INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/40

NICARAGUA

February 2025

2024 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR NICARAGUA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2024 Article IV consultation with Nicaragua, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its January 29, 2025, consideration of the staff report that concluded the Article IV consultation with Nicaragua.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 29, 2025, following discussions that ended on November 22, 2024, with the officials of Nicaragua on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 14, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF and the World Bank.
- A **Statement by the Executive Director** for Nicaragua.

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

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2024 Article IV Consultation with Nicaragua

FOR IMMEDIATE RELEASE

Washington, DC – **February 7, 2025:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Nicaragua.

Nicaragua's economic performance remains robust, underpinned by prudent macroeconomic policies and very strong remittance flows. The economy continues to be open and resilient, on a backdrop of transfers of private property to the state, international sanctions, and a reorientation of official financing. Real GDP growth accelerated to around 4½ percent in 2023 and the first half of 2024, from about 3.8 percent in 2022, on the back of robust domestic demand, while inflation declined. Twin fiscal and external account surpluses are leading to a decline in the public debt-to-GDP ratio and the accumulation of strong buffers.

Real GDP growth is projected to moderate to 4 percent in the near term and to 3.5 percent in the medium-term, amid a slower pace of remittances growth, limited labor contribution to growth due to recent emigration, and cautious private sector investment decisions. International reserves are expected to grow at a slower pace than in the recent period, with narrowing of fiscal and current account surpluses as the authorities' increase public investment.

Risks to the outlook are broadly balanced in the short-term and to the downside in the medium term. Upside risks include stronger domestic demand, while downside risks include lower global growth, a deterioration in the terms of trade, natural disasters, stricter and wider international sanctions, and a change in immigration policies in the U.S. In addition, going forward, domestic and international political developments, and deterioration of the rule of law may also impact economic performance by potentially increasing the cost of doing business.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Nicaragua's robust growth, declining inflation and public debt, and fiscal sector and current account surpluses, supported by prudent macroeconomic policies and high remittances. While noting the positive outlook, Directors stressed that risks are to the downside, including from natural disasters, international sanctions, and U.S. immigration policies. They underscored the importance of continued efforts to safeguard macroeconomic stability, strengthen buffers, and support higher and more inclusive growth.

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

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

Directors welcomed the authorities' commitment to preserving fiscal sustainability, while supporting growth. Efforts to strengthen domestic revenue mobilization, enhance spending efficiency, and support higher capital and social spending are important. Noting the limited availability of concessional financing, Directors highlighted the importance of prudent debt management to safeguard debt sustainability. They underscored the need to mitigate fiscal risks by strengthening fiscal transparency, enhancing oversight of state owned enterprises, and reforming the pension system.

Directors agreed that monetary policy should remain focused on supporting price stability and the exchange rate regime and highlighted the criticality of policy coordination. They recommended that the Central Bank of Nicaragua adjust monetary and exchange rate policies, as needed, enhance communication, and strengthen monetary policy transmission. Directors encouraged steadfast implementation of the 2021 safeguard assessment recommendations.

Directors welcomed the commitment to maintaining financial stability. Noting the vulnerabilities, they encouraged proactive provisioning of distressed assets, close monitoring of consumer credit growth, enhanced foreign exchange risk monitoring, and aligning the crisis preparedness framework with international best practice. Measures to increase financial inclusion and deepening, including developing local bond and capital markets, would support medium term growth.

Directors stressed the need for efforts to promote higher medium term growth and enhance climate resilience. Important measures include increasing human capital investment, targeted social spending, and promoting labor force participation, particularly for women. Directors also called for efforts to enhance the business climate and strengthen government institutions and frameworks to support increased private investment.

Directors noted the steps taken to enhance governance, anti corruption, and AML/CFT frameworks, and emphasized that further efforts are needed to ensure their effective and appropriate application. They stressed the need to significantly improve the rule of law and safeguard judicial independence. Publishing asset declarations of politically exposed persons and supporting property rights are important. Directors welcomed the authorities' commitment to enhancing the quality and consistency of statistics.

It is expected that the next Article IV consultation with Nicaragua will be held on the standard 12 month cycle.

Table 1. Nicaragua: Selected Social and Economic Indicators, 2023-25

I. Social and Demographic Indicators

GDP per capita (current US$, 2023)	2,606	Income share held by the richest 10 percent (2014)	37.2
GNI per capita (Atlas method, current US$, 2023)	2,270	Unemployment (percent of labor force, 2023)	3.4
GINI Index (2014)	46.2	Poverty rate ($3.65/day line, 2017 PPP, percent, World Bank, 2023)	12.5
Population (millions, 2023)	6.8	Adult literacy rate (percent, 2015)	82.6
Life expectancy at birth in years (2022)	74.6	Infant mortality rate (per 1,000 live births, 2022)	14.0

II. Economic Indicators

	2023	2024	2025
		Projections	
Output	(Annual percentage change; unless otherwise specified)		
GDP growth	4.6	4.0	4.0
GDP (nominal, US$ million)	17,843	19,204	20,771
Prices			
Consumer price inflation (period average)	8.4	4.0	4.0
	(Percent of GDP)		
Gross domestic investment	**23.0**	**25.0**	**26.5**
Private sector	15.1	15.8	15.5
Public sector	7.9	9.2	11.0
Gross national savings	**30.8**	**31.8**	**32.9**
Private sector	21.5	22.5	22.9
Public sector	9.3	9.3	10.0
Exchange rate			
Period average (Córdobas per US$)	36.4	36.6	...
Fiscal sector	(Percent of GDP)		
Consolidated public sector balance 1/	**2.8**	**1.8**	**1.1**
Revenue (including grants)	32.9	33.2	33.1
Expenditure	30.1	31.4	32.0
of which: Central Government overall balance 2/	**2.6**	**2.1**	**1.3**
Revenue	21.7	21.6	21.6
Expenditure	19.1	19.5	20.3
Cash payments for operating activities	14.6	14.5	13.8
Net cash outflow: investments in NFAs	4.5	5.0	6.5
Money and financial	(Annual percentage change)		
Broad money	11.9	12.2	11.2
Credit to the private sector	18.1	18.3	11.2
Net domestic assets of the banking system	-8.0	5.8	1.3
Non-performing loans to total loans (ratio) 3/	1.2	1.7	...
Regulatory capital to risk-weighted assets (ratio) 3/	19.1	19.2	...
External sector	(Percent of GDP, unless otherwise indicated)		
Current account	7.7	6.7	6.4
Remittances	26.1	27.2	26.1
Capital and financial account	4.1	2.5	3.0
Gross international reserves (US$ million) 4/	5,190	5,907	6,729
In months of imports excl. maquila	7.0	7.4	7.7
Net international reserves (US$ million) 5/	4,249	4,979	5,724
In months of imports excl. maquila	5.7	6.3	6.7
Non-financial public sector debt 6/	49.6	46.9	44.9
Domestic public debt	10.3	8.0	6-9
External public debt	39.3	38.9	38.0
Private sector external debt	31.0	28.6	26.2

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

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

2/ Include transfers to cover the INSS deficit for 2023-25, 0.5 percent of GDP per year, and payment for historical debt (0.7 percent of GDP in 2023).

3/ 2024 data is as of September 2024.

4/ Excludes resources from the Deposit Guarantee Fund for Financial Institutions (FOGADE).

5/ Excludes FOGADE and reserve requirements for FX deposits.

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

INTERNATIONAL MONETARY FUND

NICARAGUA

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

January 14, 2025

KEY ISSUES

Context. The Nicaraguan economy is experiencing robust growth. Real GDP growth accelerated to around 4½ percent in 2023 and the first half of 2024, from about 3.8 percent in 2022, on the back of robust domestic demand, while inflation is moderating. Prudent macroeconomic policies and record-high remittances sustained this performance, a decrease in the estimated poverty ratio, and also led to twin surpluses, a steady decline in debt, and the accumulation of strong buffers. Gross international reserves reached US$5.7 billion, or 7.2 months of imports, by end-October 2024. The economy remains open and resilient, after confronting multiple large shocks, and on a backdrop of transfers of private property to the state, international sanctions, and reorientation of official financing. Going forward, domestic and international political developments may impact economic performance, by potentially increasing the cost of doing business and impacting other cross-border flows.

Outlook and Risks. Real GDP growth is projected to moderate to 4.0 percent in 2024 and 2025, and to 3.5 percent in the medium-term, amid a slower pace of remittances growth and limited labor contribution to growth due to recent emigration. Inflation is set to stabilize at 4 percent in the medium-term. Fiscal and current account surpluses are expected to narrow, due to authorities' plans to increase public investment, and the increase in imports supporting the private consumption-led growth. Risks to the outlook are broadly balanced in the short-term and on the downside in the medium term. On the upside, increased domestic demand and remittances growth, particularly in the short term, could enhance economic prospects. Main downside risks include weaker global growth and less favorable terms-of-trade than projected, natural disasters, stricter and wider international sanctions, and a change in immigration policies in the United States (U.S.), given the critical importance of remittances for the Nicaraguan economy. Maintaining prudent policies would continue to sustain growth and help support Nicaragua's capacity to respond to shocks.

Focus. Continued prudent fiscal, monetary, and financial policies will help maintain macroeconomic and financial stability, preserve fiscal sustainability, strengthen policy buffers, and support medium-term inclusive growth. Policy coordination remains crucial, alongside key reforms, including reforming the pension system, strengthening the monetary policy transmission mechanism, enhancing financial deepening, and supporting human and physical capital accumulation. Strengthening governance and significantly improving the rule of law are also crucial to support higher medium-term inclusive growth and further reduce poverty.

Key Policy Recommendations:

- *Fiscal policy*: entrench fiscal sustainability, increase buffers and fiscal space for capital and social spending, reduce risks stemming from the financial position of some state-owned enterprises (SOEs) and growing imbalances in the pension system, and increase resilience to natural disasters and climate change.
- *Monetary and exchange rate policies:* continue to gear monetary policy towards maintaining the exchange rate regime and price stability and strengthen the monetary policy transmission. The Central Bank of Nicaragua (BCN) should assess periodically if the economy reached a new equilibrium and adapt monetary policy and exchange rate frameworks as needed, while enhancing communication.
- *Financial sector*: maintain financial stability, including through proactive provisioning, addressing rapid consumer credit growth, and enhancing FX risk monitoring, and increase financial inclusion and deepening, including by developing local bond and capital markets, to support medium-term growth.
- *Structural policies*: increase investment in human capital, and targeted social spending, implement policies to promote labor force participation, especially for women, and support private investment growth through enhancing the business climate by strengthening government institutions and frameworks.
- *Governance:* significantly improve the rule of law and strengthen efforts to ensure the effective and appropriate application of the Anti-Corruption and Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) frameworks, and the enhancement of fiscal transparency, including for SOEs. In particular, publish asset declarations of politically exposed persons, safeguard judicial independence, and ensure fair and impartial access to administrative and judicial proceedings to support property rights.

Approved By	
Ana Corbacho (WHD) and Jacques Miniane (SPR)	Discussions took place during November 11-22, 2024, in Managua, Nicaragua. The mission team comprised Alina Carare (Head), Jessie Kilembe, Juan Pablo Celis, and Gerardo Peraza (all WHD); Mohamed Diaby (MCM); and Camilo Enciso (LEG). Santiago Texidor Mora (LEG) and Alejandro Fiorito (WHD) participated virtually. Manuel Coronel (OED) participated in some in-person meetings with the authorities and the financial sector, and Andre Roncaglia (OED) participated in the closing meeting. The mission met with Central Bank Governor and Advisor to the President Ovidio Reyes, Deputy Finance Minister Adrian Chavarria, other senior officials, representatives from banks and free trade zones, and international community. Julia Muñoz and Eliana Herrera Porras (all WHD) assisted the team and Alejandro Fiorito (WHD) supported the team with data analysis.

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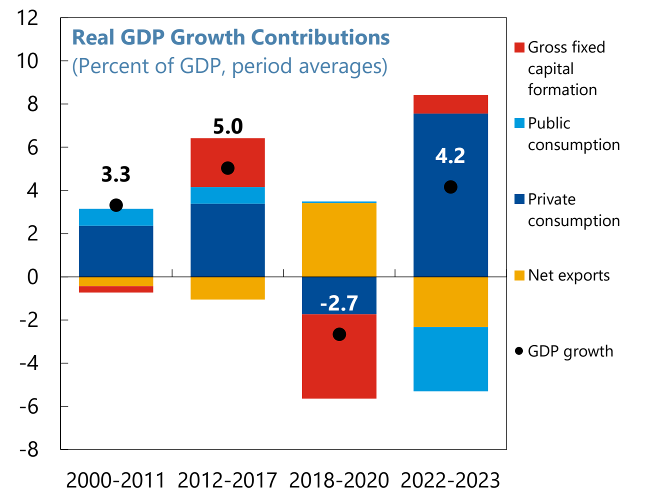
ANNEXES

ECONOMIC AND POLITICAL CONTEXT

1. **Supported by prudent macroeconomic and financial policies, the Nicaraguan economy is experiencing resilient and robust growth.** Appropriate macroeconomic policies, substantial pre-crisis buffers (primarily government deposits), and multilateral support[1] have helped Nicaragua withstand multiple shocks—a protracted period of economic contraction during 2018-2020 due to the socio-political crisis, the pandemic, 2020 hurricanes, and the recent global inflationary shock. The economy is operating above potential, with moderate inflation, large twin surpluses, well-capitalized banks, and large buffers.

2. **For higher medium-term inclusive growth, remaining vulnerabilities need to be addressed and investment to be increased**. The economy is vulnerable to frequent and severe natural disasters.[2] Fiscal risks also stem from contingent liabilities, including from the pension system, which is facing growing imbalances, mostly due to adverse long-term demographic trends. Higher medium-term growth requires sustained efforts through higher public investment and policies to support human capital accumulation and alleviate poverty. Measures to support private investment are also needed, given the hysteresis in capital accumulation since the socio-political crisis, and the reorientation of the economy through private consumption-led growth, rather than exports or private investment (text chart).



Source: Central Bank of Nicaragua (BCN).
Note: 2021 real GDP growth of 10.3 is not shown.

3. **There has been a marked increase in closures of not-for-profit organizations (NPOs) and transfers of private property to the state since late 2022.** The authorities have closed NPOs due to non-compliance with several laws and national assembly decisions, including key business associations, private universities, and health care providers. In most cases, the property rights have been transferred to the state. Property rights of the people whose citizenship has been revoked, which continued in 2024, have also been transferred to the state.[3] The reformed constitution

[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).

[2] See 2022 Nicaragua Article IV (Annex VI) for an in-depth analysis of resilience to natural disasters and climate change. Nicaragua's high exposure to these risks and economic reliance on climate sensitive sectors, such as agriculture, intensifies the negative effects of natural disasters.

[3] By September 2024, about two thirds of the 7,000 NPOs were closed. In some cases, the functions of the NPOs were also transferred to the state (e.g., Red Cross). The citizenship of 357 people was revoked, of which for 135 people in September 2024.

approved in November 2024 guarantees private property rights, but it also weakens judicial independence.[4]

4. The economy is also operating on a backdrop of sanctions and geo-political realignment. Following the 2018 socio-political crisis, the United States, the European Union, the United Kingdom, Canada, and other countries imposed targeted sanctions on Nicaraguan officials. Sanctions were increased gradually to include more officials and a few state entities, while also broadening their scope if needed.[5]

5. Trade and private financing flows have remained broadly unaffected until end-November 2024, but political developments are changing the official financing flows. Given the nature of the targeted sanctions, the country's trade of goods and services, cross-border private sector economic transactions, and foreign exchange flows have remained broadly unaffected. The main destination of exports, and the origin of imports, remittances, and FDI continue to be primarily the U.S., regional peers, and the European Union (Box 1), while the authorities implemented the Free Trade Agreement (FTA) with China in 2024. However, the size and origin of official financing is changing. In November 2021, the U.S. enacted the RENACER Act,[6] which directs the U.S. representatives at International Financial Institutions (IFIs) to advocate for increased oversight of any financial or technical assistance for projects in Nicaragua, and any loan to be administered through a financially independent entity from the government. By September 2024, the non-financial public sector became a net payer of loans from IFIs.[7] In 2024, Nicaragua signed several loans with China, Saudi Arabia, and Belarus in the amount of about US$1.03 billion. Going forward, domestic and international political developments may further impact economic performance by potentially increasing the cost of doing business and impacting other cross-border flows.[8]

[4] The draft amendment grants the Office of the Presidency the authority to "run the government and as head of state to coordinate all branches of government", including the legislature and the judiciary, in contrast with the original language of the Constitution, according to which all branches of power (executive, judicial and legislative) were "independent of each other, and coordinating harmoniously." Denaturalized citizens continue to lose all their rights in Nicaragua.

[5] In October 2022, the U.S. government expanded the possible set of available tools and authorities to further increase targeted sanctions on trade and investment. By November 2024, sanctions were imposed on more than 1,750 Nicaraguan officials, from the executive, legislative, and judicial branches (primarily not allowing foreign visas and freezing international assets in the U.S. for less than 100 officials), two state-owned entities affiliated with gold mining, the National Police, the Ministry of Telecommunications, and a training center supported by Russia's Ministry of Internal Affairs.

[6] The Reinforcing Nicaragua's Adherence to Conditions for Electoral Reform (RENACER) Act. The RENACER Act also requires a review of the Dominican Republic–Central America Free Trade Agreement (CAFTA-DR) agreement if there is deterioration in democracy in Nicaragua. The RENACER Act was preceded by the Nicaraguan Investment Conditionality Act (NICA) enacted in 2018, and the Nicaragua Human Rights and Anti-Corruption Act enacted in 2018, which had similar elements designed to restrict official financing from international financial institutions.

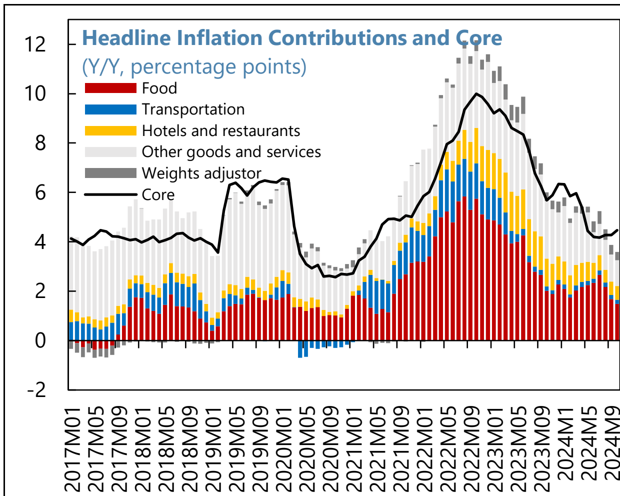
[7] There remain disbursements of project loans approved in previous years from the Inter-American Development Bank (IDB), the World Bank and the Central American Bank of Economic Integration (CABEI).

[8] For example, in November 2024, Law 1224 was approved, declaring null the impact of international sanctions and mandating that no Nicaraguan individuals or legal entities could deny or stop the provision of goods and services to any citizens, companies, or the government on account of international sanctions, as long as Nicaraguan authorities deemed them to violate international law. Subsequently, a prudential measure was introduced to clarify the law's implementation, requiring financial institutions to comply with international AML/CFT principles and additional disclosures. While the authorities report no evidence of challenges to correspondent banking relations as of mid-December 2024, there are increased reporting requirements for Nicaraguan banks and going forward reactions of foreign supervisors, or correspondent banks, may impact financial flows (¶39).

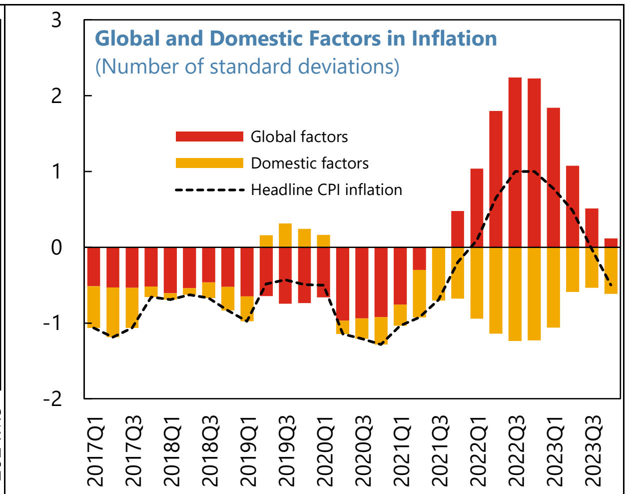
RECENT ECONOMIC DEVELOPMENTS

6. Supported by robust domestic demand, economic growth strengthened in 2023 and the first half of 2024. Real GDP growth accelerated from 3.8 percent in 2022 to 4.6 percent in 2023. Private consumption was buoyed by record-high remittances growth in 2023 (44.5 percent), stable employment, and increasing consumer credit. Net exports subtracted from growth, due mostly to lower export volumes, primarily of coffee (Box 2). On the production side, the retail and hotels and restaurants sectors remained the most dynamic (Figure 1). The strong momentum continued in the first half of 2024, with real GDP growing 4.7 percent year-on-year, above potential, supported also by a recovery in private investment.[9]

7. Headline CPI inflation declined from the end-2022 peak to 3.6 percent in October. The key contributors to headline inflation in the past two years—transportation, housing, and hotels and restaurants—declined significantly, helped by the dissipation of global inflationary factors (text charts). Food inflation has displayed higher persistence.[10] Core inflation also declined steadily to 4.5 percent in October.



Sources: BCN and IMF staff calculations.



Sources: Chaverri and others (forthcoming).
Notes: headline inflation is measured as the number of standard deviations with respect to all emerging markets in the sample.

8. The consolidated public sector (CPS)[11] surplus increased substantially in 2023 and the first half of 2024. Given the positive output gap, the tight fiscal policy continued to be appropriately countercyclical in 2023, with the CPS surplus increasing to 2.8 percent of GDP, from

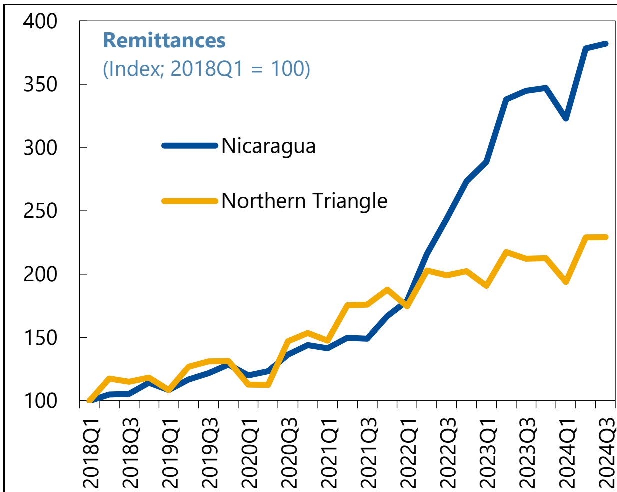
[9] Staff estimates that the output gap reached ¾ percent. The recovery in private investment is captured in the gross capital formation data, which was revised based on updated customs data for imports, leading to an increase in the revised accumulation of inventories and of real GDP (the latter by about 1 percentage point in 2024Q2 compared to 2023Q2).

[10] Beyond international price shocks, the effect of El Niño and an associated drought since 2022 led to lower agricultural production, persistently high food prices, and increased food insecurity. In addition, emigration affected the labor force, also contributing to the decline in food production.

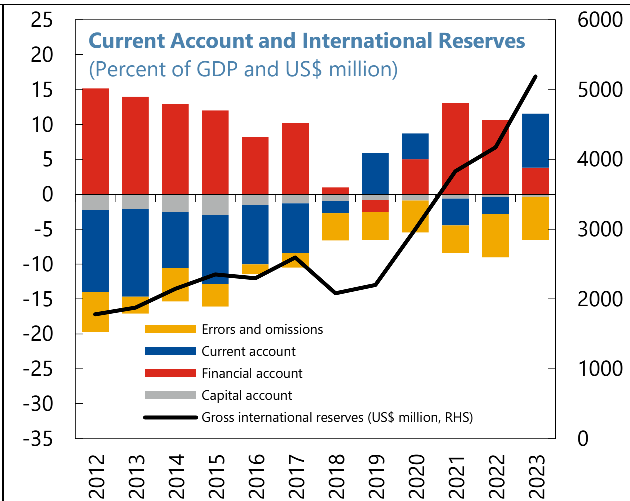
[11] The CPS includes the non-financial public sector (NFPS) and quasi fiscal operations of the central bank. The NFPS comprises the budgetary central government, the social security fund (INSS), one local government (ALMA), and non-financial public enterprises.

0.4 percent of GDP in 2022—as spending moderated further.[12] Public debt declined to 49.4 percent of GDP at end-2023, from 53 percent of GDP at end-2022. These trends continued in 2024, with the CPS recording a surplus of 2.6 percent of annual GDP and government deposits reaching 12.9 percent of annual GDP by end-June 2024.[13]

9. Record-high remittances and prudent policies supported a record accumulation of international reserves. In 2023, the trade deficit narrowed significantly (Figure 2), and remittances grew substantially (by 5½ percent of GDP, reaching 26.1 percent of GDP). Alongside prudent policies, these developments led to a current account balance improvement of about 10 percent of GDP, to a surplus of 7.7 percent of GDP. The net financial account surplus, even though it declined significantly in 2023, also contributed to the significant accumulation of gross international reserves (GIR)—US$1.1 billion to US$ 5.2 billion, covering 7 months of imports, excluding *maquila* imports.[14] These trends continued in 2024, with GIR further increasing to US$5.7 billion by end-October.



Source: Central American Monetary Council.
Note: Northern Triangle countries are El Salvador, Guatemala, and Honduras.



Sources: BCN and IMF staff calculations.

10. The external position in 2023 was assessed as stronger than the level implied by medium-term fundamentals and desired policies, given record-high workers' remittances. In 2023, the real effective exchange rate (REER) was relatively stable and appreciated by 1.7 percent. Although the current account model of the multi-country External Balance Assessment (EBA)-lite assessment shows a real undervaluation of 25.4 percent (Annex I), the estimation does not capture well the recent large change in remittances.[15] The External Sustainability Approach finds the net

[12] Achieved primarily by a contraction in capital expenditures (1 percent of GDP).

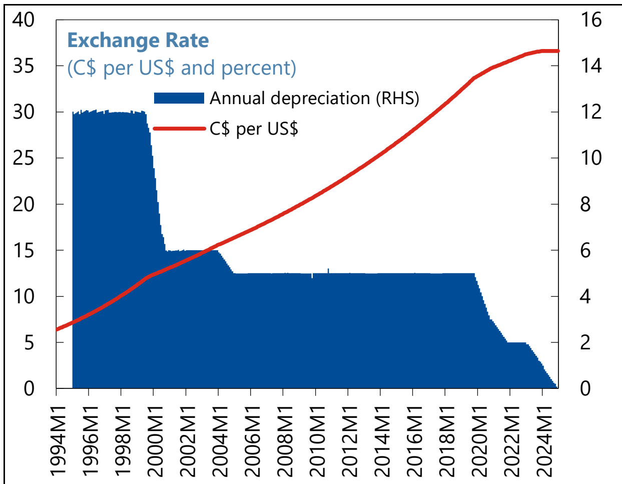
[13] Compared to 11 percent of GDP at end-2022.

[14] This is the mid-point of the Fund's assessment of reserves adequacy (ARA) metric range (5.3 and 8.9 months of non-maquila imports), estimated taking into account that Nicaragua is a low-income country and has a de jure crawling exchange rate regime.

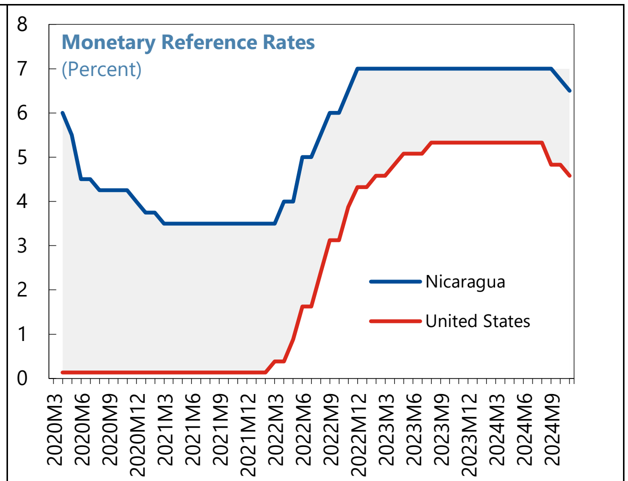
[15] While remittances growth in the region reflects pull cyclical factors—the strong U.S. job market and increase in real incomes, especially for lower skilled workers—they also reflect a strong structural component, due to the lack of income convergence with the U.S. In the case of Nicaragua, remittances growth also reflects a recent push (country-specific) factor. In addition, remittances are highly inelastic to exchange rate changes, and the EBA lite estimation for Nicaragua is also subject to uncertainty, given large errors and omissions in the balance of payments, reaching 6.2 percent of GDP in 2023.

international investment position (NIIP) sustainable, as the composition of gross liabilities (stable and diversified FDI flows and long-term public debt) limits vulnerabilities.[16]

11. The Central Bank of Nicaragua (BCN) maintained a moderately tight policy stance in 2023 and 2024 and started cutting the reference rate in late 2024. The BCN cut its reference rate in two steps, from 7 to 6.5 percent late 2024. The BCN also decreased the yearly crawling rate of the exchange rate from 1 percent to 0 percent in January 2024, and announced in November that it would maintain the 0 percent crawling rate in 2025. With sustained and strong foreign exchange inflows, net FX sales by the BCN have remained negative.[17] The BCN announced in November 2024 that all economic agents must denominate prices in domestic currency (córdoba; C$) and that all payments using cards should be made in córdobas.[18]



Source: BCN.



Sources: BCN and Federal Reserve.

12. The BCN continued to mop-up liquidity and further improved its quasi-fiscal balance in 2023-2024. The BCN continued offering short-term (up to 12-month maturity) córdoba-denominated instruments ("letras") in 2023. The stock of securities issued—mainly held by banks—is now primarily in córdobas, helping to limit the increase of the monetary base (text table). Despite the higher domestic interest rates offered for letras, compared to the international interest rates received on its assets, the BCN increased its positive quasi-fiscal balance due to its substantial stock of international reserves (Annex VII).

Changes in the Monetary Base
(Percent of GDP)

	2022	2023	2024YTD (2024M11)
External factors	**3.2**	**8.0**	**3.8**
of which:			
FX net purchases (private sector)	2.4	7.2	4.8
FX net purchases (public sector)	*0.0*	*0.0*	*-1.5*
Other	0.8	0.8	0.5
Domestic factors	***-2.1***	***-7.0***	***-3.5***
of which:			
Córdoba-denominated securities	*0.0*	*-3.6*	*-1.7*
NFPS deposits	*-2.3*	*-3.5*	*-1.5*
Quasi-fiscal deficit	0.2	0.3	0.5
Other	0.0	*-0.1*	*-0.9*
Change to the monetary base	**1.1**	**1.0**	**0.2**

Source: BCN.
Note: YTD indicates year-to-date. Positive values indicate increases in the monetary base (liquidity injection), while negative values indicate decreases (liquidity absorption). "Other" external factors include currency "cordobization". "Other" domestic factors include repos and deposits as well as other non-NFPS deposits. Negative numbers in italics.

[16] The NIIP improved significantly in 2023 (by 14 percent of GDP to -97 percent of GDP), due to a substantial decline in public and private sector liabilities, reflecting continued prudent policies and a cautious private sector.

[17] The BCN did not need to inject FX liquidity into the market, i.e., it bought more FX than it sold (Figure 4).

[18] All banking accounts loans and cash payments can continue to be in U.S. dollars. Although Nicaragua does not have a currency board, nor does it use the U.S. dollar as legal tender, de facto, it is a highly dollarized country, with more than 90 percent of loans denominated in U.S. dollars. Until end-November 2024 most places were showing prices in both currencies and payments could be made in either currency. These measures might promote the usage of the córdoba over the medium-term.

13. Banks remain reportedly well capitalized, and credit and deposits continue to grow, but the decline in distressed assets plateaued. As of end-October 2024, capital adequacy and liquidity ratios for banks remained reportedly well above the regulatory minima, despite declining recently.[19] Financial conditions are assessed as neutral,[20] and bank deposits and net bank credit to the private sector continued to grow steadily (reaching 12.6 and 19.1 percent year-on-year, respectively, in October). Non-performing loans and distressed assets as a share of total loans continued to decline since end-2022 to 1.6 and 6.5 percent, respectively, in October.[21] However, NPLs experienced an uptick in late 2023 and the decline in distressed assets has broadly leveled off since early 2024.[22] Similarly, profitability plateaued in 2024 (Figure 5).

OUTLOOK AND RISKS

14. The economic outlook points to sustained growth, especially in the near-term, supported by prudent macroeconomic policies. Under baseline policies, real GDP is expected to grow by 4 percent in 2025 and 3.8 percent in 2026, and by 3.5 percent in the medium-term, sustained by the planned increase in public capital spending and private consumption. This medium-term growth rate is below the historical average of 3.9 percent over 2000-17, due to lower expected private investment as a result of cautious decisions, and a limited labor contribution to growth given large emigration.[23] Steady remittances are expected to support private consumption,[24] but also imports' growth, leading to significantly lower expected current account surpluses. Nonetheless, prudent macroeconomic policies, are expected to continue supporting the accumulation of gross international reserves, although at a slower pace than in recent years.[25]

15. Risks to the outlook are broadly balanced in the short-term and on the downside in the medium term (Annex II). Upside risks include stronger domestic demand and remittances growth, especially in the short-term. Downside risks to the outlook include lower global growth and a deterioration in terms of trade, compared to the baseline scenario (Tables 1-10). The outlook could also be negatively impacted by natural disasters, stricter and wider international sanctions, or a

[19] Average capital adequacy ratio (CAR) of the financial system is 18.9 percent as of October 2024, well above the requirement of 10 percent and the pre-crisis level of 14 percent. Liquid assets to total liabilities fell to 23.7 in September 2024, from 44.7 percent at end-2021. The liquidity coverage ratio (LCR) remains reportedly comfortably above the required minimum.

[20] Based on neutral credit-to GDP gap and BCN's financial intermediation conditions index.

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

[22] The collapse of a major coffee exporter in late-2023 caused the recent uptick in NPLs and the leveling off in distressed assets.

[23] For an in-depth analysis of potential GDP see Annex IV in the 2022 Nicaragua Article IV. For an analysis of the impact of emigration on labor force participation see Annex III in the 2023 Nicaragua Article IV, and more broadly for the effect of emigration and remittances on GDP growth see Carare et al. (2024).

[24] Remittances projections are conservative; in line with the projected real U.S. GDP growth (below the projected nominal U.S. GDP growth and below the wage growth of the lowest quartile observed in the past few years in the U.S.).

[25] Net FDI flows are projected to be 5.3 percent of GDP on average over 2025-29, lower than historical averages of 6.8 percent of GDP (2000-17) and below the levels seen in recent years (above 8 percent in 2021-22).

change in immigration policies in the U.S., given the critical importance of remittances for the Nicaraguan economy (Annex II).[26]

16. Nicaragua is assessed at moderate overall risk of external and public debt distress. The Debt Sustainability Analysis (DSA) assigns a similar risk rating assessment to the 2023 DSA.[27] Over the medium-term, continued (though lower) fiscal surpluses and robust growth are expected to support a continued gradual decline in public debt to 39.7 percent of GDP by end-2029, from 46.9 percent of GDP projected for end-2024. Vulnerabilities to external shocks, natural disasters, and contingent liabilities remain elevated, requiring strengthening policy buffers (DSA ¶13).

Authorities' Views

17. The authorities broadly agreed with staff's economic outlook and risk assessment. The authorities were broadly aligned with staff on the outlook for 2024 and 2025. However, the authorities envisaged stronger real GDP growth in the medium-term (4-4½ percent), due to higher expected investment and export performance. They agreed with staff that buffers are ample and that prudent macroeconomic policies should continue to further increase buffers to help mitigate the impact of possible adverse shocks.

POLICY DISCUSSIONS

Continued prudent fiscal, monetary, and financial policies will help maintain macroeconomic and financial stability, preserve fiscal sustainability, strengthen policy buffers, and support medium-term inclusive growth. Policy coordination remains crucial, alongside key reforms, including implementing additional fiscal measures, reforming the pension system, strengthening the monetary policy transmission mechanism, enhancing financial deepening, and supporting human and physical capital accumulation and poverty reduction. Strengthening the effective and appropriate application of the governance, anti-corruption and AML/CFT frameworks, and fiscal transparency, and significantly improving the rule of law also remain key to support higher medium-term growth.

A. Enhancing Fiscal Buffers

18. The authorities remain committed to preserving fiscal sustainability and building fiscal buffers, while supporting growth.[28] Budget execution until end-September 2024 and the approved 2025 central government budget show an appropriately tight and countercyclical fiscal policy.[29] In 2024, the authorities improved expenditure efficiency by streamlining functions and

[26] There is high uncertainty about the potential impact of legal changes of political nature—including Law 1224—and their interactions with international measures, potentially increasing the cost of doing business and weighing on private investment decisions in Nicaragua.

[27] The public debt path and space to absorb shocks have improved compared to the 2023 DSA.

[28] The National Plan for the Fight against Poverty and for Human Development (2022-2026). Social policies will seek to enhance social protection, access to education and healthcare, job creation, foster community development and promote gender equality, to support the vulnerable groups.

[29] The target surplus in the approved budget is 0.8 percent of GDP at the central government level.

eliminating budget rigidities.[30] Over the medium term, staff's baseline projections, based on the government's plans, incorporate smaller surpluses at the CPS level due to expected increases in capital spending on infrastructure (including roads, airport, water, and electricity), financed primarily with the recently announced bilateral loans. In addition, the expected decline in the dependency ratio will continue putting pressure on the social security system (INSS), requiring continuing transfers from the central government to cover the INSS deficit.

19. Concessional financing remains the main challenge in implementing the authorities' fiscal policy priorities. In 2024 and over the medium term, gross financing needs are expected to be covered with multilateral disbursements from existing loans, new external debt, including, if needed, commercial debt, and the use of government deposits.[31] As concessional borrowing from IFIs is expected to be limited, new borrowing remains expensive, even though global interest rates are declining.[32] While the medium-term debt management strategy for 2024-27 prioritizes external debt financing at concessional terms.[33] The available financing to cover the increase in capital spending over 2025-26 is mostly non-concessional (from Chinese SOEs). Pursuing prudent debt management and financing policies, consistent with transparent and concessional lending, would help preserve debt sustainability. Developing local bond and capital markets would help increase financing options over time.

20. Within the authorities' medium-term fiscal path, staff recommend adopting additional permanent fiscal measures to finance higher capital and social spending. Staff recommend additional permanent measures of ¾-1 percent of GDP over the medium-term, compared to the baseline scenario:

- *Streamline VAT exemptions* in selected sectors (e.g., digital and mining) as advised by technical assistance and improve compliance through strengthening electronic processes to improve efficiency, tax risk management and tax audit procedures; ½ – ¾ percent of GDP.

[30] The Supreme Court of Justice and universities no longer receive a fixed allocation of total spending of 4 and 6 percent respectively, as they are adhering to regular budgetary procedures. Universities will get 6 percent of revenues, and they will no longer receive subsidies for water, electricity, telephone, and postal services. In addition, municipalities will continue to receive a lower percent of revenues for 2024 and 2025 compared to the 10 percent per year required by law (8 percent currently). Moreover, investment in solar energy in 2025 is expected to lower electricity subsidies in 2026 as renewable energy generation comes into operation. Otherwise, current budgeted subsidies remain, primarily covering transportation, retirees' electricity, and drinking water.

[31] Government deposits have been used increasingly to cover financing needs, amid diminishing external financing flows. During the socio-political crisis, the central government used government deposits in 2018 (when they declined from 8 percent of GDP at end-2017 to 6 percent by end-2018), while also adjusted expenditures in 2018-19, and introducing a tax reform in 2019. In 2023, 2.2 percent of GDP in government deposits were also used for financing purposes. Although the accumulation government deposits in 2023-24 provides a larger cushion than pre-2018, the space and sustainability could also be eroded by the materialization of downside risks.

[32] Increased financing with domestic and external bonds is possible but would raise debt servicing costs. Nicaragua has not issued any Eurobonds and would likely face higher debt servicing costs, given the expected risk premium. Fitch upgraded its long-term credit rating from 'B-' to 'B' with a stable outlook in May 2024, citing prudent policies, twin surpluses, and significant buffers, as well as remaining vulnerabilities on governance. Commercial loans tend to have higher interest rates, and bilateral loans may have non-concessional and opaque terms. Staff projections incorporate interest rates assumptions reflecting recently contracted commercial loans from new creditors.

[33] Approved and published in December 2023, underpinned by joint IMF and World Bank training. The strategy includes promoting lengthening of average maturity period and ensuring fixed-rate debt is greater than variable rate debt.

- *Improve the targeting of long-standing subsidies* to create space for investment in infrastructure (0.3 percent of GDP).

21. In the recommended scenario with these additional measures, public debt is projected to reach a broadly similar medium-term public debt ratio as in the baseline, but there will be higher spending on human capital and targeted social transfers. Buffers would continue to be built, which is required due to the financing risks and exposure to shocks Nicaragua is subjected to.

22. Staff also recommend further enhancing fiscal transparency and oversight of SOEs, ensuring the long-term sustainability of the pension system, and improving resilience to natural disasters to contain fiscal risks. Strengthening the oversight and fiscal transparency of SOEs would help mitigate the elevated risks to the budget, despite minimal current transfers, given the high debt-to-assets ratio (Annex III, and ¶39). On pensions, given the resources needed from the central government (about 2½ percent of GDP over the next five years), discussions continue between the INSS and the central government on possible options. Any planned potential measures should include a combination of parametric reforms and other changes, some already announced in the 2019 pension reform (Annex IV), and additional measures which should not create distortions in the economy or the labor market. Transparency, gradual implementation, and consensus would also help with the reform's success. On resilience to natural disasters and climate change, progress continues with, among other measures, including the natural disaster risks in the published fiscal risks reports. Fostering greater disaster resilience and continuing to pursue adequate resources to cover costs would also help contain fiscal risks and support medium-term resilient growth (DSA ¶23, Annex V).

Authorities' Views

The authorities are committed to preserving fiscal sustainability and expanding the fiscal space to support medium-term inclusive growth. Since the 2023 Article IV Staff Report, the authorities have implemented a set of comprehensive measures to improve revenue collection and streamline expenditures. Moving forward, they will continue to improve tax policy, collection, and administration, while restraining current expenditures to strengthen fiscal buffers to help mitigate the impact of shocks and create fiscal space for higher capital spending to support growth. The authorities also agreed on the need to monitor risks stemming from the balance sheets of SOEs, and to ensure the long-term sustainability of INSS. However, identifying comprehensive non-distortive measures needed will take several years, during which central government transfers to INSS will continue (through end-2026).

B. Maintaining Exchange Rate Stability and Strengthening Monetary Policy Transmission

23. Monetary policy should remain geared towards supporting the exchange rate regime, while safeguarding price stability and supporting growth.[34] Substantial foreign exchange

[34] The BCN uses the exchange rate as the nominal anchor for the economy, to support price stability through a de jure crawling peg regime, which was reclassified as a de facto stabilized exchange rate regime effective January 1, 2024. As the rate of crawls has narrowed over time, to 0 by 2024, this has also implied exchange rate stability.

inflows and prudent macroeconomic policies are fostering reserve accumulation. With the start of the easing cycle of the Federal Reserve in September 2024, the recent gradual monetary policy loosening (¶11) is warranted, but the BCN path could be slower and in smaller steps, since it estimates the natural interest rate at around 6 percent. The current zero rate of crawl supports price stability and implies a real exchange rate appreciation given current inflation differentials with the U.S. (i.e., a higher inflation in Nicaragua than in the U.S.). The BCN should remain ready to adjust interest rates and/or the rate of crawl to maintain the exchange rate regime and price stability, in case of foreign exchange flows reversals.[35]

24. The current moderately tight monetary policy stance and the start of a gradual and small loosening are appropriate, and policy coordination should continue. The policy mix—the expected move towards neutral stances from moderately tight monetary and fiscal policies, and the current zero rate of crawl—helps addressing vulnerabilities and building buffers, on a backdrop of strong remittances and growth. With remittances projected to grow at a slower pace over the medium-term, FX inflows will stabilize, and sterilization needs should decrease. As liquidity in córdobas continues to be mopped up (¶12), the authorities should continue coordinating fiscal, financial, and monetary policies. In the medium-term, reserves accumulation will continue supporting the exchange rate regime and the authorities' efforts to build buffers, but as the current account surpluses are expected to narrow, the real exchange rate appreciation pressure is expected to ease. The policy mix should also include structural reforms to maintain competitiveness (Annex VI and section D).

25. BCN should continue strengthening the monetary transmission mechanism, assess periodically if the economy reached a new equilibrium, and adapt monetary policy and exchange rate frameworks as needed. The de jure crawling peg regime[36] remains appropriate given the structural characteristics of the economy. Given the current favorable economic conditions, staff support the authorities' efforts to strengthen the monetary policy transmission and recommend additional steps (¶30), including adopting further market guidance in interest rate determination (as the gap between the market rate and the reference rate has decreased in recent years). Prudent policy management, clear communication, and enhanced transparency remain crucial in strengthening the monetary transmission mechanism (Annex VII). Pursuing financial and capital markets deepening (Annex VIII) will also help strengthening monetary transmission mechanism and increase the economy's flexibility in response to shocks.

Authorities' Views

26. The authorities reaffirmed their commitment to continue implementing prudent policies and improve the monetary policy transmission mechanism. Although the exchange rate has remained stable, the authorities will continue to monitor exchange rate demand and domestic and external developments and adjust monetary and exchange rate policies as needed. The

[35] As the majority of funding by banks is constituted by deposits, easing monetary policy in the U.S. will be transmitted with a lag, and in a limited way. Nevertheless, it is expected to have a positive impact on credit growth in Nicaragua.

[36] The de facto regime is a stabilized arrangement, as the exchange rate changed by less than two percent over a period of six months or more.

authorities also agreed with the need to strengthen policy communications to continue enhancing monetary policy effectiveness, and noted that enhancing the policy tools set, exchange rate flexibility, and the promotion of the use of local currency would further support these efforts.

C. Fostering Financial Sector Stability and Resilience

27. Staff assess systemic risk as contained, but there are pockets of vulnerability. For example, despite the increase in credit, distressed assets do not seem to be declining further. Staff recommend a more proactive stance for monitoring restructured loans and increasing the ratio of provisions to distressed assets beyond NPLs towards pre-crisis levels. Other pockets of vulnerabilities include rapid consumer credit growth and FX risks.

28. The rapid expansion of consumer credit warrants close monitoring. Credit growth in personal loans and credit cards have increased in September 2024 by 38 and 30 percent y-o-y, respectively, due to favorable lending conditions and extensive liquidity.[37] Staff support the authorities' decisions to implement measures on borrowers to mitigate potential financial vulnerabilities that could arise from excessive consumer indebtedness, including increasing the minimum payment on credit cards by 0.5 percent each year up to 4 percent of account balances. Reactivating the countercyclical provisioning to address any excessive borrowing would also help mitigate risks and increase capital buffers. The authorities should continue ensuring that the rebound in credit is coupled with sound and prudent lending policies.

29. FX risks continue to warrant close oversight given the high level of dollarization. The difference between credit and deposits dollarization reached 23 percentage points in September 2024.[38] 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, only 17 percent of borrowers generate foreign currency, on average, and hedging instruments (such as futures or swaps) are not permitted under domestic law. Staff urge 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.

30. Efforts to promote financial inclusion and deepening should advance. While gross credit reached the pre-crisis level in nominal terms recently, the credit-GDP-ratio remains well below its pre-crisis level (28 percent in September 2024 compared to 40 percent in 2018Q1) and it is the lowest in Central America. This protracted low credit-to-GDP ratio seems to reflect a new long-term equilibrium where the relationship between the banking sector and the rest of the economy has waned (Annex VIII). Given the crucial role of the financial sector in supporting growth, staff recommend adopting policies to increase financial deepening, including better consumer protection

[37] On the other hand, commercial, agriculture, and mortgage loans are lagging with y-o-y growth rates of 11, 7 and 5 percent, respectively, as of September 2024, due to lower demand and risk worthiness.

[38] Credit dollarization rate reached 92 percent in September 2024, while deposits dollarization fell to 69 percent.

(to increase bank deposits); dampening credit portfolio concentration; promoting financial literacy, inclusion, and competition; and developing the bond and equity markets (Annex IX).

31. **Crisis preparedness arrangements need to be finalized and implemented.** The authorities should establish a timeline to finalize the update of the resolution framework along with best international practices (Financial Stability Board Key Attributes), taking into account the size, structure, and complexity of the financial system. Staff encourage the authorities to advance decisively their update of the resolution framework plan and make progress on the crisis preparedness, including by creating a subcommittee of the Financial Stability Committee to deal with potential crisis.[39]

32. **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.[40] 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

33. **The authorities remain committed to maintain the resilience of the financial sector and will consider deepening financial inclusion and capital markets.** The authorities agreed on the need to update their crisis preparedness framework and the banking law. They also remain committed to curb FX risk, monitor distressed assets, and strengthen mitigating measures, if needed. To promote financial inclusion, the authorities are working on expanding financial access through practical measures, such as improving the payment system, and may consider further simplification of banking accounts and requirements for small and medium enterprises loans. The authorities affirmed the importance of capital market reforms to catalyze private investment.

D. Boosting Medium-Term Growth and Employment

34. **To achieve higher and more inclusive medium-term growth, persistent policy and reform efforts are needed.** Sustained higher medium-term growth would help support further gains on poverty reduction and income convergence.[41] Key measures include continued investment in infrastructure and human capital, higher targeted social spending, and increases in the labor force participation rate (LFP),[42] which is expected to decline as the population ages and due to the recent

[39] Additional measures include: (i) enhancing the existing arrangements between the different entities involved in crisis preparedness and management, (ii) reviewing the resolution toolkit; (iii) conducting crisis simulation exercises; and (iii) starting the planning of the recovery and resolution work.

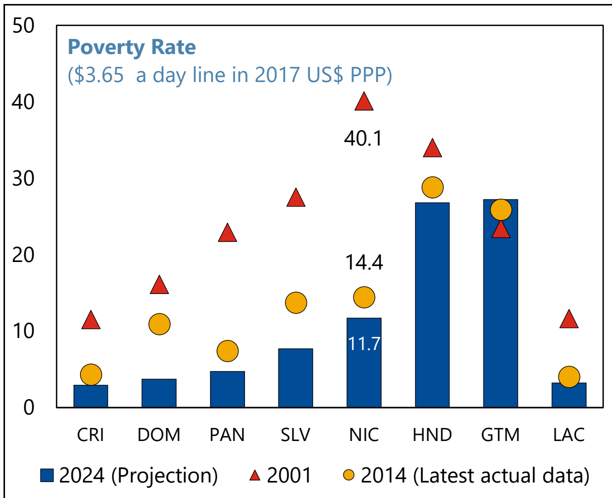
[40] Following a principle of proportionality, prioritizing largest institutions, and finalizing the capital requirements legislation for microfinance companies.

[41] The poverty rate (measured as the headcount ratio of people living under $3.65 a day) has registered only a slight decline in the past decade, from 14 percent in 2014 to an estimated 12.5 percent at end-2023. In addition, although there were gains in GDP per capita, convergence to the OECD average has not progressed over the past three decades.

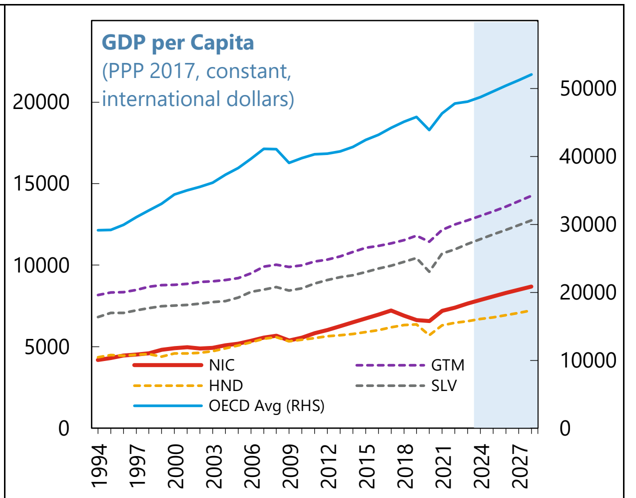
[42] See also 2022 Nicaragua Article IV on measures to reduce informal employment and raise labor force participation. Measures to increase formality, the implementation of structural reforms and enhanced protection of workers could bolster the labor market

(continued)

rapid emigration. Fostering female LFP will bring considerable potential output gains (Annex X), while higher inclusive growth would reduce economic incentives for emigration.



Sources: World Bank Macro Poverty and World Development Indicators.
Note: LAC latest data is for 2022 and 2014 is latest actual for NIC.



Source: IMF World Economic Outlook.
Note: The shaded areas indicate projections.

35. Measures to enhance the business climate are also needed to increase private investment. These include: (i) strengthening government institutions and frameworks and protecting property rights (section E); (ii) strengthening practices more broadly in the rule of law, tax administration, and regulatory framework to enhance open competition and the business climate;[43] and (iii) fostering dialogue with the business community such that private investment is a driver of sustainable medium-term growth.

Authorities' Views

36. The authorities concurred with staff that additional reforms are needed to support medium-term growth, which they see above 4 percent annually. They agreed that the existing macroeconomic policy mix is conducive to growth. They also noted that the fully financed infrastructure projects will support economic activity in the medium term at a higher growth rate than projected by staff, along with sustained higher private investment. The authorities also highlighted that the Nicaraguan economy remains competitive.

performance. These include strengthening workers' safety nets, decreasing barriers to formalization of small firms, creating programs of micro-credit to small firms, and fostering a level playing field for female labor force participation will help improve labor contribution to growth.

[43] The Transparency International Perception of Corruption Index 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 17 in 2023, with a confidence interval between 15 and 19). The index aggregates data from various sources to provide a measure of perceived corruption in the public sector, based on 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 that observed in most regional peers during the same period.

E. Strengthening Economic Governance, Including the Rule of Law

37. The authorities are advancing toward the preparation of the upcoming evaluation of the AML/CFT framework focused on effective implementation, while further efforts are needed to improve coordination and its appropriate application. Supervision of financial institutions is shifting to thematic inspections that aim to utilize robust risk-based tools. Supervisors and law enforcement agencies should prioritize compliance with regulations concerning domestic politically exposed persons, ensuring proper investigations and prosecutions. The UAF is also establishing regulations for virtual asset service providers, while the remittances sector is also undergoing AML/CFT reforms. Additionally, fair access to legal recourse for non-profit organizations must be ensured, alongside consultations regarding regulatory changes affecting them. Although Law 1224 aims to shield Nicaraguans from external sanctions, it may raise compliance concerns for financial institutions along with the accompanying guidance, and their application could be challenged as the international sanctions were not imposed on AML/CFT grounds.[44]

38. The government has made strong efforts to significantly improve fiscal transparency over the past years and these should be sustained. Most commitments and recommendations from the RCF/RFI, as well as recommendations from the 2023 Article IV and the Fiscal Transparency Evaluation (Annexes XI-XIII) have been implemented. In 2024, the authorities further strengthened fiscal transparency,[45] although the timeliness of publication of public finance statistics and public finance reports has occasionally slipped. To further enhance fiscal governance and improve public financial management, staff recommend continuing progress to expand the coverage of SOEs' financial statements publications and publish the annual financial statements of the central government[46] and their audit reports performed by the Comptroller General Office.

39. The government has taken steps to enhance governance and anti-corruption frameworks in line with some previous advice, but more efforts are needed. Digitization efforts of the asset declaration system and the adoption of norms to protect whistleblowers are welcome advances. Staff recommend enhancing the effectiveness of the anti-corruption framework by: (i) ensuring public access to the asset declarations of top-level officials, including through their publication; (ii) conducting risk-based assessments periodically; (iii) adopting additional measures

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[44] The Law poses significant challenges by potentially undermining compliance with international sanctions regimes (like asset freezes), as it has ambiguous language. In addition, it has severe penalties for domestic non-compliance. Moreover, even though the Superintendency of Banks and Other Financial Institutions (SIBOIF) clarified the need to comply with international AML/CFT principles, financial institutions based outside Nicaragua, but with connections to the countries imposing the sanctions and providing or potentially providing services to entities in Nicaragua, may choose to reevaluate their risk profiles and operational strategies, leading to increased costs and complications in correspondent banking relationships.

[45] Expanding the coverage of SOEs in the monthly fiscal statistics from four to seven, and publishing financial statements of the largest SOEs, tax expenditure estimates, newly contracted loans by creditor and guaranteed debt by beneficiary, and public debt policy evaluations. Public debt reports with granularity of debt by currency and interest rate type and local government debt of the largest municipality (ALMA) with the private sector are now published, along with evaluation reports of public debt policies and the policy guidelines for budget formulation are published annually. See MHCP website.

[46] Despite the decrease of international fuel prices since 2022, and the phasing out of subsidies that kept prices constant since April 2022, fuel prices at the pump remained constant. Publishing the financial statement of the central government and its audit report, along with the audited financial statements of the SOE in charge of distributing fuel would help clarify the use of those savings.

aimed at preventing conflict of interests in the public administration;[47] and (iv) bringing the illicit enrichment offence provided in the penal code in line with international best practice.

40. The rule of law requires significant improvement to safeguard judicial independence and to support investors' confidence and property rights. Recent actions affecting property rights and government's reactions to international sanctions may hamper investment decisions. To support property rights, contract enforcement, and investment protection, staff recommended adopting: (i) urgent measures to protect judicial independence in line with international standards (the Bangalore Principles of Judicial Independence) and as provided by international covenants ratified by Nicaragua; (ii) initiatives to improve the efficiency and modernization of the judiciary; (iii) measures to strengthen the transparency of administrative and judicial proceedings involving property rights; (iv) reforms that suspend administrative decisions potentially affecting property rights until the administrative acts are considered final and guarantee adequate, effective, and fair recourse; (v) and enacting regulations defining clear proceedings for the selection and removal of judges and magistrates (details in Annex XI).

41. Progress in implementing the 2021 safeguards assessment recommendations remains limited. The BCN continues to reconcile legacy assets and liabilities in its balance sheet to improve transparency.[48] The authorities should implement key recommendations from the 2021 assessment: the central bank's autonomy through legal reforms, develop a medium-term recapitalization strategy and transition to International Financial Reporting Standards (IFRS).

Authorities' Views

42. The authorities emphasized their continued commitment to fiscal transparency and governance. The authorities will continue their efforts to publish the annual financial statements and audit reports of the central government, and to expand the publication and coverage of fiscal reports, including all SOEs. The authorities reiterated their commitment to the timely publication of fiscal data and reports.

43. The authorities agree to continue to strengthen the AML/CFT framework and focus on improving its effectiveness and proper application. The authorities will continue to work with GAFILAT to ensure they implement all FATF recommendations, including those regarding proper application of the standards, and to continue the preparation of the next mutual evaluation.

44. The authorities agreed on the need to strengthen anticorruption efforts. They noted that, given limited resources, they would consider some of the recommendations, which might include strengthening the asset declaration regime and improving the definition of illicit enrichment offense. However, the authorities disagreed with publishing assets declarations of politically exposed persons.

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[47] 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.

[48] This would also help resolve the external auditor qualification, which is published.

45. The authorities acknowledged the importance of strengthening the protection of property rights and contract enforcement by improving judicial independence and the rule of law. The authorities noted that recent actions, including the constitutional reform, reflect the country's realities and enhance judicial independence. They welcomed staff recommendations to improve the transparency and administrative and judicial recourse in the context of proceedings involving property rights.

46. The authorities are strengthening the BCN safeguards. They plan to continue to clean up the BCN balance sheet from past legacy loans to the economy, before giving consideration to staff's recommendation to move to the IFRS accounting standards. They are also working on implementing changes to the central bank and banking laws.

OTHER ISSUES: STATISTICS AND CAPACITY DEVELOPMENT

47. Data provided to the Fund has some shortcomings, but it is broadly adequate for surveillance, and work is needed to continue improving its timeliness, coverage, consistency, and granularity in some datasets.[49] Data coverage remains appropriate for surveillance (Annex XIV). The authorities are implementing several IMF Capacity Development (CD) programs and recommendations, especially on improving the external sector statistics. Efforts are required to: (i) expand sources of data for the real and external sector;[50] (ii) harmonize public sector debt with external sector debt data; and (iii) improve timeliness of key statistics (e.g., poverty rate).[51]

48. Nicaragua's 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 is generally robust. Close integration between CD and surveillance activities, as well as coordination with other TA providers remains crucial.

Authorities' Views

49. The authorities agree with staff on the need to improve data quality and timeliness and emphasized that they are working closely with the IMF, CAPTAC-DR, and other IFIs to strengthen it. The authorities noted they are working with the World Bank on updating the poverty statistics, expecting progress by end-November 2025. The authorities emphasized ongoing efforts to improve external statistics, with IMF CD support, and noted an interest in strengthening the compilation of national accounts statistics and continuing to work on public debt statistics with CAPTAC-DR, among other projects.

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[49] Unchanged overall assessment since the 2023 Nicaragua Article IV.

[50] Incorporating the results of the household survey in the national accounts and concluding and disseminating the new series with benchmark year 2019 remains pending. Additional efforts are required to minimize statistical discrepancy and accumulation of inventories. The BCN continues to work with the help of IMF CD on the external sector data to minimize the errors and omissions.

[51] Latest actual data for poverty dates back to 2014. World Bank (WB) estimates for more recent years are used throughout this report. See Authorities Views for details on updating this data with the help of the World Bank.

STAFF APPRAISAL

50. Nicaragua's economic performance remains robust, underpinned by prudent macroeconomic policies and very strong remittance flows. The economy continues to be open and resilient, after confronting multiple large shocks since 2018, and against a backdrop of international sanctions and a reorientation of official financing. Real GDP grew by 4½ percent in 2023 and the first half of 2024. The estimated poverty ratio continues to decline, but it remains above the regional average. Banks are reportedly liquid and well capitalized, and although NPLs increased recently, they remain low. Twin fiscal and external surpluses are leading to a steady decline in the public debt-to-GDP ratio and the accumulation of strong buffers to absorb shocks. The external position in 2023 was assessed as stronger than the level implied by medium-term fundamentals and desired policies, given record-high workers' remittances. Inflation is low and stable.

51. The economic outlook points to sustained growth, amid continued prudent macroeconomic policies and sound external and fiscal positions. Public investment is expected to support growth of 4 percent in 2025 and 3.8 percent in 2026. Over the medium term, real GDP growth is expected to moderate to 3.5 percent, given a lower labor contribution due to recent emigration, and cautious private investment decisions. International reserves are expected to grow at a slower pace than recently, given smaller current account surpluses, but they are projected to remain ample.

52. Risks to the outlook are broadly balanced in the short term and to the downside in the medium term. Upside risks include stronger domestic demand and remittances growth, especially in the short term. Downside risks include lower global growth, a deterioration in the terms of trade, natural disasters, stricter and wider international sanctions, and a change in immigration policies in the U.S, given the critical importance of remittances for the Nicaraguan economy.

53. Staff recognized continued efforts to preserve fiscal sustainability, while supporting medium-term growth. The authorities continue strengthening fiscal buffers, including by improving tax administration and expenditure efficiency, and aim to increase public investment to support medium-term growth. Within the authorities' medium-term fiscal path, staff recommended adopting additional permanent fiscal measures to finance higher public investment and social spending. Staff also recommended further enhancing fiscal transparency and oversight of SOEs to minimize fiscal risks, and identifying permanent, sustainable, and comprehensive solutions to address imbalances in the INSS.

54. The policy mix is appropriate, and staff recommended enhancing monetary policy communication. The BCN maintained an adequately moderately tight monetary, while fiscal policy has been appropriately tight and countercyclical. Both policies are moving towards a neutral stance and have supported price stability, growth, and an ample accumulation of international reserves consistent with the current exchange rate regime. Staff recommended enhanced monetary policy communication to help strengthen the monetary policy transmission.

55. Advancing efforts to promote financial deepening and inclusion and to maintain financial stability remain important. Since the credit-to-GDP ratio remains below the pre-multiple shocks period, staff recommended enhancing financial inclusion and deepening to support inclusive growth. Staff also recommended continuing efforts to maintain financial stability, through among others, enhancing monitoring and provisioning of distressed assets and NPLs, aligning the crisis preparedness framework with best international practices, and continuing to strengthen risk mitigation measures.

56. Staff supported the authorities' initiatives to foster medium-term inclusive growth and recommended additional measures. These include improving the business climate and the rule of law, increasing human capital, fostering labor force participation for women, and developing capital markets.

57. Staff recommended significantly improving the rule of law and safeguarding judicial independence to support investors' confidence. Recent actions affecting property rights and government's reactions to international sanctions may hamper investment decisions. Staff recommended ensuring judicial independence as provided by international covenants ratified by Nicaragua, strengthening the transparency of administrative and judicial proceedings involving property rights, and guaranteeing adequate, effective, and fair recourse. Staff also recommended continuing to implement initiatives to improve the efficiency and modernization of the judiciary.

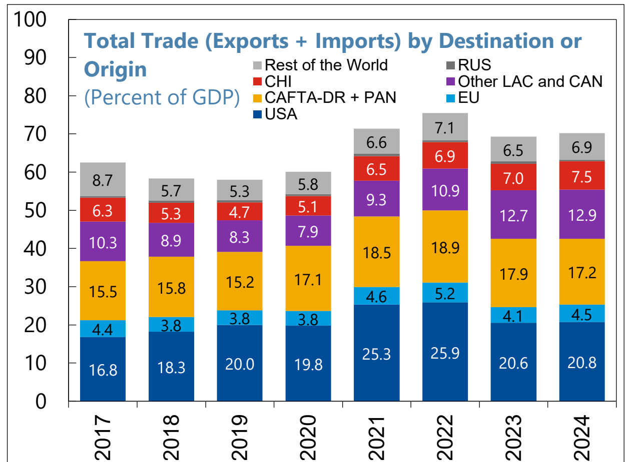
58. While the authorities have taken steps to improve the anti-corruption and AML/CFT frameworks in line with some of Fund's advice, further measures are needed to align them with international best practices, and to strengthen the effective and appropriate implementation of the frameworks. Digitization efforts of the asset declaration system, the adoption of norms to protect whistleblowers, and shifting the supervision of financial institutions to thematic inspections are welcome advances. Further efforts need to focus on increasing the capacity to detect and punish corruption, especially by putting in place risk-based audits over asset declarations, publishing assets declarations of politically exposed persons, and strengthen the effective and appropriate application of the AML/CFT framework by prioritizing compliance with regulations concerning domestic politically exposed persons, and increasing coordination among agencies, and with the sectors supervised.

59. The authorities' efforts to improve the quality of statistics, supported by technical assistance, are welcome. Data provided to the Fund has some shortcomings, but it is broadly adequate for surveillance. Efforts are needed to continue to improve the quality of national accounts, supported by technical assistance. Further efforts are needed to improve the timeliness of the publication of key statistics and reports.

60. Staff recommend that the next Article IV consultation be held on the standard 12-month cycle.

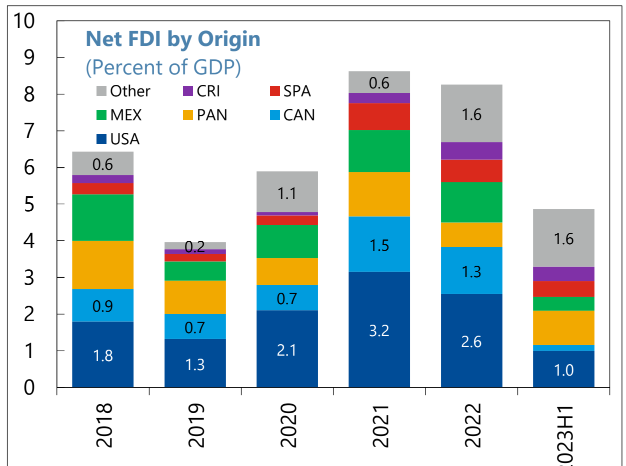
Box 1. Sources of Trade, FDI, Remittances, and Financing Flows in Nicaragua

Nicaragua's external trade remains heavily linked to the U.S. and regional peers. Total trade (exports plus imports) increased from 62.5 percent of GDP in 2017 to a peak of 75.5 percent of GDP in 2022. In terms of the main trading partners, two thirds of the total trade is conducted with the U.S., Canada, the European Union, and regional peers (Central America Free Trade Agreement-Dominican Republic CAFTA-DR, plus Panama); 14 percent with other Latin American countries; and 10 percent with China. The nature of this trade is also differentiated: while trade with China is almost completely related to imports (94.6 percent through July 2024), and trade with CAFTA-DR is primarily related to imports (70 percent), trade with the U.S., Canada, and the European Union is evenly distributed between imports and exports.



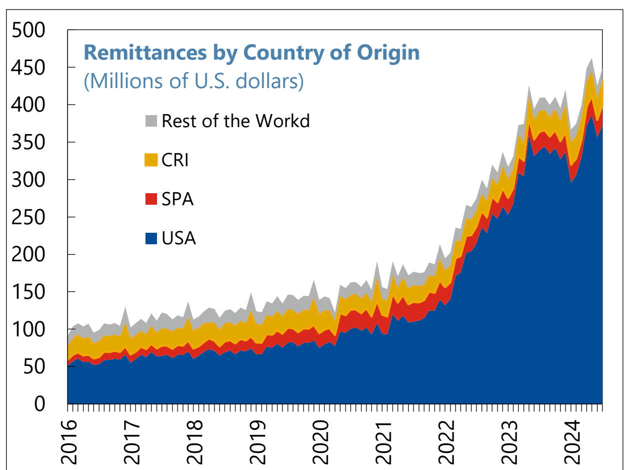
Source: BCN. Note: 2024 data through July.

Nicaragua's net FDI flows also continue to come mostly from the U.S. and regional peers. Net FDI originated in the U.S. represents at least a fifth of total flows (about 3 percent of GDP) in 2021-2022. Over a quarter comes from Panama and Costa Rica and to a lesser extent, Spain and Mexico are also main partners. Notably, net FDI from Canada decreased substantially in 2023, after averaging 15.1 percent of total net FDI for 2018-2022. This is also reflected in the lower FDI received for energy and mining (Box 2). In 2023, new partner countries like Barbados and Netherlands have provided significant FDI flows.



Source: BCN.

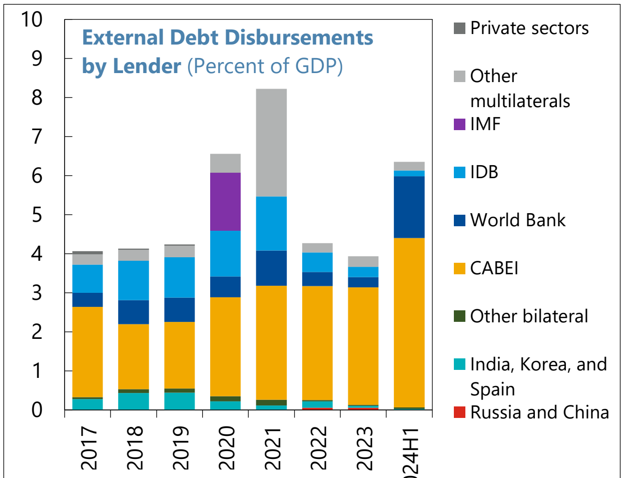
Through July 2024, over 80 percent of total remittances continue to come from the U.S., on the back of strong labor market indicators and increased emigration since 2022.



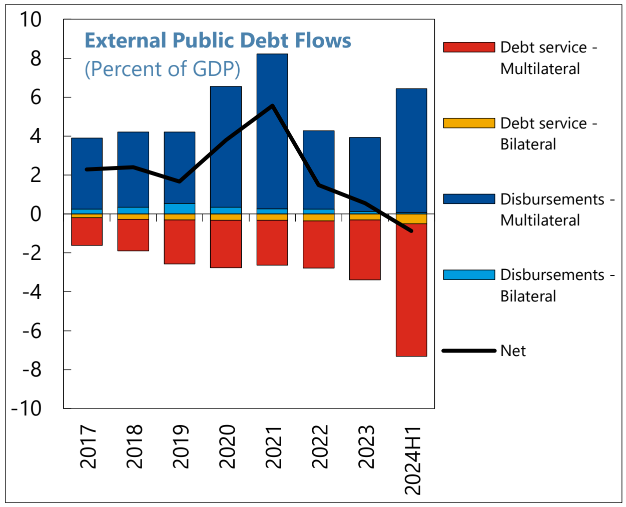
Source: BCN.

Box 1. Sources of Trade, FDI, Remittances, and Financing Flows in Nicaragua (Concluded)

Public external debt disbursements from multilaterals are decreasing, and increased repayments are turning net flows negative. Since 2017, disbursements from the IADB and the WB have declined and, in 2023, CABEI announced having reached the country quota exposure. Until now, disbursements from China have been small compared to other gross financing sources, and those originated in other countries have been decreasing. As repayments—particularly to multilateral partners—have increased in 2023 and 2024H1, net flows have become negative. However, recently contracted loans with China, Saudi Arabia, and Belarus (¶5) indicate an increased reliance on these bilateral partners moving forward.

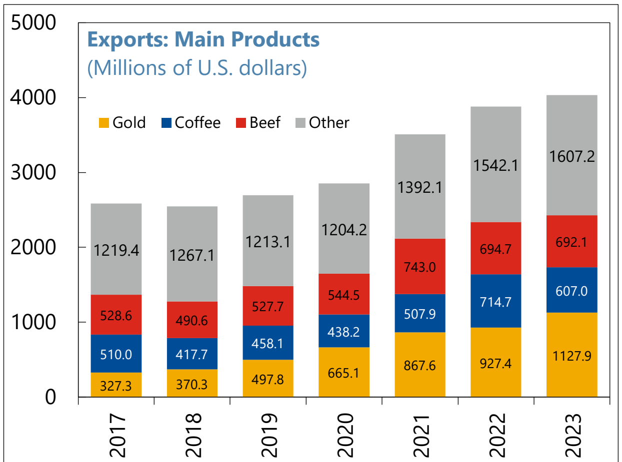


Source: BCN.

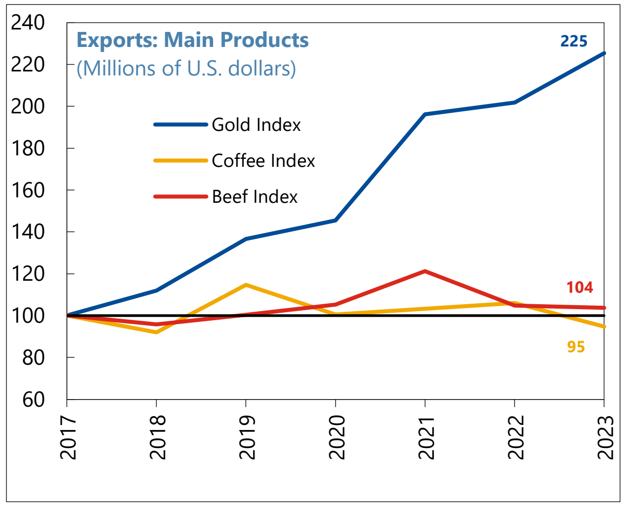


Box 2. Recent Evolution of Exports and FDI in Nicaragua

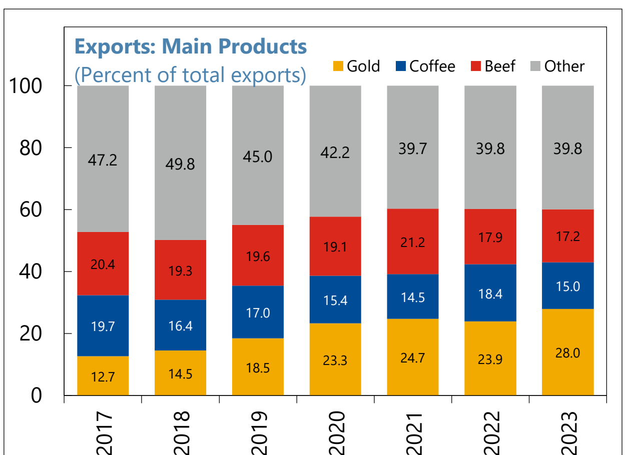
Since 2018, total exports have shown steady growth, led by gold exports. Over the past six years, Nicaraguan exports increased by an average of 10 percent annually. Gold exports recorded a much higher annual growth (23.4 percent on average), driven by higher international prices. As a result, gold has the largest share in total exports (28 percent in 2023, compared to 13 percent in 2017). The increased volumes of gold exports have helped offset the decline in coffee exports and are a key driver of export performance. Gold exports are undertaken by international mining companies (primarily from the U.S. and Canada), and not by the sanctioned SOEs; thereby the gold exports remained broadly unaffected by sanctions. In 2024, Chinese companies received gold mining licenses as well.



Source: BCN.



Coffee exports declined significantly in 2023 and the first half of 2024 but remain one of Nicaragua's top three exported goods (15 percent of total exports in 2023). However, this share represents a large decline compared to 2022, due to the disruptions caused by the international bankruptcy of a major coffee exporter (responsible for about half of the exports), and unfavorable weather conditions (El Niño). As another exporter firm has not step up to fill this gap in the domestic market, the fall in export sales and the declining participation of coffee in the country's exports continued in 2024.

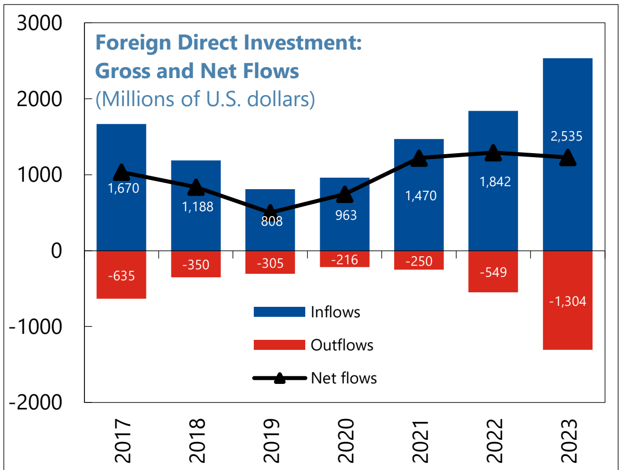


Source: BCN.

Box 2. Recent Evolution of Exports and FDI in Nicaragua (Concluded)

In 2023 net FDI flows declined slightly, despite continued large inflows. On a backdrop of continued growth in FDI inflows (38.5 percent growth rate on average over the past years), FDI inflows in 2023 increased considerably from US$1.8 billion in 2022 to US$2.5 billion in 2023. Like in previous years, the inflows are explained primarily by reinvested earnings. Despite this increase in inflows, net FDI has remained broadly unchanged at around since 2021, and recorded a slight decline in 2023, due to rising outflows as well (text charts). As a result, net FDI went down from 8.1 percent of GDP in 2022 to 6.7 percent in 2023.

The FDI sectoral composition is shifting from mining and manufacturing to retail and services. Unlike exports, FDI in Nicaragua has gradually moved away from mining-related activities into services, responding to the strong domestic demand. By 2023, net FDI in retail and services have observed the largest increase (from US$128 million in 2022 to US$337 million in 2023, accounting for 27 percent of total net FDI).



Source: BCN.

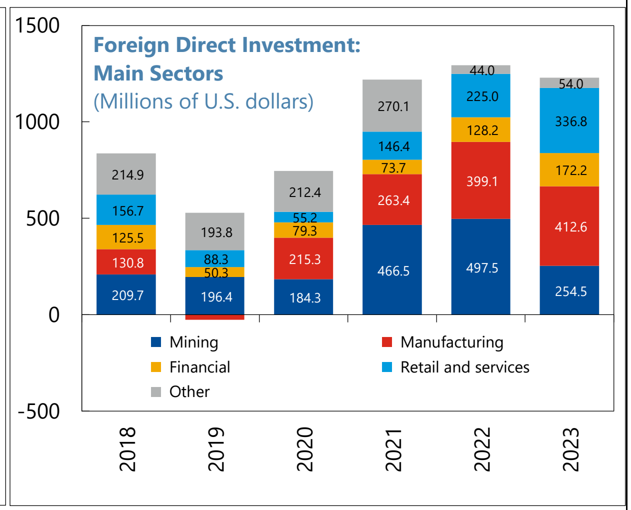
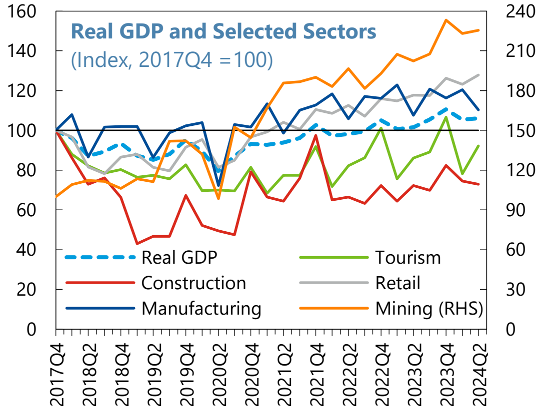
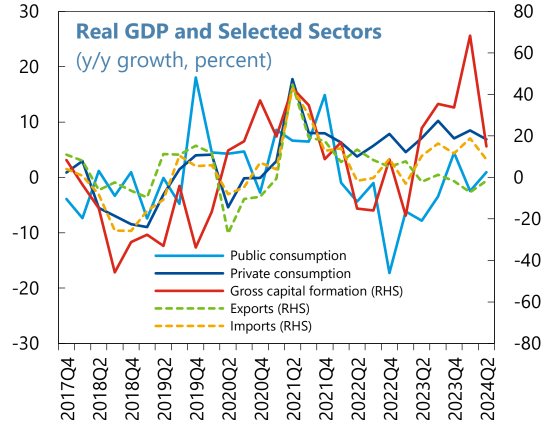


Figure 1. Nicaragua: Real Sector

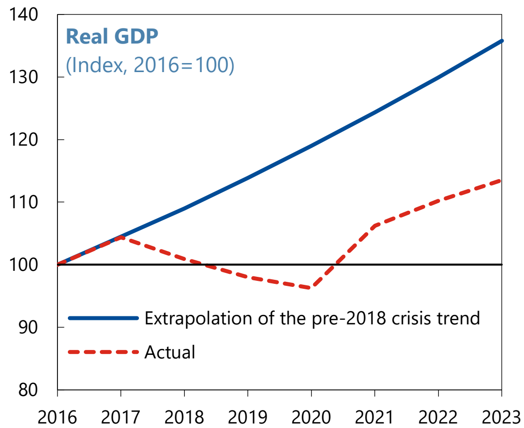
Retail and tourism continued driving growth.



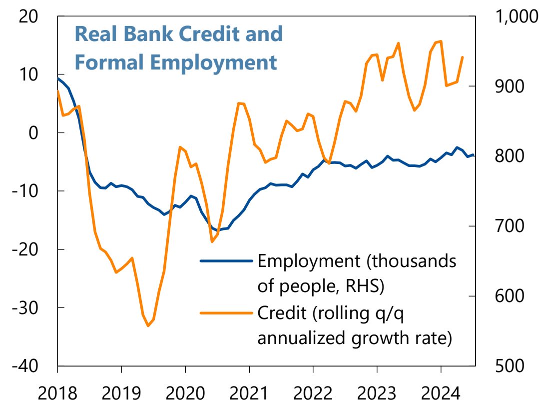
Real private consumption and investment contributed to growth in 2023, while real exports declined.



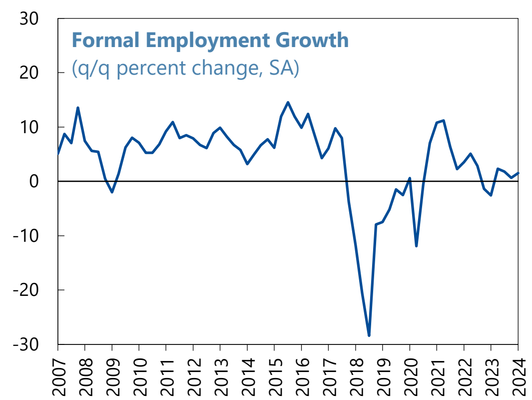
Pre-crisis real GDP level has been surpassed, but despite the high recent growth rate has remained below pre-crisis rates.



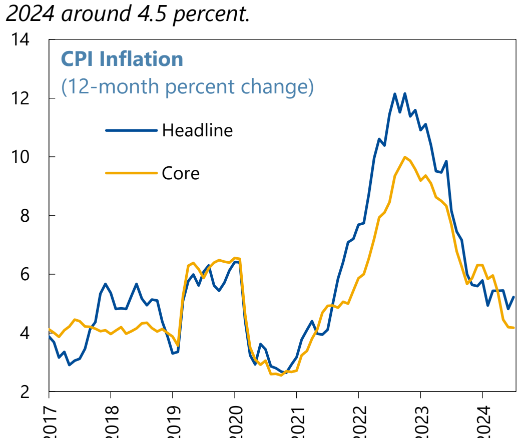
Real credit growth finally reached the pre-crisis levels. However, formal employment remains well below pre-crisis level…



…and with much lower growth rates than pre-crisis.



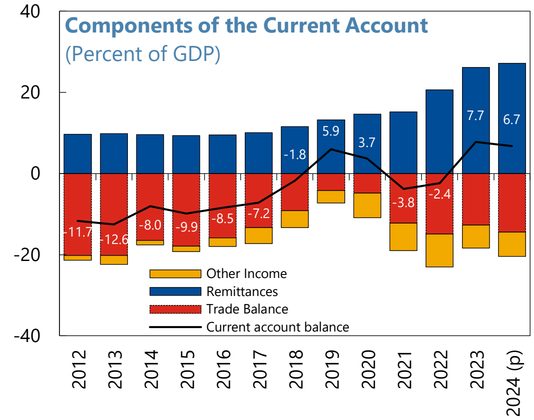
Inflation has declined considerably and has stabilized in 2024 around 4.5 percent.



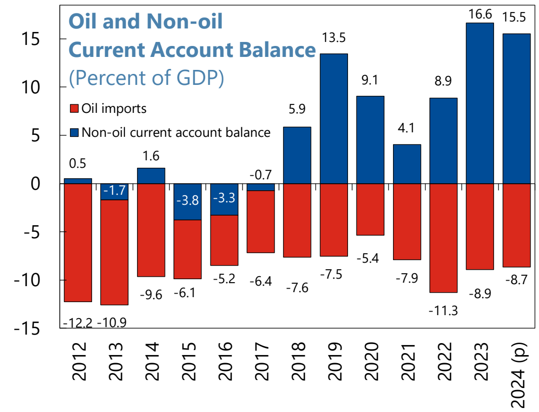
Sources: National authorities and IMF staff calculations.

Figure 2. Nicaragua: External Sector

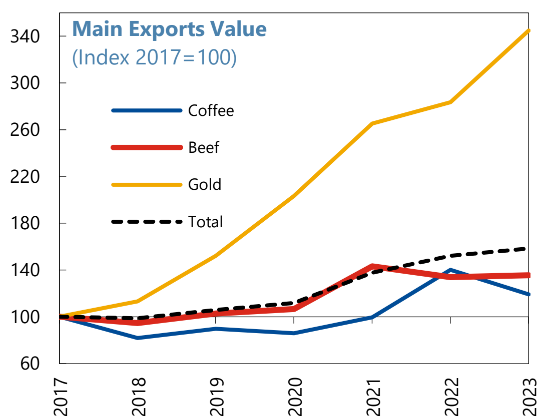
Strong remittances are leading to large current account surpluses.



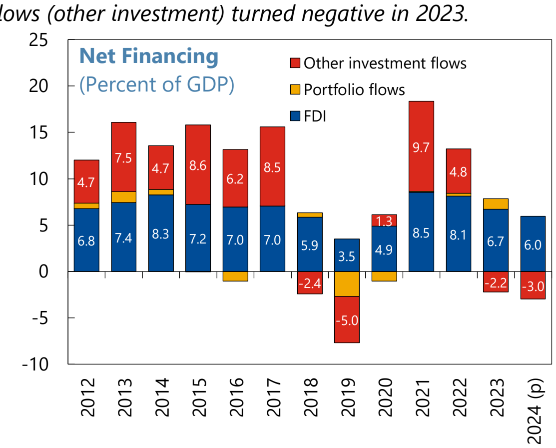
The decline in oil imports since 2022 has helped improve the trade balance.



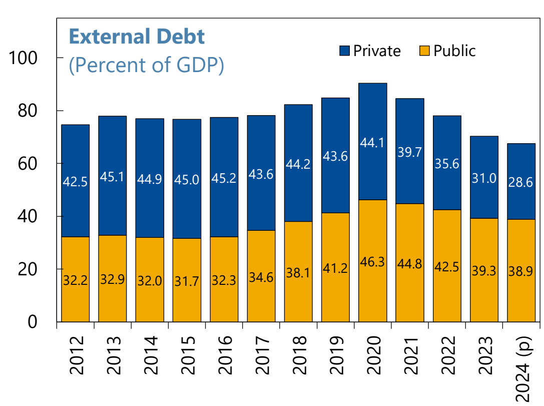
Gold exports continued to increase strongly, while coffee exports declined and beef exports stagnated.



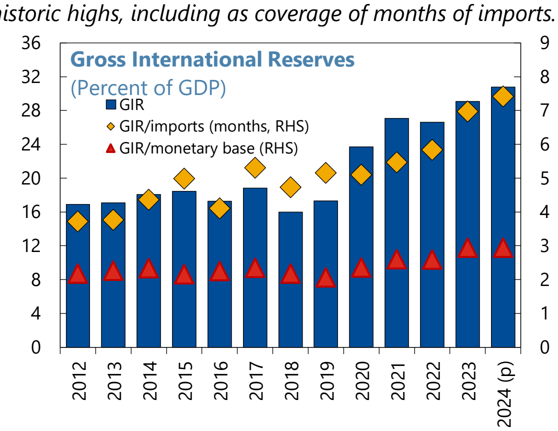
Net FDI flows, although declining in 2023, remain the main contributor to the financial account surplus, while official flows (other investment) turned negative in 2023.



Private and public external debt continued declining.



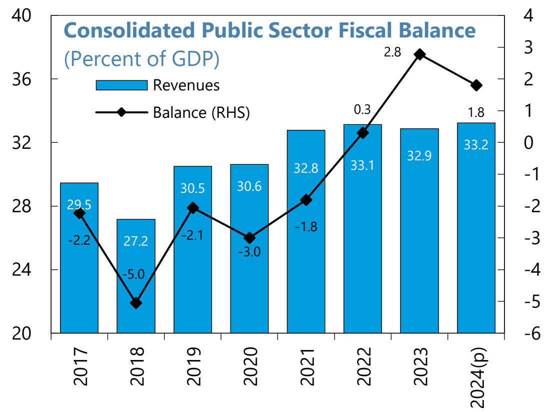
International reserves have increased substantially, reaching historic highs, including as coverage of months of imports.



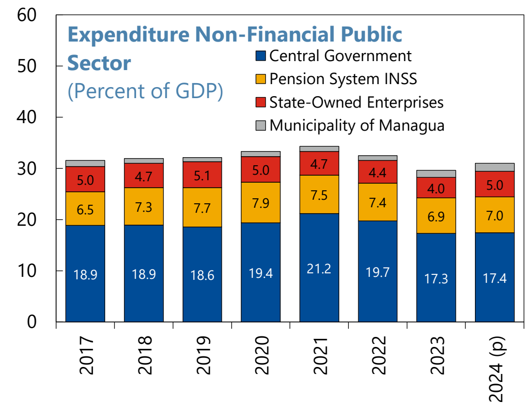
Sources: National authorities and IMF staff calculations.

Figure 3. Nicaragua: Fiscal Sector

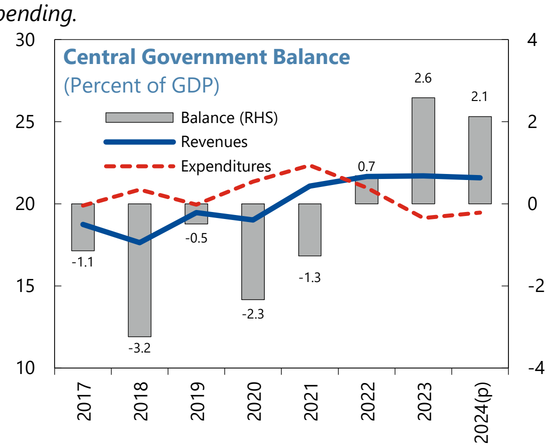
Fiscal position recorded a considerable surplus in 2023 primarily due to a moderation in spending.



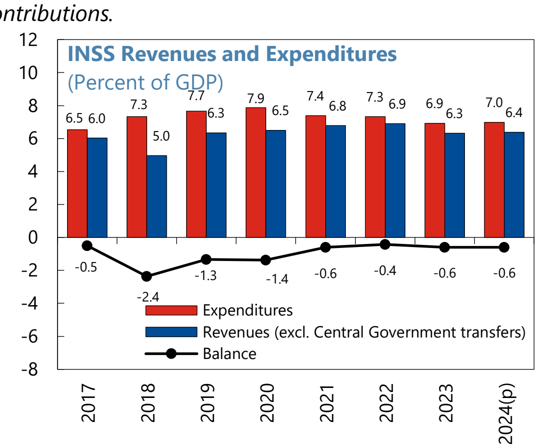
Most levels of government reduced spending in 2023.[1/]



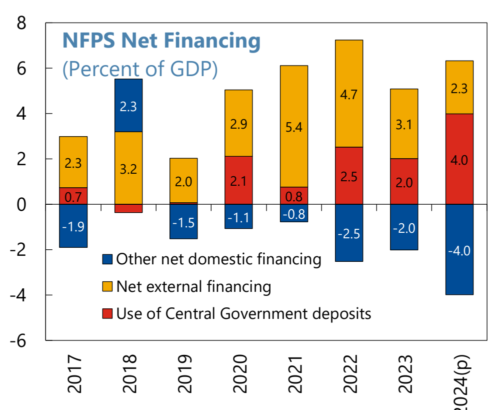
For a second consecutive year central government increased the surplus by 2 percent of GDP due to a moderation in spending.



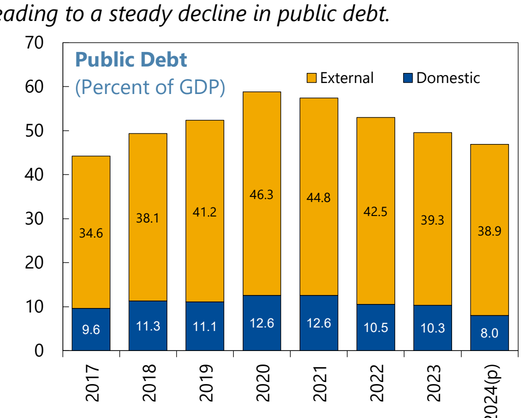
Despite a cut in expenditure following the 2018 pension reform, the pension system deficit is increasing due to lower contributions.



Net external official financing is shrinking…



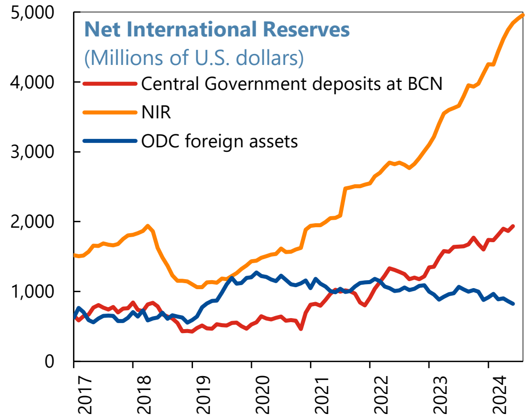
…leading to a steady decline in public debt.



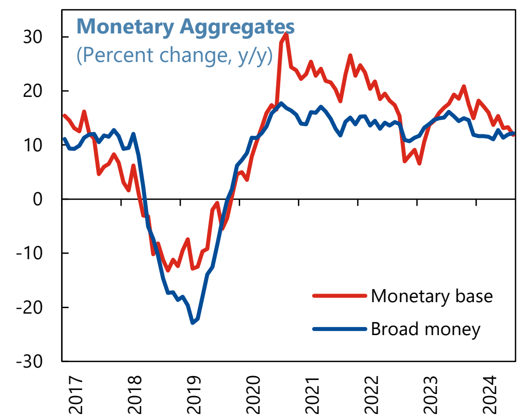
Sources: National authorities and IMF staff calculations.
[1/] Excluding transfers to the INSS.

Figure 4. Nicaragua: Monetary Sector

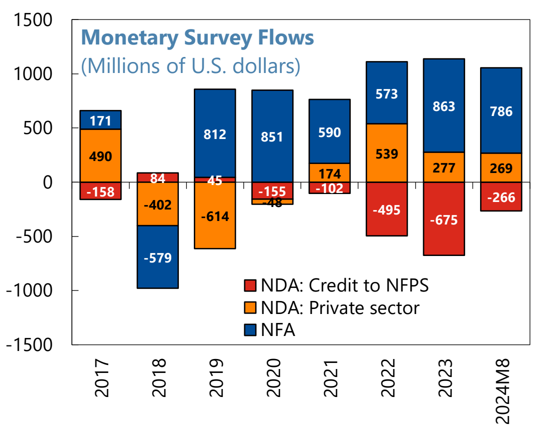
NIR continued to grow considerably, while central government deposits' growth remained strong in 2024.



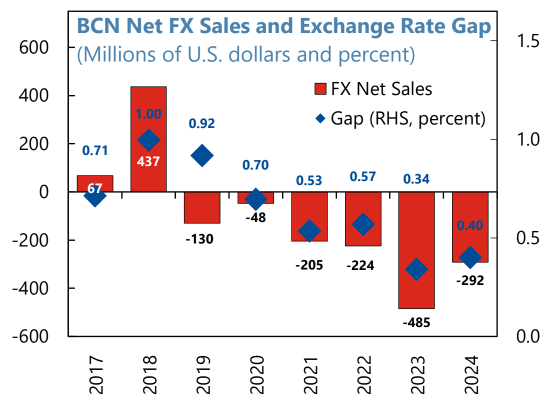
The monetary base and broad money decelerated in 2024 after growing faster in 2023 than in the second half of 2022…



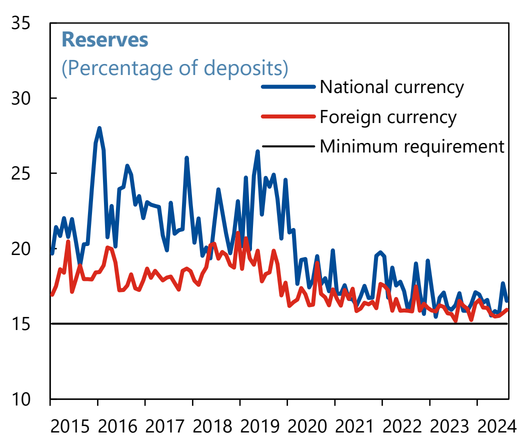
…as the increase in NFA has been higher than the decrease in credit to the government.



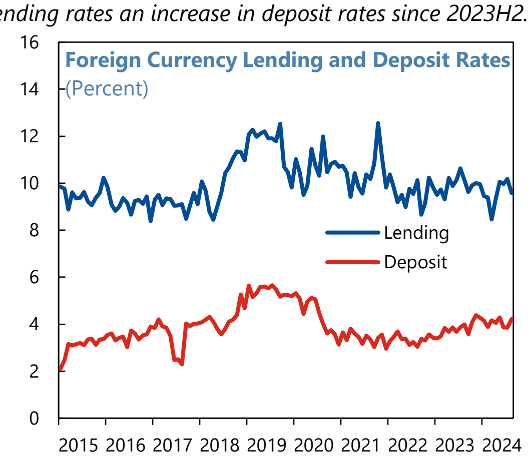
BCN FX net sales have remained negative, with the official exchange rate very close to the market rate (i.e., with a small gap[1/]).



Banks excess reserves remained low, but above legal requirements.



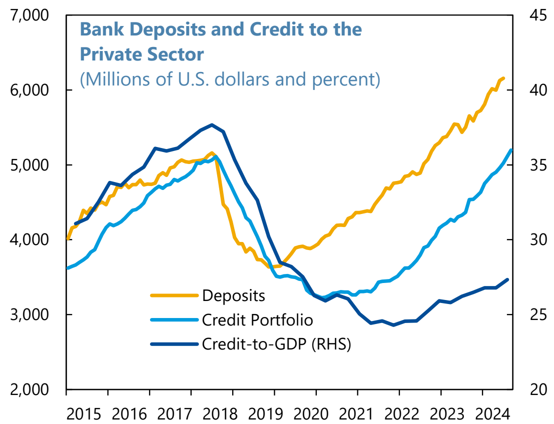
The differential between lending and deposit rates in foreign currency decreased, with a transitory decline in lending rates an increase in deposit rates since 2023H2.



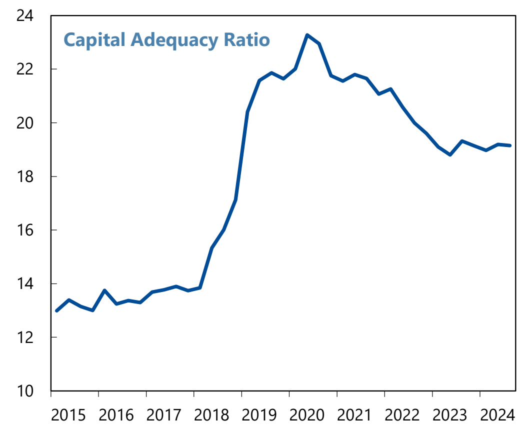
Sources: National authorities and IMF staff calculations.
[1/] The Gap represents the difference between the exchange rate for selling dollars in the market and the official exchange rate (average for the year, in percentage terms). 2024 data up to November.

Figure 5. Nicaragua: Financial Sector

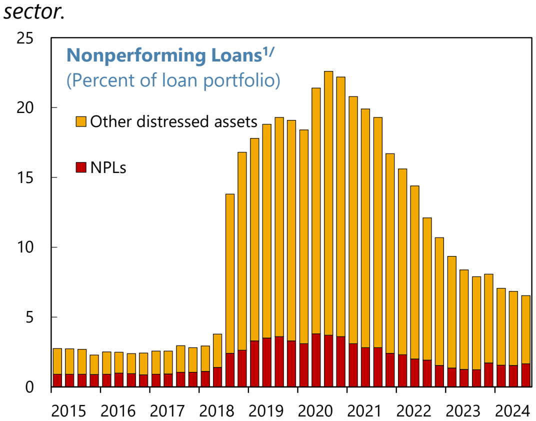
Bank deposits continued to grow strongly, and credit to the private sector continues to recover, but it remains well below pre-crisis levels (especially in relation to GDP).



Banks' capital remains well above required minimum of 10 percent.

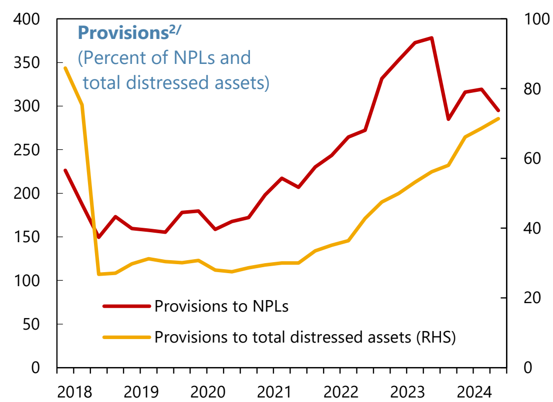


NPLs and distressed assets continued to decline, although there is an uptick in NPLs due to the problems in the coffee sector.



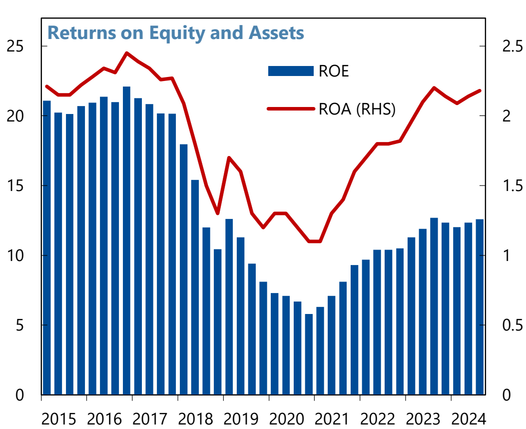
1/ Adding restructured, refinanced loans and forborne loans.

Provisioning to total distressed assets continued to improve but it declined sharply temporarily for NPLs.

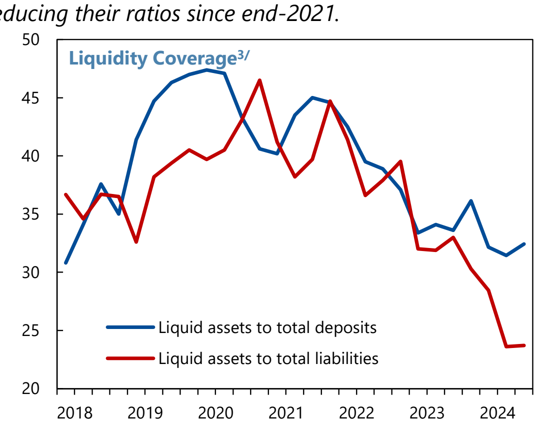


2/ Adding restructured, refinanced loans and forborne loans to NPLs.

The recovery in profitability plateaued and remained below pre-crisis levels.



Banks still operate with comfortable liquidity but have been reducing their ratios since end-2021.



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, 2019–29

I. Social and Demographic Indicators

GDP per capita (current US$, 2023)	2,606	Income share held by the richest 10 percent (2014)	37.2
GNI per capita (Atlas method, current US$, 2023)	2,270	Unemployment (percent of labor force, 2023)	3.4
GINI Index (2014)	46.2	Poverty rate ($3.65/day line in 2017 PPP, percent, 2023 World Bank estimate)	12.5
Population (millions, 2023)	6.8	Adult literacy rate (percent, 2015)	82.6
Life expectancy at birth in years (2022)	74.6	Infant mortality rate (per 1,000 live births, 2022)	14.0

II. Economic Indicators

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					Prel.			Projections			
Output	(Annual percentage change; unless otherwise specified)										
GDP growth	-2.9	-1.8	10.3	3.8	4.6	4.0	4.0	3.8	3.5	3.5	3.5
GDP (nominal, US$ million)	12,713	12,682	14,145	15,671	17,843	19,204	20,771	22,422	24,135	25,979	27,964
Prices											
GDP deflator	5.4	5.4	3.6	8.9	10.5	4.0	4.0	4.0	4.0	4.0	4.0
Consumer price inflation (period average)	5.4	3.7	4.9	10.5	8.4	4.0	4.0	4.0	4.0	4.0	4.0
Consumer price inflation (end of period)	6.1	2.9	7.2	11.6	5.6	3.8	4.0	4.0	4.0	4.0	4.0
Saving and investment (percent of GDP)											
Gross domestic investment	**17.8**	**19.4**	**23.4**	**21.9**	**23.0**	**25.0**	**26.5**	**27.0**	**27.0**	**27.0**	**27.3**
Private sector	10.8	11.0	13.0	13.1	15.1	15.8	15.5	15.2	14.9	14.6	14.9
Public sector	7.1	8.4	10.3	8.8	7.9	9.2	11.0	11.8	12.1	12.3	12.4
Gross national savings	**23.8**	**23.1**	**19.5**	**19.5**	**30.8**	**31.8**	**32.9**	**31.2**	**29.8**	**28.2**	**27.1**
Private sector	20.2	19.2	12.8	11.8	21.5	22.5	22.9	20.4	19.1	17.3	16.3
Public sector	3.6	3.9	6.7	7.8	9.3	9.3	10.0	10.8	10.7	10.9	10.8
Exchange rate											
Period average (Córdobas per US$)	33.1	34.3	35.2	35.9	36.4	36.6	…	…	…	…	…
End of period (Córdobas per US$)	33.8	34.8	35.5	36.2	36.6	36.6	…	…	…	…	…
Fiscal Sector	(Percent of GDP)										
Consolidated public sector (overall balance after grants)[1/]	**-2.1**	**-3.0**	**-1.8**	**0.3**	**2.8**	**1.8**	**1.1**	**1.2**	**0.8**	**0.7**	**0.6**
Revenue (including grants)	30.5	30.6	32.8	33.1	32.9	33.2	33.2	33.1	33.2	33.2	33.1
Expenditure	32.6	33.6	34.6	32.8	30.1	31.4	32.0	31.9	32.4	32.4	32.5
***of which:* Central Government overall balance[2/]**	**-0.5**	**-2.3**	**-1.3**	**0.7**	**2.6**	**2.1**	**1.3**	**1.5**	**1.2**	**1.1**	**1.0**
Revenue	19.5	19.0	21.1	21.7	21.7	21.6	21.6	21.6	21.6	21.6	21.6
Expenditure	20.0	21.4	22.3	21.0	19.1	19.5	20.3	20.1	20.4	20.6	20.7
Cash payments for operating activities	16.5	17.0	16.5	16.2	14.6	14.5	13.8	13.1	13.2	13.2	13.2
Net cash outflow: investments in NFAs	3.5	4.4	5.8	4.8	4.5	5.0	6.5	7.0	7.2	7.4	7.5
***of which:* Social Security Institute (INSS) overall balance[2/]**	**-0.7**	**-0.3**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**
Revenue	7.0	7.5	7.3	7.2	6.8	6.9	6.8	6.8	6.8	6.7	6.8
Expenditure	7.7	7.9	7.4	7.3	6.9	7.0	6.9	6.9	6.9	6.7	6.7
Money and financial	(Annual percentage change)										
Broad money	6.2	15.6	13.8	11.3	11.9	12.2	11.2	11.1	9.5	7.6	7.6
Credit to the private sector	-15.6	-3.6	5.3	15.6	18.1	18.6	11.3	10.3	10.1	9.6	9.6
Net domestic assets of the banking system	-15.0	-6.3	2.4	1.4	-8.0	5.8	1.3	6.7	12.7	13.5	16.9
Non-performing loans to total loans (ratio)[3/]	3.1	3.7	1.5	1.2	1.7	1.7	…	…	…	…	…
Regulatory capital to risk-weighted assets (ratio)[3/]	19.5	19.5	19.6	19.3	19.1	19.2	…	…	…	…	…
External sector	(Percent of GDP, unless otherwise indicated)										
Current account	5.9	3.7	-3.8	-2.4	7.7	6.7	6.4	4.2	2.8	1.2	-0.1
of which: oil imports	7.5	5.4	7.9	11.3	8.9	8.7	7.7	7.3	7.0	6.7	6.5
of which: remittances	13.2	14.6	15.2	20.6	26.1	27.2	26.1	24.8	23.6	22.5	21.4
Capital and financial account	-0.8	5.9	13.7	11.0	4.1	2.5	3.0	3.9	3.5	3.9	3.5
of which: FDI	3.5	4.9	8.5	8.1	6.7	6.0	5.7	5.5	5.3	5.1	4.9
Gross international reserves (US$ million)[4/]	2,199	3,003	3,828	4,173	5,190	5,907	6,729	7,470	7,953	8,285	8,433
In months of imports excl. maquila	5.2	5.1	5.5	5.8	7.0	7.4	7.7	8.1	8.1	7.9	7.8
Net international reserves (US$ million)[5/]	1,374	1,887	2,531	3,011	4,249	4,979	5,724	6,323	6,651	6,818	6,867
In months of imports excl. maquila	3.2	3.2	3.6	4.2	5.7	6.3	6.6	6.8	6.8	6.5	6.3
Public sector debt[6/]	52.3	58.8	57.4	53.0	49.6	46.9	44.9	43.0	41.8	40.7	39.0
Domestic public debt	11.1	12.6	12.6	10.5	10.3	8.0	6.9	6.1	6.9	8.4	9.0
External public debt	41.2	46.3	44.8	42.5	39.3	38.9	38.0	36.9	34.9	32.3	29.9
Private sector external debt	43.6	44.1	39.7	35.6	31.0	28.6	26.2	24.1	22.2	20.5	18.9

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

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

2/ Include transfers to cover the INSS deficit for 2023-25, 0.5 percent of GDP per year, and payment for historical debt (0.7 percent of GDP in 2023).

3/ 2024 data is as of September 2024.

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

5/ Excludes the FOGADE and reserve requirements for FX deposits.

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

Table 2. Nicaragua: Medium-Term Macroeconomic Framework, 2019–29

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Prel.		Projections					
Growth and prices				(Annual percentage change)							
Real GDP growth	-2.9	-1.8	10.3	3.8	4.6	4.0	4.0	3.8	3.5	3.5	3.5
Output gap[1/]	-1.2	-5.1	0.5	0.3	0.8	0.8	0.8	0.6	0.2	0.0	0.0
Consumer price inflation (end of period)	6.1	2.9	7.2	11.6	5.6	3.8	4.0	4.0	4.0	4.0	4.0
				(Percent of GDP, unless otherwise indicated)							
Consolidated public sector											
Revenue (including grants)	30.5	30.6	32.8	33.1	32.9	33.2	33.2	33.1	33.2	33.2	33.1
Expenditure	32.6	33.6	34.6	32.8	30.1	31.4	32.0	31.9	32.4	32.4	32.5
Primary fiscal balance	-0.5	-1.4	-0.3	1.8	4.6	3.8	3.1	3.2	2.8	2.7	2.6
Cyclically adjusted primary fiscal balance (NFPS)	-0.5	-0.1	-0.3	1.8	3.8	2.8	2.1	2.3	2.1	2.0	1.9
Overall balance, after grants	-2.1	-3.0	-1.8	0.3	2.8	1.8	1.1	1.2	0.8	0.7	0.6
Public sector debt	52.3	58.8	57.4	53.0	49.6	46.9	44.9	43.0	41.8	40.7	39.0
Balance of payments											
Current account	5.9	3.7	-3.8	-2.4	7.7	6.7	6.4	4.2	2.8	1.2	-0.1
Gross international reserves (US$ million)[2/]	2,199	3,003	3,828	4,173	5,190	5,907	6,729	7,470	7,953	8,285	8,433
In months of imports excl. maquila	5.2	5.1	5.5	5.8	7.0	7.4	7.7	8.1	8.1	7.9	7.8
Net international reserves (US$ million)[3/]	1,374	1,887	2,531	3,011	4,249	4,979	5,724	6,323	6,651	6,818	6,867

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

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

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

3/ Excludes the FOGADE and reserve requirements for FX deposits.

Table 3. Nicaragua: Savings Investment Balance, 2019–29
(Percent of GDP, unless otherwise specified)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Prel.		Projections					
Gross national disposable income	**110.2**	**108.5**	**108.4**	**112.5**	**120.4**	**121.2**	**119.8**	**118.4**	**117.1**	**115.8**	**114.7**
Nominal GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Net factor payments from abroad	-3.7	-6.4	-6.3	-7.1	-5.0	-5.3	-5.6	-5.7	-5.8	-6.0	-6.0
Net transfers from abroad	13.8	14.9	14.7	19.6	25.5	26.5	25.5	24.1	23.0	21.8	20.8
Consumption	**86.4**	**85.4**	**88.8**	**93.0**	**89.7**	**89.4**	**86.9**	**87.2**	**87.3**	**87.6**	**87.6**
Public sector[1/]	15.2	15.2	15.4	13.7	8.8	9.0	8.8	8.5	8.5	8.5	8.5
Private sector	71.2	70.2	73.4	79.3	80.9	80.4	78.1	78.7	78.8	79.1	79.1
Gross domestic investment	**17.8**	**19.4**	**23.4**	**21.9**	**23.0**	**25.0**	**26.5**	**27.0**	**27.0**	**27.0**	**27.3**
Public sector[1/]	7.1	8.4	10.3	8.8	7.9	9.2	11.0	11.8	12.1	12.3	12.4
Private sector	10.8	11.0	13.0	13.1	15.1	15.8	15.5	15.2	14.9	14.6	14.9
National saving	**23.8**	**23.1**	**19.5**	**19.5**	**30.8**	**31.8**	**32.9**	**31.2**	**29.8**	**28.2**	**27.1**
Public sector	3.6	3.9	6.7	7.8	9.3	9.3	10.0	10.8	10.7	10.9	10.8
Private sector	20.2	19.2	12.8	11.8	21.5	22.5	22.9	20.4	19.1	17.3	16.3
External saving	**-5.9**	**-3.7**	**3.8**	**2.4**	**-7.7**	**-6.7**	**-6.4**	**-4.2**	**-2.8**	**-1.2**	**0.1**
Public sector	3.5	4.5	3.6	1.1	-1.4	-0.1	1.0	0.9	1.4	1.4	1.6
Private sector	-9.4	-8.2	0.2	1.3	-6.4	-6.7	-7.4	-5.1	-4.2	-2.7	-1.4
Memorandum items											
Exports of goods and services	44.9	42.1	46.8	50.3	46.2	43.1	43.4	43.0	42.1	41.0	39.6
Imports of goods and services	49.2	46.9	59.0	65.2	58.9	57.6	56.8	57.2	56.4	55.6	54.5

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, 2019-29

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Prel.				Projections			
				(Millions of U.S. dollars; unless otherwise indicated)							
Current account	**754**	**470**	**-543**	**-379**	**1,381**	**1,290**	**1,330**	**942**	**673**	**324**	**-37**
Trade account	-1,056	-943	-1,901	-2,791	-2,692	-3,105	-3,154	-3,579	-3,885	-4,262	-4,626
Exports f.o.b.	3,365	3,561	4,295	4,494	4,748	4,613	5,111	5,467	5,708	5,957	6,204
Maquila (net)	650	702	774	585	625	688	722	766	812	844	869
Coffee	535	515	605	829	700	540	608	603	607	638	670
Others	2,181	2,344	2,916	3,080	3,422	3,386	3,780	4,099	4,289	4,476	4,665
Imports f.o.b. (non-maquila)	4,421	4,504	6,196	7,285	7,440	7,718	8,265	9,046	9,592	10,219	10,830
Maquila	976	834	1,279	1,816	1,940	2,134	2,241	2,375	2,518	2,619	2,697
Petroleum products	958	681	1,116	1,768	1,589	1,679	1,590	1,639	1,684	1,736	1,810
Others	3,464	3,824	5,079	5,516	5,851	6,039	6,675	7,406	7,908	8,483	9,020
Services (net)	519	333	175	456	424	330	365	388	428	471	474
Of which: tourism receipts	515	199	184	596	739	665	720	777	836	900	920
Income (net)	-466	-810	-896	-1,119	-894	-1,026	-1,169	-1,280	-1,410	-1,555	-1,688
Of which: payments on direct investments	228	569	728	1,031	892	960	1,059	1,166	1,280	1,405	1,543
Of which: public sector interest payments	326	278	181	212	330	419	492	526	573	627	658
Transfers (net)	1,758	1,890	2,079	3,075	4,543	5,091	5,288	5,412	5,540	5,670	5,803
Of which: Remittances	1,682	1,851	2,147	3,225	4,660	5,219	5,428	5,564	5,703	5,845	5,992
Capital and Financial account, capital(+), financial(-)	**-105**	**747**	**1,940**	**1,728**	**739**	**479**	**626**	**875**	**833**	**1,011**	**989**
Financial account	**213**	**-636**	**-1,854**	**-1,665**	**-680**	**-415**	**-556**	**-800**	**-753**	**-924**	**-896**
Direct investment (net)	-444	-619	-1,206	-1,274	-1,199	-1,143	-1,188	-1,232	-1,275	-1,320	-1,368
Portfolio investment[1/]	342	133	-17	-47	-199	0	0	0	0	0	0
Other investment	315	-149	-631	-343	719	728	631	432	522	396	472
Capital account	**108**	**111**	**86**	**63**	**60**	**64**	**69**	**75**	**81**	**87**	**93**
Errors and omissions	-516	-581	-564	-974	-1,106	-996	-1,075	-1,064	-1,011	-991	-793
Overall balance	**133**	**636**	**833**	**375**	**1,014**	**774**	**881**	**753**	**495**	**344**	**160**
Financing	**-133**	**-636**	**-833**	**-375**	**-1,014**	**-774**	**-881**	**-753**	**-495**	**-344**	**-160**
Change in GIR (increase, -)	**-120**	**-810**	**-830**	**-373**	**-984**	**-716**	**-822**	**-741**	**-483**	**-332**	**-148**
Change in NIR (increase, -)[2/]	-229	-512	-644	-480	-1,238	-730	-745	-599	-328	-167	-50
Change in FX reserve requirement, CB bills and CABEI (increase, -)	110	-292	-180	135	221	14	-78	-142	-155	-165	-98
Exceptional financing and IMF loans/credit	**-13**	**174**	**-2**	**-1**	**-30**	**-58**	**-58**	**-12**	**-12**	**-12**	**-12**
IMF lending	0	181	0	0	0	0	0	0	0	0	0
IMF repayments	-13	-7	-2	-1	-30	-58	-58	-12	-12	-12	-12
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**
				(Percent of GDP; unless otherwise indicated)							
Current account	**5.9**	**3.7**	**-3.8**	**-2.4**	**7.7**	**6.7**	**6.4**	**4.2**	**2.8**	**1.2**	**-0.1**
Trade account	-8.3	-7.4	-13.4	-17.8	-15.1	-16.2	-15.2	-16.0	-16.1	-16.4	-16.5
Exports f.o.b.	26.5	28.1	30.4	28.7	26.6	24.0	24.6	24.4	23.6	22.9	22.2
Maquila	5.1	5.5	5.5	3.7	3.5	3.6	3.5	3.4	3.4	3.2	3.1
Coffee	4.2	4.1	4.3	5.3	3.9	2.8	2.9	2.7	2.5	2.5	2.4
Others	17.2	18.5	20.6	19.7	19.2	17.6	18.2	18.3	17.8	17.2	16.7
Imports f.o.b. (non-maquila)	34.8	35.5	43.8	46.5	41.7	40.2	39.8	40.3	39.7	39.3	38.7
Services (net)	4.1	2.6	1.2	2.9	2.4	1.7	1.8	1.7	1.8	1.8	1.7
Of which: tourism receipts	4.1	1.6	1.3	3.8	4.1	3.5	3.5	3.5	3.5	3.5	3.3
Income (net)	-3.7	-6.4	-6.3	-7.1	-5.0	-5.3	-5.6	-5.7	-5.8	-6.0	-6.0
Transfers (net)	13.8	14.9	14.7	19.6	25.5	26.5	25.5	24.1	23.0	21.8	20.8
Of which: Remittances	13.2	14.6	15.2	20.6	26.1	27.2	26.1	24.8	23.6	22.5	21.4
Others	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Capital and financial account	**-0.8**	**5.9**	**13.7**	**11.0**	**4.1**	**2.5**	**3.0**	**3.9**	**3.5**	**3.9**	**3.5**
Financial account	**1.7**	**-5.0**	**-13.1**	**-10.6**	**-3.8**	**-2.2**	**-2.7**	**-3.6**	**-3.1**	**-3.6**	**-3.2**
Direct investment (net)	-3.5	-4.9	-8.5	-8.1	-6.7	-6.0	-5.7	-5.5	-5.3	-5.1	-4.9
Portfolio investment[1/]	2.7	1.0	-0.1	-0.3	-1.1	0.0	0.0	0.0	0.0	0.0	0.0
Other investment	2.5	-1.2	-4.5	-2.2	4.0	3.8	3.0	1.9	2.2	1.5	1.7
Capital account	**0.8**	**0.9**	**0.6**	**0.4**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**
Errors and omissions	-4.1	-4.6	-4.0	-6.2	-6.2	-5.2	-5.2	-4.7	-4.2	-3.8	-2.8
Overall balance	**1.0**	**5.0**	**5.9**	**2.4**	**5.7**	**4.0**	**4.2**	**3.4**	**2.0**	**1.3**	**0.6**
Financing	**-1.0**	**-5.0**	**-5.9**	**-2.4**	**-5.7**	**-4.0**	**-4.2**	**-3.4**	**-2.0**	**-1.3**	**-0.6**
Change in GIR (increase, -)	**-0.9**	**-6.4**	**-5.9**	**-2.4**	**-5.5**	**-3.7**	**-4.0**	**-3.3**	**-2.0**	**-1.3**	**-0.5**
Change in NIR (increase, -)	-1.8	-4.0	-4.6	-3.1	-6.9	-3.8	-3.6	-2.7	-1.4	-0.6	-0.2
Change in FX reserve requirement, CB bills and CABEI (increase, -)	0.9	-2.3	-1.3	0.9	1.2	0.1	-0.4	-0.6	-0.6	-0.6	-0.4
Exceptional financing and IMF loans/credit	**-0.1**	**1.4**	**0.0**	**0.0**	**-0.2**	**-0.3**	**-0.3**	**-0.1**	**0.0**	**0.0**	**0.0**
Memorandum items:											
Gross international reserves (US$ million)[3/]	2,199	3,003	3,828	4,173	5,190	5,907	6,729	7,470	7,953	8,285	8,433
In months of imports excl. maquila	5.2	5.1	5.5	5.8	7.0	7.4	7.7	8.1	8.1	7.9	7.8
As a ratio of monetary base	2.1	2.4	2.6	2.6	3.0	2.9	2.8	3.0	3.4	4.3	5.9
Net reserves (US$ millions)[4/]	1,374	1,887	2,531	3,011	4,249	4,979	5,724	6,323	6,651	6,818	6,867
In months of imports excl. maquila	3.2	3.2	3.6	4.2	5.7	6.3	6.6	6.8	6.8	6.5	6.3
As a ratio of monetary base	1.3	1.5	1.7	1.9	2.4	2.5	2.4	2.6	2.8	3.5	4.8
Total public external debt (in percent of GDP)	41.2	46.3	44.8	42.5	39.3	38.9	38.0	36.9	34.9	32.3	29.9
Nominal GDP (millions of U.S. dollars)	12,713	12,682	14,145	15,671	17,843	19,204	20,771	22,422	24,135	25,979	27,964

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 the FOGADE and reserve requirements for FX deposits.

Table 5a. Nicaragua: Operations of the Budgetary Central Government, 2019–29

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

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Prel.				Projections			
Cash receipts from operating activities	**81,866**	**82,820**	**104,841**	**121,822**	**141,039**	**151,764**	**164,533**	**177,288**	**190,766**	**205,660**	**221,373**
Taxes	73,278	74,347	94,056	111,431	129,437	139,524	151,281	163,643	175,801	191,086	205,685
Income and property[1/]	33,036	32,470	40,753	50,714	58,692	63,481	68,661	74,216	79,886	87,463	94,145
Indirect[2/]	37,612	39,036	49,410	56,125	65,265	70,703	76,541	82,382	88,764	95,545	102,845
Trade	2,125	2,340	3,309	3,951	4,767	4,568	5,245	6,146	6,182	7,035	7,573
Other taxes	506	501	583	642	713	771	834	900	969	1,043	1,123
Grants	2,594	2,013	2,285	1,202	1,072	831	1,050	618	624	837	901
Other revenue	5,994	6,460	8,499	9,188	10,530	11,410	12,202	13,027	14,341	13,737	14,787
Cash payments for operating activities	**69,373**	**73,815**	**82,319**	**90,824**	**95,181**	**101,645**	**104,884**	**107,753**	**116,935**	**125,216**	**134,847**
Compensation of employees[3/]	30,301	32,547	31,869	33,305	33,757	36,406	38,574	40,784	43,853	47,204	50,810
of which: excluding transfers to INSS	27,614	28,042	29,392	31,426	30,407	32,976	34,774	36,368	43,853	47,204	50,810
Use of goods and services	11,306	11,321	13,651	14,463	16,686	18,006	18,846	19,878	21,397	23,031	24,791
Interest[4/]	5,410	5,477	6,182	7,224	9,729	11,208	12,171	12,931	14,489	15,410	16,587
Subsidies	5,676	5,745	4,858	9,934	6,601	6,528	7,060	7,368	7,931	8,537	9,189
Grants	14,910	16,608	18,664	23,124	25,874	27,072	25,921	24,289	26,624	28,242	30,363
Social benefits	1,536	1,889	6,847	2,574	2,319	2,200	2,118	2,319	2,456	2,593	2,892
Other expense	234	229	249	200	215	225	193	184	184	198	214
Net cash inflow from operating activities	**12,493**	**9,004**	**22,522**	**30,998**	**45,857**	**50,119**	**59,649**	**69,535**	**73,831**	**80,444**	**86,526**
Net cash flows from investment in non-financial assets (NFAs):	**14,561**	**19,177**	**28,829**	**27,154**	**29,081**	**35,168**	**49,631**	**57,190**	**63,591**	**70,351**	**76,749**
Purchases of nonfinancial assets	14,561	19,177	28,833	27,156	29,081	35,168	49,631	57,190	63,591	70,351	76,749
Sales of nonfinancial assets	0	0	5	2	0	0	0	0	0	0	0
Cash surplus / deficit	**-2,068**	**-10,173**	**-6,307**	**3,844**	**16,776**	**14,951**	**10,018**	**12,345**	**10,241**	**10,093**	**9,777**
Cash flows from financing activities: (1=-2+3+4)	**2,068**	**10,173**	**6,307**	**-3,844**	**-16,776**	**-14,951**	**-10,018**	**-12,345**	**-10,241**	**-10,093**	**-9,777**
Net acquisition of financial assets other than cash (2)	-174	389	1,194	576	608	258	255	234	0	0	0
Domestic	-174	389	1,194	576	608	258	255	234	0	0	0
Foreign	0	0	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities (3)	1,589	1,344	3,676	-17,422	-29,252	-42,693	-37,763	-40,111	-38,241	-38,093	-37,777
Domestic	-5,811	-16,154	-14,800	-26,979	-37,463	-47,959	-48,561	-58,686	-59,224	-57,137	-55,397
Foreign	7,400	17,498	18,476	9,558	8,211	5,265	10,798	18,574	20,984	19,044	17,619
Net cash inflow from financing activities (4=3-2)	1,763	955	2,483	-17,997	-29,860	-42,951	-38,018	-40,345	-38,241	-38,093	-37,777
Use of government deposits (4)	305	9,218	3,824	14,153	13,084	28,000	28,000	28,000	28,000	28,000	28,000

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. In 2022, central government paid historical debt in full. Projections 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, 2019–29

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

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Prel.				Projections			
Cash receipts from operating activities	**19.5**	**19.0**	**21.1**	**21.7**	**21.7**	**21.6**	**21.6**	**21.6**	**21.6**	**21.6**	**21.6**
Taxes	17.3	17.1	18.9	19.8	19.9	19.9	19.9	19.9	19.9	20.1	20.1
Income and property[1/]	7.9	7.5	8.2	9.0	9.0	9.0	9.0	9.0	9.0	9.2	9.2
Indirect[2/]	8.9	9.0	9.9	10.0	10.0	10.1	10.1	10.0	10.1	10.1	10.1
Trade	0.5	0.5	0.7	0.7	0.7	0.7	0.7	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	0.6	0.5	0.5	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Other revenue	1.4	1.5	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.4	1.4
Cash payments for operating activities	**16.5**	**17.0**	**16.5**	**16.2**	**14.6**	**14.5**	**13.8**	**13.1**	**13.2**	**13.2**	**13.2**
Compensation of employees[3/]	7.2	7.5	6.4	5.9	5.2	5.2	5.1	5.0	5.0	5.0	5.0
of which: excluding transfers to INSS	6.6	6.4	5.9	5.6	4.7	4.7	4.6	4.5	5.0	5.0	5.0
Use of goods and services	2.7	2.6	2.7	2.6	2.6	2.6	2.5	2.4	2.4	2.4	2.4
Interest[4/]	1.3	1.3	1.2	1.3	1.5	1.6	1.6	1.6	1.6	1.6	1.6
Subsidies	1.3	1.3	1.0	1.8	1.0	0.9	0.9	0.9	0.9	0.9	0.9
Grants	3.5	3.8	3.8	4.1	4.0	3.9	3.4	3.0	3.0	3.0	3.0
Social benefits	0.4	0.4	1.4	0.5	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Other expense	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash inflow from operating activities	**3.0**	**2.1**	**4.5**	**5.5**	**7.1**	**7.1**	**7.8**	**8.5**	**8.4**	**8.5**	**8.5**
Net cash flows from investment in non-financial assets (NFAs):	**3.5**	**4.4**	**5.8**	**4.8**	**4.5**	**5.0**	**6.5**	**7.0**	**7.2**	**7.4**	**7.5**
Purchases of nonfinancial assets	3.5	4.4	5.8	4.8	4.5	5.0	6.5	7.0	7.2	7.4	7.5
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	**-0.5**	**-2.3**	**-1.3**	**0.7**	**2.6**	**2.1**	**1.3**	**1.5**	**1.2**	**1.1**	**1.0**
Cash flows from financing activities: (1=-2+3+4)	**0.5**	**2.3**	**1.3**	**-0.7**	**-2.6**	**-2.1**	**-1.3**	**-1.5**	**-1.2**	**-1.1**	**-1.0**
Net acquisition of financial assets other than cash (2)	0.0	0.1	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	0.0	0.1	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities (3)	0.4	0.3	0.7	-3.1	-4.5	-6.1	-5.0	-4.9	-4.3	-4.0	-3.7
Domestic	-1.4	-3.7	-3.0	-4.8	-5.8	-6.8	-6.4	-7.2	-6.7	-6.0	-5.4
Foreign	1.8	4.0	3.7	1.7	1.3	0.7	1.4	2.3	2.4	2.0	1.7
Net cash inflow from financing activities (4=3-2)	0.4	0.2	0.5	-3.2	-4.6	-6.1	-5.0	-4.9	-4.3	-4.0	-3.7
Use of government deposits (4)	0.1	2.1	0.8	2.5	2.0	4.0	3.7	3.4	3.2	2.9	2.7

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.In 2022, central government paid historical debt in full. Projections 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, 2019–29

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

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Prel.				Projections			
Budgetary Central Gov. cash surplus/deficit	**-2,068**	**-10,173**	**-6,311**	**3,842**	**16,776**	**14,951**	**10,018**	**12,345**	**10,241**	**10,093**	**9,777**
Revenue	81,866	82,820	104,841	121,822	141,039	151,764	164,533	177,288	190,766	205,660	221,373
of which: grants	2,594	2,013	2,285	1,202	1,072	831	1,050	618	624	837	901
Expenditure	83,935	92,993	111,152	117,979	124,262	136,813	154,515	164,944	180,526	195,567	211,595
Of which: Excluding Transfers to INSS for Hist. debt	81,248	88,488	108,676	116,101	120,912	133,383	150,714	160,841	176,110	190,814	206,479
Social Security Institute (INSS) cash surplus/deficit	**-2,910**	**-1,504**	**-538**	**-510**	**-566**	**-720**	**-508**	**-200**	**-317**	**155**	**145**
Revenue	29,326	32,782	36,224	40,662	44,439	48,284	52,060	56,200	60,414	63,998	69,139
Of which: Excluding Central Government Transfers	26,639	28,277	33,747	38,783	41,089	44,854	48,259	52,097	55,998	59,244	64,022
Of which: Transfers to INSS for Hist. debt	2,687	4,505	2,476	1,879	3,350	3,430	3,800	4,103	4,416	4,753	5,117
Expenditure	32,237	34,286	36,762	41,172	45,004	49,004	52,567	56,400	60,730	63,843	68,994
Managua municipality (ALMA) cash surplus/deficit	**260**	**444**	**564**	**296**	**-1,753**	**-1,357**	**-1,847**	**-1,674**	**-1,650**	**-1,706**	**-2,346**
Revenue	3,667	4,686	5,490	5,650	7,127	9,480	9,831	10,874	11,742	12,633	13,086
of which: grants	1	3	0	0	0	0	0	0	0	0	0
Expenditure	3,407	4,242	4,926	5,354	8,879	10,838	11,678	12,548	13,392	14,339	15,432
Public enterprises cash surplus/deficit[1/]	**-4,460**	**-1,119**	**-1,388**	**-531**	**1,808**	**-3,104**	**-3,297**	**-4,211**	**-4,984**	**-5,280**	**-5,393**
Revenue	16,966	20,618	21,748	24,325	28,051	32,260	34,893	37,667	40,545	43,643	46,977
of which: Grants (external)	18	282	6	5	318	422	456	492	530	570	614
Expenditure	21,426	21,737	23,136	24,855	26,242	35,364	38,190	41,878	45,529	48,923	52,370
Non-financial public sector											
Cash receipts from operating activities	125,946	132,554	162,885	185,807	208,637	227,377	244,898	264,652	285,964	307,497	330,729
Taxes	76,140	77,907	98,073	116,137	134,725	146,551	157,742	170,577	183,309	199,167	213,872
Social contributions	26,360	26,207	31,124	36,280	37,131	41,570	45,200	48,897	52,584	55,998	60,573
Grants	2,614	4,141	4,650	1,207	1,390	1,253	1,506	1,676	2,968	3,363	3,620
Other revenue	20,832	24,299	29,037	32,183	35,391	38,004	40,451	43,502	47,104	48,968	52,665
Cash payments for operating activities	110,800	115,440	129,533	142,194	148,288	162,035	168,825	175,722	191,203	203,862	219,977
Compensation of employees	33,837	34,462	36,310	38,904	38,061	41,116	43,490	45,762	49,096	52,727	56,755
Use of goods and services	19,649	20,481	22,498	24,616	30,546	35,170	36,991	38,568	41,442	44,563	47,967
Interest	5,641	6,046	6,674	7,562	9,907	11,675	12,965	13,835	15,402	16,256	17,687
Subsidies	3,942	3,344	3,439	8,860	4,639	2,175	2,367	2,322	2,527	2,751	2,961
Grants	14,335	15,713	17,884	20,390	20,884	22,352	20,054	18,299	21,394	23,027	24,785
Social benefits	29,863	32,352	39,368	37,406	40,676	44,810	47,901	51,519	55,542	58,356	63,167
Other expense	3,533	3,042	3,360	4,457	3,575	4,739	5,056	5,416	5,800	6,182	6,655
Net cash inflow from operating activities	15,146	17,113	33,352	43,613	60,349	65,342	76,074	88,930	94,762	103,635	110,752
Net cash outflow from investments in NFAs	24,324	29,465	41,021	40,514	44,082	55,572	71,707	82,671	91,471	100,374	108,568
Cash surplus / deficit	**-9,178**	**-12,352**	**-7,670**	**3,099**	**16,266**	**9,770**	**4,367**	**6,260**	**3,290**	**3,261**	**2,184**
Central bank (BCN) cash surplus / deficit	**516**	**-687**	**-1,294**	**-1,386**	**1,778**	**2,884**	**4,195**	**3,664**	**3,904**	**3,788**	**3,460**
Consolidated Public Sector cash surplus / deficit	**-8,662**	**-13,039**	**-8,963**	**1,713**	**18,044**	**12,654**	**8,562**	**9,924**	**7,195**	**7,049**	**5,644**
Cash flows from financing activities: (1=-2+3+4+5)	**8,662**	**13,039**	**8,963**	**-1,713**	**-18,044**	**-12,654**	**-8,562**	**-9,924**	**-7,195**	**-7,049**	**-5,644**
Net acquisition of financial assets											
other than cash (2)	-774	-291	1,194	576	608	258	255	234	0	0	0
Net incurrence of liabilities (3)	8,171	3,856	4,697	-16,503	-28,733	-37,512	-32,112	-34,026	-31,290	-31,261	-30,184
Domestic	-4,137	-19,439	-18,794	-33,784	-43,894	-47,947	-49,812	-60,811	-60,343	-58,626	-54,509
Foreign	12,308	23,295	23,491	17,281	15,161	10,436	17,700	26,784	29,053	27,365	24,325
Use of deposits (4)	233	8,205	4,166	13,980	13,075	28,000	28,000	28,000	28,000	28,000	28,000
Central bank (BCN) cash surplus/deficit (5)	-516	687	1,294	1,386	-1,778	-2,884	-4,195	-3,664	-3,904	-3,788	-3,460
Memorandum items											
GDP (nominal)	420,614	435,395	497,524	562,208	649,718	702,735	760,078	820,519	883,207	950,684	1,023,316
Stock of government deposits	27,981	38,345	43,959	61,861	81,630	…	…	…	…	…	…

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, 2019–29
(Percent of GDP, unless otherwise specified; GFSM 2001)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Prel.				Projections			
Budgetary central government cash surplus/deficit	**-0.5**	**-2.3**	**-1.3**	**0.7**	**2.6**	**2.1**	**1.3**	**1.5**	**1.2**	**1.1**	**1.0**
Revenue	19.5	19.0	21.1	21.7	21.7	21.6	21.6	21.6	21.6	21.6	21.6
of which: grants	0.6	0.5	0.5	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Expenditure	20.0	21.4	22.3	21.0	19.1	19.5	20.3	20.1	20.4	20.6	20.7
Excluding Transfers to INSS	19.3	20.3	21.8	20.7	18.6	19.0	19.8	19.6	19.9	20.1	20.2
Social Security Institute (INSS) cash surplus/deficit	**-0.7**	**-0.3**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**
Revenue	7.0	7.5	7.3	7.2	6.8	6.9	6.8	6.8	6.8	6.7	6.8
Of which: Excluding Central Government Transfers	6.3	6.5	6.8	6.9	6.3	6.4	6.3	6.3	6.3	6.2	6.3
Of which: Transfers to INSS	0.6	1.0	0.5	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Expenditure	7.7	7.9	7.4	7.3	6.9	7.0	6.9	6.9	6.9	6.7	6.7
Managua municipality (ALMA) cash surplus/deficit	**0.1**	**0.1**	**0.1**	**0.1**	**-0.3**	**-0.2**	**-0.2**	**-0.2**	**-0.2**	**-0.2**	**-0.2**
Revenue	0.9	1.1	1.1	1.0	1.1	1.3	1.3	1.3	1.3	1.3	1.3
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	0.8	1.0	1.0	1.0	1.4	1.5	1.5	1.5	1.5	1.5	1.5
Public enterprises cash surplus/deficit[1/]	**-1.1**	**-0.3**	**-0.3**	**-0.1**	**0.3**	**-0.4**	**-0.4**	**-0.5**	**-0.6**	**-0.6**	**-0.5**
Revenue	4.0	4.7	4.4	4.3	4.3	4.6	4.6	4.6	4.6	4.6	4.6
of which: Grants (external)	0.0	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Expenditure	5.1	5.0	4.7	4.4	4.0	5.0	5.0	5.1	5.2	5.1	5.1
Non-financial public sector											
Cash receipts from operating activities	29.9	30.4	32.7	33.0	32.1	32.4	32.2	32.3	32.4	32.3	32.3
Taxes	18.1	17.9	19.7	20.7	20.7	20.9	20.8	20.8	20.8	20.9	20.9
Social contributions	6.3	6.0	6.3	6.5	5.7	5.9	5.9	6.0	6.0	5.9	5.9
Grants	0.6	1.0	0.9	0.2	0.2	0.2	0.2	0.2	0.3	0.4	0.4
Other revenue	5.0	5.6	5.8	5.7	5.4	5.4	5.3	5.3	5.3	5.2	5.1
Cash payments for operating activities	26.3	26.5	26.0	25.3	22.8	23.1	22.2	21.4	21.6	21.4	21.5
Compensation of employees	8.0	7.9	7.3	6.9	5.9	5.9	5.7	5.6	5.6	5.5	5.5
Use of goods and services	4.7	4.7	4.5	4.4	4.7	5.0	4.9	4.7	4.7	4.7	4.7
Interest	1.3	1.4	1.3	1.3	1.5	1.7	1.7	1.7	1.7	1.7	1.7
Subsidies	0.9	0.8	0.7	1.6	0.7	0.3	0.3	0.3	0.3	0.3	0.3
Grants	3.4	3.6	3.6	3.6	3.2	3.2	2.6	2.2	2.4	2.4	2.4
Social benefits	7.1	7.4	7.9	6.7	6.3	6.4	6.3	6.3	6.3	6.1	6.2
Other expense	0.8	0.7	0.7	0.8	0.6	0.7	0.7	0.7	0.7	0.7	0.7
Net cash inflow from operating activities	3.6	3.9	6.7	7.8	9.3	9.3	10.0	10.8	10.7	10.9	10.8
Net cash outflow from investments in NFAs	5.8	6.8	8.2	7.2	6.8	7.9	9.4	10.1	10.4	10.6	10.6
Cash surplus / deficit	**-2.2**	**-2.8**	**-1.5**	**0.6**	**2.5**	**1.4**	**0.6**	**0.8**	**0.4**	**0.3**	**0.2**
Central bank (BCN) cash surplus / deficit	**0.1**	**-0.2**	**-0.3**	**-0.2**	**0.3**	**0.4**	**0.6**	**0.4**	**0.4**	**0.4**	**0.3**
Consolidated Public Sector cash surplus / deficit	**-2.1**	**-3.0**	**-1.8**	**0.3**	**2.8**	**1.8**	**1.1**	**1.2**	**0.8**	**0.7**	**0.6**
Cash flows from financing activities: (1=-2+3+4+5)	**2.1**	**3.0**	**1.8**	**-0.3**	**-2.8**	**-1.8**	**-1.1**	**-1.2**	**-0.8**	**-0.7**	**-0.6**
Net acquisition of financial assets											
other than cash (2)	-0.2	-0.1	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities (3)	1.9	0.9	0.9	-2.9	-4.4	-5.3	-4.2	-4.1	-3.5	-3.3	-2.9
Domestic	-1.0	-4.5	-3.8	-6.0	-6.8	-6.8	-6.6	-7.4	-6.8	-6.2	-5.3
Foreign	2.9	5.4	4.7	3.1	2.3	1.5	2.3	3.3	3.3	2.9	2.4
Use of deposits (4)	0.1	1.9	0.8	2.5	2.0	4.0	3.7	3.4	3.2	2.9	2.7
Central bank (BCN) cash surplus/deficit (5)	-0.1	0.2	0.3	0.2	-0.3	-0.4	-0.6	-0.4	-0.4	-0.4	-0.3
Memorandum items											
GDP (nominal)	420,614	435,395	497,524	562,208	649,718	702,735	760,078	820,519	883,207	950,684	1,023,316
Stock of government deposits	6.7	8.8	8.8	11.0	12.6	…	…	…	…	…	…

Sources: National authorities and IMF staff calculations.

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

Table 7. Nicaragua: Gross Fiscal Financing Requirements, 2019–29[1/]

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Prel.			Projections				
					(Millions of U.S. dollars)						
NFPS primary deficit (before grants) (a)	**186**	**304**	**160**	**-264**	**-681**	**-552**	**-432**	**-503**	**-430**	**-441**	**-444**
CG and public enterprises	98	260	145	-278	-696	-571	-446	-509	-438	-437	-440
INSS	88	44	15	14	16	20	14	5	9	-4	-4
Debt service obligations (b)	**516**	**565**	**653**	**680**	**861**	**1,096**	**1,169**	**1,236**	**1,313**	**1,344**	**1,401**
External	235	264	289	343	476	648	724	733	793	808	863
Interest	103	107	108	131	199	259	291	336	386	416	447
Amortization	132	157	181	211	277	389	433	396	407	392	416
Domestic	282	301	364	337	385	448	445	503	520	536	538
Interest	78	69	73	79	143	148	192	210	225	243	247
Amortization of bonds	192	218	275	243	228	286	240	279	281	279	277
Other internal amortizations[2/]	11	14	16	15	14	14	14	14	14	14	14
Gross financing needs (a+b)	**702**	**869**	**813**	**416**	**181**	**544**	**737**	**733**	**884**	**902**	**957**
Financing sources	**702**	**869**	**813**	**416**	**181**	**544**	**737**	**733**	**884**	**902**	**957**
External	583	903	914	726	732	709	958	1,159	1,086	1,178	1,122
Disbursements	504	836	849	693	693	674	917	1,128	1,055	1,140	1,081
Grants	79	67	65	34	38	34	41	30	32	38	41
Domestic	119	-34	-101	-310	-551	-164	-221	-426	-203	-276	-165
Bond issuance (gross)	154	213	239	153	77	100	100	100	100	100	100
Deposits Central Bank	47	226	108	418	396	765	765	765	765	765	765
Of which CG deficit financing[3/]	-124	54	-65	244	221	…	…	…	…	…	…
Of which INSS hist. debt amortization[4/]	171	172	173	174	175	…	…	…	…	…	…
Commercial banks	-40	13	10	-29	-37	0	0	0	0	0	0
Other[5/]	-42	-485	-459	-853	-987	-1,030	-1,087	-1,291	-1,068	-1,141	-1,030
					(Percent of GDP)						
NFPS primary deficit (before grants) (a)	**1.5**	**2.4**	**1.1**	**-1.7**	**-3.8**	**-2.9**	**-2.1**	**-2.2**	**-1.8**	**-1.7**	**-1.6**
CG and public enterprises	0.8	2.1	1.0	-1.8	-3.9	-3.0	-2.1	-2.3	-1.8	-1.7	-1.6
INSS	0.7	0.3	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Debt service obligations (b)	**4.1**	**4.5**	**4.6**	**4.3**	**4.8**	**5.7**	**5.6**	**5.5**	**5.4**	**5.2**	**5.0**
External	1.8	2.1	2.0	2.2	2.7	3.4	3.5	3.3	3.3	3.1	3.1
Interest	0.8	0.8	0.8	0.8	1.1	1.3	1.4	1.5	1.6	1.6	1.6
Amortization	1.0	1.2	1.3	1.3	1.6	2.0	2.1	1.8	1.7	1.5	1.5
Domestic	2.2	2.4	2.6	2.2	2.2	2.3	2.1	2.2	2.2	2.1	1.9
Interest	0.6	0.5	0.5	0.5	0.8	0.8	0.9	0.9	0.9	0.9	0.9
Amortization of bonds	1.5	1.7	1.9	1.6	1.3	1.5	1.2	1.2	1.2	1.1	1.0
Other internal amortizations[2/]	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Gross financing needs (a+b)	**5.5**	**6.9**	**5.7**	**2.7**	**1.0**	**2.8**	**3.5**	**3.3**	**3.7**	**3.5**	**3.4**
Financing sources	**5.5**	**6.9**	**5.7**	**2.7**	**1.0**	**2.8**	**3.5**	**3.3**	**3.7**	**3.5**	**3.4**
External	4.6	7.1	6.5	4.6	4.1	3.7	4.6	5.2	4.5	4.5	4.0
Disbursements	4.0	6.6	6.0	4.4	3.9	3.5	4.4	5.0	4.4	4.4	3.9
Grants	0.6	0.5	0.5	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Domestic	0.9	-0.3	-0.7	-2.0	-3.1	-0.9	-1.1	-1.9	-0.8	-1.1	-0.6
Bond issuance (gross)	1.2	1.7	1.7	1.0	0.4	0.5	0.5	0.4	0.4	0.4	0.4
Deposits Central Bank	0.4	1.8	0.8	2.7	2.2	4.0	3.7	3.4	3.2	2.9	2.7
Of which CG deficit financing[3/]	-1.0	0.4	-0.5	1.6	1.2	…	…	…	…	…	…
Of which INSS hist. debt amortization[4/]	1.3	1.4	1.2	1.1	1.0	…	…	…	…	…	…
Commercial banks	-0.3	0.1	0.1	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Other and unidentified[5/]	-0.3	-3.8	-3.2	-5.4	-5.5	-5.4	-5.2	-5.8	-4.4	-4.4	-3.7

Sources: National authorities and IMF staff calculations.

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

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

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

[4/] Includes US$150 million (1.2 % of GDP) of central govenrment transfers to the INSS, a part of a repayment of a historical debt. In 2022, central government paid historical debt in full. Projections assume that central government will continue to transfer resources to the INSS in order to close the pension system deficits (specific amounts

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

Table 8a. Nicaragua: Summary Accounts of Central Bank and Financial System, 2019–29

(Billions of córdobas, unless otherwise specified)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Prel.				Projections			
I. Central Bank											
Net foreign assets[1/]	**27.9**	**52.6**	**73.1**	**90.9**	**132.0**	**156.0**	**185.6**	**212.2**	**229.4**	**239.8**	**244.7**
Net international reserves[2/]	46.5	65.7	89.9	109.1	155.5	182.2	209.5	231.4	243.4	249.5	251.3
Net international reserves (billions of US$)[2/]	1.4	1.9	2.5	3.0	4.2	5.0	5.7	6.3	6.7	6.8	6.9
Net domestic assets	**-1.8**	**-19.7**	**-32.4**	**-47.0**	**-82.2**	**-94.8**	**-111.4**	**-136.7**	**-161.0**	**-188.4**	**-215.3**
Net claims on nonfinancial public sector	39.6	31.2	26.7	10.9	-5.4	-20.2	-25.3	-34.2	-44.3	-55.6	-68.2
Net credit to banks	-31.4	-48.3	-58.6	-58.1	-76.1	-71.2	-81.5	-98.4	-112.6	-129.0	-143.6
of which: reserves	-24.5	-30.8	-35.8	-35.3	-43.3	-41.2	-44.7	-51.2	-58.3	-66.8	-76.7
Capital accounts	4.4	6.0	7.2	8.1	6.3	5.0	3.9	4.6	4.5	4.8	5.4
Other items (net)	-14.2	-8.5	-7.7	-8.0	-7.1	-8.5	-8.6	-8.7	-8.7	-8.8	-8.9
Currency issue	**26.7**	**33.5**	**40.5**	**43.7**	**49.8**	**61.2**	**74.1**	**75.5**	**68.3**	**51.3**	**29.4**
II. Other Depository Corporations[4/]											
Net foreign assets	**5.6**	**11.8**	**12.7**	**15.8**	**9.9**	**9.9**	**9.9**	**9.9**	**9.9**	**9.9**	**9.9**
Net foreign assets (billions of US$)	0.2	0.3	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Net domestic assets	**123.5**	**134.2**	**150.5**	**167.9**	**194.6**	**213.8**	**232.6**	**266.2**	**306.4**	**352.8**	**406.4**
Net claims on Central Bank[3/]	37.6	52.8	62.7	64.8	80.9	78.6	89.6	107.2	122.1	139.3	154.8
Net credit to other financial corporations	-2.0	-1.9	-1.6	-0.7	0.2	-3.8	-4.0	-4.1	-4.3	-4.5	-4.6
Net credit to non-financial public sector	-0.6	2.1	3.0	0.8	-10.7	-13.6	-25.2	-29.2	-25.9	-20.8	-10.2
Credit to private sector	125.1	120.4	126.7	146.4	172.8	204.9	228.1	251.7	277.1	303.8	332.8
Capital accounts	-36.4	-37.9	-41.0	-43.8	-49.3	-53.4	-57.7	-62.3	-67.1	-72.2	-77.7
Other items (net)	-0.1	-1.3	0.7	0.4	0.7	1.1	1.8	2.8	4.5	7.2	11.4
Liabilities	**129.1**	**146.0**	**163.3**	**183.7**	**204.5**	**223.8**	**242.6**	**277.9**	**316.4**	**362.8**	**416.3**
Deposits in domestic currency	16.2	18.7	23.7	26.5	31.1	34.0	36.9	42.2	48.1	55.1	63.3
Deposits in foreign currency	112.9	127.3	139.6	157.2	173.4	189.7	205.7	235.6	268.3	307.6	353.0
III. Depository Corporations											
Net foreign assets	**33.5**	**64.4**	**85.8**	**106.7**	**142.0**	**166.0**	**195.5**	**222.1**	**239.3**	**249.7**	**254.6**
Net foreign assets (billions of US$)	1.0	1.8	2.4	2.9	3.9	4.5	5.3	6.1	6.5	6.8	7.0
Net domestic assets	**116.9**	**109.5**	**112.1**	**113.7**	**104.7**	**110.7**	**112.2**	**119.7**	**134.9**	**153.1**	**179.0**
Net credit to non-financial public sector	39.0	33.4	29.7	11.7	-16.1	-33.8	-50.5	-63.4	-70.2	-76.3	-78.4
Credit to private sector	124.8	120.3	126.7	146.4	172.9	204.9	228.2	251.8	277.1	303.9	332.9
Net credit to other financial corporations	-2.0	-1.9	-1.6	-0.7	0.2	-3.8	-4.0	-4.1	-4.3	-4.5	-4.6
Capital accounts	-32.0	-32.0	-33.8	-35.7	-43.0	-48.3	-53.8	-57.7	-62.6	-67.4	-72.3
Other items (net)	-13.5	-10.9	-8.7	-7.8	-9.3	-8.3	-7.7	-6.7	-5.2	-2.6	1.5
Broad money	**150.4**	**173.9**	**198.0**	**220.4**	**246.6**	**276.7**	**307.7**	**341.9**	**374.2**	**402.8**	**433.6**
Memorandum items	(Percent change, y-o-y, unless otherwise specified)										
Gross reserves (billions of US$)[5/]	2.2	3.0	3.8	4.2	5.3	5.9	6.7	7.5	8.0	8.3	8.4
Adjusted NIR (billions of US$)[2/]	1.4	1.9	2.5	3.0	4.2	5.0	5.7	6.3	6.7	6.8	6.9
In months of imports excl. maquila[2/]	3.1	4.4	4.3	4.3	5.9	6.7	7.2	7.3	7.2	6.9	6.6
Monetary base[6/]	16.7	24.3	18.2	11.6	11.3	14.3	19.0	3.7	-5.6	-16.9	-26.8
Currency issue	19.1	25.6	21.0	7.9	13.9	22.9	21.1	1.8	-9.5	-24.9	-42.7
Deposits in Cordobas	9.7	14.7	18.8	9.8	22.8	9.4	8.4	14.6	13.8	14.7	14.8
Deposits in FX currency	-6.5	18.3	10.2	14.0	13.1	9.4	8.4	14.6	13.8	14.7	14.8
Credit to private sector	-15.6	-3.6	5.3	15.6	18.1	18.6	11.3	10.3	10.1	9.6	9.6
Broad money	6.2	15.6	13.8	11.3	11.9	12.2	11.2	11.1	9.5	7.6	7.6
Broad money velocity	2.8	2.5	2.5	2.6	2.6	2.5	2.5	2.4	2.4	2.4	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 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 FOGADE.

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

Table 8b. Nicaragua: Summary Accounts of Central Bank and Financial System, 2019–29

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

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Prel.			Projections				
				I. Central Bank							
Net foreign assets[1/]	**6.0**	**24.7**	**20.5**	**17.8**	**41.1**	**24.0**	**29.6**	**26.6**	**17.2**	**10.4**	**4.9**
Net international reserves[2/]	9.5	19.2	24.2	19.2	46.4	26.7	27.3	21.9	12.0	6.1	1.8
Net international reserves (billions of US$)[2/]	0.2	0.5	0.6	0.5	1.2	0.7	0.7	0.6	0.3	0.2	0.0
Net domestic assets	**-1.8**	**-17.9**	**-12.7**	**-14.6**	**-35.2**	**-12.6**	**-16.6**	**-25.3**	**-24.3**	**-27.4**	**-26.8**
Net claims on nonfinancial public sector	-1.5	-8.4	-4.6	-15.8	-16.3	-14.8	-5.2	-8.9	-10.0	-11.3	-12.7
Net credit to banks	-0.4	-16.9	-10.3	0.5	-18.0	4.9	-10.3	-17.0	-14.2	-16.4	-14.7
of which: reserves	3.5	-6.3	-5.0	0.5	-8.0	2.1	-3.5	-6.5	-7.1	-8.5	-9.9
Capital accounts	1.0	1.6	1.3	0.9	-1.8	-1.3	-1.1	0.7	-0.1	0.3	0.5
Other items (net)	-0.6	5.7	0.8	-0.3	0.9	-1.5	-0.1	-0.1	-0.1	-0.1	-0.1
Currency issue	**4.3**	**6.8**	**7.0**	**3.2**	**6.1**	**11.4**	**12.9**	**1.3**	**-7.2**	**-17.0**	**-21.9**
				II. Other Depository Corporations							
Net foreign assets	**23.4**	**6.2**	**1.0**	**3.0**	**-5.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Net foreign assets (billions of US$)	0.7	0.2	0.0	0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Net domestic assets	**-18.4**	**10.7**	**16.3**	**17.4**	**26.6**	**19.3**	**18.8**	**33.5**	**40.3**	**46.4**	**53.6**
Net claims on Central Bank[3/]	-1.4	15.2	9.9	2.1	16.0	-2.2	10.9	17.7	14.9	17.2	15.5
Net credit to other financial corporations	-1.0	0.1	0.3	0.9	0.9	-4.0	-0.2	-0.2	-0.2	-0.2	-0.2
Net credit to non-financial public sector	3.1	2.7	0.8	-2.2	-11.4	-3.0	-11.5	-4.0	3.3	5.1	10.5
Credit to private sector	-22.8	-4.7	6.3	19.7	26.5	32.1	23.2	23.6	25.4	26.7	29.0
Capital accounts	-4.0	-1.5	-3.1	-2.8	-5.6	-4.0	-4.4	-4.6	-4.8	-5.1	-5.5
Other items (net)	7.7	-1.1	2.0	-0.3	0.3	0.4	0.7	1.1	1.7	2.7	4.2
Liabilities	**5.0**	**16.9**	**17.2**	**20.4**	**20.8**	**19.3**	**18.8**	**35.3**	**38.5**	**46.4**	**53.6**
Deposits in domestic currency	2.5	2.5	5.0	2.8	4.6	2.9	2.9	5.4	5.8	7.1	8.1
Deposits in foreign currency	2.6	14.4	12.3	17.6	16.2	16.3	15.9	30.0	32.6	39.4	45.4
				III. Depository Corporations							
Net foreign assets	**29.4**	**30.9**	**21.4**	**20.8**	**35.3**	**24.0**	**29.6**	**26.6**	**17.2**	**10.4**	**4.9**
Net foreign assets (billions of US$)	0.9	0.9	0.6	0.5	0.9	0.7	0.8	0.7	0.5	0.3	0.1
Net domestic assets	**-20.6**	**-7.4**	**2.6**	**1.6**	**-9.1**	**6.0**	**1.5**	**7.5**	**15.2**	**18.2**	**25.9**
Net credit to non-financial public sector	1.6	-5.6	-3.7	-18.0	-27.7	-17.7	-16.7	-13.0	-6.7	-6.1	-2.1
Credit to private sector	-23.1	-4.5	6.4	19.7	26.5	32.1	23.2	23.6	25.4	26.7	29.0
Net credit to other financial corporations	-1.0	0.1	0.3	0.9	0.9	-4.0	-0.2	-0.2	-0.2	-0.2	-0.2
Capital accounts	-3.0	0.1	-1.8	-1.9	-7.3	-5.3	-5.5	-3.9	-4.8	-4.8	-5.0
Other items (net)	4.8	2.6	2.2	0.9	-1.5	1.0	0.6	1.0	1.6	2.6	4.1
Broad money	**8.8**	**23.5**	**24.0**	**22.4**	**26.2**	**30.0**	**31.1**	**34.2**	**32.4**	**28.6**	**30.8**

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 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, 2019–29

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Prel.	Projections						
	(Millions of Cordobas)										
Revenue	**2,761**	**1,085**	**417**	**630**	**5,198**	**6,417**	**7,257**	**7,367**	**7,807**	**8,117**	**8,265**
Interest	2,666	1,029	349	531	5,083	6,308	7,144	7,249	7,685	7,990	8,133
Foreign deposits	159	36	2	92	329	162	185	205	219	228	232
Notes and bonds	1,415	602	9	179	3,592	5,348	6,092	6,763	7,200	7,501	7,635
Loans of the BCN	1,034	199	180	159	138	118	96	46	15	0	0
On MTI bonds (fluctuation in price)	23	4	109	149	214	0	0	235	250	261	266
Other revenues	117	96	119	126	142	109	113	118	122	127	132
Of which: recapitalization transfers	22	41	51	26	28	0	0	0	0	0	0
Expenditure	**2,244**	**1,772**	**1,710**	**2,016**	**3,420**	**3,533**	**3,062**	**3,703**	**3,903**	**4,329**	**4,805**
Administrative	831	775	792	920	898	1,131	1,174	1,221	1,270	1,321	1,373
Interest	1,413	997	918	1,096	2,522	2,402	1,888	2,482	2,633	3,008	3,432
External debt	544	370	200	301	817	143	208	408	15	11	10
BCN securities	218	180	439	553	1,326	2,031	1,469	1,837	2,388	2,755	3,149
Bonds (banking)	210	199	180	159	138	108	77	46	15	0	0
Other	157	84	49	28	126	47	53	191	215	243	273
Quasi-fiscal balance	**516**	**-687**	**-1,294**	**-1,386**	**1,778**	**2,884**	**4,195**	**3,664**	**3,904**	**3,788**	**3,460**
	(Percent of GDP)										
Revenue	**0.7**	**0.2**	**0.1**	**0.1**	**0.8**	**0.9**	**1.0**	**0.9**	**0.9**	**0.9**	**0.8**
Interest	0.6	0.2	0.1	0.1	0.8	0.9	0.9	0.9	0.9	0.8	0.8
Foreign deposits	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Notes and bonds	0.3	0.1	0.0	0.0	0.6	0.8	0.8	0.8	0.8	0.8	0.7
Bonds (banking)	0.2	0.0	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	0.0	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**	**0.4**	**0.3**	**0.4**	**0.5**	**0.5**	**0.4**	**0.5**	**0.4**	**0.5**	**0.5**
Administrative	0.2	0.2	0.2	0.2	0.1	0.2	0.2	0.1	0.1	0.1	0.1
Interest	0.3	0.2	0.2	0.2	0.4	0.3	0.2	0.3	0.3	0.3	0.3
External debt	0.1	0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
BCN securities	0.1	0.0	0.1	0.1	0.2	0.3	0.2	0.2	0.3	0.3	0.3
Bonds (banking)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Quasi-fiscal balance	**0.1**	**-0.2**	**-0.3**	**-0.2**	**0.3**	**0.4**	**0.6**	**0.4**	**0.4**	**0.4**	**0.3**

Sources: National authorities and IMF staff calculations.

Table 10. Nicaragua: Financial Sector Indicators, 2018–24

(Percent)

	2018	2019	2020	2021	2022	2023				2024		
	Q4	Q4	Q4	Q4	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Capital adequacy ratio	17.1	21.6	21.8	21.1	19.6	19.1	18.8	19.3	19.1	19.0	19.2	19.2
NPLs to total loans	2.6	3.2	3.7	2.4	1.5	1.4	1.3	1.2	1.7	1.5	1.5	1.7
Other distressed assets to total loans	14.2	15.9	18.6	14.3	9.2	8.0	7.1	6.7	6.4	5.5	5.3	4.9
Total distressed assets to total loans 1/	16.8	19.1	22.2	16.7	10.7	9.3	8.4	7.9	8.1	7.1	6.8	6.5
Provisions to NPLs	173.3	177.9	172.1	230.2	331.6	352.8	372.8	378.4	285.1	316.2	319.4	294.9
Provisions to distressed assets 1/	27.1	30.1	28.5	33.5	47.5	49.9	53.1	56.2	58.0	66.1	68.6	71.4
Return on assets (ROA) 2/	1.3	1.2	1.1	1.6	1.8	2.0	2.1	2.2	2.1	2.1	2.1	2.2
Return on equity (ROE) 2/	10.4	8.1	5.8	9.3	10.5	11.3	11.9	12.7	12.4	12.0	12.3	12.6
Liquid assets to total deposits 3/	35.0	47.0	40.6	44.6	37.1	33.4	34.1	33.6	36.1	32.1	31.4	32.4
Liquid assets to total liabilities 4/	36.5	40.5	46.5	44.7	39.5	32.0	31.9	33.0	30.3	28.5	23.6	23.7

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. External Sector Assessment

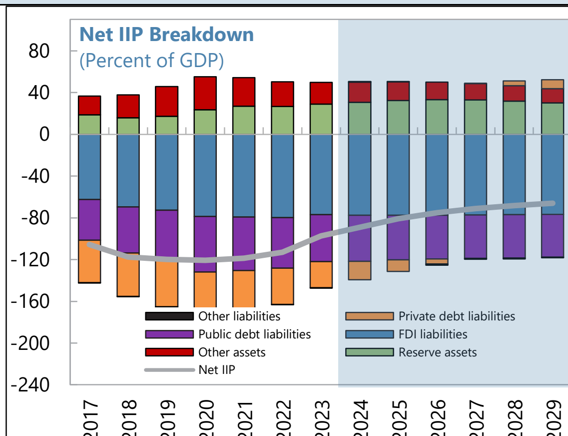
Overall Assessment: *Nicaragua's external position in 2023 is assessed as stronger than the level implied by fundamentals and desirable policies. The 8.7 percent of GDP estimated current account gap in 2023 is larger than the gap of 2.8 percent of GDP estimated in 2022 and reflects the sharp improvement in the current account balance in 2023 due to a significant increase in remittances (reaching 26.1 percent of GDP). The net international investment position (NIIP) has improved markedly since the social-political crisis of 2018, as well as relative to end-2022, due to continued significant fiscal consolidation and a considerable decline in private sector liabilities. The trade and services balance are entirely covered by remittance inflows, which are at a historic high. FDI and medium-to long-maturity public sector debt financed the rest of transactions, and a substantial increase in foreign exchange reserves, of US$1 billion in 2023, to US$5.2 billion (7-months of imports, in the midpoint of the suggested range). High remittances and prudent macroeconomic policies have helped maintain the de jure crawling peg exchange rate regime (that moved to a 0 percent exchange rate since the beginning of 2024).*

Potential Policy Responses: *The external sector position in 2023 was strong and supported by relatively stable funding sources: workers remittances, diversified flows of FDI and long maturities of public sector debt. However, since the strength of the external position is now highly dependent on workers' remittances, a significant lapse in these flows represents the main risk to external sustainability. Such a risk could be driven by a considerable weakening of the U.S. labor market or strengthening of immigration policies (towards stricter deportations or a non-extension of the Temporary Protected Status of Nicaraguan migrants). Additional risks are represented by a deterioration of the trade balance—due to worse than expected global growth and/or terms of trade—or a deterioration in the financial account due to stricter international sanctions. Nicaragua should continue building its stock of international reserves and fiscal buffers, while pursuing prudent macroeconomic and financial policies. Moreover, pursuing financial and capital markets deepening, strengthening the monetary transmission mechanism and implementing structural reforms, will support increasing the flexibility of the economy to respond to shocks, while helping strengthen competitiveness.*

Foreign Assets and Liabilities: Position and Trajectory

Background. Nicaragua's NIIP continued improving in 2023, reaching -97 percent of GDP, a decline of over 15 percent of GDP compared to end-2022. While gross assets remained relatively unchanged, at 50 percent of GDP, gross liabilities contracted by a significant amount (15.5 percent of GDP) driven by the decline in private and public debt liabilities, and lower net FDI.

Assessment. The External Sustainability Assessment finds the NIIP sustainable. The NIIP is projected to improve further with the expected build up in external assets (growing reserves) and fiscal consolidation at the central government level. Most external debt is held by the public sector, of which

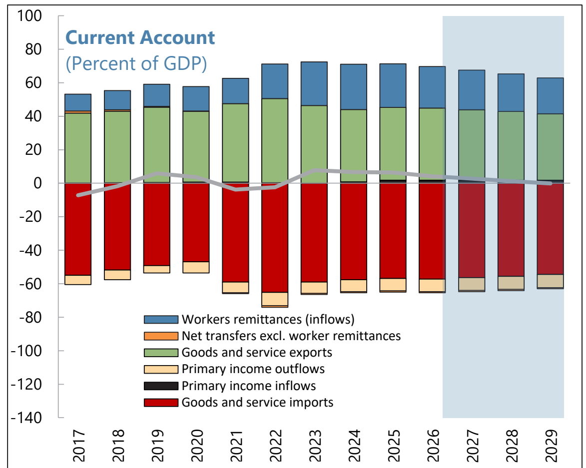


Sources: BCN and IMF staff calculations.
Note: Shaded area indicates projections.

the largest shares are from official creditors and multilateral institutions, with long maturities. Moreover, the remaining share of liabilities is constituted by stable FDI flows. With continued fiscal consolidation, including due to limited access to concessional external financing, and a cautious private sector, total external liabilities are projected to decline further in the medium-term.					
2023 (% GDP)	NIIP: -97	Gross Assets: 50	Debt Assets: 49	Gross Liab.: 147	Debt Liab.: 70

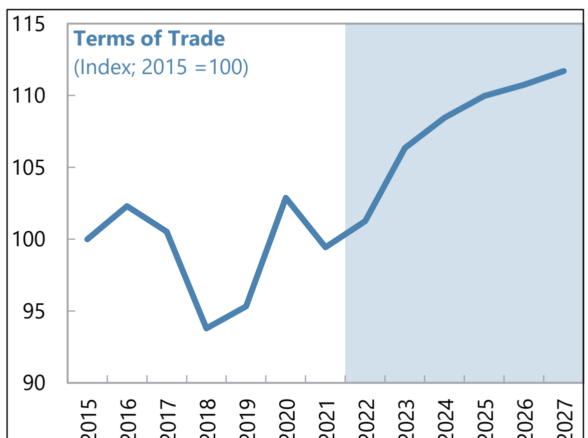
Current Account

Background. The current account (CA) balance adjusted from a deficit of 2.4 percent of GDP in 2022 to a surplus of 7.7 percent of GDP in 2023, amid high remittance flows and the improvement in the trade balance. In 2023, net remittances increased by 5.8 percentage points of GDP relative to 2022, reaching 26.1 percent of GDP. The deficit in the trade balance narrowed to 15.1 percent of GDP in 20223 (from 17.8 percent in 2022), due to favorable terms of trade (up by 7.1 percent), reflecting higher gold and lower energy prices. In H12024, the CA surplus narrowed to 5.9 percent of GDP, from 9.8 percent of GDP during the same period in 2023. This decline was primarily driven by a widening trade deficit.



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

Assessment. The CA model estimates a CA norm of–1.5 percent of GDP, and a cyclically-adjusted balance (CAB) of +7.2 percent of GDP. The CAB reflects a cyclical adjustment of 0.6 percent of GDP, due to a positive output gap. EBA-lite identified relative policy gaps are estimated at 1.4 percent of GDP, driven by tighter fiscal policy than in the rest of the world, and stronger reserve accumulation in 2023 relative to other countries. Lower health expenditures continue to contribute to the positive cyclical adjustment factor. The implied current account gap is 8.7 percent of GDP, representing a real effective exchange rate undervaluation of 25.4 percent. The policy implication is not necessarily a large appreciation since the EBA-lite model does not fully capture the fact that the current account balance has been driven mostly by remittances, which tend to be highly inelastic to exchange rate movements, driven by emigration (which for Nicaragua also has a structural component, as it is much larger than in the neighboring countries recently, ¶10), and that the model estimates are subject to a large degree of uncertainty, since many items of the current account may not be well measures—errors and omissions in the balance of payment represented 6.2 percent of GDP in 2023.



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

Model Estimates for 2023 (Percent of GDP)

	CA model 1/	REER model 1/
	(in percent of GDP)	
CA-Actual	**7.7**	
Cyclical contributions (from model) (-)	0.6	
Natural disasters and conflicts (-)	-0.1	
Adjusted CA	**7.2**	
CA Norm (from model) 2/	**-1.5**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-1.5**	
CA Gap	**8.7**	**-1.6**
o/w Relative policy gap	1.4	
Elasticity	-0.3	
REER Gap (in percent)	**-25.4**	**4.7**

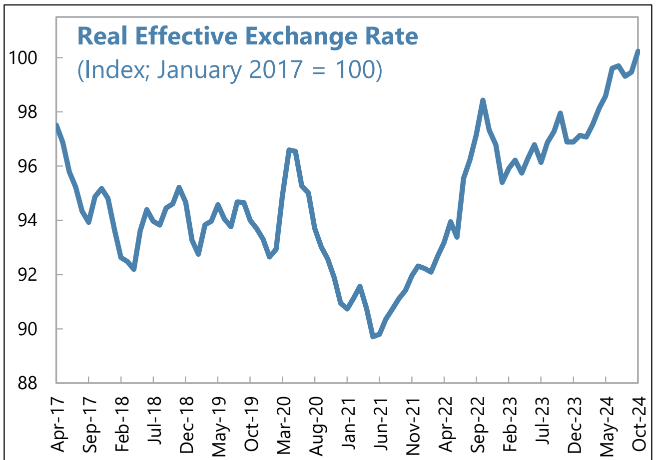
1/ Based on the EBA-lite 3.0 methodology

2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. Since January 2024, the exchange rate crawling rate has been 0, a further 1 percentage point reduction from the 2023 crawling rate. The Real Effective Exchange Rate (REER) was relatively stable in 2023, appreciating by only 1.7 percent on average compared to 2022.

Assessment. In contrast to the CA model of the EBA-lite, the REER index model finds a CA gap of -1.6 percent of GDP, suggesting a REER overvaluation of 4.7 percent.



Sources: BCN and IMF staff calculations.

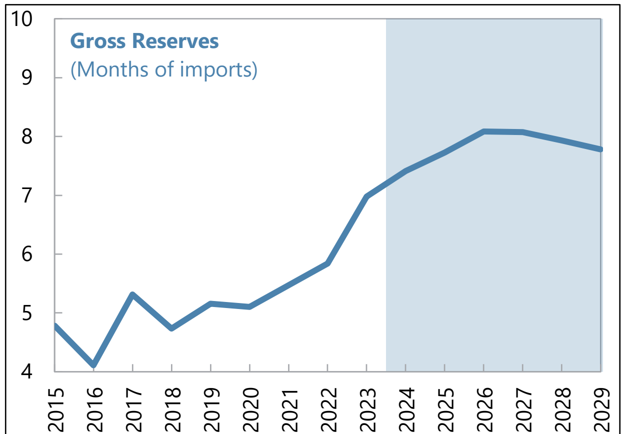
Capital and Financial Accounts: Flows and Policy Measures

Background. At 6.7 percent of GDP, net FDI inflows in 2023 remained below the 2021-22 average (8.3 percent of GDP). Other investment outflows were large and positive in 2023 (4.0 percent of GDP) due to loan amortizations and net asset acquisitions from non-financial corporations and households. As both the current account and financial account reflected surpluses, the economy accumulated significant international reserves (2.4 percent of GDP). This trend continued in the first half of 2024.

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, despite a projected decline in remittances relative to GDP reaching around 21 percent of GDP in the medium term.

FX Intervention and Reserves Level

Background. Gross international reserves (GIR) at end-2023 were US$5.2 billion or 7.0 months of imports (*excluding maquila*). The stock of reserves grew by US$1.0 bn in 2023, supported by prudent fiscal policy and sustained remittance inflows. GIR continued to accumulate in 2024, standing at end-October at US$5.7 billion, and are expected to continue growing over the medium-term under the baseline scenario, albeit at a slower pace.



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

Assessment. In 2023, the level of gross international reserves at 7.0 months of imports was adequate, on the mid-point of the suggested range of 5.3 to 8.9 months of non-maquila imports estimated using the Fund's adequacy metric for LICs, with a range of reserves holding opportunity costs.

Annex II. Risk Assessment Matrix[1]

Risks		Policy Response
External		
Social discontent. High inflation, real income loss, spillovers from conflicts (including migration), and worsening inequality stir social unrest, drive populist policies, and increase resistance to reforms, especially in the context of polarized or disputed elections. This exacerbates imbalances and weakens growth prospects, leading to policy uncertainty and market repricing.	**High Likelihood** **High Impact**	Accelerate structural reforms to increase competitiveness. Foster diversification and facilitate job creation. Adjust fiscal expenditure, while protecting social spending and public investment.
Deepening geoeconomic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	**High Likelihood** **Medium Impact**	Accelerate structural reforms to ensure the economy can adjust flexibly to potential shifts in export demand by main trading partners, including the US. Measures could include reforms to strengthen the business climate (e.g., infrastructure, governance/rule of law, and human capital formation). Maintain flexibility of the de jure crawling exchange rate regime, to adapt rapidly in case of capital outflows.
Commodity price volatility. Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures, and food insecurity in EMDEs, cross-border spillovers, 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 or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	**High Likelihood** **Low/Medium Impact**	Accelerate structural reforms aimed at increasing competitiveness and strengthening the resilience of the domestic economy.
Global growth surprises: **Slowdown.** Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction, with adverse spillovers through trade and financial channels, triggering sudden stops in some EMDEs.	**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.
Domestic		
Domestic political developments which could also lead to an intensification of sanctions on Nicaragua. Deterioration of the domestic political situation, including for business entities, or changes in the legal framework stemming from political decisions, could lower domestic demand through lower private investment, and also have implications for external trade and capital flows. Sanctions imposed by certain countries on Nicaragua could amplify this shock, and curtail access to external financing.	**Medium Likelihood** **High Impact**	Strengthen significantly the rule of law. 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. Adopt carefully designed banking regulations to avoid unintended consequences and implement appropriately international standards and practices.
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**	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 III. State-Owned Enterprises: Performance and Fiscal Risks[1]

The assessment of the recent financial performance of the six largest SOEs with published financial statements indicates that although these SOEs receive very limited budget support, they entail risks that warrant close monitoring. Considering the important role of the SOEs in key sectors, strengthening transparency and oversight to monitor and mitigate fiscal risks is needed.

1. **Nicaragua's SOEs provide essential public services and have sizeable assets and liabilities.** Nicaragua's SOEs are operating in strategic sectors including energy, transportation, and water, playing a significant role in developing infrastructure and providing essential goods and services.[2] In 2022, the total assets of the six largest SOEs publishing financial statements was 25 percent of GDP. Among those six largest SOEs (text table), ENATREL and ENACAL, producing electricity and providing water, respectively, have the largest assets. Total liabilities of these six SOEs amounted to 21 percent of GDP in 2022 (Figure 1).

Nicaragua's Selected SOEs

Company	Function	Sector
National Electricity Transmission Company (ENATREL)	Transmission of electrical energy	Energy
Nicaraguan Electricity Company (ENEL)	Electric Power Generation	Energy
Nicaraguan Petroleum Company (PETRONIC)	Exploration, exploitation, and commercialization of hydrocarbons	Energy
National Port Authority (EPN)	Port and shipping services	Transport
International Airport Management Company (EAAI)	Airport management	Transport
Nicaraguan Water and Sewer Company (ENACAL)	Water supply and sewage	Water

Source: National authorities.

2. **Fiscal support to SOEs from the central government remains limited, with limited risk from government guaranteed debt and uncertainty about on-lending risk.** SOEs receive budget support such as transfers, debt guarantees, and on-lending. However, transfers to SOEs are minimal (0.5 percent of GDP in 2023) and are driven by capital transfers, primarily to ENACAL (Figure 1). Government guaranteed external debt stock of SOEs was limited, at 0.2 percent of GDP at end-2023, and was owed mainly to multilateral (IADB) and bilateral (China and South Korea) creditors and presents a limited fiscal risk. On-lending represents central government borrowing from the market and lending the proceeds to the SOEs. On-lending debt is not published in Nicaragua, but the central government issues bonds in the domestic market, and even though the stock of this debt is low (10 percent of GDP at end-2023), some of these proceeds could have been on-lent to SOEs, along with proceeds from external borrowing. Therefore, the size of explicit contingent liabilities (both debt guarantees and on-lending) could be larger than the reported minimal government guaranteed debt.

[1] Prepared by Jessie Kilembe.

[2] This analysis covers only the largest six non-financial public corporations which publish financial statements online. There are two other SOEs, which are public financial corporations, the Nicaraguan Insurance Institute (INISER) and the public development bank-Production Development Bank (BFP), and which also publish their financial statements. However, they are excluded from this entire analysis, because of their role in financial intermediation and require a different analysis assessing the strengths and vulnerabilities within the financial sector.

3. To further gauge financial vulnerability and fiscal risks from SOEs, the IMF SOE Health Check Tool (HCT) is applied for the six largest SOEs with published financial statements for the period 2015-2022. The tool assesses performance using financial ratios covering profitability, liquidity, and solvency measured for each enterprise and on aggregate basis for each indicator. The tool estimates assigned risks in each of these three categories against set risk thresholds,[3] with risks classified from very low to very high risk. Overall risk ratings are derived by taking the arithmetic average of the risk ratings of individual financial ratios.

4. The profitability, liquidity, and solvency indicators point to high fiscal risks that should continue to be monitored. Although on profitability, SOEs are assessed at a moderate to low risk, due to SOEs registering surpluses in 2023, and adequate returns on assets and equity for the majority of SOEs, high risks stem from weak short-term liquidity and high debt compared to earnings,[4] and debt compared to assets.[5] Combining all these scores, per SOE, indicates that ENATREL represents very high fiscal risk, and three other SOEs (ENACAL, ENEL, PETRONIC) represent high fiscal risk. All these SOEs are concentrated in the energy and water sectors.

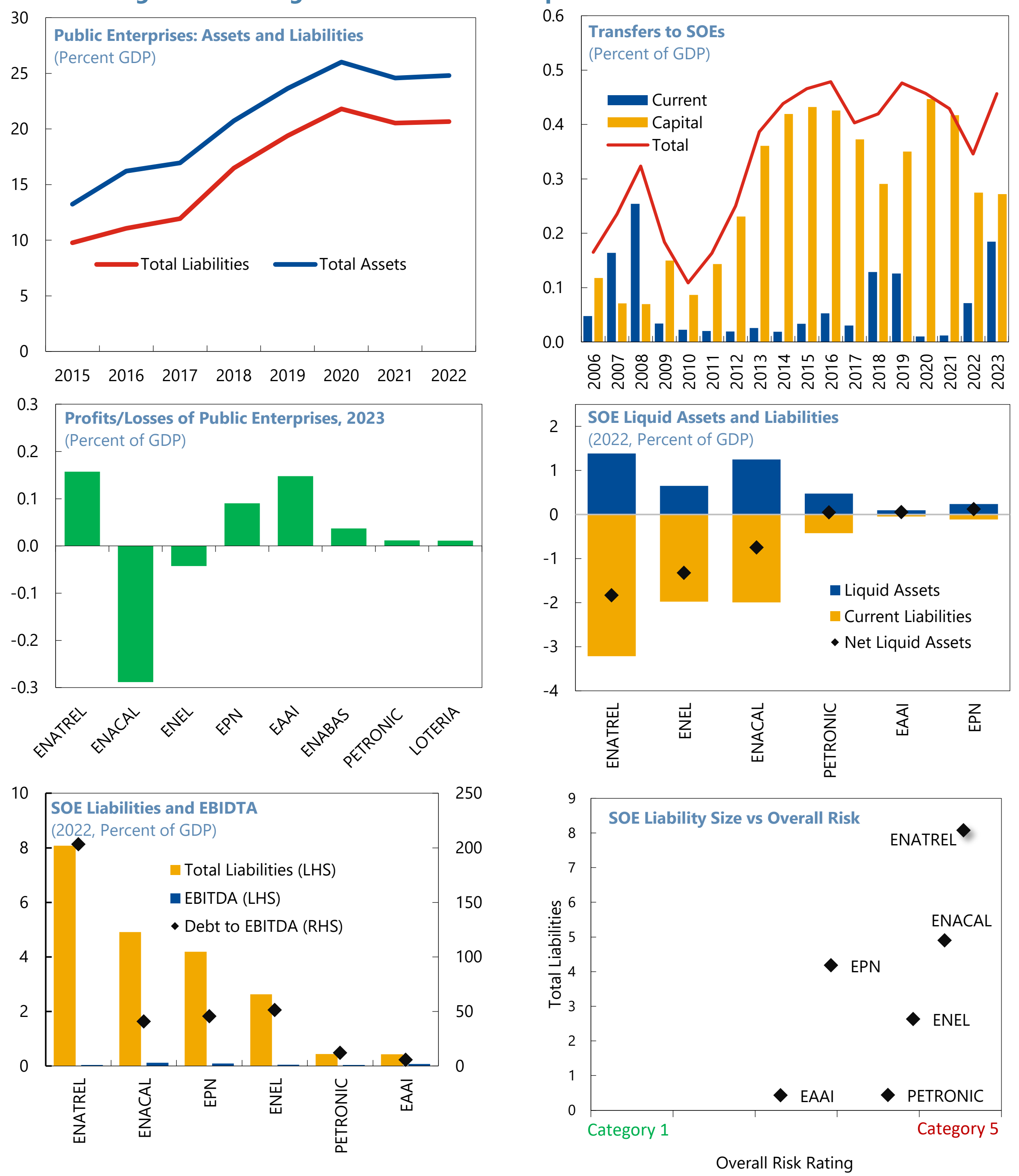
5. These findings indicate the need to continue closely monitoring the performance of SOEs and further integrating their reporting in aggregate debt statistics and enhancing fiscal transparency, oversight and profitability. Enhancing the coverage of debt of SOEs and greater transparency on transactions between the central government and SOEs will help in the identification of potential fiscal risk exposures. There is currently no aggregate reporting on the SOEs sector debt except for government guaranteed debt reported in the annual debt report and summary SOE financial positions reported. Therefore, the monitoring and reporting of fiscal risks could be further improved to include entities that are recipients of on-lending from the central government. The timely and regular publication of audited financial statements of SOEs could increase transparency. Furthermore, improving profitability would also help.

[3] The risks are classified as 1 very low risk; 2 low risk; 3 moderate risk; 4 high risk; and 5 very high risk. A composite indicator of overall risk is estimated for each company.

[4] Before interest, tax, depreciation, and amortization (EBITDA). This also implies low debt coverage ratio (measured as ratio of earnings to debt).

[5] The largest liabilities are held by SOEs in the energy and water sectors (mainly ENATREL, 8 percent of GDP in 2022 and ENACAL).

Figure 1. Nicaragua: State Owned Enterprises Selected Financial Indicators



Sources: SOE Health Check Toolkit and IMF staff calculations.

Annex IV. Nicaraguan Social Security Institute: Financial Position[1]

The financial position of the Nicaraguan Social Security Institute (INSS) has weakened over the past dozen years due to a confluence of factors. To ensure the viability of the pension system, the central government had to increase its fiscal support to INSS. While the government implemented a couple of pension reforms, the growing imbalances in the INSS require additional reforms to address its sustainability.

1. **The financial position of the INSS has weakened over the past dozen years due to a confluence of factors.** Since 2013, INSS expenditures are outpacing revenues, deteriorating the financial position of the INSS. A confluence of factors contributed to the decline in revenues from contributions and faster rise in expenditures: long-term demographic factors, the impact of the protracted economic contraction during 2018-2020 and the slow recovery in formal employment, and a shift in investment income strategy.

2. **The demographic factors play a large role in the deteriorating financial position of the INSS in Nicaragua**. The mandatory pension system, consisting mostly of old age pensions,[2] is a pay-as-you-go system, with guaranteed benefits for the retirees, paid by contributions of the younger generations of formal employes and returns from the INSS reserve fund. Due to a confluence of two long-term demographic trends, the INSS in Nicaragua experienced a declining number of contributors, as smaller generations entered employment due to a decline in fertility rates since the 1990s and an increase in the number of retirees living longer.[3]

3. **The shocks affecting formal employment in 2018-19 and the subsequent slow and limited formal employment recovery also impacted the INSS financial position.** The protracted economic contraction during 2018-20 and a slow recovery in formal employment ever since has put further pressure on declining contributions. As a result, the dependency ratio has declined from 4.5 employed people supporting a retiree in 2013 to 2.6 by 2023.

4. **Moreover, the composition of the INSS investment portfolio resulted in lower financial income.** The shift in the investment strategy from government securities to real assets resulted in falling revenues from the reserve fund and the subsequent decline in the size of the reserve fund. Since returns from the reserve fund can also be used to fund INSS expenditures, the situation became particularly dire since 2021, when the reserve fund has been depleted (by end-2022 it stood at -C$5.3 million or 0.9 percent of GDP).

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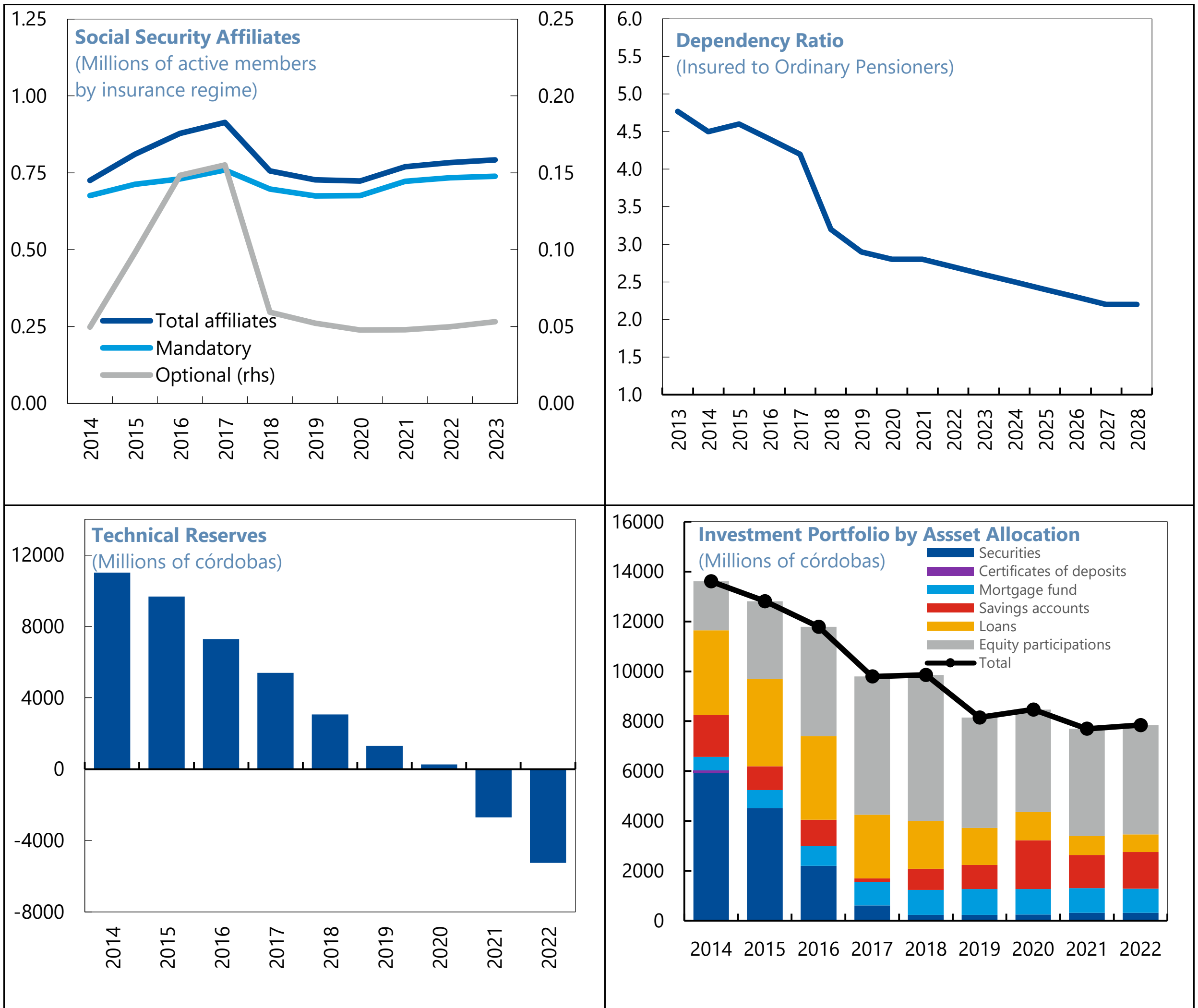
[1] Prepared by Jessie Kilembe.

[2] The focus of this note is to evaluate the disability, old age and death branch of INSS (known as *Invalidez, Vejez y Muerte* or IVM) which gives pension, disability and survivor benefits. Other INSS programs cover occupational risk, health insurance, and victims of the civil war. The latter provides non-contributory benefits.

[3] Fertility rate in Nicaragua has declined from 4.6 births per woman in 1990 to 2.3 births in 2022 and life expectancy has increased from 63 in 1990 to 75 years in 2022 (World Bank, WDI). The retirement age in Nicaragua is 60 years.



Source: INSS.

5. As a result, the central government had to increase its fiscal support to ensure viability of the system. Due to the rapid weakening of the financial position in 2018, the central government not only had to increase its transfers to pay the operating deficits, but also to repay faster the historical debt to the social security. In 2014, as the central government arrears for outstanding contributions during the period 1956-2013 totaled US$500 million (or 3.9 percent of GDP), the central government agreed to pay it over 50 years. However, with the worsening of the INSS financial position, to avoid the need of a large increase in contribution rates by employees, the central government agreed to fully pay its debt faster in less than a decade (until 2022). In 2020, transfers from the central government reached 1 percent of GDP, combining the regular transfer to cover the deficit, and the payment of historical debt. In 2024, in addition to the regular transfers, ad-hoc donations were made.[4]

[4] In 2024, the Attorney General and the President of INSS signed a public deed of donation, officially transferring ownership of some properties to the INSS. Additionally, after liquidating the Supreme Court of Justice pension fund (for supplementary pensions)

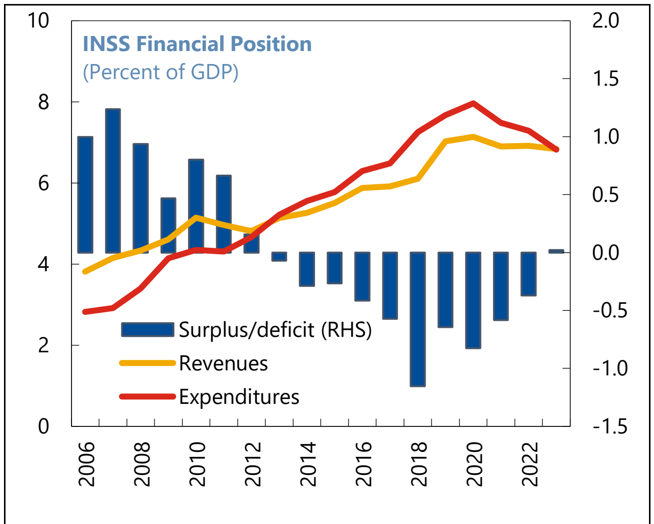
(continued)

6. The authorities already implemented two pension reforms over the past decade. The authorities implemented pension reforms in 2013 and 2019:

- In 2013, contribution rates were increased, the generosity of the benefit formula was lowered, and the periodic adjustments to pensions was changed.[5] Also a reduced pension was introduced, with lower pension eligibility requirements.[6] However, this raised the costs by increasing the share of the population receiving a pension and impacted the balance between insured members and pensioners.

- In 2019, contribution rates were increased again, the replacement rate was reduced, and the generosity of the maximum pension was also reduced.[7] Some measures initially announced have not been implemented: increasing the minimum number of contributions required to receive a reduced pension and the reduction on the minimum pension.

7. Further reforms are needed. The current system does not have its long-term sustainability ensured, as the INSS has exhausted its liquid reserves, lower earnings from investments are projected to continue to weigh on the financial position, along with a declining worker-to-beneficiary ratio (to 2.2 by 2028). As such the system continues to accumulate unfunded liabilities, and the central government will need to continue covering the INSS deficits, leading to an increasingly sub-optimal tight fiscal policy or ad-hoc donations until a permanent solution is found. Discussions continue between INSS and the central government to explore possible reform options. Any planned potential measures will include a combination of parametric reforms and other changes, including from the 2019 pension reform that were not implemented. The reform should ensure that it does not create distortions in the economy or the labor market. The government should also ensure the population and business community buy-in in for a smoother implementation, through transparency, gradual implementation, and consensus. In this respect, potential other measures could include: (i) increasing the number of affiliates



Source: INSS.

and settling the outstanding liabilities to pensioners, the remaining assets were transferred to the INSS as a one-time payment, with no expectation of repayment or return.

[5] Contribution rates for employers rose from 7 to 10 percent of monthly earnings. In the same package of reforms, the minimum pensions were changed to be adjusted in line with average wage growth instead of the minimum wage, and the maximum pensionable salary was increased.

[6] Those with 5 years and less than 15 years of contributions qualify for a reduced pension compared to 15 or more years of contributions to qualify for the ordinary pension.

[7] Employee contributions rose from 4 to 4.75 monthly pay while employers' contributions increased from 10 to 12.5 percent (or 13.5 percent for those with more than 50 employees). The maximum monthly old-age pension was reduced to 70 percent of the insured's average monthly earnings (previously 80 percent).

contributing to the pension system without adversely affecting labor costs, participation rates, and competitiveness; (ii) increasing formal employment; (iii) pursuing policies to increase labor force participation rates and lower disparities;[8] and (iv) diversifying the investment portfolio to raise financial income and deepen the domestic capital market and (v) reducing administrative costs, including by increasing financial inclusion by distributing pensions electronically, and reducing ad-hoc donations.

[8] The share of economically active population (EAP) contributing to the social security system grew from 21 percent in 2013 to 27 percent by 2017. However, the share has declined to 24 percent of EAP contributing by end-2022. Among the total number of insured, 56.2 percent were males and 43.8 percent were females, at end-2022 (INSS, 2022 Annual Statistics).

Annex V. Resilience to Natural Disasters[1]

Climate change remains macro-critical for Nicaragua. Implementing robust policies promoting resilient investments and integrating climate risks in policymaking remains essential to lower fiscal risks and ensure fiscal sustainability.

1. **Nicaragua is susceptible to natural disasters and their impact could significantly strain the fiscal balance, as they negatively affect economic activity, and livelihoods.** Nicaragua ranks among one of the most severely affected countries in the CAPDR region.[2] There were 84 natural disaster events during 1960-2022 in Nicaragua, mostly due to tropical storms and flooding, an average of 1.3 disasters per year [3] with recent disasters in 2022 causing damages of up to 2.8 percent of GDP. Moreover, Nicaragua's economic dependence on climate sensitive productive sectors (e.g., agriculture), intensifies the adverse effects, making it vulnerable to the sizable economic and social costs of natural disasters.

Historical Climate-Related Disaster Events, 1960-2022

Disaster Type	Number of Events	Total Deaths	Number of People Affected	Total Damage (million US$)
Storm	26	3,949	2,738,989	2,856
Flood	23	515	710,532	2.1
Epidemic	13	122	115,855	0.007
Earthquake	7	10,188	748,175	875
Drought	6	n.a	1,313,000	18
Volcanic Activity	5	1	321,370	2.7
Wildfire	3	n.a	16,000	80
Landslide	1	29	5,769	n.a

Source: EM-DAT.

2. **There are institutional mechanisms to ensure budget flexibility and fiscal sustainability amid natural disasters.** Preemptive instruments include the creation of the Natural Disaster Fund (FND), which receives a budget allocation. Each budget includes a contingency item of one percent of tax revenues to fund contingencies arising from natural disasters established by law. Should this contingency be insufficient, amendment to the annual budget law is permitted to allow for more

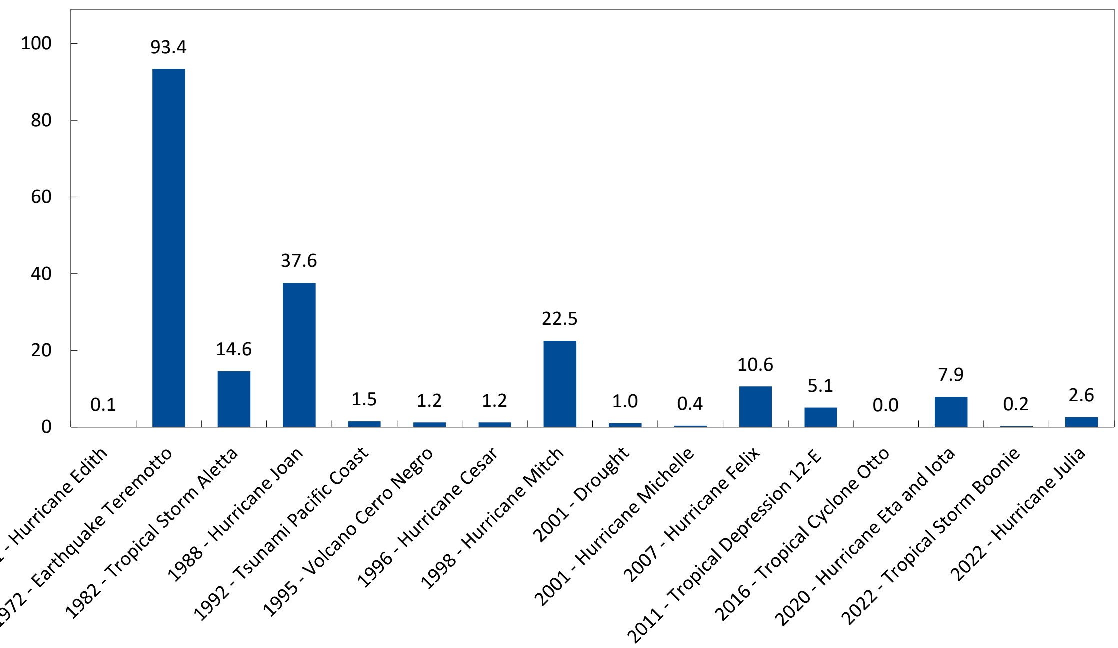
[1] Prepared by Jessie Kilembe.

[2] The 2021 Global Climate Risk Index classifies 180 countries by level of exposure and vulnerability to extreme events between 2000 and 2019. In CAPDR, Nicaragua ranked third, at an overall 35 ranking, after Guatemala (16) and El Salvador (28), followed by Honduras (44), Dominican Republic (50), Costa Rica (89), and Panama (118).

[3] According to the International Disaster Database maintained by the Center for Research on the Epidemiology of Disasters (EM-DAT). The Biennial Update report (BUR) of Nicaragua within the framework of the United Nations Framework Convention on Climate Change (UNFCCC) provides an update on mitigation actions and also contains information about projects funded by international organizations on climate change.

budgetary agility in response to disasters. In addition, Nicaragua qualifies for an IDB loan of US$186 million in case of a tropical cyclone, earthquake, or excess rainfall. Finally, the contingent emergency response (CERC) component of the World Bank permits the reallocation of existing project funds to address pressing liquidity needs. Furthermore, Nicaragua has parametric insurance coverage from the Caribbean Catastrophe Risk Insurance Facility (CCRIF). This disaster protection instrument is activated in event of excess rainfall, tropical cyclones, and earthquakes to provide immediate liquidity.[4]

Damage and Losses Caused by Severe Events, 1970-2022
(Percent of GDP in the year before the disaster)



Source: MHCP.

3. Efforts to integrate natural disasters and climate change into national policies are ongoing. Physical adaptation measures include agricultural diversification and resilience of crops, with support from international organizations, reforestation, and promotion of renewable and clean energy.[5] The updated Nationally Determined Contribution (NDC) for Nicaragua, which provides policies and plans, and a framework for effective land, environmental, climate risk management and resilience, was published in 2020,[6] and the risk of natural disasters is incorporated in annual fiscal

[4] Nicaragua was the first country in CAPDR to take the insurance policy in 2015. Coverage contracted has since increased from US$19.1 million in 2015/2016 to US$66.7 million in 2024/2025. Total CCRIF disbursements to Nicaragua at end-2022, amounted to US$41.2 million following the activation of six insurance policies since Nicaragua joined in 2015.

[5] For an in-depth analysis see, *Nicaragua: Macroeconomic Impact of Climate Change and Disasters*, IMF 2017 Selected Issues, Country Report No. 2017/174 and 2022 Article IV (Annex VI).

[6] The national climate change policy was approved in 2022 demonstrating commitment to implementing climate change actions. As of 2023, Nicaragua has fulfilled its reporting commitments under the Paris Agreement for climate change (PA) and will submit its First Transparency Report (BTR) by end-2024 to comply with UNFCCC and PA obligations. Nicaragua will present a new NDC in 2025, focusing on climate capacity development, greenhouse gas reduction targets, and progress tracking.

reports.[7] Existing loans for resilience and adaptation and technical support continue to bolster authorities efforts in this area.[8] In 2022, Nicaragua conducted a study to assess national vulnerability to climate change, identifying the most vulnerable communities to help bolster their adaptive capacity and resilience. The national adaptation plan for the agricultural and forestry sectors will leverage insights from the vulnerability study to integrate adaptation into policies. It will support vulnerable groups and engage private actors by offering resources and financial support, ultimately enhancing food security and economic resilience.[9]

4. **Fostering climate resilience requires greater access to financing and increased buffers to enhance adaptive capacity.** Currently, given the nature of the budget processes, and the insufficient insurance compared to the average needs in case of disasters, the government implements a prudent fiscal policy, paying down debt while also saving remaining surpluses to use for disaster reconstruction. Nicaragua's environmental taxes rose to 1.4 percent of GDP in 2021, up from 1.3 percent in 2020, with energy taxes (including transport fuel) making up 99 percent of this total.[10, 11] Medium-term plans include continuing to acquire parametric insurance policies, exploring enhanced coverage through CCRIF for droughts, and safeguarding fishing and energy sectors. There is a need for additional financing to focus on greater investments in resilient infrastructure, and to further strengthen disaster risk management and preparedness. Although, the local financial market remains shallow, some instruments specific to disaster-related risks have emerged.[12] Accessing alternative financing options such as green bonds or introducing natural disaster clauses in debt, which would be activated during a disaster, could help to reduce gross financing needs.[13] Furthermore, a carbon tax could be considered to aid the transition to renewable energy.

[7] Despite the high likelihood of natural disasters, using the IMF Fiscal Risk Assessment Tool (FRAT), authorities evaluate the impact on public finances as moderate, owing to the availability of risk mitigation and transfer mechanisms that help reduce vulnerability. See annual fiscal risks reports on evaluation and losses caused by natural disasters.

[8] In 2021, the World Bank approved US$80 million in the aftermath of hurricanes Eta and Iota. Nicaragua received financing from IDB in 2020, for hurricanes Eta and Iota (US$35 million) and hurricane Julia in 2022 (US$ 10 million). Technical support to strengthen climate governance and mechanisms to monitor climate actions and improve livelihoods for vulnerable groups is also being provided by IDB. A new IDB project, pending approval, aims to contribute to increasing the income of small farmers and their families, through improving their farm productivity and promoting the adoption of sustainable practices through the application of climate-smart technologies. Recently contracted loans from China in 2024, include funding for a project to strengthen the national emergency response system's capacity to monitor and respond to natural disasters, managed by the National System for Disaster Prevention, Mitigation and Response (SINAPRED).

[9] Through implementation of a project on readiness with the Green Climate Fund, which is expected to begin in 2025, and will last 3 years (Ministry of the Environment and Natural Resources-MARENA).

[10] See IMF Climate Change Dashboard.

[11] Tax waivers aimed at promoting the conservation, protection and restoration of the environment are provided. Summary of tax benefits and exemptions with an environmental focus are published.

[12] The public financial corporation, the Nicaraguan Institute of Insurance (INISER), provides an agricultural insurance policy offering protection to producers against losses and direct harm to crops resulting from climatic, biological, geological, and accidental events.

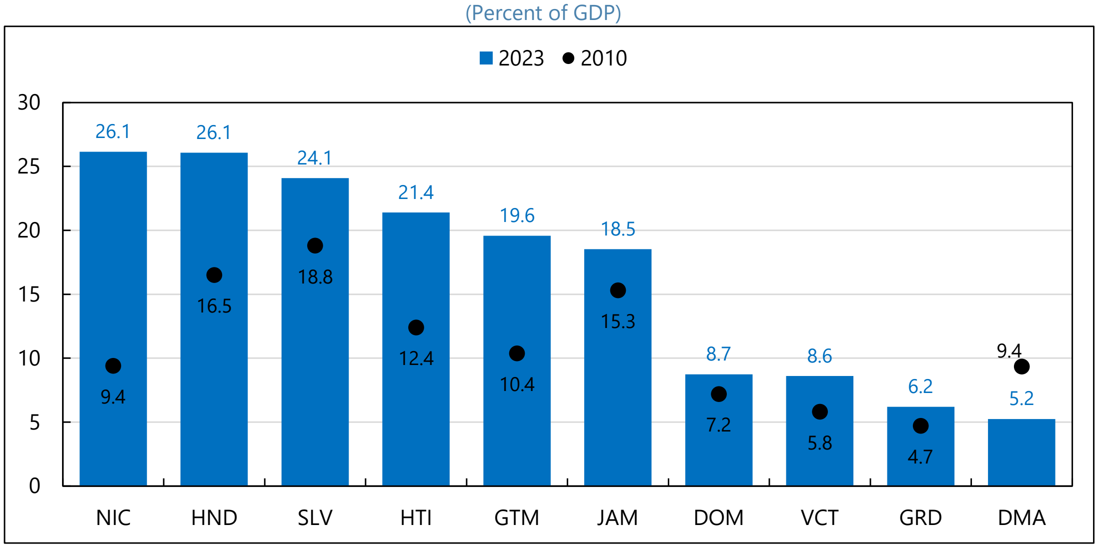
[13] To implement the NDC published in 2020, Nicaragua requires US$7.53 billion to achieve three goals; by 2030, 65 percent of the electrical matrix's installed capacity must come from various renewable energy sources, national CO2 emissions from gross deforestation reduced by 25 percent by 2030 and fluorinated gas consumption reduced (MARENA, 2024).

Annex VI. Remittances and Real Exchange Rate Appreciation[1]

Since 2010, there has been a notable increase in remittances received by several Latin America and Caribbean (LAC) countries. Stylized facts and theoretical models show that remittance inflows lead to real exchange rate appreciation (REER) in recipient countries. Staff's empirical analysis supports these findings. Analysis also shows that large remittance flows cause a stronger and faster appreciation of the REER under a flexible ER compared to a fixed ER regime. This seems corroborated in the experience in Nicaragua under the crawling exchange rate regime. In the face of expected real exchange rate appreciation, additional efforts are needed to maintain the country's competitiveness.

1. Since 2010, several LAC countries, including Nicaragua have experienced a notable increase in remittances. Most of LAC countries have seen a steady increase in remittances over time, with a large jump since the pandemic especially in Central America (due to the favorable U.S. job market conditions). In Nicaragua, the bulk of this increase came in the past two years (from 15.2 percent of GDP in 2021 to 26.1 percent of GDP in 2023). By end-2023, the country has become the highest remittances-receiver country in LAC—relative to its size of the economy—and the fourth largest in the world. By end-2023, remittances have also exceeded other inflows such as official financing, official development assistance and even FDI. Moreover, remittances more than offset the trade balance deficit, and along prudent macrofinancial policies, led to record high gross international reserves.

Remittances: Top 10 Countries in Latin America & Caribbean
(Percent of GDP)



Source: IMF staff calculations.

2. Remittance inflows may lead to REER appreciation in recipient countries.[2] The conclusions of theoretical models are that by increasing domestic household income, remittances

[1] Prepared by Juan Pablo Celis and Yasumasa Morito, with support from Alejandro Fiorito. Metodij Hadzi-Vaskov supported Alina Carare in the guidance of the larger analytical project.

[2] From the existing literature, the evidence of the remittance impacts on the real exchange rate is mixed. For example, Amuedo-Dorantes and Pozo 2004, Acosta et al. 2009, and Hassan and Holmes 2013, provide evidence of remittance flows appreciating the real exchange rate. A few papers, however, have shown either non-existence of this link between remittances and the REER (Rajan &

(continued)

boost spending and prices, particularly of non-tradable goods and services, as the supply of non-tradables is constrained by the available resources in the economy—while tradable prices are set in international markets. Thus, an excess demand will increase the relative price of non-tradable to tradables goods and services. This will cause non-tradables production to increase, thereby leading to a shift of resources from the tradables sector to non-tradables. As the relative prices increase, the real exchange rate appreciates, negatively impacting the economy's traded goods sector's competitiveness.

3. Staff analyzed the impact of remittances on the real exchange appreciation in a cross-country study to inform its policy advice. The analysis investigated how the real exchange rate path behaved following a 1 percent increase in the remittances-to-GDP ratio to all countries and how this path varies across different exchange rate regimes and according to the size of remittance flows, after controlling for the role of GDP per capita and other variables that could influence the real exchange rate path (foreign reserves, terms of trade, and central bank interest rate, etc.).[3]

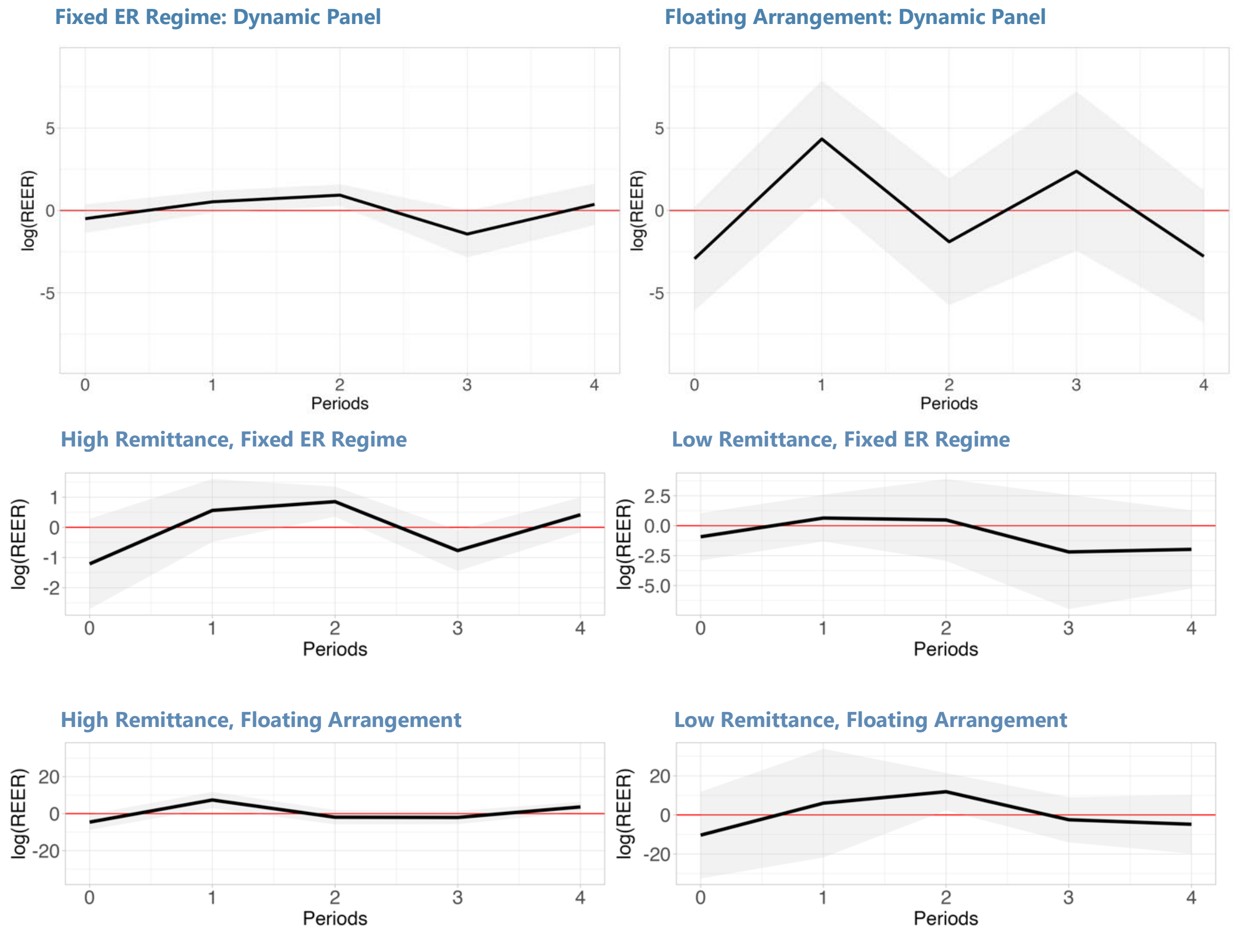
4. The overall results shows that the REER appreciates in response to increased remittance flows, regardless of the exchange rate regime. As reflected in the upper charts, a real exchange rate appreciation is observed both in countries with fixed and flexible exchange rate regimes. This outcome is consistent with the experience in many Centra American countries, including Nicaragua.

5. A stronger and faster appreciation of the REER is observed under a flexible exchange rate regime, and this impact is larger in countries receiving large remittance flows. The chart below illustrates the impulse response functions for both fixed and flexible exchange rate regimes. The right panel reveals that under a flexible exchange rate regime, the REER appreciates more and within the first year, in contrast to fixed exchange rate regimes, where the appreciation is more modest and peaks in the second year. This gradual appreciation of the REER is primarily attributed to changes in price levels anchored by the fixed exchange rate, a finding corroborated by Lartey et al (2012). In both regimes, the impact dissipates after the short-term. Furthermore, as shown in the bottom charts of the panel, the real exchange rate appreciation is much stronger in countries with large remittances.

Subramanian, 2005), or a very small/mixed impact depending on the country sample and time-horizon (Beaton et al. 2017; Izquierdo and Montiel 2006).

[3] To identify the causal effects, the Blundell and Bond estimator was used. To capture the dynamic effects of remittances, the impulse response functions derived from a dynamic panel model was used. Other control variables include non-remittances current account balances, financial openness, and government expenditure. Annual data from 90 countries over 1990-2022 was used. The group of fixed exchange rate regimes includes the countries that in the AREAER are classified as fixed exchange rate regimes, crawling pegs, and crawling bands. Countries with large remittances are countries receiving remittances above the 80th percentile of global remittances; low remittances correspond to countries receiving remittances below the 20th percentile.

Impulse Response Function by Exchange Rate Arrangement



Source: IMF staff calculations

6. **Staff support the authorities' decision to maintain its current de jure crawling peg regime, given the structural characteristics of the economy.** Looking ahead, it is important for the authorities to monitor remittances exchange flows and remain ready to adjust interest rates and/or the rate of crawl to maintain the exchange rate regime and price stability. Policies supporting non-price factors, like increasing productivity and reducing costs of doing business and improving the business climate, are important to support the country's competitiveness in the face of expected REER appreciation pressures. Over the medium-term the current account surpluses are expected to narrow significantly, abating the REER undervaluation. The authorities' efforts to strengthen the monetary transmission mechanism and increase some flexibility in the exchange rate (as related to the BCN commission rate), coupled with financial and capital markets deepening would increase the economy's flexibility in response to shocks. The BCN should assess periodically if the economy reached a new equilibrium and adapt monetary and exchange rate policies as needed. Moreover, policies to support medium-term growth through human capital accumulation and investment in infrastructure, an allocation of remittances towards investment rather than consumption and measures to enhance business climate would also support competitiveness.

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Annex VII. Monetary Policy Developments and Implications[1]

In the past three years, Nicaragua has introduced new domestic currency denominated instruments to mop-up liquidity. Substantial FX flows have warranted this new measure, which has also increased the available monetary policy tools for the BCN. The market reacted positively to this development, which has potentially reduced financial assets dollarization levels and improved monetary policy transmission. The impact on the quasi-fiscal balance has remained muted thanks to substantial reserve accumulation and relatively high international interest rates. Careful calibration of monetary policy—including coordination with fiscal and financial measures and avoiding sharp policy pivots—and a clear communication strategy remain crucial for monetary policy implementation. New measures that would help mitigate FX risks could also be considered.

A. Background

1. Nicaragua uses the exchange rate as the nominal anchor for monetary policy. The crawling rate that guides this policy has been decreasing since its inception, from 12 percent in 1995 to the current 0 percent.[2] Given the structural characteristics of the Nicaraguan economy—the U.S. as the primary trading partner, commodities comprise the majority of exports, high de facto financial dollarization, and a large informal sector—the crawling rate has helped maintain exchange rate and macrofinancial stability, the key monetary policy goals.

2. The introduction of central bank domestic currency securities in 2022 has been the main recent change in the operational monetary framework. The BCN uses three sets of monetary policy instruments: (i) pre-announced daily nominal devaluations (which have been 0 since January 2024); (ii) legal reserve requirements; and (iii) liquidity instruments (which include open market operations, repos, conducted with its own or other securities and daily deposits, and lending facilities). The BCN introduced a monetary reference rate in April 2020 to signal the cost of córdobas in monetary operations, particularly repos and deposit facilities. Prior to 2022, the BCN issued securities in U.S. dollars to manage liquidity, and the role of domestic currency instruments was limited. Nicaragua's official currency is the córdoba, but financial transactions and payments can be conducted in foreign currency (U.S. dollar). This represents a de facto partial dollarization, and financial dollarization levels are very high (98.5 percent of credit as of June 2024).

3. The BCN continued using córdoba-denominated instruments to mop-up increased liquidity in 2023 and 2024, and, as these became the preferred instrument, started adjusting their rates:

- The issuances of these instruments—with a maturity up to a year[3]—serves to contain the expansion of monetary aggregates in the face of large increases in net foreign assets (¶12). The

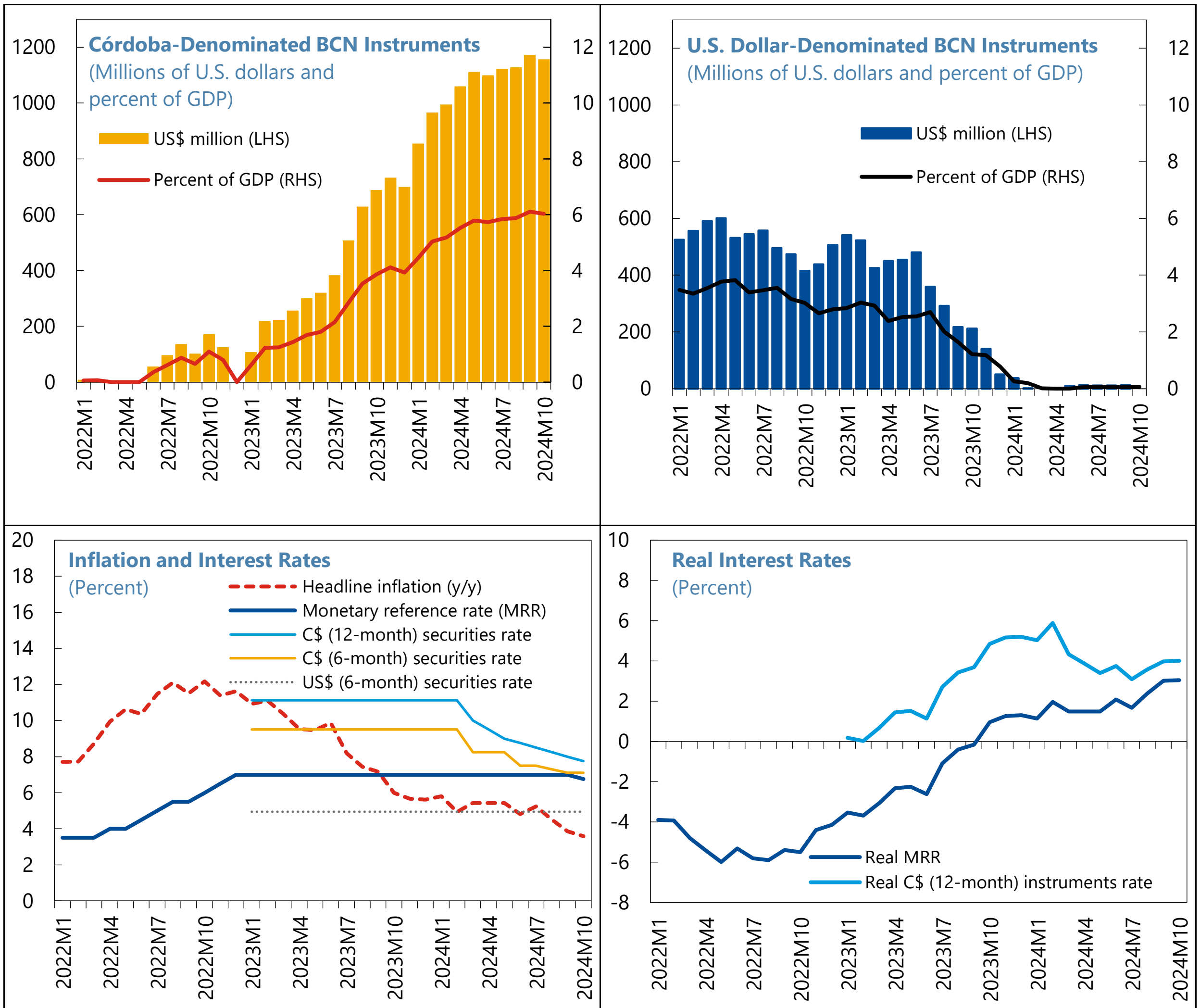
[1] Prepared by Alejandro Fiorito.

[2] The depreciation was 10 percent in 1999, 6 percent between 2000 and 2003, 5 percent between 2004 and 2019, 3 percent in 2020, 2 percent in 2021 and 2022, and 1 percent in 2023.

[3] While these securities had a maturity of up to 3 months, in 2023, the BCN introduced instruments with longer maturities (6 months in January 2023 and 12 months in July 2023).

córdoba-denominated securities stock rose rapidly, given that these securities offered considerably better rates than U.S. dollar-denominated ones (about 5.5 percentage points higher than the interest rate for the comparable 6-month security during 2023).

- In February 2024, once the market had transitioned to demanding mostly córdoba-denominated securities, the BCN started lowering the rates of these instruments (while keeping the dollar-denominated rates constant), bringing them close to the monetary reference rate and closing the gap with the comparable U.S. dollar-denominated interest rate.[4]



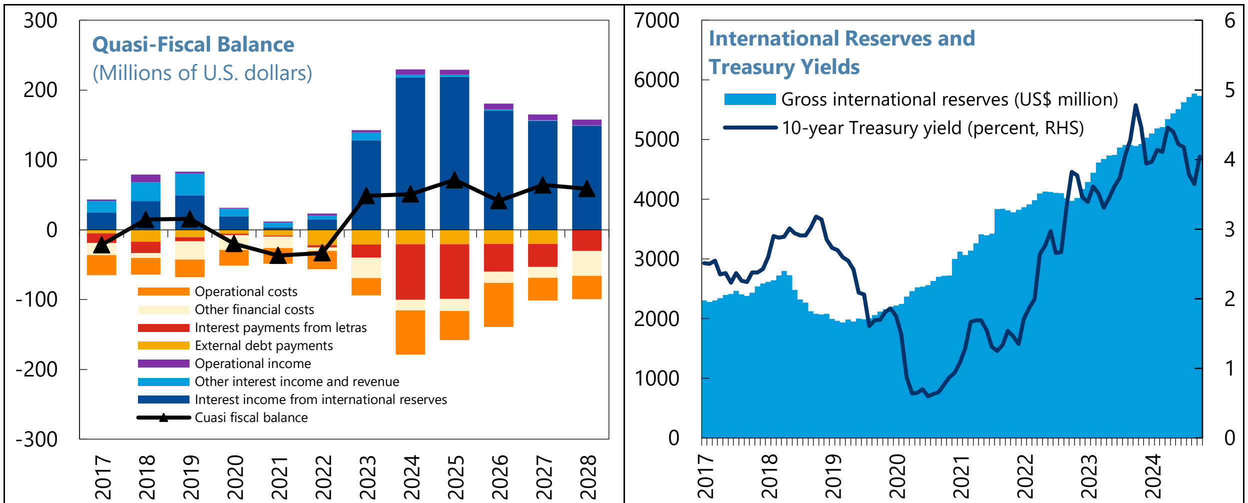
Sources: BCN and IMF staff calculations.

B. Implications

4. The impact of these policies on the quasi-fiscal balance has been limited and surpluses are expected over the projection period. Despite the large stock of securities and their relatively

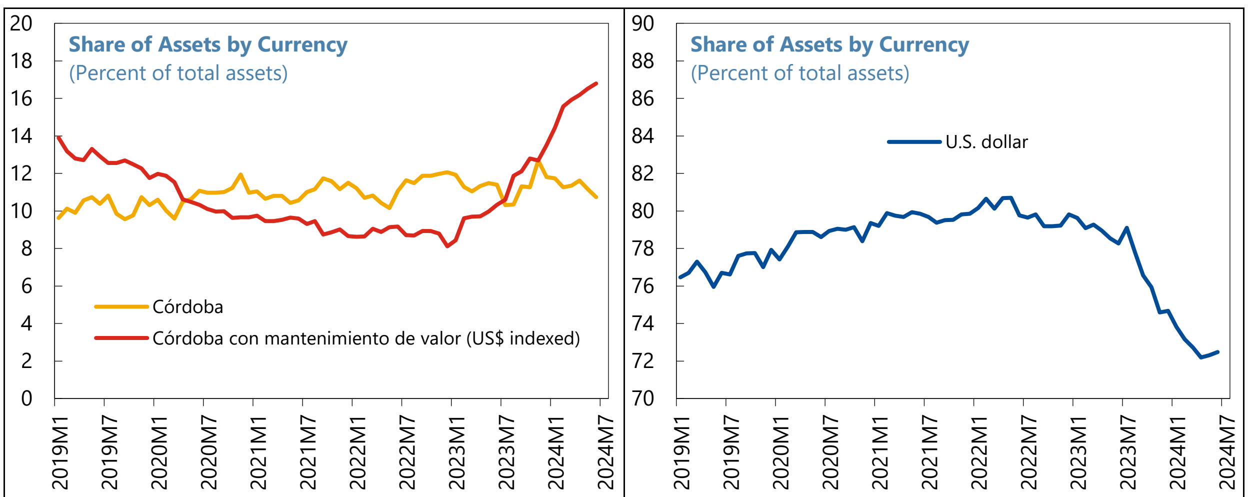
[4] Since January 2023, the BCN has maintained its monetary reference rate at 7 percent—after increasing it from 3.5 percent in 2022 as the Federal Reserve hiked rates—and above the estimated natural rate of 6 percent. With inflation decelerating, the real monetary reference rate has been positive since 2023Q4.

high interest rates, the BCN had a surplus of US$48.8 million in 2023, its first since 2019. Similar surpluses are expected for the next five years on the back of a substantial stock of international reserves, and, at least in the short-term, relatively high international interest rates.



Sources: BCN and IMF staff calculations.

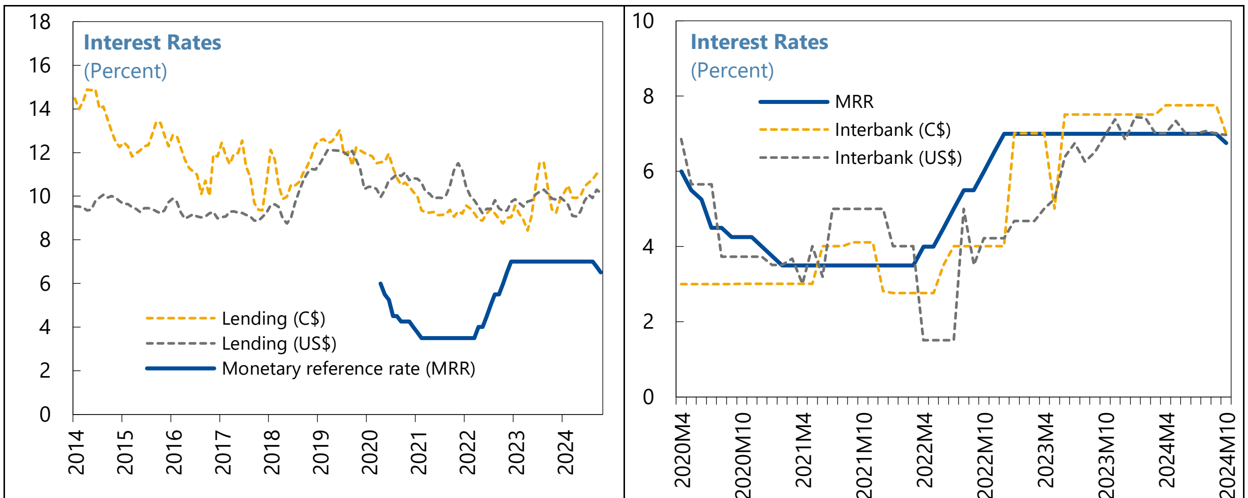
5. Although it has been mainly associated with an increase in assets denominated in córdoba and indexed to the U.S. dollar, some degree of *cordobization* (or de-dollarization) of banking assets is occurring. Dollar-indexed assets have increased from an average of 10 percent in 2019-2022 to 17 percent as of June 2024, explaining the equivalent decline in the share of U.S. dollar assets. The córdoba assets' share have remained between 10 and 13 percent in 2024, and a majority of these are now BCN securities.



Sources: Superintendency of Banks and Other Financial Institutions (SIBOIF).

6. To make a dent in the overall financial dollarization, additional measures are needed. In the short-term, these instruments are not expected to further change banks' behavior, as banks maintain a dollar-heavy portfolio, due to the strong demand of credit in U.S. dollars.[5] But, over the medium-term, the popularity of the córdoba might increase, especially if combined with other measures, like currency-differentiated reserve requirements and/or provisioning (for unhedged agents), or the recent push to denominate prices of goods and services only in córdobas and make card payments only in córdobas.

7. There is some recent evidence of a somewhat stronger transmission of the monetary reference rate to market rates. Over the last decade, as the crawling rate was reduced, interest rates for loans in córdoba declined and converged to the lending rate in U.S. dollars (albeit at a relatively high rate of 9-10 percent in 2022-2024). Moreover, lending rates in córdobas are responding to reference rate changes, and narrowing the differential with the reference rate, with a lag. Furthermore, interbank córdoba and dollar rates have been converging to the monetary reference rate in recent months. The increase of córdoba-denominated securities in the market, and the associated decrease of assets' dollarization, likely also had a small positive impact on monetary policy transmission.



Source: BCN.
Note: Using 3-month rolling average for lending rates.

C. Recommendations

8. Policy decisions must be properly sequenced and clearly communicated to further strengthen the monetary policy transmission mechanism. Making the most of a supportive environment, the BCN's communication efforts should focus on explaining the basis and rationale of its policy decisions to the public, increasing regular engagement with external (public and private) stakeholders, and educating the broad public on monetary policy implementation. The BCN should consider developing and publishing a communication strategy, particularly if and when envisioning

[5] Historically, credit in dollars has been very high and displayed little variation. Including credit in córdobas but indexed to the U.S. dollar, dollarized credit has amounted to between 97 and 99 percent of total credit between 2008 and 2024. Deposits do seem to display some increased preference for domestic currency as córdoba deposits stand at 18 percent, up from historical levels around 13 percent and with "mantenimiento de valor" phasing out from 22 percent in 2008 to 13 percent in 2024.

significant policy changes.[6] Regular early communication of policy decisions—as done in 2023 regarding the crawling rate—can enhance policy predictability and impact. The BCN can also focus on reducing the occasional volatility in these securities' rates to further strengthen monetary transmission mechanisms, especially as the demand for these córdoba-denominated instruments has remained strong, and to avoid the market switching back to the U.S. dollar-denominated securities.

9. Given the increased appetite for córdoba-denominated assets, additional measures to mitigate FX risks and improve monetary policy transmission could be considered. Increasing market guidance of interest rate determination by introducing FX auctions and/or employing differentiated reserve requirements and/or provisioning for dollar and córdoba assets could further enhance monetary policy implementation. Further developing domestic markets could also have a positive impact (Annex IX).

10. The BCN should continue to monitor external developments and their impact on its quasi-fiscal balance, given increased interest expenses over the medium-term. Potential crowding out of the central government debt—which is issued with longer maturities—and/or of private credit also warrant continued attention.

[6] The IMF's Monetary and Capital Markets Department Handbook on Central Bank Communication offers guidelines to enhance communication and develop an effective communication strategy and the IMF's Central Bank Transparency Code provides advice on transparency best practices, which are closely linked to improved communication. Communication and transparency efforts can foster credibility and thus enhance policy implementation.

Annex VIII. Credit Growth[1]

Despite the recovery in the nominal credit level, the recovery compared to the GDP remains very sluggish. Staff's econometric analysis suggests various factors explaining this phenomenon, among them the slow recovery in deposits to GDP, a shift in the economic growth model to private consumption led, which traditionally used less credit, and the shocks that affected banks' balance sheets and increased NPLs. Policies focused on increasing deposits, fostering financial inclusion, diversifying the credit portfolio, and implementing sound macro-financial strategies could be considered to enhance the credit-to-GDP ratio in Nicaragua.

1. **The socio-political crisis of 2018 exerted a profound negative impact on the banking sector**. No banks failed as banks were able to contract their balance sheets also on the assets side when the sector was faced with substantial withdrawals of deposits in 2018-19. There was a significant contraction in credit in 2018-20, and an increase in non-performing loans and distressed assets (much larger than during the pandemic). While deposits rebounded relatively swiftly in nominal terms, gross credit only reached its pre-crisis peak by end-March 2024, six years following the onset of the crisis. Notably, the resurgence in credit has been largely driven by sectors such as credit cards, commercial loans, and personal consumption.

2. **Despite the nominal recovery in credit, the recovery compared to GDP remains very sluggish**. Following a peak of 40 percent in the first quarter of 2018, the credit-to-GDP ratio experienced a substantial decline, stabilizing at around 28 percent by end-2023 and throughout the first half of 2024. Moreover, by end-2023, Nicaragua had the lowest credit-to-GDP ratio within the Central American region.

3. **To delve deeper into this phenomenon, this annex discusses the credit-to-GDP gap and analyzes the credit-to-GDP ratio**. First, the credit-to-GDP gap is defined as the deviation of the credit-to-GDP ratio from its long-term trend, serving as an indicator of financial stress by gauging excessive credit growth relative to this trend. For this method, both one-sided Hodrick-Prescott (HP) and Hamilton filters were used to estimate the trends. Despite the current subdued actual credit-to-GDP ratio, the trends[2] have dipped slightly below this ratio, indicating the absence of a negative credit-to-GDP gap. This suggests that the recent low credit-to-GDP ratio may reflect a new equilibrium in the relationship between credit and GDP. Second, this annex examines the main drivers of credit-to GDP ratio using the standard Auto-Regressive Distributed Lag (ARDL) bounds testing approach over 2008-2023 (below table of results).[3] The results indicate that long-term

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[1] Prepared by Mohamed Diaby.

[2] We used three different filters to derive the long-term trends. HP filter, the Hamilton filter and the post-2012 filter with the latter filter focuses on the post 2012 period to control for potential effect of the 2008 financial crisis. Concerning the HP filter, while some authors have critiqued this measure (Hamilton (2018), Baba et al (2020)), it has remained a standard in macro-financial studies (Drehman and Yetman (2021)).

[3] The model presented below is selected after optimal lag selection for each variable, cointegration, bounds and diagnostic tests.

positive changes in the credit-to GDP ratio are explained mostly by increases in GDP per capita and deposits-to-GDP ratio and decreases in NPLs, inflation, and the sectoral concentration ratio. Additionally, the small correction coefficient of the long-term relationship suggests a sluggish adjustment process back to equilibrium, which aligns with our stylized facts.

4. The results suggest several potential explanations for the stagnation of the credit-to-GDP ratio in the aftermath of the 2018-19 socio-political crisis and the pandemic. Since a key determinant is the GDP per capita, one plausible explanation pertains to a structural shift between the correlation and movement of these two series. The scatter plot depicts the relationship between the credit-to-GDP ratio and GDP per capita in Nicaragua from 2001 to 2022. Fitted lines for the pre-2018 and post-2018 periods reveal a strong positive correlation prior to the crisis, which has since transitioned to a slightly negative correlation. This decoupling may reflect that the increase in GDP per capita in recent years is associated with a shift in growth demand components, from exports and investment, which typically necessitate greater credit, to private consumption, especially services, which require less credit, and are largely sustained by remittances Another contributing factor seems to be the sluggish recovery in deposits as a share of GDP. While total deposits in the banking sector reached 216 billion córdobas, surpassing the pre-crisis peak of 171 billion córdobas, the deposits-to-GDP ratio has not regained its pre-crisis level of 40 percent, remaining around 33 percent over the past three years. Furthermore, the banking sector has recently shown a growing concentration of its portfolio in fewer sectors, such as personal consumption and commercial and industrial loans, which may hinder the overall sector's expansion. Conversely, sectors such as agriculture, mortgage, and livestock have experienced significantly lower credit allocations, and they are also important to growth. The Herfindahl-Hirschman Index (HHI) concentration has shown an upward trend since 2007, peaking in 2023.

Long-Term Relationship and Adjustment Coefficient

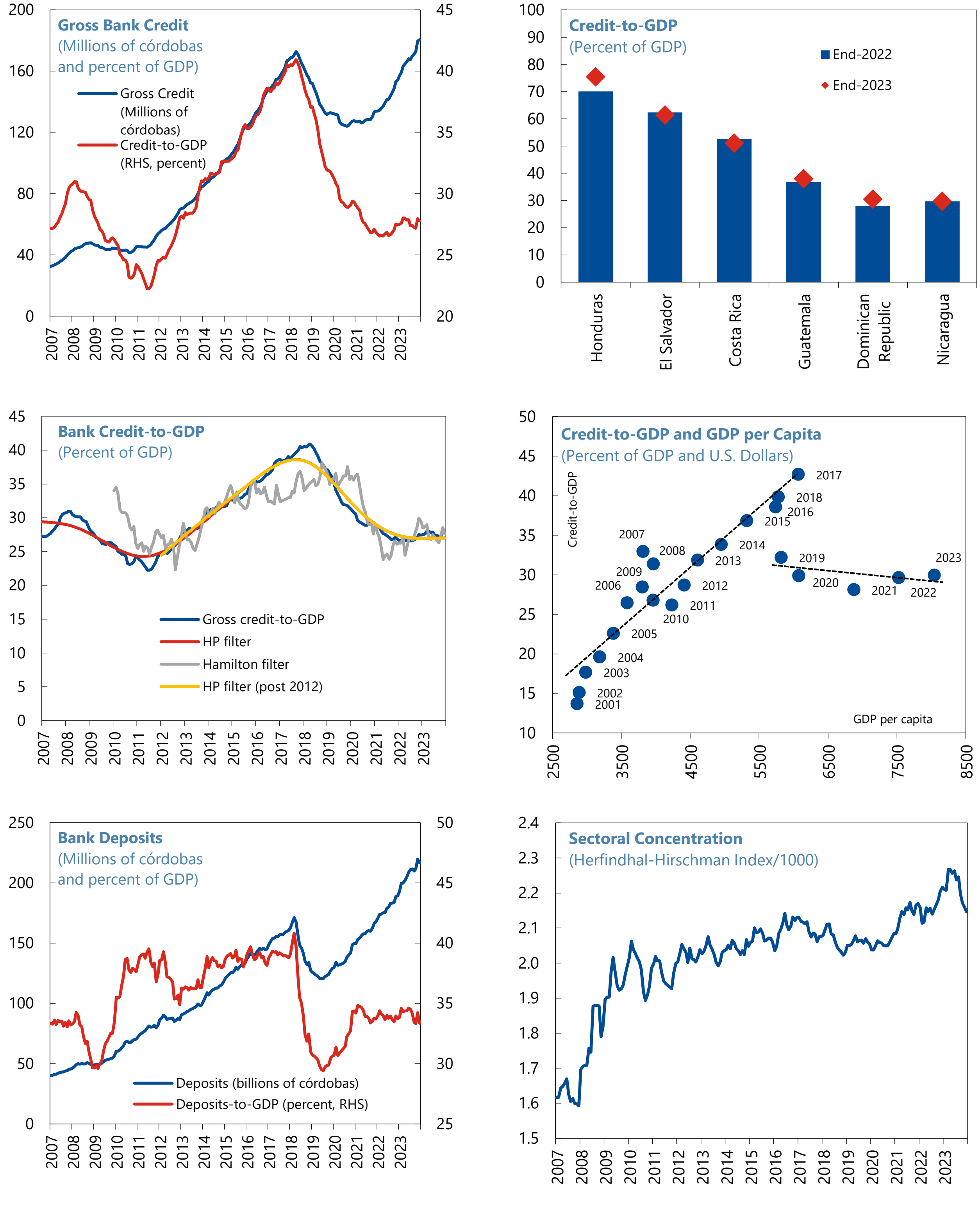
ARDL model	
Dependent Variable: Credit-to-GDP ratio	
Adjustment coefficient	-0.026***(0.005)
Long-term relationship	
GDP-per-capita (log)	18.188***(4.459)
Deposit-to-GDP (%)	0.827**(0.414)
Inflation (%)	-0.577***(0.207)
Non-performing loans (%)	-5.108***(1.189)
Sectoral concentration ratio (hhi/1000)	-0.063***(0.016)

Sources: BCN and IMF calculations.

Note: Number of observations-192. R-square=0.5. Standard errors are in parantheses. **,*** denotes significance at 5% and 1%, respectively.

5. Several policies could enhance the credit-to-GDP ratio and support medium-term growth. The authorities should prioritize policies that bolster bank deposits and more broadly financial inclusion, such as strengthening consumer protection and promoting financial inclusion and literacy through further simplification of some banking accounts and improvement of payment system. The authorities are also encouraged to monitor credit portfolio concentration if the current trends continue, and to simplify requirements for small and medium enterprises loans. Furthermore, sound monetary and macroeconomic policies that effectively curb inflation, and effective regulatory and supervisory practices, such as improvements in credit risk assessment and more robust loan monitoring practices, are also essential for enhancing the credit-to-GDP ratio.

Figure 1. Nicaragua: Credit to GDP



Sources: BCN, SIBOIF, World Bank, and IMF staff calculations.

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Annex IX. Developing the Bond and Capital Markets[1]

Nicaragua's bond and capital markets remain underdeveloped. In addition to the current efforts to integrate into a regional stock market listing, a multipronged approach is needed to develop capital markets.

1. Nicaragua's bond and capital markets are underdeveloped, primarily dominated by securities issued by the government and the central bank. Government securities are predominantly dollar-denominated or dollar-indexed instruments, with a maturity ranging from 3 to 5 years, used for residual financing, with US$79 million (0.4 percent of GDP) issued last year. Conversely, the securities issued by the BCN are largely intended for liquidity management, with maturities ranging from 1 day to 1 year, and are dominated by a recent increase in córdoba-denominated instruments (letras), given the increased demand for instruments in córdobas, and due to the central government stock of deposits and attractive rates (Annex VII). Activity in the stock exchange (the Bolsa de Valores de Nicaragua, BVDN) remains limited, with an average daily trading volume of US$4 million in 2024.[2]

2. Within the CAPDR region, El Salvador, Honduras, and Nicaragua exhibit lower capitalization and smaller trading volumes, underscoring persistent liquidity challenges. Panama and Costa Rica are recognized for having the most sophisticated and developed bond and capital markets.[3] For example, the Bolsa Nacional de Valores (BNV) of Costa Rica, the oldest stock exchange in Central America, has a trading volume US$164 million, as of September 2024. It benefited from modernized trading process (to allow clearing and settlement of debt securities according to international standards) and enhanced securities regulation, on the background of strong appetite for government securities and recent focus on green financing. Recognizing the incipient stage in Nicaragua, the authorities focused their efforts in integrating their listings with El Salvador and Panama, with a first stage of completion expected in 2025.

3. To enhance the bond and capital markets in Nicaragua, a multipronged approach is needed, encompassing capacity development, strengthening the regulatory framework, modernizing market infrastructure, and increasing investor awareness. The initial step should involve a thorough assessment of the capital markets. Following this, the development of a strategy to implement a dynamic domestic public debt market that promotes liquidity and facilitates the generation of a "risk-free yield curve" (as a benchmark financial instrument and tool to assess the cost of capital) is essential. This requires adequate coordination between the central bank and the treasury and the development of secondary markets. Furthermore, gradually diversifying investment options—such as encouraging corporate listings (bonds and then equities) and introducing innovative financial instruments—is crucial. Finally, fostering institutional investment and enhancing transparency and disclosure standards will be vital in attracting a broader base of investors.

[1] Prepared by Mohamed Diaby.

[2] As of end-November 2024, a total of US$1 billion has been traded on the capital market in Nicaragua in 2024, with 93 percent of the activity coming from public securities. There are only 6 traded private companies.

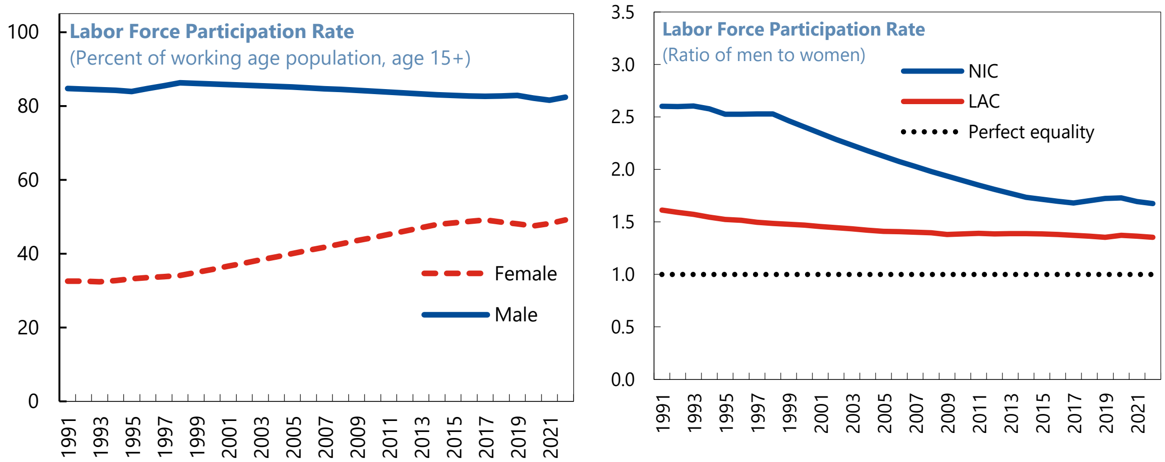
[3] Panama and Costa Rica also have relatively more developed financial sectors, with credit-to-GDP ratio of about 75 and 52 percent, respectively, as of end-2022 and end-2023.

Annex X. Gender Gaps[1]

The female labor force participation (FLFP) gap in Nicaragua remains significant. Eliminating the gender gaps in labor force participation could enhance productivity, with sizeable potential output gains ranging from 13 to 26 percent.

1. **Although female LFP has improved over the years, a significant gender gap remains.** The participation of women in the labor force improved over the last three decades from 33 percent in 1991 to 49 percent in 2022. However, a significant gap remains[2] (about 33 percent) and the FLFP stagnated to 49 percent since pre-crisis. Furthermore, the FLFP gap in Nicaragua is high relative to peers. The ratio of men to women in terms of labor force participation rates, at 1.68, is above the LAC regional average (1.35 in 2022), and it remains above the 90th percentile relative to both low-income developing countries (LIDCs) peers and compared to LAC region peers (text chart).

Labor Market Gaps



Sources: IMF Gender Labor Market Decomposition Toolkit and IMF staff calculations.

2. **Estimates of potential gains in GDP from lowering gender gaps in the labor market and reducing early marriage are considerable**. Three distinct approaches highlight gains between 12.7 and 26.3 percent (based on available 2012 statistics). The first methodology from Ostry et al. (2018) underscores the economic gains from closing labor participation gaps between men and women contributing to stronger productivity growth and shows that completely closing the gender gap would yield GDP gains of 26.3 percent.[3] The second methodology using the IMF's equity gains toolkit considers the potential economic gains from closing gender gaps in employment rates, hours

[1] Prepared by Jessie Kilembe.

[2] Additional disparities in labor market outcomes include a smaller proportion of women than men above the statutory pensionable age receive pensions, and the share of unemployment for female youth is higher than that of male youth.

[3] The estimated elasticity of substitution (about 2) implies that female and male labor force are complements in production, and therefore, an increase in female labor force participation increases GDP as it corresponds to a rise in aggregate labor supply. The

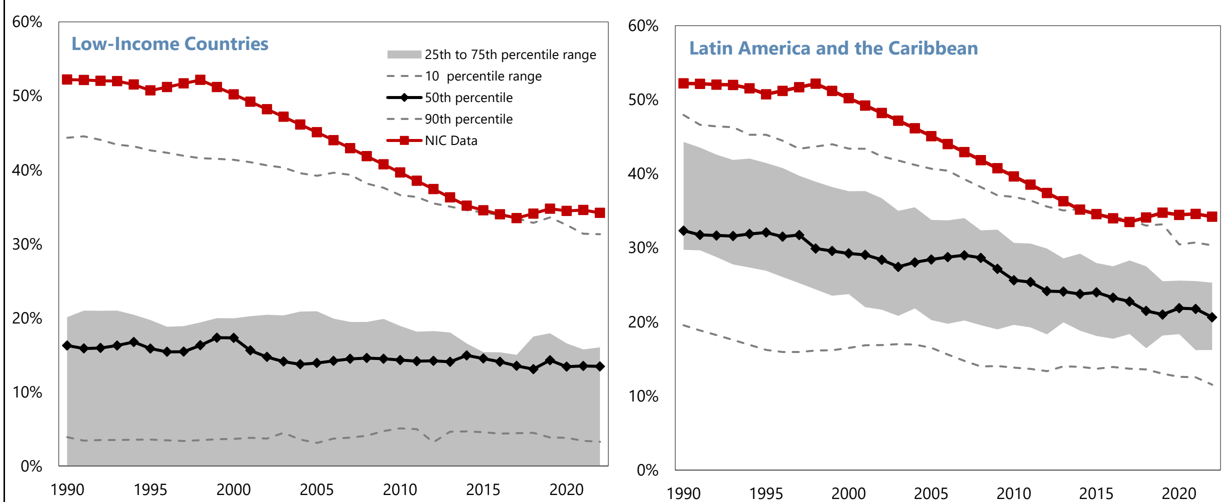
(continued)

worked, and earnings if men and women had equal access in the labor market. For Nicaragua, these gains are estimated at 12.7 percent (calculations are based on 2012 statistics). In Nicaragua, 10 percent of women (aged 20-24) were married before the age of 15, and 35 percent of women (aged 20-24) were married before the age of 18.[4] The third methodology analyses the impact of decreasing early marriage. Using Mitra et al (2020), reducing early marriage to the average level in LAC would lead to gains in real GDP per capita of 0.5 percent, and completely eradicating child marriage would lead to gains in real GDP per capita of 1.41 percent.

Equity Gains from Closing Labor Market Gender Gaps in Nicaragua

Sources: IMF Output Gains Toolkit based on Ostry and others (2018).

Gender Gaps



Sources: IMF Output Gains Toolkit based on Ostry and others (2018).

3. **Gains from closing the labor force participation gap in Nicaragua are much higher compared to peer countries.** The gains are higher than the median gain for LIDC and LAC regional peers by 10 and 17 percentage points, respectively, and are one of the largest gains observed for CAPDR countries (text chart).[5]

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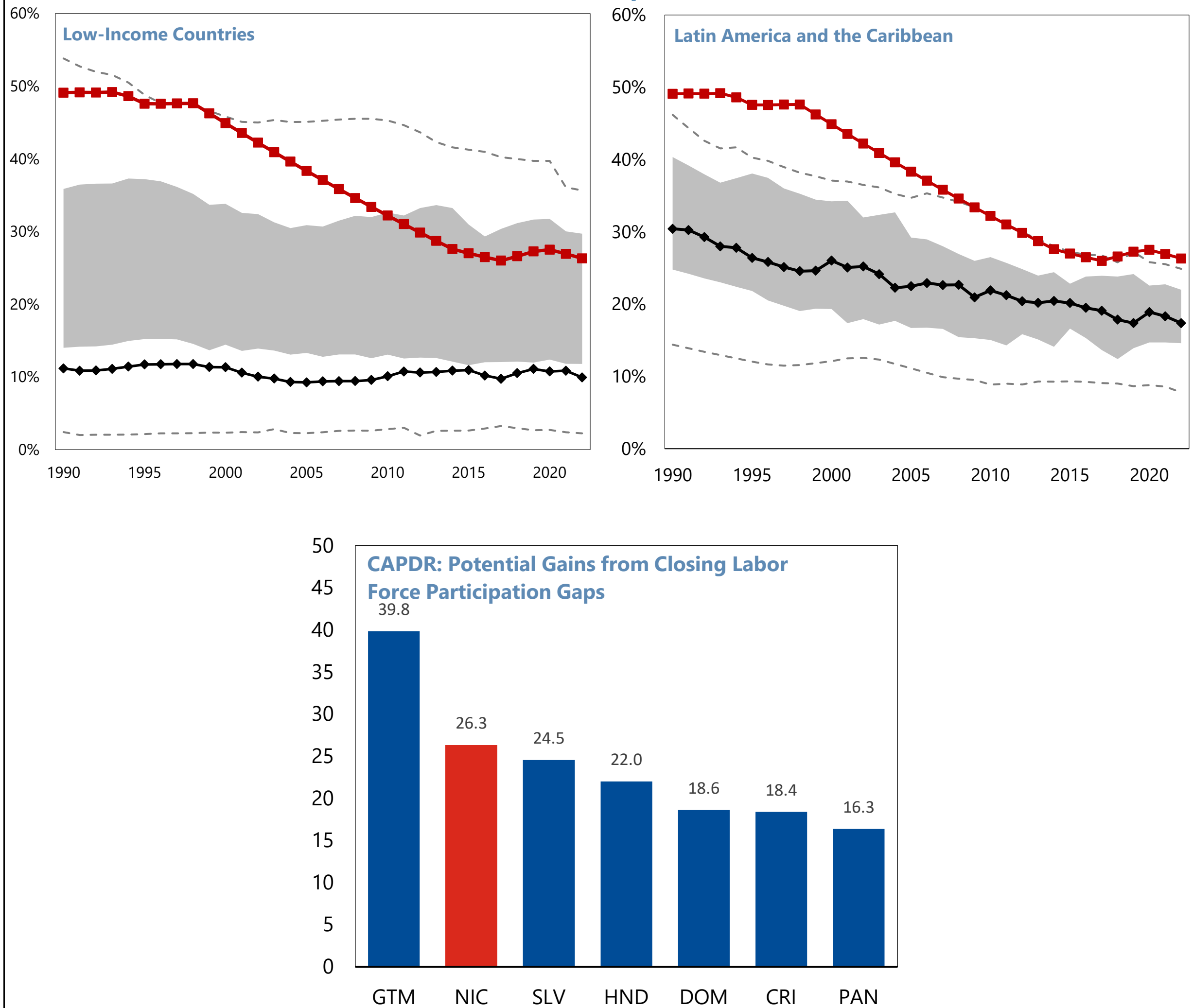
model considers a standard Cobb-Douglas production function with capital (*K*) and labor (*L*), $Y = AK^{\alpha}L^{(1-\alpha)}$ with a capital share equal to α. Labor is a function of total labor force (*LF*) and the participation rates of females and males, $L = f(L_f, L_m) \times LF$, where $f(L_f, L_m)$ is a constant elasticity of substitution aggregator, $f(L_f, L_m) = (L_f^{\eta} + \delta L_f^{\eta})^{(1-\eta)}$ with elasticity of substitution σ and $\eta = 1 - 1/\sigma$. The share parameter, δ, is defined as the ratio of female work hours to male work hours and is calibrated to 0.83 for Nicaragua in the output gains calculation.

[4] See UNICEF.

[5] Output gain in this context refers to the potential increase in economic output that can be achieved by reducing barriers to women's participation in the labor market, by enabling more women to enter and actively contribute to the workforce. Thereby increasing women's participation in the labor market could result in higher levels of output, leading to overall economic growth.

Potential Output Gains



Sources: IMF Output Gains Toolkit based on Ostry and others (2018).

4. This analysis suggests that continuing to raise female labor force participation would support higher medium-term GDP growth. Increasing the FLFP could help mitigate the negative effects on the labor supply and long-term growth due to emigration and demographics. Nicaragua could tap into a larger pool of talent and skills by reducing barriers to women's participation in the labor market, leading to increased productivity and economic growth. Staff recommend continual efforts to enhance women's economic empowerment and improve gender disaggregated data collection to help identify and address gaps in labor market outcomes and inform policy development. Policies to consider relate to legal provisions[6] on childcare, forbidding discrimination in recruitment based on age, marital, or parental status, and child marriage, and permitting flexible work.

[6] World Bank's Women Business and the Law report (2024) publishes legal framework scores based on rights enshrined in legislation. Nicaragua's average legal framework score is 67.5 (out of 100), which is lower than the regional average for Latin America and the Caribbean.

Table 1. Nicaragua: Selected Macro-Critical Gender-Related Indicators

							WHD Countries 1/				
	2018	2019	2020	2021	2022	2023	Latest year available	25th Percentile	75th Percentile	Median	Average
Composite Gender Indices											
Female Human Capital Index (HCI) 2/	0.53	...	0.53	...	...	...	2020	0.53	0.63	0.60	0.59
Gender Development Index (GDI)	0.94	0.95	0.95	0.95	0.95	...	2022	0.97	1.01	0.99	0.99
Gender Inequality Index (GII) 3/	0.41	0.41	0.41	0.40	0.40	...	2022	0.29	0.42	0.37	0.36
Global Gender Gap Index 2/	0.81	...	0.80	0.80	0.81	...	2022	0.71	0.76	0.74	0.74
Women Business and the Law Index (WBL) 4/	86.25	86.25	86.25	86.25	86.25	86.25	2023	75.00	88.75	83.13	81.89
Labor and Income											
Gender Gap (F-M) in Employment-to-Population Ratio, Modeled ILO Estimate (15+ yrs)	-32.40	-32.91	-32.30	-31.22	-31.68	-31.71	2023	-20.16	-20.04	-22.06	-18.62
Gender Wage Gap 5/	...	...	...	...	...	...	...	...	...	...	...
Gender Gap (F-M) in Informal Employment Rate	...	...	...	...	...	...	...	...	...	...	...
Gender Gap (F-M) in Labor Force Participation Rate, Modeled ILO Estimate (15+ yrs)	-34.11	-34.79	-34.62	-33.41	-33.24	-33.14	2023	-23.77	-17.87	-23.64	-18.91
Gender Gap (F-M) in Unemployment Rate, Modeled ILO Estimate (15+ yrs)	0.10	0.05	-0.20	-0.12	0.19	0.22	2023	1.17	2.24	2.54	1.15
Gender Gap in Gross Pension Replacement Rate (as share of average worker earnings)	...	...	...	...	...	...	...	...	...	...	...
Leadership and Social											
Proportion of Seats Held By Women in National Parliaments	45.65	44.57	47.25	50.55	51.65	51.65	2023	22.52	37.06	28.72	29.81
Proportion of Women in Managerial Positions	...	...	...	...	...	...	...	...	...	...	...
Prevalence of Intimate Partner Violence among Ever-partnered Women (in percent)	23.00	...	...	...	...	...	2018	21.00	28.00	24.00	25.23
Access to Finance											
Gender Ratio: Number of Household Loan Accounts with Commercial Banks (Females' Accounts for 1,000 Female Adults / Males' Accounts per 1,000 Male Adults)	...	...	...	...	...	...	...	...	...	...	...
Gender Ratio: Number of Household Deposit Accounts with Commercial Banks (Females' Accounts per 1,000 Female Adults/ Males' Accounts per 1,000 Male Adults)	...	...	...	...	...	...	...	...	...	...	...
Gender Gap in Adults Who Borrowed From a Financial Institution (Share of Female - Share of Male, percentage points)	...	...	...	1.91	...	...	2021	-1.69	-10.61	-7.27	-5.31
Gender Gap in Adults Who Own a Financial Institution Account (Share of Female - Share of Male, percentage points)	...	...	...	-10.10	...	...	2021	-3.84	-6.91	-9.51	-2.05
Gender Gap in Adults with Mobile Money Account (Share of Female - Share of Male, percentage points)	...	...	...	-1.59	...	...	...	...	...	...	...
Gender Gap in Adults Who Made or Received Digital Payments in the Past Year (Share of Female - Share of Male, percentage points)	...	...	...	-5.42	...	...	2021	-5.05	-7.70	-7.74	-1.98
Education											
Gender Gap (F-M) in Adult Literacy Rate	...	...	...	...	...	...	...	...	...	...	...
Gender Gap (F-M) in Mean Years of Schooling	0.57	0.58	0.59	0.59	0.59	...	...	...	...	...	...
Gender Gap (F-M) in Primary Gross Enrollment Rate	-4.10	-3.70	-3.60	-3.54	...	...	2022	0.03	-1.13	-2.24	-0.32
Gender Gap (F-M) in Secondary Gross Enrollment Rate	...	...	...	...	...	...	2021	5.24	2.01	4.53	4.38
Gender Gap (F-M) in Tertiary Gross Enrollment Rate	4.27	4.22	4.21	5.05	...	...	...	...	...	...	...
Health											
Gender Gap (F-M) in Adult Mortality Rate per 1,000 Adults 6/	-88.96	-91.51	-102.68	-89.93	-88.55	...	2022	-69.28	-105.18	-89.74	-86.79
Gender Gap (F-M) in Life Expectancy at Birth	5.72	5.94	6.36	5.97	5.94	...	2022	5.93	5.86	6.39	6.04
Maternal Mortality Ratio per 100,000 Live Births, Modeled Estimate (15-49 yrs)	74.00	75.00	78.00	...	...	...	2020	33.00	96.00	70.00	78.69
Total Fertility Rate (Births Per Woman)	2.40	2.38	2.35	2.32	2.28	...	2022	1.54	2.28	1.79	1.77

Source: IMF GenderDataHub.

1/ Group aggregates are calculated where data are available for at least 50 percent of countries for a given indicator, and for weighted averages, where the relevant weights are also available. Data are reported for the latest year for which aggregates are available. Detailed metadata, including weights used for averages, are available on the Gender Data Hub.

2/ This index is scored on a scale of 0-1, with a higher score corresponding to better outcomes for women.

3/ This index is scored on a scale of 0-1, with a higher score corresponding to higher inequality (worse outcomes for women).

4/ The Women, Business, and the Law Index is reported on a scale of 0-100, with a higher score corresponding to better outcomes for women.

5/ The Gender Wage Gap is the difference between average earnings of men and average earnings of women expressed as a percentage of average earnings of men (as calculated by the International Labor Organization). The gap listed here is for Occupation = "Total" under the ICSO 08 Classification.

6/ The adult mortality rate refers to the probability that those who have reached age 15 will die before reaching age 60 (shown per 1,000 persons). In other words, a value of 150 means that out of 1,000 persons who have reached age 15, 150 are expected to die before reaching age 60, and 850 are expected to survive to age 60. This is based on a "synthetic cohort": current life-table mortality rates are applied to the current cohort of 15 year olds, assuming no changes in mortality.

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Annex XI. The IMF 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.

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, and their mandated focus are fiscal governance, AML-CFT, rule of law, central bank governance and operations adequacy, financial sector oversight and quality of market regulation.

3. For Nicaragua, as detailed in the 2023 Article IV Staff Report, in light with vulnerabilities relevant to surveillance, staff advised has focused on the following macro-critical items: fiscal transparency, governance and anti-corruption frameworks, AML/CFT framework, rule of law, and central bank autonomy (safeguards). Some aspects of market regulation were covered under the business climate sections of previous staff reports and are explained in further detail here. The RFI/RCF also included commitments primarily on fiscal transparency and the AML/CFT framework, and the 2021 Safeguards Assessment established recommendations for the central bank autonomy. The 2022 and 2023 Article IV Staff Report and Annexes X and XI, and in this report Annexes XII and XIII cover developments, the implementation of the policy advice and the status of commitments on fiscal transparency, governance and anti-corruption frameworks, AML/CFT framework, rule of law, and central bank autonomy (safeguards).

4. Despite progress in certain areas, the rule of law in Nicaragua faces significant challenges that may impact investment and growth, due to systemic inefficiencies and recent developments. The authorities have undertaken efforts to digitize case management systems, provide training for judicial officials, and implement comprehensive procedural code reforms, which according to independent legal practitioners has contributed to greater efficiency in case adjudication. However, the judiciary continues to grapple with issues such as inadequate independence and resources, lack of transparency, and systemic inefficiencies, which undermine its ability to adequately protect property rights and contract enforcement. In addition, delays remain in filling vacant positions in the Supreme Court of Justice (SCJ), and the sanction and dismissal of court officers through proceedings conducted by Judicial Inspectors and adjudicated by the National Council of Administration and the Supreme Court of Justice in expedited, closed-door sessions, provide limited time for implicated judges to prepare an adequate legal defense and therefore jeopardize judicial independence. Most importantly, the recent first round approval of the Constitutional reform further impacts the independence of courts. The draft amendment grants the Office of the Presidency the authority to "run the government and as head of state to coordinate all branches of government", including the legislature and the judiciary, in contrast with the original language of the Constitution, according to which all branches of power (executive, judicial and legislative) were "independent of each other, and coordinating harmoniously." These issues raise concerns regarding the fairness of case adjudication and the courts´ capacity to effectively protect property rights, and therefore may impact investment decisions and growth.

5. Recommendations on the rule of law:

- **Adopt urgently legal provisions that fully ensure the effective independence of the judiciary and courts from third parties,** including other branches of power and economic interests, and that safeguard the harmonic collaboration among branches of power, in line with the United Nations Principles on the Independence of the Judiciary[1] and the Bangalore Principles of Judicial Conduct.[2]

- **Continue efforts to improve the efficiency and modernization of the judiciary**, particularly by implementing adequate case management systems and protocols and allocating adequate resources with that end.

- **Adopt norms to ensure open, transparent, and fair administrative and judicial proceedings in cases involving the transfer, expropriation, "decomisos," or any other transfer of property rights**, and ensure access to adequate and fair recourse, and incorporate reforms to suspend administrative act affecting property rights until those acts are considered final.

- **Adopt measures to ensure the publication of all judicial decisions adopted by the Supreme Court of Justice and Tribunals**, which aims to increase predictability, transparency and accountability of judicial decisions.

- **Enact regulations defining clear proceedings for the selection and removal of judges and magistrates** that incorporate robust vetting procedures in line with international best practice and ensure open and transparent proceedings in investigations and proceedings oriented to the sanction or removal of judges or magistrates.

[1] United Nations Principles on the Independence of the Judiciary (1985).

[2] Judicial Independence Group's (2006).

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

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.** Two external and independent audits of the use of funds by the central government, have been published. The first external audit report covering execution of funds from April 1, 2020, to May 31, 2021, was published on the government's website in November 2022. The second external audit report covering June 1, 2021, until June 30, 2022 was published on the government website in November 2023. UNOPS and WFP reports have not been published.

[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.** Currently, there are six SOEs—ENATREL, ENEL, EPN, EAAI, ENACAL and PETRONIC—publishing financial statements online. However, the authorities have to expand publications of financial statements to include all SOEs and are yet to publish the audit reports from the Comptroller General.
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 XIII. Past Fund Policy Advice

Recommendations	Current Status
Fiscal Policy	
Ensure fiscal sustainability by reviewing expenditures while safeguarding social spending and promoting growth.	**In progress**. 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.	**In progress.** 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). Additional reforms are needed to ensure sustainability of the INSS and mitigate risks from SOEs.
Achieve greater transparency of the fiscal accounts to be able to assess and manage fiscal risks better and enhance fiscal governance.	**In progress**. 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.	**In progress**. The level of provisions relative to total distressed assets has marginally increased since 2019, but it is still below its pre-crisis level (69 percent in June 2024 vs. 86 percent in March 2018).
Develop contingency plans and enhance the framework for bank resolution to increase the resilience of the financial sector against downside risks.	**Limited progress**. Actions could include aligning the resolution framework with best international practices and the

Recommendations	Current Status
	operationalization of the emergency liquidity assistance facilities established in June 2018.
Expand the scope of loan-inspections and require banks to conduct semi-annual independent asset quality and collateral valuation reviews.	**In progress**. Supervisory inspections were reportedly intensified but were later challenged by the movement restrictions related to the COVID-19 pandemic. No independent reviews were reported.
Enforce regular financial reporting by the rural credit and savings cooperatives.	**No progress**. This was aimed to be the first step to advance towards the expansion of the prudential supervisory perimeter following a principle of proportionality.
Adopt the recommendations of the FATF to protect the integrity of financial transactions and mitigate the exposure to illicit flows.	**In progress**. For details see Annex X and ¶34 and ¶35.
Strengthen the external position over the medium term to maintain the resilience of the crawling peg exchange rate regime.	**In progress**. Gross international reserves reached a historical high of US$5 billion by end-October 2023, due to strong remittance 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 and Governance	
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.	**Backtrack**. 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. Lack of independence of the judiciary significantly hampers reliability and impartiality of court decisions, unlawful large transfers to private and NPOs property to the state, and recurring violations of due process are underscored by several reports from the United Nations Group of Experts for Human Rights in Nicaragua, the UN Special Rapporteur for Judicial

Recommendations	Current Status
	Independence and the Inter-American Court of Human Rights. See paras 3, 31 and 34.
Address supply-side bottlenecks by improving infrastructure, investing in human capital, addressing labor skills bottlenecks, and upgrading technological readiness.	**Backtrack**. The authorities have engaged in large capital expenditure projects in road infrastructure, water sanitation, and hospital buildings over the recent years. However, public capital spending cuts were favored in the six-year adjustment, and the recent closures of health organizations and education universities suggest a backtrack in human capital accumulation. Further investment growth could be supported by enhancing the business climate, strengthening the labor market, and implementing policies to retain migrants. See paras 3 and 30 31.
Strengthen the existing asset declaration regime for high-level public officials, including through its publication and other further efforts targeted at politically exposed persons.	**In progress**. 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 on-line, without requiring a prior consultation process.
Strengthen anti-corruption measures.	See ¶35.
Ensure fair and impartial access to the court system and to recourse in legal and administrative proceedings.	**No progress**.
Implement key recommendations of the 2021 Assessments report.	**In progress.** The BCN continues resolving legacy loans on its balance sheet, but discussions have not started on a plan of BCN recapitalization, implementation of the IFRS for the banking system, and legal amendments for BCN autonomy.

Recommendations	Current Status
Capacity Development	
Improve data coverage.	**In progress**. 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. See also ¶33.
Resume the timely publication of data to maintain business confidence and ensure policy credibility.	**In progress**. 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.	**Limited progress**. The follow up on the 2019 FSSR recommended TA has waned.

Annex XIV. Data Issues

Table 1. Nicaragua: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	B	B	B	B	B	B	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	C	B	C	A	A		
Granularity 3/	B		B	B	C		
			B		B		
Consistency			B	C		B	
Frequency and Timeliness	B	A	C	B	B		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund is adequate for surveillance.
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Data provision is broadly adequate for surveillance, but data quality can be improved in national accounts, fiscal, monetary, 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; improve timeliness of fiscal data; enhance the breakdown of financial assets and liabilities; reduce high errors and omissions; monitor assets and liabilities of public enterprises; and improve coverage of FDI statistics. Revisions to the national accounts may impact the team's baseline projections and authorities should continue efforts to improve data provision and consistency by informing about methodological changes (especially regarding recent national accounts revisions in 2024H1).

Changes since the last Article IV consultation. While the overall assessment is unchanged from the one done at the time of the 2023 Article IV consultation, there have been slippages in the timeliness of public finance statistics (three months) and reports publication (four months) in 2024 and revisions to gross capital formation and GDP official data. The provision of IFS and FSI data to the Fund has also been less timely.

Corrective actions and capacity development priorities. Efforts are needed to expand data sources (for instance, in the real sector, incorporating information from household surveys into the national account and completening and disseminating new series with the 2019 year as a benchmark). Improvements in statistical methodologies and compilation are needed, particularly to address high errors and omissions in the BOP. And a scarcity of poverty data should be addressed.

Use of data and/or estimates different from official statistics in the Article IV consultation. Not applicable.

Other data gaps. Staff uses World Bank's Macro Poverty Outlook statistics to estimate poverty given lack of national data since 2014. Gender and climate data gaps are significant and the last available Census data is from 2005. Recent delays in the latest census highlight further data limitations and capacity constraints. Capacity development work should continue to address these shortcomings.

Table 2. Nicaragua: Data Standards Initiatives

Nicaragua participates in the Enhanced General Data Dissemination System (e-GDDS) and first posted its metadata in February 2005 but is yet to disseminate the data recommended under the e-GDDS through a National Summary Data Page.

Table 3. Nicaragua: Table of Common Indicators Required for Surveillance

As of December 2, 2024

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Nicaragua[8]	Expected Timeliness[6,7]	Nicaragua[8]
Exchange Rates	10/31/2024	11/7/2024	D	M	D	D	...	1D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	10/31/2024	11/7/2024	D	M	M	M/W	1M	1D
Reserve/Base Money	Oct-24	11/7/2024	M	M	M	M	2M	1-2D/2-3W/2M
Broad Money	Oct-24	11/7/2024	M	M	M	M	1Q	2M
Central Bank Balance Sheet	Oct-24	11/7/2024	M	M	M	M	2M	1-2D/2-3W/2M
Consolidated Balance Sheet of the Banking System	Oct-24	11/7/2024	M	M	M	M	1Q	2M
Interest Rates[2]	Oct-24	11/7/2024	M	M	M	D/W	...	2W
Consumer Price Index	Oct-24	11/11/2024	M	M	M	M	2M	15D
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	Sep-24	11/7/2024	M	M	A	...	3Q	...
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Oct-24	11/7/2024	M	M	Q	M/Q	1Q	2M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2024Q2	8/30/2024	Q	Q	Q	M	2Q	4M
External Current Account Balance	2024Q2	10/17/2024	Q	Q	Q	A/Q	1Q	3M/3-4M/6-9M
Exports and Imports of Goods and Services	Oct-24	11/15/2024	M	M	M	M	12W	2M
GDP/GNP	2024Q2	9/12/2024	Q	Q	Q	A	1Q	1M
Gross External Debt	2024Q2	10/4/2024	M	M	Q	M/Q	2Q	1M
International Investment Position	2024Q2	Sep-24	Q	Q	A	Q	3Q	4M

1 Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

2 Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

3 Foreign, domestic bank, 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 Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than;.

7 Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

8 Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".

INTERNATIONAL MONETARY FUND

NICARAGUA

January 14, 2025

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Western Hemisphere Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of November 30, 2024)

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

General Resources Account:	**SDR Million**	**Percent Quota**
Quota	260.00	100.00
Fund holdings of currency (Exchange Rate)	281.68	108.34
Reserve Tranche Position	32.50	12.50
SDR Department:	**SDR Million**	**Percent Quota**
Net cumulative allocation	373.74	100.00
Holdings	275.78	73.79
Outstanding Purchases and Loans:	**SDR Million**	**Percent Quota**
RFI Emergency Assistance	54.17	20.83
RFI Loan	43.33	16.67

Latest Financial Arrangements:

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

Outright Loans:

Type	**Date of Commitment**	**Date Drawn**	**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):

			Forthcoming		
	2024	**2025**	**2026**	**2027**	**2028**
Principal	10.83	43.34	8.67	8.67	8.67
Charges/Interest	0.00	4.54	3.34	3.30	3.30
Total	10.83	47.87	12.00	11.96	11.96

[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 exchange arrangement is classified as a crawling peg, while the de facto exchange arrangement is classified as stabilized. The central bank buys/sells any amount of foreign currency from/to financial institutions at the official exchange rate. In August 2023, the annual crawling rate was reduced to 0 percent from 1 percent. Previously, in January 2023, the BCN had reduced it to 1 percent from 2 percent. In November 2024 it was announced that the crawling rate for 2025 would remain at 0 percent. As of December 3, 2024, the official exchange rate was C$36.6243 per U.S. dollar.

[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 accepted the obligations under Article VIII, Sections 2(a), 3, and 4 of the IMF's Articles of Agreement, and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions, except for an exchange restriction arising out of Nicaragua's participation in the SUCRE (Unitary System of Regional Compensation of Payments) regional payments arrangement (with no transactions made since 2015).[5]

Article IV Consultation:

The previous consultation was completed by the Executive Board on a Lapse of Time basis on January 16, 2024 (Country Report No. 24/18).

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, and BCN continues to reconcile legacy assets and liabilities in its balance sheet to improve transparency.

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 2020 until November 2024.

Department	Purpose	Time of Delivery
	Fiscal	
CAPTAC	Risk Management	January, April, & November 2020
CAPTAC	Risk Management	April, September & November 2021
CAPTAC	Risk Management	January 2022

[5] The settlement period under the bilateral payment arrangement exceeds three months, leading to the de jure exchange rate restriction.

Department	Purpose	Time of Delivery
FAD	Fiscal Transparency, Control of COVID-19 Spending, and Supervision of State-Owned Enterprises	November 2020
FAD	Fiscal Risks Related to State-Owned Enterprises	April-June 2021
CAPTAC	Macroeconomic fiscal risks, FRAT tool	November 2021
CAPTAC	Tax Audit	March 2022
FAD	Fiscal Transparency Evaluation	March 2022
CAPTAC/FAD	Tax Administrations	August 2022
CAPTAC	Strengthen Tax Audit Procedures	September 2022
CAPTAC	Strengthen Risk Management	November 2022
CAPTAC	Strengthen Risk Management	March 2023
CAPTAC	Strengthen Tax Audit Procedures	March 2023
FAD	Tax Compliance Risk Management	August 2023
MCM/WB	Medium-Term Debt Management Strategy	November 2023
CAPTAC/FAD	Strengthen Tax Audit	March 2024
CAPTAC	Risk Analysis on Customs Clearance	April 2024
FAD	Tax Compliance Risk Management	April 2024
CAPTAC/FAD	Government Technology Audit	August 2024
FAD	Risk management	November 2024
	Monetary and Financial Sector	
CAPTAC/MCM	Monetary Operations Scoping Mission	August 2021
CAPTAC	Liquidity Forecasting and Management	November 2021
CAPTAC	Central Bank's Foreign Exchange Operations	October 2022
CAPTAC	External Auditors' Support to Credit Risk Supervision	February-March 2021
CAPTAC	Semi Structural Model Update	February 2023
CAPTAC/MCM	IFRS Training	February 2023
CAPTAC/MCM	Securities Investor Protection	June 2023
	Statistics	
CAPTAC	External Sector Statistics	April 2020
CAPTAC	National Accounts Statistics	June & October 2020
CAPTAC	Producer Price Index	August 2020 & March 2022
CAPTAC	Government Accounts and Harmonization with GFSM 2014	October 2020
CAPTAC	Government Finance Statistics (GFS)	July-August & December 2021
CAPTAC	National Accounts Statistics (NAS)	June-July 2021
CAPTAC	Quarterly NAS and seasonal adjustment	August 2021

Department	Purpose	Time of Delivery
CAPTAC	Public Debt Statistics	September-October 2021
CAPTAC	Quarterly Supply and Use Table	February 2022
CAPTAC	Quarterly National Accounts Statistics (2008 SNA)	April 2022
CAPTAC	GFS and Public Sector Debt Statistics	February & August 2022
CAPTAC	Quarterly NAS and Economic Surveys	November 2022
CAPTAC	Price statistics	March 2023
CAPTAC	Government Finance Statistics	August 2023
STA	Government Financial Statistics	January-February & April 2024
CAPTAC	National Accounts Updates and Rebasing	November 2023 & April 2024
CAPTAC?	Producer Price Index Rebasing	November 2024
	Other	
CAPTAC	Semi-Structural Model Calibration	January-March 2024
STA	Balance of Payments and International Investment Position Statistics	October-November 2024

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

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

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

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

MAIN WEBSITES OF DATA

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

National accounts

Monthly indicator of economic activity (IMAE)

Balance of payments

International reserves

Interest rates

Monetary and financial indicators

Exchange rates

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

Fiscal accounts

Central government budget

Public debt

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

Consumer price index

Labor and employment

Household income and expenditure survey

Poverty and inequality

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

Balance sheets and income statements

Financial soundness indicators

INTERNATIONAL MONETARY FUND

NICARAGUA

January 14, 2025

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved By
Ana Corbacho and Jacques Miniane (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	Substantial space to absorb shocks
Application of judgment	No

Nicaragua remains at moderate risk of external and overall debt distress with substantial space to absorb shocks.[1] *Under the baseline scenario, external debt burden indicators and the present values (PV) of the external and public debt to GDP ratios remain below the threshold reflecting the high concessional nature of Nicaragua's external debt. However, under a combination of shocks, the PV of external debt to GDP ratio breaches the threshold, and the PV of public debt to GDP is vulnerable 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 continues to be limited which may increase fiscal pressures and negatively impact debt sustainability.*

[1] Nicaragua's debt-carrying capacity remains assessed as strong. The Composite Index (CI) is estimated at 3.08 and is based on the 2023 World Bank's CPIA and the October 2024 WEO.

PUBLIC DEBT COVERAGE

1. **Nicaragua's public debt statistics are reported at the consolidated public sector (CPS) level and the coverage under the baseline scenario is relatively broad.** 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 (SOEs) guaranteed debt, and the Central Bank of Nicaragua (BCN, Text Table 1).[2] There is no non-guaranteed state-owned-enterprises' debt recorded in Nicaragua. Extra budgetary funds and non-guaranteed state-owned enterprises data is not included, the former due to lack of data and the latter because there is no non-guaranteed state-owned-enterprises' debt recorded in Nicaragua (Text Table 1). 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, including broadening institutional coverage. Debt data from the social security system (INSS) is excluded, as the INSS does not borrow directly, and the central government debt to the INSS has been paid in full by end-2022.

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). 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 6).[3]

3. **To account for lack in debt data coverage, a stress test on contingency liabilities is detailed in ¶17.**

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	X
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	

Public debt coverage and the magnitude of the contingent liability tailored stress test

1	The country's coverage of public debt	The central, state, and local governments 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	0.5	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2	
4	PPP	35 percent of PPP stock	2.24	
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)		9.7	

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%.

[2] Due to data limitations only debt data from the local government of Managua (ALMA), with private domestic creditors is included. Managua is the largest and only municipality (out of 153 municipalities) included in the consolidated public sector. Data from the thirteen SOEs used in the compilation of the consolidated public sector is included.

[3] All discussions in this note refer to this definition of public debt. Therefore, there are differences with official statistics, which include debt pending HIPC relief.

BACKGROUND ON DEBT

4. Nicaragua's debt trajectory decreased compared to the 2023 DSA[4] (Text Table 2 and Table 2). Robust growth combined with further contractionary fiscal policy and sound debt management enabled the decline in the debt-to-GDP ratio. The stock of public debt decreased by about 4 percent of GDP in 2023, to 49.4 percent of GDP (compared with 50.8 percent of GDP in the 2023 DSA) due to high primary fiscal surplus and nominal GDP growth.[5]

5. External public and publicly guaranteed (PPG) debt reached 39.3 percent of GDP at end-2023. All PPG external debt is in medium and long-term maturity instruments. Around 78 percent of external debt is held by multilaterals (Table 1). The largest external creditors are the Inter-American Development Bank (IDB, 28 percent), Central American Bank for Economic Integration (CABEI, 27 percent of external debt stock), and the World Bank (11 percent of external debt stock) at end-2023. Nicaragua is eligible for loans on blend terms (including a concessional element) from most multilaterals, including the IMF. The remaining 22 percent of external PPG debt is held mostly by bilateral creditors (primarily Japan, South Korea, Germany, India, Kuwait, and Costa Rica).

Text Table 2. Nicaragua: Public and Private Debt

	Current DSA					DSA 2023				
	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
	(in percent of GDP)									
Public sector debt	**58.8**	**57.4**	**53.0**	**49.4**	**46.8**	**56.8**	**54.9**	**52.0**	**50.8**	**49.8**
Public sector debt external debt (incl. guarantees)	**46.3**	**44.8**	**42.5**	**39.3**	**38.9**	**46.3**	**44.8**	**42.5**	**40.3**	**40.0**
Medium and long-term debt	46.3	44.8	42.5	39.3	38.9	46.3	44.8	42.5	40.3	40.0
Short-term debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector domestic debt	**12.6**	**12.6**	**10.5**	**10.1**	**7.9**	**10.5**	**10.1**	**9.5**	**10.5**	**9.8**
Medium and long-term debt	12.4	12.5	10.4	10.1	7.9	10.4	10.0	9.4	10.4	9.8
Short-term debt	0.2	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.0
Private sector debt	**44.1**	**39.7**	**35.6**	**31.0**	**28.6**	**44.1**	**39.7**	**35.6**	**31.6**	**31.6**

Sources: National authorities and IMF staff calculations.

6. A large stock of external debt to Non-Paris Club creditors is still pending debt relief under the HIPC Initiative.[6] In this DSA, the debt stock has already been adjusted downwards to incorporate total expected debt relief amounting to about US$1.2 billion as of December 2023. This debt corresponds to

[4] Nicaragua: 2023 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Nicaragua, January 2024.

[5] On composition of total public external debt, at end-2023, 79 percent is owed by the non-financial public sector and 21 percent by the BCN. At end-2023, private external debt declined by 4.6 percent of GDP to 31 percent of GDP compared to end-2022. The official debt statistics include the general IMF SDR allocation (non-reimbursable) received in 2021 of 2 percent of GDP.

[6] The decision point and completion point were reached in December 2000 and January 2004, respectively. See Text Table 3 for details.

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 processes are still ongoing.

Text Table 3. Nicaragua: Composition of External Debt

	2016	2017	2018	2019	2020	2021	2022	2023
	External debt in millions of U.S. dollars							
Total	**5,042**	**5,546**	**5,950**	**6,279**	**6,957**	**7,806**	**8,123**	**8,549**
Multilateral	3,333	3,775	4,141	4,427	5,053	5,927	6,261	6,662
IMF	228	219	196	181	369	705	673	680
World Bank	531	595	624	691	772	873	887	917
IADB	1,698	1,957	2,017	2,107	2,212	2,360	2,381	2,362
CABEI	638	741	1,016	1,134	1,332	1,604	1,917	2,268
Others	237	264	288	314	367	385	403	435
Bilateral	1,675	1,732	1,758	1,800	1,852	1,831	1,815	1,842
Paris Club	158	179	189	211	231	223	215	217
Non-Paris Club	1,517	1,552	1,569	1,588	1,621	1,607	1,601	1,625
Commercial	35	39	51	53	52	49	46	45
Banks	10	14	14	18	19	17	16	16
Suppliers and others	25	25	36	35	33	31	30	29
	External debt in percent of GDP							
Total	38.0	40.2	45.7	49.4	54.9	55.2	51.8	47.9
Multilateral	25.1	27.4	31.8	34.8	39.8	41.9	40.0	37.3
IMF	1.7	1.6	1.5	1.4	2.9	5.0	4.3	3.8
World Bank	4.0	4.3	4.8	5.4	6.1	6.2	5.7	5.1
IADB	12.8	14.2	15.5	16.6	17.4	16.7	15.2	13.2
CABEI	4.8	5.4	7.8	8.9	10.5	11.3	12.2	12.7
Others	1.8	1.9	2.2	2.5	2.9	2.7	2.6	2.4
Bilateral	12.6	12.6	13.5	14.2	14.6	12.9	11.6	10.3
Paris Club	1.2	1.3	1.4	1.7	1.8	1.6	1.4	1.2
Non-Paris Club	11.4	11.3	12.0	12.5	12.8	11.4	10.2	9.1
Commercial	0.3	0.3	0.4	0.4	0.4	0.3	0.3	0.3
Banks	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Suppliers and others	0.2	0.2	0.3	0.3	0.3	0.2	0.2	0.2
	Share of total external debt							
Multilateral	66.1	68.1	69.6	70.5	72.6	75.9	77.1	77.9
IMF	4.5	4.0	3.3	2.9	5.3	9.0	8.3	8.0
World Bank	10.5	10.7	10.5	11.0	11.1	11.2	10.9	10.7
IADB	33.7	35.3	33.9	33.6	31.8	30.2	29.3	27.6
CABEI	12.7	13.4	17.1	18.1	19.2	20.5	23.6	26.5
Others	4.7	4.8	4.8	5.0	5.3	4.9	5.0	5.1
Bilateral	33.2	31.2	29.6	28.7	26.6	23.5	22.3	21.5
Paris Club	3.1	3.2	3.2	3.4	3.3	2.9	2.6	2.5
Non-Paris Club	0.7	0.7	0.8	0.8	0.7	0.6	0.6	0.5
Commercial	0.7	0.7	0.8	0.8	0.7	0.6	0.6	0.5
Banks	0.2	0.2	0.2	0.3	0.3	0.2	0.2	0.2
Suppliers and others	0.5	0.5	0.6	0.6	0.5	0.4	0.4	0.3

Source: Central Bank of Nicaragua (includes pending debt relief).
Note: The 2021 IMF debt is the general SDR allocation, which is incorrectly classified as debt by the authorities.

7. Public domestic debt stood at 10.1 percent of GDP at end-2023 (or 20.5 percent of total public debt). 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 40.8 percent (most of which is held in the government bonds ("*Bonos de la República*"), and the BCN debt accounts for 59.2 percent.

MACROECONOMIC BACKGROUND AND ASSUMPTIONS

8. Economic growth surged in 2023 sustained by domestic demand, and the current account swung to a large surplus leading to a large accumulation of international reserves (Text Table 4). In 2023, real GDP growth increased to 4.6 percent of GDP, from 3.8 percent in 2022, mainly due to robust private consumption growth, supported by record-high remittances, high and stable employment, and consumer credit. Net exports negatively affected growth due to mostly lower exports primarily reduced volumes of coffee exports, due to the international bankruptcy of a major coffee exporter (responsible for half of the coffee exports). Inflation declined to 5.6 percent at end-2023 as global inflationary factors dissipated, from 11.6 percent in 2022. Supported by a substantial increase of about 5½ percent of GDP in remittances (to 26. 1 percent of GDP) and tight fiscal policy, the current account balance improved and swung to a surplus of 7.7 percent of GDP (from a deficit of 2.4 percent of GDP in 2022). Gross international reserves (GIR) in 2023, increased by about US$1.1 billion, to reach a record high of US$ 5.2 billion (7 months of imports, excluding *maquila* imports).[7] These trends continued in 2024; real GDP grew by 4.7 percent in the first half, and by October 2024 inflation reached 3.6 percent, and GIR increased to US$5.7 billion.

9. The fiscal position improved substantially in 2023. The consolidated public sector (CPS)[8] reached a surplus of 2.8 percent of GDP, from 0.4 percent of GDP as moderation in spending continued. This was mostly due to contraction in capital expenditure (1 percent of GDP) and other current expenditures (primarily wages and goods and services). Public debt declined by about 3 percent of GDP from end-2022 to 49.4 percent of GDP. At the same time, government deposits reached 12.6 percent of GDP by-end December 2023 (an increase of 1½ percent of GDP since end-2022). These trends continued in 2024, with the CPS recording a surplus of 2.6 percent of annual GDP and government deposits reaching 12.9 percent of annual GDP by end-June.

10. The economic outlook points to sustained growth, especially in the near-term, supported by prudent macroeconomic policies. Under baseline policies, real GDP is expected to grow by 4 percent in 2025 and 3.8 percent in 2026, sustained by the fully financed increase in public capital spending, and by 3.5 percent in the medium term. This medium-term growth rate is below the historical average of 3.9 percent

[7] This is the mid-point of the Fund's assessment of reserves adequacy (ARA) metric range (5.3 and 8.9 months of non-maquila imports), estimated considering that Nicaragua is a low-income country and has a de jure crawling exchange rate regime.

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

over 2000-17, due to lower expected private investment, because of cautious decisions, and limited labor contribution to growth, given the large emigration experienced recently. [9] Inflation is expected to decelerate to 4 percent in the medium term, with declining global inflation. In the medium-term, stable remittances are expected to support private consumption[10] and import growth, resulting in significantly lower expected current account surpluses. Nonetheless, prudent macroeconomic policies,[11] are expected to continue supporting the accumulation of gross international reserves, although at a slower pace than in recent years. Compared to the previous DSA, the baseline incorporates updates of higher growth in 2023-24, slightly lower fiscal surpluses, and larger current account surpluses over the medium term, reflecting mostly the much-improved fiscal and external starting positions in 2023 (Text Table 3 and 4).

Text Table 4. Nicaragua: Medium-Term Macroeconomic Framework

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Prel.		Projections					
Growth and prices				(Annual percentage change)							
Real GDP growth	-2.9	-1.8	10.3	3.8	4.6	4.0	4.0	3.8	3.5	3.5	3.5
Output gap 1/	-1.2	-5.1	0.5	0.3	0.8	0.8	0.8	0.6	0.2	0.0	0.0
Consumer price inflation (end of period)	6.1	2.9	7.2	11.6	5.6	3.8	4.0	4.0	4.0	4.0	4.0
				(Percent of GDP, unless otherwise indicated)							
Consolidated public sector											
Revenue (Incl. grants)	30.5	30.6	32.8	33.1	32.9	33.2	33.1	33.1	33.2	33.2	33.1
Expenditure	32.6	33.6	34.6	32.8	30.1	31.4	32.0	31.9	32.4	32.4	32.5
Primary fiscal balance	-0.5	-1.4	-0.3	1.8	4.6	3.8	3.1	3.2	2.8	2.7	2.6
Cyclically adjusted primary fiscal balance (NFPS)	-0.5	-0.1	-0.3	1.8	3.8	2.8	2.0	2.3	2.0	2.0	1.9
Overall balance, after grants	-2.1	-3.0	-1.8	0.3	2.8	1.8	1.1	1.2	0.8	0.7	0.5
Public sector debt	52.3	58.8	57.4	53.0	49.4	46.8	44.8	43.0	41.8	40.7	39.0
Balance of payments											
Current account	5.9	3.7	-3.8	-2.4	7.7	6.7	6.4	4.2	2.8	1.2	-0.1
Gross international reserves (US$ million) 2/	2,199	3,003	3,828	4,173	5,190	5,907	6,729	7,470	7,953	8,285	8,433
In months of imports excl. maquila	5.2	5.1	5.5	5.8	7.0	7.4	7.7	8.1	8.1	7.9	7.8
Net international reserves (U.S.$ million) 3/	1,374	1,887	2,531	3,011	4,249	4,979	5,724	6,323	6,651	6,818	6,867

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

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

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

3/ Excludes the FOGADE and reserve requirements for FX deposits.

11. The Central Bank of Nicaragua (BCN) maintained a moderately tight policy stance in 2023 and 2024, and started cutting the reference rate in late 2024. The BCN cut the policy rate in two steps, from 7 to 6.5 percent late 2024. The BCN also decreased the yearly crawling rate of the exchange rate from 1 percent to 0 percent in January 2024 and announced in November 2024 that it would maintain the 0 percent crawling rate in 2025. With sustained and strong foreign exchange inflows, net FX sales by the BCN

[9] For an in-depth analysis of potential GDP see Annex IV in the 2022 Nicaragua Article IV report. For an analysis of the impact of emigration on labor force participation see Annex III in the 2023 Nicaragua Article IV report, and more broadly for the effect of emigration and remittances on GDP growth see Carare et al. (2024).

[10] Remittances projections are conservative, in line with the projected real U.S. GDP growth (below the projected nominal U.S. GDP growth and below the wage growth of the lowest quartile observed in the past few years in the U.S.).

[11] Net FDI flows are projected to be 5.3 percent of GDP on average over 2025-29, lower than historical averages of 6.8 percent of GDP (2000-17) and below the levels seen in recent years (above 8 percent in 2021-22).

have remained negative.[12] In addition, BCN announced in November 2024 that all economic agents must denominate prices in domestic currency (córdoba), and that all payments using cards should occur in córdobas.[13]

12. **Banks are reportedly well capitalized, credit and deposits continue to grow, but the decline in distressed assets plateaued**. As of end-October 2024, although capital adequacy and liquidity ratios for the banks declined, they are reportedly well above the regulatory minima.[14] Financial conditions are assessed as neutral,[15] bank deposits and net bank credit to the private sector continued to grow steadily (reaching 12.6 percent, and 19.1percent year-on-year, respectively by October 2024). Non-Performing loans (NPLs) and distressed assets[16] as a share of total loans have continued to decline since end-2022 falling to 1.6 and 6.5 percent, respectively, as of end-October 2024. However, NPLs experienced an uptick in late 2023 and the decline in distressed assets has broadly leveled since early 2024. Similarly, profitability plateaued in 2024.

Text Table 5. Nicaragua: Key Macroeconomic Assumptions Underlying the DSA

	2023	2024	2025	2026	2027	2028	2029	2030-2044 Avg
Real GDP (annual percentage change)								
Current DSA	4.6	4.0	4.0	3.8	3.5	3.5	3.5	3.5
Previous DSA	4.0	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Consumer prices (period average)								
Current DSA	8.4	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Previous DSA	8.9	5.0	4.0	4.0	4.0	4.0	4.0	4.0
(in percent of GDP)								
Total revenues (inc.grants)								
Current DSA	32.9	33.2	33.1	33.1	33.2	33.2	33.1	32.0
Previous DSA	30.7	30.4	30.5	30.6	30.5	30.6	30.5	30.0
Total Expenditure								
Current DSA	30.1	31.4	32.0	31.9	32.4	32.4	32.5	31.3
Previous DSA	31.4	30.9	30.8	30.8	30.8	30.8	30.9	30.7
Overall Balance								
Current DSA	2.8	1.8	1.1	1.2	0.8	0.7	0.6	0.7
Previous DSA	-0.7	-0.5	-0.3	-0.2	-0.2	-0.3	-0.4	-0.7
Current Account Balance								
Current DSA	7.7	6.7	6.4	4.2	2.8	1.2	-0.1	-1.2
Previous DSA	4.0	2.5	1.0	0.0	-0.9	-1.3	-0.5	-0.3

Sources: National authorities and IMF staff calculations.

[12] The BCN did not need to inject FX liquidity into the market i.e., it bought more FX than it sold.

[13] All banking accounts, loans, and payments can be maintained in U.S. dollars. Although Nicaragua does not have a currency board, nor does it use the U.S. dollar as legal tender, de facto, it is a highly dollarized country, with more than 90 percent of loans denominated in U.S. dollars. Until end-November 2024 most places were showing prices in both currencies and payments could be made in either currency.

[14] Average capital adequacy ratio (CAR) of the financial system is 18.9 as of October 2024, well above the requirement of 10 percent and the pre-crisis level of 14 percent. Liquid assets to total liabilities fell to 23.7 in September 2024, from 44.7 percent at end-2021. The liquidity coverage ratio (LCR) remains comfortably above the required minimum.

[15] Based on neutral credit-to GDP gap and BCN's financial intermediation conditions index.

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

13. Staff project a deterioration of the fiscal position over the medium term, driven mostly by projected increases in public capital spending and higher transfers to INSS in the absence of reform measures.[17] Over the medium term, staff's baseline projections, based on the government's plans, incorporates smaller surpluses at the CPS level due to expected increases in capital spending on infrastructure (water and electricity), financed primarily with the recently announced bilateral loans. The fiscal balance will be driven by:

- *Steady revenues*. Revenues are projected to marginally increase over the medium term. Domestic revenue mobilization will be sustained by enhanced economic activity, rationalization of tax expenditures, and strengthening of electronic processes to improve efficiency and compliance.
- *Increased capital spending*. The baseline scenario assumes increased expenditure in 2024, due to increased capital expenditure, while restraining current expenditures due to the recently implemented measures.[18]
- *Imbalances* in the finances of INSS will require increasing transfers from the central government, and the projected increase in public spending will be mainly in water and electricity, driving the small deficits in the state-owned enterprises (SOEs).

14. Concessional financing remains the main challenge in implementing policy priorities. In 2024 and over the medium term, the gross financing needs are expected to be covered with planned multilateral disbursements from existing loans, new external debt, including if needed commercial debt, and the use of government deposits. However, concessional borrowing from international financial institutions is expected to be limited,[19] with CABEI announcing that they reached their quota of exposure to the country, and with the net positions towards international financial institutions turning negative, as the government pays back the loans contracted during the pandemic. Staff projections incorporate interest rates assumptions reflecting recently contracted non-concessional commercial loans from new creditors, including Chinese state-owned companies. Pursuing prudent debt management and financing policies, consistent with transparent and concessional lending, would help preserve debt sustainability. Authorities highlighted the

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[17] The financial situation of INSS has deteriorated over the years due to lower contributions and increased beneficiaries of reduced pensions. In 2021, INSS exhausted its liquid reserves. The authorities implemented pension reforms in 2019. However, some reforms initially announced have not yet been implemented, including measures to change the minimum number of contributions required to receive a reduced pension and the reduction on the minimum pension. Projections assume central government transfers to INSS to close the pension system deficit. Discussions are ongoing.

[18] In 2024, the authorities improved expenditure efficiency by streamlining functions and eliminating budget rigidities. The Supreme Court of Justice and universities no longer receive a fixed allocation of total spending of 4 and 6 percent respectively, as they are adhering to regular budgetary procedures. Universities will get 6 percent of revenues, and they will no longer receive subsidies for water, electricity, telephone, and postal services. In addition, municipalities will continue to receive a lower percent of revenues for 2024 and 2025 compared to 10 percent per year required by law (8 percent currently). Moreover, investment in solar energy in 2025 is expected to lower electricity subsidies in 2026 as renewable energy generation comes into operation. Otherwise, current budgeted subsidies remain, primarily covering transportation, retirees' electricity, and drinking water.

[19] Increased financing with domestic and external bonds is possible but would raise debt servicing costs. Nicaragua has not issued any Eurobonds, and would likely face high spreads, given the high expected risk premium due to governance concerns. Fitch upgraded its long-term credit rating from 'B-' to 'B' with a stable outlook in May 2024, citing prudent policies, twin surpluses, and significant buffers, as well as remaining vulnerabilities on governance. Commercial loans tend to have higher interest rates, and bilateral loans may have non-concessional and opaque terms.

need to prioritize obtaining external debt at concessional terms to the extent possible, while opening up to new sources of financing, promoting lengthening of average maturity period and ensuring fixed-rate debt is greater than variable rate debt.[20] Developing local bond and capital markets will also help increase financing options over time and support medium term growth.

15. Realism tools indicate that the baseline assumptions are broadly consistent with cross-country comparisons and Nicaragua's historical experience.

- **Drivers of debt dynamics (Figure 3).** Although the external PPG debt increased until 2020 due to several large shocks (including the economic contraction in 2018-20, the pandemic, and two hurricanes in 2020), it has started to decline in recent years, and it is expected to decline further (as in previous DSAs). The unexplained residual in Figure 3 remains significant in the absence of arrears or debt restructuring, like in previous DSAs. However, this could be due to discrepancies in fiscal accounting.[21]

- **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).** Over the medium-term GDP growth is expected to converge to 3.5 percent due to sustained domestic demand. The real GDP growth rate remains below pre-crisis and historical average rates, due to limited labor contribution to growth due to the large emigration outflows and demographics.

- **Consistency between investment and growth (Figure 4).** The contribution of public investment to growth in the current DSA reflects the assumption of expected increases in capital spending financed with the recently announced and other expected bilateral loans. The private investment contribution is expected to continue to increase.

COUNTRY CLASSIFICATION AND STRESS TESTS

16. Nicaragua's current debt carrying capacity is classified as strong. The debt carrying capacity classification is strong under the Composite Indicator (CI) calculated based on the October 2024 WEO with the 2023 World Bank CPIA of 3.08. The debt carrying capacity has been upgraded from the 2023 DSA;

[20] Underpinned by a joint IMF and World Bank training, the authorities updated and published the new medium-term debt management strategy (MTDS) for 2024-2027, which was approved in December 2023.

[21] There are data interpretation differences arising from rigidities in the budget process and legal framework, leading authorities to classify some items differently than standard. For example, transfers to entities are being recorded below the line when they should be above the line. These transfers are intended to repay debts incurred that the entity cannot cover. It is important to determine whether the central government assumes the debt (keeping it below the line) or provides funds for a one-time payment, although this distinction remains ambiguous. There are on-going efforts by the authorities to reduce discrepancies, related to fiscal accounting discrepancies between below-the-line and above-the-line statistics, including with the help of technical assistance.

following two consecutive designations in the new category (Text Table 6).[22, 23] The relevant indicative threshold for the strong category is 55 percent for the PV of debt-to-GDP ratio, 240 percent for the PV of debt-to-exports ratio, 21 percent for the debt service-to-exports ratio, and 23 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 strong debt carrying capacity is 70 percent. To account for specific risks, the natural disaster and commodity price shock tailored stress tests are applied for Nicaragua.

Text Table 6. Nicaragua: Calculation of the Composite Indicator (CI)

Debt Carrying Capacity	Strong		
Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Strong	Strong	Strong	Medium
	3.08	3.09	3.02

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.39	3.27	1.26	41%
Real growth rate (in percent)	2.72	3.23	0.09	3%
Import coverage of reserves (in percent)	4.05	50.99	2.07	67%
Import coverage of reserves^2 (in percent)	-3.99	26.00	-1.04	-34%
Remittances (in percent)	2.02	15.15	0.31	10%
World economic growth (in percent)	13.52	2.97	0.40	13%
CI Score			3.08	100%
CI rating			Strong	

Sources: National authorities and IMF staff calculations.

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

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	240
GDP	55
Debt service in % of	
Exports	21
Revenue	23

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	70

Sources: National authorities and IMF staff calculations.

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

[23] 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).

17. The contingent liability tailored stress test is calibrated to account for gaps in public sector debt coverage, and contingent liability risks. The contingent liability stress test applied is set at 9.7 percent of GDP. For other entities of the general government this is set at 0.5 percent of GDP to account for contingent liabilities of INSS, while for SOE debt, this is maintained at the LIC-DSF default value due to lack of data. To proxy potential fiscal costs from public private partnerships (PPP) distress, the PPP shock is set at 2.2 percent of GDP representing 35 percent of Nicaragua's PPP capital stock.[24] Currently, risks in the financial sector are moderated with sufficient capital, provisioning, and liquid assets. Therefore, maintaining the default financial sector contingent liability shock at 5 percent rate is adequate.[25]

DEBT SUSTAINABILITY

A. External Debt Sustainability Analysis

18. The external risk of debt distress is projected to remain moderate. Under the baseline scenario, the PPG external debt is anticipated to gradually decline to 29.9 percent of GDP over the medium term (Table 1) and the present value of PPG external debt is projected to remain below the threshold of 55 percent, declining from 23.6 percent to 15.6 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 54.8 percent to 41.8 percent, while the debt service-to-exports and debt service-to-revenue ratios are projected to decline from 5.4 percent to 4.9 percent and from 7.1 percent to 5.8 percent, respectively (Figure 1). At the same time, private external debt is projected to decline as the debt owed to Venezuela is paid down.[26] 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 2026 at 62 percent and remains above the threshold before a gradually declining to reach 45 percent in the long term.

[24] Consistent with the LIC DSF guidance note, the PPP stock is calculated as 35 percent of the country's PPP capital stock from the World Bank database.

[25] Although pockets of vulnerability exist, such as non-declining levels of distressed assets, risks stemming from the banking sector remain minimal. Other financial soundness indicators are robust and do not warrant revision of the financial market shock size.

[26] 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 (World Bank, Nicaragua Systematic Country Diagnostic, 2017).

B. Public Sector Debt Sustainability Analysis

19. **The overall risk of debt distress is projected to remain moderate.** Under the baseline scenario, public debt is projected to remain below the 70 percent of GDP benchmark over the forecast period (Table 2). Total public sector debt is projected to decrease to 46.9 percent of GDP in 2024 and further decline to 39.7 percent of GDP by 2029. Domestic public debt is projected to reach 9.8 percent of GDP by 2034. The PV of debt-to-revenues will decline to 84.1percent by 2034, while the liquidity indicator (debt service to revenue) shows an increase, reaching 14.7 percent by 2034. Under the most extreme scenario of lower growth, the PV of public debt breaches the benchmark in 2030 at 74 percent and remains above the benchmark through the projection horizon (Table 4 and Figure 2).

20. **Domestic debt lies substantially below the median level across LICs (Figure 6).** The domestic-public-debt-to-GDP ratio is projected to remain below the average among countries using the LIC-DSF (17 percent of GDP). Similarly, the domestic debt service to GDP is also projected to remain below the average of countries using LIC-DSA until 2034.

RISK RATING AND VULNERABILITIES

21. **Risks to the outlook are broadly balanced in the short-term and to the downside in the medium-term.** Upside risks include stronger domestic demand and remittances growth, especially in the short-term. Downside risks to the outlook include lower global growth and a deterioration in the terms of trade compared to the baseline scenario. The outlook could also be negatively impacted by natural disasters, stricter and wider international sanctions, or a change in immigration policies in the US. [27]Sustaining prudent policies would continue to support growth and reinforce Nicaragua's capacity to respond to shocks.

22. **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 substantial space to absorb additional shocks (Figure 5), an improvement from the previous DSA. Under the baseline scenario, all external debt burden indicators remain under the threshold over the 10-year projection horizon. Conversely, under the stress scenario of a combination of shocks, the PV of PPG external debt-to-GDP ratio breaches the threshold in 2026. 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 2030 and is projected to remain above the threshold over the projection horizon.

23. **Nicaragua's high exposure to natural disaster risks and economic reliance on climate sensitive sectors, in particular agriculture, intensifies the negative effects of natural disasters and**

[27] There is high uncertainty about the potential impact of legal changes of political nature—including law 1224—and their interactions with international measures, potentially increasing the cost of doing business and weighing on private investment decisions in Nicaragua.

climate change on the economy.[28] Progress continues with national strategic plans to reduce greenhouse gas emissions.[29] Efforts towards adaptation include agricultural diversification and resilience, reforestation, and promotion of renewable energy. Natural disaster risks are included in the authorities' published fiscal risks reports. Regarding financing options, insurance coverage from the Caribbean Catastrophe Risk Facility (CCRIF) provides financial assurance in event of excessive rainfall, tropical cyclones, and earthquakes. Fostering greater disaster resilience and adequate resources to cover costs would also help contain fiscal risks and support medium-term growth.

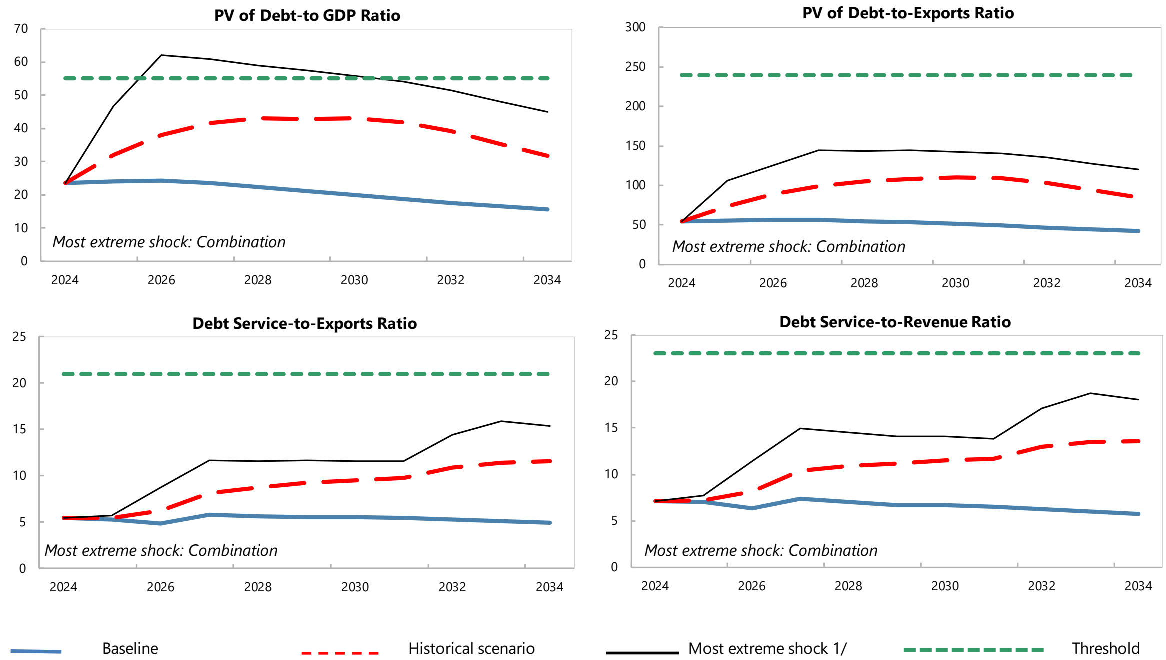
AUTHORITIES' VIEWS

The authorities agreed with staff's assessment that Nicaragua's debt remains sustainable, with overall and external risk of debt distress remaining moderate, with improved capacity to support debt. Given Nicaragua's vulnerabilities, the authorities remain committed to prudent fiscal policy and public debt management, prioritizing concessional financing whenever possible while pursuing new financing sources and developing the domestic debt market. The consolidation at the central government level will continue, along with efforts to find permanent measures to address INSS's projected medium and long-term deficits. Expenditures will be reoriented to increase fiscal buffers and fiscal space for social and public capital spending to support medium-term growth while bolstering fiscal sustainability. Tax administration and revenue collection will continue to be enhanced.

[28] See 2022 Article IV staff report (Annex VI) for detailed discussion on climate change and natural disaster resilience.

[29] Nicaragua's Nationally Determined Contribution (NDC), on plans to reduce greenhouse gas emissions and adapt to climate change is published. See fiscal risks reports for evaluation and losses caused by natural disasters. Despite the high likelihood of natural disasters, using the IMF Fiscal Risk Assessment Tool (FRAT), authorities evaluate the impact on public finances as moderate, owing to the availability of risk mitigation and transfer mechanisms that help reduce vulnerability.

Figure 1. Nicaragua: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2024-34



Customization of Default Settings	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	No	No
Commodity price 2/	No	No
Market financing	n.a.	n.a.

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

Borrowing assumptions 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	6.7%	6.7%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	17	17
Avg. grace period	6	6

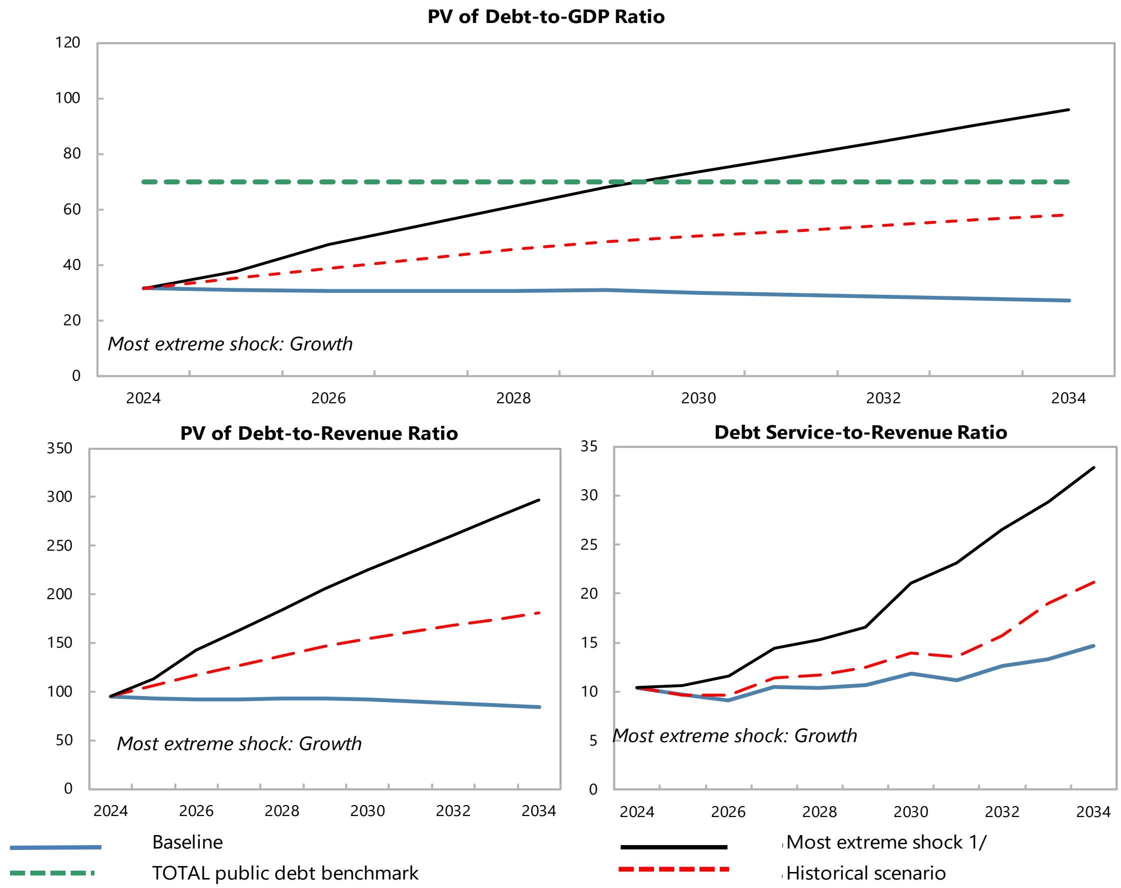
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

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 2034. 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.

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

Figure 2. Nicaragua: Indicators of Public Debt Under Alternative Scenarios, 2024-34



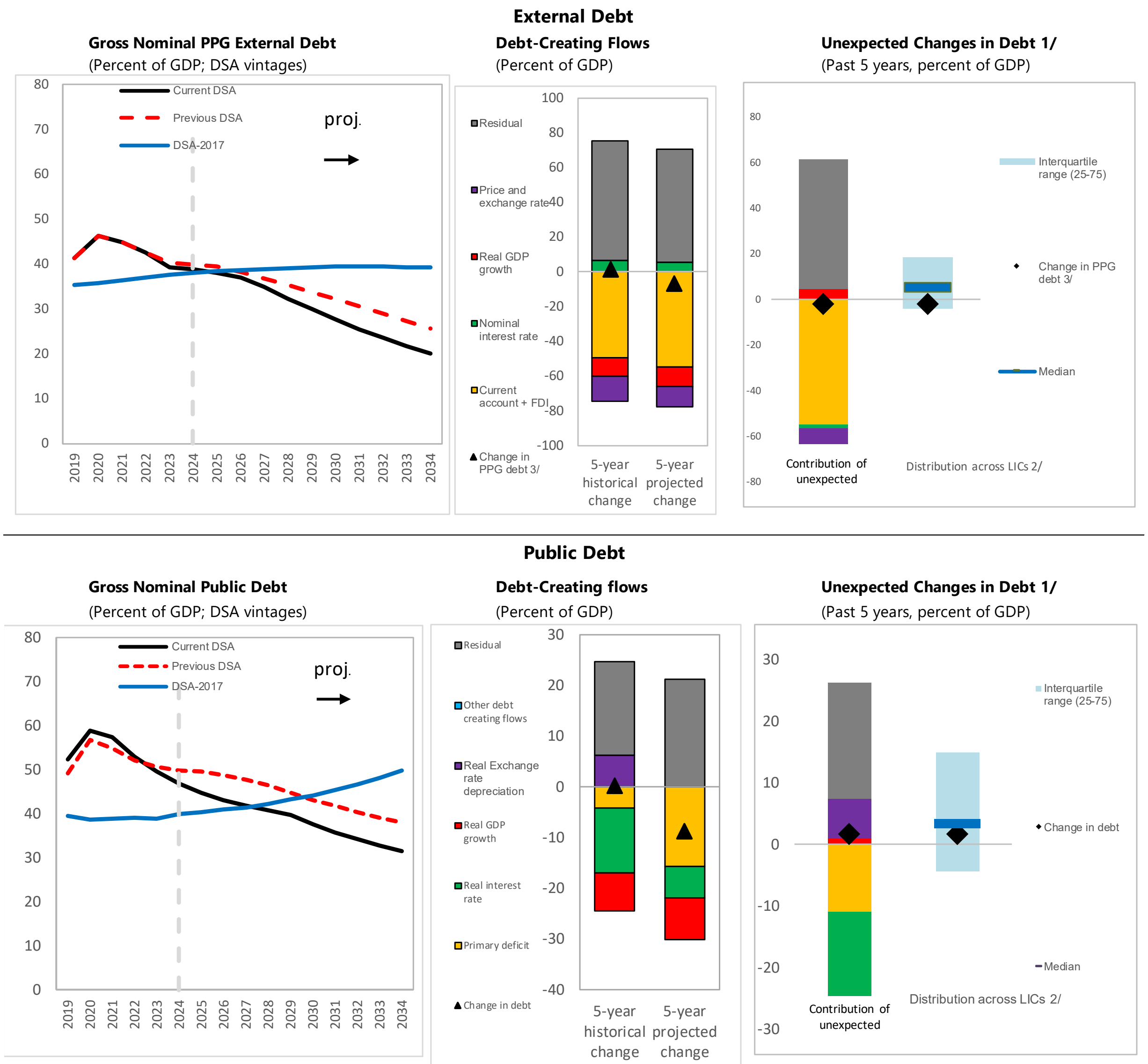
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	69%	69%
Domestic medium and long-term	29%	29%
Domestic short-term	2%	2%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	6.7%	6.7%
Avg. maturity (incl. grace period)	17	17
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	1.1%	1.1%
Avg. maturity (incl. grace period)	5	5
Avg. grace period	4	4
Domestic short-term debt		
Avg. real interest rate	0.3%	0.3%

* 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 2034. 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.

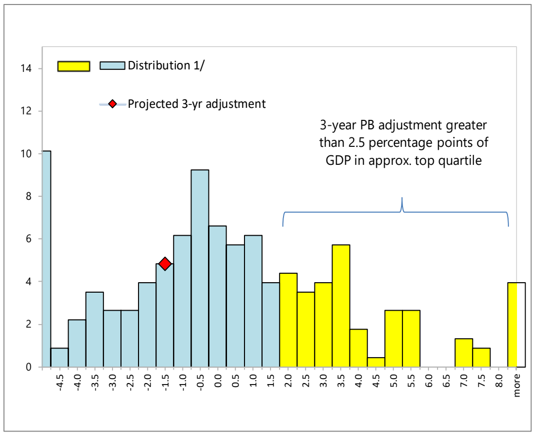
2/ Distribution across LICs for which LIC DSAs were produced.

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

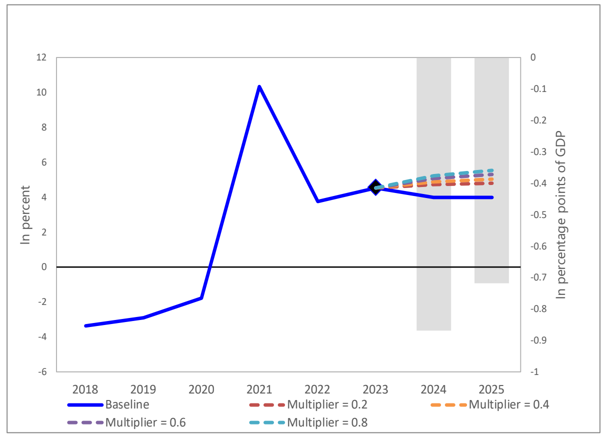
3-Year Adjustment in Primary Balance

(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.

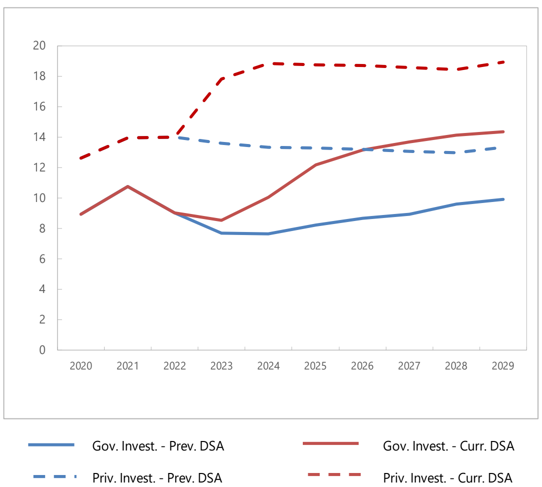
Fiscal Adjustment and Possible Growth Paths 1/



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)

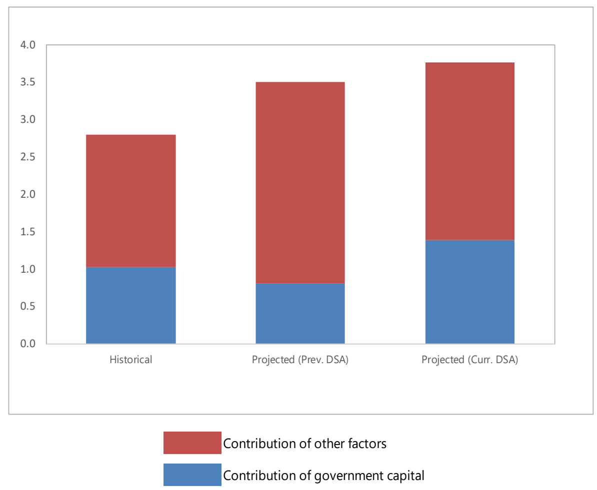
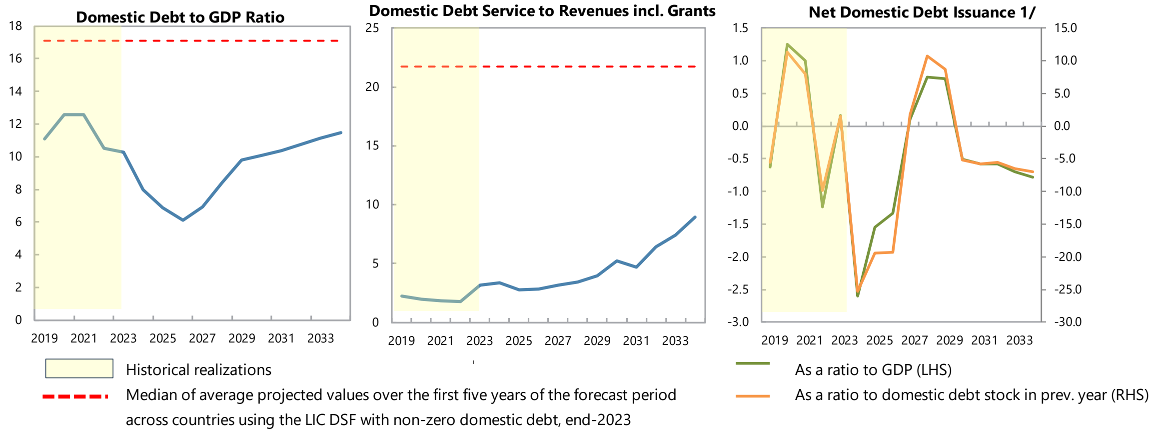


Figure 5. Nicaragua: Qualification of the Moderate Category, 2024-2034 1/

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.

Figure 6. Nicaragua: Indicators of Domestic Public Debt, 2019-2033
(Percent)



Borrowing Assumptions (average over 10-year projection)	Value
Shares in New Domestic Debt Issuance	
Medium and long-term	92%
Short-term	8%
Borrowing Terms	
Domestic MLT Debt	
Avg. real interest rate on new borrowing	1.1%
Avg. maturity (incl. grace period)	5
Avg. grace period	4
Domestic Short-Term Debt	
Avg. real interest rate	0.3%

Sources: Country authorities; and staff estimates and projections.

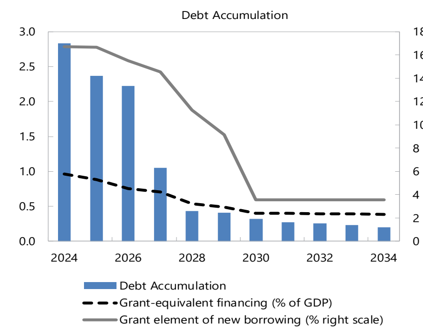
1/ Net domestic debt issuance is an estimate based on the calculated public gross financing need net of gross external financing, drawdown of assets, other adjustments and domestic debt amortization. It excludes short-term debt that was issued and matured within the calendar year.

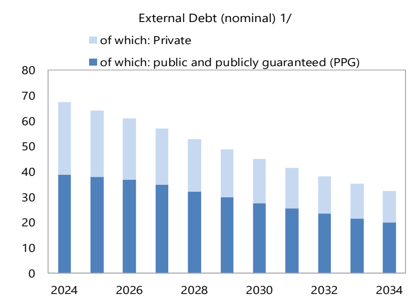
Table 1. Nicaragua: External Debt Sustainability Framework, Baseline Scenario, 2021–44

(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
External debt (nominal) 1/	84.5	78.1	70.3	67.5	64.2	61.0	57.1	52.8	48.8	32.5	13.2	80.0	49.5
of which: public and publicly guaranteed (PPG)	44.8	42.5	39.3	38.9	38.0	36.9	34.9	32.3	29.9	20.0	7.4	38.3	29.9
Change in external debt	-5.8	-6.5	-7.8	-2.8	-3.3	-3.2	-3.9	-4.3	-4.0	-2.8	-1.3		
Identified net debt-creating flows	-14.0	-13.9	-24.0	-15.3	-14.7	-12.0	-10.1	-8.2	-6.5	-3.5	-6.4	-8.0	-8.1
Non-interest current account deficit	3.3	1.2	-9.0	-7.6	-7.5	-5.2	-3.9	-2.5	-1.1	1.5	-0.1	0.9	-2.3
Deficit in balance of goods and services	12.2	14.9	12.7	14.4	13.4	14.2	14.3	14.6	14.8	12.0	7.6	12.2	13.7
Exports	46.8	50.3	46.2	43.1	43.4	43.0	42.1	41.0	39.6	37.3	34.4		
Imports	59.0	65.2	58.9	57.6	56.8	57.2	56.4	55.6	54.5	49.3	42.0		
Net current transfers (negative = inflow)	-14.7	-19.6	-25.5	-26.5	-25.5	-24.1	-23.0	-21.8	-20.8	-15.7	-14.1	-14.8	-20.7
of which: official	-0.9	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3	-0.4	-0.4	-0.4	-0.4		
Other current account flows (negative = net inflow)	5.8	5.9	3.8	4.4	4.6	4.7	4.7	4.7	4.8	5.2	6.4	3.6	4.8
Net FDI (negative = inflow)	-8.5	-8.1	-6.7	-6.0	-5.8	-5.5	-5.3	-5.1	-4.9	-4.8	-4.8	-6.7	-5.2
Endogenous debt dynamics 2/	-8.8	-7.0	-8.3	-1.7	-1.4	-1.2	-0.8	-0.6	-0.4	-0.2	-1.4		
Contribution from nominal interest rate	0.5	1.2	1.2	0.9	1.1	1.0	1.2	1.3	1.3	1.0	-1.0		
Contribution from real GDP growth	-8.4	-2.9	-3.1	-2.6	-2.5	-2.3	-2.0	-1.9	-1.7	-1.1	-0.5		
Contribution from price and exchange rate changes	-1.0	-5.4	-6.4	...	...	...	...	...	...	...	...		
Residual 3/	8.2	7.5	16.2	12.6	11.4	8.8	6.2	3.9	2.5	0.8	5.1	7.3	4.7
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	...	...	22.6	23.6	24.0	24.3	23.6	22.3	21.1	15.6	5.9		
PV of PPG external debt-to-exports ratio	...	...	48.9	54.8	55.4	56.6	56.1	54.4	53.3	41.8	17.3		
PPG debt service-to-exports ratio	0.0	5.1	5.2	5.4	5.3	4.9	5.8	5.6	5.6	4.9	3.7		
PPG debt service-to-revenue ratio	0.0	7.8	7.4	7.1	7.0	6.4	7.4	7.1	6.7	5.8	4.0		
Gross external financing need (Million of U.S. dollars)	579.9	698.1	-954.5	-738.7	-803.2	-495.0	-204.9	76.1	374.0	741.3	-3141.1		
Key Macroeconomic Assumptions													
Real GDP growth (in percent)	10.3	3.8	4.6	4.0	4.0	3.8	3.5	3.5	3.5	3.5	3.5	2.9	3.6
GDP deflator in US dollar terms (change in percent)	1.1	6.8	8.9	3.5	4.0	4.0	4.0	4.0	4.0	4.0	4.0	2.1	4.0
Effective interest rate (percent) 4/	0.6	1.6	1.8	1.4	1.7	1.7	2.0	2.4	2.6	3.0	-7.2	2.0	2.5
Growth of exports of G&S (US dollar terms, in percent)	23.8	19.1	4.7	0.4	8.8	6.9	5.4	4.9	4.1	6.7	6.8	5.6	5.7
Growth of imports of G&S (US dollar terms, in percent)	40.1	22.4	3.0	5.2	6.7	8.7	6.1	6.1	5.5	5.9	6.0	4.8	6.0
Grant element of new public sector borrowing (in percent)	...	...	...	16.7	16.7	15.5	14.6	11.3	9.2	3.5	3.5	...	9.2
Government revenues (excluding grants, in percent of GDP)	31.8	32.9	32.7	33.1	33.0	32.9	32.9	32.8	32.7	31.9	31.6	29.1	32.5
Aid flows (in Million of US dollars) 5/	132.2	33.6	38.2	194.4	279.9	262.6	227.2	181.8	174.7	167.9	323.5		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	1.0	0.9	0.8	0.7	0.5	0.5	0.4	0.4	...	0.6
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	19.7	20.5	20.1	24.6	26.9	26.4	29.2	45.1	...	24.6
Nominal GDP (Million of US dollars)	14,145	15,671	17,843	...	...	...	...	...	...	... ...	...		
Nominal dollar GDP growth	11.5	10.8	13.9	7.6	8.2	8.0	7.6	7.6	7.6	7.6	7.6	5.1	7.7
Memorandum Items:													
PV of external debt 7/	...	...	53.6	52.2	50.3	48.4	45.8	42.8	40.0	28.2	11.7		
In percent of exports	...	...	115.9	121.0	115.8	112.7	108.9	104.4	100.9	75.4	34.0		
Total external debt service-to-exports ratio	19.8	22.6	22.3	22.7	21.6	19.9	20.0	19.4	18.7	13.9	3.6		
PV of PPG external debt (in Million of US dollars)			4,031	4,537	4,992	5,455	5,691	5,794	5,900	6,310	5,011		
(PVt-PVt-1)/GDPt-1 (in percent)				2.8	2.4	2.2	1.1	0.4	0.4	0.2	-0.3		
Non-interest current account deficit that stabilizes debt ratio	9.2	7.7	-1.2	-4.8	-4.2	-2.1	0.0	1.8	2.8	4.2	1.2		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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.

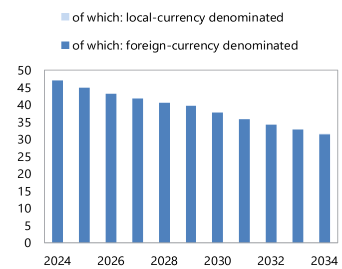
Table 2. Nicaragua: Public Sector Debt Sustainability Framework, Baseline Scenario, 2021–44

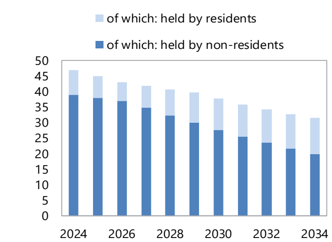
(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
Public sector debt 1/	**57.4**	**53.0**	**49.6**	**46.9**	**44.9**	**43.0**	**41.8**	**40.7**	**39.7**	**31.5**	**17.0**	**48.4**	**39.0**
of which: external debt	**44.8**	**42.5**	**39.3**	**38.9**	**38.0**	**36.9**	**34.9**	**32.3**	**29.9**	**20.0**	**7.4**	**38.3**	**29.9**
Change in public sector debt	-1.4	-4.4	-3.5	-2.7	-2.0	-1.8	-1.2	-1.1	-1.0	-1.3	-2.7		
Identified debt-creating flows	**-5.4**	**-6.4**	**-10.6**	**-7.3**	**-6.4**	**-6.1**	**-5.3**	**-5.0**	**-4.7**	**-3.9**	**-3.6**	**-1.3**	**-5.1**
Primary deficit	**0.3**	**-1.8**	**-4.6**	**-3.8**	**-3.1**	**-3.2**	**-2.8**	**-2.7**	**-2.6**	**-2.6**	**-3.4**	**0.4**	**-2.8**
Revenue and grants	32.8	33.1	32.9	33.2	33.2	33.1	33.2	33.2	33.1	32.2	32.0	**29.9**	**32.8**
of which: grants	0.9	0.2	0.2	0.2	0.2	0.2	0.3	0.4	0.4	0.4	0.4		
Primary (noninterest) expenditure	33.1	31.3	28.2	29.5	30.1	30.0	30.4	30.4	30.5	29.6	28.6	**30.3**	**30.0**
Automatic debt dynamics	**-5.7**	**-4.6**	**-5.9**	**-3.5**	**-3.3**	**-3.0**	**-2.5**	**-2.3**	**-2.1**	**-1.3**	**-0.2**		
Contribution from interest rate/growth differential	-6.7	-5.7	-6.4	-3.5	-3.3	-3.0	-2.5	-2.3	-2.1	-1.3	-0.2		
of which: contribution from average real interest rate	-1.2	-3.6	-4.1	-1.6	-1.5	-1.3	-1.0	-0.9	-0.7	-0.2	0.5		
of which: contribution from real GDP growth	-5.5	-2.1	-2.3	-1.9	-1.8	-1.6	-1.5	-1.4	-1.4	-1.1	-0.7		
Contribution from real exchange rate depreciation	1.0	1.0	0.5	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**4.0**	**2.0**	**7.1**	**4.6**	**4.3**	**4.3**	**4.1**	**3.9**	**3.7**	**2.5**	**0.9**	**2.1**	**3.4**
Sustainability Indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**33.0**	**31.6**	**30.9**	**30.5**	**30.5**	**30.7**	**30.9**	**27.1**	**15.5**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**100.4**	**95.1**	**93.3**	**92.0**	**91.8**	**92.6**	**93.4**	**84.1**	**48.6**		
Debt service-to-revenue and grants ratio 3/	**1.9**	**9.5**	**10.5**	**10.4**	**9.7**	**9.2**	**10.5**	**10.4**	**10.6**	**14.7**	**7.7**		
Gross financing need 4/	0.9	1.4	-1.2	-0.3	0.2	-0.1	0.7	0.7	0.9	2.1	-0.9		
Key Macroeconomic and Fiscal Assumptions													
Real GDP growth (in percent)	10.3	3.8	4.6	4.0	4.0	3.8	3.5	3.5	3.5	3.5	3.5	**2.9**	**3.6**
Average nominal interest rate on external debt (in percent)	0.0	1.9	1.6	0.6	0.6	0.9	1.4	1.8	2.1	3.5	6.5	**1.4**	**2.0**
Average real interest rate on domestic debt (in percent)	1.8	-3.2	0.7	7.1	10.0	12.4	15.1	14.3	11.8	14.2	6.6	**1.5**	**12.4**
Real exchange rate depreciation (in percent, + indicates depreciation)	2.0	2.0	1.0	...	...	...	...	...	...	...	...	**3.8**	**...**
Inflation rate (GDP deflator, in percent)	3.6	8.9	10.5	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	**6.1**	**4.0**
Growth of real primary spending (deflated by GDP deflator, in percent)	13.9	-1.8	-5.8	8.6	6.2	3.3	5.1	3.6	3.8	3.2	3.2	**3.3**	**4.1**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	1.7	2.6	-1.2	-1.1	-1.0	-1.4	-1.6	-1.6	-1.6	-1.3	-0.7	**1.0**	**-1.2**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public Sector Debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central, 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, 2024-34 (Percent)

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PV of Debt-to GDP Ratio											
Baseline	24	24	24	24	22	21	20	19	18	17	16
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	24	32	38	42	43	43	43	42	39	35	32
B. Bound Tests											
B1. Real GDP growth	24	26	29	28	26	25	23	22	21	20	18
B2. Primary balance	24	28	32	32	30	29	28	28	27	26	24
B3. Exports	24	30	40	39	38	36	35	33	32	30	28
B4. Other flows 3/	24	41	**56**	**55**	54	52	51	49	47	44	41
B5. Depreciation	24	30	24	23	22	20	19	17	16	15	14
B6. Combination of B1-B5	24	47	**62**	**61**	**59**	**57**	**56**	54	51	48	45
C. Tailored Tests											
C1. Combined contingent liabilities	24	31	31	30	29	28	28	26	25	24	23
C2. Natural disaster	24	32	32	32	31	30	30	29	28	27	27
C3. Commodity price	24	24	24	24	22	21	20	19	18	17	16
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	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Exports Ratio											
Baseline	55	55	57	56	54	53	51	49	46	44	42
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	55	74	89	99	105	108	110	109	103	94	85
B. Bound Tests											
B1. Real GDP growth	55	55	57	56	54	53	51	49	46	44	42
B2. Primary balance	55	64	75	75	74	73	73	73	71	68	65
B3. Exports	55	77	115	115	113	113	110	108	104	98	93
B4. Other flows 3/	55	94	131	131	131	131	130	128	124	117	110
B5. Depreciation	55	55	44	44	42	40	38	36	33	32	30
B6. Combination of B1-B5	55	106	125	144	144	144	142	141	135	127	120
C. Tailored Tests											
C1. Combined contingent liabilities	55	71	72	72	70	70	71	69	66	64	61
C2. Natural disaster	55	74	76	77	76	76	79	78	76	74	73
C3. Commodity price	55	55	57	56	54	53	51	49	46	44	42
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	240	240	240	240	240	240	240	240	240	240	240
Debt Service-to-Exports Ratio											
Baseline	5	5	5	6	6	6	6	5	5	5	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	5	5	6	8	9	9	10	10	11	11	12
B. Bound Tests											
B1. Real GDP growth	5	5	5	6	6	6	6	5	5	5	5
B2. Primary balance	5	5	5	7	7	7	7	7	7	8	8
B3. Exports	5	6	7	10	10	10	10	10	11	12	12
B4. Other flows 3/	5	5	7	11	10	10	10	10	13	15	14
B5. Depreciation	5	5	5	5	5	5	5	5	4	3	3
B6. Combination of B1-B5	5	6	9	12	12	12	12	12	14	16	15
C. Tailored Tests											
C1. Combined contingent liabilities	5	5	6	7	7	7	7	7	7	7	7
C2. Natural disaster	5	5	6	7	7	7	7	7	8	8	8
C3. Commodity price	5	5	5	6	6	6	6	5	5	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	21	21	21	21	21	21	21	21	21	21	21
Debt Service-to-Revenue Ratio											
Baseline	7	7	6	7	7	7	7	6	6	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	7	7	8	10	11	11	12	12	13	13	14
B. Bound Tests											
B1. Real GDP growth	7	8	8	9	8	8	8	8	7	7	7
B2. Primary balance	7	7	7	9	9	8	8	8	9	9	9
B3. Exports	7	7	8	10	10	10	10	9	10	11	11
B4. Other flows 3/	7	7	10	13	13	13	13	12	15	17	16
B5. Depreciation	7	9	8	8	8	7	7	7	7	5	5
B6. Combination of B1-B5	7	8	11	15	15	14	14	14	17	19	18
C. Tailored Tests											
C1. Combined contingent liabilities	7	7	8	9	8	8	8	8	9	9	8
C2. Natural disaster	7	7	8	9	9	8	8	9	10	9	9
C3. Commodity price	7	7	6	7	7	7	7	6	6	6	6
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	23	23	23	23	23	23	23	23	23	23	23

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, 2024-34
(Percent)

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PV of Debt-to-GDP Ratio											
Baseline	32	31	30	31	31	31	30	29	28	28	27
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	32	35	39	42	45	48	50	52	54	56	58
B. Bound Tests											
B1. Real GDP growth	32	38	47	54	61	68	**74**	**79**	**85**	**90**	**96**
B2. Primary balance	32	38	44	45	46	47	47	47	47	47	47
B3. Exports	32	36	45	45	45	45	44	43	42	40	39
B4. Other flows 3/	32	48	62	62	62	62	61	60	58	55	52
B5. Depreciation	32	36	33	31	29	28	25	23	20	18	16
B6. Combination of B1-B5	32	36	38	35	36	37	37	37	37	37	38
C. Tailored Tests											
C1. Combined contingent liabilities	32	42	42	43	44	45	45	45	45	45	45
C2. Natural disaster	32	43	44	45	46	48	48	49	49	50	51
C3. Commodity price	32	35	40	47	53	59	65	70	**75**	**80**	**85**
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	70	70	70	70	70	70	70	70	70	70	70
PV of Debt-to-Revenue Ratio											
Baseline	95	93	92	92	93	93	92	90	88	86	84
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	95	106	117	127	137	146	155	161	168	174	181
B. Bound Tests											
B1. Real GDP growth	95	114	143	163	184	205	225	243	261	279	297
B2. Primary balance	95	114	133	135	138	141	143	143	144	145	146
B3. Exports	95	109	135	135	135	136	135	132	129	125	120
B4. Other flows 3/	95	144	188	187	187	187	186	183	178	170	163
B5. Depreciation	95	108	100	94	89	84	77	70	63	56	49
B6. Combination of B1-B5	95	109	114	104	108	111	113	113	115	116	117
C. Tailored Tests											
C1. Combined contingent liabilities	95	126	127	129	132	135	137	137	138	139	140
C2. Natural disaster	95	129	132	136	140	145	148	150	152	154	157
C3. Commodity price	95	104	122	141	160	180	198	214	231	248	264
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	10	10	9	11	10	11	12	11	13	13	15
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	10	10	10	11	12	13	14	14	16	19	21
B. Bound Tests											
B1. Real GDP growth	10	11	12	14	15	17	21	23	27	29	33
B2. Primary balance	10	10	11	13	13	13	17	17	16	17	19
B3. Exports	10	10	10	13	13	13	15	14	16	18	20
B4. Other flows 3/	10	10	12	16	16	17	18	17	21	24	25
B5. Depreciation	10	10	10	11	11	10	11	9	10	10	10
B6. Combination of B1-B5	10	10	9	11	11	11	12	11	13	14	15
C. Tailored Tests											
C1. Combined contingent liabilities	10	10	12	12	12	12	19	13	16	17	18
C2. Natural disaster	10	10	12	13	13	13	21	15	17	18	20
C3. Commodity price	10	10	10	12	13	14	18	20	23	26	29
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.

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BUFF/ED/25/14

January 23, 2025

Statement by Mr. Roncaglia, Mr. Antunes, and Mr. Coronel (OEDBR) on Nicaragua
Executive Board Meeting
January 29, 2025

1. **On behalf of our Nicaraguan authorities, we thank staff for the fruitful and candid discussions during the 2024 Article IV mission, held in Managua last November**. The authorities recognize the professionalism of the IMF team, as well as the quality and analytical value of the staff report. They also welcome the consistent cooperation through policy dialogue and significant technical assistance and look forward to continuing the close engagement with the Fund.

Macroeconomic outlook

2. **Nicaragua is a small, open, market-oriented economy and has a long track record of sound policy implementation underpinned by macroeconomic stability, fiscal discipline, and social inclusion.** However, like other small and open economies in Central America, it is highly vulnerable to external shocks and natural disasters, including earthquakes, landslides, and, with increasing frequency due to climate change, droughts, hurricanes, and tropical storms. The observed lack of IFI support for Nicaragua's development and financing needs raises grave concerns regarding the availability of financial resources aimed at mitigating the socioeconomic impact of these potentially damaging weather-related shocks. Indeed, the country's net flows with IFIs have turned

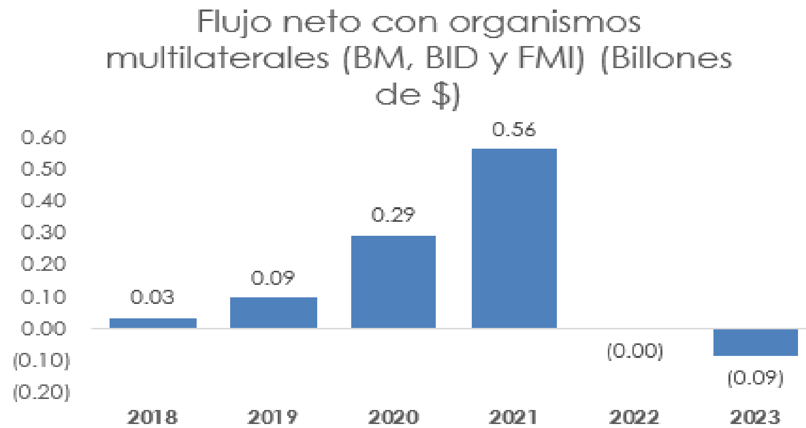

Fig. 1. Net-Flows with WB, IADB, IMF (US $ Billions). Source: BCN

negative (*see Figure 1*). As any member in good standing, Nicaragua expects evenhanded treatment should it seek emergency or BOP financing from the IMF, in case of need.

3. **Nimble macroeconomic management has supported a successful and steady recovery from the recent series of shocks, despite the vulnerabilities and constraints.** Nicaragua faced several shocks between 2018 and 2020, including a sociopolitical crisis, two consecutive hurricanes, and the COVID pandemic, which pushed the economy into a three-year recession with a cumulative GDP contraction of about 8 percent. The financial system was subjected to a real-life stress test and emerged unscathed. The economy and the financial system proved resilient and have since then fully recovered, but the recovery would have been stronger, faster, and less costly if the government's effective macroeconomic policies had been supported by more timely and adequate external financial assistance. Nicaragua did finally receive RCF-RSF emergency financing from the IMF in November 2020, with disbursements amounting to only 50 percent of quota, far below average for the Western Hemisphere. Furthermore, the resources were partially managed by third-party agencies (UNOS and WFP) and failed to fill the BOP gap.

4. **The Nicaraguan economy continues on a stable growth trajectory, thanks to an appropriate macroeconomic policy framework that has allowed the country to build buffers and be better prepared to face adverse shocks**. This has been achieved by preserving sound macroeconomic fundamentals and implementing a policy mix that promotes inclusive growth without generating imbalances or excessive debt. These efforts have been the result of strong intergovernmental policy coordination, especially between fiscal and monetary policies. Since the last Article IV exercise, in 2023, economic performance has remained strong. Unemployment is low – albeit with high underemployment – inflation has been steadily declining, and Nicaragua has run fiscal surpluses for three consecutive years, as well as current account surpluses for two consecutive years. Debt sustainability remains adequate, and the debt-to-GDP ratio has been declining steadily since its 10-year peak in 2020 (*see Figure 2*). In addition, the external accounts remain robust, with steady exports and FDI, as well as record high foreign

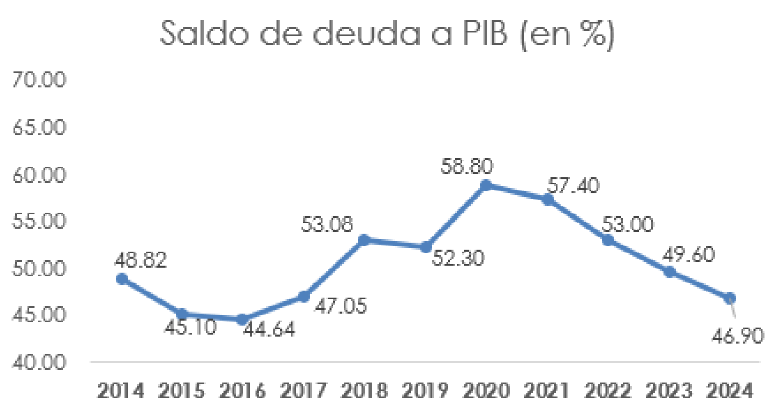

Fig.2 Evolution of Debt-to-GDP ratio for last 10 years.

exchange reserves and remittances. Moreover, the financial system remains well capitalized and profitable, with adequate liquidity and low NPLs.

5. **The authorities remain committed to pursue prudent economic policies designed for hard times**. The authorities expect the economy to move steadily towards its potential growth rate over the medium term, which they estimate at 4 percent, on the back of solid export performance, strong public investment, the ongoing recovery of private sector investment, steady FDI - as the trend so far seems to confirm - and continued, albeit possibly slower, remittance inflows. The authorities are committed to maintaining a broadly self-sustaining approach and, in the absence of external financing from IFIs, have been compelled to seek alternative infrastructure and development financing elsewhere. In general, the country relies on its own domestic capacity to generate tax revenues for spending, public investment, and buffer replenishment, while avoiding BOP gaps to the extent possible. The authorities have had ample experience in shifting the fiscal and monetary policy stance from tight to neutral or vice versa with varying degrees of moderation, as needed. That said, we broadly agree with staff's assessment of risks. The authorities remain vigilant to potential disruptions to migration, remittances, global trade, and other uncertainties stemming from possible US policies. The most tangible risk to the Nicaraguan economy, however, remains climate change-induced extreme weather events, exacerbated by the prospect of facing them without emergency external financing.

Fiscal policy and sustainable development

6. **Against this backdrop, the authorities are actively engaged in preserving fiscal sustainability to expand fiscal space and support social and development spending.** Throughout 2024, the authorities have implemented a comprehensive set of measures to further improve revenue collection, strictly target subsidies, and rationalize spending, including eliminating long-standing fiscal rigidities. The resulting buffers have allowed the country to shore up its defenses and strengthen its fiscal position, while creating space for much-needed social spending, particularly in public health, education, and infrastructure. On the back of stronger revenue performance, the authorities expect the fiscal outturn in 2024 to exceed the projections made during the mission last November albeit the consolidated public sector surplus to remain somewhat lower than the 2.8 percent of GDP achieved in 2023.

7. **On the fiscal front, the authorities' main concern remains the long-term sustainability of the pension system (INSS), which is comprehensively and adequately addressed in the staff report**. In this regard, we thank staff for their candid and valuable input. The authorities are fully cognizant of the challenges ahead and of the need for reform. We appreciate staff's willingness to continue to discuss ways to address the sustainability of INSS and eventually provide technical assistance should the authorities request it.

Enhanced public services and infrastructure have supported continued progress in social and sustainable development, despite declining flows from the IFIs. Health and education infrastructure has expanded and improved. Coverage of the national electricity grid reached 99 percent of households, and major urban, intercity, and rural transportation arteries have been built, including two highways integrating the main Caribbean city with the central and Pacific regions of Nicaragua for the first time in the country's history. Gender equality and citizen security have also been policy priorities, with significant results. The World Economic Forum's 2024 Global Gender Gap Report ranked Nicaragua 6th in the gender gap index, and except for 2015, the country has been in the top ten for the past decade[1]. Homicide rates are currently among the lowest in Latin America, according to UN and World Bank data. Poverty reduction programs resumed after the COVID crisis with encouraging results, as noted in the staff report. The authorities remain committed to protecting the poor and vulnerable, a key principle guiding their policies.

Monetary policy

8. **Despite the recent surge in inflation, effective macroeconomic management limited the risk of second-round effects and de-anchoring of inflation expectations.** As global inflation escalated, headline inflation in 2022 rose well above Nicaragua's long-term trend for the first time in more than a decade. Inflation accelerated from 7.2 percent in 2021 to 11.5 percent in November 2022. Since then, it has steadily declined, in line with global disinflation. The Banco Central de Nicaragua (BCN) recently reported that inflation will end 2024 just below 3 percent, slightly lower than the authorities' projection. Over the medium term, the BCN expects headline inflation to remain stable, between 3 and 4 percent. With such a tailwind, the BCN lowered its policy rate for the third time at its board meeting on January 9. Mindful of adjustments in policy rates in partner economies, the authorities regularly review the appropriateness of the policy rate including to prevent capital flow reversals.

9. **The BCN will continue to contain price increases, support a stable crawling peg exchange rate, appropriately manage monetary base liquidity, and promote credit mobilization and economic activity.** Under favorable conditions and with ample reserve accumulation, the crawling peg exchange rate of the Cordoba (C$) against the US dollar has been set at zero percent per annum, with the exchange rate operating within a de facto crawling peg band within which the BCN can intervene to counteract market appreciation or depreciation pressures. In line with the strengthening of monetary policy transmission, the BCN has recently implemented measures to promote the use of the local currency. These measures were appropriately communicated and took effect on January 1, 2025.

External sustainability and financial supervision

[1] WEF_GGGR_2024.pdf

10. **Developments in the external sector have contributed positively to the economy.** Effective management of exchange rate policy has allowed the BCN to steadily accumulate foreign exchange reserves; in 2024, the BCN increased its foreign exchange reserves by US$658 million, reaching a record level of gross international reserves of US$6.105 billion (three times the level in 2018), equivalent to 31.7 percent of GDP and 8 months of imports. Remittances reached an all-time high in 2024 and are projected to exceed US$5.2 billion, almost 12 percent higher than last year, and equivalent to 27 percent of GDP. Going forward, the increase in imports induced by higher consumption from remittances will tend to narrow the current account surplus and lower the pace of reserve accumulation, as also noted by staff.

11. **The authorities are currently working to update the legal supervision and resolution frameworks for the financial sector following international best practices after the 2008 crisis, in line with many of staff's recommendations in recent years.** In this vein, the authorities have already adopted the first piece of legislation that integrates the BCN and the Superintendency of Banks and Other Financial Institutions (SIBOIF) into a single body. This legislation introduces a unified, systemic, macroprudential approach to the country's monetary and banking regulation to support financial stability and clearly delineates the objectives and functions of each institution. It establishes a single board for monetary and financial regulation, although both the BCN and the SIBOIF retain administrative autonomy. The reforms introduce new tools and regulations to strengthen the BCN's role as lender of last resort; additionally, they authorize the BCN to undertake the development and regulation of electronic payment systems, and to supervise relevant non-bank institutions and banking conglomerates incorporated in Nicaragua.

12. **Against this background, the banking system remains well capitalized, liquid and profitable.** Capital adequacy is well above regional levels, nonperforming and distressed assets are low and have continued to decline from their post-crisis peaks. Although NPLs experienced a slight uptick recently, loans and bank deposits have continued to grow at a healthy and sustainable pace under sound and prudent credit policies. Remaining pockets of vulnerability - some of which have been highlighted by staff in the report - are being closely monitored by a better-endowed, post-update SIBOIF.

Governance issues

13. **The Nicaraguan authorities welcome staff advice and recommendations, particularly in areas of Fund expertise.** The authorities have a high response rate to IMF policy advice. During the current Article IV cycle, the authorities have benefited from staff advice on a range of fiscal, monetary, structural, and statistical issues. Significant progress has been made on at least 12 of the 16 issues identified in previous Fund policy advice. The authorities welcomed staff advice on transparency and oversight of state-owned enterprises, as this is consistent with the ongoing efforts to rationalize expenditures and contain fiscal contingent liabilities. The authorities will continue to make progress in this regard. It is worth noting, however, that the scope and authority of the BCN - the IMF's counterpart - are very

limited in some areas of governance and the rule of law. Most of staff's advice on these issues, which in some cases are systemic and relate to laws of constitutional rank, appears to be directed to independent agencies and/or state authorities, such as the Attorney General's Office, the Comptroller's Office, and the legislative and judicial branches. That said, all agencies and branches of government are making progress on their own in improving governance and the anti-corruption framework.

14. **The authorities welcomed the discussions and staff's advice on the AML/CFT framework**. While the Financial Analysis Unit (UAF) prepares for the upcoming evaluation of the AML/CFT framework, it is also updating its regulatory framework accordingly. Regarding Law 1224, which reaffirms that external sanctions have no jurisdiction within the country's territory, there has been thus far no report of AML/CFT compliance issues concerning financial institutions. The UAF remains committed to addressing all issues of concern in a thorough and timely manner.

Conclusion

15. **In closing, the authorities maintain their commitment to implement coherent macroeconomic and development policies**. In this regard, they continue to count on the Fund's support through policy advice and capacity building, tailored to Nicaragua's specific needs and circumstances.