of 14 percent of imports and only 1 percent of exports on average between 2014 and 2023). Even though external trade with these countries increased, the total external trade by June 2023 was roughly the same as in 2012. Increased trade with the U.S., regional peers, and China has been accompanied by a significant decline in trade with Venezuela, and a slight decrease in trade with E. U. The large trade with Venezuela between the mid-2000s and the mid-2010s reflected the importance of fuel trade in the context of Petrocaribe that stopped in 2018.

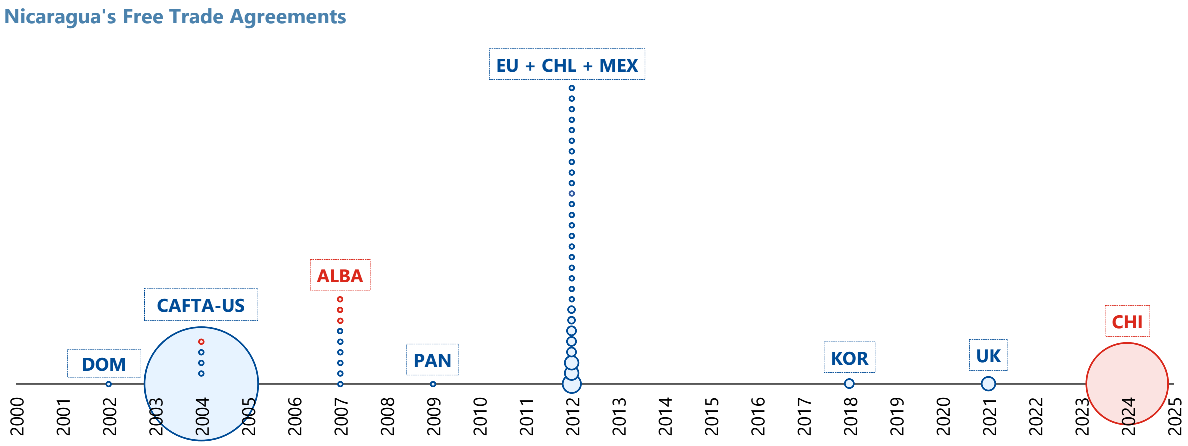


Source: Central Bank of Nicaragua.
Note: 2023 includes only data up to June .

[1] Costa Rica, Dominican Republic, El Salvador, Honduras, and Guatemala.
[2] Excluding free trade zones, which mainly export maquila and other manufacturing products.

Box 1. Nicaragua’s International Trade Linkages (Concluded)

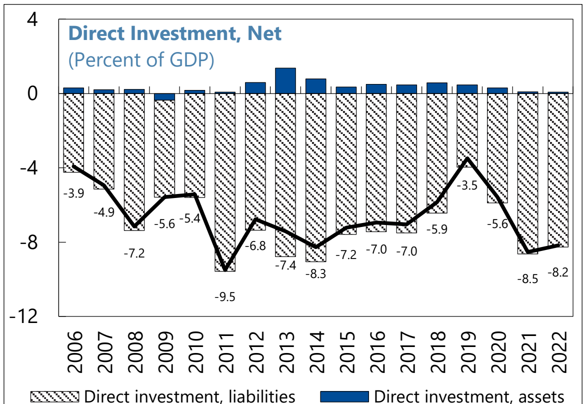
The signature of FTA in the past two decades with the U.S., E.U., and regional peers explains the increased trade with these countries. The majority of FTAs—including the significant CAFTA-DR and the E.U. Association Agreement—have been with economies from the bloc with close ties to the U.S. and the E.U. The FTA between China and Nicaragua was signed in August 2023 and will enter into effect in 2024.



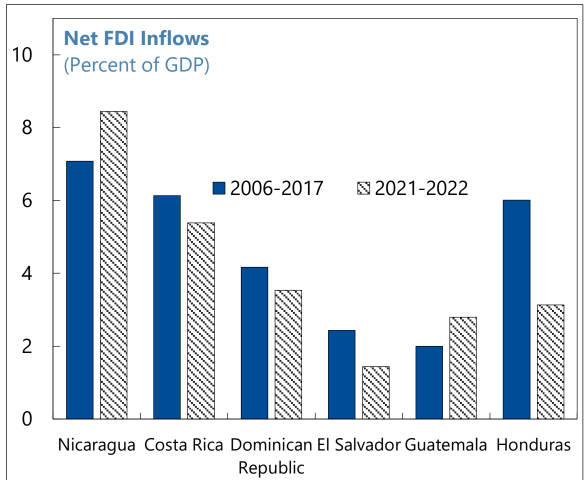
Source: Organization of American States.
Note: Circles' size reflect the relative size of each trading partner's GDP in 2022. Countries with a GDP below 500 billion have all the same size. The UK signed the original agreement as part of the EU in 2012 and resigned it in 2021 after Brexit. ALBA stands for Bolivarian Alliance for the Peoples of Our America.

Box 2. Evolution of FDI to Nicaragua

Net FDI remains resilient. Notwithstanding the socio-political crisis that started in 2018, an sanctions, net FDI stood at an average of -8.4 percent of GDP in 2021-2022, compared to an average of -6.7 percent of GDP over 2006-17.[1] Net FDI inflows have been the main driver of this increase and Nicaragua continued to receive higher FDI inflows in percent of GDP compared to other countries in the region (CADR) in 2021-22, similar to the 2006-17 period.

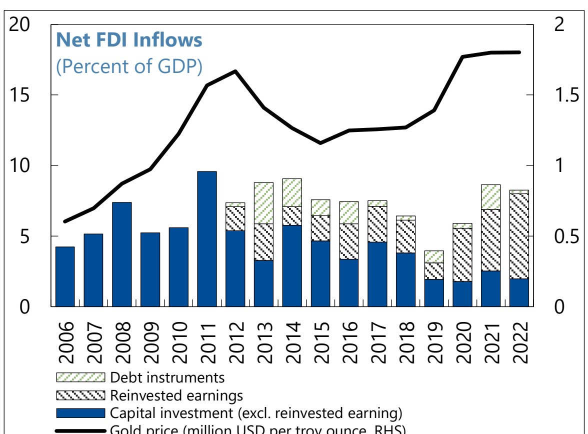


Source: SECMCA, World Economic Outlook, and IMF staff calculations.
Note: Net Direct Investment is the difference between net direct investment of Nicaraguan residents abroad and net direct investment of non-residents in Nicaragua.

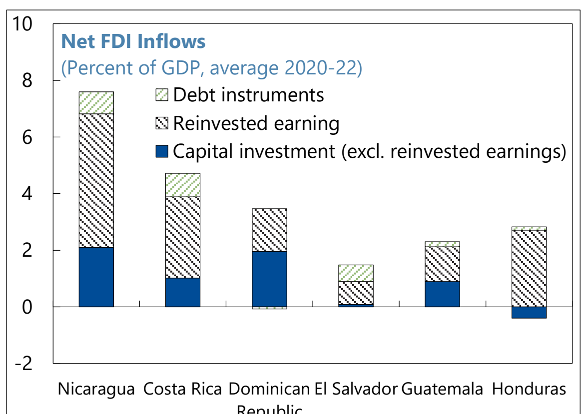


Source: World Economic Outlook, SECMCA, and IMF staff calculations.

Reinvested earnings are the main driving force behind FDI inflows. Since 2020, reinvested earnings accounted for nearly two-thirds of the net FDI inflows to Nicaragua, as established foreign companies consolidated their investments. During this time, gold prices have also been high. Previously, capital investment was the principal driver of FDI inflows. Reinvested earnings have also been the main component of FDI in most other CADR countries.



Sources: BCN, INIDE, and IMF staff calculations.

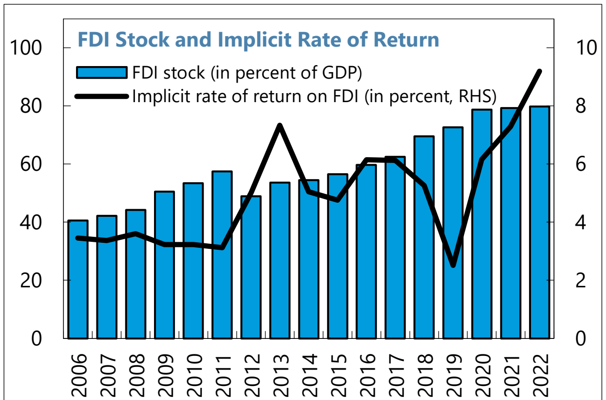


Source: SECMCA, World Economic Outlook, and IMF staff calculations.

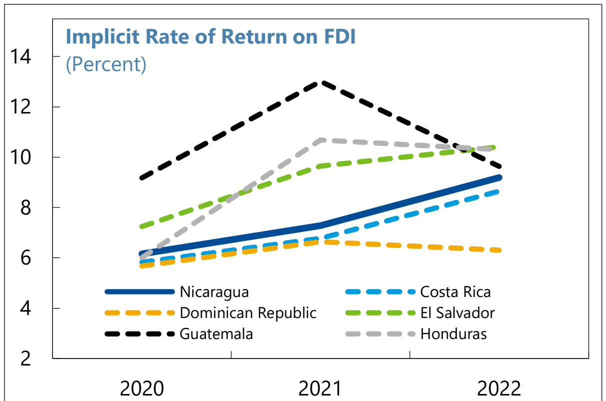
[1]/Net direct investment is a balance of payments concept. A negative number means that net inflows (net direct investment by nonresidents in Nicaragua) is higher than net outflows (direct investment by Nicaragua residents outside of the country).

Box 2. Evolution of FDI to Nicaragua (Concluded)

Nicaragua's implicit rate of return on FDI has exceeded historical rates. The overall stock of FDI has stabilized just below 80 percent of GDP in the last few years, while the implicit rate of return has increased significantly, to 9.2 percent in 2022, exceeding historical rates (average of 4.5 percent in 2006-17). At the same time, these recent higher rates of return have been in line with other CAPDR countries.

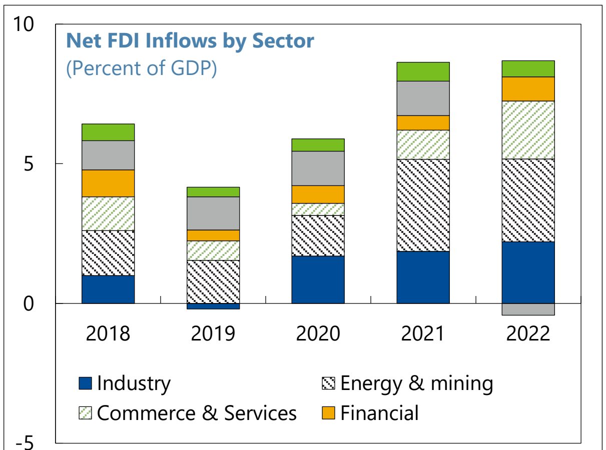


Sources: BCN, INIDE, and IMF staff calculations.
Note: The implicit rate of return is calculated dividing the FDI income flow by the previous year's FDI stock.

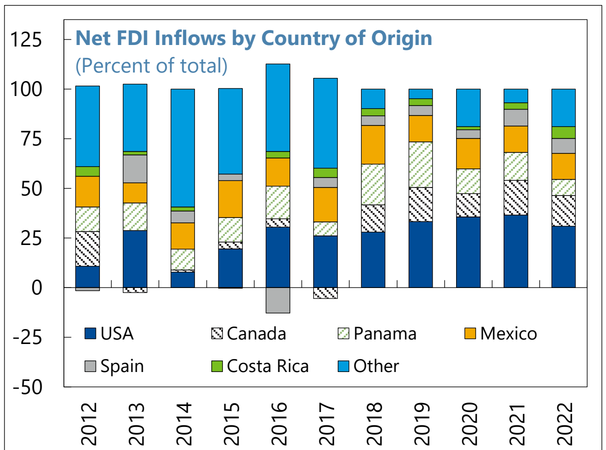


Source: SECMCA and IMF staff calculations.
Note: The implicit rate of return is calculated dividing the FDI income flow by the previous year's FDI stock.

Most FDI inflows to Nicaragua originate from North and Central America. In the last few years, FDI inflows have been concentrated in energy, mining, and manufacturing, and commerce and services most recently. The U.S. has been the principal source country, followed by Canada, Mexico, and Panama. These trends continued broadly the same in the first half of 2023. Going forward, political developments could lead to stricter and wider international sanctions, thereby negatively affecting FDI and economic growth.



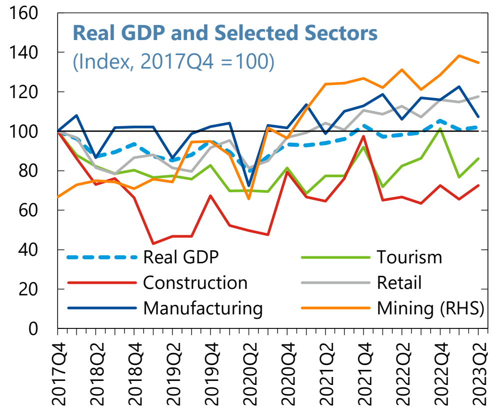
Sources: BCN, INIDE and IMF staff



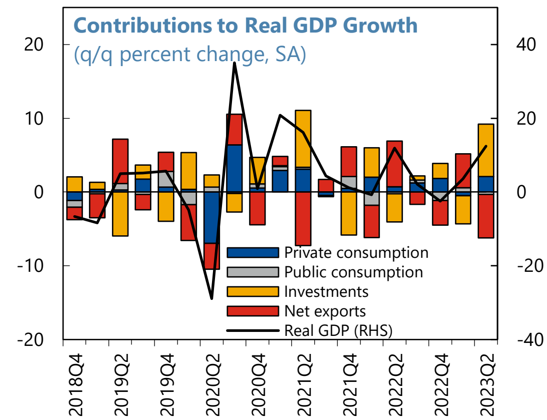
Source: BCN, SECMCA, and IMF staff calculations.

Figure 1. Nicaragua: Real Sector

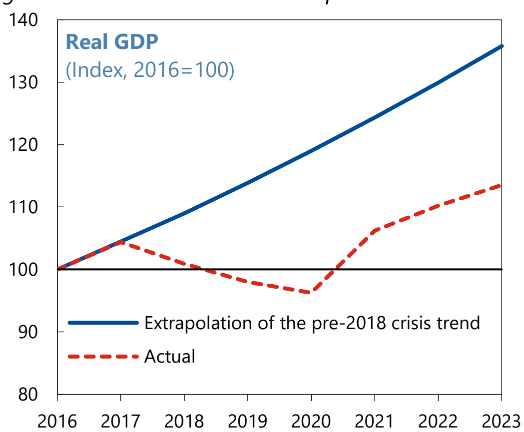
Mining continued driving growth, while manufacturing activity deteriorated in 2023.



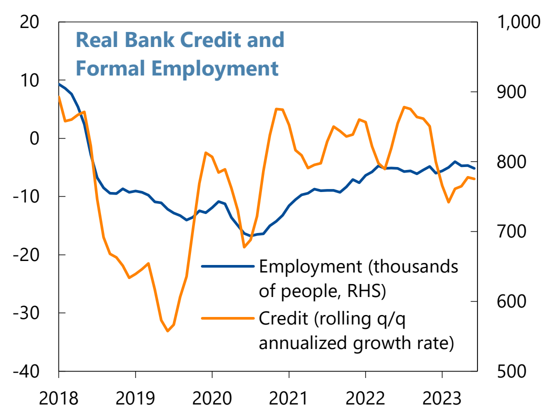
After slowing down in the second half of 2022, aggregate demand recovered in 2023H1.



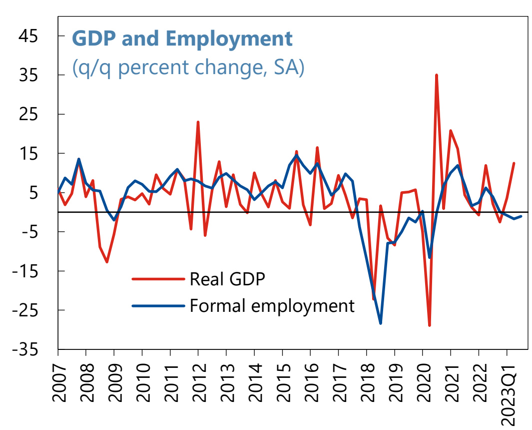
Pre-crisis real GDP level has been surpassed, but the growth rate has remained below pre-crisis level.



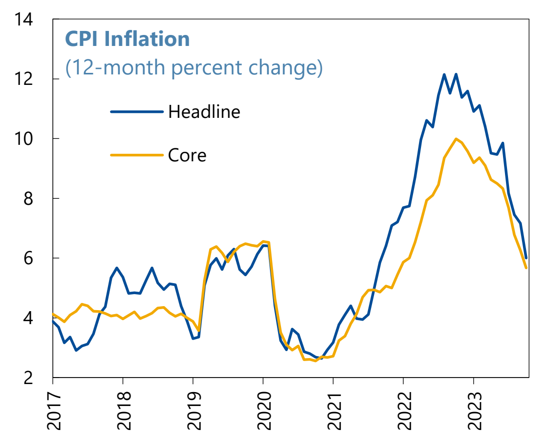
The recovery continued in 2022, but real credit growth and employment remain below pre-crisis levels.



Gains in formal employment have declined.



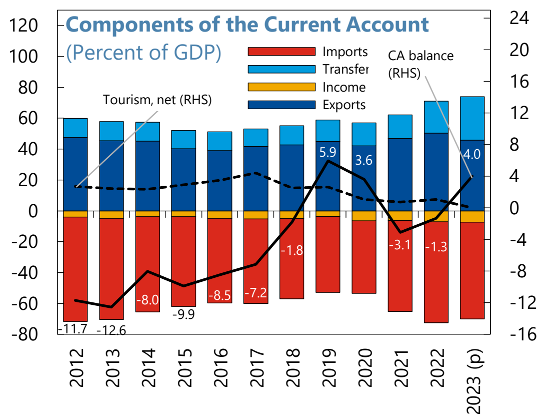
Inflation has been declining since late 2022.



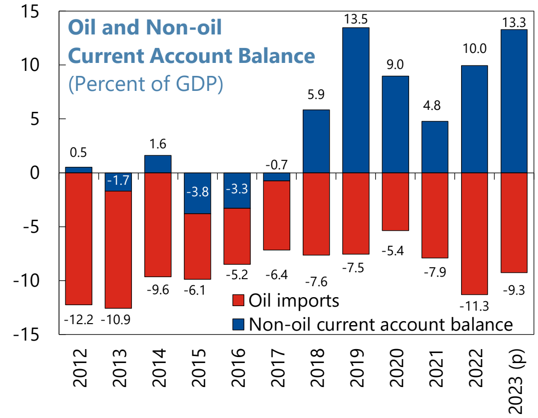
Sources: National authorities and IMF staff calculations.

Figure 2. Nicaragua: External Sector

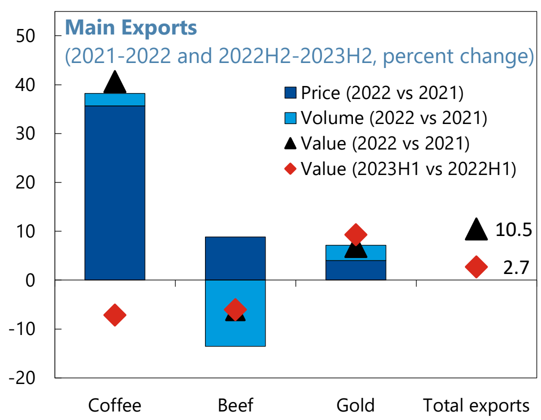
The current account turned into a surplus in 2023 due to a strong increase in remittances.



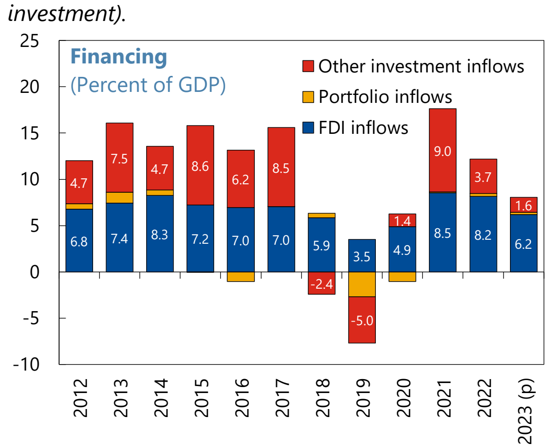
International fuel prices led to an increase in oil imports in 2022, and a decline in 2023.



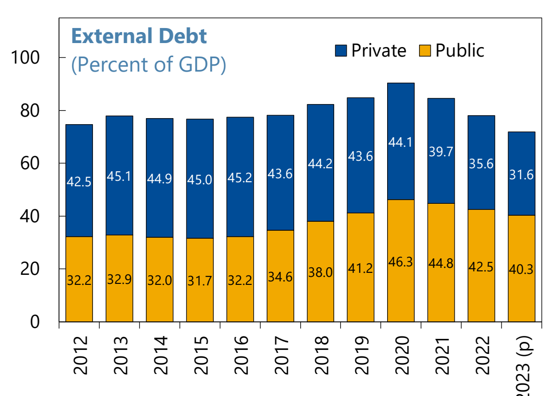
Exports remained strong in 2022 amid higher prices, particularly coffee. For 2023H1, exports have shown slower overall growth, reflecting weaker external demand.



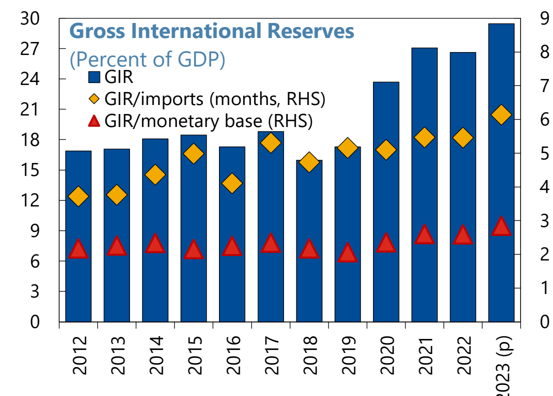
Capital inflows normalized but remain lower than pre-crisis and are receding since 2022, especially official flows (other investment).



External debt is decreasing…



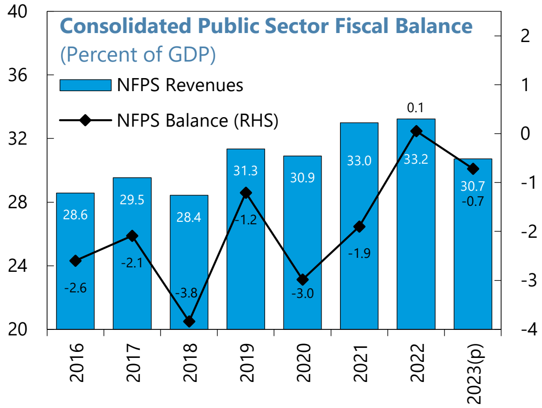
…and international reserves reached historic highs.



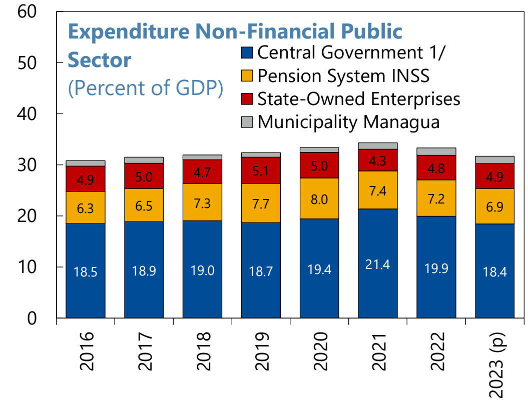
Sources: National authorities and IMF staff calculations.

Figure 3. Nicaragua: Fiscal Sector

Fiscal position swung to a surplus in 2022 due to robust revenues…

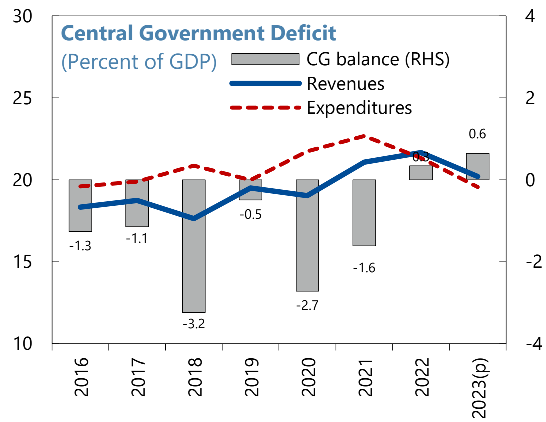


…as spending also declined (as a share of GDP) primarily for central government.

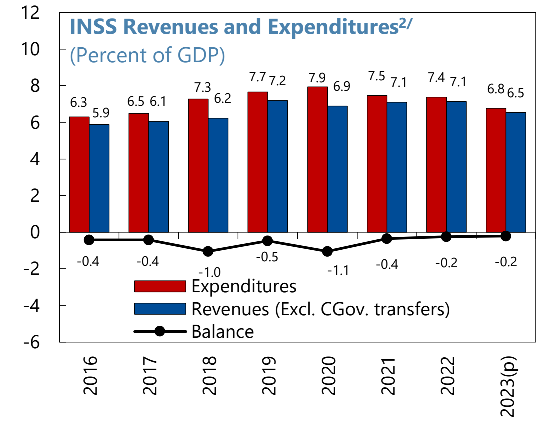


1/ Central government excludes transfers to INSS

Central government is expected to record another fiscal surplus in 2023.

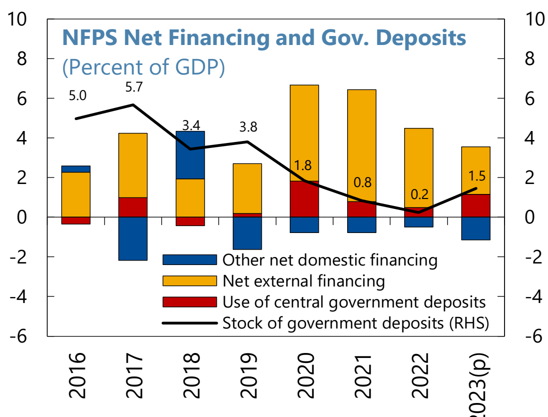


The pension system deficit increased as contributions have reduced with a fall in formal employment in 2023.

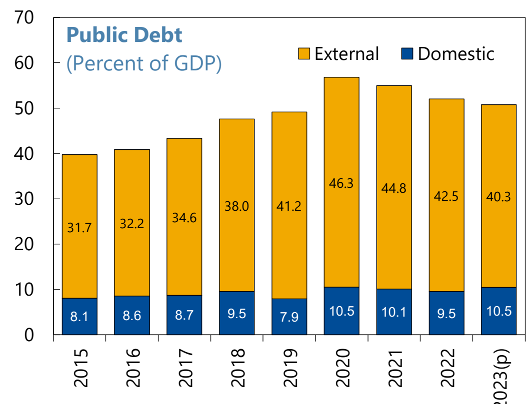


2/ In this chart revenue and balance exclude central government transfers.

Net external financing is shrinking.



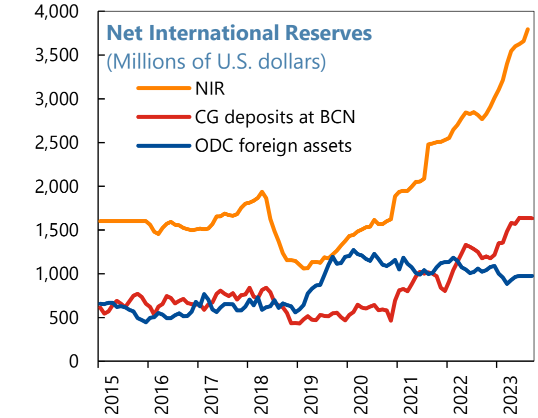
While public debt is declining with steady GDP growth and fiscal surpluses.



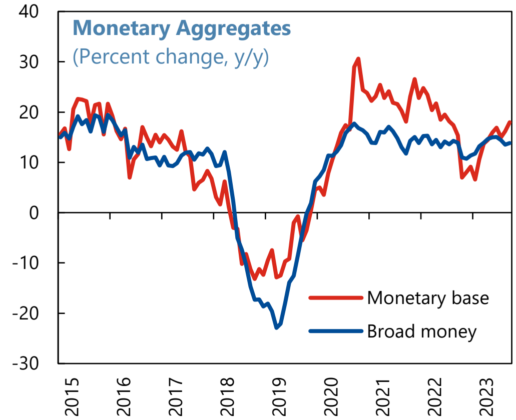
Sources: National authorities and IMF staff calculations.

Figure 4. Nicaragua: Monetary Sector

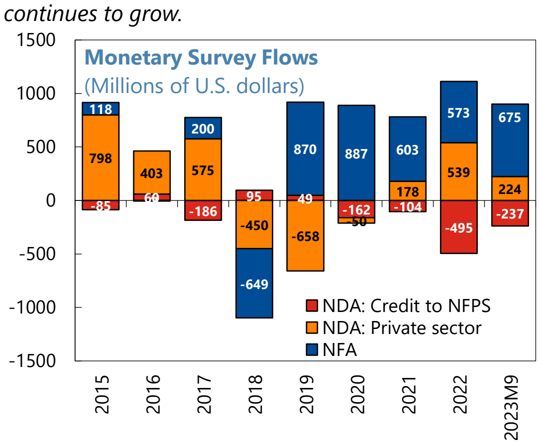
NIR and central government deposits at the BCN grew considerably in 2022 and 2023.



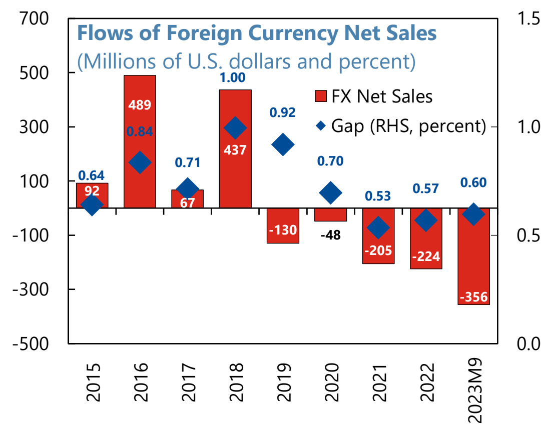
After tightening in 2022, monetary base and broad money are growing moderately in 2023…



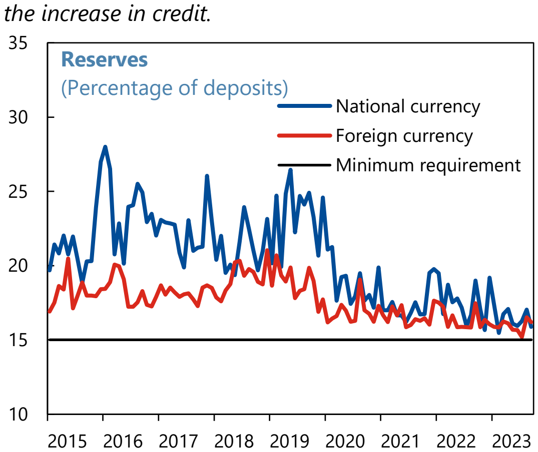
…as increases in credit to the private sector are higher than decreases in credit to the government, and NFA continues to grow.



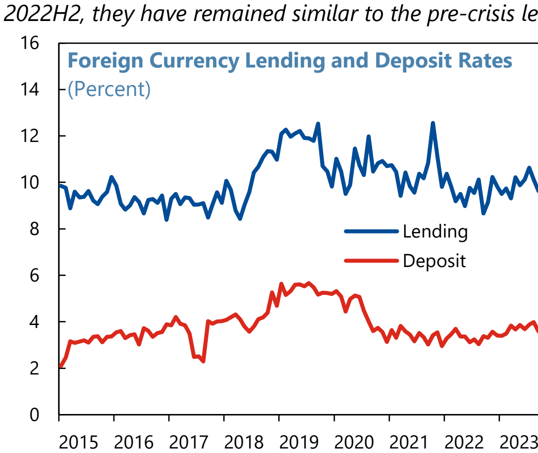
BCN FX net sales remain negative since 2019, with the official rate very close to market rate.



Excess reserves are declining, primarily in Cordoba, with the increase in credit.



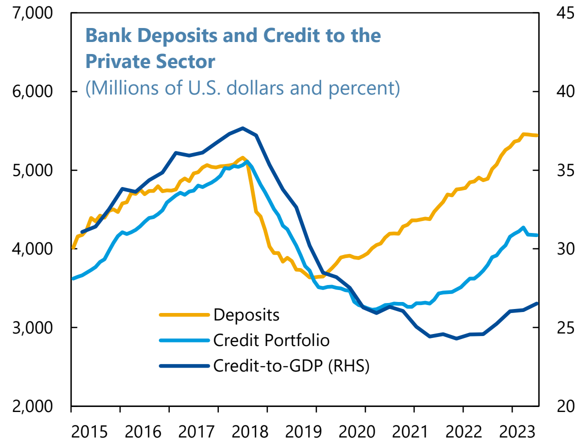
Although lending and deposit rates increased slowly since 2022H2, they have remained similar to the pre-crisis levels.



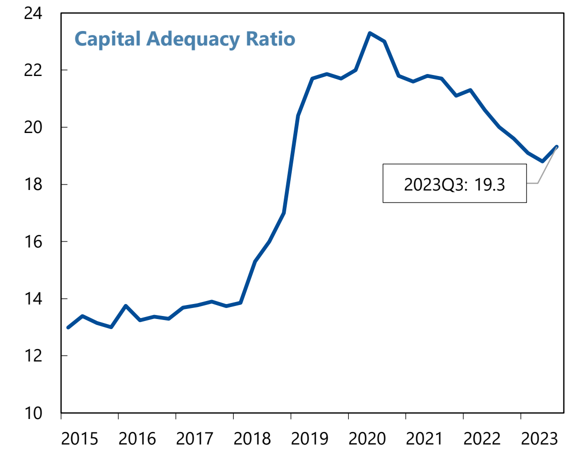
Sources: National authorities and IMF staff calculations.

Figure 5. Nicaragua: Financial Sector

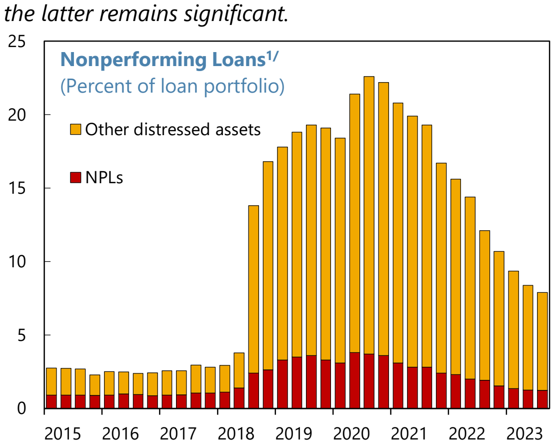
Bank deposits recovered strongly, but the level of credit to the private sector remains well below pre-crisis levels.



Banks' capital remains well above required minimum.

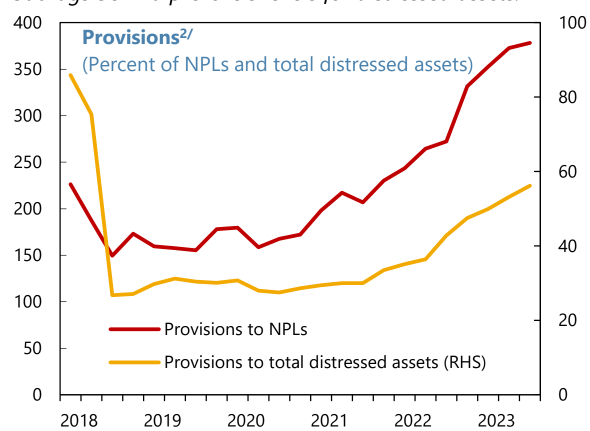


NPLs and distressed assets continued to decline, although the latter remains significant.



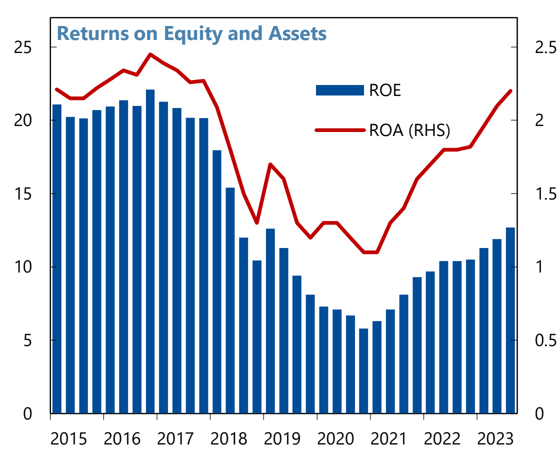
1/ Adding restructured, refinanced loans and forborne loans.

Provisioning increased steadily and seems strong for NPLs but lags behind pre-crisis levels for distressed assets.

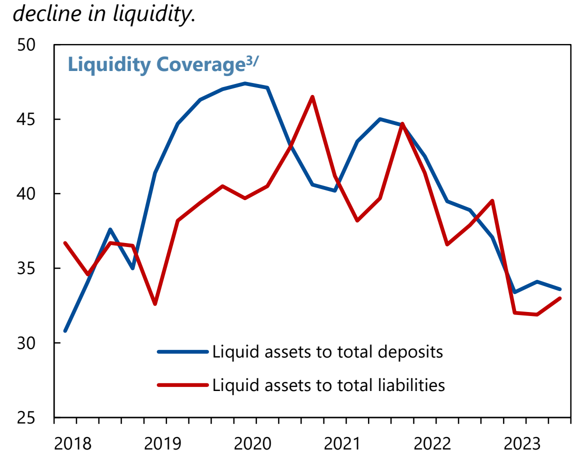


2/ Adding restructured, refinanced loans and forborne loans to NPLs.

The financial system is also recovering profitability since the fall in 2018-2020…



…and banks operate with comfortable liquidity, despite a decline in liquidity.



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

Sources: National authorities and IMF staff calculations.

Table 1. Nicaragua: Selected Economic and Social Indicators, 2018–28

I. Social and Demographic Indicators

GDP per capita (current US$, 2021)	2,163.1	Income share held by the richest 10 percent (2014)	37.2
GNI per capita (Atlas method, current US$, 2021)	2,010	Unemployment (percent of labor force, 2020)	11.1
GINI Index (2014)	46.2	Poverty rate ($3.65/day line in 2017 PPP, percent, 2014)	14.4
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)	12.1

II. Economic Indicators

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Prel.[1/]			Projections			
Output					(Annual percentage change; unless otherwise specified)						
GDP growth	-3.4	-2.9	-1.8	10.3	3.8	4.0	3.5	3.5	3.5	3.5	3.5
GDP (nominal, US$ million)	13,025	12,713	12,682	14,145	15,671	17,487	18,910	20,355	21,910	23,584	25,386
Prices											
GDP deflator	2.7	5.4	5.4	3.6	8.9	8.9	5.0	4.0	4.0	4.0	4.0
Consumer price inflation (period average)	4.9	5.4	3.7	4.9	10.5	8.9	5.0	4.0	4.0	4.0	4.0
Consumer price inflation (end of period)	3.9	6.1	2.9	7.2	11.6	6.0	4.8	4.0	4.0	4.0	4.0
Saving and investment (percent of GDP)											
Gross domestic investment	**24.1**	**17.8**	**19.4**	**23.4**	**21.9**	**19.5**	**19.1**	**19.3**	**19.4**	**19.3**	**19.6**
Private sector	16.5	10.8	11.0	13.0	13.1	12.2	11.9	11.7	11.5	11.2	11.0
Public sector	7.6	7.1	8.4	10.3	8.8	7.3	7.2	7.6	7.9	8.1	8.6
Gross national savings	**22.3**	**23.8**	**23.0**	**20.3**	**20.6**	**23.5**	**21.5**	**20.3**	**19.4**	**18.4**	**18.3**
Private sector	19.6	19.3	19.1	13.6	13.2	18.1	15.9	14.1	12.9	11.9	11.5
Public sector	2.7	4.5	3.9	6.6	7.4	5.4	5.6	6.1	6.5	6.5	6.9
Exchange rate											
Period average (córdobas per US$)	31.6	33.1	34.3	35.2	35.9	36.4	36.6	…	…	…	…
End of period (córdobas per US$)	32.3	33.8	34.8	35.5	36.2	36.6	36.6	…	…	…	…
Fiscal Sector						(Percent of GDP)					
Consolidated public sector (overall balance after grants)[2/]	**-3.8**	**-1.2**	**-3.0**	**-1.9**	**0.1**	**-0.7**	**-0.5**	**-0.3**	**-0.2**	**-0.2**	**-0.3**
Revenue (Incl. grants)	28.4	31.3	30.9	33.0	33.2	30.7	30.4	30.5	30.6	30.5	30.6
Expenditure	32.3	32.6	33.9	34.9	33.2	31.4	30.9	30.8	30.8	30.8	30.8
***of which:* Central Government overall balance[3/]**	**-3.2**	**-0.5**	**-2.7**	**-1.6**	**0.3**	**0.6**	**0.7**	**1.2**	**1.5**	**1.5**	**1.7**
Revenue	17.6	19.5	19.0	21.1	21.7	20.2	20.3	20.4	20.4	20.4	20.4
Expenditure	20.9	20.0	21.8	22.7	21.3	19.6	19.5	19.2	18.9	18.9	18.7
Cash payments for operating activities	16.5	16.5	17.3	16.9	16.5	16.4	16.4	16.1	15.8	15.8	15.6
Net cash outflow: investments in NFAs	3.5	3.5	4.4	5.8	4.8	3.1	3.1	3.1	3.1	3.1	3.1
***of which:* Social Security Institute (INSS) overall balance[3/]**	**0.1**	**0.2**	**0.0**	**0.1**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Revenue	7.4	7.8	7.9	7.6	7.3	6.8	6.6	6.6	6.5	6.5	7.1
Expenditure	7.3	7.7	7.9	7.5	7.4	6.8	6.6	6.6	6.5	6.5	7.1
Money and financial					(Annual percentage change)						
Broad money	-18.7	6.2	15.6	13.8	11.3	18.5	9.5	5.2	19.7	12.7	10.4
Credit to the private sector	-8.7	-15.6	-3.6	5.3	15.6	15.6	10.0	14.4	6.8	5.9	7.0
Net domestic assets of the banking system	-7.7	-15.0	-6.3	2.4	1.4	2.0	3.6	-1.6	21.1	9.3	1.9
Non-performing loans to total loans (ratio)	2.4	3.1	3.7	1.5	1.2	…	…	…	…	…	…
Regulatory capital to risk-weighted assets (ratio)	17.0	19.5	23.9	19.6	19.3	…	…	…	…	…	…
External sector					(Percent of GDP, unless otherwise indicated)						
Current account	-1.8	5.9	3.6	-3.1	-1.3	4.0	2.5	1.0	0.0	-0.9	-1.3
of which: oil imports	7.6	7.5	5.4	7.9	11.3	9.3	9.4	9.1	8.9	8.6	8.4
Capital and financial account	1.9	-0.8	4.3	11.4	9.6	7.6	5.4	5.1	6.8	6.6	6.6
of which: FDI	5.9	3.5	4.9	8.5	8.2	6.2	5.9	5.6	5.6	5.6	5.3
Gross international reserves (US$ million)[4/]	2,080	2,199	3,003	3,828	4,173	5,153	5,734	6,208	7,160	8,059	8,999
In months of imports excluding maquila	4.7	5.2	5.1	5.5	5.5	6.1	6.4	6.5	7.0	7.5	7.9
Net international reserves (US$ million)[4/]	1,146	1,374	1,887	2,531	3,011	3,818	4,285	4,686	5,435	6,186	7,042
In months of imports excluding maquila	2.6	3.2	3.2	3.6	3.9	4.6	4.8	4.9	5.3	5.7	6.1
Public sector debt[5/]	47.6	49.1	56.8	54.9	52.0	50.8	49.7	49.5	48.7	47.7	46.4
Domestic public debt	9.5	7.9	10.5	10.1	9.5	10.5	9.8	10.1	10.5	11.0	11.1
External Public Debt	38.0	41.2	46.3	44.8	42.5	40.3	40.0	39.4	38.2	36.7	35.3
Private sector external debt	44.2	43.6	44.1	39.7	35.6	31.6	29.0	26.8	24.7	22.7	21.0

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

[1/] Data up to two years back could be revised with the next publication of annual national accounts data.

[2/] The consolidated public sector (CPS) includes the non-financial public sector (NFPS) and the central bank. The NFPS comprises of the budgetary central government, one decentralized institution, one social security fund (INSS), one local government (ALMA), and four non-financial public enterprises.

[3/] Central government deficit and INSS revenue in 2018-2022 include repayments of INSS historical debt. Projections for 2023-2028 assume transfers from the central government will continue to the INSS to close the pension system deficits.

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

[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, 2018–28

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Prel.			Projections			
Growth and prices					(Annual percentage change)						
Real GDP growth	-3.4	-2.9	-1.8	10.3	3.8	4.0	3.5	3.5	3.5	3.5	3.5
Output gap[1/]	0.6	-3.0	-6.0	0.8	1.1	1.1	0.7	0.4	0.2	0.0	0.0
Consumer price inflation (end of period)	3.9	6.1	2.9	7.2	11.6	6.0	4.8	4.0	4.0	4.0	4.0
					(Percent of GDP, unless otherwise indicated)						
Consolidated public sector											
Revenue (including grants)	28.4	31.3	30.9	33.0	33.2	30.7	30.4	30.5	30.6	30.5	30.6
Expenditure	32.3	32.6	33.9	34.9	33.2	31.4	30.9	30.8	30.8	30.8	30.8
Primary fiscal balance	-2.5	0.3	-1.5	-0.4	1.4	1.1	1.5	1.3	1.1	1.0	0.8
Overall balance, after grants	-3.8	-1.2	-3.0	-1.9	0.1	-0.7	-0.5	-0.3	-0.2	-0.2	-0.3
Public sector debt	47.6	49.1	56.8	54.9	52.0	50.8	49.7	49.5	48.7	47.7	46.4
Balance of payments											
Current account	-1.8	5.9	3.6	-3.1	-1.3	4.0	2.5	1.0	0.0	-0.9	-1.3
Gross international reserves (US$ million)[2/]	2,080	2,199	3,003	3,828	4,173	5,153	5,734	6,208	7,160	8,059	8,999
In months of imports excluding maquila	4.7	5.2	5.1	5.5	5.5	6.1	6.4	6.5	7.0	7.5	7.9
Net international reserves (U.S.$ million)[3/]	1,146	1,374	1,887	2,531	3,011	3,818	4,285	4,686	5,435	6,186	7,042
Memorandum items:											
Cyclically adjusted primary fiscal balance (NFPS)	-2.9	0.8	0.2	-0.5	1.2	0.8	1.3	1.3	1.1	1.1	0.8

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

[1/] Percentage change between real GDP and real potential GDP as a share of real potential 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, 2018–28
(Percent of GDP, unless otherwise specified)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Prel.	Projections					
Gross national disposable income	**107.4**	**110.2**	**108.4**	**109.1**	**113.6**	**120.9**	**120.5**	**119.3**	**118.3**	**117.4**	**116.1**
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	-5.0	-3.7	-6.5	-6.3	-7.2	-7.3	-6.8	-7.2	-7.0	-6.7	-6.9
Net transfers from abroad	12.4	13.8	14.9	15.4	20.8	28.2	27.4	26.4	25.3	24.1	23.0
Consumption	**85.1**	**86.4**	**85.4**	**88.8**	**93.0**	**97.5**	**99.0**	**99.0**	**98.9**	**99.0**	**97.7**
Public sector[1/]	14.8	15.2	15.2	15.4	13.8	14.0	13.7	13.6	13.7	13.6	12.8
Private sector	70.3	71.2	70.2	73.4	79.2	83.4	85.4	85.4	85.2	85.4	85.0
Gross domestic investment	**24.1**	**17.8**	**19.4**	**23.4**	**21.9**	**19.5**	**19.1**	**19.3**	**19.4**	**19.3**	**19.6**
Public sector[1/]	7.6	7.1	8.4	10.3	8.8	7.3	7.2	7.6	7.9	8.1	8.6
Private sector	16.5	10.8	11.0	13.0	13.1	12.2	11.9	11.7	11.5	11.2	11.0
National saving	**22.3**	**23.8**	**23.0**	**20.3**	**20.6**	**23.5**	**21.5**	**20.3**	**19.4**	**18.4**	**18.3**
Public sector	2.7	4.5	3.9	6.6	7.4	5.4	5.6	6.1	6.5	6.5	6.9
Private sector	19.6	19.3	19.1	13.6	13.2	18.1	15.9	14.1	12.9	11.9	11.5
External saving	**1.8**	**-5.9**	**-3.6**	**3.1**	**1.3**	**-4.0**	**-2.5**	**-1.0**	**0.0**	**0.9**	**1.3**
Public sector	4.9	2.6	4.5	3.7	1.4	1.8	1.6	1.5	1.4	1.6	1.7
Private sector	-3.1	-8.5	-8.1	-0.6	-0.1	-5.8	-4.0	-2.5	-1.5	-0.6	-0.4
Memorandum items											
Exports of goods and services	42.7	44.9	42.1	46.8	50.3	45.7	45.6	44.8	44.1	43.4	43.2
Imports of goods and services	51.9	49.2	46.9	59.0	65.2	62.7	63.7	63.1	62.4	61.8	60.5

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, 2018-28

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Prel.	Projections					
	(In millions of U.S. dollars; unless otherwise indicated)										
Current account	**-234**	**754**	**456**	**-440**	**-208**	**699**	**465**	**201**	**7**	**-217**	**-320**
Trade account	-1,604	-1,056	-943	-1,901	-2,791	-3,587	-4,030	-4,402	-4,749	-5,133	-5,298
Exports f.o.b.	3,301	3,365	3,561	4,295	4,494	4,387	4,734	5,001	5,270	5,553	5,980
Maquila (net)	732	650	702	774	585	579	637	669	709	752	790
Coffee	436	535	515	605	829	653	629	658	677	690	704
Others	2,133	2,181	2,344	2,916	3,080	3,155	3,468	3,673	3,884	4,111	4,486
Imports f.o.b. (non-maquila)	4,905	4,421	4,504	6,196	7,285	7,974	8,764	9,402	10,019	10,686	11,277
Petroleum products	996	958	681	1,116	1,768	1,621	1,769	1,846	1,943	2,033	2,136
Others	3,909	3,464	3,824	5,079	5,516	6,352	6,996	7,556	8,076	8,653	9,141
Services (net)	411	519	333	175	455	622	611	684	746	812	896
Of which: tourism receipts	544	515	199	184	596	798	906	994	1,070	1,152	1,240
Income (net)	-652	-466	-824	-897	-1,128	-1,269	-1,294	-1,465	-1,536	-1,583	-1,749
Of which: payments on direct investments	453	228	569	728	1,031	1,150	1,104	1,188	1,279	1,376	1,526
Of which: public sector interest payments	285	326	292	182	210	245	326	423	415	376	405
Transfers (net)	1,611	1,758	1,890	2,183	3,256	4,933	5,178	5,384	5,547	5,687	5,831
Of which: Remittances	1,501	1,682	1,851	2,147	3,225	4,902	5,147	5,353	5,513	5,651	5,793
Capital and Financial account, capital(+), financial(-)	**248**	**-105**	**546**	**1,617**	**1,506**	**1,335**	**1,025**	**1,031**	**1,495**	**1,566**	**1,665**
Financial account	**-128**	**213**	**-434**	**-1,531**	**-1,443**	**-1,275**	**-960**	**-960**	**-1,419**	**-1,485**	**-1,578**
Direct investment (net)	-763	-444	-619	-1,206	-1,281	-1,081	-1,109	-1,133	-1,220	-1,313	-1,344
Portfolio investment[1/]	-60	342	133	-17	-47	-46	-56	-56	-59	-60	-66
Other investment	695	315	52	-307	-115	-147	205	229	-141	-112	-168
Of which : general government	-255	-370	-759	-797	-495	-504	-519	-537	-580	-572	-618
Capital account	**120**	**108**	**111**	**86**	**63**	**60**	**65**	**70**	**75**	**81**	**87**
Errors and omissions	-505	-516	-366	-343	-924	-1,024	-850	-700	-550	-450	-405
Overall balance	**-491**	**133**	**636**	**833**	**375**	**1,010**	**640**	**532**	**952**	**899**	**940**
Financing	**491**	**-133**	**-636**	**-833**	**-375**	**-1,010**	**-640**	**-532**	**-952**	**-899**	**-940**
Change in GIR (increase, -)	**510**	**-120**	**-810**	**-831**	**-373**	**-980**	**-582**	**-473**	**-952**	**-899**	**-940**
Change in NIR (increase, -)[2/]	657	-229	-512	-644	-480	-807	-468	-401	-749	-751	-856
Change in FX reserve requirement, CB bills and CABEI (increase, -)	-144	110	-292	-180	135	-173	-114	-73	-203	-148	-84
Exceptional financing and IMF loans/credit	**-19**	**-13**	**174**	**-2**	**-1**	**-30**	**-58**	**-58**	**0**	**0**	**0**
IMF lending	0	0	181	0	0	0	0	0	0	0	0
IMF repayments	-19	-13	-7	-2	-1	-30	-58	-58	0	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	**-1.8**	**5.9**	**3.6**	**-3.1**	**-1.3**	**4.0**	**2.5**	**1.0**	**0.0**	**-0.9**	**-1.3**
Trade account	-12.3	-8.3	-7.4	-13.4	-17.8	-20.5	-21.3	-21.6	-21.7	-21.8	-20.9
Exports f.o.b.	25.3	26.5	28.1	30.4	28.7	25.1	25.0	24.6	24.1	23.5	23.6
Imports f.o.b. (non-maquila)	37.7	34.8	35.5	43.8	46.5	45.6	46.3	46.2	45.7	45.3	44.4
Services (net)	3.2	4.1	2.6	1.2	2.9	3.6	3.2	3.4	3.4	3.4	3.5
Of which: tourism receipts	4.2	4.1	1.6	1.3	3.8	4.6	4.8	4.9	4.9	4.9	4.9
Income (net)	-5.0	-3.7	-6.5	-6.3	-7.2	-7.3	-6.8	-7.2	-7.0	-6.7	-6.9
Of which: payments on direct investments	3.5	1.8	4.5	5.1	6.6	6.6	5.8	5.8	5.8	5.8	6.0
Of which: public sector interest payments	2.2	2.6	2.3	1.3	1.3	1.4	1.7	2.1	1.9	1.6	1.6
Transfers (net)	12.4	13.8	14.9	15.4	20.8	28.2	27.4	26.4	25.3	24.1	23.0
Of which: Remittances	11.5	13.2	14.6	15.2	20.6	28.0	27.2	26.3	25.2	24.0	22.8
Capital and financial account	**1.9**	**-0.8**	**4.3**	**11.4**	**9.6**	**7.6**	**5.4**	**5.1**	**6.8**	**6.6**	**6.6**
Financial account	**-1.0**	**1.7**	**-3.4**	**-10.8**	**-9.2**	**-7.3**	**-5.1**	**-4.7**	**-6.5**	**-6.3**	**-6.2**
Direct investment (net)	-5.9	-3.5	-4.9	-8.5	-8.2	-6.2	-5.9	-5.6	-5.6	-5.6	-5.3
Portfolio investment[1/]	-0.5	2.7	1.0	-0.1	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Other investment	5.3	2.5	0.4	-2.2	-0.7	-0.8	1.1	1.1	-0.6	-0.5	-0.7
Of which : general government	-2.0	-2.9	-6.0	-5.6	-3.2	-2.9	-2.7	-2.6	-2.6	-2.4	-2.4
Capital account	**0.9**	**0.8**	**0.9**	**0.6**	**0.4**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**
Errors and omissions	-3.9	-4.1	-2.9	-2.4	-5.9	-5.9	-4.5	-3.4	-2.5	-1.9	-1.6
Overall balance	**-3.8**	**1.0**	**5.0**	**5.9**	**2.4**	**5.8**	**3.4**	**2.6**	**4.3**	**3.8**	**3.7**
Financing	**3.8**	**-1.0**	**-5.0**	**-5.9**	**-2.4**	**-5.8**	**-3.4**	**-2.6**	**-4.3**	**-3.8**	**-3.7**
Change in GIR (increase, -)	**3.9**	**-0.9**	**-6.4**	**-5.9**	**-2.4**	**-5.6**	**-3.1**	**-2.3**	**-4.3**	**-3.8**	**-3.7**
Change in NIR (increase, -)	5.0	-1.8	-4.0	-4.6	-3.1	-4.6	-2.5	-2.0	-3.4	-3.2	-3.4
Change in FX reserve requirement, CB bills and CABEI (increase, -)	-1.1	0.9	-2.3	-1.3	0.9	-1.0	-0.6	-0.4	-0.9	-0.6	-0.3
Exceptional financing and IMF loans/credit	**-0.1**	**-0.1**	**1.4**	**0.0**	**0.0**	**-0.2**	**-0.3**	**-0.3**	**0.0**	**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/]	2,080	2,199	3,003	3,828	4,173	5,153	5,734	6,208	7,160	8,059	8,999
In months of imports excl. maquila	4.7	5.2	5.1	5.5	5.5	6.1	6.4	6.5	7.0	7.5	7.9
As a ratio of monetary base	2.2	2.1	2.4	2.6	2.6	2.9	2.8	2.9	2.6	2.3	2.2
Net reserves (US$ millions)[4/]	1,146	1,374	1,887	2,531	3,011	3,818	4,285	4,686	5,435	6,186	7,042
In months of imports excl. maquila	2.6	3.2	3.2	3.6	3.9	4.6	4.8	4.9	5.3	5.7	6.1
As a ratio of monetary base	1.2	1.3	1.5	1.7	1.9	2.1	2.1	2.2	1.9	1.8	1.7
Total public external debt (in percent of GDP)	38.0	41.2	46.3	44.8	42.5	40.3	40.0	39.4	38.2	36.7	35.3
Nominal GDP (millions of U.S. dollars)	13,025	12,713	12,682	14,145	15,671	17,487	18,910	20,355	21,910	23,584	25,386

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, 2018–28
(Millions of córdobas, unless otherwise specified; GFSM 2001)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Prel.	Projections					
Cash receipts from operating activities	**7,951**	**82,003**	**82,879**	**104,853**	**121,828**	**128,673**	**140,411**	**152,229**	**163,828**	**175,952**	**189,833**
Taxes	0	73,415	74,406	94,069	111,438	118,947	129,355	140,795	151,608	163,216	176,123
Income and property[1/]	29,258	33,036	32,470	40,753	50,714	54,481	59,165	64,058	68,535	74,220	79,890
Indirect[2/]	32,746	37,612	39,036	49,410	56,125	59,600	64,902	70,747	76,152	81,970	88,297
Trade	2,058	2,261	2,399	3,322	3,957	4,139	4,498	5,140	6,005	6,041	6,874
Other taxes	460	506	501	583	642	727	790	851	916	986	1,061
Grants	2,761	2,594	2,013	2,285	1,202	1,113	1,054	668	630	654	704
Other revenue	5,190	5,994	6,460	8,499	9,188	8,613	10,001	10,766	11,590	12,082	13,006
Cash payments for operating activities	**67,727**	**69,504**	**75,529**	**84,031**	**92,735**	**104,556**	**113,494**	**119,578**	**126,334**	**136,179**	**144,764**
Compensation of employees[3/]	31,678	30,301	32,547	31,869	33,482	38,934	41,995	45,104	48,451	52,053	56,495
of which: excluding transfers to INSS	26,796	27,614	28,042	29,392	32,403	37,582	39,360	42,518	46,393	52,053	56,495
Use of goods and services	10,690	11,306	11,321	13,651	14,463	15,919	17,300	18,621	20,044	21,576	23,224
Interest[4/]	4,551	5,410	5,477	6,182	7,224	10,159	12,183	10,849	9,265	10,252	8,916
Subsidies	5,577	5,676	5,745	4,688	9,546	9,742	9,665	10,403	11,198	12,054	12,975
Grants	13,589	15,040	18,322	20,545	25,246	26,660	28,937	30,925	33,420	35,986	38,571
Social benefits	1,447	1,536	1,889	6,847	2,574	2,915	3,168	3,410	3,671	3,951	4,253
Other expense	195	234	229	249	200	227	246	265	285	307	331
Net cash inflow from operating activities	**-59,776**	**12,499**	**7,350**	**20,822**	**29,093**	**24,116**	**26,916**	**32,651**	**37,493**	**39,773**	**45,069**
Net cash flows from investment in non-financial assets (NFAs):	**18,042**	**14,561**	**19,177**	**28,829**	**27,154**	**19,994**	**21,729**	**23,389**	**25,175**	**27,099**	**29,169**
Purchases of nonfinancial assets	18,043	14,561	19,177	28,833	27,156	19,994	21,729	23,389	25,175	27,099	29,169
Sales of nonfinancial assets	1	0	0	5	2	0	0	0	0	0	0
Cash surplus / deficit	**-77,818**	**-2,062**	**-11,827**	**-8,006**	**1,939**	**4,122**	**5,188**	**9,262**	**12,318**	**12,674**	**15,900**
Cash flows from financing activities: (1=-2+3+4)	**13,295**	**2,062**	**11,827**	**8,006**	**-1,939**	**-4,122**	**-5,188**	**-9,262**	**-12,318**	**-12,674**	**-16,142**
Net acquisition of financial assets other than cash (2)	432	-174	389	1,194	576	648	258	336	239	242	242
Domestic	432	-174	389	1,194	576	648	258	336	239	242	242
Foreign	0	0	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities (3)	15,208	1,583	2,999	5,376	-15,517	-20,475	-21,930	-30,926	-27,079	-27,433	-20,900
Domestic	10,542	-5,817	-14,499	-13,100	-25,074	-28,757	-26,690	-40,802	-40,490	-41,766	-36,832
Foreign	4,667	7,400	17,498	18,476	9,558	8,283	4,760	9,875	13,412	14,333	15,933
Net cash inflow from financing activities (4=3-2)	14,776	1,757	2,609	4,182	-16,092	-21,122	-22,188	-31,262	-27,318	-27,674	-21,142
Use of government deposits (4)	-1,481	305	9,218	3,824	14,153	17,000	17,000	22,000	15,000	15,000	5,000

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 2023-28 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, 2018–28

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

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Prel.			Projections			
Cash receipts from operating activities	**17.6**	**19.5**	**19.0**	**21.1**	**21.7**	**20.2**	**20.3**	**20.4**	**20.4**	**20.4**	**20.4**
Taxes	15.6	17.3	17.1	18.9	19.8	18.7	18.7	18.9	18.9	18.9	19.0
Income and property[1/]	7.1	7.9	7.5	8.2	9.0	8.6	8.6	8.6	8.5	8.6	8.6
Indirect[2/]	8.0	8.9	9.0	9.9	10.0	9.4	9.4	9.5	9.5	9.5	9.5
Trade	0.5	0.5	0.6	0.7	0.7	0.6	0.6	0.7	0.7	0.7	0.7
Other Taxes	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants	0.7	0.6	0.5	0.5	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Other revenue	1.3	1.4	1.5	1.7	1.6	1.4	1.4	1.4	1.4	1.4	1.4
Cash payments for operating activities	**16.5**	**16.5**	**17.3**	**16.9**	**16.5**	**16.4**	**16.4**	**16.1**	**15.8**	**15.8**	**15.6**
Compensation of employees[3/]	7.7	7.2	7.5	6.4	6.0	6.1	6.1	6.1	6.0	6.0	6.1
of which: excluding transfers to INSS	6.5	6.6	6.4	5.9	5.8	5.9	5.7	5.7	5.8	6.0	6.1
Use of goods and services	2.6	2.7	2.6	2.7	2.6	2.5	2.5	2.5	2.5	2.5	2.5
Interest[4/]	1.1	1.3	1.3	1.2	1.3	1.6	1.8	1.5	1.2	1.2	1.0
Subsidies	1.4	1.3	1.3	0.9	1.7	1.5	1.4	1.4	1.4	1.4	1.4
Grants	3.3	3.6	4.2	4.1	4.5	4.2	4.2	4.2	4.2	4.2	4.2
Social benefits	0.4	0.4	0.4	1.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Other expense	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash inflow from operating activities	**1.2**	**3.0**	**1.7**	**4.2**	**5.2**	**3.8**	**3.9**	**4.4**	**4.7**	**4.6**	**4.9**
Net cash flows from investment in non-financial assets (NFAs):	**4.4**	**3.5**	**4.4**	**5.8**	**4.8**	**3.1**	**3.1**	**3.1**	**3.1**	**3.1**	**3.1**
Purchases of nonfinancial assets	4.4	3.5	4.4	5.8	4.8	3.1	3.1	3.1	3.1	3.1	3.1
Sales of nonfinancial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash surplus / deficit	**-3.2**	**-0.5**	**-2.7**	**-1.6**	**0.3**	**0.6**	**0.7**	**1.2**	**1.5**	**1.5**	**1.7**
Cash flows from financing activities: (1=-2+3+4)	**3.2**	**0.5**	**2.7**	**1.6**	**-0.3**	**-0.6**	**-0.7**	**-1.2**	**-1.5**	**-1.5**	**-1.7**
Net acquisition of financial assets other than cash (2)	0.1	0.0	0.1	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Domestic	0.1	0.0	0.1	0.2	0.1	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)	3.7	0.4	0.7	1.1	-2.8	-3.2	-3.2	-4.2	-3.4	-3.2	-2.2
Domestic	2.6	-1.4	-3.3	-2.6	-4.5	-4.5	-3.9	-5.5	-5.1	-4.8	-4.0
Foreign	1.1	1.8	4.0	3.7	1.7	1.3	0.7	1.3	1.7	1.7	1.7
Net cash inflow from financing activities (4=3-2)	3.6	0.4	0.6	0.8	-2.9	-3.3	-3.2	-4.2	-3.4	-3.2	-2.3
Use of government deposits (4)	-0.4	0.1	2.1	0.8	2.5	2.7	2.5	3.0	1.9	1.7	0.5

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 2023-28 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, 2018–28
(Millions of córdobas, unless otherwise specified; GFSM 2001)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Prel.	Projections					
Budgetary Central Gov. cash surplus/deficit	**-13,296**	**-2,062**	**-11,827**	**-8,011**	**1,937**	**4,122**	**5,188**	**9,262**	**12,318**	**12,674**	**15,900**
Revenue	72,474	82,003	82,879	104,853	121,828	128,673	140,411	152,229	163,828	175,952	189,833
of which: grants	2,761	2,594	2,013	2,285	1,202	1,113	1,054	668	630	654	704
Expenditure	85,770	84,065	94,707	112,864	119,891	124,551	135,223	142,967	151,510	163,278	173,933
Of which: Excluding Transfers to INSS for Hist. debt	80,888	81,378	90,202	110,388	118,812	123,199	132,588	140,380	149,937	161,220	165,946
Social Security Institute (INSS) cash surplus/deficit	**603**	**703**	**-72**	**716**	**-314**	**0**	**0**	**0**	**0**	**0**	**0**
Revenue	30,483	32,940	34,496	37,834	41,201	43,044	45,717	48,881	52,274	55,913	65,670
Of which: Excluding Central Government Transfers	25,601	30,252	29,991	35,357	40,122	41,693	43,082	46,295	50,701	53,855	57,683
Of which: Transfers to INSS for Hist. debt	4,882	2,687	4,505	2,476	1,079	1,352	2,635	2,586	1,573	2,058	7,986
Expenditure	29,880	32,237	34,568	37,118	41,515	43,044	45,717	48,881	52,274	55,913	65,670
Managua municipality (ALMA) cash surplus/deficit	**267**	**260**	**743**	**564**	**296**	**482**	**329**	**210**	**75**	**629**	**682**
Revenue	4,136	3,667	4,683	5,490	5,650	6,373	6,728	7,093	7,478	8,593	9,250
of which: grants	1	1	0	0	0	0	0	0	0	0	0
Expenditure	3,869	3,407	3,940	4,926	5,354	5,890	6,399	6,883	7,404	7,965	8,568
Public enterprises cash surplus/deficit[1/]	**-3,816**	**-4,491**	**-1,150**	**-1,415**	**-617**	**-7,651**	**-7,304**	**-9,954**	**-12,156**	**-13,978**	**-17,653**
Revenue	15,548	16,935	20,587	21,721	24,239	25,013	27,114	29,185	31,415	33,815	36,399
of which: Grants (external)	0	18	282	6	5	5	6	6	7	7	8
Expenditure	19,364	21,426	21,737	23,136	24,855	32,664	34,418	39,139	43,571	47,793	54,051
Non-financial public sector											
Cash receipts from operating activities	115,063	129,473	133,792	163,962	186,481	194,972	209,542	226,728	244,767	262,434	282,669
Taxes	67,486	76,276	77,966	98,086	116,143	124,009	134,671	146,376	157,468	170,077	183,508
Social contributions	25,367	28,284	27,922	33,089	37,619	39,060	40,499	43,710	48,111	50,754	54,402
Grants	2,764	4,303	4,137	4,295	1,207	847	422	287	204	185	339
Other revenue	19,445	20,610	23,767	28,492	31,512	31,057	33,950	36,356	38,984	41,417	44,420
Cash payments for operating activities	103,884	110,739	116,935	131,081	144,663	160,306	170,812	180,983	192,760	206,081	218,724
Compensation of employees	33,091	33,837	34,462	36,310	39,881	45,665	47,994	51,653	56,542	60,398	59,706
Use of goods and services	17,737	19,649	20,481	22,498	24,616	28,687	30,738	32,757	34,893	37,185	39,040
Interest	4,709	5,449	5,827	6,510	7,299	10,343	12,236	10,713	8,962	9,767	8,234
Subsidies	4,979	4,204	3,626	3,624	8,874	8,713	8,358	9,013	9,710	10,458	11,259
Grants	12,651	14,465	17,427	19,766	22,512	23,022	24,862	27,018	29,379	31,302	33,693
Social benefits	27,482	29,863	32,352	39,368	37,406	40,072	42,924	45,851	48,995	52,369	61,883
Other expense	3,234	3,271	2,760	3,006	4,075	3,804	3,699	3,978	4,279	4,602	4,909
Net cash inflow from operating activities	11,179	18,734	16,858	32,881	41,817	34,667	38,730	45,745	52,006	56,353	63,945
Net cash outflow from investments in NFAs	27,419	24,324	29,164	41,021	40,514	37,713	40,518	46,227	51,770	57,028	65,016
Cash surplus / deficit	**-16,240**	**-5,590**	**-12,306**	**-8,141**	**1,303**	**-3,046**	**-1,787**	**-481**	**236**	**-675**	**-1,071**
Central bank (BCN) cash surplus / deficit	**465**	**516**	**-687**	**-1,294**	**-992**	**-1,543**	**-1,905**	**-1,563**	**-1,658**	**-1,302**	**-1,268**
Consolidated Public Sector cash surplus / deficit	**-15,776**	**-5,074**	**-12,993**	**-9,434**	**311**	**-4,589**	**-3,692**	**-2,044**	**-1,422**	**-1,977**	**-2,339**
Cash flows from financing activities: (1=-2+3+4+5)	**15,777**	**5,074**	**12,993**	**9,434**	**-311**	**4,589**	**3,692**	**2,044**	**1,422**	**1,977**	**2,098**
Net acquisition of financial assets											
other than cash (2)	-410	-774	-291	1,194	576	648	258	336	239	242	242
Net incurrence of liabilities (3)	17,709	4,582	3,811	5,168	-14,708	-13,866	-10,271	-19,035	-13,793	-12,915	-2,708
Domestic	9,672	-7,663	-22,252	-22,881	-32,479	-32,218	-29,266	-38,683	-35,012	-33,859	-25,320
Foreign	8,037	12,246	26,063	28,050	17,771	18,352	18,995	19,647	21,219	20,944	22,611
Use of deposits (4)	-1,877	233	8,205	4,166	13,980	17,560	12,316	19,853	13,796	13,832	3,779
Central bank (BCN) cash surplus/deficit (5)	-465	-516	687	1,294	992	1,543	1,905	1,563	1,658	1,302	1,268
Memorandum items											
GDP (nominal)	410,988	420,614	435,395	497,524	562,208	636,752	691,991	744,859	801,766	863,021	928,956
Stock of government deposits	24,316	24,082	15,878	11,711	-2,268	-19,829	-32,145	-51,998	-65,794	-79,625	-83,405

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, 2018–28
(Percent of GDP, unless otherwise specified; GFSM 2001)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Prel.			Projections			
Budgetary central government cash surplus/deficit	**-3.2**	**-0.5**	**-2.7**	**-1.6**	**0.3**	**0.6**	**0.7**	**1.2**	**1.5**	**1.5**	**1.7**
Revenue	17.6	19.5	19.0	21.1	21.7	20.2	20.3	20.4	20.4	20.4	20.4
of which: grants	0.7	0.6	0.5	0.5	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Expenditure	20.9	20.0	21.8	22.7	21.3	19.6	19.5	19.2	18.9	18.9	18.7
Excluding Transfers to INSS	19.7	19.3	20.7	22.2	21.1	19.3	19.2	18.8	18.7	18.7	17.9
Social Security Institute (INSS) cash surplus/deficit	**0.1**	**0.2**	**0.0**	**0.1**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Revenue	7.4	7.8	7.9	7.6	7.3	6.8	6.6	6.6	6.5	6.5	7.1
Of which: Excluding Central Government Transfers	6.2	7.2	6.9	7.1	7.1	6.5	6.2	6.2	6.3	6.2	6.2
Of which: Transfers to INSS	1.2	0.6	1.0	0.5	0.2	0.2	0.4	0.3	0.2	0.2	0.9
Expenditure	7.3	7.7	7.9	7.5	7.4	6.8	6.6	6.6	6.5	6.5	7.1
Managua municipality (ALMA) cash surplus/deficit	**0.1**	**0.1**	**0.2**	**0.1**	**0.1**	**0.1**	**0.0**	**0.0**	**0.0**	**0.1**	**0.1**
Revenue	1.0	0.9	1.1	1.1	1.0	1.0	1.0	1.0	0.9	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	0.9	0.8	0.9	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.9
Public enterprises cash surplus/deficit[2/]	**-0.9**	**-1.1**	**-0.3**	**-0.3**	**-0.1**	**-1.2**	**-1.1**	**-1.3**	**-1.5**	**-1.6**	**-1.9**
Revenue	3.8	4.0	4.7	4.4	4.3	3.9	3.9	3.9	3.9	3.9	3.9
of which: Grants (external)	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	4.7	5.1	5.0	4.7	4.4	5.1	5.0	5.3	5.4	5.5	5.8
Non-financial public sector											
Cash receipts from operating activities	28.0	30.8	30.7	33.0	33.2	30.6	30.3	30.4	30.5	30.4	30.4
Taxes	16.4	18.1	17.9	19.7	20.7	19.5	19.5	19.7	19.6	19.7	19.8
Social contributions	6.2	6.7	6.4	6.7	6.7	6.1	5.9	5.9	6.0	5.9	5.9
Grants	0.7	1.0	1.0	0.9	0.2	0.1	0.1	0.0	0.0	0.0	0.0
Other revenue	4.7	4.9	5.5	5.7	5.6	4.9	4.9	4.9	4.9	4.8	4.8
Cash payments for operating activities	25.3	26.3	26.9	26.3	25.7	25.2	24.7	24.3	24.0	23.9	23.5
Compensation of employees	8.1	8.0	7.9	7.3	7.1	7.2	6.9	6.9	7.1	7.0	6.4
Use of goods and services	4.3	4.7	4.7	4.5	4.4	4.5	4.4	4.4	4.4	4.3	4.2
Interest	1.1	1.3	1.3	1.3	1.3	1.6	1.8	1.4	1.1	1.1	0.9
Subsidies	1.2	1.0	0.8	0.7	1.6	1.4	1.2	1.2	1.2	1.2	1.2
Grants	3.1	3.4	4.0	4.0	4.0	3.6	3.6	3.6	3.7	3.6	3.6
Social benefits	6.7	7.1	7.4	7.9	6.7	6.3	6.2	6.2	6.1	6.1	6.7
Other expense	0.8	0.8	0.6	0.6	0.7	0.6	0.5	0.5	0.5	0.5	0.5
Net cash inflow from operating activities	2.7	4.5	3.9	6.6	7.4	5.4	5.6	6.1	6.5	6.5	6.9
Net cash outflow from investments in NFAs	6.7	5.8	6.7	8.2	7.2	5.9	5.9	6.2	6.5	6.6	7.0
Cash surplus / deficit	**-4.0**	**-1.3**	**-2.8**	**-1.6**	**0.2**	**-0.5**	**-0.3**	**-0.1**	**0.0**	**-0.1**	**-0.1**
Central bank (BCN) cash surplus / deficit	**0.1**	**0.1**	**-0.2**	**-0.3**	**-0.2**	**-0.2**	**-0.3**	**-0.2**	**-0.2**	**-0.2**	**-0.1**
Consolidated Public Sector cash surplus / deficit	**-3.8**	**-1.2**	**-3.0**	**-1.9**	**0.1**	**-0.7**	**-0.5**	**-0.3**	**-0.2**	**-0.2**	**-0.3**
Cash flows from financing activities: (1=-2+3+4+5)	**3.8**	**1.2**	**3.0**	**1.9**	**-0.1**	**0.7**	**0.5**	**0.3**	**0.2**	**0.2**	**0.2**
Net acquisition of financial assets											
other than cash (2)	-0.1	-0.2	-0.1	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities (3)	4.3	1.1	0.9	1.0	-2.6	-2.2	-1.5	-2.6	-1.7	-1.5	-0.3
Domestic	2.4	-1.8	-5.1	-4.6	-5.8	-5.1	-4.2	-5.2	-4.4	-3.9	-2.7
Foreign	2.0	2.9	6.0	5.6	3.2	2.9	2.7	2.6	2.6	2.4	2.4
Use of deposits (4)	-0.5	0.1	1.9	0.8	2.5	2.8	1.8	2.7	1.7	1.6	0.4
Central bank (BCN) cash surplus/deficit (5)	-0.1	-0.1	0.2	0.3	0.2	0.2	0.3	0.2	0.2	0.2	0.1
Memorandum items											
GDP (nominal)	410,988	420,614	435,395	497,524	562,208	636,752	691,991	744,859	801,766	863,021	928,956
Stock of government deposits	5.9	5.7	3.6	2.4	-0.4	-3.1	-4.6	-7.0	-8.2	-9.2	-9.0

Sources: National authorities and IMF staff calculations.

[1/]The consolidated public sector (CPS) includes the non-financial public sector (NFPS) and the central bank. The NFPS comprises of the budgetary central government, one decentralized institution, one social security fund (INSS), one local government (ALMA), and four non-financial public enterprises.

[2/]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, 2018–28[1/]

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Prel.	Projections					
					(Millions of U.S. dollars)						
NFPS primary deficit (before grants) (a)	**453**	**134**	**309**	**168**	**-206**	**-177**	**-274**	**-272**	**-246**	**-243**	**-186**
CG and public enterprises	472	156	307	189	-215	-177	-274	-272	-246	-243	-186
INSS	-19	-21	2	-20	9	0	0	0	0	0	0
Debt service obligations (b)	**426**	**514**	**498**	**581**	**625**	**829**	**973**	**996**	**963**	**1,000**	**932**
External	196	232	266	290	344	488	693	708	657	674	586
Interest	89	103	107	108	131	209	272	247	211	238	198
Amortization	108	129	159	182	213	279	420	461	446	436	388
Domestic	230	282	232	291	280	342	280	289	307	326	346
Interest	69	78	0	0	0	132	133	143	159	178	203
Amortization of bonds	144	192	218	275	265	196	133	131	134	133	129
Other internal amortizations[2/]	16	11	14	16	15	14	14	14	14	14	14
Gross financing needs (a+b)	**879**	**648**	**807**	**749**	**418**	**652**	**699**	**725**	**718**	**757**	**746**
Financing sources	**879**	**648**	**807**	**749**	**418**	**652**	**699**	**725**	**718**	**757**	**746**
External	450	578	985	1,045	742	814	968	1,016	1,043	1,027	1,026
Disbursements	362	499	918	980	708	783	939	998	1,026	1,009	1,006
Grants	88	79	67	65	34	31	29	19	17	18	20
Domestic	429	69	-178	-296	-323	-162	-270	-292	-326	-270	-280
Bond issuance (gross)	103	154	213	239	153	100	100	100	100	100	100
Deposits Central Bank	-55	47	226	108	418	467	465	601	410	410	137
Of which CG deficit financing[3/]	-225	-124	54	-65	244	292	…	…	…	…	…
Of which INSS hist. debt amortization[4/]	170	171	172	173	174	175	…	…	…	…	…
Commercial banks	-4	-40	13	10	-29	15	-128	-59	-33	-32	-33
Other[5/]	386	-92	-630	-654	-866	-744	-706	-934	-803	-748	-483
					(Percent of GDP)						
NFPS primary deficit (before grants) (a)	**3.5**	**1.1**	**2.4**	**1.2**	**-1.3**	**-1.0**	**-1.4**	**-1.3**	**-1.1**	**-1.0**	**-0.7**
CG and public enterprises	3.6	1.2	2.4	1.3	-1.4	-1.0	-1.4	-1.3	-1.1	-1.0	-0.7
INSS	-0.1	-0.2	0.0	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Debt service obligations (b)	**3.3**	**4.0**	**3.9**	**4.1**	**4.0**	**4.7**	**5.1**	**4.9**	**4.4**	**4.2**	**3.7**
External	1.5	1.8	2.1	2.0	2.2	2.8	3.7	3.5	3.0	2.9	2.3
Interest	0.7	0.8	0.8	0.8	0.8	1.2	1.4	1.2	1.0	1.0	0.8
Amortization	0.8	1.0	1.3	1.3	1.4	1.6	2.2	2.3	2.0	1.9	1.5
Domestic	1.8	2.2	1.8	2.1	1.8	2.0	1.5	1.4	1.4	1.4	1.4
Interest	0.5	0.6	0.0	0.0	0.0	0.8	0.7	0.7	0.7	0.8	0.8
Amortization of bonds	1.1	1.5	1.7	1.9	1.7	1.1	0.7	0.6	0.6	0.6	0.5
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)	**6.7**	**5.1**	**6.4**	**5.3**	**2.7**	**3.7**	**3.7**	**3.6**	**3.3**	**3.2**	**2.9**
Financing sources	**6.7**	**5.1**	**6.4**	**5.3**	**2.7**	**3.7**	**3.7**	**3.6**	**3.3**	**3.2**	**2.9**
External	3.5	4.5	7.8	7.4	4.7	4.7	5.1	5.0	4.8	4.4	4.0
Disbursements	2.8	3.9	7.2	6.9	4.5	4.5	5.0	4.9	4.7	4.3	4.0
Grants	0.7	0.6	0.5	0.5	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Domestic	3.3	0.5	-1.4	-2.1	-2.1	-0.9	-1.4	-1.4	-1.5	-1.1	-1.1
Bond issuance (gross)	0.8	1.2	1.7	1.7	1.0	0.6	0.5	0.5	0.5	0.4	0.4
Deposits Central Bank	-0.4	0.4	1.8	0.8	2.7	2.7	2.5	3.0	1.9	1.7	0.5
Of which CG deficit financing[3/]	-1.7	…	…	…	…	…	…	…	…	…	…
Of which INSS hist. debt amortization[4/]	1.3	…	…	…	…	…	…	…	…	…	…
Commercial banks	0.0	-0.3	0.1	0.1	-0.2	0.1	-0.7	-0.3	-0.2	-0.1	-0.1
Other and unidentified[5/]	3.0	-0.7	-5.0	-4.6	-5.5	-4.3	-3.7	-4.6	-3.7	-3.2	-1.9

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 government transfers to the INSS, a part of a repayment of a historical debt. Projections for 2023-28 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 5a and Table 5b).

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

Table 8a. Nicaragua: Summary Accounts of Central Bank and Financial System, 2018–28
(Billions of córdobas, unless otherwise specified)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Prel.			Projections			
I. Central Bank											
Net foreign assets[1/]	**21.9**	**27.9**	**52.6**	**73.1**	**90.9**	**129.2**	**149.9**	**166.7**	**201.0**	**233.3**	**272.4**
Net international reserves[2/]	37.0	46.5	65.7	89.9	109.1	139.7	156.8	171.5	198.9	226.4	257.7
Net international reserves (billions of US$)[2/]	1.1	1.4	1.9	2.5	3.0	3.8	4.3	4.7	5.4	6.2	7.0
Net domestic assets	**0.5**	**-1.2**	**-19.1**	**-32.5**	**-47.1**	**-75.0**	**-87.7**	**-100.8**	**-113.7**	**-121.3**	**-140.8**
Net claims on nonfinancial public sector	41.1	39.6	31.2	26.7	10.9	1.8	-3.9	-13.0	-14.7	-16.5	-18.3
Net credit to banks	-31.0	-31.4	-48.3	-58.6	-58.1	-76.9	-84.4	-88.1	-99.6	-105.2	-116.6
of which: reserves	-28.0	-24.5	-30.8	-35.8	-35.3	-39.8	-43.1	-45.2	-52.4	-56.4	-60.7
Capital accounts	3.4	4.4	6.0	7.2	8.1	9.9	10.4	10.2	10.5	10.4	10.6
Other items (net)	-13.1	-13.6	-7.9	-7.8	-8.0	-9.8	-9.9	-9.9	-10.0	-10.1	-16.5
Currency issue	**22.4**	**26.7**	**33.5**	**40.5**	**43.7**	**54.1**	**62.2**	**65.9**	**87.2**	**112.0**	**131.7**
II. Other Depository Corporations[4/]											
Net foreign assets	**-17.8**	**5.6**	**11.8**	**12.7**	**15.8**	**15.9**	**15.9**	**15.9**	**15.9**	**15.9**	**15.9**
Net foreign assets (billions of US$)	-0.6	0.2	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Net domestic assets	**141.9**	**123.5**	**134.2**	**150.5**	**167.9**	**199.1**	**216.6**	**228.3**	**267.0**	**288.6**	**311.9**
Net claims on Central Bank[3/]	39.0	37.6	52.8	62.7	64.8	83.5	91.7	96.0	108.1	114.4	126.6
Net credit to other financial corporations	-0.9	-2.0	-1.9	-1.6	-0.7	-2.2	-2.3	-2.4	-2.5	-2.6	-2.7
Credit to private sector	147.8	125.1	120.4	126.7	146.4	169.2	186.1	212.9	227.4	240.7	257.6
Capital accounts	-32.4	-36.4	-37.9	-41.0	-43.8	-49.6	-53.9	-58.0	-62.5	-67.2	-72.4
Other items (net)	-7.8	-0.1	-1.3	0.7	0.4	0.3	0.2	0.1	0.1	0.0	0.0
Liabilities	**124.1**	**129.1**	**146.0**	**163.3**	**183.7**	**215.0**	**232.5**	**244.3**	**282.9**	**304.5**	**327.8**
Deposits in domestic currency	13.7	16.2	18.7	23.7	26.5	31.0	33.5	35.2	40.8	43.9	47.3
Deposits in foreign currency	110.3	112.9	127.3	139.6	157.2	184.0	199.0	209.0	242.1	260.6	280.5
III. Depository Corporations											
Net foreign assets	**4.1**	**33.5**	**64.4**	**85.8**	**106.7**	**145.1**	**165.8**	**182.6**	**216.9**	**249.2**	**288.4**
Net foreign assets (billions of US$)	0.1	1.0	1.8	2.4	2.9	4.0	4.5	5.0	5.9	6.8	7.9
Net domestic assets	**137.5**	**116.9**	**109.5**	**112.1**	**113.7**	**116.0**	**120.2**	**118.2**	**143.2**	**156.5**	**159.5**
Net credit to non-financial public sector	37.4	39.0	33.4	29.7	11.7	-0.4	-9.0	-33.2	-18.3	-13.3	-15.7
Credit to private sector	147.9	124.8	120.3	126.7	146.4	169.3	186.1	212.9	227.4	240.8	257.7
Net credit to other financial corporations	-0.9	-2.0	-1.9	-1.6	-0.7	-2.2	-2.3	-2.4	-2.5	-2.6	-2.7
Capital accounts	-29.0	-32.0	-32.0	-33.8	-35.7	-39.7	-43.5	-47.8	-51.9	-56.8	-61.8
Other items (net)	-17.8	-12.9	-10.3	-8.7	-7.9	-10.9	-11.1	-11.3	-11.4	-11.6	-18.1
Broad money	**141.6**	**150.4**	**173.9**	**198.0**	**220.4**	**261.2**	**286.0**	**300.8**	**360.1**	**405.8**	**447.8**
Memorandum items	(Percent change, y-o-y, unless otherwise specified)										
Gross reserves (billions of US$)[5/]	2.1	2.2	3.0	3.8	4.2	5.2	5.7	6.2	7.2	8.1	9.0
Adjusted NIR (billions of US$)[2/]	1.15	1.37	1.89	2.53	3.01	3.82	4.29	4.69	5.43	6.19	7.04
In months of imports excl. maquila[2/]	2.3	3.1	4.4	4.3	4.3	5.0	5.1	5.2	5.7	6.1	6.5
Monetary base[6/]	-9.0	16.7	24.3	18.2	11.6	14.0	13.7	5.8	29.7	25.3	16.3
Currency issue	-4.3	19.1	25.6	21.0	7.9	23.8	14.9	5.9	32.4	28.4	17.5
Deposits in Cordobas	-16.5	9.7	14.7	18.8	9.8	17.0	8.1	5.1	15.8	7.6	7.6
Deposits in FX currency	-21.2	-6.5	18.3	10.2	14.0	17.0	8.1	5.1	15.8	7.6	7.6
Credit to private sector	-8.7	-15.6	-3.6	5.3	15.6	15.6	10.0	14.4	6.8	5.9	7.0
Broad money	-18.7	6.2	15.6	13.8	11.3	18.5	9.5	5.2	19.7	12.7	10.4
Broad money velocity	2.9	2.8	2.5	2.5	2.6	2.6	2.6	2.6	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, 2018–28

(Annual flows in billions of córdobas, unless otherwise specified)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Prel.			Projections			
I. Central Bank											
Net foreign assets[1/]	**-20.3**	**6.0**	**24.7**	**20.5**	**17.8**	**38.3**	**20.7**	**16.7**	**34.3**	**32.4**	**39.1**
Net international reserves[2/]	-18.5	9.5	19.2	24.2	19.2	30.6	17.1	14.7	27.4	27.5	31.3
Net international reserves (billions of US$)[2/]	-0.7	0.2	0.5	0.6	0.5	0.8	0.5	0.4	0.7	0.8	0.9
Net domestic assets	**19.3**	**-1.7**	**-17.9**	**-13.4**	**-14.6**	**-27.9**	**-12.7**	**-13.1**	**-13.0**	**-7.6**	**-19.5**
Net claims on nonfinancial public sector	9.3	-1.5	-8.4	-4.6	-15.8	-9.1	-5.6	-9.1	-1.7	-1.8	-1.8
Net credit to banks	9.6	-0.4	-16.9	-10.3	0.5	-18.8	-7.5	-3.7	-11.4	-5.6	-11.4
of which: reserves	3.9	3.5	-6.3	-5.0	0.5	-4.5	-3.2	-2.2	-7.2	-4.0	-4.3
Capital accounts	0.6	1.0	1.6	1.3	0.9	1.8	0.5	-0.2	0.3	-0.2	0.2
Other items (net)	-0.2	-0.5	5.7	0.2	-0.3	-1.8	-0.1	-0.1	-0.1	-0.1	-6.4
Currency issue	**-1.0**	**4.3**	**6.8**	**7.0**	**3.2**	**10.4**	**8.1**	**3.7**	**21.4**	**24.8**	**19.7**
II. Other Depository Corporations											
Net foreign assets	**-0.7**	**23.4**	**6.2**	**1.0**	**3.0**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Net foreign assets (billions of US$)	0.0	0.7	0.2	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net domestic assets	**-31.1**	**-18.4**	**10.7**	**16.3**	**17.4**	**31.1**	**17.5**	**11.8**	**38.7**	**21.6**	**23.3**
Net claims on Central Bank[3/]	-5.9	-1.4	15.2	9.9	2.1	18.7	8.2	4.3	12.1	6.3	12.2
Net credit to other financial corporations	-0.1	-1.0	0.1	0.3	0.9	-1.5	-0.1	-0.1	-0.1	-0.1	-0.1
Net credit to non-financial public sector	-6.2	3.1	2.7	0.8	-2.2	-2.9	-3.0	-15.1	16.6	6.9	-0.6
Credit to private sector	-14.1	-22.8	-4.7	6.3	19.7	22.9	16.9	26.8	14.5	13.4	16.9
Capital accounts	-3.2	-4.0	-1.5	-3.1	-2.8	-5.8	-4.3	-4.1	-4.4	-4.8	-5.1
Other items (net)	-1.4	7.7	-1.1	2.0	-0.3	-0.2	-0.1	-0.1	0.0	0.0	0.0
Liabilities	**-31.8**	**5.0**	**16.9**	**17.2**	**20.4**	**31.3**	**17.5**	**11.8**	**38.7**	**21.6**	**23.3**
Deposits in domestic currency	-4.2	2.5	2.5	5.0	2.8	4.5	2.5	1.7	5.6	3.1	3.4
Deposits in foreign currency	-27.5	2.6	14.4	12.3	17.6	26.8	15.0	10.1	33.1	18.5	19.9
III. Depository Corporations											
Net foreign assets	**-21.0**	**29.4**	**30.9**	**21.4**	**20.8**	**38.5**	**20.7**	**16.7**	**34.3**	**32.4**	**39.1**
Net foreign assets (billions of US$)	-0.7	0.9	0.9	0.6	0.5	1.0	0.6	0.5	0.9	0.9	1.1
Net domestic assets	**-11.5**	**-20.6**	**-7.4**	**2.6**	**1.6**	**2.3**	**4.1**	**-2.0**	**25.0**	**13.3**	**3.0**
Net credit to non-financial public sector	3.1	1.6	-5.6	-3.7	-18.0	-12.0	-8.7	-24.2	14.9	5.1	-2.4
Credit to private sector	-14.1	-23.1	-4.5	6.4	19.7	22.9	16.9	26.8	14.5	13.4	16.9
Net credit to other financial corporations	-0.2	-1.0	0.1	0.3	0.9	-1.5	-0.1	-0.1	-0.1	-0.1	-0.1
Capital accounts	-2.7	-3.0	0.1	-1.8	-1.9	-4.1	-3.8	-4.3	-4.1	-4.9	-4.9
Other items (net)	2.4	4.9	2.6	1.6	0.9	-3.0	-0.2	-0.2	-0.2	-0.1	-6.5
Broad money	**-32.5**	**8.8**	**23.5**	**24.0**	**22.4**	**40.8**	**24.9**	**14.8**	**59.3**	**45.6**	**42.1**

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, 2018–28

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Prel.			Projections			
					(Millions of Cordobas)						
Revenue	**2,674**	**2,761**	**1,085**	**417**	**630**	**835**	**907**	**980**	**1,162**	**1,259**	**1,361**
Interest	2,140	2,666	1,029	349	531	730	798	867	1,044	1,137	1,234
Foreign deposits	94	159	36	2	92	0	0	0	197	222	248
Notes and bonds	1,070	1,415	602	9	179	0	0	0	749	843	941
Loans of the BCN	844	1,034	199	180	159	139	118	96	73	43	13
On MTI bonds (fluctuation in price)	97	23	4	109	149	0	0	0	26	29	33
Other revenues	535	117	96	119	126	105	109	113	118	122	127
Of which: recapitalization transfers	182	22	41	51	26	0	0	0	0	0	0
Expenditure	**2,028**	**2,244**	**1,772**	**1,710**	**1,622**	**2,378**	**2,812**	**2,542**	**2,820**	**2,561**	**2,629**
Administrative	751	831	775	792	920	1,090	1,131	1,174	1,221	1,270	1,321
Interest	1,277	1,413	997	918	702	1,288	1,681	1,368	1,599	1,291	1,309
External debt	174	544	370	200	301	160	160	208	408	15	11
BCN securities	560	218	180	439	159	874	1,268	924	972	1,084	1,133
Bonds (banking)	217	210	199	180	159	161	133	103	73	43	13
Other	304	157	84	49	28	42	47	53	146	149	152
Quasi-fiscal balance	**646**	**516**	**-687**	**-1,294**	**-992**	**-1,543**	**-1,905**	**-1,563**	**-1,658**	**-1,302**	**-1,268**
					(Percent of GDP)						
Revenue	**0.7**	**0.7**	**0.2**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
Interest	0.5	0.6	0.2	0.1	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	0.3	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Bonds (banking)	0.2	0.2	0.0	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	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: recapitalization transfers	0.0	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**	**0.4**	**0.3**	**0.3**	**0.4**	**0.4**	**0.3**	**0.4**	**0.3**	**0.3**
Administrative	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Interest	0.3	0.3	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.1	0.1
External debt	0.0	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.1	0.0	0.0
BCN securities	0.1	0.1	0.0	0.1	0.0	0.1	0.2	0.1	0.1	0.1	0.1
Bonds (banking)	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Quasi-fiscal balance	**0.2**	**0.1**	**-0.2**	**-0.3**	**-0.2**	**-0.2**	**-0.3**	**-0.2**	**-0.2**	**-0.2**	**-0.1**

Sources: National authorities and IMF staff calculations.

Table 10. Nicaragua: Financial Sector Indicators, 2018–23

	2018	2019	2020	2021	2022				2023		
	Q4	Q4	Q4	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Capital Adequacy Ratio	17.1	21.6	21.8	21.1	21.3	20.6	20.0	19.6	19.1	18.8	19.3
NPLs to total loans	2.6	3.2	3.7	2.4	2.2	2.0	1.9	1.5	1.4	1.3	1.2
Other distressed assets to total loans	14.2	15.9	18.6	14.3	13.4	12.4	10.2	9.2	8.0	7.1	6.7
Total distressed assets to total loans 1/	16.8	19.1	22.2	16.7	15.6	14.4	12.1	10.7	9.3	8.4	7.9
Provisions to NPLs	173.3	177.9	172.1	230.2	243.6	264.5	272.3	331.6	352.8	372.8	378.4
Provisions to distressed assets 1/	27.1	30.1	28.5	33.5	35.1	36.4	42.8	47.5	49.9	53.1	56.2
Return on assets (ROA) 2/	1.3	1.2	1.1	1.6	1.7	1.8	1.8	1.8	2.0	2.1	2.2
Return on Equity (ROE) 2/	10.4	8.1	5.8	9.3	9.7	10.4	10.4	10.5	11.3	11.9	12.7
Liquid assets to total deposits 3/	35.0	47.0	40.6	44.6	42.5	39.5	38.9	37.1	33.4	34.1	33.6
Liquid assets to total liabilities 4/	36.5	40.5	46.5	44.7	41.4	36.6	37.9	39.5	32.0	31.9	33.0

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.

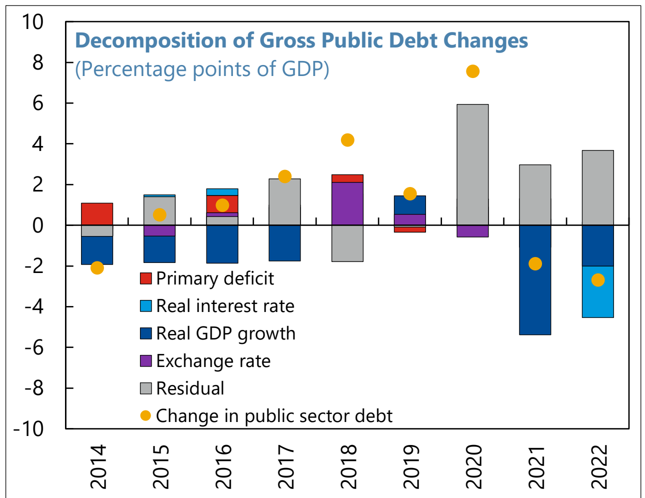
3/ Banking system only.

4/ Excluding loans from other Financial Institutions with a maturity over 12 months.

Annex I. Fiscal Performance During Multiple Recent Shocks

Despite multiple consecutive shocks over 2018-2022, Nicaragua's public debt continues to remain one of the lowest in CAPDR, because of implementing prudent fiscal policy. During the past decade Nicaragua sustained increasing capital and social expenditures, while on average in CAPDR countries these expenditures declined. However, this increase in selected public spending was accompanied by contained spending in other categories. Moreover, over the past decade Nicaragua financed the increase in selected public spending mostly through increasing tax revenues.

1. Despite multiple consecutive shocks, Nicaragua's public debt continues to remain one of the lowest in CAPDR, because of implementing prudent fiscal policy. At end-2022 public debt in Nicaragua stood at 52 percent of GDP,[1] the second lowest in CAPDR (Figure 1). Despite the recent multiple shocks (2018 socio-political crisis, COVID-19 pandemic, 2020 hurricanes, and the increase in global prices, especially for energy and fertilizers) Nicaragua's public debt increased only by 3 percent of GDP over 2020-22, compared to a higher increase in the region's average. This moderate debt increase was due to: (i) a much lower increase in public debt in 2020 due to the COVID-19 pandemic (7.6 percent of GDP) compared to the CAPDR average (12 percent of GDP), and (ii) the public debt decline that started in 2021 due to the strong GDP growth rebound and a considerable reduction in the primary deficit (text chat). Moreover, that is a continuation of the prudent fiscal policy implemented over the past decade, which shows a lower level of public debt than in CAPDR. However, during 2018-19, public debt in Nicaragua increased more rapidly than in CAPDR, due to an increase in primary deficit and a contraction in the real GDP (Figure 1 and text chart).



Source: IMF WEO and staff calculations.

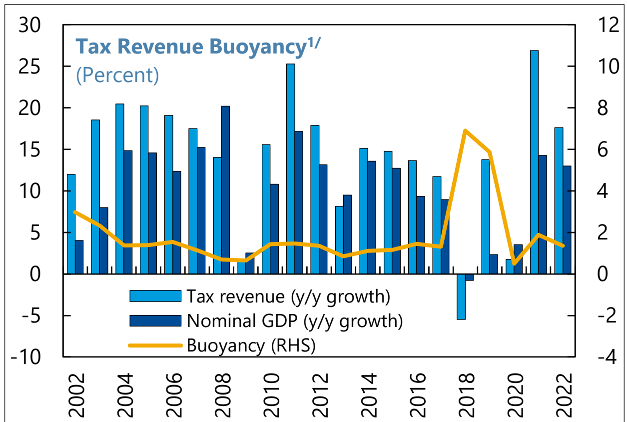
2. Over the past decade Nicaragua sustained increases in capital expenditure and social benefits, while on average in CAPDR countries these expenditures declined. Over the past decade Nicaragua sustained increasing public expenditures, primarily investment and social benefits (Figure 1). During the same time, regional averages of public investment and social benefits declined, despite starting at similar levels with Nicaragua in 2012.

3. During the same period, other public spending was contained in Nicaragua. Over the past decade Nicaragua had one of the lowest wages and good and services expenditures in the region (Figure 2), and overall, the share in the budget was contained. Following the multiple

[1] External debt accounts for the largest share of total public debt, 86 percent, or 42.5 percent of GDP, owed primarily to multilateral creditors the Inter-American Development Bank (IDB about 13 percent of GDP), Central American Bank for Economic Integration (CABEI, about 10.5 percent of GDP) and the World Bank, about 5 percent of GDP). Domestic debt reached 9.8 percent of GDP.

consecutive shocks that started in 2018 in Nicaragua, the consolidation in expenditures consisted primarily in a reduction of compensation of employees, and public investment; the latter is more pronounced for Nicaragua in 2018-19 and 2022. Interest payments were also much lower in Nicaragua than CAPDR average over the past decade, and increasing less than the regional average, due to a combination of lower public debt stock, as we all as prudent debt management (increase in public debt was primarily external, at concessional terms).

4. Nicaragua's sustained increases in public spending was financed primarily through raising tax revenues. Over the past decade the sustained increase in public investment and social benefits was accompanied by a steady rise in revenues (Figure 2).[2] This increase was due mostly to increase in tax revenues and was particularly pronounced in 2019 due to an increase in buoyancy (following the implementation of a tax reform). During the same time tax revenues in CAPDR and Latin American Countries (LAC) mostly stagnated. This has helped sustain debt levels below the CAPDR regional average.[3]

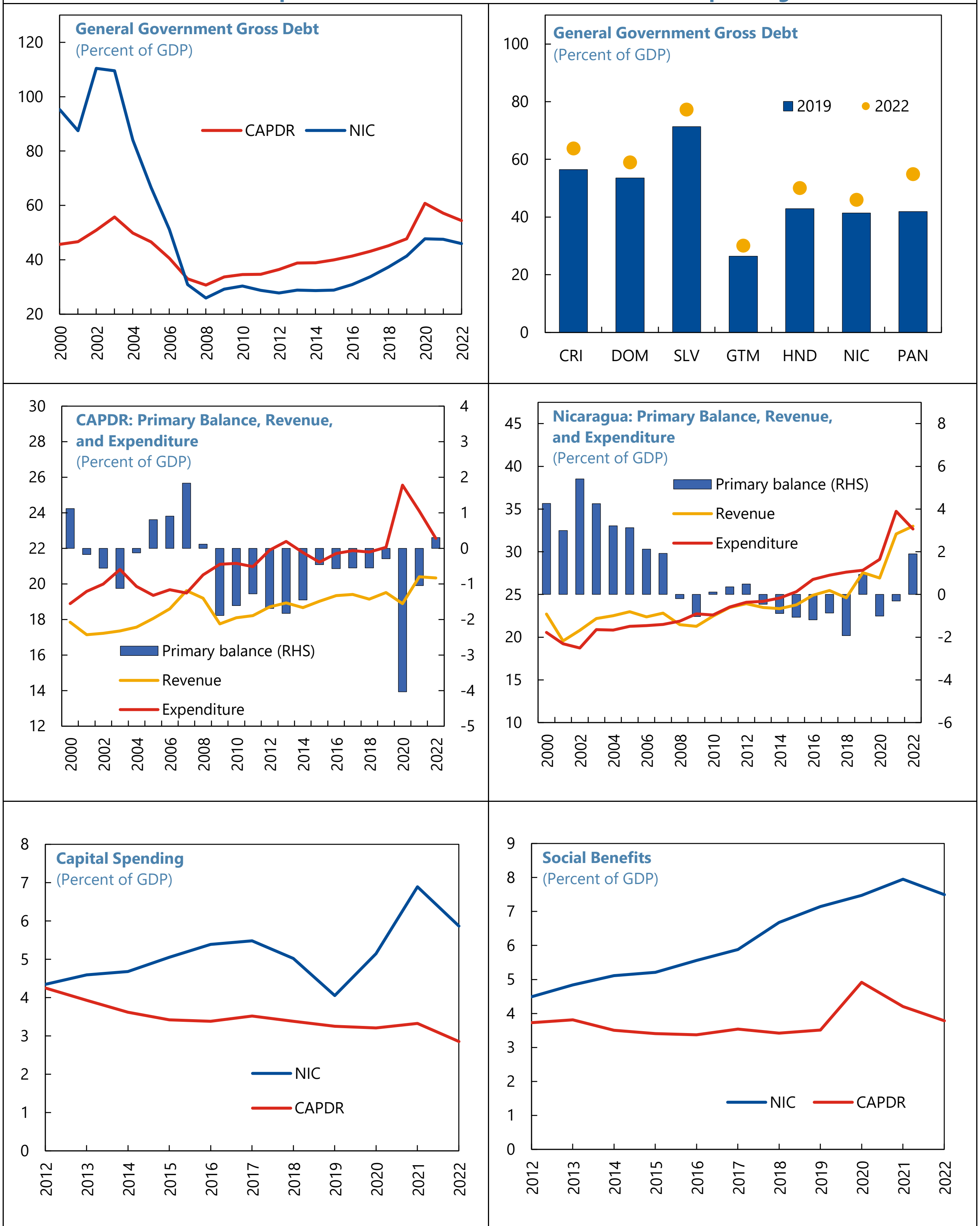


Source: IMF WEO and staff calculations.
1/Tax buoyancy is defined as the ratio between nominal GDP growth and tax revenue growth.

[2] Nicaragua has the highest revenue share in the region (CAPDR and LAC).

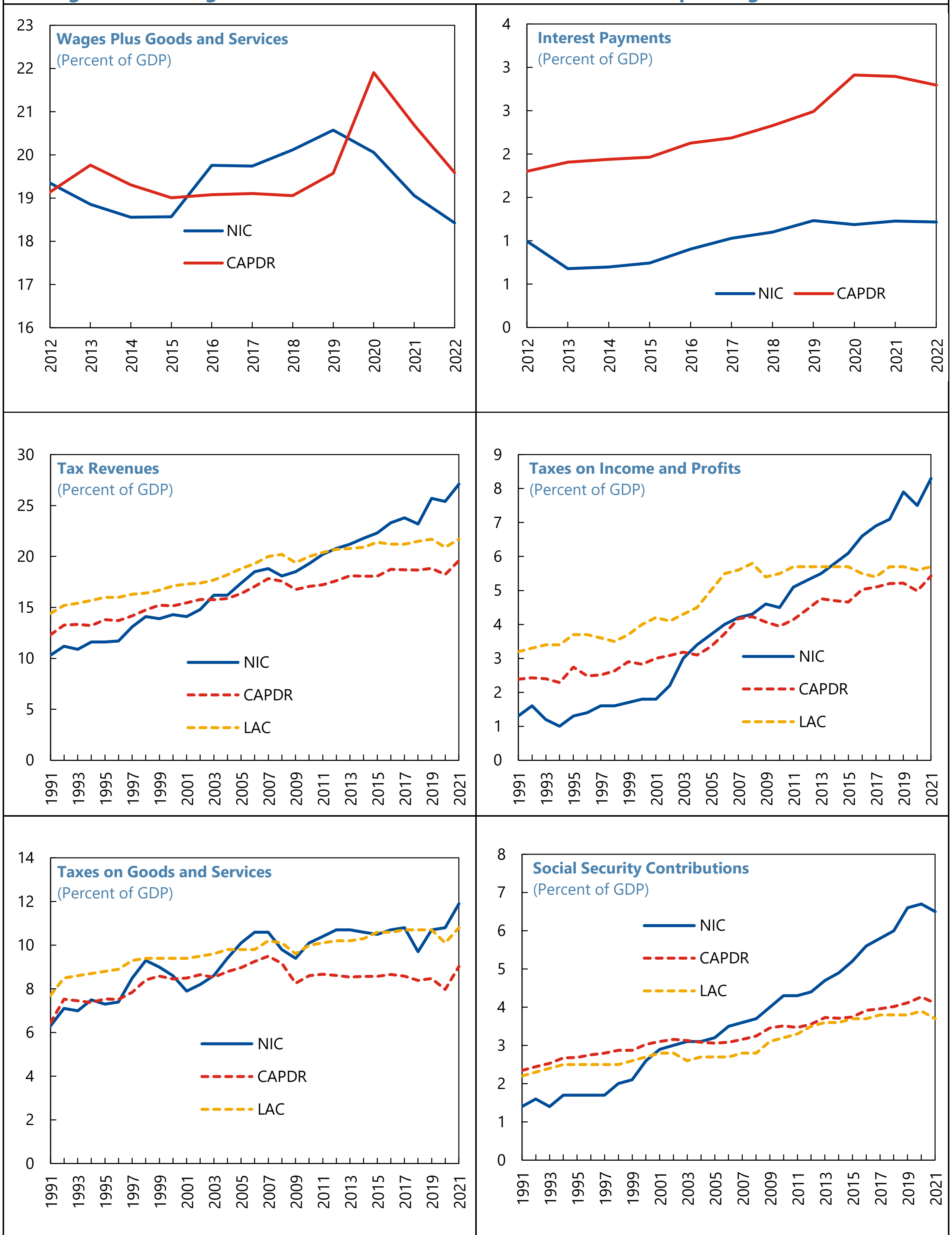
[3] Following the HIPC completion point in end-2003, Nicaragua also benefitted from debt relief.

Figure 1. Nicaragua and CAPDR: General Government Debt Dynamics, Primary Deficit Developments, and Public Investment and Social Spending



Sources: IMF WEO and staff calculations.

Figure 2. Nicaragua and CAPDR: General Government Selected Spending and Revenues



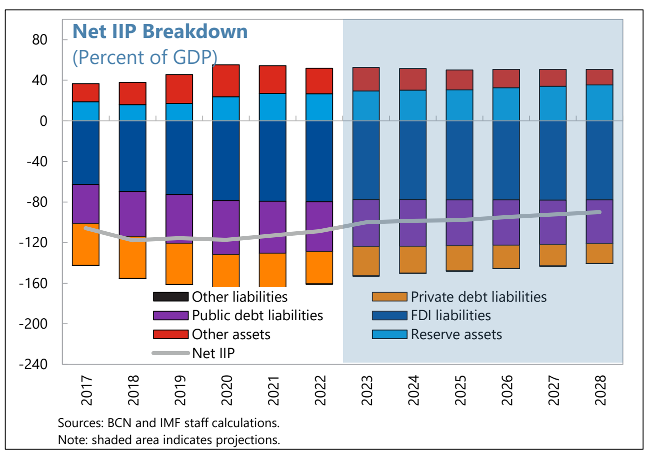
Sources: IMF WEO and staff calculations.

Annex II. External Sector Assessment

Overall Assessment: *Nicaragua's external position in 2022 was stronger than the level implied by fundamentals and desirable policies. The assessment is driven by the significant improvement in the Current Account (CA) balance as rising imports were offset by strong merchandise exports, a resumption in tourism, and strong remittances. The net international investment position (NIIP) has improved relative to 2021, and markedly since the social-political crisis of 2018. 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 and helped with the reserves accumulation. High remittances have made the crawling peg (that will move to 0 percent from the beginning of 2024) easy to maintain for now due to ample and steadily rising international reserves, which increased from US$3.8 billion at end-2021 to US$5 billion by October 2023—the 6-months of imports (excluding maquila).*

Potential Policy Responses: *While the external sector position in 2021-22 was supported by stable funding sources, it depended heavily on workers' remittances and FDI flows, mainly in mining. 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. Potential risks from volatile and rising commodity prices, in particular fuel, may create further pressures in the external position. Amid these risks, Nicaragua should continue to build its stock of international reserves.*

Foreign Assets and Liabilities: Position and Trajectory

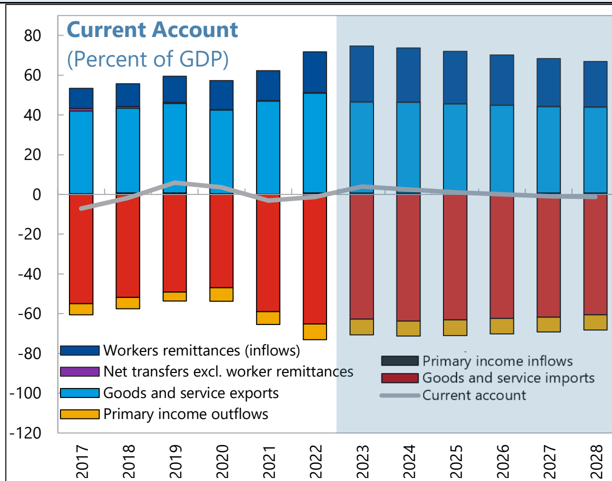


Background. After worsening substantially in 2018, given the sudden stop in capital (a reversal from inflows of about 8½ percent of GDP to outflows of 2½ percent of GDP) and the erosion in confidence in the aftermath of the social-political crisis, the net international investment position (NIIP) has improved by 20 percent of GDP, since end-2018, reaching -109 percent of GDP by end-2022. The dollar value of NIIP remained roughly constant in 2022, with the improvement relative to GDP driven by the recovery of nominal GDP (also as measured in USD). Compared to 2021 there were not significant changes in the composition of the net IIP. All improvements in reserves assets, FDI and other assets, compared to 20218 are almost entirely driven by financial account flows rather than valuation effects.

Assessment. The External Sustainability approach finds the NIIP sustainable. The increase in public sector external debt has been more than offset by an increase in reserve assets, and the entire debt stock of the central government (49 percent of GDP) is of medium or long maturity, 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 2023 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.

2022 (% GDP)	NIIP: -109	Gross Assets: 52	Debt Assets: 49	Gross Liab.: 161	Debt Liab.: 81

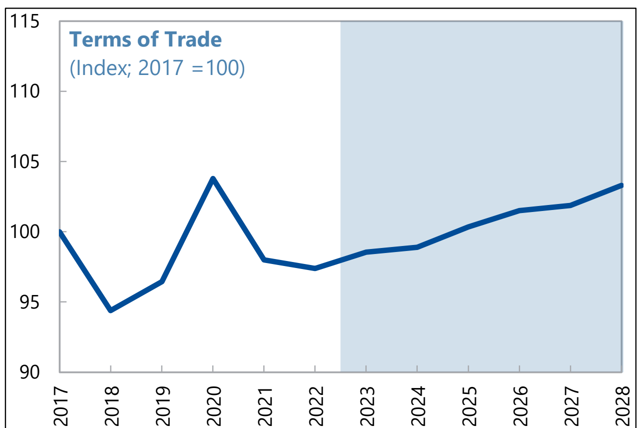
Current Account



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

Background. The CA balance improved to -1.3 percent of GDP in 2022, from -3.1 percent of GDP in 2021, driven by strong remittances, resilient exports of agricultural and mining products, and the resumption of tourism. These factors more than offset the increase in imports, which grew by 17.6 percent (y-o-y) in 2022.

Assessment. The EBA CA model estimates a current account norm of -4.1 percent of GDP for 2022. The domestic policy gaps contributed 2.7 percent of GDP to the current account, with the largest gaps due to the lower than desirable fiscal balance (-0.8 percent) and lower than desirable public health spending (-0.8 percent) reducing the current account balance. Capital controls in trading partners contributed another 0.3 percent of GDP and insufficient credit growth in Nicaragua contributed another 0.6 percent of GDP. In aggregate, policy gaps contributed about 2.7 percent of GDP to the current account gap, with the remainder of about 0.1 percent of GDP reflecting the residual. The magnitude of the current account gap according to the CA model suggests that the 2022 external position is stronger than the level implied by fundamentals and desired policies. Continued strong remittances—coupled with fiscal surpluses—in 2023-24 are expected to shift the current account deficit into a surplus of 2.1 percent of GDP in 2023, and, as a result the expected current account gap is set to widen even further in the short term.



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

Nicaragua: Model Estimates for 2022 (in percent of GDP)

	CA model 1/	**REER model** 1/
	(in percent of GDP)	
CA-Actual	**-1.3**	
Cyclical contributions (from model) (-)	0.3	
COVID-19 adjustors (-) 2/	-0.2	
Additional temporary/statistical factors (-)	0.0	
Natural disasters and conflicts (-)	-0.1	
Adjusted CA	**-1.3**	
CA Norm (from model) 3/	**-4.1**	
Adjustments to the norm (-)		
Adjusted CA Norm	**-4.1**	
CA Gap	**2.8**	**0.9**
o/w Relative policy gap	2.7	
Elasticity	-0.3	
REER Gap (in percent)	**-8.1**	**-2.5**

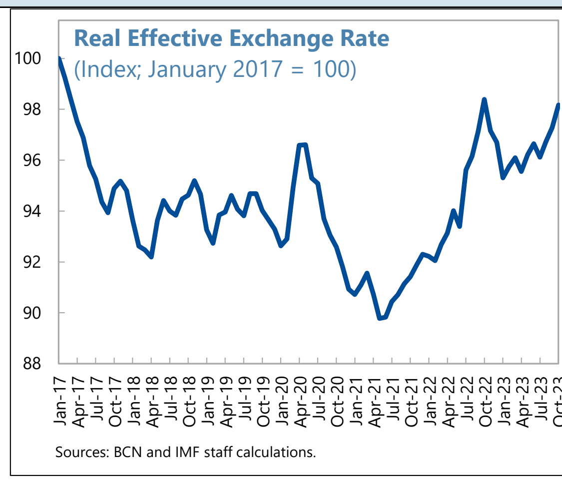
1/ Based on the EBA-lite 3.0 methodology

2/ Additional cyclical adjustment to account for the temporary impact of the tourism (0.23 percent of GDP)

3/ Cyclically adjusted, including multilateral consistency adjustments.

Source: IMF staff calculations.

Real Exchange Rate



Background. The average value of the real exchange rate in 2022 was 97. In 2023, it has remained stable and slightly below the 100 normalized value of 2017. Nicaragua followed a crawling peg at 2 percent depreciation against the U.S. dollar in 2022, 1 percent in 2023, and will move to 0 from 2024.

After abruptly 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—the real effective exchange rate appreciates if inflation in Nicaragua exceeds that of the United States by more than the crawling peg (which was 2 percent during 2022-January 2023). By the end of 2022, and continuing into 2023, substantially higher inflation rates in Nicaragua than in the United States are contributing to an appreciation of the real exchange rate, by about 5 percent in 2022.

Assessment. The REER undervaluation estimated by the EBA Lite CA model (REER model) is 8.1 percent (2.5 percent). For the REER model, the REER gap is driven by a combination of idiosyncratic factors and suboptimal policy.

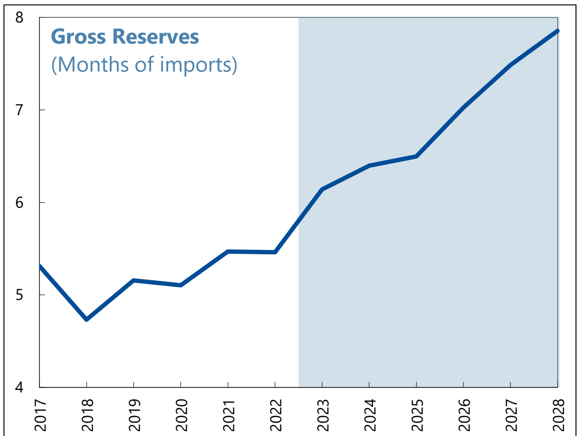
Capital and Financial Accounts: Flows and Policy Measures

Background. In 2022, the CA deficit of 1.3 percent of GDP was more than fully covered by net FDI inflows of 8.2 percent of GDP and general government external borrowing of 3.2 percent of GDP. As the current account deficit was substantially lower than the inflow of financing, the economy accumulated significant international reserves (2.4 percent of GDP). This trend continues in 2023, though is expected to slow by year-end, with FDI inflows expected to fall to 5.1 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. 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 22 percent of GDP in the medium term, staff does not expect a financing gap to significantly reduce the stock of reserves in the medium term.

FX Intervention and Reserves Level

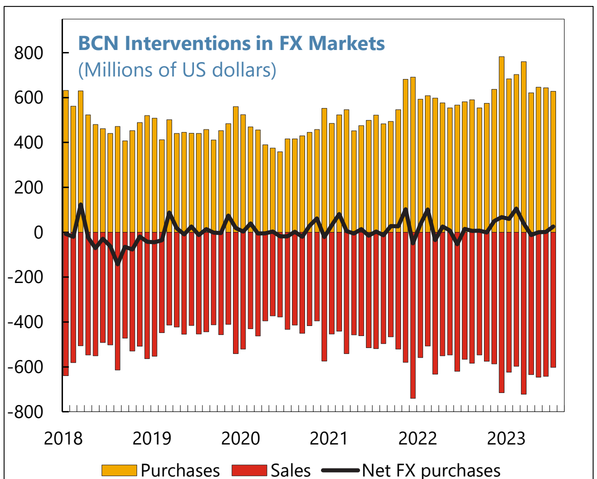
Background. Gross international reserves (GIR) at end-2022 were US$4.2 billion or 5.5 months of imports (*excluding maquila*). The stock of reserves grew by US$345 million in 2022, supported by an increase in FDI inflows and remittances outpacing the growing trade deficit. GIR continue to accumulate in 2023, standing at US$5 billion by end-October 2023. Gross international reserves are expected to continue to increase over the medium-term.



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

BCN decreased the crawling rate of the exchange rate, from 2 percent to 1 percent per year in January 2023, and announced it will change the rate of crawl to 0 in 2024. This is implemented largely by setting the reference rate to target the exchange rate. In circumstances, such as in the aftermath of the social-political crisis of 2018, the central bank used 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 reference rate has been sufficient to maintain the crawling band.

Assessment. The level of gross international reserves, albeit increasing to 6 months of imports by end-October 2023 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.



Source: BCN.

Annex III. Emigration, Remittances, GDP Growth, and Labor Force Participation[1]

1. **Nicaragua is experiencing a very large and sustained increase in remittances**. Pre-2022, the growth rate in remittances in Nicaragua followed a similar trend and developments of other CAPDR countries. In 2022, total remittances increased over 60 percent compared to end-2021 (Figure 1) in Nicaragua. In 2023, the level of monthly remittances to Nicaragua remained high, even as the growth rate slowed down (to about 50 percent y-o-y January to September). This increase stands out even in the CAPDR region, which receives large remittances, particularly in the Northern Triangle countries (El Salvador, Guatemala, and Honduras). Remittances in CAPDR increased according to the pre-pandemic trend in 2022-23, while remittances to Nicaragua increased exponentially.

2. **The increase in remittances to Nicaragua in 2022-2023 was mainly due to an increase in the number of transactions**. Figure 1 shows that the increase in number of transactions was above 40 percent, while the increase in the average value of transactions was about 20 percent by end-2022 compared to end-2021. For CAPDR countries the increase in the average value of remittances could be explained by developments in the U.S. (real wage increases, especially in the bottom quartile, and transfers), and the altruism reason of migrants trying to help families at home (see Babii and others, 2022).

3. **The marked increase in remittances to Nicaragua comes from the U.S.** Total monthly remittances in Nicaragua have increased from about US$100 million in 2016 to more than US$400 million by 2023. More than 90 percent come from the U.S., and the rapid increase in remittances post-2021, reflect an increase in remittances from the U.S.

4. **Remittances flows from the U.S. are highly correlated with the increased emigration.** Evidence from the literature suggests that an increase in remittances, and in particular in the number of transactions, is linked to an increase in the number of people remitting, and not to the same people remitting more often per month, as the cost of transferring remittances is declining much slower than the increase in the number of transactions (Babii and others, 2022, and Carare and others, 2022). Moreover, given the Latin and Central American migrants propensity to remit (Bidawi and others, 2022), recent emigrants tend to remit regularly more than older migrants, who might have less family ties. In addition, evidence in the literature also shows that the number of migrant apprehensions at the U.S. border can help explain the stock of undocumented migrants into the U.S. from these countries (Carare and others, 2023). Moreover, for these Central American countries, the share of undocumented migrants in the U.S. stock of migrants is higher than fifty percent, and over time, the stock of undocumented migrants rises much faster than the stock of documented migrants. Hence, Figure 1 shows that there is indeed a very high correlation between remittances and U.S. border apprehensions of Nicaraguan migrants (0.8 correlation, during January 2021-December 2022).

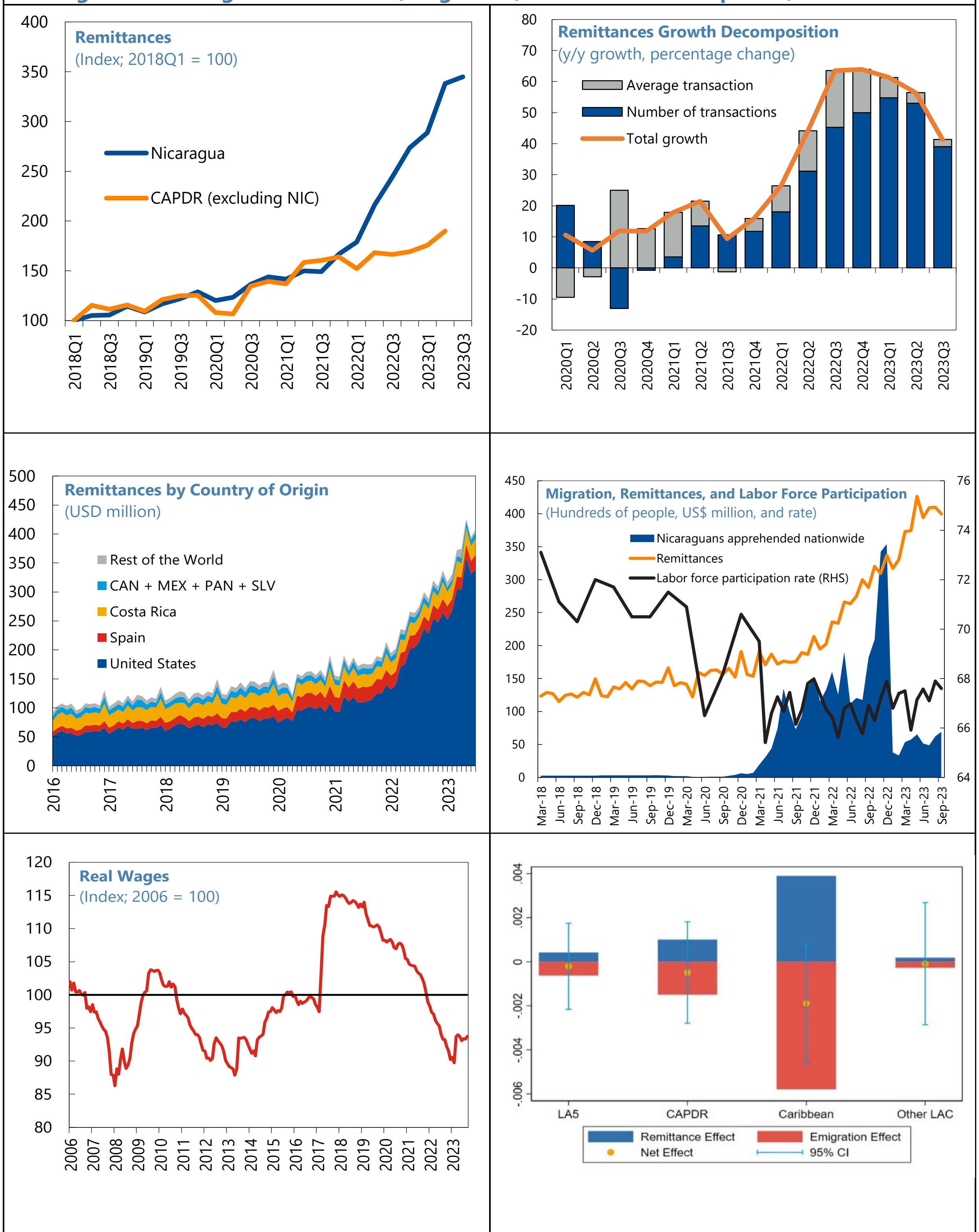
[1] Prepared by Wenzhang Zhang, Metodij Hadzi-Vaskov, and Alejandro Fiorito, with Jessie Kilembe.

5. **While rapidly increasing emigration from Nicaragua is a relatively recent phenomenon (starting in the summer of 2021), understanding the drivers of emigration is crucial to assess its trends and impact on growth.** Data shows that about 8.7 percent of the Nicaraguan population emigrated during 2019-22, mostly to the U.S. and Costa Rica. Given the recent rapid increase in emigration in Nicaragua, there are no studies explaining the current drivers of emigration in Nicaragua. However, there is a rich literature for LAC, and in particular for the Northern Triangle. The literatures shows that economic conditions, particularly incomes, and job opportunities both at home and in the U.S. represent the strongest pull and push factors of undocumented emigration, with the unemployment rate at home having the highest explanatory coefficient in a panel regression (see Carare and others, 2023). In Nicaragua, the unemployment rate jumped from 3.3 percent in 2017 to 5.9 in 2020, due to the protracted downturn and multiple shocks, and although it has declined since to about 3.5 percent, underemployment remains high. Real wages declined steadily from their pre-2018 peak and remain well below historical levels. At the same time, the unemployment rate for Hispanics in the U.S. and real wages in the U.S. also play a large factor, and during 2020-22 these pull factors have fared well compared to historical and pre-pandemic levels, in particular the real wages in the bottom quartiles (associated with lower educational levels). In addition, natural disasters, as well as climate change (increase in temperatures negatively affecting the coffee producers and rural agricultural employment) are also strong push emigration factors (Carare and others, 2023, Beaton and others, 2017, and Beltran Saavedra and Hadzi-Vaskov, forthcoming).

6. **Looking forward, it is important to further understand the net joint impact of remittances and emigration on long-term growth.** Estimating the net joint effect of emigration and remittances on real GDP growth is difficult due to endogeneity issues. Moreover, the literature does not have a definitive response, because ultimately the net joint impact depends on at least three country specific factors: (i) the skill of the migrants; (ii) the impact of emigration on productivity and thereby wages of the remaining workers at home; and (iii) the propensity to invest income received from remittances. To overcome these problems, and also because large emigration is a relatively new phenomenon in Nicaragua, Carare and others (forthcoming) estimate the joint net effect of migration and remittances on economic growth and labor market participation, using data from 31 LAC countries over three decades up to 2019 and a novel instrumental variable approach to account for a set of endogeneity challenges. The study finds that emigration slows down economic growth, although remittances provide some mitigating factors, with the joint effect appearing slightly negative in LAC. Emigration negatively affects the labor force participation, especially of youth; and across LAC, individual effects differ with larger remittances in some countries helping to mitigate the adverse impact of emigration. These results are in line with the literature in the region. Beaton and others (2017), and Aditya (2018) find that for countries with large remittances, like those in CAPDR, the effect of emigration might be alleviated by the impact of remittances as these inflows serve as macroeconomic stabilizers.[2]

[2] In particular, Beaton and others (2017) show that, among other positive effects, remittances allow consumption smoothing, which is especially important for Nicaragua, as real wages have fallen in recent years and the country has suffered multiple crises.

Figure 1. Nicaragua: Remittances, Migration, Labor Force Participation, and Growth



Sources: SECMA, Central Bank of Nicaragua, CBP, UNHRC, IMF WEO, and IMF staff calculations.
Note: Apprehensions pre-2020 are monthly averages computed using the yearly total.

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Annex IV. Risk Assessment Matrix[1]

Risks		Policy Response
External		
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, uncertainty, and export restrictions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, contagion effects, and social and economic instability.	**High Likelihood** **Medium Impact**	Strengthen social safety nets. Provide targeted and time-bound fiscal support to the vulnerable segments of the population. Adjust monetary policy stance to ensure price stability and maintain the exchange rate regime. Improve the resilience of supply chains in collaboration with the private sector.
Intensification of regional conflicts. Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, FDI and financial flows, and payment systems, and lead to refugee flows.	**High Likelihood** **Low/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 downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation causing sudden stops in EMDEs. • **U.S.:** Amid tight labor markets, and/or commodity price shocks, inflation remains elevated, prompting the Fed to keep rates higher for longer and resulting in more abrupt financial, housing, and commercial real estate market correction, and "hard landing."	**Medium Likelihood** **High Impact**	Provide coordinated response of monetary and fiscal policies, in particular use buffers (government deposits and international reserves, if needed) to cushion the shock. In particular, provide fiscal support, especially for the most vulnerable and try to finance it through concessional borrowing. Calibrate the policy reaction to the depth of the global downturn and Fed policy spillovers. Accelerate structural reforms aimed at improving market flexibility to accommodate shocks to export demand.
Deepening geoeconomic fragmentation. Broader and deeper conflict(s) and weakened international cooperation result in a more rapid reconfiguration of trade and FDI, supply disruptions, protectionism, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	**High Likelihood** **Medium Impact**	Accelerate structural reforms to increase competitiveness. Foster diversification and facilitate job creation. Adjust fiscal expenditure, while protecting social spending and public investment.
Domestic		
Domestic political developments leading to an intensification of sanctions on Nicaragua. Deterioration of the domestic political situation, including for business entities, could lower domestic demand through lower private investment, and also have implications for external trade. Sanctions imposed by certain countries on Nicaragua could intensify following domestic socio-political developments and broaden, impeding trade, reducing external demand, and curtailing access to external financing.	**Medium Likelihood** **High Impact**	Enhance governance and anti-corruption frameworks and their effective implementation. Accelerate structural reforms to increase competitiveness. Foster diversification and facilitate job creation. Protect social spending, provide support to the most vulnerable, by using fiscal buffers. Adjust fiscal expenditures if needed.
Natural disasters related to climate change. More frequent natural disasters and extreme climate events deal severe damage to infrastructure supply disruptions and reduce 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 the 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 V. Financial Sector FX Risks and Dollarization[1]

1. **Nicaragua has the highest financial dollarization level among non-fully dollarized countries in the CAPDR Region** (chart 1). Panama and El Salvador have higher credit dollarization rates since they are fully dollarized (they use the U.S. dollar as a legal tender and unit of account). Meanwhile, Nicaragua also has the region's lowest credit-to-GDP ratio, with a ratio of less than 30 percent, well below the regional average of about 50 percent. Since the credit portfolio accounts for most of the bank's assets (around 50 percent as of June 2023), followed by cash or cash equivalents (also dominated by foreign currency), banks' exposure to foreign currency is large, at 78 percent of assets. Regarding liabilities, foreign currency exposure is about 70 percent (panel 2).

2. **Over time financial dollarization has remained relatively steady, although changes since 2019 point to increased FX risks.** Credit dollarization has roughly remained the same over the past decade, around 91 percent (panel 3). The deposit dollarization ratio is on a clear downward trend since June 2017 (falling from 76 percent in June 2017 to 69 percent in June 2023) due to domestic revenue collection and more confidence in the Córdoba.

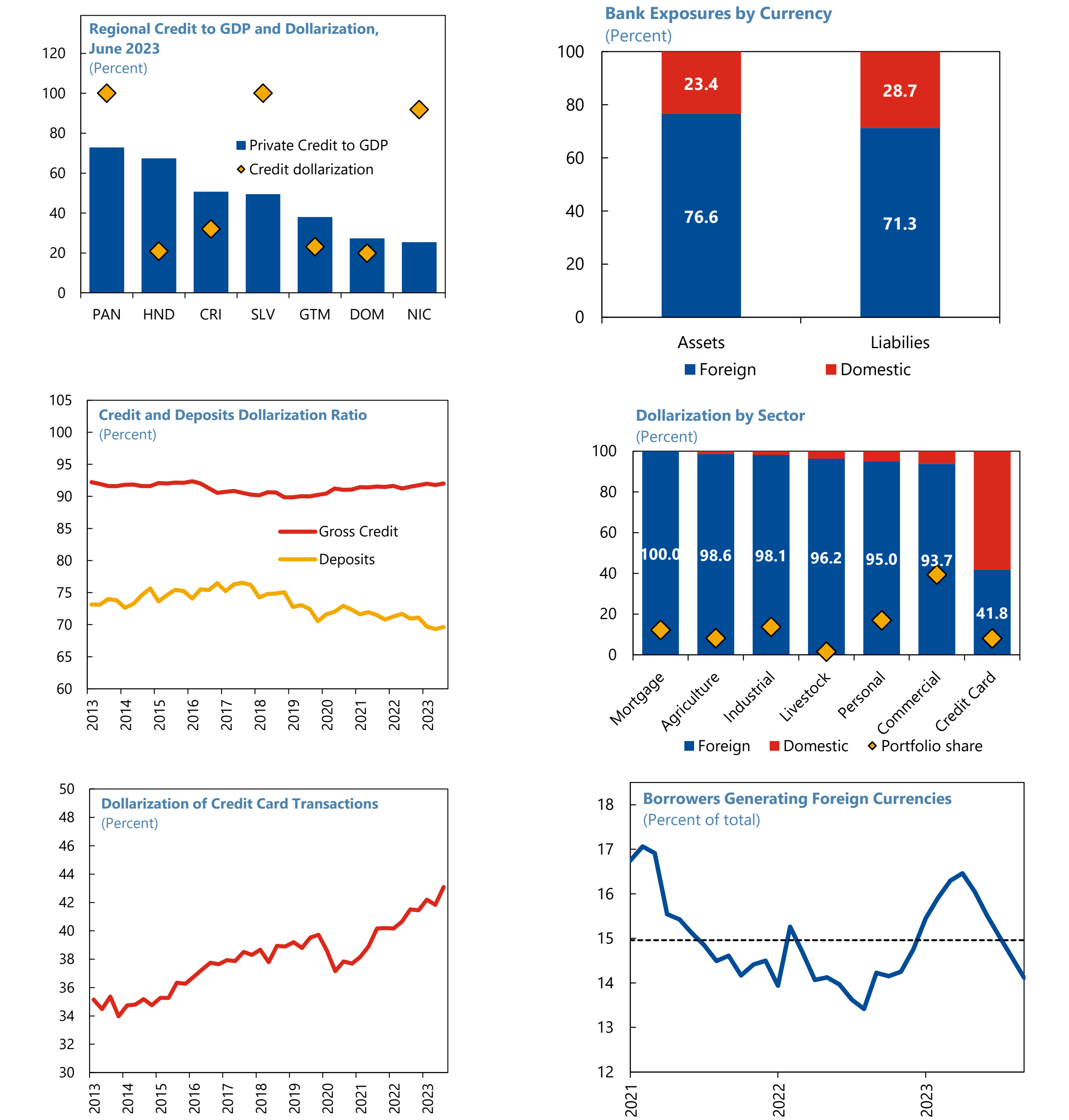
3. **Dollarization affects all lending to the economy.** Gross credit dollarization is above 90 percent in all but the credit card sector. For instance, the mortgage sector is fully dollarized (with a ratio of 100 percent).and commercial loans, which represent almost 40 percent of the credit portfolio, exhibit a ratio of a dollarization rate of 94 percent (panel 4). Only credit card transactions (about 8 percent of bank credit portfolio) have a comparatively low dollarization ratio. However, even in this sector, the dollarization has steadily increased from 35 percent ten years ago to 42 percent as of June 2023 (panel 5).

4. **High dollarization rates create FX risks in a context where only a minority of borrowers are hedged.** Dollarization creates currency mismatches that affect financial stability. To mitigate these risks, borrowers can usually hedge using futures or swaps. However, those hedging instruments are not permitted under Nicaraguan domestic law, making only natural hedging (generating FX) available. Yet, only a minority (an average of 15 percent over the last two years) of borrowers generate foreign currencies (panel 6).

5. **The authorities should better monitor and mitigate the FX risks arising from the elevated level of dollarization in the financial sector.** The authorities should improve their monitoring of FX risks by computing liquidity coverage by foreign and domestic currencies in addition to the consolidated currency. To mitigate FX risks, the authorities should reflect the elevated level of dollarization combined with the low level of hedging in their computation of the capital requirement by assigning higher weights to personal and mortgage loans in foreign currencies. Similarly, for commercial loans, the risk weights on borrowers that do not generate FX could be increased further.

[1] Prepared by Mohamed Diaby.

Figure 1. Nicaragua: FX Risk and Dollarization



Sources: Central America National Authorities, BCN, SIBOIF and IMF staff calculations.
Note: Data as of September 2023, unless otherwise noted.

Annex VI. The 2018 Framework of Enhanced Fund Engagement on Governance and Focus for Nicaragua

1. The 1997 Governance Policy established a general standard under which Fund involvement on governance should be guided. Acknowledging that promoting good governance is essential for economies, the policy calls for a more comprehensive treatment of governance issues in Article IV consultations and in the use of Fund's resources. The framework lays out the principles of engagement, which include: (i) whether poor governance or corruption would have significant current or potential impact on macroeconomic performance in the short and medium term;[1] (ii) the focus on issues; and (iii) avoiding interfering in domestic or foreign politics of a member or expressing views on the design of particular political systems.

2. In 2018, the IMF adopted the Framework for Enhanced Engagement on Governance to facilitate a more systematic application of the policy. The relevant categories of state functions to be included in such assessment would be:

- *fiscal governance*—weak practices in tax administration, weakness in PFM, insufficient fiscal transparency;
- *AML-CFT*—the assessment would focus not only on the adequacy of the legal framework but also on the overall institutional capacity and effective implementation;
- *rule of law*—those aspects of the rule of law that relate to the protection of property and contractual rights, including the predictability and timeliness of the enforcement of those rights;
- *central bank governance and operations adequacy*—done usually under the safeguards assessment, including (i) the mandate, ii) decision-making structure and autonomy of the central bank and the accountability and transparency frameworks; and iii) the internal control environment;
- *financial sector oversight*—quality of the overall supervisory framework;
- *quality of market regulation*—discretionary authority in the granting of licenses and business permits to private companies, or in the exemption from existing regulations, and undue discretion in the regulation of international trade.

3. For Nicaragua, as detailed in the 2022 Article IV Staff Report, staff advised has focused on the following macro-critical items: governance and anti-corruption frameworks, fiscal transparency, AML/CFT framework, rule of law, and central bank autonomy (safeguards). The RFI/RCF

[1] With respect to use of Fund resources, measures to address governance and corruption weaknesses will be established as conditions under a Fund-supported program if they are "of critical importance for achieving the goals of the member's program" as provided by the Guidelines on Conditionality.

also included commitments primarily on fiscal transparency and the AML/CFT framework (see Annex IX), and the 2021 Safeguards Assessment established recommendations for the central bank autonomy.

Annex VII. Anti-Money Laundering and Combatting Terrorist Financing

1. The FATF recommendations on increasing the effectiveness of the AML/CFT framework followed the removal of Nicaragua from the "grey list" in 2022. As a result, in October 2022, Nicaragua accepted the voluntary process to analyze potential unintended consequences related to implementation of Recommendation 8, related to NPOs. The FATF report established four recommendations to: (i) carry out a reform or issue a regulation of the NPO law to establish graduation criteria for the application of sanctions; (ii) regulate the procedure for filing administrative and judicial appeals against decisions adopted by the regulatory agency; (iii) strengthen the computer system through which entities can present documentation digitally; and (iv) agree with GAFILAT to develop training on international standards and risk-based approach.

2. New legal changes in the framework would have benefitted from updated sectoral risk reports and consultation with the regulated sector. The sectorial risk report for NPOs was to be published on a biannual basis, but after its publication in 2021, it is expected to be published in the first quarter of 2024. The amendment of NPO regulation would have benefitted from more up to date information from an updated sectorial risk report. [1] The regulation was amended with inputs form the National Assembly, MIGOB, and the Ministry of Finance. The regulation did not benefit from inputs from the NPO sector itself, potentially hampering further collaboration avenues and up-to-date knowledge from the entities involved in this sector. The latest update of the National Risk Assessment does not update on this topic.

3. The regulation of virtual assets needs to be updated. The supervision of virtual assets and related service providers has been entrusted to the BCN. Although the competencies are set on a law, further operative regulations still need to be enacted. Nicaragua's fintech sector is mainly driven through financial institutions, who usually have enough capabilities and technical resources. Activities are so far low, and Nicaragua should use this period to bring up to date regulations. The BCN is recommended to operationalize its mandate through the emission of necessary regulations.

4. Nicaragua should increase the filing of suspicious transactions reports in the informal sector as well. The quantity of received Suspicious Transactions Reported (STRs) has increased from 2022 to 2023. Most filings arise from the banking sector. Nicaragua has a significant informal economy sector, which is usually more suited for Designated Non-Financial Businesses and Professions (DNFBPs) to operate. Therefore, Nicaragua should avoid focusing solely on the banking sector and ensure that other DNFBPs file quality information.

[1] The Regulation to the Law 1115 on NPO was amended in 2023, now including the graduation criteria and setting in the law mechanisms for the presentation of digital information.

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 external shocks (e.g., pandemic, hurricanes, and food and oil prices increase) in line with financing, 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 the 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 second fiscal risks report was published in May 2023. 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 (56 percent in September 2023 vs. 86 percent in March 2018), although during distressed assets being almost three times higher.
Develop contingency plans and enhance the framework for bank resolution to increase the resilience of the financial sector 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 COVID-19

Recommendations	Current Status
independent asset quality and collateral valuation reviews.	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 FATF to protect the integrity of financial transactions and mitigate the exposure to illicit flows.	See Annex VIII.
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$5 billion by end-October 2023, due to strong remittances inflows, the SDR allocation in August 2021, and the 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, property registration, and resolution of insolvencies.	The authorities have 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 the protection of property rights still face challenges.
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 the business climate, strengthening the labor market, 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) expanding the categories of information requested to ensure it also covers interests and assets beneficially owned; and (iii) streamlining public access, ensuring that relevant information from the declaration is accessible

Recommendations	Current Status
	on-line, without requiring a prior consultation process.
Strengthen anti-corruption measures.	See para 33.
Capacity Development	
Improve data coverage.	Efforts are needed to expand sources of data in the real sector and incorporate the results of the 2018 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.	Extensive TA has been provided to improve statistical methodologies, but statistical gaps remain. However, the frequency of publication of some statistics (fiscal and labor market) has improved and authorities continue to work with STA and CAPTAC-DR to implement further recommendations.
Adhere to the multi-year roadmap of financial sector TA, as developed under the FSSR.	The follow up on the 2019 FSSR recommended TA has 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.	**Implemented.** 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.	**Implemented.** To track and report on the use of RCF/RFI-sourced emergency assistance, the authorities opened current accounts in dollars at the BCN 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.	**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 external audit covering the period June 1, 2021, to June 30, 2022, has been published on the government website (here).

[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 SOEs, including audit reports from the Comptroller General.	**Partially implemented**. The five largest SOEs—namely ENATREL, ENEL, PETRONIC, EPN, and ENACAL—published 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. Furthermore, ENATREL, ENACAL and EPN have expanded the publication of audited financial statements for 2021 and 2022. However, the authorities have still to expand the publications of financial statements to include other SOEs.
Strengthen the effectiveness of the AML/CFT framework in accordance with the action plan already agreed with the FATF.	**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. Stronger efforts are needed to ensure proper and effective implementation of the AML/CFT framework.

Annex X. Capacity Development Country Strategy Note[1,2]

Nicaragua's capacity development (CD) priorities include improving capacity and institutions to maintain monetary and financial stability, while supporting inclusive growth and reducing poverty. The authorities' engagement and ownership on these issues continues to be generally robust. Close integration between CD and surveillance activities, as well as coordination with other technical assistance (TA) providers remain crucial.

A. Context

1. **Nicaragua weathered well an extended economic contraction between 2018-2020, driven by multiple shocks.** Prudent macroeconomic policies, substantial policy buffers and official external assistance, including the 2020 IMF RFI/RCF, supported the authorities' response and helped Nicaragua recovery strongly. Following a marked increase in distressed assets, NPLs declined to about 1.2 percent of total assets in July 2023, and distressed assets to total loans declined from 20 percent to 6.0 percent, as the economy recovered. Nicaragua is assessed at moderate overall risk of public and external debt distress. Debt is sustainable with some space to absorb shocks.

2. **The recovery is expected to continue though the near-term forecast is impacted by the global slowdown.** Medium-term real GDP growth is expected at about 3½ percent, below the pre-crisis historical average, as credit to the private sector and private investment cautiously recover. Among the downside risks, aside from common risks in the region including natural disasters, a deterioration in the business climate and stricter international sanctions may affect the economy, as well as official financing and the capacity to absorb TA. During the 2022 Article IV discussion at the IMF Executive Board, Executive Directors inquired about CD traction.

3. **Nicaragua is PRGT-eligible and has benefitted from HIPC.** It has complied with most of the 2020 RFI/RCF governance commitments but there is a need to implement further improvements to strengthen the AML/CFT governance and anti-corruption frameworks.

4. **Therefore, Fund CD will be important to advance on the following key areas:**
(i) ensuring fiscal sustainability, while preserving adequate social spending and reducing poverty;
(ii) maintaining monetary and financial stability; (iii) improving capacity on statistical issues,
(iv) enhancing the AML/CFT governance and anti-corruption frameworks and fiscal transparency, and
(v) strengthening modeling and forecasting.

[1] Prepared by Jessie Kilembe.

[2] The acronyms in the note refer to the following IMF and other CD providers: the regional technical assistance center for Central America, Panama, and the Dominican Republic (CAPTAC-DR); Fiscal Affairs Department (FAD), Monetary and Capital Markets Department (MCM), Statistics Department (STA) and the Institute for Capacity Development (ICD).

B. Engagement Strategy

- **Fund's CD Engagement with Nicaragua.** Table 1 summarizes the key CD priority areas for fiscal sustainability, monetary and financial stability, statistical compilation and, engagement since 2020. The bulk of Fund's CD engagement is implemented through the regional technical assistance center for CAPTAC-DR.

- **Fund policy advice traction.** Nicaragua maintains a high response rate to policy advice from the IMF on macroeconomic issues.

- **Integration of CD in Fund's surveillance and lending.** CD delivery in Nicaragua has been closely incorporated with the surveillance priorities identified in the 2019 Financial Sector Stability Review, the 2020 RFI and the 2022 Article IV Consultation.

- **Collaboration with other partners.** There is some CD offered by the WB and the IADB, although limited, given the RENACER Act.

C. CD Priorities

5. The main CD objectives for Nicaragua focus on reinforcing accomplishments and making further advances on macro-critical reform areas. These include strengthening fiscal reporting and the institutional framework for maintaining monetary and financial stability, improving capacity on statistical issues, strengthening the AML/CFT governance and anti-corruption frameworks, and modeling and forecasting. Fund's CD is anticipated to assist in these principal areas as follows.

6. Fund CD seeks to assist in implementing fiscal reforms to ensure fiscal sustainability. The authorities implemented tax reforms in 2019 and have made considerable progress in revenue mobilization, with total revenues increasing to 33.2 percent of GDP in 2022 from 28.0 percent of GDP in 2018. Nevertheless, ensuring fiscal sustainability will depend on the capacity to limit contingent liabilities from SOEs, the central government transfers to the National Institute of Social Security (INSS) to close the pension system deficits as well as the ability to accumulate buffers to mitigate the impact of external shocks such as natural disasters. Safeguarding fiscal sustainability and building fiscal space will entail improving taxation through streamlining VAT exemptions, strengthening tax risk management and tax audit procedures for enhanced compliance and to bolster domestic revenue mobilization. In addition, this will involve rationalizing expenditures including better targeting of subsidies.

7. In the area of fiscal policy, Fund CD seeks to assist in enhancing fiscal institutions through improved revenue administration and public financial management.

- *Revenue administration: CAPTAC-DR/FAD.* To foster further advances in tax reforms, this workstream will support the authorities' revenue mobilization efforts through strengthening of tax audit procedures and improving risk analysis on customs clearance.

- *Public financial management: CAPTAC-DR/FAD.* To promote further improvements in public financial management, CD in this workstream will support the areas of risk management, fiscal transparency and accounting, fiscal risks, and budget preparation.

8. **Maintaining monetary and financial stability.** The 2018 socio-political crisis and its aftermath triggered a deterioration in confidence. The financial system experienced distress that led to a credit crunch. Large capital and deposit outflows ensued, adversely affecting economic activity. The BCN proceeded to implement measures to provide liquidity to the banking system, and thereby, avoided bank failures. To strengthen the resilience of the financial system, the BCN restructured its lines of financial assistance to provide emergency liquidity assistance in June 2018. However, operational, and legal challenges that might hinder access to these lines of financial assistance remain. There is a need to strengthen financial sector surveillance through an upgrade of the regulatory framework to align it with international standards.

9. **CD will aim to achieve progress in various key topics to maintain monetary and financial stability and address financial vulnerabilities.**

- *Central bank operations: CAPTAC-DR/MCM.* In this area, CD will focus on support with the development of an active and efficient interbank money market to facilitate monetary policy transmission.
- *Financial stability: CAPTAC-DR/MCM*: In this area, CD will focus on the operationalization of the Emergency Liquidity Assistance facilities framework established in 2018, conducting off-site supervision, monitoring systemic risks in the financial system, improving accounting and prudential provisioning regulatory guidelines, enhancing the crisis preparedness framework to align with international best practices and expanding the prudential supervisory perimeter.
- *Safeguards:* The authorities could benefit from CD arising from the 2021 Safeguards Assessment to successfully implement these recommendations. Those recommendations include amending the central bank law, recapitalizing the central bank, and transitioning to International Financial Reporting Standards (IFRS).

D. Statistics

10. **Data is broadly adequate for surveillance but has some weaknesses that hamper a deeper assessment.** Data quality can improve especially on timeliness and periodicity. Strengthening compilation, timely reporting, and publication of high-quality data and improvements in real and fiscal sector statistics are necessary. Completing and disseminating new series with reference year 2019 is important to provide more consistent and accurate data for surveillance purposes.

11. **Fund CD aims to address several shortcomings on national accounts, government finance, and public debt statistics.** CD will continue to assist efforts to enhance the quality, consistency, and timeliness of fiscal and debt statistics and in improving capacity of the Ministry of Finance through delivery of customized training. On government finance statistics (GFS), outstanding

tasks include advancing the data harmonization process, and improving timeliness, high-frequency data, and public sector coverage.

E. Governance, Anti-Corruption, and AML/CFT

12. The authorities have made efforts towards enhancing the governance, anticorruption, and AML/CFT frameworks to align them with international standards. However, sustained further efforts are needed to address the shortcomings within these frameworks and strengthen their effective implementation. On fiscal transparency the authorities benefited from CD and are implementing the recommendations received under a fiscal transparency evaluation.

F. Modeling

13. Stronger analytical skills and better macroeconomic forecasting and policy analysis will enhance the economic policy making process at the ministry and the central bank. This will support progress in analyzing fiscal, monetary, and external policy in a consistent manner and inform policy decisions.

- *Macroeconomic framework TA: ICD.* In this area, CD will continue to assist efforts to build macroeconomic analysis and forecasting capacity at the Ministry of Finance. Demand for CD in this area remains high from both the BCN and the Ministry of Finance. However, support has been reduced due to limited funding and the absence of a macroeconomic frameworks' advisor in CAPTAC-DR. The presence of an advisor could strengthen the consistency of the fiscal and monetary policy frameworks and support the macro analysis and forecasting function through the development of specific models for both monetary and fiscal institutions.
- *Forecasting models TA: MCM.* In this area, CD will continue to assist efforts to improve analytical capacity and monetary policy decisions through enhanced modelling and forecasting tools. The BCN needs to update its semi-structural model to support analysis presented to central bank authorities.

G. Challenges and Mitigating Factors

14. Efforts to achieve the identified CD priorities may encounter challenges. Safeguarding fiscal sustainability will be determined by the capacity to manage contingent liabilities and strengthen policy buffers to mitigate external shocks. The authorities' progress on the recommendations of financial sector related TA from the 2019 FSSR was previously derailed by the necessity to tackle governance weaknesses and fiscal transparency issues. Progress on improving statistics and providing timely, high-quality data has been slow despite extensive TA.

Table 1. Nicaragua: IMF Capacity Development Missions Since 2020		
TA/Training Mission	**Provider**	**Mission Date (Completed/Planned)**
Ensuring Fiscal Sustainability		
Fiscal		
Revenue Administration		
Tax Administration	CAPTAC-DR/FAD	August 2022
Tax Audit	CAPTAC-DR	March 2022
Strengthen Tax Audit Procedures	CAPTAC-DR	September 2022
Compliance Risk Management	CAPTAC-DR	July, 2023
Strengthen Tax Audit Procedures (Planned)	*CAPTAC-DR*	*2023*
Post Clearance Audit (Planned)	*CAPTAC-DR*	*2023*
Tax Policy		
Taxation of the Mining Sector, Taxation of the Digital Economy, and Minimum Taxes	FAD	January/February 2023
Public Financial Management		
Risk Management	CAPTAC-DR	January, April, November 2020
Fiscal Transparency, Control Of COVID-19 Spending and Supervision of State-Owned Enterprises	FAD	November 2020
Fiscal Risks Related to State-Owned Enterprises	FAD	April-June 2021
Macroeconomic Fiscal Risks, FRAT Tool	CAPTAC-DR	November 2021
Risk Management	CAPTAC-DR	April, September, November 2021
Risk Management	CAPTAC-DR	January 2022
Fiscal Transparency Evaluation	FAD	March 2022
Strengthen Risk Management (Planned)	*CAPTAC-DR*	*2023*
Fiscal Risks (Planned)	*CAPTAC-DR*	*2023*
Budget Preparation (Planned)	*CAPTAC-DR*	*2023*
Maintaining Monetary and Financial Stability		
Monetary and Financial Sector		
External Auditor's Support to Credit Risk Supervision	CAPTAC-DR	February-March 2021
Monetary Operations Scoping Mission	CAPTAC-DR/MCM	August 2021
Liquidity Forecasting and Management	CAPTAC-DR	November 2021
Central Bank's Foreign Exchange Operations	CAPTAC-DR	October 2022
International Financial Reporting Standards (IFRS) Selected Issues Training	CAPTAC-DR	February 2023
Semi Structural Model Update	CAPTAC-DR	February 2023
Securities Investor Protection	CAPTAC-DR	June 2023
Medium-term Debt Management Strategy (joint w/WB)	MCM	November 2023

Table 1. Nicaragua: IMF Capacity Development Missions Since 2020 (Continued)		
Interbank Money Market Development (Planned)	*CAPTAC-DR*	*2024*
Operationalization of ELA Framework (Planned)	*CAPTAC-DR*	*2024*
Expected credit loss – IFRS training and roadmap (Planned)	*CAPTAC-DR*	*2024*
Monitoring systemic risks in the financial system (Planned)	*MCM*	*2024*
Improving accounting and prudential provisioning regulatory guidelines (Planned)	*CAPTAC-DR*	*2024*
Statistics		
Real Sector Statistics		
National Accounts Statistics	CAPTAC-DR	June, October 2020
Producer Price Index	CAPTAC-DR	August 2020, March 2022
National Accounts Statistics (NAS)	CAPTAC-DR	June-July 2021
Quarterly NAD And Seasonal Adjustment	CAPTAC-DR	August 2021
Quarterly Supply and Use Table	CAPTAC-DR	February 2022
Quarterly National Accounts Statistics (2008 SNA)	CAPTAC-DR	April 2022
Quarterly NAS And Economic Surveys	CAPTAC-DR	November 2022
Benchmark revision 2019 of national accounts for 2019, valuation components.	*CAPTAC-DR*	*November 2023*
Benchmark revision 2019 of national accounts for 2019, Matrix of taxes and subsidies and GDP by the production approach (Planned)	*CAPTAC-DR*	*January 2024*
Price Statistics, Producer Price Indices (Planned)	*CAPTAC-DR*	*February 2024*
Producer Price Index	*CAPTAC-DR*	*February 2024 (planned and to be confirmed)*
Taxes Matrix and Gross Capital Formation	*CAPTAC-DR*	*February 2024 (planned and to be confirmed)*
Fiscal Sector Statistics		
Government Accounts and Harmonization with GFSM 2014	CAPTAC-DR	October 2020
Government Finance Statistics (GFS)	CAPTAC-DR	July, August, December 2021
Public Sector Debt Statistics (PSDS)	CAPTAC-DR	September-October 2021
Government Finance Statistics and Public Sector Debt Statistics (PSDS)	CAPTAC-DR	February, August 2022
Government Finance Statistics (GFS) compilation and consolidation of financial assets and liabilities	CAPTAC-DR	August 2023
Government Finance Statistics (Planned)	*CAPTAC-DR*	*2023*

Table 1. Nicaragua: IMF Capacity Development Missions Since 2020 (Concluded)		
Public Debt Statistics (Planned)	*CAPTAC-DR*	*2023*
Government Finance Statistics and Public Sector Debt Statistics (PSDS): Compilation and consolidation of nonfinancial public sector debt	*CAPTAC-DR*	*January 2024*
External Sector Statistics		
External Sector Statistics	CAPTAC-DR	April 2020
Modeling		
Macroeconomic Frameworks and Analysis		
Macroeconomic framework TA	ICD	February 2021

INTERNATIONAL MONETARY FUND

NICARAGUA

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

December 21, 2023

Prepared By

Western Hemisphere Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

Financial Position in the Fund

(As of November 30, 2023)

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	278.60	74.54
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):

	2023	2024	2025	2026	2026
Principal	--	43.34	43.34	8.67	8.67
Charges/Interest	0	7.79	5.59	4.03	3.98
Total	0	51.13	48.92	12.70	12.64

[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 January 2023, the BCN changed the rate of crawl of the exchange rate from 2 to 1 percent and in August 2023 the BCN announced that starting with January 2024 the rate of crawl will be 0. As of December 1, 2023, the official exchange rate was C$36.59 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

[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.

Nicaragua's participation in the SUCRE regional payments arrangement (Unitary System of Regional Compensation of Payments).

Article IV Consultation:

The previous consultation was completed by the Executive Board on January 27, 2023 (Country Report No. 2023/053).

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).

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Strengthen Tax Audit Procedures	CAPTAC-DR	September 2022
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Strengthen Tax Audit Procedures (Planned)	*CAPTAC-DR*	*2023*
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Tax Policy		

Nicaragua: IMF Capacity Development Missions Since 2020 (Continued)		
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Monetary and Financial Sector		
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External Sector Statistics		
External Sector Statistics	CAPTAC-DR	April 2020
Modeling		
Macroeconomic Frameworks and Analysis		
Macroeconomic framework TA	ICD	February 2021

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

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

Interamerican Development Bank: https://www.iadb.org/en/who-we-are/country-offices/nicaragua

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 1, 2023)

I. Assessment of Data Adequacy for Surveillance
General. Data provision is broadly adequate for surveillance, but data quality can be improved in national accounts, fiscal, debt, and external sector statistics. 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; conclude and disseminate new series using 2019 as a benchmark; 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 BCN disseminates national accounts (NA) series in current values and 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. Since December 2018, the economic surveys for national accounts and price indices are collected by the national statistical institute (INIDE). The BCN is finishing 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 BCN to INIDE, but the technical validation of both indices remains as the BCN responsibility. As of December 2023, the CPI and the PPI are published by INIDE. Labor market statistics' and unemployment figures' availability and frequency have improved in recent years.
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.
Monetary and Financial Statistics. The BCN 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 most microfinance institutions and saving and loans cooperatives. Other financial corporations comprise the Banco Produzcamos, most microfinance institutions, insurance corporations, and depository warehouses. The BCN reports the 13 core financial soundness indicators (FSIs) and seven encouraged FSIs for deposit takers with a quarterly frequency. SIBOIF reports additional bank-level statistics. The BCN 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). BCN 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 are due 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 1, 2023)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	12/1/2023	12/1/2023	M	M	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	10/31/2023	12/1/2023	M	M	M
Reserves/Base Money	10/31/2023	12/1/2023	M	M	M
Broad Money	10/31/2023	12/1/2023	M	M	M
Central Bank Balance Sheet	10/31/2023	12/1/2023	M	M	M
Consolidated Balance Sheet of the Banking System	10/31/2023	12/1/2023	M	M	M
Interest Rates[2]	11/30/2023	12/1/2023	M	M	M
Consumer Price Index	Oct. 2023	11/10/2023	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	Oct. 2023	11/28/2023	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Oct. 2023	11/28/2023	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q3 2023	10/28/2023	Q	Q	Q
External Current Account Balance	Q2 2023	10/31/2023	Q	Q	Q
Exports and Imports of Goods and Services	Q3 2023	11/22/2023	Q	Q	Q
GDP/GNP	Q2 2023	9/11/2023	Q	Q	Q
Gross External Debt	Q2 2023	10/11/2017	M	M	Q
International Investment Position[6]	Q2 2023	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).

INTERNATIONAL MONETARY FUND

NICARAGUA

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

December 21, 2023

Approved By
Ana Corbacho and Boileau Loko (IMF) and Oscar Calvo-Gonzalez and Manuela Francisco (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	Some space to absorb shocks
Application of judgment	No

Nicaragua remains at moderate risk of external and overall debt distress with some space to absorb shocks.[1] Under the baseline scenario, external debt burden indicators remain below the threshold reflecting the high concessional nature of Nicaragua's external debt. However, the present value (PV) of external debt-to-GDP ratio breaches the threshold under a combination of shocks. Under the baseline scenario, the PV of the public debt-to-GDP ratio is projected to remain below the threshold. However, the PV of the public debt-to-GDP ratio is susceptible to growth shocks and breaches the benchmark under the most extreme scenario. Downside risks relate to vulnerability to external shocks and natural disasters. Strengthening policy buffers will be necessary as new concessional external financing is expected to remain limited which could exert fiscal pressures and adversely affect debt sustainability.

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[1] Nicaragua's debt-carrying capacity remains assessed as medium. The Composite Index (CI) is estimated at 3.02 and is based on the 2022 World Bank's CPIA and the October 2023 WEO.

PUBLIC DEBT COVERAGE

1. **Nicaragua's public debt statistics are reported at the Consolidated Public Sector (CPS) level, excluding the social security system (INSS).**[2] The public debt coverage used in this Debt Sustainability Analysis (DSA) includes the consolidated debt of the budgetary central government, local government, the state-owned enterprises guaranteed debt, and the Central Bank of Nicaragua (BCN, Text Table 1).[3] There is no non-guaranteed state-owned-enterprises' debt recorded in Nicaragua.

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). Debt data on all state and local governments, extra budgetary funds and non-guaranteed state-owned enterprises is not included. The authorities are receiving technical assistance from the IMF and support under the World Bank's sustainable development finance policy (SDFP) on ongoing efforts to strengthen capabilities to improve debt transparency, widen the coverage of debt reporting and monitoring of other elements of the general government and SOEs.[4] 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).

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

	Subsectors of the public sector	Check box
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	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2	
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	
	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.

[2] At the consolidated public sector level INSS debt is not included because central government covers any deficits.

[3] Local government debt of Managua (ALMA), with private domestic creditors. Managua is the largest municipality. The authorities are receiving IMF technical assistance for compiling statistics of the decentralized entities.

[4] The contingent liability stress test applied is set at 9.2 percent of GDP. To proxy potential fiscal costs from PPP distress, the PPP shock is set at 2.2 percent of GDP representing 35 percent of Nicaragua's PPP capital stock. Currently, risks in the financial sector are moderated with better asset quality, maintaining the default financial sector contingent liability shock set at 5 percent rate is adequate.

BACKGROUND ON DEBT

3. **Nicaragua's debt trajectory decreased compared to the 2022 DSA**[5] **(Text Table 2 and Table 2).** Steady economic growth combined with prudent fiscal policy and debt management helped contain the debt-to-GDP ratio. The stock of public debt decreased by about 3 percent of GDP in 2022, to 52 percent of GDP and is expected to reach about 50.8 percent of GDP at end-2023 (compared with 56.1 percent of GDP in the 2022 DSA) due to improved fiscal performance and higher nominal GDP growth. Domestic Public and Publicly Guaranteed (PPG) debt amounts to 18.2 percent of total public debt (or 9.5 percent of GDP).[6]

4. **External PPG debt reached 42.5 percent of GDP at end-2022.** All PPG external debt has medium and long-term maturity, with 86 percent of PPG external debt held by multilaterals. The largest external creditors are the Central American Bank for Economic Integration (CABEI, 24 percent of external debt stock), and the Inter-American Development Bank (IDB, 29 percent) and the World Bank (11 percent of external debt stock at end-2022). Nicaragua is eligible for blended loans (including a concessional part) from most multilaterals, including the IMF. The remaining 14 percent is held mostly by Japan, South Korea, Germany, India, and Kuwait; other creditors include Costa Rica.

5. **A large stock of external debt to non-Paris Club creditors is still pending debt relief under the HIPC Initiative.**[7] In this DSA, the debt stock has already been adjusted downwards to incorporate total expected debt relief amounting to 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 is still ongoing.[8]

6. **Public domestic debt stood at 9.5 percent of GDP at end- 2022.** In terms of maturity, public domestic debt is mainly held in medium- and long-term instruments (mostly 3 and 5 years). On composition, the NFPS debt accounts for 53.6 percent (most of which is held in the government bonds "*Bonos de la República*"), and the BCN debt accounts for 46.4 percent.

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[5] Nicaragua: 2022 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Nicaragua, January 2023.

[6] Total public debt owed to external creditors amounted to US$8.1 billion in 2022, of which 78 percent is owed by the Non-Financial Public Sector (NFPS), and 22 percent by the BCN.

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

[8] At end-2022, private external debt declined by 4.1 percent of GDP to 35.6 percent of GDP compared to end-2021.

Text Table 2. Nicaragua: Public and Private Debt

	Current DSA				DSA Nov. 2022			
	2020	2021	2022	2023	2020	2021	2022	2023
	(in percent of GDP)							
Public sector debt	**56.8**	**54.9**	**52.0**	**50.8**	**57.8**	**56.9**	**58.1**	**56.1**
Public sector debt external debt (incl. guarantees)	**46.3**	**44.8**	**42.5**	**40.3**	**46.6**	**45.3**	**45.2**	**44.3**
Medium and long-term debt	46.3	44.8	42.5	40.3	46.6	45.3	45.2	44.3
Short-term debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector domestic debt	**10.5**	**10.1**	**9.5**	**10.5**	**11.2**	**11.6**	**12.9**	**11.8**
Medium and long-term debt	10.4	10.0	9.4	10.4	7.7	7.4	12.8	11.7
Short-term debt	0.1	0.1	0.1	0.1	3.5	4.2	0.1	0.1
Private sector debt	**44.1**	**39.7**	**35.6**	**31.6**	**44.4**	**40.1**	**35.4**	**32.1**

Sources: National authorities and IMF staff calculations.

MACROECONOMIC ASSUMPTIONS

7. **Despite encountering multiple shocks, the economy has remained resilient and continues to grow at a steady pace (Text Tables 3 and 4).** Most of the poverty-reducing gains achieved over the past two decades were maintained during the period of protracted growth caused by the 2018-19 socio-political crisis, the COVID-19 pandemic, the devastating 2020 hurricanes (Eta and Iota), and the period of high global inflation (2021-22). Appropriate fiscal, monetary and financial policies, substantial pre-crisis buffers (primarily government deposits) and multilaterals support,[9] have helped Nicaragua recover well from these shocks, and allowed cushioning the impact of the shocks. Following the robust performance in 2021, real GDP grew by 3.8 percent in 2022, supported by private consumption and net exports. In 2023 real GDP is projected to grow by 4 percent and inflation to gradually decline to 6 percent. In the medium term, real GDP growth is expected to converge to 3.5 percent due to sustained domestic demand, as consumer confidence continues to recover. Inflation is expected to decline to 4 percent, with the declining global inflation and a zero rate of crawl of the exchange rate from 2024 onwards. These real GDP growth rates remain below pre-crisis and historical average rates, of 3.9 percent (2000-17), due to lower investment growth as projected official approved financing remains low, a cautious recovery in credit growth,[10] and limited labor contribution to growth, due to the large emigration outflows experienced recently. The current account is expected to reach a surplus starting with 2023,[11] given the government's consolidation and the steady accumulation of savings in the private sector. Over time, sustained domestic demand will increase

[9] On November 20, 2020, the IMF Executive Board approved emergency financial assistance for about US$185.32 million to help the country meet urgent balance of payment needs stemming from the COVID-19 pandemic, through the Rapid Credit Facility (RCF, about US$61.77 million, or 16.7 percent of quota), and the Rapid Financing Instrument (RFI) (about US$123.55 million or 33.3 percent of quota).

[10] Over the medium term the government is continuing to consolidate at the central government level, limiting the government's contribution to growth, including through public investment. Gross domestic private investment is projected to remain 5 percent of GDP below the 2018 level, given the slow recovery in credit.

[11] A 5½ percent of GDP turnaround since 2022 to a surplus of about 4 percent of GDP.

imports and deteriorate the trade balance.[12] Compared to the previous DSA, the baseline incorporates updates of lower growth, higher inflation, and improvements in the fiscal and current account balances (Text table 4).

Text Table 3. Nicaragua: Medium-Term Macroeconomic Framework

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Prel.			Projections			
Growth and prices					(Annual percentage change)						
Real GDP growth	-3.4	-2.9	-1.8	10.3	3.8	4.0	3.5	3.5	3.5	3.5	3.5
Output gap 1/	0.6	-3.0	-6.0	0.8	1.1	1.1	0.7	0.4	0.2	0.0	0.0
Consumer price inflation (end of period)	3.9	6.1	2.9	7.2	11.6	6.0	4.8	4.0	4.0	4.0	4.0
					(Percent of GDP, unless otherwise indicated)						
Consolidated public sector											
Revenue (including grants)	28.4	31.3	30.9	33.0	33.2	30.7	30.4	30.5	30.6	30.5	30.6
Expenditure	32.3	32.6	33.9	34.9	33.2	31.4	30.9	30.8	30.8	30.8	30.8
Primary fiscal balance	-2.5	0.3	-1.5	-0.4	1.4	1.1	1.5	1.3	1.1	1.0	0.8
Overall balance, after grants	-3.8	-1.2	-3.0	-1.9	0.1	-0.7	-0.5	-0.3	-0.2	-0.2	-0.3
Public sector debt	47.6	49.1	56.8	54.9	52.0	50.8	49.7	49.5	48.7	47.7	46.4
Balance of payments											
Current account	-1.8	5.9	3.6	-3.1	-1.3	4.0	2.5	1.0	0.0	-0.9	-1.3
Gross international reserves (US$ million) 2/	2,080	2,199	3,003	3,828	4,173	5,153	5,734	6,208	7,160	8,059	8,999
In months of imports excluding maquila	4.7	5.2	5.1	5.5	5.5	6.1	6.4	6.5	7.0	7.5	7.9
Net international reserves (U.S.$ million) 3/	1,146	1,374	1,887	2,531	3,011	3,818	4,285	4,686	5,435	6,186	7,042
Memorandum items:											
Cyclically adjusted primary fiscal balance (NFPS)	-2.9	0.8	0.2	-0.5	1.2	0.8	1.3	1.3	1.1	1.1	0.8

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

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

8. **The fiscal position improved in 2022, with the consolidated public sector (CPS) recording a small surplus.** The CPS balance swung from a deficit of 1.9 percent of GDP in 2021 to a surplus of 0.1 percent of GDP in 2022, due primarily to an improvement of the central government balance to a surplus of 0.7 percent of GDP.[13] This turnaround in the fiscal position was due in equal parts to an increase in tax revenues, buoyed by steady economic performance and the 2019 tax reform, and a moderation in the overall spending—capital expenditures, compensation of employees, and social spending (primarily COVID-19 under execution). Subsidies increased due to the introduction of the temporary measures to mitigate the impact of the increase in global energy and wheat prices, of about 1 percent of GDP. The trends continue in 2023, with continual growth in tax revenues along with prudence in spending resulting in the central government recording a primary surplus of 0.9 percent

[12] Remittances are expected to grow on average 3.6 percent annually over 2024-28, in line with U.S. nominal GDP growth projections in the U.S., but below the Nicaraguan nominal GDP growth over this period and as a result stabilizing at around 23 percent of GDP by 2028. This growth rate is lower than the 2014-2020 average (7.7 percent).

[13] The improved fiscal position in 2022 is also due to a narrowing of the public enterprises' deficit, by 0.2 percent of GDP, to 0.1 percent of GDP, and an improvement in the municipalities' positions, both due to a decline in expenditures.

of annual GDP in the first half of the year. The fiscal position is projected to achieve a small deficit in 2023 at the CPS level.

9. Despite the deterioration in the trade balance and lower official financing, stable FDI in addition to record high remittances and prudent policy making have supported the accumulation of international reserves. The rise in the oil import bill and dwindling global demand led to the deterioration of the trade balance by 4.4 percent of GDP to a deficit of 17.8 percent of GDP in 2022. The financial account also deteriorated, as official flows, primarily government flows, declined by about 2.4 percent of GDP, to 3.2 percent of GDP. Steady FDI inflows (primarily reinvested earnings) and an unprecedented upsurge in remittances, which grew by 5.4 percent of GDP, to 20.6 percent of GDP, supported the accumulation of reserves. Gross international reserves grew by about US$350 million to about US$4.2 billion by end-2022, representing 5.5 months of *non-maquila* imports.[14] As a result of the continual growth in remittances, stable FDI, and prudent policymaking, supported the continued accumulation of reserves. Substantial remittances flows are expected to continue, projected to reach US$4.9 billion[15] or 28 percent of GDP in 2023. Furthermore, in 2023 the authorities signed a Free Trade Agreement with China, which may boost trade flows going forward.[16]

10. The Central Bank of Nicaragua (BCN) tightened the monetary stance in 2022 and continued doing so in 2023. The central bank raised the monetary reference rate in tandem with the U.S. Federal Reserve between April and December 2022. In 2023, until November even though the U.S. Federal Reserve continued tightening, the BCN has held the monetary reference rate constant at 7 percent. Despite the declining policy interest differential with the U.S., there was no depreciation pressure on the nominal exchange rate and net FX sales by the central bank remained negative. The BCN decreased the crawling rate of the exchange rate, from 2 percent to 1 percent per year in January 2023 (a de facto monetary policy tightening) and announced it will change the rate of crawl to 0 in 2024, as reserve accumulation is expected to continue.[17]

11. The banking system remains well capitalized and liquid. Although the total stock of distressed assets[18] has been steadily falling with the economic recovery and provisioning increased, especially for non-performing loans (NPLs 1.2 percent and 7.9 percent respectively at end-September 2023), the level of provisions relative to total distressed assets remains lower than pre-crisis.[19] Credit

[14] The Fund's Assessment of Reserves 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. The recommended range is 5.3 to 8.9 months of non-maquila imports.

[15] Exceeding the trade deficit in 2023, 4½ times net FDI, and more than ten times official government flows. Remittances are projected to increase by 7.5 percentage points, reaching 28 percent of GDP by end-2023.

[16] It will enter in effect in 2024.

[17] This implies no expected nominal depreciation in 2024 within the crawling peg monetary regime. The BCN may adjust the crawling rate in the future, as needed.

[18] Comprised of NPLs, restructured, refinanced, and forborne loans, as well as repossessed assets.

[19] As of June 2023, the level of provisions relative to NPLs is much higher than pre-crisis (372.8 percent vs. 226 percent), but provisions relative to total distressed assets remain below the pre-crisis ratio (53 percent vs. 86 percent).

growth has been reinforced by positive lending conditions, and broad liquidity. By September 2023, net bank credit to the private sector grew by 15.6 percent (in U.S. dollars) compared to 2022.

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

	2023		2024-2027 Avg		2028-2038 Avg	
	Current DSA	Previous DSA	Current DSA	Previous DSA	Current DSA	Previous DSA
Real GDP (annual percentage change)	4.0	3.0	3.5	3.4	3.5	3.5
Consumer prices (period average)	10.5	8.4	4.3	4.3	4.0	4.0
			(in percent of GDP)			
Total revenues (inc.grants)	30.7	29.6	30.5	29.7	30.3	29.3
Total Expenditure	31.4	32.2	30.8	31.9	30.6	32.3
Overall Balance	-0.7	-2.6	-0.3	-2.2	-0.3	-3.0
Current Account Balance	4.1	-1.8	1.4	-2.5	-0.3	-2.5

Sources: National authorities and IMF staff calculations.

12. **Staff projects a deterioration of the fiscal position over the medium term, driven mostly by increases in public capital spending and higher transfers to INSS.** The fiscal balance will be driven by:

- *Steady revenues*. Revenues are projected to remain steady over the medium term. Domestic revenue mobilization will be sustained by enhanced economic activity, rationalization of tax expenditures and structural reforms to improve tax administration.[20]

- *Reduced current expenditures*. The baseline scenario assumes a reduction in expenditures over the medium term, in line with the authorities' commitment to maintain fiscal prudence in accordance with available financing and announced medium-term budget plans (expiration of various temporary subsidies and social benefits, and an overall gradual decline in current expenditures).

- *Imbalances* in the finances of the Social Security System (INSS) and the state-owned enterprises[21] (particularly energy and transportation agencies) could adversely impact the fiscal position over the medium term. 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.[22]

[20] Adopted measures from the 2019 tax reform have included elimination of VAT exemptions, elimination of import exemptions, increased excises on selected goods and an increase in the minimum corporate income tax.

[21] At least two SOEs, for electric power generation (ENEL) and transmission of electrical energy (ENATREL) provide services at non-market prices. Subsidies from central government are transferred to SOEs.

[22] The financial situation of INSS has deteriorated over the past years due to lower contributions and increased beneficiaries of reduced pensions. In 2018, INSS exhausted its liquid reserves. Authorities implemented pension reforms in 2019. However, some reforms initially announced, have not yet been implemented. These include

(continued)

13. Prospects for new external financing are projected to be limited. Nicaragua's largest source of external financing is from official sources. Highly concessional borrowing is expected to decline. Due to the enactment of the RENACER Act by the United States on November 10, 2021, limited new external financing from international financial institutions other than from CABEI is assumed.[23] This financing might be supplemented with external commercial debt and domestic debt to meet financing needs. In the context of this uncertainty, there is some room to increase financing with domestic and external bonds if needed. However, this would raise debt servicing costs, especially in the case of external bonds, given the risk premium Nicaragua will need to pay above those rates.[24] The authorities are exploring other financing sources, and any new sources should be incurred on concessional and transparent terms to maintain fiscal sustainability. The main fiscal policy challenge is to continue maintaining adequate levels of social spending to reduce poverty and capital spending to support long-term growth, while also building buffers.

14. The baseline assumptions are credible.

- **Drivers of debt dynamics (Figure 3).** Although the external PPG debt increased as Nicaragua weathered multiple shocks from the pandemic and two hurricanes, the evolution of external and public debt to GDP ratios suggests that debt is projected to decline compared to previous DSAs. Similar to the previous 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 lies below the top quartile of the distribution of past fiscal adjustments of the primary fiscal deficit for LICs. However, the impact of climate change-related natural disasters has not yet been considered. Given Nicaragua's vulnerability to natural disaster shocks, this may dampen growth and adversely impact on the fiscal adjustment path.

- **Consistency between fiscal adjustment and growth (Figure 4).** The baseline projected growth path aligns with the possible growth paths under different fiscal multipliers. Over the medium-term GDP growth is expected to converge to potential (3.5 percent) due to sustained domestic demand. The real GDP growth rate remains below pre-crisis and historical average rates, as capital accumulation is expected to slow down with lower

possible measures to change the minimum number of contributions required to receive a reduced pension and the reduction on the minimum pension. Projections assume that central government will continue to transfer resources to the INSS needed to close the pension system deficit as discussions on various proposals are ongoing.

[23] External financing over the next few years includes planned disbursements to already contracted loans, primarily with CABEI.

[24] Fitch maintained the long-term credit rating of the sovereign at B- but revised Nicaragua's outlook from stable to positive in June 2023, citing prudent policies and stronger fiscal and external buffers; it also notes downside risks related to political developments including tighter international sanctions and political tensions could result in a deterioration in the rating.

projected official financing, and limited labor contribution to growth, due to the large emigration outflows experienced recently.

- **Consistency between investment and growth (Figure 4).** The contribution of public investment to growth in the current DSA reflects the assumption of limited prospects for new official external financing to support capital spending. The private investment contribution is cautiously recovering.

COUNTRY CLASSIFICATION AND STRESS TESTS

15. Nicaragua's current debt carrying capacity is classified as medium. The classification of medium debt carrying capacity under the Composite Indicator (CI) calculated based on the April 2023 WEO and the World Bank CPIA is 3.01, is unchanged from the 2022 DSA (Text Table 6). The relevant indicative threshold for the medium category is 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.[25, 26] To account for specific risks, the natural disaster and commodity price shock tailored stress test are applied for Nicaragua.

Text Table 5. Nicaragua: Calculation of the Composite Indicator (CI)

Debt Carrying Capacity	Medium

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Medium	Medium 3.02	Medium 3.01	Medium 3.01

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.39	3.33	1.28	42%
Real growth rate (in percent)	2.72	2.29	0.06	2%
Import coverage of reserves (in percent)	4.05	41.14	1.67	55%
Import coverage of reserves^2 (in percent)	-3.99	16.92	-0.68	-22%
Remittances (in percent)	2.02	14.75	0.30	10%
World economic growth (in percent)	13.52	2.89	0.39	13%
CI Score			3.02	100%
CI rating			Medium	

Sources: National authorities and IMF staff calculations.

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

[26] 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: PPG External Debt Thresholds and Total Public Debt Benchmarks

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	180
GDP	40
Debt service in % of	
Exports	15
Revenue	18

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	55

Sources: National authorities and IMF staff calculations.

DEBT SUSTAINABILITY

A. External Debt Sustainability Analysis

16. The external risk of debt distress is projected to remain moderate. Under the baseline scenario, the trajectory of external debt remains below the threshold. PPG external debt is anticipated to gradually decline to 27.3 percent of GDP over the medium term (Table 1). The present value of PPG external debt is projected to remain below the threshold of 40 percent, declining from 26.3 percent to 20.7 percent of GDP over the 10-year projection period (Table 3 and Figure 1). The other external debt burden indicators remain well below their respective thresholds under the baseline scenario throughout the projection horizon. The PV of external debt-to-exports is projected to decline from 57.5 to 49.1 percent. While the debt service-to-exports and debt service-to-revenue ratios are projected to decline from 5.5 to 5.3 percent and from 8.3 to 7.4 percent, respectively (Figure 1). At the same time, private external debt is projected to decline as the debt owed to Venezuela is paid down.[27] The standardized tests show that a combination of shocks has the largest negative impact on the debt trajectory (Table 3 and Figure 1). Under the most extreme shock, the PV of debt-to-GDP ratio breaches its threshold in 2024 at 49.3 percent and peaks to 64.4 percent in 2025 and remains above the threshold before a gradually declining to reach 41 percent in the long term.

[27] 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 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).

B. Public Sector Debt Sustainability Analysis

17. The overall risk of debt distress is projected to remain moderate. Under the baseline scenario, public debt is projected remain below the 55 percent of GDP benchmark over the forecast period (Table 2). Public debt is projected to decrease to 50.8 percent of GDP in 2023 and expected to reach 39.2 percent of GDP by 2028. Domestic public debt is projected to increase to 12 percent of GDP by 2033. The PV of debt-to-revenues will decline to 107.5 percent by 2033, while the liquidity indicator (debt service to revenue) shows a gradual decline reaching 12.5 percent by 2033. Under the most extreme scenario of lower growth, the PV of public debt breaches the benchmark in 2026 at 57 percent and remains above it over the projection horizon (Table 4 and Figure 2).

RISK RATING AND VULNERABILITIES

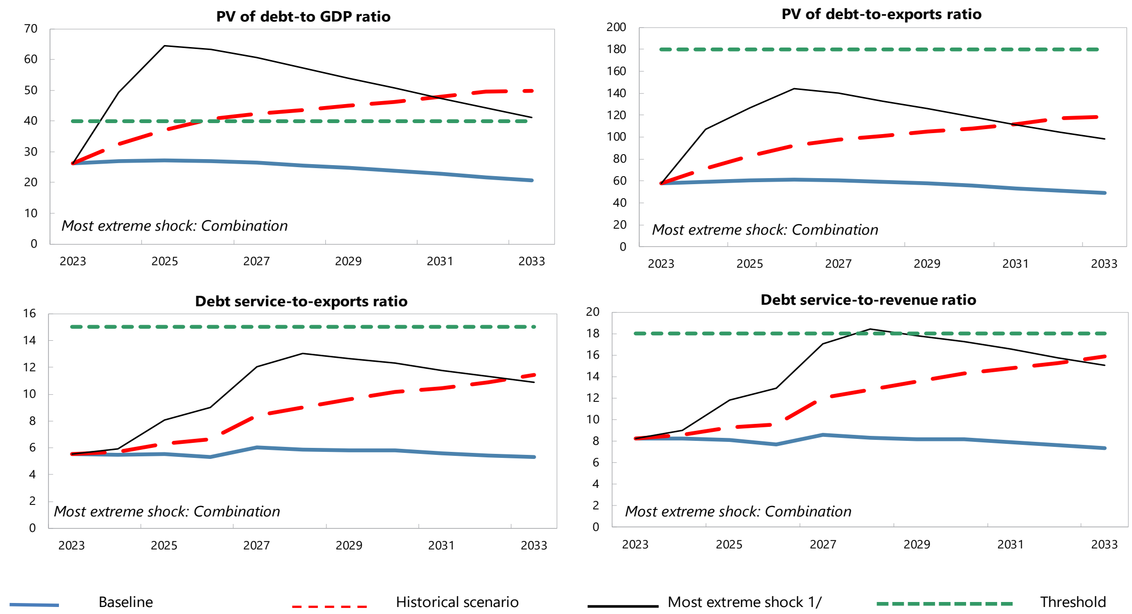
18. There are balanced risks to this outlook. The positive outlook includes upside risks due to higher than projected real GDP growth due to sustained recovery in domestic demand and hospitality industry, and stronger remittances than in the baseline scenario, especially in the near-term. On the downside, a deterioration in the terms of trade, more severe global downturn than currently incorporated in the baseline assumptions than expected could result in lower exports and lower remittances. Over the projection horizon, economic activity and social outcomes could be susceptible to natural disasters, given Nicaragua's elevated exposure and economic dependence on climate sensitive sectors. Political developments could lead to stricter and wider international sanctions which could pose higher risks to curtailing trade and financing flows, and thereby negatively affecting 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.

19. Nicaragua remains at moderate risk of external and overall debt distress, unchanged from the previous DSA. For external debt, within the moderate risk rating, the granularity assessment indicates that Nicaragua has some space to absorb additional shocks (Figure 5), similar to the previous DSA. All external debt burden indicators remain well below the threshold over the 10-year projection horizon, under the baseline scenario. However, under the stress scenario of a combination of shocks, the PV of PPG external debt-to-GDP ratio breaches the threshold continuously over the forecast horizon. The PV of public debt-to-GDP ratio is projected to remain below the threshold over the 10-year projection horizon under the baseline scenario. However, under the stress scenario of growth shocks, the PV of public debt-to-GDP ratio breaches its threshold in 2026 and projected to remain above it throughout the projection horizon. Sustained revenue mobilization efforts and prudent borrowing on concessional terms will be important to mitigate risks and to maintain sustainability.

AUTHORITIES' VIEWS

20. The authorities broadly agreed with staff's assessment that Nicaragua's debt is sustainable, and that overall and external debt distress risk of debt distress remain moderate. Given Nicaragua's vulnerabilities, the authorities remain committed in prudent debt management seeking mostly concessional financing, while they continue to develop the domestic government debt market. The authorities also noted the substantial fiscal buffers so far (government deposits of 3.3 percent of GDP by end-October 2023). Most importantly, the authorities emphasized they will continue to strengthen prudent macroeconomic policies, to maintain resilience and a clear and predictable economic management, while supporting medium-term growth. In particular, consolidation at the central government level will continue, as well as finding permanent solutions on how to best cover the INSS projected medium and long-term deficits, and reorientating expenditures to increase fiscal buffers and fiscal space to cover social and public capital spending to support medium-term growth while bolstering fiscal sustainability.

Figure 1. Nicaragua: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2023-33



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.

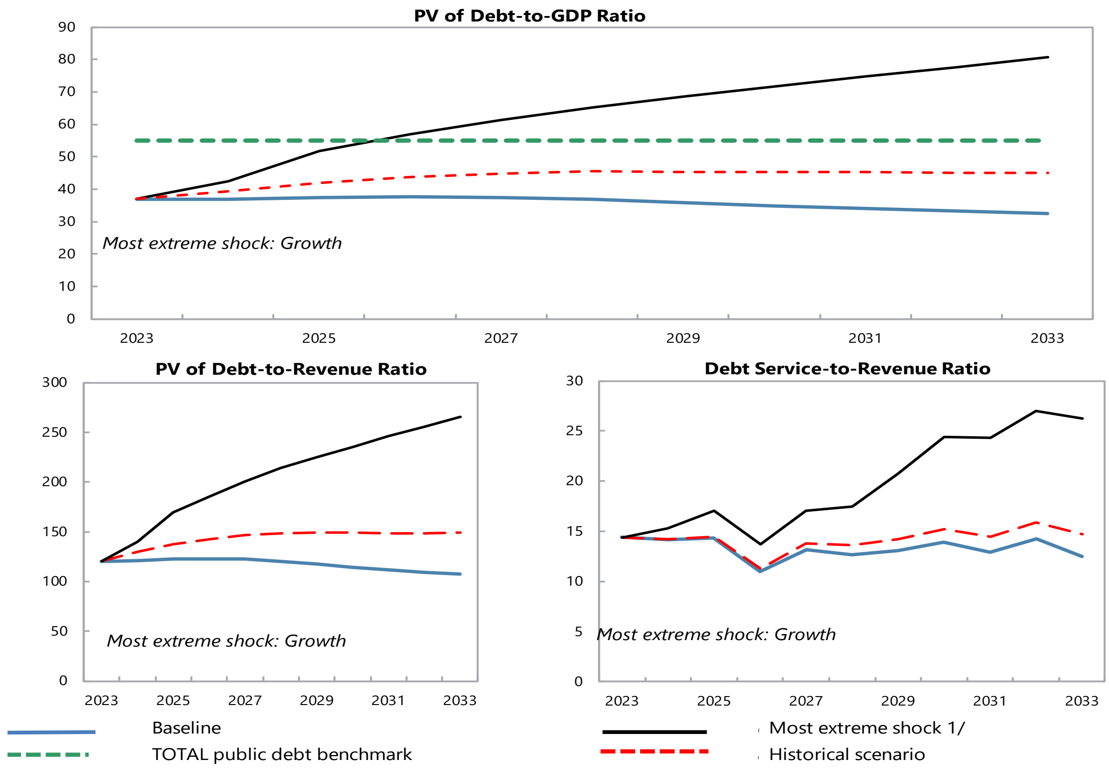
Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

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	3.7%	3.7%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	2	2

* 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 2033. 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, 2023-33



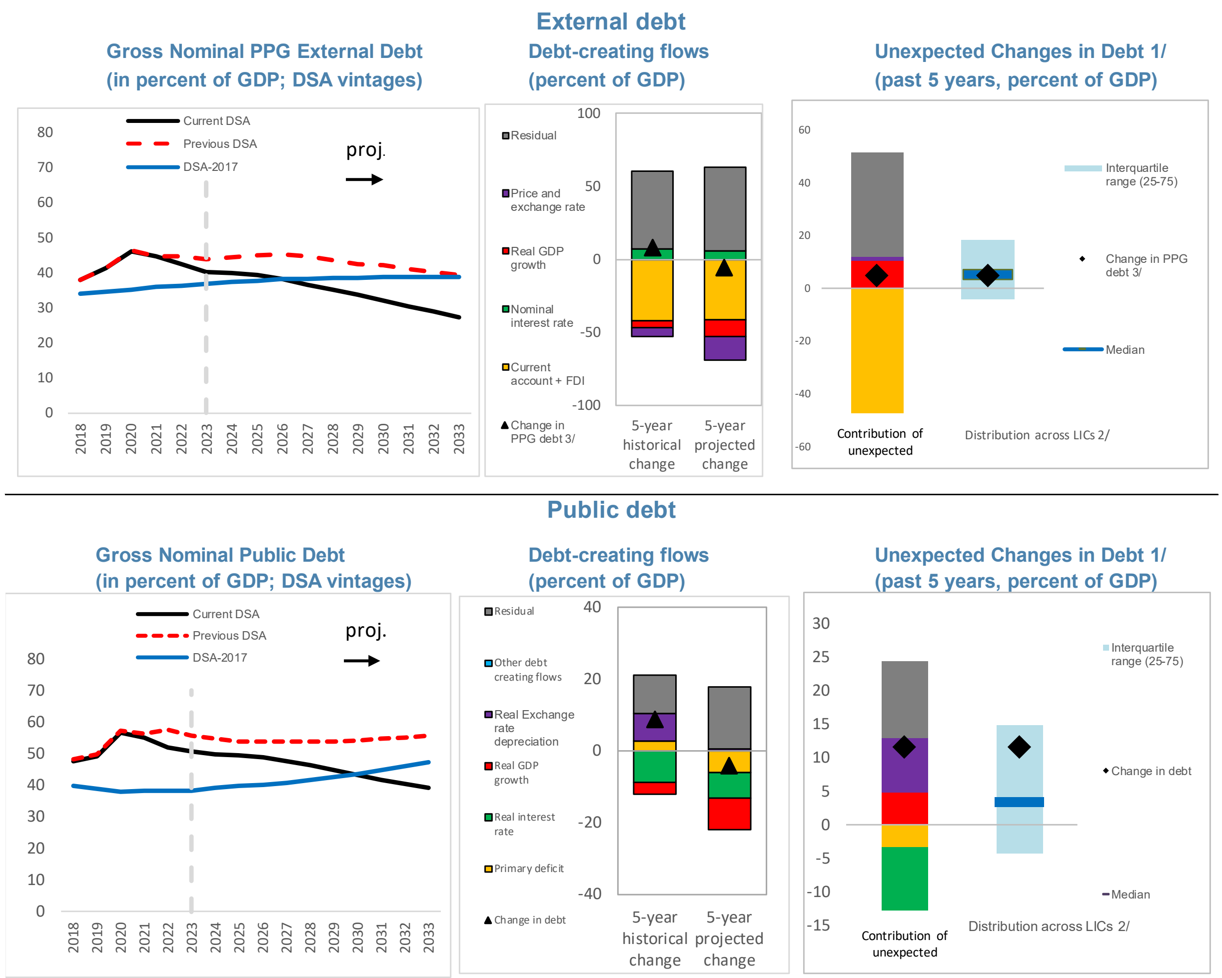
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	69%	69%
Domestic medium and long-term	31%	31%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	3.7%	3.7%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	2	2
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.6%	0.6%
Avg. maturity (incl. grace period)	5	5
Avg. grace period	4	4
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 2033. 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 3. Nicaragua: Drivers of Debt Dynamics – Baseline Scenario



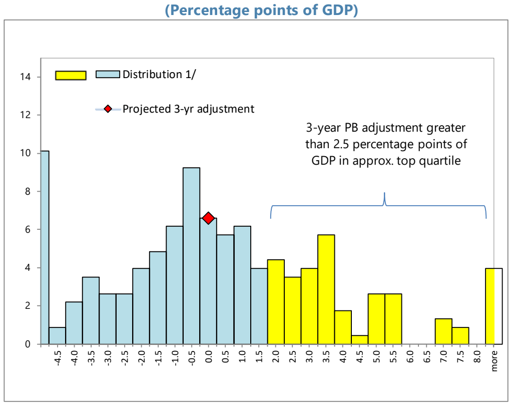
1/ Difference between anticipated and actual contributions on debt ratios.

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

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

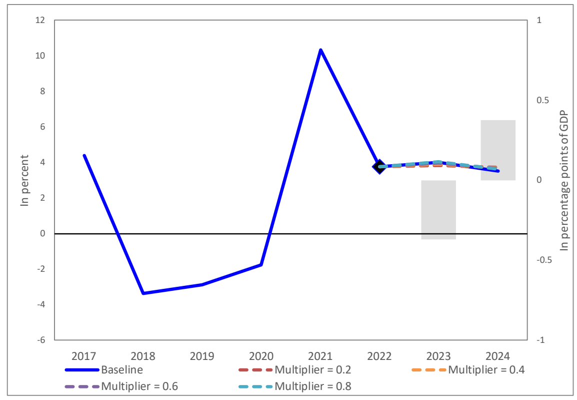
Figure 4. Nicaragua: Realism Tool

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



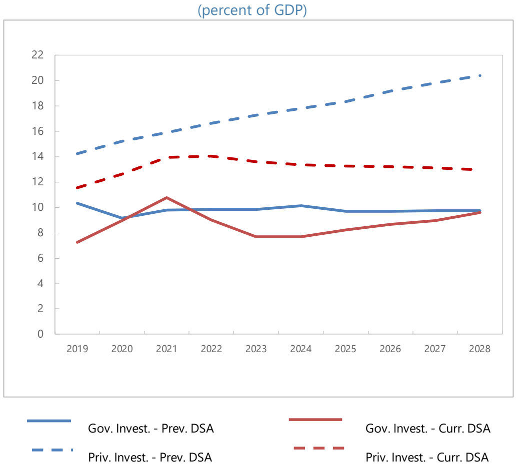
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

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)



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

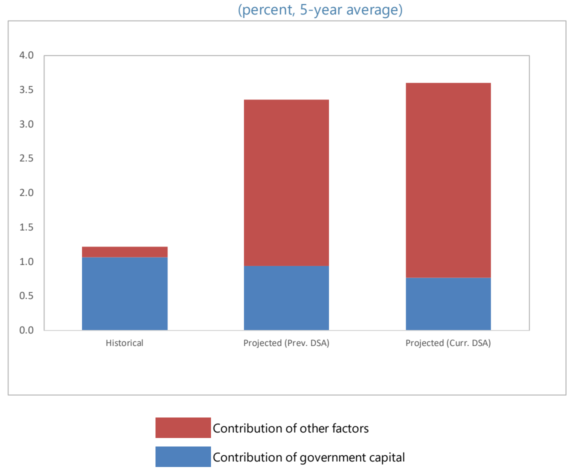
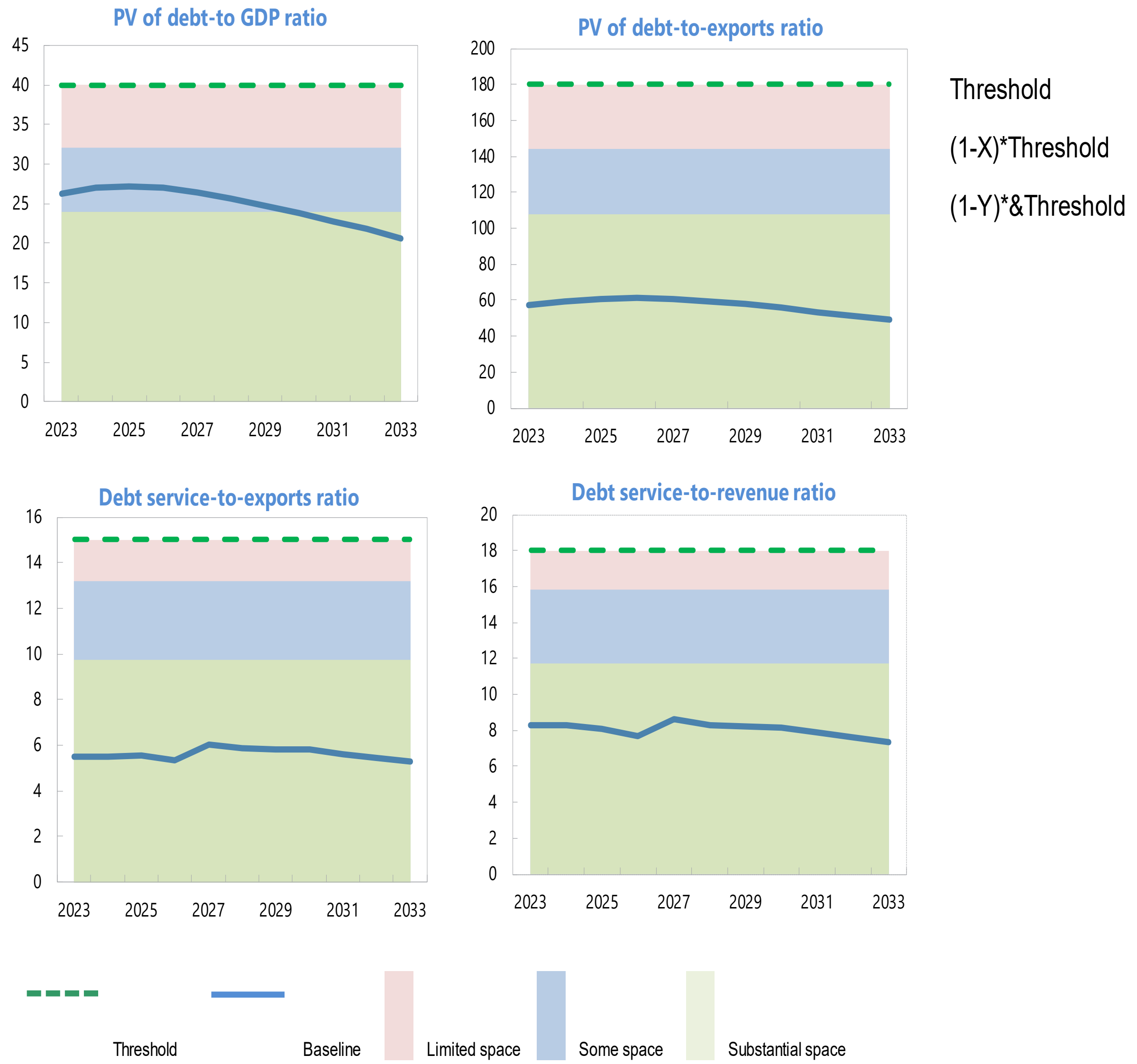


Figure 5. Nicaragua: Qualification of the Moderate Category, 2023-2033 1/



Sources: Country authorities; and staff estimates and projections.

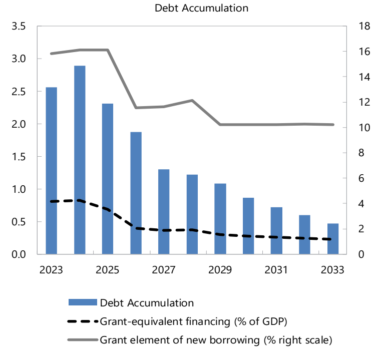
1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

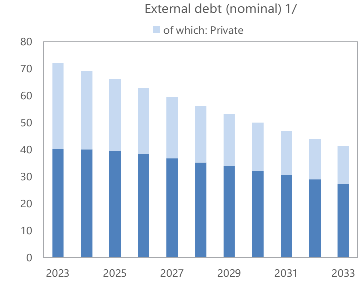
Table 1. Nicaragua: External Debt Sustainability Framework, Baseline Scenario, 2020–43

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
External debt (nominal) 1/	**90.4**	**84.5**	**78.1**	**71.9**	**69.0**	**66.1**	**62.9**	**59.4**	**56.2**	**41.2**	**26.6**	**80.7**	**56.4**
of which: public and publicly guaranteed (PPG)	**46.3**	**44.8**	**42.5**	**40.3**	**40.0**	**39.4**	**38.2**	**36.7**	**35.3**	**27.3**	**17.7**	**37.6**	**34.8**
Change in external debt	5.5	-5.8	-6.5	-6.1	-2.9	-2.8	-3.3	-3.4	-3.2	-2.8	5.9		
Identified net debt-creating flows	**-8.3**	**-14.8**	**-15.1**	**-13.0**	**-10.7**	**-8.8**	**-7.8**	**-6.7**	**-6.0**	**-5.6**	**1.6**	**-5.6**	**-7.8**
Non-interest current account deficit	**-5.0**	**2.6**	**0.1**	**-4.8**	**-3.3**	**-2.4**	**-1.6**	**-0.5**	**-0.4**	**-0.1**	**7.3**	**2.7**	**-1.7**
Deficit in balance of goods and services	4.8	12.2	14.9	17.0	18.1	18.3	18.3	18.3	17.3	13.5	18.6	**12.9**	**16.5**
Exports	42.1	46.8	50.3	45.7	45.6	44.8	44.1	43.4	43.2	42.0	43.5		
Imports	46.9	59.0	65.2	62.7	63.7	63.1	62.4	61.8	60.5	55.5	62.1		
Net current transfers (negative = inflow)	-14.9	-15.4	-20.8	-28.2	-27.4	-26.4	-25.3	-24.1	-23.0	-19.7	-18.0	**-13.7**	**-23.9**
of which: official	-1.0	-0.9	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	-0.1		
Other current account flows (negative = net inflow)	5.1	5.8	6.0	6.4	6.0	5.7	5.4	5.3	5.3	6.1	6.7	**3.5**	**5.7**
Net FDI (negative = inflow)	**-4.9**	**-8.5**	**-8.2**	**-6.2**	**-5.9**	**-5.6**	**-5.6**	**-5.6**	**-5.3**	**-5.3**	**-5.3**	**-6.8**	**-5.5**
Endogenous debt dynamics 2/	**1.6**	**-8.8**	**-7.0**	**-2.0**	**-1.5**	**-0.8**	**-0.6**	**-0.7**	**-0.3**	**-0.3**	**-0.5**		
Contribution from nominal interest rate	1.4	0.5	1.2	0.8	0.8	1.5	1.6	1.4	1.6	1.2	0.1		
Contribution from real GDP growth	1.5	-8.4	-2.9	-2.8	-2.3	-2.2	-2.2	-2.0	-1.9	-1.4	-0.6		
Contribution from price and exchange rate changes	-1.3	-1.0	-5.4	...	...	...	...	...	...	...	...		
Residual 3/	**13.8**	**8.9**	**8.6**	**6.8**	**7.7**	**6.0**	**4.5**	**3.3**	**2.7**	**2.8**	**4.3**	**5.9**	**4.5**
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	**...**	**...**	**26.8**	**26.3**	**27.0**	**27.2**	**27.1**	**26.3**	**25.6**	**20.7**	**13.3**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**53.3**	**57.5**	**59.2**	**60.8**	**61.3**	**60.6**	**59.3**	**49.1**	**30.6**		
PPG debt service-to-exports ratio	**0.0**	**0.0**	**1.5**	**5.5**	**5.5**	**5.5**	**5.3**	**6.0**	**5.9**	**5.3**	**4.6**		
PPG debt service-to-revenue ratio	**0.0**	**0.0**	**2.2**	**8.3**	**8.3**	**8.1**	**7.7**	**8.6**	**8.3**	**7.4**	**4.9**		
Gross external financing need (Million of U.S. dollars)	58.3	476.8	234.6	-144.1	72.2	313.5	407.7	587.6	663.8	227.6	3200.7		
Key macroeconomic assumptions													
Real GDP growth (in percent)	-1.8	10.3	3.8	4.0	3.5	3.5	3.5	3.5	3.5	3.5	2.3	**3.0**	**3.5**
GDP deflator in US dollar terms (change in percent)	1.5	1.1	6.8	7.3	4.5	4.0	4.0	4.0	4.0	4.0	-24.9	**1.2**	**4.3**
Effective interest rate (percent) 4/	1.6	0.6	1.6	1.2	1.2	2.3	2.6	2.4	3.0	2.9	0.4	**2.1**	**2.4**
Growth of exports of G&S (US dollar terms, in percent)	-6.5	23.8	19.1	1.5	7.8	5.7	6.0	6.0	7.0	6.7	-14.3	**5.1**	**6.3**
Growth of imports of G&S (US dollar terms, in percent)	-4.8	40.1	22.4	7.3	9.9	6.6	6.5	6.6	5.5	5.9	-1.0	**4.6**	**6.5**
Grant element of new public sector borrowing (in percent)	...	...	...	15.8	16.1	16.1	11.6	11.6	12.1	10.2	9.7	**...**	**12.2**
Government revenues (excluding grants, in percent of GDP)	30.0	32.1	33.0	30.6	30.3	30.5	30.6	30.5	30.5	30.3	40.9	**28.6**	**30.4**
Aid flows (in Million of US dollars) 5/	120.5	122.1	33.6	132.3	125.4	128.3	75.2	79.0	85.1	36.4	45.7		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	0.8	0.8	0.7	0.4	0.4	0.4	0.2	0.2	**...**	**0.4**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	18.3	17.2	16.9	12.3	12.3	13.3	12.0	13.7	**...**	**13.5**
Nominal GDP (Million of US dollars)	12,682	14,145	15,671	17,487	18,910	20,355	21,910	23,584	25,386	36,682	54,644		
Nominal dollar GDP growth	-0.2	11.5	10.8	11.6	8.1	7.6	7.6	7.6	7.6	7.6	-23.2	**4.2**	**8.0**
Memorandum items:													
PV of external debt 7/	...	...	62.4	58.0	56.0	54.0	51.7	49.1	46.6	34.6	22.2		
In percent of exports	...	...	124.1	126.7	122.9	120.6	117.3	113.0	107.8	82.3	51.1		
Total external debt service-to-exports ratio	24.5	19.9	19.0	22.2	20.8	21.3	20.5	19.6	19.2	14.3	8.7		
PV of PPG external debt (in Million of US dollars)			4,202	4,603	5,108	5,545	5,927	6,213	6,500	7,576	7,270		
(PVt-PVt-1)/GDPt-1 (in percent)	...	...	... ...	2.6	2.9	2.3	1.9	1.3	1.2	0.5	-0.3		
Non-interest current account deficit that stabilizes debt ratio	-10.5	8.4	6.6	1.3	-0.3	0.4	1.7	3.0	2.9	2.7	1.4		

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

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

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

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

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

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

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

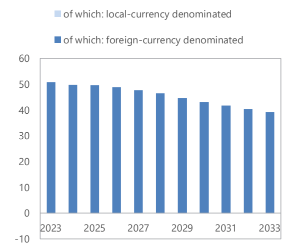
Table 2. Nicaragua: External Debt Sustainability Framework, Baseline Scenario, 2020–43

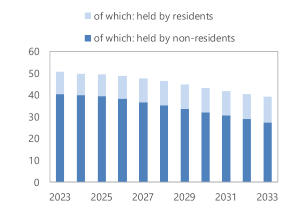
(In percent of GDP, unless otherwise indicated)

	Actual			Projections												Average 6/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2043	Historical	Projections
Public sector debt 1/	56.8	54.9	52.0	50.8	49.7	49.5	48.7	47.7	46.4	44.8	43.2	41.7	40.4	39.2	38.2	46.4	45.7
of which: external debt	46.3	44.8	42.5	40.3	40.0	39.4	38.2	36.7	35.3	33.7	32.1	30.5	28.9	27.3	17.7	37.6	34.8
Change in public sector debt	7.6	-1.8	-2.9	-1.3	-1.0	-0.2	-0.8	-1.0	-1.3	-1.7	-1.6	-1.4	-1.3	-1.2	10.7		
Identified debt-creating flows	1.3	-4.7	-5.9	-6.4	-4.7	-4.0	-3.7	-3.3	-3.0	-2.7	-2.6	-2.5	-2.3	-2.2	-0.3	-0.4	-3.4
Primary deficit	1.5	0.4	-1.4	-1.1	-1.5	-1.3	-1.1	-1.0	-0.8	-0.6	-0.6	-0.6	-0.5	-0.5	0.5	0.8	-0.9
Revenue and grants	30.9	33.0	33.2	30.7	30.4	30.5	30.6	30.5	30.6	30.5	30.4	30.4	30.4	30.3	41.0	29.6	30.5
of which: grants	1.0	0.9	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1		
Primary (noninterest) expenditure	32.4	33.4	31.8	29.6	28.9	29.2	29.5	29.5	29.8	29.9	29.9	29.9	29.8	29.8	41.5	30.4	29.6
Automatic debt dynamics	-0.2	-5.1	-4.4	-5.3	-3.2	-2.6	-2.6	-2.3	-2.2	-2.1	-2.0	-1.9	-1.8	-1.7	-0.9		
Contribution from interest rate/growth differential	-1.6	-6.1	-5.4	-5.3	-3.2	-2.6	-2.6	-2.3	-2.2	-2.1	-2.0	-1.9	-1.8	-1.7	-0.9		
of which: contribution from average real interest rate	-2.5	-0.8	-3.4	-3.3	-1.5	-1.0	-0.9	-0.6	-0.6	-0.5	-0.5	-0.4	-0.4	-0.4	-0.3		
of which: contribution from real GDP growth	0.9	-5.3	-2.0	-2.0	-1.7	-1.7	-1.7	-1.6	-1.6	-1.6	-1.5	-1.5	-1.4	-1.4	-0.6		
Contribution from real exchange rate depreciation	1.4	1.0	1.0	...	...	...	...	...	...	...	...	...	...	...	...		
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	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	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	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	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	0.0	0.0	0.0	0.0		
Residual	6.4	2.8	3.0	5.1	3.6	3.8	2.9	2.3	1.7	1.0	1.0	1.0	1.0	1.0	11.0	1.6	2.2
Sustainability indicators																	
PV of public debt-to-GDP ratio 2/	...	...	36.6	36.9	36.8	37.4	37.6	37.4	36.8	35.8	34.9	34.1	33.3	32.6	33.8		
PV of public debt-to-revenue and grants ratio	...	...	110.2	120.2	121.1	122.4	122.6	122.4	120.4	117.5	114.6	112.0	109.6	107.5	82.4		
Debt service-to-revenue and grants ratio 3/	5.6	8.6	9.4	14.4	14.2	14.4	11.0	13.2	12.7	13.1	13.9	12.9	14.2	12.5	6.1		
Gross financing need 4/	3.2	3.3	1.7	3.3	2.9	3.1	2.3	3.0	3.1	3.4	3.7	3.4	3.8	3.3	3.1		
Key macroeconomic and fiscal assumptions																	
Real GDP growth (in percent)	-1.8	10.3	3.8	4.0	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	2.3	3.0	3.5
Average nominal interest rate on external debt (in percent)	0.0	0.0	1.9	1.6	1.8	1.9	2.1	2.6	2.7	2.8	2.8	2.9	3.0	3.0	3.1	1.4	2.5
Average real interest rate on domestic debt (in percent)	-4.4	6.5	1.0	0.1	2.2	3.6	3.6	3.6	3.7	3.6	3.7	3.7	3.7	3.6	36.7	2.8	3.2
Real exchange rate depreciation (in percent, + indicates depreciation)	2.9	2.0	2.0	...	...	...	...	...	...	...	...	...	...	...	...	4.2	...
Inflation rate (GDP deflator, in percent)	5.4	3.6	8.9	8.9	5.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	-24.9	5.5	4.5
Growth of real primary spending (deflated by GDP deflator, in percent)	2.6	13.9	-1.3	-3.1	1.0	4.5	4.6	3.4	4.5	3.9	3.4	3.4	3.4	3.4	44.8	4.7	3.0
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-6.2	2.3	1.4	0.2	-0.4	-1.1	-0.3	0.0	0.5	1.1	1.0	0.9	0.8	0.7	-10.1	-0.8	0.3
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	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, state, and local governments 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, 2023-33

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of debt-to GDP ratio											
Baseline	26	27	27	27	26	26	25	24	23	22	21
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	26	32	37	**41**	**43**	**44**	**45**	**46**	**48**	**50**	**50**
B. Bound Tests											
B1. Real GDP growth	26	29	32	32	31	30	29	28	27	25	24
B2. Primary balance	26	29	31	31	30	29	29	28	27	26	24
B3. Exports	26	32	**42**	**41**	40	38	36	34	33	31	29
B4. Other flows 3/	26	**43**	**58**	**57**	**55**	**52**	**49**	**46**	**43**	**40**	37
B5. Depreciation	26	34	27	27	27	26	26	25	24	23	22
B6. Combination of B1-B5	26	**49**	**64**	**63**	**61**	**58**	**54**	**51**	**48**	**44**	**41**
C. Tailored Tests											
C1. Combined contingent liabilities	26	33	33	32	32	31	31	30	29	28	26
C2. Natural disaster	26	34	34	34	34	33	34	33	32	31	30
C3. Commodity price	26	27	27	27	26	26	25	24	23	22	21
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	57	59	61	61	61	60	58	56	53	51	49
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	57	71	83	92	98	102	105	108	112	118	119
B. Bound Tests											
B1. Real GDP growth	57	59	61	61	61	60	58	56	53	51	49
B2. Primary balance	57	64	69	70	69	68	67	65	63	60	58
B3. Exports	57	79	114	114	112	108	103	98	93	88	83
B4. Other flows 3/	57	94	130	129	126	120	114	107	100	94	88
B5. Depreciation	57	59	49	49	49	49	48	47	45	44	42
B6. Combination of B1-B5	57	107	127	144	140	134	127	119	112	105	99
C. Tailored Tests											
C1. Combined contingent liabilities	57	72	73	74	73	72	72	70	67	65	62
C2. Natural disaster	57	75	78	79	79	78	80	78	76	74	72
C3. Commodity price	57	59	61	61	61	60	58	56	53	51	49
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	6	5	6	5	6	6	6	6	6	5	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	6	6	6	7	8	9	10	10	11	11	12
B. Bound Tests											
B1. Real GDP growth	6	5	6	5	6	6	6	6	6	5	5
B2. Primary balance	6	5	6	6	7	7	7	7	6	6	6
B3. Exports	6	6	8	8	10	11	10	10	10	9	9
B4. Other flows 3/	6	5	7	8	10	12	11	11	11	10	10
B5. Depreciation	6	5	6	5	6	5	5	5	5	5	5
B6. Combination of B1-B5	6	6	8	9	12	13	13	12	12	11	11
C. Tailored Tests											
C1. Combined contingent liabilities	6	5	6	6	6	6	6	6	6	6	6
C2. Natural disaster	6	6	6	6	7	7	7	7	7	6	6
C3. Commodity price	6	5	6	5	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	8	8	8	8	9	8	8	8	8	8	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	8	9	9	9	12	13	14	14	15	15	16
B. Bound Tests											
B1. Real GDP growth	8	9	9	9	10	10	10	10	9	9	9
B2. Primary balance	8	8	8	8	9	9	9	9	9	9	9
B3. Exports	8	8	9	10	11	12	12	12	11	11	10
B4. Other flows 3/	8	8	10	12	15	17	16	16	15	14	14
B5. Depreciation	8	10	10	9	10	9	9	9	8	8	8
B6. Combination of B1-B5	8	9	12	13	17	**18**	18	17	17	16	15
C. Tailored Tests											
C1. Combined contingent liabilities	8	8	9	8	9	9	9	9	9	8	8
C2. Natural disaster	8	8	9	8	9	9	9	9	9	9	8
C3. Commodity price	8	8	8	8	9	8	8	8	8	8	7
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, 2023-33

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	PV of Debt-to-GDP Ratio										
Baseline	37	37	37	38	37	37	36	35	34	33	33
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	37	39	42	44	45	46	46	45	45	45	45
B. Bound Tests											
B1. Real GDP growth	37	42	52	**57**	**61**	**66**	**69**	**72**	**75**	**78**	**81**
B2. Primary balance	37	40	44	45	45	45	44	43	42	42	41
B3. Exports	37	42	50	50	50	48	46	44	43	41	40
B4. Other flows 3/	37	53	**68**	**68**	**66**	**63**	**60**	**57**	54	52	49
B5. Depreciation	37	42	40	39	37	35	32	29	27	25	23
B6. Combination of B1-B5	37	39	41	40	40	40	39	39	38	38	37
C. Tailored Tests											
C1. Combined contingent liabilities	37	46	47	47	47	47	46	45	44	44	43
C2. Natural disaster	37	47	49	50	50	50	49	49	48	48	48
C3. Commodity price	37	39	44	49	53	**57**	**60**	**64**	**67**	**70**	**73**
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	120	121	122	123	123	121	118	115	112	110	108
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	120	129	137	142	147	149	149	149	149	149	149
B. Bound Tests											
B1. Real GDP growth	120	139	169	186	201	214	226	236	246	257	267
B2. Primary balance	120	133	145	146	147	146	144	141	139	137	135
B3. Exports	120	137	165	164	162	157	151	146	140	136	131
B4. Other flows 3/	120	174	223	221	216	206	197	187	178	170	162
B5. Depreciation	120	139	132	127	121	113	105	97	89	82	75
B6. Combination of B1-B5	120	130	136	130	131	131	129	127	125	124	123
C. Tailored Tests											
C1. Combined contingent liabilities	120	151	153	154	154	153	150	148	146	143	142
C2. Natural disaster	120	156	159	162	164	164	162	160	159	158	157
C3. Commodity price	120	129	146	161	175	187	198	209	219	230	240
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	14	14	14	11	13	13	13	14	13	14	13
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	14	14	14	11	14	14	14	15	15	16	15
B. Bound Tests											
B1. Real GDP growth	14	15	17	14	17	17	21	25	25	27	26
B2. Primary balance	14	14	15	12	14	14	17	18	14	16	14
B3. Exports	14	14	15	13	15	16	16	17	16	17	15
B4. Other flows 3/	14	14	16	15	19	21	21	21	20	21	19
B5. Depreciation	14	15	16	13	14	13	13	13	12	13	10
B6. Combination of B1-B5	14	14	15	11	13	13	13	14	13	14	13
C. Tailored Tests											
C1. Combined contingent liabilities	14	14	15	12	14	14	21	15	14	15	14
C2. Natural disaster	14	14	16	12	15	14	22	16	15	16	15
C3. Commodity price	14	14	15	12	14	15	18	21	22	24	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.