INTERNATIONAL MONETARY FUND

IMF Country Report No. 20/59

NICARAGUA

February 2020

2019 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 2019 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 February 21, 2020 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 February 21, 2020, following discussions that ended on November 12, 2019 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 30, 2020.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Nicaragua

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February 25, 2020

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IMF Executive Board Concludes 2019 Article IV Consultation with Nicaragua

On February 21, 2020, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Nicaragua.

Since April 2018, social unrest and its aftermath eroded confidence and caused large capital and bank deposits outflows, adversely affecting Nicaragua's economic activity. Real GDP is estimated to have further contracted in 2019 by 5.7 percent (-3.8 percent in 2018) owing to the deterioration in aggregate demand, strong fiscal consolidation, and sanctions. Inflation is estimated to have increased to 6.1 percent by end-2019 (as compared to 3.9 percent in 2018), as a result of tax measures adopted to partially offset the collapse in revenues and financing. Although the economic downturn translated into a current account surplus in 2018 and 2019, the improvement was fully offset by a reversal in the financial account.

The authorities eased monetary and financial sector policies during 2018–19 to avoid a downward economic spiral. The Central Bank managed to stabilize the financial sector by introducing repos, reducing reserve requirements, and phasing-in regulatory provisioning. To bring back the deficit from 4 percent of GDP in 2018 to 2 percent of GDP in 2019, the government adopted a package of tax and pension reforms in the first quarter of 2019. The authorities announced in October 2019 a reduction in the rate of crawl from 5 percent to 3 percent, to signal a commitment to low inflation.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They noted that the authorities' determined policy response had contained the impact of the fiscal and financial sector shocks in 2018 and 2019. Nonetheless, with domestic and external vulnerabilities persisting, they

[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.

emphasized the importance of measures to preserve macroeconomic and financial stability and restore confidence. They stressed that commitment to prudent policies will remain important. The careful design and communication of reforms will also be crucial in ensuring their social acceptability. Continued support from development partners, in collaboration with the Fund, will be important.

Directors considered that the fiscal position outlined in the 2020 budget is adequate to support the economic recovery. They underscored the importance of rebalancing public expenditures in the short term to generate fiscal space for spending on social safety nets, critical social programs, and efficient investments. Over the medium term, the fiscal deficit will need to be gradually reduced to ensure sustainability, together with reforms to strengthen the financial position of state-owned enterprises and the pension system. It will be important to strike the right balance to provide enough expansionary impulse to medium-term economic growth. Greater fiscal transparency will be needed in assessing fiscal risks and enhancing fiscal governance.

Directors highlighted the need to increase the international reserves coverage to support the crawling peg exchange regime and restore external buffers. Keeping inflation low while adopting structural reforms to raise productivity will increase competitiveness and resilience to shocks.

Directors welcomed the resilience of the financial sector to recent confidence shocks but called for further efforts to mitigate risks from the elevated level of distressed assets. Enhancing crisis preparedness, strengthening banking sector supervision, and improving institutional coordination for resolution activities, including adequate resources for the financial safety net, would shield the financial system against downside risks. Directors welcomed the reforms to the AML/CFT framework but stressed the need for further efforts to ensure its effective implementation. They also emphasized the importance of addressing governance weaknesses in line with the recommendations of the 2017 Financial Action Task Force.

Directors recommended the steadfast implementation of structural reforms aimed at restoring investors’ confidence and improving the business environment, in consultation with key stakeholders. Strengthening institutions, improving infrastructure, investing in human capital, addressing labor skills bottlenecks, and upgrading technological readiness would improve competitiveness.

Directors urged the authorities to improve the quality and timeliness of economic data with continued Fund technical assistance.

Nicaragua: Selected Economic Indicators, 2016–20

	2016	2017	2018	2019	2020
				Projections	
			(Annual percent change)		
Output					
Real GDP	4.6	4.7	-3.8	-5.7	-1.2
Real GDP per capita	4.7	4.4	-6.6	-8.1	-3.1
Consumer price inflation (period average)	3.5	3.9	5.0	5.4	5.0
Consumer price inflation (end of period)	3.1	5.7	3.9	6.4	5.0
Central Government			(In percent of GDP)		
Revenue	17.6	17.8	16.8	19.1	18.1
Grants	0.9	0.9	0.6	0.5	0.6
Expenditure 1/	19.6	19.6	20.6	20.3	20.1
Current	15.3	15.1	16.3	16.8	16.7
Capital	4.3	4.5	4.4	3.5	3.4
Overall balance (after grants)	-1.1	-0.9	-3.2	-0.7	-1.4
Total public sector gross debt 2/	41.7	44.2	47.8	51.0	52.4
External	32.2	34.8	38.1	41.8	43.1
Domestic	9.5	9.4	9.2	9.3	10.7
Money and Credit			(Annual percent change, end of period)		
Broad money	20.6	13.0	11.7	10.8	-21.2
Domestic credit of the banking system	21.8	20.8	21.8	16.8	11.1
Public sector (net)	66.1	-60.3	24.3	13.7	22.4
Private sector	14.8	20.6	9.1	11.7	-20.4
External sector			(In millions of U.S. dollars, unless otherwise indicated)		
Current account	-870.8	-675.1	83.0	186.4	140.2
(percent of GDP)	-6.6	-4.9	0.6	1.5	1.1
Gross official reserves 3/	2,296	2,593	2,080	2,071	2,016
Months of imports excl. maquila	4.1	5.3	4.8	4.9	4.8
Memorandum Items					
Nominal GDP (billions of Cordobas)	380.3	416.0	413.9	411.3	426.4
Per capita GDP, US$	2,099.6	2,165.2	2,030.5	1,904.3	1,882.5
Cordoba/U.S. dollar (period average)	28.6	30.1	31.6	…	…

Sources: National authorities and IMF staff calculations.

1/ Central government expenditure in 2018 include transfers to INSS for repayments of historical debt for 1.2 percent of GDP, and projections for 2019 and 2020 of 1.4 and 1.7 percent of GDP, respectively.

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

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

INTERNATIONAL MONETARY FUND

NICARAGUA

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

January 30, 2020

KEY ISSUES

Context: Social unrest and its aftermath eroded confidence and caused large capital and bank deposits outflows that resulted in a prolonged output contraction. Banks cut lending, which exacerbated the downturn. Faced with sharply lower revenues and a severe tightening in available financing, including on account of sanctions, the government was forced to cut spending and adopt a procyclical tax package.

Outlook and Risks: The economy is projected to continue to contract in the near term as it adjusts to weaker confidence and lower external financing. The sharp contraction in credit will continue to depress investment, and the tight fiscal and external financing situation will continue to drag down medium-term growth. The key risks relate to further erosion in confidence and renewed deposit outflows. The imposition of additional sanctions by trading partners could also heighten economic stress.

Key Policy Recommendations:

- ***Fiscal.*** Maintaining a conservative fiscal stance in 2020 remains the key to maintain macroeconomic stability. Curbing expenditures on goods and services will allow increased spending on social programs, social safety nets, and public investment, which would lead to more equitable and sustainable growth. Addressing medium- term fiscal challenges and undertaking structural reforms —which are unavoidable to safeguard fiscal sustainability— require obtaining broad public support.

- ***Monetary and Financial.*** A stronger external position is needed over the medium term to maintain the resilience of the crawling peg regime. Financial sector soundness would be supported by reforms to strengthen (i) the regulatory and supervisory framework to ensure proper loan-loss provisioning; and (ii) the AML/CFT framework to reduce pressures on correspondent banking relationships.

- ***Anti-corruption and Structural.*** Establishing a broad-based anticorruption policy would help mobilize actions to improve efficiency in delivering public goods and services and reducing corruption. Strengthening the protection of property rights, guaranteeing investor protection, and resolving insolvency will enhance competitiveness.

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

Discussions took place in Managua during October 29–November 12, 2019. The mission team comprised R. Garcia-Saltos (Head), J. Arze del Granado, S. Marcelino (all WHD), T. Asonuma (SPR), L. Cortavarria and M. Otero (MCM), I. Rossi (LEG) and G. Peraza (Regional Resident Representative). M. Coronel (OED) participated in the discussions. B. Saravia (OED) and A. Husain (WHD) participated in the concluding meetings. M. Sans provided research assistance, and M Toshmuhamedova offered editorial support for the preparation of the report.

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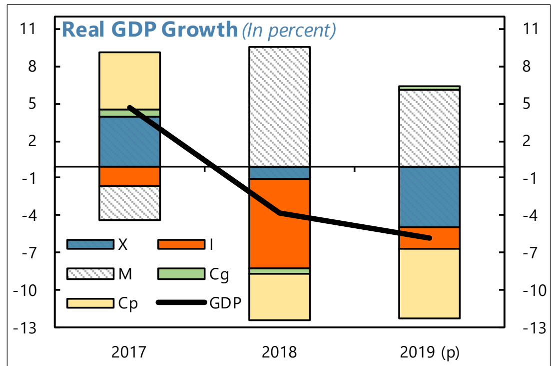
CONTEXT AND RECENT ECONOMIC DEVELOPMENTS

1. **In April 2018, social protests triggered by the announcement of pension reforms unleashed a wave of violence and a deterioration in confidence**. Since then, and despite efforts by the international community, finding a solution to the political discord has remained elusive. Some countries have imposed sanctions on the government and specific individuals, which in turn has sharply reduced Nicaragua's access to external financing.[1]

2. **The social unrest and its aftermath caused an abrupt economic contraction in 2018 and 2019**. In 2018, real GDP contracted by 3.8 percent (following annual average growth of almost 5 percent during 2013–17) as widespread violence and road blockades almost paralyzed the country during the second and third quarters. In 2019, the economy is projected to shrink by a further 5.7 percent owing to the deterioration in confidence, strong fiscal consolidation, and sanctions, which have aggravated financial constraints and caused a reduction in formal employment, which in turn have compressed private consumption and investment. The sectors most affected were tourism, construction, and retail. Job losses in the formal sector are estimated at 180,000 (20 percent of formal employment) during March 2018-September 2019. Inflation is projected at 6.4 percent by end-2019 (as compared to 3.9 percent in 2018), a spike that reflects the transient effect of tax measures adopted in March 2019.



Source: National authorities and IMF staff calculations.

3. **The loss in confidence also affected financial markets and contributed to a rapid decline in reserves**. Considerable uncertainty caused bouts of liquidity hoarding and higher demand for foreign exchange, which stressed banks' funding sources and the pegged exchange rate regime.[2] As a result, between April 2018 and September 2019, bank deposits and net international reserves shrunk by more than thirty percent. In recent months, deposits and reserves have stabilized, possibly indicating that the portfolio rebalancing in response to the confidence shock is nearing completion.

4. **The fiscal position deteriorated sharply in 2018, but a determined policy response led to a marked improvement in 2019**. In 2018, the Non-Financial Public Sector (NFPS) deficit widened to 4.1 percent of GDP because tax collection plummeted, the pension system required

[1] In December 2018, the U.S. government enacted the Nicaragua Human Rights and Anticorruption Act, which severely restricts external funding to Nicaragua. In June 2019, Canada followed suit imposing sanctions on targeted Nicaraguan nationals. In October, the European Council established a framework enabling the EU to impose targeted sanctions.
[2] A crawling-peg type of exchange rate regime has been in operation since 1993. About 85 percent of banks' liabilities and almost all banks' loans are denominated or indexed to the U.S. dollar.

budgetary support, and external financing dwindled. In early 2019 the government adopted a fiscal package of tax and pension reforms which, despite the erosion in the tax base and declining economic activity, are projected to yield about 4.2 percentage points of GDP.[3] As a result, the NFPS deficit is estimated at 2 percent of GDP in 2019. On the financing side, the reduction in external flows (1.5 and 1 percent of GDP in 2018 and 2019, respectively), forced the government to draw down its stock of bank deposits (from around 8 percent of GDP at end-2017 to 6 percent by end-2018). The financial situation of the Nicaraguan Institute of Social Security (INSS) has deteriorated over the past five years because of demographic dynamics and lenient rules for access to reduced pension benefits. In 2018 the INSS exhausted its liquid reserves, and its financial position deteriorated further owing to a reduction in contributions resulting from the economic contraction and job losses, requiring the central government to transfer the equivalent of 1.2 percent of GDP in 2018, and an estimated 0.7 percent of GDP in 2019, against accumulated central government arrears to INSS.[4]

Operations of the Non-Financial Public Sector

(Percent of GDP)

	2017	2018	2019 (p)
Revenues	29.1	27.6	30.6
Expenditure	31.1	31.7	32.7
Balance	**-2.1**	**-4.1**	**-2.0**
External Financing (net)	3.3	1.9	2.4
Domestic Financing (net)	-1.2	2.2	-0.4
Use of Deposits	-1.8	2.3	-0.2
Memorandum items			
NFPS primary balance	-0.9	-2.9	-0.6
CG balance	-0.9	-3.3	-0.6
CG transfers to INSS	0.0	1.2	0.7

Sources: National authorities and IMF staff calculations.

5. The economic contraction resulted in a current account surplus in 2018 and 2019. Despite the collapse in tourism revenues, a demand-driven import compression and steady growth in remittances improved the current account to a modest surplus of 0.6 percent of GDP in 2018 and 1.5 percent of GDP estimated for 2019 (from a deficit of 4.9 percent of GDP in 2017). The current account improvement, however, was more than fully offset by a deterioration in the financial account of about 10.5 percent of GDP (from 8.3 percent of GDP inflows in 2017 to 2.2 percent of GDP outflows in 2018 and 1.5 percent of GDP in 2019). Most of the reversal represented flows highly sensitive to confidence effects and to the slowdown in real activity, such as portfolio flows and FDI. Capital outflows, however, decelerated in the second half of 2019, aided by external bilateral and multilateral disbursements, e.g., from the Central America Bank of Economic Integration (CABEI). Overall, gross international reserves (GIR) decreased by US$512 million in 2018 and are projected to decrease by US$9 million in 2019, which places GIR at 4.9 months of non-maquila imports, somewhat below the suggested range of 5 to 10 months of non-maquila imports estimated using Fund's adequacy metric for LICs with a pegged exchange rate regime.

[3] However, some of the pension reforms initially announced, have not yet been implemented. These include the change of minimum number of contributions required to receive a reduced pension and the reduction on the minimum pension.

[4] The central government accumulated arrears for unpaid contributions during the period 1956-2013 that totaled US$500 million, about 3.9 percent of GDP. In 2018 the government agreed to pay INSS in 50 annual installments of about US$10 million each. Hence, the 2018 transfer of approximately US$150 million included 15 installments, while transfers for 2019, of about US$70 million, accounted for 7 installments.

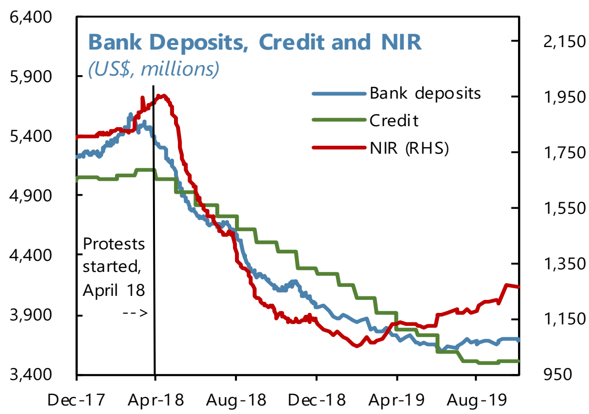
Selected Fiscal Policy Decisions Taken Since April 2018

Measures	Date	Description	Proj. Yield (% of GDP)
2018 Budget Revision	Aug-2018	Decrease expenditures (ow/70% capital)	1.4
Tax Policy	Mar-2019		2.7
Increased min. corporate income tax		From 1% to either 2% or 3% of gross sales	1.5
Eliminated VAT exemptions		On selected consumption goods	0.4
Increased excises		- Including on alcoholic drinks & tobacco	0.8
Eliminated import exemptions (DAI)	Jul-2019	On 16 consumption products that were exempt from import tariffs since 2008	…
Pension Reform	Mar-2019	Total	1.5
Increase pension contributions		-Employers by 2.5 ppts. (small firms) and by 3.5 ppts. (other firms)	…
		-Employees by 0.75 ppts, by 4 ppts self-employed	…
Increased gov. health contrib.		By 1.5 ppts.	…
Reduced replacement rate		To 70% (from 80% previously)	…
Decrease min. pension (not implemented)		To 75% of min. wage	…
Increase contrib. required for reduced pensions (not implemented)		From 250 to 500 weeks	…
Public Wage Freeze	Aug-2019	Frozen until Feb-2020	0.3
Indexation of Pensions	Oct-2019	Reduction from 5% to 3%	…

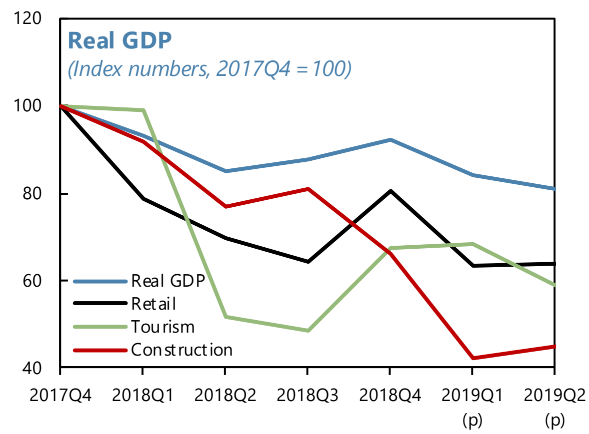
Sources: National authorities and IMF staff calculations.

Figure 1. Nicaragua: Economic Performance Since the 2017 Article IV Consultation 1/

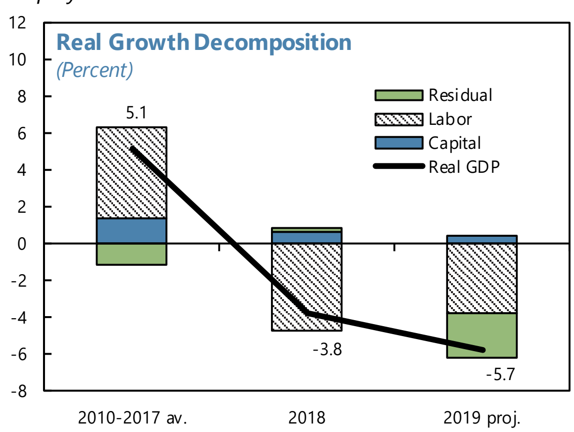
Unexpected confidence shocks translated into capital outflows and deleveraging.



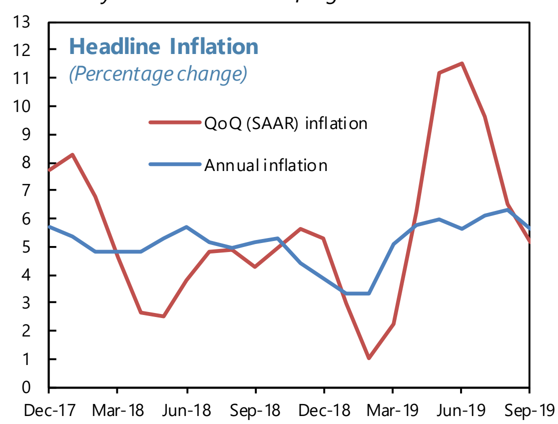
Output has plummeted, particularly in the tourism, construction and retail sectors....



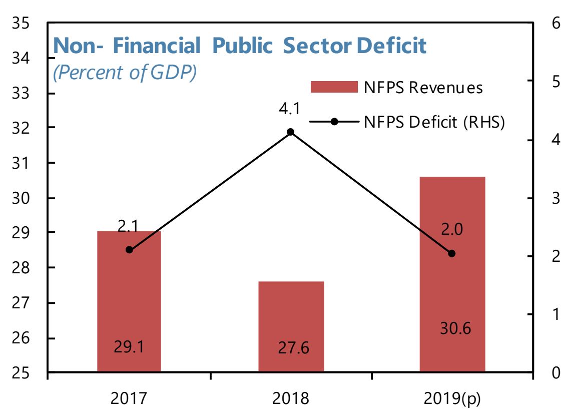
... with a drop in investment and large contraction in employment.



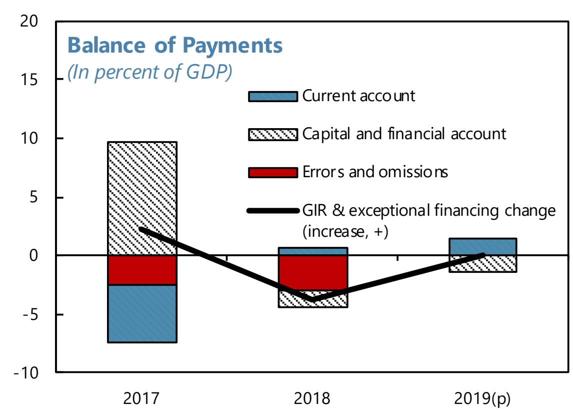
Inflation declined to weak demand in 2018 and increased transitorily in 2019 because of higher taxes.



The fiscal deficit doubled in 2018 because of a collapse in revenues, forcing a fiscal consolidation in 2019.



The contraction was paired with a surplus in the current account, insufficient to offset a reversal in the financial account.



Source: National authorities and IMF staff caclulations.

1/ See also Annex I for a description of the progress on implementing the 2017 Article IV recommendations.

6. Nicaragua's external position in 2018 and the projection for 2019, are assessed to be moderately weaker than levels consistent with fundamentals. While in 2018 the REER remained broadly unchanged from the level in 2017, the external sustainability (ES) approach estimates a moderate REER overvaluation of 7.4 percent. The net international investment position (IIP) was negative at about -125 percent (lower than the regional average by 50 percent of GDP). (See Annex II).

7. In response to the challenging macroeconomic situation, monetary and financial sector policies eased during 2018-19. Since March 2018, a combination of efforts by the banks to enhance their liquidity buffers, mostly by reducing lending operations, and of the authorities by introducing repos, reducing reserve requirements, and phasing-in regulatory provisioning managed to stabilize the financial sector (Box 1). To signal a commitment to low inflation, in 2019 the authorities announced a reduction in the rate of the crawl from 5 percent to 3 percent.

Selected Monetary and Financial Policy Decisions Since April 2018

Measures	Date	Measures	Date
- Introduction of instruments to provide liquidity, including repos	May-18	- Issuance of new securities to attract depositors	Aug-18
- Temporary forebearance of problem loans ("*Aliviados* ")	May-18	- Temporary suspension of the anti-cyclical loan provisions	Sep-18
- Reduction of daily reserve requirements in FX and NC from 12 to 10% and weekly requirements in NC from 15 to 13%	Jun-18, and Aug-19	- Required temporary additional bank capital	Nov-18
- Drawing of US$200 million from CABEI	Jun-18	- Temporary lending to government	Feb-19
- Announcing of a blanket deposit guarantee	Jun-18	- Crawling peg reduction from 5% to 3%	Nov-19

Source: National authorities.

8. Vulnerabilities in the financial sector are nevertheless growing. The economic downturn and loan recalls have imposed a heavy toll on bank asset quality and profitability. In recent months, however, the outflow of bank deposits appears to have bottomed out and flows of new non-performing and restructured loans have been contained (broadly, the nominal amount of these assets, after including *"aliviados,"* seems to have stabilized in 2019, Q3). Through end-September 2019, the officially reported NPL ratio was 3.8 percent, while a broader measure of borrowers experiencing some sort of distress accounts for 18 percent of total loans.[5] A decline in bank profitability to 4.4 percent of system equity in September 2019, from 18.0 percent in March 2018, is largely explained by the sizeable contraction of the loan portfolio, and large holdings of low yield liquid assets. Remaining

Financial Soundness Indicators

	2018		2019
	Q1	Q4	Q3
Capital Adequacy Ratio	13.9	17.0	21.9
NPLs to total loans	1.1	2.6	3.8
Provisions to NPLs	226.3	173.3	155.3
Provisions to distressed assets 1/	85.9	26.8	32.1
Return on assets (ROA) 2/	2.1	1.3	0.8
Return on Equity (ROE) 2/	18.0	10.5	4.4
Liquid assets to total deposits	32.5	36.1	46.9
Liquid assets to total liabilities 3/	36.7	36.5	39.4

Sources: National authorities and IMF staff calculations.
1/ Adding restructured, refinanced and forborne loans to NPLs.
2/ Annualized data.
3/ Excluding loans from other Financial Institutions with a maturity over 12 months.

[5] After adding restructured, refinanced, repossessed, and forborne ("*Aliviados*", unreported restructured borrowers) loans to the stock of NPLs. This broader measure was below 3 percent in 2018Q1.

profitability is explained predominantly by accounting profits from the banks' long foreign exchange positions. The declared level of liquidity (47 percent of total deposits) and solvency (almost 22 percent of risk-weighted assets, more than twice the minimum capital requirement ratio) through September 2019 suggest the banking system still holds cushions to withstand a further decline in confidence and economic growth.

Box 1. Credit Crunch and Liquidity Management During Financial Stress

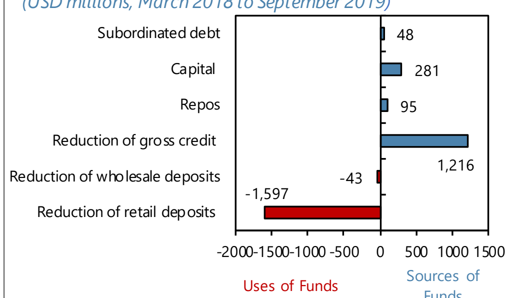
- **The financial system was subject to unprecedented stress during the last nine months of 2018 and in 2019**. During this period, banks dealt with a run of retail deposits of 31 percent or US$1.6 billion (about 25 percent, or US$1.4 billion in 2018). Wholesale funding remained relatively stable.

- **Banks responded to the shock by adjusting their balance sheets**. During 2018, banks temporarily used part of their available liquid assets and extraordinary efforts to reduce their loan portfolio. By September 2019, banks' holdings of liquid assets and investments were regularized at similar levels of those registered in April 2018, whereas collected loans amounted to about US$1.2 billion, which translates into a reduction of almost 24 percent of their gross credit portfolio in 18 months.

- **The Central Bank of Nicaragua (CBN) took measures in parallel to support the liquidity of the banking system**. The CBN eased their reserve requirements and adopted a new scheme of daily monetary operations to ensure access by banks to daily liquidity from the central bank**.** The CBN also redesigned its lines for financial assistance to provide emergency liquidity assistance (also known as LAF) in June 2018 (although there are still operational and legal challenges that could hamper access to these lines in the case of a bank face liquidity crisis).

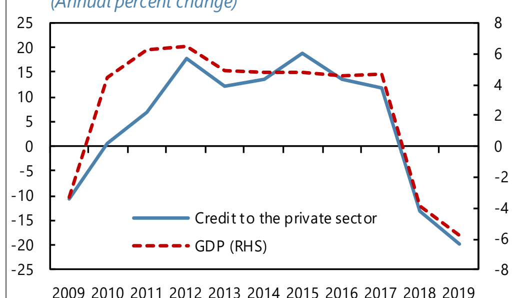
- **As a result of the joint effort by banks and the monetary authorities, no bank failures were registered in 2018, and to date.** However, after the liquidity of banks stabilized in 2019, banks' asset quality and profitability weakened due to the reduced working capital and cashflows of borrowers (mainly resulting from the collection of loans by banks in 2018) coupled with the ongoing economic recession.

Banking System Flow of Funds
(USD millions, March 2018 to September 2019)



Sources: National authorities and IMF staff calculations.

Real GDP and Real Credit
(Annual percent change)

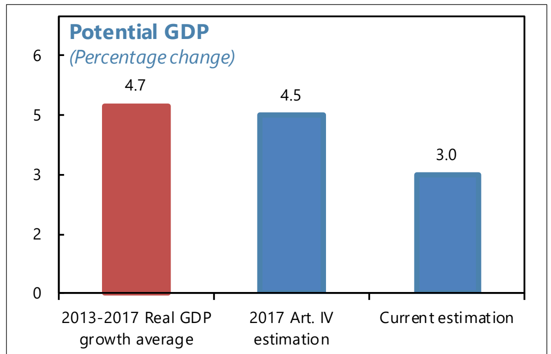


Sources: National authorities.

9. Weaknesses in the fiscal governance and the anticorruption frameworks are also a source of vulnerabilities. The operations of the NFPS are not audited on a regular basis and the audits are not accessible to the public. Many state-owned enterprises (SOEs) are saddled with de facto activities that go beyond their de jure functions, which leads to unclear lines of responsibility as they involve a complex chain of agents, including managers, ownership entities, ministries, the government, and the legislature. Gaps in fiscal transparency create difficulties in ascertaining fiscal risks related to contingent liabilities from SOEs. A case in point is the oil cooperation agreement with Venezuela, which operated outside the fiscal accounts, undermining the integrity of public policies.[6]

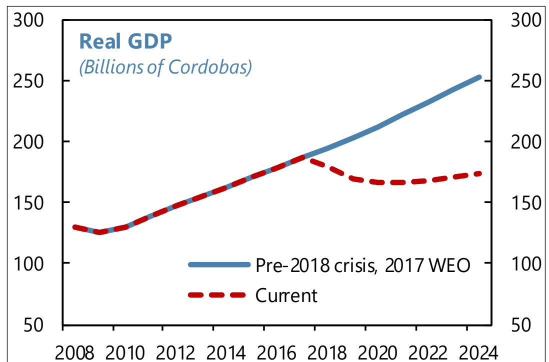
OUTLOOK AND RISKS

10. The drastic economic downturn points to a reduction in potential output growth, as the size of some industries such as tourism, construction, and financial intermediation shrinks. Potential growth is estimated to have declined to 3 percent from a previous level of 4.5 percent (estimated in mid-2017). The reduction in potential growth is consistent with a lower rate of capital accumulation (e.g., real gross capital formation decreased 48 percent in the first half of 2019 compared to the same period in 2017), lower formal sector employment, and increasing informality.[7]



Sources: National authorites and IMF staff calculations.

11. The economy is projected to contract further in 2020, remain around zero in 2021, and grow at a slower pace over the medium term than in the past (projected to average 1.5 percent over 2022–25 well below the 5-year pre-crisis historical average of 4.7 percent). The sharp contraction in credit, limited external financing, weak FDI, and lower private portfolio flows will continue to depress investment, thus limiting recovery prospects in 2020-21. Subsequently, rising labor productivity and more credit availability would increase output, exports, and investment, fostering labor demand and private consumption. However, tight external financing will continue to constrain public investment, while spending for upcoming elections is expected to boost public consumption in 2021–22. With considerable slack, inflation is expected to remain under 4 percent in 2020 and over the medium term.



Sources: National authorities and IMF staff calculations.

12. External financing. The external position is expected to strengthen gradually over the medium term. The current account surplus generated primarily by the sharp import compression will decline progressively starting in 2020 until reaching a 0.5 percent of GDP deficit in 2024, following the projected bottoming out of activity, which will be reflected in

[6] For a description of the agreement, see Appendix II of the 2017 Staff Report for the Article IV consultation.

[7] Labor market statistics also indicate an increase in underemployment (from 43 percent at end-2017 to 48 percent in the first half of 2019).

increasing import demand. The financial account is projected to strengthen moderately, as FDI increases marginally over 2020–24 (averaging 2.7 percent of GDP, about half of its 2017 level), and external financing is projected to remain below historical levels, but more than required to finance the small current account deficit in 2024.

13. Fiscal Financing. Based on the already-implemented as well as the announced tax and pensions system reforms, staff projects the fiscal position to deteriorate in 2020 and over the medium term. The NFPS deficit in 2020 is projected to increase to 2.6 percent of GDP, as the economic contraction reduces tax revenues and the initial effect of higher excises on revenue collection, mainly on cigarettes, partially dissipates because of increased contraband. The INSS deficit for 2020 is also projected to widen in tandem with lower growth and continued weaknesses in formal employment; INSS expenditures, however, are projected to stabilize in 2020 because of the parametric changes introduced by the reform; the INSS deficit is projected to be covered by additional transfers from the budget.[8] External financing for the NFPS is assumed to remain below historical levels, but financing from the CABEI is projected to increase over 2020-24, partially offsetting the reduction in financing from other multilaterals.[9] Given the estimated NFPS deficit path for 2020–24, which incorporates additional revenues from the 2019 tax reforms, a drawdown of the remaining stock of government deposits, and no additional measures, the estimated level of public financing available would be insufficient to satisfy rising NFPS deficits beyond 2024.

Medium-term Macroeconomic Framework

	2017	2018	2019	2020	2021	2022	2023	2024
		Prel.			Proj.			
Growth and prices				(Percent)				
GDP growth	4.7	-3.8	-5.7	-1.2	0.0	0.8	1.4	1.7
Consumer price inflation (e.o.p.)	5.7	3.9	6.4	5.0	4.4	3.9	3.5	3.6
Non-financial public sector				(Percent of GDP)				
Revenue	29.2	27.6	30.6	30.0	30.3	30.4	30.4	30.4
Expenditure	31.4	31.7	32.7	32.5	33.4	33.6	33.7	33.5
Overall balance, after grants	-2.2	-4.1	-2.0	-2.6	-3.1	-3.2	-3.3	-3.1
Public sector debt	44.2	47.8	51.0	52.5	55.0	57.8	60.9	63.7
Balance of payments								
Current account (% of GDP)	-4.9	0.6	1.5	1.1	0.8	0.3	0.0	-0.5
Gross reserves (US$million)	2,593	2,080	2,071	2,016	2,047	2,108	2,161	2,272
In months of non-maquila imports	5.3	4.8	4.9	4.8	4.7	4.8	4.7	4.7
NIR (US$million)	1,802	1,146	1,321	1,377	1,450	1,539	1,620	1,722

Sources: National authorities and IMF staff calculations.

[8] The budget envisages a transfer from the central government to the INSS for US$40 million (0.3 percent of GDP) in 2020, versus an estimated of US$95 million by staff (0.7 percent of GDP).

[9] CABEI's financing to the NFPS in 2019 reached 1.4 percent of GDP, 0.5 percentage points of GDP more than in 2018.

Box 2. The 2020 Budget Proposal

- **The submitted budget for 2020 shows a modest reduction in the central government's deficit**. Revenues are projected to increase slightly in nominal terms, while expenditures contract by 1.6 percent in nominal terms. The budget proposal includes a reduction in transfers to local governments and the INSS and a lower extent in capital expenditures. A reduction in the wage bill relative to GDP reflects a freeze on public wages and of hiring of new public servants (excluding in the education and health sectors), which more than offset an increase in government's employer contributions to the INSS (due to the 2019 pension reform's increase in the rate of employer pension contributions). The budget proposal assumes real GDP growth of 0.5 percent in 2020.

Central Government Operations
(Percent of GDP)

	2019	2020	
	Proj.	Budget	Staff
Revenue 1/	19.7	19.2	18.7
Expenditure 2/	20.3	19.2	20.0
Currrent 2/	16.8	16.0	16.6
ow/ transfers to INSS	0.7	0.3	0.8
Capital 3/	3.5	3.2	3.4
Overall Balance	**-0.6**	**0.0**	**-1.3**
External Financing	1.3	0.9	0.9
Domestic Financing	-0.7	-0.9	0.4

Sources: National authorities and IMF staff calculations.
1/ Revenues include external grants.
2/ Total and current expenditures include central government transfers to the National Institute of Social Security (INSS), which are not reflected above the line in the budget.
3/ Includes reclassification of items reflected in the budget as current expenditure into capital expenditure, including: capital transfers and other expenditures on capital of utility companies.

- **Staff projects an increase in the 2020 deficit owing to the economic contraction and higher INSS expenditures against a zero-balance assumed in the budget**. Staff's projections of revenue and pension contributions are less optimistic than the authorities because of the staff's economic contraction projected for 2020. Furthermore, increased contraband is projected to affect excises on cigarettes and alcoholic beverages. On the expenditure side, staff projects higher capital spending and transfers to SOEs, as well as higher transfers from the government to the INSS.

14. Nicaragua is assessed at moderate risk of debt distress. Nicaragua's risks of external and public debt distress are assessed as moderate because maturities are long, and debt carries concessional interest rates. Most debt burden indicators remain below the threshold over the 10-year projection horizon under the baseline, except in the Albanisa contingent liability and growth shocks, where debt levels breach the threshold.[10]

15. Risks to the medium-term outlook are mainly on the downside.

- *Domestic risks* are related to the continuation of political frictions that further erode confidence, fueling additional outflows of bank deposits and international reserves; and additional asset quality deterioration in the loan portfolios of financial institutions, which would further depress credit and, in turn, economic activity. Ongoing concerns on AML/CFT framework could exacerbate CBR pressures, and confidence could also be impacted by governance vulnerabilities.
- *External risks* are related to the effects of additional sanctions in reducing further external financing or in limiting benefits from existing regional trade agreements, such as the Central American Free Trade Arrangement (CAFTA). Intensification of regional geopolitical tensions and security risks could also generate additional social unrest and negatively affect the investment climate and recovery prospects.

[10] Please refer to Supplement # 2 to the Staff Report – a standalone DSA for details.

- Against this background, the stabilization of financial flows in recent months could be an indication of a turning point for renewed confidence, which could elicit a faster economic recovery. Also, there is the possibility that a quick reduction in political tensions could prompt key trading partners to lift sanctions, which in turn would widen the policy alternatives to support growth.

Authorities' Views

16. The Nicaragua authorities consider that the strong buffers accumulated over years of sound policies and the policy response in the context of the recent shocks to the economy have safeguarded macroeconomic stability.

17. While concurring that growth potential will be slower going forward than in the past, the authorities were more sanguine about the outlook and downside risks. The authorities agreed that lower investment and the reduced level of financing available for the public and private sectors would dampen growth prospects. However, they saw the rebalancing of the current account (which went from -4.9 percent of GDP in 2017, to a 0.6 percent of GDP surplus in 2018), and the recent increase in reserves and bank deposits as signs that the economy has already adjusted to the new, lower level of activity. Going forward, they expect credit to the private sector to begin to grow moderately, mostly towards export sectors, which will help generate employment and underpin higher real GDP growth. The authorities nevertheless stressed the need for external financing to provide additional space for fiscal policy to support growth and to strengthen the social safety net. They also expressed concern about the effect that the imposition of sanctions has had on increasing investor uncertainty, which has raised the cost of capital and constrained firms from expanding production.

POLICY DISCUSSIONS

A. Safeguarding Fiscal Sustainability

18. Given the tight financing envelope, fiscal policy should address fiscal sustainability while minimizing adverse impacts on economic activity and social outcomes. The fiscal consolidation achieved during 2019 signaled the authorities' determination to contain the growing fiscal imbalances. Moreover, based on the implementation of the announced fiscal and pension measures and assuming no additional measures are taken, the available financing in 2020 will allow fiscal policy to begin offsetting some of the underlying headwinds to economic activity—a reversal from the unavoidable contractionary stance taken in 2018–19. Hence, the moderate widening of the fiscal deficit projected by staff in 2020 appears broadly appropriate. Nevertheless, the impact of tax reforms on growth should be evaluated to ensure their sustainability.

19. Raising the quality of public spending and adjusting its composition would help to mitigate the social impact of economic contraction. Reversing the deterioration in social conditions produced by the economic downturn requires a recalibration in the priorities of public spending to generate space for additional spending on social programs and social safety nets, which would lead to more equitable and sustainable growth. Current expenditures have been gradually increasing over the past six years (by about 3.1 percent of GDP), while social spending has grown at a slower pace (0.5 percent of GDP).[11] In particular, fiscal policy should aim at:

- Curbing current expenditures on goods and services, subsidies, and grants (which include central government transfers to municipal governments, state-owned enterprises, and other public agencies) which at current levels aggregated represent close to one-third of total expenditures (or 8.5 percent of GDP in 2018).
- Rationalizing capital expenditures by prioritizing projects with the highest growth-enhancing and social impact (e.g., basic infrastructure, schools, health facilities), and those that have external financing.
- Safeguarding spending on social programs and strengthening social safety nets. For instance, in partnership with the World Bank, during 2011-2017, Nicaraguan authorities successfully implemented a conditional cash transfer program that targeted families in extreme poverty with school-aged children.[12]
- Revaluating existing expenditure rigidities to ensure the budget process has enough flexibility to reflect current expenditure priorities.[13] Some of the existing rigidities entail that, by increasing total expenditures, any given increase in targeted social assistance would also need to be coupled by a given percentage increase in all other types of earmarked expenditures, including, for example, transfers to universities. Staff views favorably the 2020 budgetary reallocation that has superseded some of these rigidities to satisfy existing priorities while containing spending pressures.

20. Over the medium term, the fiscal deficit will need to be gradually reduced to ensure fiscal sustainability. Under the staff's baseline scenario, which already considers the full implementation of the announced tax and pension measures, over the medium-term underlying spending pressures will gradually erode existing fiscal buffers generating the need for additional fiscal adjustment. While the deficit of the INSS is estimated to stabilize, albeit still at a high level, transfers to state-owned enterprises are projected to remain sizeable. A medium-term strategy should aim at reducing further the current level of INSS deficit and at improving the operating efficiency and sustainability of SOEs so that they gradually graduate out of central government

[11] Social expenditures include: education, health, social protection, and housing (excluding transfers to local governments).

[12] This conditional community-based cash transfer program targeted extremely poor families with the participation in educational workshops as the only conditionality for receiving the transfer.

[13] The budget process is subject to rigidities including revenue earmarking and mandatory expenditures, which may not be modified without legal changes, such as a mandatory allocation of ten percent of tax revenues to transfers for municipalities, six percent of total expenditures to universities, and four percent to the supreme court.

assistance. Social impact analysis of critical fiscal reform options should be conducted to evaluate expenditure rationalization options and ensure that the poor receive the lowest burden of the adjustment.

21. Nicaragua needs to achieve greater transparency of the fiscal accounts to be able to assess and manage fiscal risks better and enhance fiscal governance. An efficient fiscal risk management policy requires a comprehensive vision of the government's liabilities and commitments, identification of critical fiscal risks and their potential cost, the definition of early warning mechanisms, and measures for mitigation of fiscal risks, including the adoption of budgetary tools for such purposes. To provide an accurate view of the overall fiscal position, the authorities should publish financial statements —including all financial assets and liabilities, cash flows, expenditures, and financing of all the NFPS components. Efforts to include all operations of SOEs, decentralized entities and municipalities in the measure of the overall fiscal stance need to be strengthened. Establishing a fiscal risk unit to prepare risk assessments, including on the revenue losses from tax expenditures, to be used for budget preparation and execution, and to assess SOEs institutional arrangements and corporate governance, would enhance the effectiveness of fiscal policy and support efforts to ensure fiscal sustainability. Strengthening financial governance among SOEs will reinforce overall fiscal risk management and reduce the risk of corruption.

Authorities' Views

22. The authorities indicated that they have continued to place macroeconomic stability at the forefront of their policies and concurred with the importance of addressing fiscal sustainability while safeguarding social outcomes and supporting growth while the economy still faces headwinds. The authorities, as mandated by law, are currently evaluating the impact of the recently enacted tax reform on both revenue and economic growth. They also emphasized that fiscal policy could be more accommodative in 2020 if available financing allows it. They are also considering possibilities to strengthen their social safety nets while they pointed out that they face rigidities from a substantial number of earmarked revenues and law-mandated expenditures, that limit the re-allocation of spending in the short run. They also agreed with the need to continue with structural reforms to ensure fiscal sustainability over the medium term. The authorities welcomed the staff's suggestions to mitigate fiscal risks.

B. Monetary and Financial Sector Policies

23. The banking system has adjusted, in terms of liquidity and solvency, to the lower level of activity. If banks were to increase the provisions of their distressed loans (18 percent of total loans reported at end-September 2019) to reach a coverage level of 60 percent of their gross amount, the capital ratios of the banking system would decline but remain on average well capitalized (reported ratio of 18.6 percent of risk-weighted assets). Furthermore, under a stress scenario, there would be room for keeping the provisions with a coverage level of 60 percent if a new wave of problem loans materializes, and most banks would remain above the minimum capital requirement of 10 percent of risk-weighted assets. Contingency plans to deal with the possible failure of financial institutions should be developed. Enhancing the framework for bank resolution and strengthening the financial safety net would increase the resilience of the financial sector and protect it against downside risks. Actions could include ensuring market-oriented rules to facilitate private bank mergers, making operational the emergency liquidity assistance facilities established in June 2018, and reforming the legal framework to facilitate debt-workouts.

24. Going forward, further actions to enhance the timely identification and provisioning of distressed assets is a priority. As borrowers (performing and restructured) adjust their operations to the new and lower level of economic activity, additional loan quality deterioration needs to be avoided. Ongoing efforts by the bank superintendence to verify in-situ banks' proper loan classification and provisioning by assessing with a forward-looking approach the borrower's repayment capacity are critical. Supervisory work on credit risk could be enhanced by expanding the scope of loan-inspections handled by the bank superintendence and requiring banks (according to a well-defined criteria) to conduct semi-annual independent asset quality and collateral valuation reviews to support the bank superintendence's work, and by introducing regulatory incentives for banks to monitor closely the foreign exchange position of their large non-exporter borrowers (as they account for not less than 50 percent of total foreign currency- denominated loans). Additionally, regular financial reporting by the rural credit and savings cooperatives should be enforced to allow for the monitoring of their financial situation by the authorities.

25. Pressures on correspondent banking relations (CBR) need careful monitoring. To minimize the impact of sanctions over CBRs, some financial institutions have terminated business relationships with individuals and entities deemed risky. While the authorities report that CBRs have so far remained stable, they noted an increase in the submission of suspicious transactions reports and an increase in the level of scrutiny and monitoring visits from correspondent banks to local institutions. Market participants expressed concerns over the impact of additional compliance requirements on operational costs, increased scrutiny of transactions, particularly for the export sector, and the consequent setback to increase financial inclusion.

26. Adopting the recommendations of the 2017 Financial Action Task Force (FATF) Mutual Evaluation Report (MER) is necessary to protect the integrity of financial transactions and mitigate the exposure to illicit flows. Ongoing concerns over Nicaragua's AML/CFT framework could negatively affect the financial sector, increase pressures over correspondent banking relations, and more generally deteriorate the business climate. Nicaragua is currently under FATF's observation period and its progress in complying with the AML/CFT international standards and improving its effectiveness in the areas with strategic deficiencies identified in the MER will be assessed in February 2020. Since July 2018, Nicaragua has made overarching reforms to its AML/CFT legal framework, which have translated in significant re-ratings for technical compliance. However, implementation is still in its early stages. As the recently created AML/CFT Coordinating Commission leads the implementation of the AML/CFT framework, ensuring that this is done following the spirit and purpose of the FATF standards will be crucial. Some areas for further progress include: updating Nicaragua's ML/TF National Risk Assessment, incorporating all relevant sectors (public and private), and developing analysis on the effect of informality and financial exclusion; ensuring registration of all financial institutions that became reporting entities and building their reporting capacity; implementing risk-based supervision and sanctioning non-compliance; collecting up-to-date beneficial ownership information and facilitating access to this information regardless of the complexity of the corporate structure; and strengthening the prevention, investigation, and prosecution of money laundering cases including proceeds of corruption.

27. Maintaining the resilience of the crawling peg exchange rate regime requires a stronger external position over the medium term. Tighter external financing, weaker fiscal situation, and sanctions have put additional pressures on the external position. To mitigate these pressures and given the high degree of dollarization and exposure to volatile terms of trade and FDI flows, raising the reserve coverage ratio to a range between 5 to 10 months of non-maquila imports—compared to the projected average level of 4.8 months for 2020-24– would be prudent. While the November 2019 reduction in the rate of crawl from 5 to 3 percent could alleviate inflationary pressures, its impact on the external position would need to be carefully monitored. Staff identified an exchange restriction arising from Nicaragua's participation in the SUCRE (*Sistema Unitario de Compensación Regional de Pagos*) regional payments arrangement. [14]

Authorities' Views

28. The authorities highlighted the resilience of the banking sector to the severe economic downturn. They stressed the importance of the resolute and timely actions of the Central Bank to enhance banks' liquidity buffers to face the severe economic headwinds, as well as the cumulative effects of at least a decade of record bank profits. At the time of the Article IV visit last November, the liquidity and solvency ratios of the Nicaraguan banks were significantly higher than regional levels. Furthermore, the authorities reported a significant increase in the Bank Superintendence's (SIBOIF) in-situ loan-quality assessment, and in the number of examinations per institution. The authorities ruled out any further regulatory forbearance action affecting the timely recognition of loan-loss provisioning. They acknowledged the need to enhance further their ongoing efforts to increase loan-loss provisions and identify potential sources of further asset distress, including the valuation of collateral, as well as the importance of enhancing the financial safety net.

[14] Nicaragua signed the SUCRE treaty (Unitary System of Regional Compensation of Payments) in October 2009, which entered in effect on January 2013 for the country, and its members are Bolivia, the Bolivarian Republic of Venezuela, Cuba, Nicaragua, and Ecuador. Staff has identified that the SUCRE gives rise to an exchange restriction because the period for settlement under this regional payment arrangement exceeds three months. See Decision No. 10749-(94/67). Under the SUCRE, Nicaragua made four commercial transactions between 2013 and 2015, and since 2015 no transactions have been made.

29. The authorities appreciated the suggestions to enhance the effective implementation of the AML/CFT framework. They pointed to the adoption of a new AML/CFT law and a new law for the Financial Intelligence Unit as evidence of their commitment to the AML/CFT reform agenda.

C. Competitiveness and Governance

30. Restoring business confidence and addressing supply-side bottlenecks are crucial elements to promote sustainable economic growth. Policies to bring back private sector confidence, including a frank evaluation of the impact of the recent tax measures, are essential to promote economic recovery and offset an increase in poverty. In the medium term, Nicaragua needs to continue efforts to improve infrastructure, invest in human capital, address labor skills bottlenecks, and upgrade technological readiness, all of which would contribute to enhancing the economy's competitiveness and growth potential (Annex II, paragraph 5). A long-term strategy aimed at strengthening government institutions in the areas of contract enforcement and the efficiency of the legal framework in settling disputes, protection of property rights, investor protection, registering property, and resolving insolvencies could significantly improve the country's competitiveness.

31. Addressing anti-corruption policy weaknesses could boost confidence, competitiveness, and growth. Improving the understanding of corruption risks among public officials and the private sector, updating related policies and strategies, and enhancing dialogue and institutional coordination for increased prevention, investigation, and prosecution of cases would help to fight corruption. Also, international good practices suggest the need to strengthen the existing asset declaration regime for high-level public officials as well as further efforts targeted at politically exposed persons. The asset declaration regime, particularly for high-level officials, could: (i) finalize migration to electronic submission; (ii) expand categories of information requested to ensure it also covers interests and assets beneficially-owned; and (iii) streamline public access, ensuring that relevant information from the declaration is accessible on-line, without requiring a prior consultation process. Stronger anti-corruption measures could also help collect more tax revenues, improve resource allocation, upgrade fiscal risk management, and provide better quality and quantity of social and physical infrastructure.

Authorities' Views

32. Safeguarding macroeconomic stability and guaranteeing public capital spending are paramount for reestablishing business confidence. The central bank's efforts to support commercial banks' liquidity played an important role in restoring financial stability, as demonstrated by the recovery of bank deposits. Similarly, the government's efforts to access external financing for infrastructure spending shows the government's commitment to improve competitiveness and promote long-term growth. In the same vein, the revision to the budget late last year aimed to reallocate additional tax resources from the fiscal reform to the improvement and construction of roads across the country, and the improvement of two key customs posts essential for regional trade. These efforts have helped underpin a recovery in confidence that has been reflected, in recent months, in a rebound in bank deposits and private sector credit.

33. The authorities emphasized that they are strongly committed to tackling corruption, as demonstrated by the Comptroller General and the General Attorney's office efforts in the areas of transparency and government procurement. The authorities agreed that there is scope to strengthen the existing asset declaration regime for high-level public officials but stressed that most of the identified cases refer to low ranking officials. Similarly, their efforts to implement recommendations from AML/CFT bodies attest to the commitment of the government to follow international good practices.

D. Statistics and Capacity Development

34. Macroeconomic data are broadly adequate for Article IV surveillance purposes but remain insufficient for more intensive surveillance. Further efforts are needed to improve source data in the real sector, particularly for tourism, manufacturing, and retail; incorporate the results of the household survey in the national accounts; harmonize public sector debt with external sector debt data; monitor assets and liabilities of public enterprises; and improve coverage of FDI statistics. Resuming the timely publication of data, in particular IMAE, inflation, fiscal position and external debt, is critical to maintain business confidence and ensure policy credibility (see Informational Annex, Statistical Issues).

35. Capacity development. Since the 2017 AIV consultation, most Technical Assistance (TA) has focused on domestic public financial management, revenue administration, diagnosis of financial sector stability, and statistics (Informational Annex, TA schedule). For the next 12 months, planned TA is well aligned with the surveillance priorities and include strengthening fiscal reporting and the institutional framework for financial stability, BOP and fiscal statistics. Furthermore, adherence to the multi-year roadmap of financial sector related TA, as developed under the Financial Sector Stability Review, would facilitate timely identification of risk-mitigating policies in this area.

Authorities' Views

36. The authorities remain committed to the timely provision of good quality macroeconomic data. They reported that some delays (e.g., the monthly indicator of economic activity) have occurred in response methodological changes, which are being addressed. They reiterated their intentions to continue building on the Fund's technical assistance to improve the quality and consistency of statistics.

STAFF APPRAISAL

37. The main challenge for 2020 and beyond is to stay on course to preserve macroeconomic and financial stability. Reflecting the sharp decline in bank credit and financing flows over the past two years, the outlook is for a further but more moderate contraction in economic activity in 2020 before gradual recovery to low growth over the medium term. Restoring confidence and external financing flows is critical to avoid a renewed contraction in credit and jobs, which would further hold back investment and consumption. Policies to prevent the occurrence of negative feedback loops related to credit contraction are essential to promote economic recovery.

38. The moderate fiscal easing projected in 2020 is broadly adequate as it would support the economic recovery. Available financing in 2020 would allow fiscal policy to begin offsetting some of the underlying headwinds to economic activity. Fiscal policy should strive to mitigate the increase in poverty and the social impact of the economic downturn. Rebalancing the expenditure is a priority to generate fiscal space for increased spending on social programs and safety nets and to generate more inclusive growth. Over the medium term, the fiscal deficit should be gradually reduced to ensure fiscal sustainability.

39. Addressing medium-term fiscal challenges through structural reforms —which are unavoidable to safeguard fiscal sustainability— will require obtaining broad public support. Social impact analysis of critical fiscal reforms (e.g., the pending implementation of announced pension reforms, and of SOEs more broadly) should be conducted to evaluate expenditure rationalization options to ensure that the poor receive the lowest burden of the adjustment.

40. Nicaragua's external position is assessed to be moderately weaker than fundamentals. In this regard, the international reserve coverage should be increased to support better the crawling peg exchange regime and increase Nicaragua's resilience to shocks. Over the medium term, Nicaragua's external competitiveness should be improved by enhancing structural reforms to boost productivity growth while keeping inflation low. Staff does not recommend approval of the exchange restriction arising out of Nicaragua's participation in the SUCRE regional payments arrangement because it is discriminatory.

41. Nicaragua is assessed at moderate risk of debt distress. Most debt burden indicators remain below the threshold under the baseline, except in scenarios of shocks that lower GDP growth or from contingent liabilities.

42. The authorities should take further actions to enhance the timely identification and provisioning of distressed assets to ensure that banks are well prepared for potential additional loan quality deterioration. Enhancing crisis preparedness and the financial safety net and strengthening coordination for resolution activities would protect the financial system against downside risks.

43. Continuous progress on strengthening the AML/CFT framework is necessary to protect the integrity of financial transactions and mitigate the exposure to illicit flows and reduce risk of CBR pressures. Since July 2018, Nicaragua has made overarching reforms to the legal framework, but implementation efforts should be strengthened.

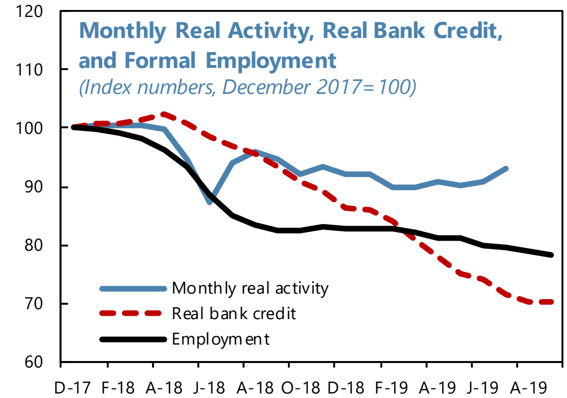
44. Addressing anti-corruption policy weaknesses, restoring business confidence, and improving the business climate are crucial to promote sustainable economic growth. Policies to bring back private sector confidence, including an evaluation of the impact of recent measures is essential to promote economic recovery and offset an increase in poverty. Strengthening government institutions and continuing efforts to improve infrastructure, invest in human capital, address labor skills bottlenecks, and upgrade technological readiness would improve competitiveness. Anti-corruption efforts should rely on a prioritized policy and enhanced institutional coordination and exchange of information to effectively prevent and prosecute corruption offenses. Improving fiscal transparency for all NFPS components and strengthening the asset declaration regime for high-level public officials could help reduce vulnerabilities to corruption and enhance fiscal outcomes.

45. Staff encouraged the authorities to make progress in strengthening the quality and timeliness of data provision. Past progress in widening and disseminating economic statistics needs to be preserved. The mission recommends resuming the timely publication of data, which is critical to business confidence and policy credibility.

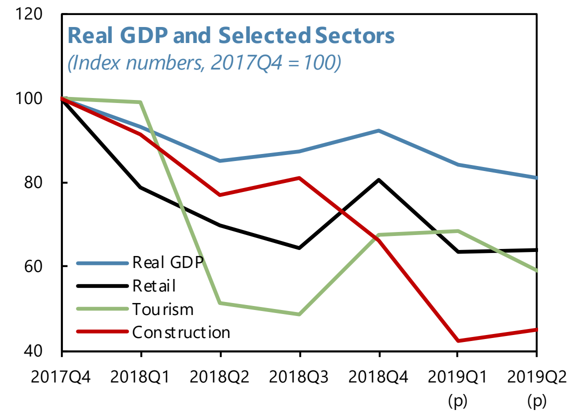
46. Staff expects that the next Article IV consultation with Nicaragua will take place on the standard 12-month cycle.

Figure 2. Nicaragua: Indicators of Real Sector Activity

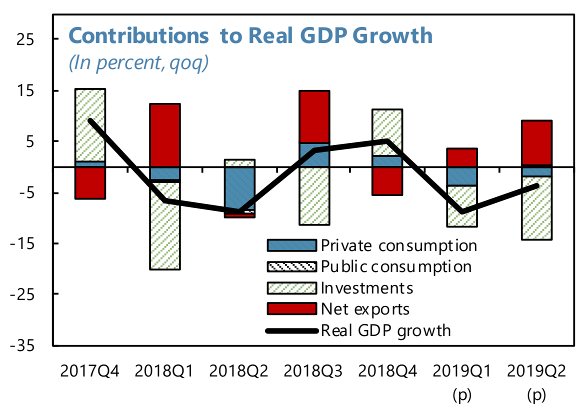
Large and sharp contraction…



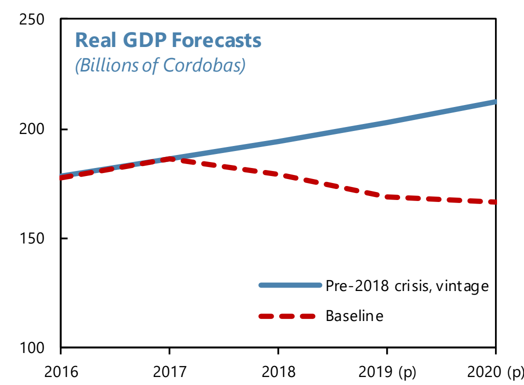
…with protracted effects across some sectors…



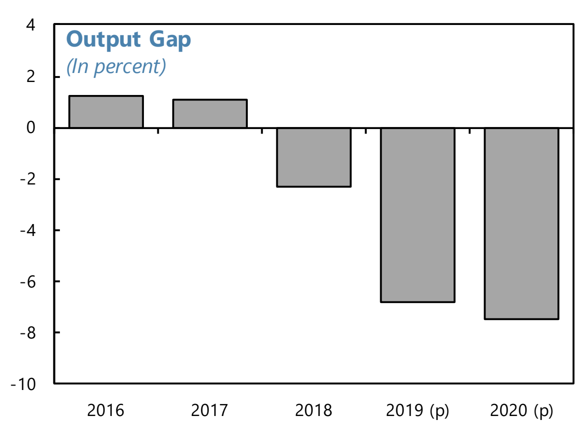
…and large depressed aggregate demand.



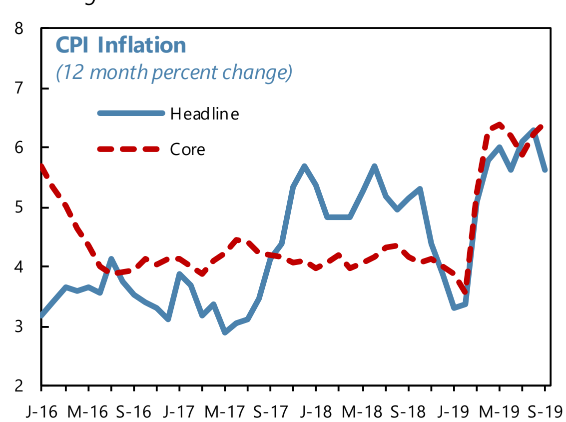
Contraction is large relative to pre-crisis forecasts…



…generating a potentially large output gap…



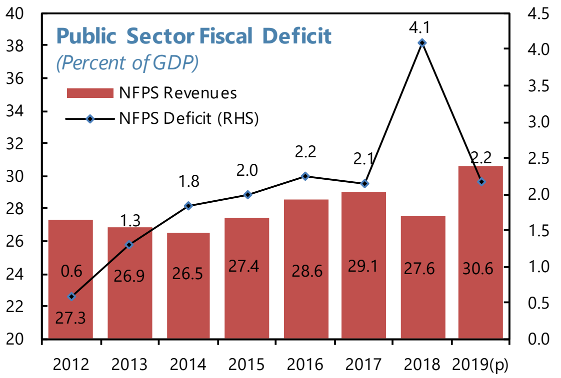
…which have contained inflation despite supply shocks and higher taxes.



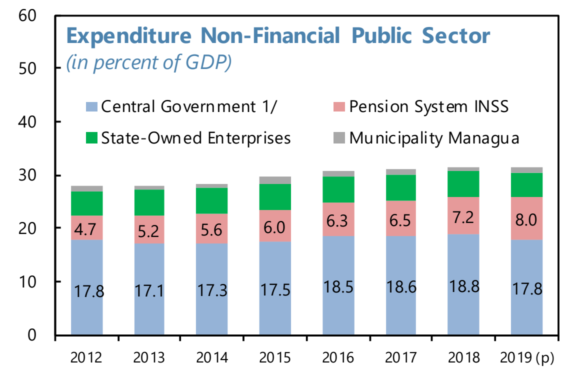
Sources: National authorities and IMF staff calculations.

Figure 3. Nicaragua: Fiscal Developments

The fiscal deficit increased in 2018, because of the impact of the weaker demand on revenue collections...

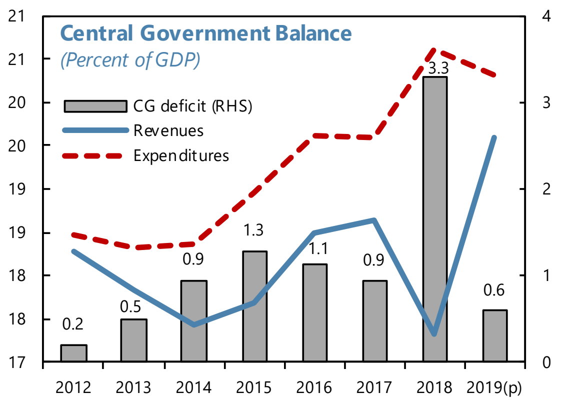


... and increasing expenditures of the pension system (INSS).

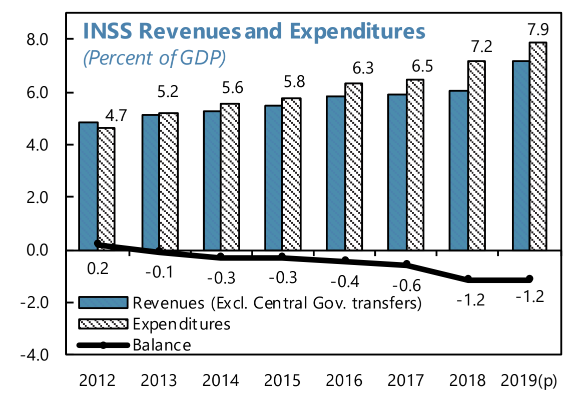


1/ In this figure Central government excludes transfers to INSS.

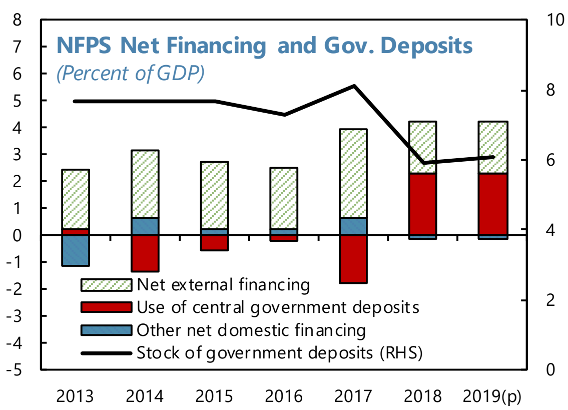
Transfers to INSS increased central government expenditure.



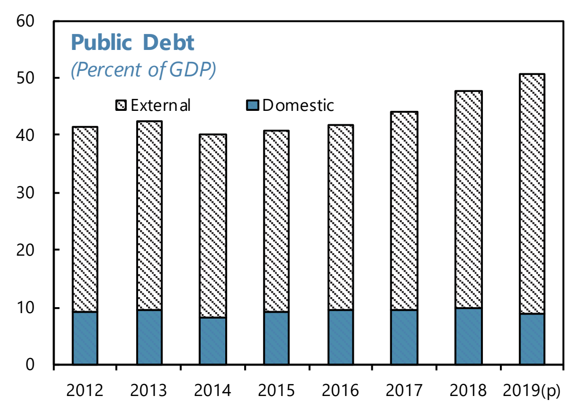
The pension system deficit increased as lenient pension access rules outpaced increased contributions.



Government deposits were used to cover for higher financing needs and lower external financing...



.... limiting the impact of the higher deficit on public debt.

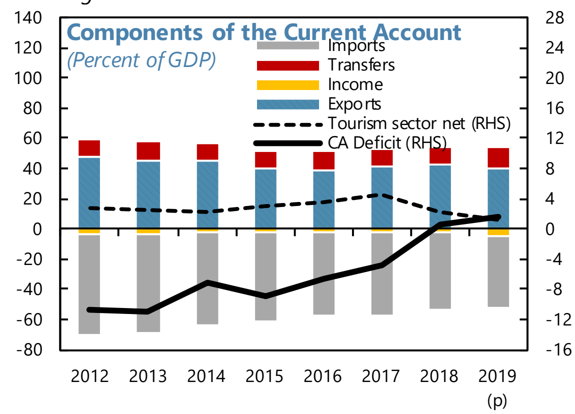


Sources: National authorities and IMF staff calculations.

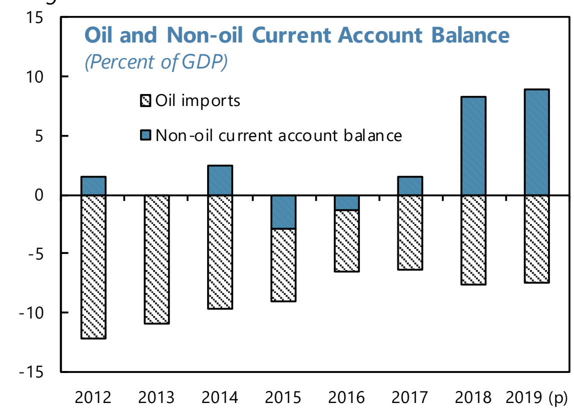
1/ In 2018 central govenment expenditure does not include a transfer to INSS for 1.2 % of GDP, as partial payment of central government's historical debt to the INSS.

Figure 4. Nicaragua: External Sector

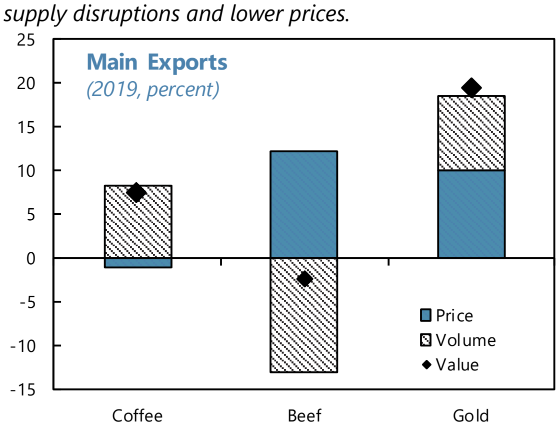
Weak demand translated into lower imports, mostly of durable goods.



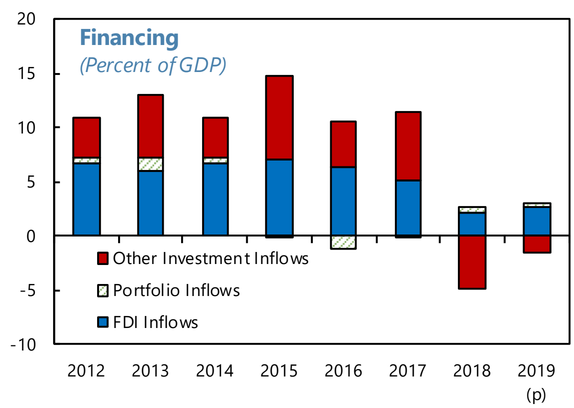
An improvement in the non-oil current account offset the rising oil bill.



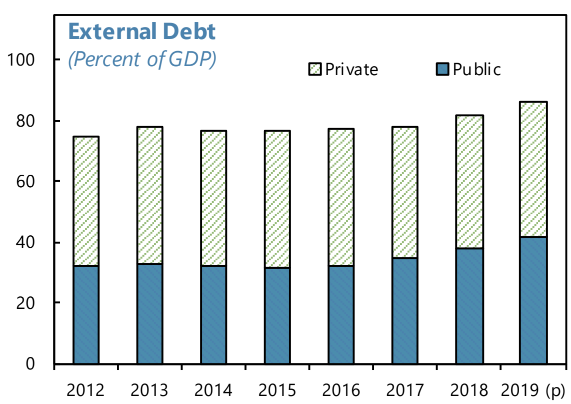
Coffee and beef exports dropped sharply due to domestic supply disruptions and lower prices.



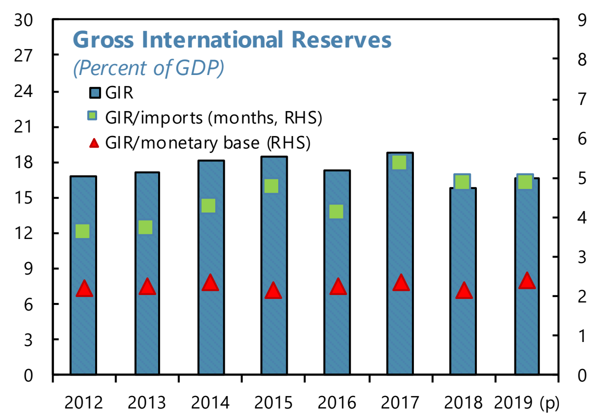
Bank deposit outflows translated into capital outflows.



External debt ratio began to increase.



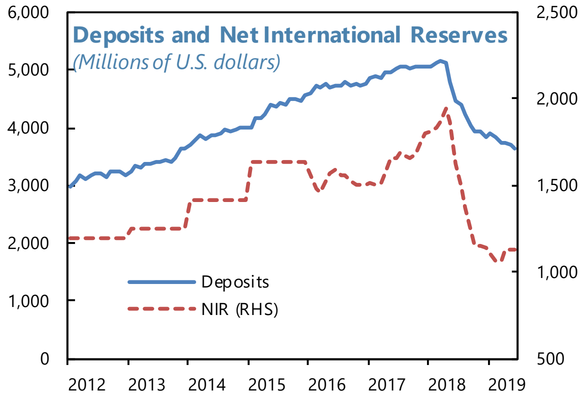
The coverage of gross reserves declined as the withdrawal of domestic bank deposit translated into losses of international reserves.



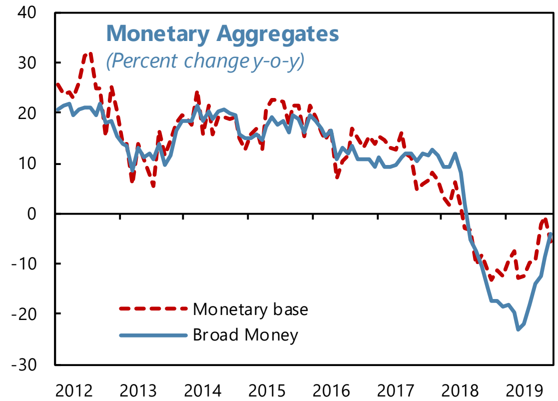
Sources: National authorities and IMF staff calculations.

Figure 5. Nicaragua: Monetary Sector Developments

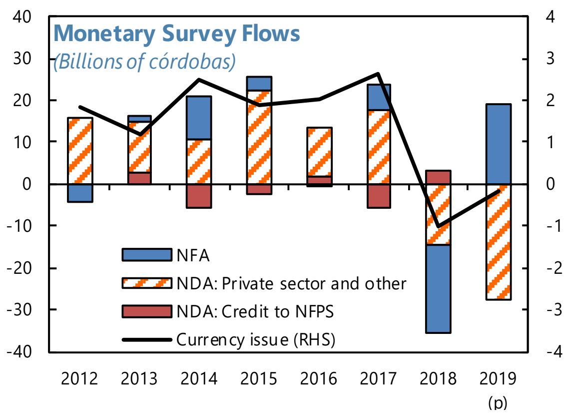
Accumulated deposits and NIR fell dramatically following the socio-political crisis, which started in April 2018.



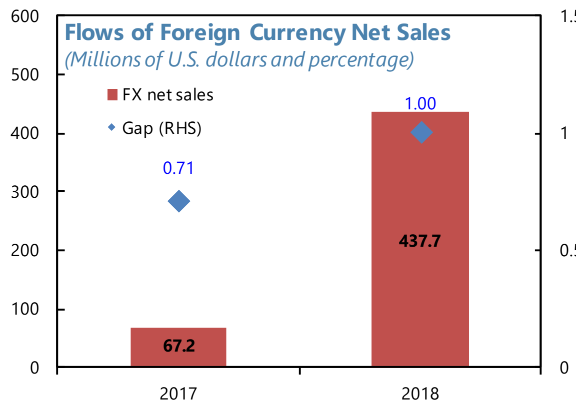
In turn, money demand contracted as a result of economic deterioration.



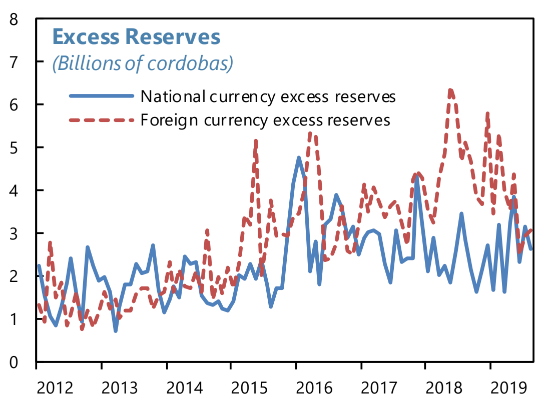
Up to 2018, net domestic assets expanded mostly because of credit to private sector.



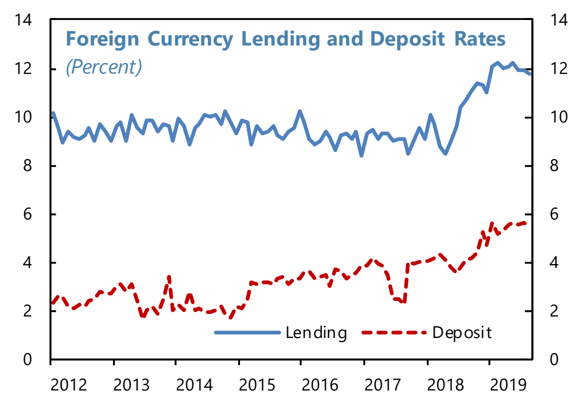
Worsening in confidence translated into higher demand for US dollars and FX pressures.



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



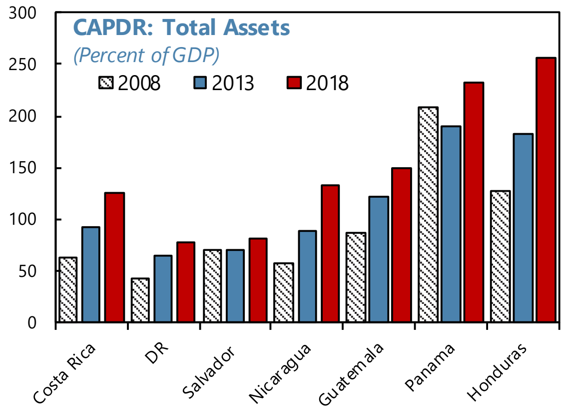
...and increased somewhat interest rates, in an attempt to maintain deposits.



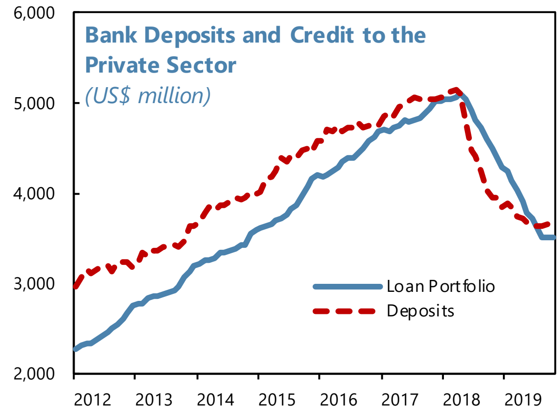
Sources: National authorities and IMF staff calculations.

Figure 6. Nicaragua: Financial Sector Developments

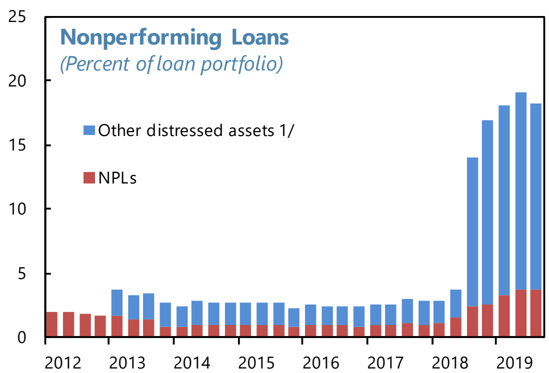
Up to April 2018, Nicaragua's financial system was gaining importance in the region.



However, sharp deposit outflows since the start of the socio-political crisis led to a credit crunch and...

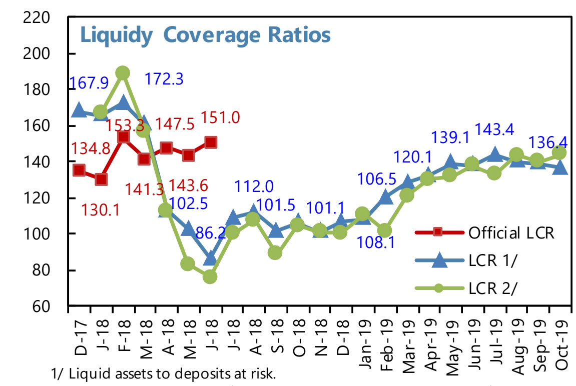


...asset quality deteriorated by seven fold in 2018 from historically very low levels of NPLs.



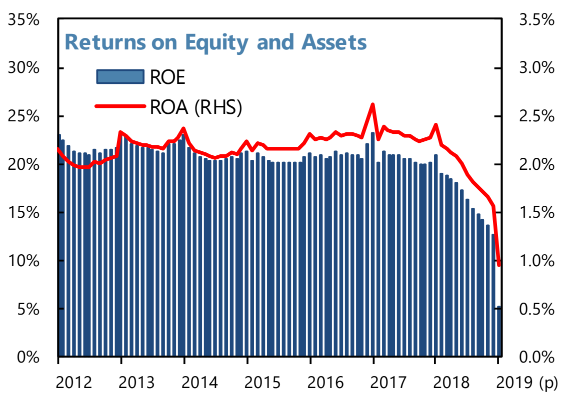
1/ Adding restructured, refinanced loans and forborne loans.

In addition to reducing the supply of loans, banks have maintained adequate levels of liquidity.

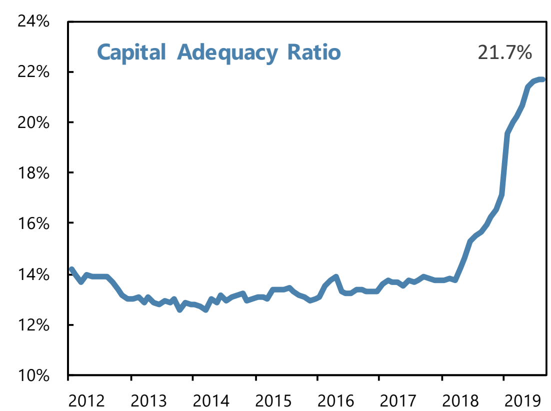


1/ Liquid assets to deposits at risk.
2/ Liquid assets + net cash flows / deposits at risk + BCN liquidity flows.

Despite a fall in profitability, the financial system has so far withstood the severe economic downturn.



While the contraction in bank loans raised reported capital adequacy ratios.



Sources: National authorities and IMF staff calculations.

Table 1. Nicaragua: Selected Social and Economic Indicators, 2015–24

I. Social and Demographic Indicators

GDP per capita (current US$, 2018)	2,030	Income share held by the richest 10 percent (2014)	37.2
GNI per capita (Atlas method, current US$, 2017)	2,130	Unemployment (percent of labor force, 2018)	5.5
GINI Index (2014)	46.2	Poverty rate (national pov. line, in percent, 2016)	24.9
Population (millions, 2018)	6.5	Adult literacy rate (percent, 2015)	82.5
Life expectancy at birth in years (2017)	75.7	Infant mortality rate (per 1,000 live births, 2017)	14.8

II. Economic Indicators

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
				Prel.	Projections					
Output	(Annual percentage change; unless otherwise specified)									
GDP growth	4.8	4.6	4.7	-3.8	-5.7	-1.2	0.0	0.8	1.4	1.7
GDP (nominal, US$ million)	12,757	13,286	13,844	13,118	12,431	12,416	12,587	12,793	13,027	13,326
Prices										
GDP deflator	7.6	4.6	4.5	3.4	5.4	5.0	4.4	3.9	3.5	3.6
Consumer price inflation (period average)	4.0	3.5	3.9	5.0	5.4	5.0	4.4	3.9	3.5	3.6
Consumer price inflation (end of period)	3.1	3.1	5.7	3.9	6.4	5.0	4.4	3.9	3.5	3.6
Saving and investment (percent of GDP)										
Gross domestic investment	**29.3**	**27.6**	**28.0**	**22.9**	**22.7**	**22.6**	**22.5**	**22.5**	**22.6**	**22.4**
Private sector	21.8	20.2	20.8	16.3	16.4	16.4	16.3	16.2	16.2	16.2
Public sector	7.5	7.4	7.2	6.6	6.2	6.2	6.2	6.3	6.4	6.2
Gross national savings	**20.3**	**21.1**	**23.2**	**23.6**	**24.2**	**23.8**	**23.3**	**22.8**	**22.5**	**21.9**
Private sector	15.5	16.3	18.1	21.1	20.0	20.1	20.2	19.7	19.5	18.9
Public sector	4.8	4.8	5.0	2.5	4.1	3.6	3.1	3.1	3.0	3.1
Exchange rate										
Period average (Cordobas per US$)	27.3	28.6	30.1	31.6	...	...	...	...	...	...
End of period (Cordobas per US$)	27.9	29.3	30.8	32.3	...	...	...	...	...	...
Real effective exchange rate										
Fiscal Sector	(Percent of GDP)									
Consolidated public sector (overall balance after grants)	**-2.2**	**-2.5**	**-2.2**	**-4.0**	**-2.0**	**-2.7**	**-3.3**	**-3.5**	**-3.6**	**-3.6**
Revenue (Incl. grants)	27.4	28.7	29.2	28.0	31.2	30.3	30.6	30.7	30.7	30.8
Expenditure	29.6	31.2	31.4	32.0	33.2	33.1	33.9	34.2	34.3	34.4
of which: Central Government overall balance [1/]	**-1.3**	**-1.1**	**-0.9**	**-3.3**	**-0.6**	**-1.3**	**-2.0**	**-2.2**	**-2.2**	**-2.2**
Revenue	17.7	18.5	18.7	17.4	19.7	18.7	18.7	18.6	18.7	18.8
Expenditure	19.0	19.6	19.6	20.7	20.3	20.0	20.7	20.8	20.9	21.0
Cash payments for operating activities	14.9	15.3	15.1	16.8	16.8	16.6	17.2	17.3	17.4	17.4
Net cash outflow: investments in NFAs	4.0	4.3	4.5	3.5	3.5	3.4	3.5	3.5	3.5	3.5
of which: Social Security Institute (INSS) overall balance [2/]	**-0.3**	**-0.4**	**-0.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Revenue	5.5	5.9	5.9	7.2	7.9	8.0	8.0	7.9	7.9	7.9
Expenditure	5.8	6.3	6.5	7.2	7.9	8.0	8.0	7.9	7.9	7.9
Money and financial	(Annual percentage change)									
Broad money	19.5	9.4	11.7	-18.7	-6.0	2.0	4.4	6.4	5.6	5.4
Credit to the private sector	23.5	17.5	16.0	-8.7	-15.4	2.3	3.6	2.4	5.5	3.2
of which bank credit to the private sector	22.7	16.7	12.6	-10.2	...	...	...	...	...	...
Net domestic assets of the banking system	19.2	11.0	8.8	-7.7	-20.0	2.1	4.0	4.2	3.6	1.6
Non-performing loans to total loans (ratio)	0.9	0.9	1.0	2.4	...	...	...	...	...	...
Regulatory capital to risk-weighted assets (ratio)	13.0	13.5	13.8	17.0	...	...	...	...	...	...
External sector	(Percent of GDP, unless otherwise indicated)									
Current account	-9.0	-6.6	-4.9	0.6	1.5	1.1	0.8	0.3	0.0	-0.5
of which: oil imports	6.1	5.2	6.4	7.6	7.5	7.2	7.0	7.1	7.1	7.1
Capital and financial account	14.7	9.0	9.6	-1.4	-1.5	-1.5	-0.5	0.2	0.4	1.3
of which: FDI	7.1	6.3	5.1	2.2	2.6	2.6	2.7	2.7	2.8	2.8
Gross international reserves (US$ million) [2/]	2,353	2,296	2,593	2,080	2,071	2,016	2,047	2,108	2,161	2,272
In months of imports excl. maquila	4.8	4.1	5.3	4.8	4.9	4.8	4.7	4.8	4.7	4.7
Net international reserves (US$ million) [3/]	1,601	1,506	1,802	1,146	1,321	1,377	1,450	1,539	1,620	1,722
In months of imports excl. maquila	3.2	2.7	3.7	2.7	3.1	3.3	3.4	3.5	3.5	3.6
Public sector debt [4/]	40.7	41.7	44.2	47.8	51.0	52.5	55.0	57.8	60.9	63.7
Domestic public debt	9.1	9.5	9.4	9.7	9.2	9.4	10.7	12.6	14.8	16.7
External Public Debt	31.7	32.2	34.8	38.1	41.8	43.1	44.3	45.2	46.1	47.0
Private sector external debt [5/]	45.0	45.2	43.4	43.9	44.6	44.9	44.0	43.0	41.9	40.6

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

1/ Central government deficit and INSS revenue in 2018 include a 1.2 percent of GDP for repayment of INSS historical debt. Similar transfers are projected in 2019-24 (specific amounts reported in Table 3a and 3b).

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

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

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

5/ Includes short-term commercial debt.

Table 2a. Nicaragua: Operations of the Budgetary Central Government, 2015–24 (GFSM 2001)

(In Millions of Cordobas)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
				Prel.			Proj.			
Cash receipts from operating activities	**61,470**	**70,328**	**77,593**	**72,179**	**81,078**	**79,760**	**83,217**	**86,900**	**91,270**	**96,634**
Taxes	54,725	62,163	68,662	64,454	73,462	71,859	74,202	77,843	81,771	86,625
Of which: Income and property[1/]	21,832	25,599	28,557	29,258	33,242	31,485	32,652	34,368	36,046	37,981
Of which: Indirect[2/]	30,576	33,862	37,315	32,700	37,599	38,188	39,317	41,132	43,248	45,977
Of which: Trade	2,317	2,703	2,702	2,036	2,107	2,187	2,233	2,344	2,476	2,666
Grants	2,787	3,540	3,746	2,502	2,173	2,434	3,308	3,463	3,632	3,827
Other revenue	3,959	4,625	5,186	5,223	5,444	5,466	5,707	5,594	5,867	6,182
Cash payments for operating activities	**51,897**	**58,094**	**62,755**	**67,700**	**68,997**	**70,729**	**76,786**	**80,560**	**84,884**	**89,779**
Compensation of employees[3/]	20,547	22,736	24,957	31,678	30,262	32,122	33,479	35,038	36,953	39,519
of which: excluding transfers to INSS	20,547	22,736	24,957	26,796	27,439	28,797	30,068	31,560	33,390	35,457
Use of goods and services	8,589	11,239	11,763	10,686	11,039	10,874	12,846	13,753	13,936	14,684
Interest[4/]	3,050	3,755	4,449	4,551	5,459	5,011	4,980	5,007	6,187	6,590
Subsidies	5,693	5,995	6,503	5,190	4,835	4,683	6,423	6,585	5,669	5,945
Grants	12,239	12,513	13,605	14,014	15,753	16,280	17,104	18,207	20,075	20,863
Social benefits	1,224	1,423	1,332	1,447	1,464	1,551	1,693	1,696	1,778	1,874
Other expense	556	433	146	133	186	207	262	274	288	303
Net cash inflow from operating activities	**9,573**	**12,234**	**14,839**	**4,479**	**12,081**	**9,031**	**6,431**	**6,340**	**6,386**	**6,855**
Net cash flows from investment in non-financial assets (NFAs):	**14,052**	**16,514**	**18,748**	**18,008**	**14,525**	**14,529**	**15,482**	**16,443**	**17,246**	**18,172**
Purchases of nonfinancial assets	14,058	16,514	18,748	18,008	14,525	14,529	15,482	16,443	17,246	18,172
Sales of nonfinancial assets	6	0	0	0	0	0	0	0	0	0
Cash surplus / deficit	**-4,479**	**-4,280**	**-3,909**	**-13,529**	**-2,444**	**-5,498**	**-9,050**	**-10,103**	**-10,860**	**-11,317**
Cash flows from financing activities: (-1+2+3)	**4,479**	**4,280**	**3,909**	**13,529**	**2,444**	**5,498**	**9,050**	**10,103**	**10,860**	**11,317**
Net acquisition of financial assets other than cash (1)	84	387	668	0	0	0	0	0	0	0
Domestic	-66	230	469	0	0	0	0	0	0	0
Foreign	150	157	199	0	0	0	0	0	0	0
Net incurrence of liabilities (2)	6,448	4,790	10,621	4,049	3,260	2,958	5,523	4,965	6,451	7,580
Domestic	-502	-921	508	-626	-2,113	-1,029	580	466	1,677	1,678
Foreign	6,950	5,711	10,113	4,675	5,373	3,986	4,943	4,499	4,774	5,902
Use of government deposits (3)	-1,885	-123	-6,043	9,481	-816	2,540	3,528	5,138	4,409	3,737

Sources: National authorities and IMF staff calculations.

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

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

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

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

Table 2b. Nicaragua: Operations of the Budgetary Central Government 2015–24 (GFSM 2001)

(In Percent of GDP)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
				Prel.		Proj.				
Cash receipts from operating activities	**17.7**	**18.5**	**18.7**	**17.4**	**19.7**	**18.7**	**18.7**	**18.6**	**18.7**	**18.8**
Taxes	15.7	16.3	16.5	15.6	17.7	16.9	16.7	16.7	16.7	16.8
Income and property[1/]	6.3	6.7	6.9	7.1	8.1	7.4	7.3	7.4	7.4	7.4
Indirect[2/]	8.8	8.9	9.0	7.9	9.1	9.0	8.8	8.8	8.8	8.9
Trade	0.7	0.7	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Grants	0.8	0.9	0.9	0.6	0.5	0.6	0.7	0.7	0.7	0.7
Other revenue	1.1	1.2	1.2	1.3	1.3	1.3	1.3	1.2	1.2	1.2
Cash payments for operating activities	**14.9**	**15.3**	**15.1**	**16.4**	**16.8**	**16.6**	**17.2**	**17.3**	**17.4**	**17.4**
Compensation of employees[3/]	5.9	6.0	6.0	7.7	7.4	7.5	7.5	7.5	7.6	7.7
of which: excluding transfers to INSS	5.9	6.0	6.0	6.5	6.7	6.8	6.8	6.8	6.8	6.9
Use of goods and services	2.5	3.0	2.8	2.6	2.7	2.6	2.9	3.0	2.9	2.9
Interest[4/]	0.9	1.0	1.1	1.1	1.3	1.2	1.1	1.1	1.3	1.3
Subsidies	1.6	1.6	1.6	1.3	1.2	1.1	1.4	1.4	1.2	1.2
Grants	3.5	3.3	3.3	3.4	3.8	3.8	3.8	3.9	4.1	4.1
Social benefits	0.4	0.4	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Other expense	0.2	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Net cash inflow from operating activities	**2.8**	**3.2**	**3.6**	**1.1**	**2.9**	**2.1**	**1.4**	**1.4**	**1.3**	**1.3**
Net cash flows from investment in non-financial assets (NFAs):	**4.0**	**4.3**	**4.5**	**4.4**	**3.5**	**3.4**	**3.5**	**3.5**	**3.5**	**3.5**
Purchases of nonfinancial assets	4.0	4.3	4.5	4.4	3.5	3.4	3.5	3.5	3.5	3.5
Sales of nonfinancial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash surplus / deficit	**-1.3**	**-1.1**	**-0.9**	**-3.3**	**-0.6**	**-1.3**	**-2.0**	**-2.2**	**-2.2**	**-2.2**
Cash flows from financing activities: (-1+2+3)	**1.3**	**1.1**	**0.9**	**3.3**	**0.6**	**1.3**	**2.0**	**2.2**	**2.2**	**2.2**
Net acquisition of financial assets other than cash (1)	0.0	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities (2)	1.9	1.3	2.6	1.0	0.8	0.7	1.2	1.1	1.3	1.5
Domestic	-0.1	-0.2	0.1	-0.2	-0.5	-0.2	0.1	0.1	0.3	0.3
Foreign	2.0	1.5	2.4	1.1	1.3	0.9	1.1	1.0	1.0	1.1
Use of government deposits (3)	-0.5	0.0	-1.5	2.3	-0.2	0.6	0.8	1.1	0.9	0.7

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. Projections for 2019-24 assume that central government will continue to transfer resources to the INSS in order to close the pension system deficits.

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

Table 3a. Nicaragua: Operations of the Consolidated Public Sector, 2015–24 (GFSM 2001)

(In Millions of Cordobas)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
				Prel.	Proj.					
Budgetary Central Gov. cash surplus/deficit	**-4,484**	**-4,280**	**-3,909**	**-13,529**	**-2,444**	**-5,498**	**-9,050**	**-10,103**	**-10,860**	**-11,317**
Revenue	61,470	70,328	77,593	72,179	81,078	79,760	83,217	86,900	91,270	96,634
of which: grants	2,787	3,540	3,746	2,502	2,173	2,434	3,308	3,463	3,632	3,827
Expenditure	65,955	74,607	81,503	85,708	83,522	85,258	92,268	97,003	102,130	107,950
Of which: Excluding Transfers to INSS for Hist. debt	65,955	74,607	81,503	80,825	80,700	81,934	88,858	93,524	98,568	103,888
Social Security Institute (INSS) cash surplus/deficit	**-979**	**-1,630**	**-2,374**	**104**	**0**	**0**	**0**	**0**	**0**	**0**
Revenue	19,145	22,338	24,494	29,920	32,307	33,997	35,505	37,029	38,697	40,574
Of which: Excluding Central Government Transfers	19,145	22,338	24,494	25,038	29,484	30,673	32,095	33,550	35,135	36,512
Of which: Transfers to INSS for Hist. debt	0	0	0	4,882	2,823	3,324	3,410	3,479	3,562	4,062
Expenditure	20,124	23,967	26,868	29,816	32,307	33,997	35,505	37,029	38,697	40,574
Managua municipality (ALMA) cash surplus/deficit	**442**	**-556**	**-249**	**267**	**-364**	**-77**	**-487**	**-594**	**-537**	**-307**
Revenue	4,451	3,657	4,698	4,136	4,015	4,595	4,265	4,477	4,684	4,936
of which : grants	198	7	0	1	7	7	7	8	8	8
Expenditure	4,009	4,213	4,948	3,869	4,379	4,673	4,752	5,071	5,222	5,243
Public enterprises cash surplus/deficit [1/]	**-1,686**	**-2,060**	**-2,124**	**-3,828**	**-5,565**	**-5,302**	**-4,409**	**-4,314**	**-4,699**	**-4,437**
Revenue	15,406	16,626	18,386	15,548	15,894	17,978	20,298	21,842	22,880	24,081
of which: Grants (external)	806	6	541	0	308	72	274	317	333	351
Expenditure	17,093	18,687	20,510	19,375	21,459	23,280	24,707	26,157	27,580	28,518
Non-financial public sector										
Cash receipts from operating activities	95,190	108,789	120,928	114,203	125,924	127,895	134,992	141,543	148,511	156,739
Taxes	57,323	65,078	71,989	67,417	76,359	75,153	77,660	81,475	85,570	90,628
Social contributions	18,194	21,296	23,868	24,803	27,526	28,234	29,518	30,828	32,261	33,799
Grants	3,863	3,553	4,287	2,504	2,488	2,513	3,589	3,789	3,974	4,195
Other revenue	15,811	18,862	20,784	19,478	19,550	21,994	24,224	25,451	26,706	28,117
Cash payments for operating activities	78,668	90,693	100,097	103,868	108,882	112,426	121,394	127,238	133,618	140,884
Compensation of employees	25,635	28,657	31,299	33,091	33,382	35,139	36,845	38,599	40,709	43,169
Use of goods and services	14,341	17,695	19,484	17,686	18,717	19,039	21,690	23,350	24,002	25,290
Interest	3,183	3,770	4,755	4,815	5,834	5,453	5,523	5,396	6,403	6,804
Subsidies	2,934	3,570	4,279	4,592	4,354	4,172	5,816	5,843	4,979	5,272
Grants	10,754	11,902	12,575	13,076	13,121	13,182	14,399	15,357	17,069	17,986
Social benefits	18,122	21,150	24,351	27,435	29,504	31,062	32,527	33,856	35,351	36,953
Other expense	3,699	3,950	3,354	3,172	3,971	4,379	4,594	4,838	5,105	5,410
Net cash inflow from operating activities	16,522	18,096	20,831	10,335	17,041	15,468	13,599	14,305	14,893	15,855
Net cash outflow from investments in NFAs	23,224	26,622	29,487	27,321	25,415	26,346	27,545	29,317	30,990	31,914
Cash surplus / deficit	**-6,702**	**-8,526**	**-8,656**	**-16,986**	**-8,374**	**-10,878**	**-13,947**	**-15,012**	**-16,097**	**-16,059**
Central bank (BCN) cash surplus / deficit	**-1,027**	**-801**	**-650**	**465**	**32**	**-788**	**-742**	**-1,074**	**-1,544**	**-2,597**
Consolidated Public Sector cash surplus / deficit	**-7,728**	**-9,327**	**-9,306**	**-16,521**	**-8,341**	**-11,666**	**-14,689**	**-16,085**	**-17,641**	**-18,657**
Cash flows from financing activities: (-1+2+3+4)	**7,728**	**9,327**	**9,306**	**16,521**	**8,341**	**11,666**	**14,689**	**16,085**	**17,641**	**18,657**
Net acquisition of financial assets other than cash (1)	1,214	7	-248	-1,421	-600	-680	0	0	0	1
Net incurrence of liabilities (2)	9,767	9,429	15,721	6,187	8,540	7,657	10,419	9,874	11,688	12,591
Domestic	737	632	1,945	-1,801	-1,531	-1,127	84	-231	1,456	1,394
Foreign	9,030	8,796	13,775	7,988	10,070	8,784	10,335	10,105	10,232	11,197
Use of deposits (3)	-1,852	-896	-7,312	9,378	-766	2,540	3,528	5,138	4,409	3,470
Central bank (BCN) cash surplus/deficit (4)	1,027	801	650	-465	-32	788	742	1,074	1,544	2,597
Memorandum items										
GDP (nominal)	347,707	380,261	416,013	413,911	411,254	426,447	445,266	466,128	488,893	515,135
Stock of government deposits	26,654	27,670	33,716	24,316	25,082	22,541	19,014	13,876	9,467	5,997

Sources: National authorities and IMF staff calculations.

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

Table 3b. Nicaragua: Operations of the Consolidated Public Sector, 2015–24, (GFSM 2001)

(In percent of GDP)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
				Prel.			Proj.			
Budgetary central government cash surplus/deficit	**-1.3**	**-1.1**	**-0.9**	**-3.3**	**-0.6**	**-1.3**	**-2.0**	**-2.2**	**-2.2**	**-2.2**
Revenue	17.7	18.5	18.7	17.4	19.7	18.7	18.7	18.6	18.7	18.8
of which: grants	0.8	0.9	0.9	0.6	0.5	0.6	0.7	0.7	0.7	0.7
Expenditure	19.0	19.6	19.6	20.7	20.3	20.0	20.7	20.8	20.9	21.0
Excluding Transfers to INSS	19.0	19.6	19.6	19.5	19.6	19.2	20.0	20.1	20.2	20.2
Social Security Institute (INSS) cash surplus/deficit	**-0.3**	**-0.4**	**-0.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Revenue	5.5	5.9	5.9	7.2	7.9	8.0	8.0	7.9	7.9	7.9
Of which: Excluding Central Government Transfers	5.5	5.9	5.9	6.0	7.2	7.2	7.2	7.2	7.2	7.1
Of which: Transfers to INSS	0.0	0.0	0.0	1.2	0.7	0.8	0.8	0.7	0.7	0.8
Expenditure	5.8	6.3	6.5	7.2	7.9	8.0	8.0	7.9	7.9	7.9
Managua municipality (ALMA) cash surplus/deficit	**0.1**	**-0.1**	**-0.1**	**0.1**	**-0.1**	**0.0**	**-0.1**	**-0.1**	**-0.1**	**-0.1**
Revenue	1.3	1.0	1.1	1.0	1.0	1.1	1.0	1.0	1.0	1.0
of which : grants	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	1.2	1.1	1.2	0.9	1.1	1.1	1.1	1.1	1.1	1.0
Public enterprises cash surplus/deficit [1/]	**-0.5**	**-0.5**	**-0.5**	**-0.9**	**-1.4**	**-1.2**	**-1.0**	**-0.9**	**-1.0**	**-0.9**
Revenue	4.4	4.4	4.4	3.8	3.9	4.2	4.6	4.7	4.7	4.7
of which: Grants (external)	0.2	0.0	0.1	0.0	0.1	0.0	0.1	0.1	0.1	0.1
Expenditure	4.9	4.9	4.9	4.7	5.2	5.5	5.5	5.6	5.6	5.5
Non-financial public sector										
Cash receipts from operating activities	27.4	28.6	29.1	27.6	30.6	30.0	30.3	30.4	30.4	30.4
Taxes	16.5	17.1	17.3	16.3	18.6	17.6	17.4	17.5	17.5	17.6
Social contributions	5.2	5.6	5.7	6.0	6.7	6.6	6.6	6.6	6.6	6.6
Grants	1.1	0.9	1.0	0.6	0.6	0.6	0.8	0.8	0.8	0.8
Other revenue	4.5	5.0	5.0	4.7	4.8	5.2	5.4	5.5	5.5	5.5
Cash payments for operating activities	22.6	23.9	24.1	25.1	26.5	26.4	27.3	27.3	27.3	27.3
Compensation of employees	7.4	7.5	7.5	8.0	8.1	8.2	8.3	8.3	8.3	8.4
Use of goods and services	4.1	4.7	4.7	4.3	4.6	4.5	4.9	5.0	4.9	4.9
Interest	0.9	1.0	1.1	1.2	1.4	1.3	1.2	1.2	1.3	1.3
Subsidies	0.8	0.9	1.0	1.1	1.1	1.0	1.3	1.3	1.0	1.0
Grants	3.1	3.1	3.0	3.2	3.2	3.1	3.2	3.3	3.5	3.5
Social benefits	5.2	5.6	5.9	6.6	7.2	7.3	7.3	7.3	7.2	7.2
Other expense	1.1	1.0	0.8	0.8	1.0	1.0	1.0	1.0	1.0	1.1
Net cash inflow from operating activities	4.8	4.8	5.0	2.5	4.1	3.6	3.1	3.1	3.0	3.1
Net cash outflow from investments in NFAs	6.7	7.0	7.1	6.6	6.2	6.2	6.2	6.3	6.3	6.2
Cash surplus / deficit	**-1.9**	**-2.2**	**-2.1**	**-4.1**	**-2.0**	**-2.6**	**-3.1**	**-3.2**	**-3.3**	**-3.1**
Central bank (BCN) cash surplus / deficit	**-0.3**	**-0.2**	**-0.2**	**0.1**	**0.0**	**-0.2**	**-0.2**	**-0.2**	**-0.3**	**-0.5**
Consolidated Public Sector cash surplus / deficit	**-2.2**	**-2.5**	**-2.2**	**-4.0**	**-2.0**	**-2.7**	**-3.3**	**-3.5**	**-3.6**	**-3.6**
Cash flows from financing activities: (-1+2+3+4)	**2.2**	**2.5**	**2.2**	**4.0**	**2.0**	**2.7**	**3.3**	**3.5**	**3.6**	**3.6**
Net acquisition of financial assets other than cash (1)	0.3	0.0	-0.1	-0.3	-0.1	-0.2	0.0	0.0	0.0	0.0
Net incurrence of liabilities (2)	2.8	2.5	3.8	1.5	2.1	1.8	2.3	2.1	2.4	2.4
Domestic	0.2	0.2	0.5	-0.4	-0.4	-0.3	0.0	0.0	0.3	0.3
Foreign	2.6	2.3	3.3	1.9	2.4	2.1	2.3	2.2	2.1	2.2
Use of deposits (3)	-0.5	-0.2	-1.8	2.3	-0.2	0.6	0.8	1.1	0.9	0.7
Central bank (BCN) cash surplus/deficit (4)	0.3	0.2	0.2	-0.1	0.0	0.2	0.2	0.2	0.3	0.5
Memorandum items										
GDP (nominal)	347,707	380,261	416,013	413,911	411,254	426,447	445,266	466,128	488,893	515,135
Stock of government deposits	7.7	7.3	8.1	5.9	6.1	5.3	4.3	3.0	1.9	1.2

Sources: National authorities and IMF staff calculations.

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

Table 4. Nicaragua: Non-financial Public Sector Gross Financing Requirements, 2015–24[1]

(In Millions of U.S. dollars)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
				Prel.	Proj.					
					(Millions of U.S. dollars)					
a. NFPS primary deficit (before grants)	**271**	**290**	**272**	**465**	**152**	**231**	**340**	**368**	**364**	**348**
CG and public enterprises	235	233	193	468	152	231	340	368	364	348
INSS	36	57	79	-3	0	0	0	0	0	0
b. Debt service obligations	**341**	**352**	**510**	**427**	**533**	**537**	**495**	**509**	**529**	**512**
External	108	137	175	196	235	255	242	263	314	306
Interest	55	68	79	89	102	98	94	92	120	126
Amortization	52	69	96	108	134	157	148	171	194	180
Domestic	234	215	335	231	298	282	253	246	215	206
Interest	59	65	80	64	75	61	60	56	50	50
Amortization of bonds	141	116	221	155	211	209	179	176	151	143
Other internal amortizations [2/]	34	35	34	12	12	13	15	14	14	14
c. Gross financing needs (a+b)	**612**	**642**	**783**	**892**	**685**	**768**	**835**	**877**	**893**	**860**
d. Financing sources	**612**	**642**	**783**	**892**	**685**	**768**	**835**	**877**	**893**	**860**
External	562	546	696	440	513	486	542	552	572	578
Disbursements	383	375	553	361	438	412	440	448	466	469
Grants	178	172	143	79	75	73	102	104	106	108
Domestic	51	96	87	452	172	282	293	325	321	282
Bond issuance (gross)	87	111	123	101	139	148	165	173	188	181
Deposits Central Bank	-94	-32	-165	300	-25	74	100	141	0	0
Of which CG deficit financing [3/]	…	…	…	130	…	…	…	…	…	…
Of which INSS hist. debt amortization [4/]	…	…	…	170	…	…	…	…	…	…
Commercial banks	55	24	-28	-3	2	0	0	0	0	0
Other [5/]	2	-7	156	54	56	60	29	11	133	101
					(Percent of GDP)					
a. NFPS primary deficit (before grants)	**2.1**	**2.19**	**2.0**	**3.5**	**1.2**	**1.9**	**2.7**	**2.9**	**2.8**	**2.6**
CG and public enterprises	1.8	1.8	1.4	3.6	1.2	1.9	2.7	2.9	2.8	2.6
INSS	0.3	0.4	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
b. Debt service obligations	**2.7**	**2.6**	**3.7**	**3.3**	**4.3**	**4.3**	**3.9**	**4.0**	**4.1**	**3.8**
External	0.8	1.0	1.3	1.5	1.9	2.0	1.9	2.1	2.4	2.3
Interest	0.4	0.5	0.6	0.7	0.8	0.8	0.7	0.7	0.9	0.9
Amortization	0.4	0.5	0.7	0.8	1.1	1.3	1.2	1.3	1.5	1.3
Domestic	1.8	1.6	2.4	1.8	2.4	2.3	2.0	1.9	1.7	1.5
Interest	0.5	0.5	0.6	0.5	0.6	0.5	0.5	0.4	0.4	0.4
Amortization of bonds	1.1	0.9	1.6	1.2	1.7	1.7	1.4	1.4	1.2	1.1
Other internal amortizations [2/]	0.3	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
c. Gross financing needs (a+b)	**4.8**	**4.8**	**5.7**	**6.8**	**5.5**	**6.2**	**6.6**	**6.9**	**6.9**	**6.5**
d. Financing sources	**4.8**	**4.8**	**5.7**	**6.8**	**5.5**	**6.2**	**6.6**	**6.9**	**6.9**	**6.5**
External	4.4	4.1	5.0	3.4	4.1	3.9	4.3	4.3	4.4	4.3
Disbursements	3.0	2.8	4.0	2.8	3.5	3.3	3.5	3.5	3.6	3.5
Grants	1.4	1.3	1.0	0.6	0.6	0.6	0.8	0.8	0.8	0.8
Domestic	0.4	0.7	0.6	3.4	1.4	2.3	2.3	2.5	2.5	2.1
Bond issuance (gross)	0.7	0.8	0.9	0.8	1.1	1.2	1.3	1.4	1.4	1.4
Deposits Central Bank	-0.7	-0.2	-1.2	2.3	-0.2	0.6	0.8	1.1	0.0	0.0
Of which CG deficit financing [3/]	…	…	…	1.0	…	…	…	…	…	…
Of which INSS hist. debt amortization [4/]	…	…	…	1.3	…	…	…	…	…	…
Commercial banks	0.4	0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other and unidentified [5/]	0.0	-0.1	1.1	0.4	0.4	0.5	0.2	0.1	1.0	0.8

Sources: National authorities and IMF staff calculations.

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

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

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

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

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

Table 5a. Nicaragua: Summary Accounts of Central Bank and Financial System, 2015–24

(In Billions of Cordobas, unless otherwise specified)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
				Prel.			Proj.			
I. Central Bank										
Net foreign assets[1/]	**26.4**	**30.4**	**42.1**	**21.9**	**22.6**	**24.4**	**27.7**	**31.9**	**35.9**	**42.5**
Net international reserves[2/]	44.7	44.2	55.5	37.0	44.7	48.0	52.1	56.9	61.7	67.5
Net international reserves (billions of US$)[2/]	1.6	1.5	1.8	1.1	1.3	1.4	1.4	1.5	1.6	1.7
Net domestic assets	**-7.6**	**-9.6**	**-18.7**	**0.5**	**-0.3**	**-1.6**	**-4.7**	**-8.4**	**-11.1**	**-16.0**
Net claims on nonfinancial public sector	37.5	37.1	31.8	41.1	40.4	42.3	45.0	49.3	48.5	47.8
Net credit to banks	-37.0	-36.4	-40.6	-31.0	-30.9	-32.7	-37.8	-45.5	-47.3	-51.9
of which: reserves	-29.3	-29.8	-31.9	-29.2	-24.2	-22.1	-23.2	-24.7	-26.1	-27.5
Capital accounts	0.6	1.7	2.8	3.4	3.4	4.1	3.9	4.1	4.4	5.2
Other items (net)	-8.8	-12.0	-12.9	-13.1	-13.3	-15.4	-15.9	-16.3	-16.7	-17.1
Currency issue	**18.8**	**20.8**	**23.4**	**22.4**	**22.3**	**22.8**	**23.0**	**23.5**	**24.8**	**26.5**
II. Other Depository Corporations[4/]										
Net foreign assets	**-7.3**	**-11.5**	**-17.1**	**-17.8**	**0.4**	**-0.9**	**-2.7**	**-2.7**	**-2.8**	**-2.9**
Net foreign assets (billions of US$)	-0.3	-0.4	-0.6	-0.6	0.0	0.0	-0.1	-0.1	-0.1	-0.1
Net domestic assets	**135.2**	**151.0**	**173.0**	**141.9**	**115.2**	**118.9**	**126.7**	**135.5**	**142.9**	**150.2**
Net claims on Central Bank[3/]	40.7	40.1	44.9	39.0	35.8	37.7	43.0	51.0	53.1	58.0
Net credit to other financial corporations	0.1	-1.0	-0.8	-0.9	-1.4	-0.8	-0.9	-0.9	-1.0	-1.0
Net credit to non-financial public sector	0.7	2.9	2.5	-3.8	-3.1	-3.4	-2.7	-1.8	-0.4	1.1
Credit to private sector	118.7	139.5	161.9	147.8	125.0	127.9	132.5	135.6	143.0	147.6
Capital accounts	-20.5	-25.0	-29.2	-32.4	-32.2	-33.4	-34.9	-36.5	-38.3	-40.3
Other items (net)	-4.5	-5.6	-6.4	-7.8	-8.8	-9.1	-10.5	-11.9	-13.5	-15.0
Liabilities	**127.8**	**139.5**	**155.9**	**124.1**	**115.6**	**117.6**	**123.0**	**131.1**	**138.5**	**145.7**
Deposits in domestic currency	16.0	15.5	18.0	13.7	12.8	13.0	13.6	14.5	15.3	16.1
Deposits in foreign currency	111.9	124.0	137.9	110.3	102.8	104.6	109.4	116.6	123.2	129.6
III. Depository Corporations										
Net foreign assets	**19.1**	**18.9**	**25.0**	**4.1**	**23.0**	**23.5**	**25.1**	**29.2**	**33.1**	**39.6**
Net foreign assets (billions of US$)	0.7	0.6	0.8	0.1	0.7	0.7	0.7	0.8	0.9	1.0
Net domestic assets	**123.5**	**137.0**	**149.0**	**137.5**	**110.0**	**112.3**	**116.7**	**121.6**	**126.1**	**128.1**
Net credit to non-financial public sector	38.3	40.0	34.3	37.4	37.3	38.9	42.3	47.5	48.1	48.8
Credit to private sector	118.8	139.6	162.0	147.9	125.0	128.0	132.5	135.7	143.0	147.6
Net credit to other financial corporations	0.1	-1.0	-0.8	-0.9	-1.4	-0.8	-0.9	-0.9	-1.0	-1.0
Capital accounts	-20.0	-23.3	-26.3	-29.0	-28.8	-29.3	-31.0	-32.4	-33.9	-35.1
Other items (net)	-13.7	-18.3	-20.1	-17.8	-22.1	-24.5	-26.3	-28.2	-30.2	-32.2
Broad money	**142.5**	**155.9**	**174.1**	**141.6**	**133.0**	**135.8**	**141.8**	**150.8**	**159.2**	**167.7**
(Percent change, y-o-y, unless otherwise specified)										
Memorandum items										
Gross reserves (billions of US$)[5/]	2.4	2.3	2.6	2.1	2.1	2.0	2.0	2.1	2.2	2.3
Adjusted NIR (billions of US$)[2/]	1.6	1.5	1.8	1.1	1.3	1.4	1.4	1.5	1.6	1.7
In months of imports excl. maquila[2/]	2.9	3.1	4.2	2.7	3.1	3.2	3.3	3.3	3.4	3.4
Monetary base[6/]	24.7	-1.8	13.6	-9.0	-5.4	-0.3	1.9	3.1	5.7	6.3
Currency issue	11.3	10.8	12.6	-4.3	-0.5	2.4	0.8	2.3	5.7	6.6
Deposits in Cordobas	16.6	4.0	11.2	-16.5	-6.8	1.8	4.6	6.6	5.6	5.2
Deposits in FX currency	13.0	11.7	10.8	-21.2	-6.8	1.8	4.6	6.6	5.6	5.2
Credit to private sector	23.5	17.5	16.0	-8.7	-15.4	2.3	3.6	2.4	5.5	3.2
Broad money	19.5	9.4	11.7	-18.7	-6.0	2.0	4.4	6.4	5.6	5.4
Broad money velocity	2.4	2.4	2.4	2.9	3.1	3.1	3.1	3.1	3.1	3.1

Sources: National authorities and IMF staff calculations.

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

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

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

4/ Banking system and other financial institutions.

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

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

Table 5b. Nicaragua: Summary Accounts of Central Bank and Financial System, 2015–24

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

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
				Prel.			Proj.			
I. Central Bank										
Net foreign assets[1/]	**14.5**	**3.9**	**11.8**	**-20.3**	**0.7**	**1.8**	**3.3**	**4.2**	**4.1**	**6.6**
Net international reserves[2/]	8.0	-0.6	11.3	-18.4	7.7	3.3	4.0	4.9	4.8	5.8
Net international reserves (billions of US$)[2/]	0.2	-0.1	0.3	-0.7	0.2	0.1	0.1	0.1	0.1	0.1
Net domestic assets	**-12.6**	**-1.9**	**-9.2**	**19.3**	**-0.9**	**-1.3**	**-3.1**	**-3.7**	**-2.7**	**-4.9**
Net claims on nonfinancial public sector	-2.1	-0.4	-5.3	9.3	-0.7	1.9	2.7	4.3	-0.8	-0.7
Net credit to banks	-5.3	0.6	-4.2	9.6	0.0	-1.7	-5.1	-7.7	-1.8	-4.6
of which: reserves	-5.3	-0.4	-2.2	2.7	4.9	2.1	-1.1	-1.5	-1.4	-1.4
Capital accounts	-4.7	1.1	1.1	0.6	0.0	0.7	-0.2	0.2	0.3	0.9
Other items (net)	-0.4	-3.2	-0.9	-0.2	-0.2	-2.2	-0.5	-0.4	-0.4	-0.4
Currency issue	**1.9**	**2.0**	**2.6**	**-1.0**	**-0.1**	**0.5**	**0.2**	**0.5**	**1.3**	**1.6**
II. Other Depository Corporations										
Net foreign assets	**-11.2**	**-4.2**	**-5.6**	**-0.7**	**18.2**	**-1.3**	**-1.7**	**-0.1**	**-0.1**	**-0.1**
Net foreign assets (billions of US$)	-0.4	-0.1	-0.2	0.0	0.6	0.0	0.0	0.0	0.0	0.0
Net domestic assets	**33.0**	**15.8**	**22.0**	**-31.1**	**-26.7**	**3.7**	**7.8**	**8.8**	**7.4**	**7.3**
Net claims on Central Bank[3/]	6.3	-0.6	4.8	-5.9	-3.2	1.9	5.4	7.9	2.1	4.9
Net credit to other financial corporations	1.1	-1.1	0.2	-0.1	-0.5	0.6	-0.1	-0.1	0.0	0.0
Net credit to non-financial public sector	-0.3	2.2	-0.5	-6.2	0.6	-0.3	0.8	0.9	1.4	1.5
Credit to private sector	22.6	20.8	22.4	-14.1	-22.8	2.9	4.6	3.1	7.4	4.6
Capital accounts	-3.5	-4.5	-4.2	-3.2	0.2	-1.2	-1.5	-1.6	-1.8	-2.1
Other items (net)	6.8	-1.1	-0.8	-1.4	-1.0	-0.2	-1.4	-1.4	-1.6	-1.6
Liabilities	**21.8**	**11.7**	**16.4**	**-31.8**	**-8.5**	**2.0**	**5.4**	**8.1**	**7.4**	**7.3**
Deposits in domestic currency	5.1	-0.5	2.5	-4.2	-0.9	0.2	0.6	0.9	0.8	0.8
Deposits in foreign currency	16.8	12.1	13.9	-27.5	-7.5	1.8	4.8	7.2	6.5	6.4
III. Depository Corporations										
Net foreign assets	**3.3**	**-0.2**	**6.2**	**-21.0**	**19.0**	**0.5**	**1.6**	**4.1**	**4.0**	**6.5**
Net foreign assets (billions of US$)	0.1	0.0	0.2	-0.7	0.6	0.0	0.0	0.1	0.1	0.1
Net domestic assets	**19.9**	**13.6**	**12.0**	**-11.5**	**-27.5**	**2.3**	**4.4**	**4.9**	**4.4**	**2.1**
Net credit to non-financial public sector	-2.4	1.8	-5.7	3.1	-0.1	1.6	3.5	5.1	0.6	0.8
Credit to private sector	22.6	20.8	22.4	-14.1	-22.8	2.9	4.6	3.1	7.4	4.6
Net credit to other financial corporations	1.1	-1.1	0.2	-0.2	-0.5	0.6	-0.1	-0.1	0.0	0.0
Capital accounts	-8.3	-3.3	-3.0	-2.7	0.2	-0.5	-1.7	-1.5	-1.5	-1.2
Other items (net)	6.9	-4.6	-1.8	2.4	-4.3	-2.4	-1.9	-1.8	-2.0	-2.0
Broad money	**23.2**	**13.4**	**18.2**	**-32.5**	**-8.6**	**2.7**	**6.0**	**9.0**	**8.4**	**8.5**

Sources: National authorities and IMF staff calculations.

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

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

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

Table 6. Nicaragua: Quasi-Fiscal Balance of the Central Bank, 2015–24

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
				Prel.			Proj.			
	(Millions of Cordobas)									
Revenue	**987**	**1,353**	**1,303**	**2,673**	**2,802**	**1,884**	**1,823**	**2,038**	**2,274**	**2,223**
Interest	526	678	963	2,139	2,690	1,766	1,701	1,912	2,142	2,086
Foreign deposits	6	17	49	94	151	105	111	130	148	67
Notes and bonds	284	423	632	1,070	1,461	1,200	1,262	1,477	1,680	1,636
Loans of the BCN	226	225	222	217	211	202	189	171	154	106
On MTI bonds (fluctuation in price)	8	10	38	97	43	109	115	134	153	58
Other revenues	461	676	340	534	45	0	0	0	0	0
Of which: recapitalization transfers	373	491	263	181	45	0	0	0	0	0
Expenditure	**2,014**	**2,154**	**1,953**	**2,030**	**2,769**	**2,672**	**2,565**	**3,112**	**3,818**	**4,820**
Administrative	998	1,101	864	751	868	1,123	872	1,015	1,090	1,129
Interest	1,016	1,053	1,089	1,279	1,901	1,548	1,693	2,098	2,728	3,692
External debt	101	112	131	176	585	437	347	248	137	1,208
BCN securities	461	443	411	560	677	569	792	1,281	2,007	2,103
Bonds (banking)	226	225	222	217	211	198	180	156	131	106
Other	229	272	324	304	154	174	196	222	251	61
Quasi-fiscal balance	**-1,027**	**-801**	**-650**	**643**	**32**	**-788**	**-742**	**-1,074**	**-1,544**	**-2,597**
	(Percent of GDP)									
Revenue	**0.3**	**0.4**	**0.3**	**0.6**	**0.7**	**0.4**	**0.4**	**0.4**	**0.5**	**0.4**
Interest	0.2	0.2	0.2	0.5	0.7	0.4	0.4	0.4	0.4	0.4
Foreign deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Notes and bonds	0.1	0.1	0.2	0.3	0.4	0.3	0.3	0.3	0.3	0.3
Bonds (banking)	0.1	0.1	0.1	0.1	0.1	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
Other revenues	0.1	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Of which: recapitalization transfers	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	**0.6**	**0.6**	**0.5**	**0.5**	**0.7**	**0.6**	**0.6**	**0.7**	**0.8**	**0.9**
Administrative	0.3	0.3	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2
Interest	0.3	0.3	0.3	0.3	0.5	0.4	0.4	0.4	0.6	0.7
External debt	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.2
BCN securities	0.1	0.1	0.1	0.1	0.2	0.1	0.2	0.3	0.4	0.4
Bonds (banking)	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Other	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.0
Quasi-fiscal balance	**-0.3**	**-0.2**	**-0.2**	**0.2**	**0.0**	**-0.2**	**-0.2**	**-0.2**	**-0.3**	**-0.5**

Sources: National authorities and IMF staff calculations.

Table 7. Nicaragua: Balance of Payments, 2015–24

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
				Prel.			Projections			
	(In millions of U.S. dollars; unless otherwise indicated)									
Current account	**-1,145**	**-871**	**-675**	**83**	**186**	**140**	**99**	**37**	**-3**	**-62**
Trade account	-2,545	-2,520	-2,407	-1,633	-1,125	-793	-692	-676	-654	-602
Exports f.o.b.	2,890	2,842	3,268	3,272	3,277	3,531	3,570	3,677	3,800	3,984
Maquila (net)	447	598	696	732	638	658	665	689	722	732
Coffee	415	420	527	436	468	548	613	665	707	741
Others	2,028	1,823	2,045	2,104	2,171	2,325	2,293	2,324	2,371	2,511
Imports f.o.b. (non-maquila)	5,436	5,362	5,675	4,905	4,402	4,324	4,262	4,354	4,454	4,586
Petroleum products	777	690	884	996	932	888	883	904	928	940
Others	4,659	4,672	4,791	3,909	3,471	3,436	3,379	3,450	3,526	3,646
Services (net)	232	394	529	414	177	206	219	227	212	163
Of which: tourism receipts	528	642	841	544	384	393	403	410	416	425
Income (net)	-346	-357	-364	-310	-526	-610	-646	-836	-959	-1,118
Of which: payments on direct investments	161	162	139	117	151	213	310	372	485	635
Of which: public sector interest payments	204	227	275	281	386	429	365	493	504	514
Transfers (net)	1,515	1,612	1,567	1,611	1,660	1,337	1,218	1,323	1,399	1,495
Of which: Remittances	1,193	1,264	1,391	1,501	1,666	1,677	1,689	1,701	1,713	1,732
Capital and Financial account, capital(+), financial(-)	**1,875**	**1,196**	**1,330**	**-182**	**-182**	**-188**	**-65**	**24**	**56**	**173**
Financial account	**-1,501**	**-994**	**-1,152**	**293**	**182**	**188**	**65**	**-24**	**-56**	**-173**
Direct investment (net)	-905	-833	-707	-284	-325	-327	-339	-351	-362	-374
Portfolio investment 1/	7	146	3	-59	-50	3	1	1	1	2
Other investment	-603	-306	-447	636	557	512	404	326	305	199
Of which : general government	-331	-306	-457	-253	-304	-256	-292	-277	-273	-290
Capital account	**375**	**202**	**178**	**111**	**0**	**0**	**0**	**0**	**0**	**0**
Errors and omissions	-499	-348	-341	-395	0	0	0	0	0	0
Overall balance	**231**	**-23**	**313**	**-493**	**4**	**-48**	**33**	**61**	**53**	**111**
Financing	**-231**	**23**	**-313**	**493**	**-4**	**48**	**-33**	**-61**	**-53**	**-111**
Change in GIR (increase, -)	**-204**	**52**	**-292**	**512**	**9**	**55**	**-31**	**-61**	**-53**	**-111**
Change in NIR (increase, -) 2/	-231	23	-313	656	-176	-56	-73	-89	-81	-101
Change in FX reserve requirement, CB bills and CABEI (increase, -)	27	29	22	-144	185	111	42	28	29	-10
Exceptional financing and IMF loans/credit	**-27**	**-29**	**-22**	**-19**	**-13**	**-7**	**-2**	**0**	**0**	**0**
	(In percent of GDP; unless otherwise indicated)									
Current account	**-9.0**	**-6.6**	**-4.9**	**0.6**	**1.5**	**1.1**	**0.8**	**0.3**	**0.0**	**-0.5**
Trade account	-20.0	-19.0	-17.4	-12.4	-9.0	-6.4	-5.5	-5.3	-5.0	-4.5
Exports f.o.b.	22.7	21.4	23.6	24.9	26.4	28.4	28.4	28.7	29.2	29.9
Imports f.o.b. (non-maquila)	42.6	40.4	41.0	37.4	35.4	34.8	33.9	34.0	34.2	34.4
Services (net)	1.8	3.0	3.8	3.2	1.4	1.7	1.7	1.8	1.6	1.2
Of which: tourism receipts	4.1	4.8	6.1	4.2	3.1	3.2	3.2	3.2	3.2	3.2
Income (net)	-2.7	-2.7	-2.6	-2.4	-4.2	-4.9	-5.1	-6.5	-7.4	-8.4
Of which: payments on direct investments	1.3	1.2	1.0	0.9	1.2	1.7	2.5	2.9	3.7	4.8
Of which: public sector interest payments	1.6	1.7	2.0	2.1	3.1	3.5	2.9	3.9	3.9	3.9
Transfers (net)	11.9	12.1	11.3	12.3	13.4	10.8	9.7	10.3	10.7	11.2
Of which: Remittances	9.4	9.5	10.0	11.4	13.4	13.5	13.4	13.3	13.1	13.0
Capital and financial account	**14.7**	**9.0**	**9.6**	**-1.4**	**-1.5**	**-1.5**	**-0.5**	**0.2**	**0.4**	**1.3**
Financial account	**-11.8**	**-7.5**	**-8.3**	**2.2**	**1.5**	**1.5**	**0.5**	**-0.2**	**-0.4**	**-1.3**
Direct investment (net)	-7.1	-6.3	-5.1	-2.2	-2.6	-2.6	-2.7	-2.7	-2.8	-2.8
Portfolio investment 1/	0.1	1.1	0.0	-0.4	-0.4	0.0	0.0	0.0	0.0	0.0
Other investment	-4.7	-2.3	-3.2	4.8	4.5	4.1	3.2	2.5	2.3	1.5
Of which : general government	-2.6	-2.3	-3.3	-1.9	-2.4	-2.1	-2.3	-2.2	-2.1	-2.2
Capital account	**2.9**	**1.5**	**1.3**	**0.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Errors and omissions	-3.9	-2.6	-2.5	-3.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**1.8**	**-0.2**	**2.3**	**-3.8**	**0.0**	**-0.4**	**0.3**	**0.5**	**0.4**	**0.8**
Financing	**-1.8**	**0.2**	**-2.3**	**3.8**	**0.0**	**0.4**	**-0.3**	**-0.5**	**-0.4**	**-0.8**
Change in GIR (increase, -)	**-1.6**	**0.4**	**-2.1**	**3.9**	**0.1**	**0.4**	**-0.2**	**-0.5**	**-0.4**	**-0.8**
Change in NIR (increase, -) 2/	-1.8	0.2	-2.3	5.0	-1.4	-0.5	-0.6	-0.7	-0.6	-0.8
Change in FX reserve requirement, CB bills and CABEI (increase, -)	0.2	0.2	0.2	-1.1	1.5	0.9	0.3	0.2	0.2	-0.1
Exceptional financing	**-0.2**	**-0.2**	**-0.2**	**-0.1**	**-0.1**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:										
Net reserves (millions of U.S. dollars) 2/	1,601	1,506	1,802	1,146	1,321	1,377	1,450	1,539	1,620	1,722
In months of imports (t+1) (excluding maquila)	3.2	2.7	3.7	2.7	3.1	3.3	3.4	3.5	3.5	3.6
As a ratio of monetary base	1.5	1.5	1.7	1.2	1.6	1.7	1.8	1.9	2.0	2.0
Total public external debt (in percent of GDP) 3/	31.7	32.2	34.8	38.1	41.8	43.1	44.3	45.2	46.1	47.0
Nominal GDP (millions of U.S. dollars)	12,757	13,286	13,844	13,118	12,431	12,416	12,587	12,793	13,027	13,326

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

Table 8. Nicaragua: External Financing Needs and Sources, 2015–24

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
				Prel.	Projections					
	(In millions of U.S. dollars)									
a. Current account deficit, excluding interest payments	**941**	**644**	**400**	**-364**	**-572**	**-569**	**-463**	**-531**	**-501**	**-452**
b. Debt service obligations	784	1,068	1,056	1,055	1,212	1,269	1,190	1,340	1,362	1,299
Public debt (Government/Central Bank)	153	185	228	246	334	342	326	347	388	355
Interest	58	71	83	94	121	110	103	97	122	156
Amortization	94	114	145	152	213	232	223	250	266	199
Private debt	632	883	829	809	878	927	864	993	973	944
Interest	145	156	192	187	265	320	262	396	382	358
Amortization	486	727	636	621	613	607	602	597	592	586
c. Gross financing needs (a+b)	**1,726**	**1,712**	**1,456**	**691**	**640**	**700**	**727**	**809**	**861**	**847**
d. Identified financing sources (e+f+g+h+i+j)	**1,726**	**1,712**	**1,456**	**691**	**640**	**700**	**727**	**809**	**861**	**847**
e. Capital account flows (net)	375	202	178	111	0	0	0	0	0	0
f. Foreign direct investment (net)	905	833	707	284	325	327	339	351	362	374
g. Public sector borrowing (gross, borrowing + amortization)	425	420	602	405	517	488	515	527	539	488
Of which:										
World Bank				58	72	72	75	77	78	98
IDB				139	156	153	157	173	148	149
CABEI				166	235	225	236	273	337	304
Bonds										
h. Other capital flows (gross, borrowing + amortization) / Portfolio capital flows (net) 1/	252	233	283	-603	-198	-164	-95	-7	13	96
j. Change in gross reserves (+ decrease)	-204	52	-292	512	9	55	-31	-61	-53	-111
Change in net reserves (+ decrease) 2/	-231	23	-313	656	-176	-56	-73	-89	-81	-101
Change in reserve requirement (+ decrease)	27	29	22	-144	185	111	42	28	29	-10
i. IMF credit and loans (net, loans - credit)	-27	-29	-22	-19	-13	-7	-2	0	0	0
k. Financing gap (c-d)	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
	(Percent of GDP)									
a. Current account deficit, excluding interest payments	**7.4**	**4.8**	**2.9**	**-2.8**	**-4.6**	**-4.6**	**-3.7**	**-4.1**	**-3.8**	**-3.4**
b. Debt service obligations	**6.1**	**8.0**	**7.6**	**8.0**	**9.7**	**10.2**	**9.5**	**10.5**	**10.5**	**9.7**
Public debt (Government/Central Bank)	1.2	1.4	1.6	1.9	2.7	2.8	2.6	2.7	3.0	2.7
Interest	0.5	0.5	0.6	0.7	1.0	0.9	0.8	0.8	0.9	1.2
Amortization	0.7	0.9	1.0	1.2	1.7	1.9	1.8	2.0	2.0	1.5
Private debt	5.0	6.6	6.0	6.2	7.1	7.5	6.9	7.8	7.5	7.1
Interest	1.1	1.2	1.4	1.4	2.1	2.6	2.1	3.1	2.9	2.7
Amortization	3.8	5.5	4.6	4.7	4.9	4.9	4.8	4.7	4.5	4.4
c. Gross financing needs (a+b)	**13.5**	**12.9**	**10.5**	**5.3**	**5.1**	**5.6**	**5.8**	**6.3**	**6.6**	**6.4**
d. Identified financing sources (e+f+g+h+i+j)	**13.5**	**12.9**	**10.5**	**5.3**	**5.1**	**5.6**	**5.8**	**6.3**	**6.6**	**6.4**
e. Capital account flows (net)	2.9	1.5	1.3	0.8	0.0	0.0	0.0	0.0	0.0	0.0
f. Foreign direct investment (net)	7.1	6.3	5.1	2.2	2.6	2.6	2.7	2.7	2.8	2.8
g. Public sector borrowing (gross, borrowing + amortization)	3.3	3.2	4.3	3.1	4.2	3.9	4.1	4.1	4.1	3.7
Of which:										
World Bank				0.4	0.6	0.6	0.6	0.6	0.6	0.7
IDB				1.1	1.3	1.2	1.2	1.4	1.1	1.1
CABEI				1.3	1.9	1.8	1.9	2.1	2.6	2.3
Bonds										
h. Other capital flows (gross, borrowing + amortization) / Portfolio capital flows (net) 1/	2.0	1.8	2.0	-4.6	-1.6	-1.3	-0.8	-0.1	0.1	0.7
j. Change in gross reserves (+ decrease)	-1.6	0.4	-2.1	3.9	0.1	0.4	-0.2	-0.5	-0.4	-0.8
Change in net reserves (+ decrease) 2/	-1.8	0.2	-2.3	5.0	-1.4	-0.5	-0.6	-0.7	-0.6	-0.8
Change in reserve requirement (+ decrease)	0.2	0.2	0.2	-1.1	1.5	0.9	0.3	0.2	0.2	-0.1
i. IMF credit and loans (net, loans - credit)	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0
k. Financing gap (c-d)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

Sources: National authorities and IMF staff calculations.
1/Includes errors and omissions.
2/Excludes FOGADE (deposit guarantee fund), and net reserves exclude also FX reserve requirements, FX CB bills and CABEI.

Table 9. Nicaragua: Medium-Term Macroeconomic Framework, 2015–24

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
				Prel.			Proj.			
Growth and prices					(Percent)					
GDP growth	4.8	4.6	4.7	-3.8	-5.7	-1.2	0.0	0.8	1.4	1.7
GDP deflator	7.6	4.6	4.5	3.4	5.4	5.0	4.4	3.9	3.5	3.6
Consumer price inflation (average)	4.0	3.5	3.9	5.0	5.4	5.0	4.4	3.9	3.5	3.6
Consumer price inflation (e.o.p.)	3.1	3.1	5.7	3.9	6.4	5.0	4.4	3.9	3.5	3.6
Public finances					(Percent of GDP)					
Consolidated public sector										
Revenue	27.4	28.7	29.2	28.0	31.2	30.3	30.6	30.7	30.7	30.8
Expenditure	29.6	31.2	31.4	32.0	33.2	33.1	33.9	34.2	34.3	34.4
Overall balance, after grants	-2.2	-2.5	-2.2	-4.0	-2.0	-2.7	-3.3	-3.5	-3.6	-3.6
Public sector debt 1/	40.7	41.7	44.2	47.8	51.0	52.5	55.0	57.8	60.9	63.7
Balance of payments					(Percent of GDP, unless otherwise specified)					
Current account	-9.0	-6.6	-4.9	0.6	1.5	1.1	0.8	0.3	0.0	-0.5
US$million	-1,145	-871	-675	83	186	140	99	37	-3	-62
Gross reserves (US$million) 2/	2,353	2,296	2,593	2,080	2,071	2,016	2,047	2,108	2,161	2,272
In months of imports excl. maquila 2/	4.8	4.1	5.3	4.8	4.9	4.8	4.7	4.8	4.7	4.7
Net international reserves (US$million) 2/	1,601	1,506	1,802	1,146	1,321	1,377	1,450	1,539	1,620	1,722
Memorandum items										
GDP (US$million)	12,757	13,286	13,844	13,118	12,431	12,416	12,587	12,793	13,027	13,326

Sources: National authorities and IMF staff calculations.

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

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

Table 10. Nicaragua: Saving-Investment Balance, 2015–24

(In Percent of GDP, unless otherwise specified)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
				Prel.			Proj.			
Gross national disposable income	**109.2**	**109.4**	**108.7**	**109.9**	**109.1**	**105.9**	**104.5**	**103.8**	**103.4**	**102.8**
Nominal GDP	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	-2.7	-2.7	-2.6	-2.4	-4.2	-4.9	-5.1	-6.5	-7.4	-8.4
Net transfers from abroad	11.9	12.1	11.3	12.3	13.4	10.8	9.7	10.3	10.7	11.2
Consumption	**88.9**	**88.4**	**85.5**	**86.3**	**85.0**	**82.1**	**81.3**	**81.0**	**80.8**	**80.9**
Public sector 1/	14.1	14.5	14.7	15.4	16.6	16.6	17.2	17.4	17.4	17.4
Private sector	74.8	73.9	70.8	70.9	68.3	65.5	64.1	63.6	63.5	63.5
Gross domestic investment	**29.3**	**27.6**	**28.0**	**22.9**	**22.7**	**22.6**	**22.5**	**22.5**	**22.6**	**22.4**
Public sector 1/	7.5	7.4	7.2	6.6	6.2	6.2	6.2	6.3	6.4	6.2
Private sector	21.8	20.2	20.8	16.3	16.4	16.4	16.3	16.2	16.2	16.2
National saving	**20.3**	**21.1**	**23.2**	**23.6**	**24.2**	**23.8**	**23.3**	**22.8**	**22.5**	**21.9**
Public sector	4.8	4.8	5.0	2.5	4.1	3.6	3.1	3.1	3.0	3.1
Private sector	15.5	16.3	18.1	21.1	20.0	20.1	20.2	19.7	19.5	18.9
External saving	**9.0**	**6.6**	**4.9**	**-0.6**	**-1.5**	**-1.1**	**-0.8**	**-0.3**	**0.0**	**0.5**
Public sector	2.7	2.7	2.2	4.1	2.1	2.6	3.2	3.2	3.3	3.1
Private sector	6.2	3.9	2.7	-4.8	-3.6	-3.7	-3.9	-3.5	-3.3	-2.7
Memorandum items										
Exports of goods and services	40.1	38.9	41.2	42.0	40.6	43.4	44.1	44.6	45.3	46.0
Imports of goods and services	58.2	54.9	54.7	51.3	48.2	48.1	47.9	48.2	48.7	49.3

Sources: National authorities and IMF staff calculations.

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

Table 11. Nicaragua: Selected Sustainable Development Goals

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

Source: United Nations, World Bank.

Annex I. Progress on 2017 Article IV Policy Recommendations

Authorities' Response to Past IMF Policy Recommendations (Scale – fully consistent, or marginally consistent)	
IMF 2017 Article IV Recommendations	**Authorities' Response**
Fiscal Policy	**Broadly Consistent**
Staff recommended a fiscal consolidation of 1.6 percent of GDP implemented over two years to maintain fiscal sustainability. The objective was to be achieved primarily through a rationalization of subsidies and tax expenditures, particularly VAT exemptions.	The fiscal policy stance was broadly adequate before the political shock, but the emerging recession shifted priorities to short term challenges and prevented the creation of fiscal buffers to address debt sustainability. In 2018 the authorities cut expenditures —mostly in capital outlays— by 1.4 percent of GDP. In 2019 a tax reform with an estimated yield of 1.5 percent of GDP focused on the elimination of VAT exemptions and increased excises on selected goods. The authorities took measures not previously discussed such as an increase the minimum tax and freezing public wages.
Reforming the social security was deemed a priority. INSS liquid reserves were projected to be depleted in the near future.	The authorities implemented a parametric pension reform with a projected yield of 1.5 percent of GDP in 2019 to address the financing of the INSS.
Monetary and Exchange Rate Policies	**Broadly Consistent**
Strengthen liquidity management tools to deepen financial markets, introduce a short-term policy rate and a corridor to reduce volatility.	To improve liquidity management the authorities introduced daily monetary operations, issued new financial instruments, and reduced reserve requirements.
Banks should further enhance their liquidity, capital, and provisioning buffers to preserve financial stability against shocks.	The authorities introduced —but later suspended temporarily as circumstances had changed— an anti-cyclical provision fund. They also established regulations to create an extraordinary capital reserve and conservation of capital to mitigate the potential deterioration of banks' loan portfolio.
External and financial buffers should be strengthened. Given the exchange rate framework, staff advised a stronger reserve position to reach the IMF's suggested adequacy metrics.	The authorities contracted a US$200 million credit line with the regional development bank CABEI to support the exchange rate and gross international reserves.
Financial Sector Policy	**Partly Consistent**
The authorities should address the gaps in the supervisory perimeter. Every deposit-taking and systemically important non-bank entities should be subject to effective risk-based supervision and AML-CFT oversight.	The supervisory perimeter remained unchanged and left without oversight systemically important non-bank entities.
Stress test methodology should be further improved.	The AML-CFT framework improved with regulations issued in July and October 2018 that strengthened the Financial Intelligence Unit and addressed several shortcomings identified in the 2017 Mutual Evaluation Report (MER). However, some significant weaknesses identified in the MER are pending.
Structural Reforms	**Marginally Consistent**
To improve competitiveness, maintain the investment in infrastructure, increase human capital development, and address labor skills bottlenecks	The business environment in 2018-19 led to postponement of measures dealing with competitiveness.
Improve data quality and the scope of macroeconomic statistics.	Recognizing slow progress in recent years, the authorities agreed with a 2018 multisector statistics mission findings and recommendations and stated their intention to step up efforts to improve macroeconomic statistics in the near term.

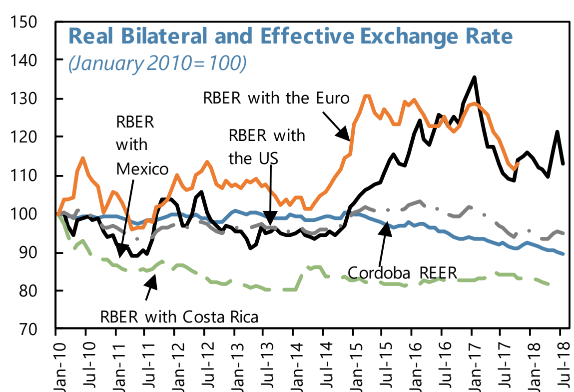
Annex II. External Sector Assessment

The external position of Nicaragua in 2018 and the projection for 2019, are assessed to be moderately weaker than levels consistent with fundamentals, and desirable policy settings. Thus, the real exchange rate is assessed to be moderately stronger than warranted by fundamentals (by about 7 percent). Fiscal consolidation and structural reforms to boost potential growth would enhance competitiveness and reduce excessive exposure to foreign liabilities over the medium term. Moreover, strengthening reserve accumulation over the long run would reduce external vulnerability.

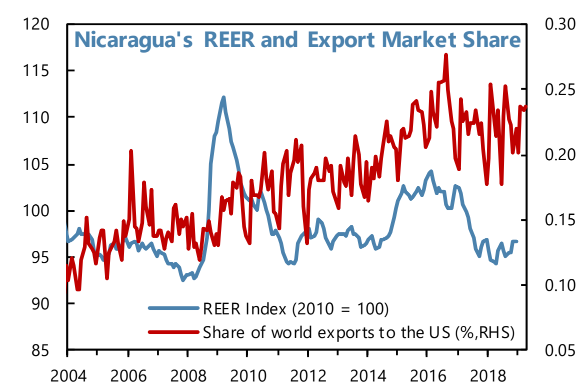
A. Exchange Rate Assessment and Competitiveness

1. The current account improved significantly in 2018. A demand-driven import compression and steady growth in remittances, improved the current account to a modest surplus of 0.6 percent of GDP (from a deficit of 4.9 percent of GDP in 2017). This trend continued in 2019H1 increasing the current account surplus further to 2.4 percent of GDP.

2. The REER remained broadly unchanged from the level in 2017. While the REER appreciated moderately vis-à-vis the Eurozone and Mexico since 2014 and 2015, respectively, lower inflation resulted in a depreciating bilateral real exchange rate vis-a-vis U.S., leaving the REER broadly unchanged. Nicaragua's exports continued to gain market share in the U.S. in terms of total world exports and CAPDR economies.

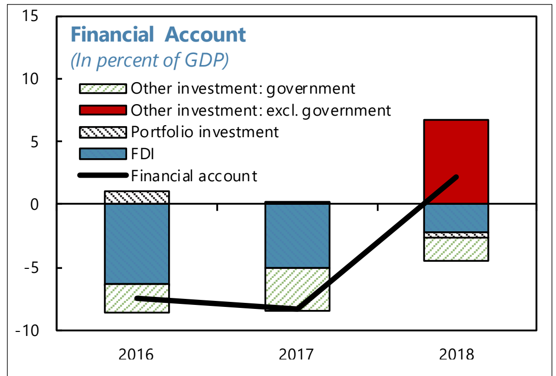


Sources: INS and IMF staff calculations.

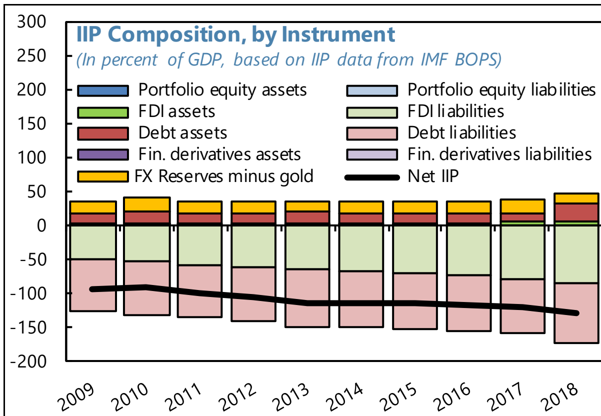


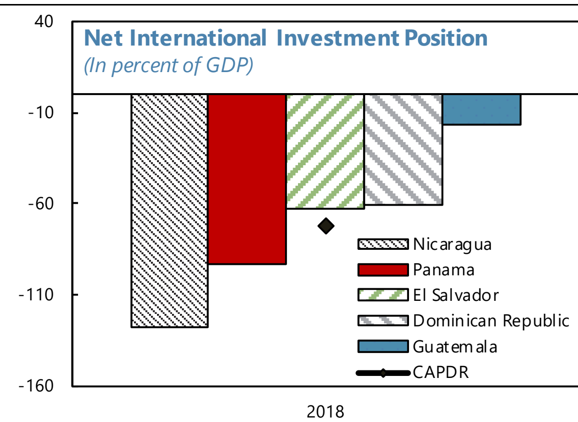
Sources: IMF Direction of Trade Statistics and IMF staff calculations.

3. The financing structure of the CA showed vulnerabilities. The current account improvement was fully offset by a sudden stop in the financial account with a reversal of about 10.6 percent of GDP (from 8.3 percent of GDP inflows in 2017 to 2.2 percent of GDP outflows in 2018). FDI inflows and public external financing declined by 2.9 and 1.4 percent of GDP, respectively, while other capital flows, more sensitive to confidence, accounted for larger outflows of 6.7 percent of GDP (US$900 million). As a result, gross international reserves decreased by US$512 million and the stock of reserves declined from 5.3 months at end-2017 to 4.8 months of non-maquila (retained) imports, well below the level of 8.7 months implied by the Fund's adequacy metric for LICs with a pegged exchange rate regime. In 2018, the net international investment position (IIP) was negative at about -128 percent of and is projected to remain broadly unchanged in the medium term. Nicaragua's net IIP is the worst in the region and is lower than the regional average by 55 percent of GDP.



Sources: National authorities.





Sources: IMF Balance of Payments Statistics, IMF World Economic Outlook.

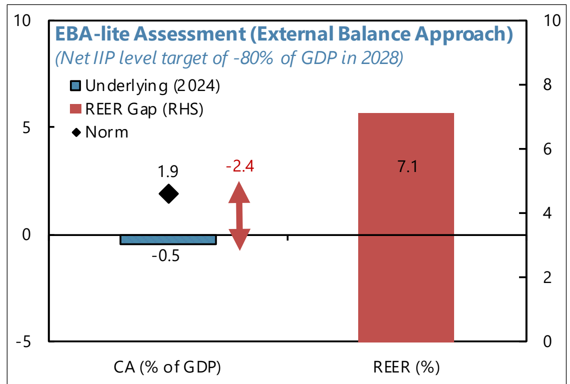
4. The Fund's multilaterally consistent estimates suggest that Nicaragua's external position in 2018 and the projection for 2019 were moderately weaker than levels consistent with medium-term fundamentals and desirable policies.

Table A2.1. Summary of EBA Lite Approaches ("+" = Overvaluation) 1/

	Actual CA cycl. adj.	Underlying CA	CA norm cycl. ajd.	CA gap	REER gap	REER Gap (2017A4)
CA Model	-0.4%	0.6%	-5.8%	5.4%	-15.5%	6.8%
REER Model					-3.9%	1.2%
ES Approach 2/ 3/		-0.5%	1.9%	-2.4%	7.1%	-3.8%

Source: IMF staff calculations.
1/ Based on IMF EBA-Lite methodology.
2/ Targeting to stablize net IIP position at -80 percent of
3/ CA gap is compared with the projected CA over the m

- **The external sustainability (ES) approach estimates REER overvaluation of 7.1 percent over the medium term**. Staff projects the 2024 CA outturn at -0.5 percent of GDP and assumes an improvement in the net international investment position (IIP) over 10 years from -128 percent in 2018 to -85 percent of GDP. The projected CA norm in 2024 consistent with this IIP improvement is 1.9 percent of GDP, which implies a CA gap of -2.4 percent of GDP, and a REER gap of 7.1 percent.



Source: IMF staff calculations.

- **By contrast, the CA model in the multi-country EBA-lite assessment produces estimates showing a REER undervaluation of 15.5 percent**. The implied CA norm by this model is a CA deficit of 5.3 percent of GDP, which compared with the observed CA surplus and after adjusting for cyclical factors and policy gaps, results in a CA gap of 5.4 percent of GDP. Using the same estimates for elasticities of exports and imports, as in the ES approach, results in a REER gap of -15.5 percent. However, staff views the results from the CA model (implying a deficit in the CA norm of 5.4 percent of GDP) to be non-viable from a financing perspective and therefore not suitable to Nicaragua given the very limited external financing.

EBA Lite External Sustainability (ES) 1/

CA Actual (end-2024)	**-0.5%**
CA-Norm	**1.9%**
Baseline year IIP (percent of GDP)	-127.7%
Target IIP	-85.0%
Target Number of Years	10
CA-Gap	**-2.4%**
REER Gap (percent)	**7.1%**
Elasticity of CA	-0.33
Elasticity of Exports of Goods and Service	-0.44
Elasticity of Imports of Goods and Service	0.29

Source: IMF staff calculations.
1/ Based on IMF EBA-Lite methodology.

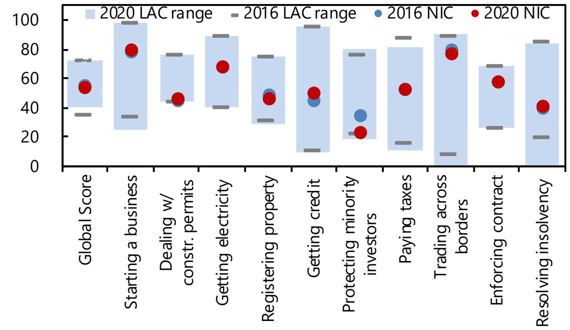
- **The REER Index model in the EBA-lite assessment shows about 4 percent undervaluation**. The REER norm was mainly pushed up by relatively high dependency ratio relative to the trading partners (average). A policy gap was estimated as -2.3 percent, i.e., 60 percent of the REER gap. Similarly, as with the CA model, staff views that the REER Index model lacks a clear CA norm specific to Nicaragua, consistent with its large negative IIP.

5. Other indicators confirm the results of the external sustainability approach. Nicaragua's competitiveness is weak relative to regional comparators. A closer look at its sub-indicators suggests that Nicaragua lags in dealing with construction permits, protecting minority investors, registering property, and getting credit and paying taxes. These and other deficiencies in the competitiveness framework show that further improvement in competitiveness and business environment would be desirable.

Competitiveness Indicators

Doing Business 2020

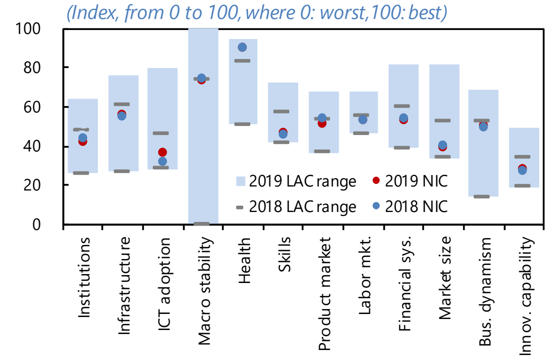
(Index, from 0 to 100, where 0: worst, 100: best)



Sources: World Bank Doing Business Index and IMF staff calculations.
Note: Doing Business Index is a survey-based indicator that measures regulations that enhance domestic business activities and those that constraint it (i.e., ease of doing business). A higher index value implies that the economy is closer to the best regulatory performance observed across the sample of countries.

Global Competitiveness Index 4.0

(Index, from 0 to 100, where 0: worst,100: best)



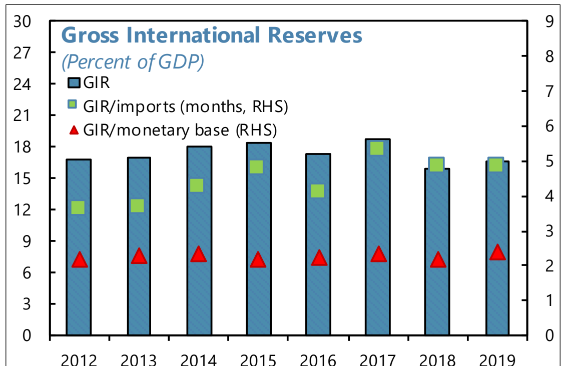
Sources: World Economic Forum and IMF staff calculations.
Note: Global Competitiveness Index is a survey-based indicator that measures the set of institutions, policies, and factors that set the sustainable current and medium-term levels of economic prosperity. A higher index value implies a better domestic competitiveness landscape.

B. Reserve Adequacy

6. The reserve coverage is only 4.8 months of non-maquila imports in end-2018. Gross international reserves (GIR) fell by US$0.5 billion to US$2.1 billion in 2018. Moreover, reserves in 2018 and those in 2019 are projected to be below the Fund's suggested adequacy metric for LICs of 8.7 months.[1] Although Nicaragua relies heavily on concessional financing from IFIs and is not fully integrated in the international capital market, given the heightened external pressures, a stronger reserve position would be desirable.

Gross International Reserves

(Percent of GDP)



Sources: National authorities and IMF staff calculations.

[1] The Fund's suggested adequacy metric for LICs of 8.7 months is driven by a combination of (i) fixed exchange rate regime and high degree of dollarization—captured by country-specific fixed effects—, (ii) volatility of terms of trade and (iii) volatility of FDI inflows-to-GDP ratio.

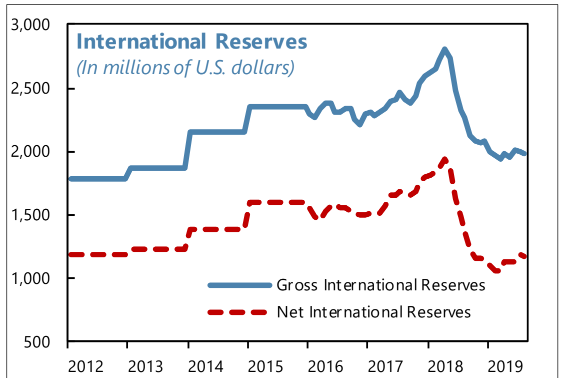
Annex III. Risk Assessment Matrix[1]

	Overall Level of Concern (scale medium)		
Source of Risk	**Relative Likelihood/Time Horizon**	**Impact if Realized**	**Policy Advise**
Global Shocks			
Weaker-than-expected global growth. • **U.S.**: Confidence wanes against a backdrop of a long expansion with stretched asset valuations, rising leverage, and policy uncertainty, leading to weaker investment and a more abrupt closure of the output gap.	Medium **Short to Medium Term**	Medium	Strengthen reserve accumulation and fiscal sustainability to weather external shocks from a stronger position.
Large swings in energy prices. Risks to prices are broadly balanced, reflecting offsetting—but large and uncertain—supply and demand shocks.	Medium **Short to Medium Term**	Medium	There is scope for phasing out fuel and electricity subsidies which do not benefit the poorest households and introduce mechanisms that target better the poor.
Intensification of geopolitical tensions and security risks (e.g., in Venezuela) cause socio-economic and political disruption, disorderly migration, volatile commodity prices, and lower confidence.	High **Short Term**	Low	Undertake policies to absorb new migrants on the labor market without creating social tensions.
Nicaragua-Specific Shocks			
Financial risks. Further uncertainty affecting the financial sector with potential impact on: • Increasing NPLs impacting on banks' asset quality, profitability and solvency • Reduction in liquidity in the banking system • Exchange rate regime by putting pressure on international reserves.	High **Short Term**	High	Enhance crisis preparedness and strengthen the financial safety net to ensure that financial stability challenges can be addressed. Rebuild necessary reserves to defend the peg regime.
Fiscal risks. Lower revenue collection than envisaged in budget, unexpected increase in expenditure, materialization of contingent liabilities/fiscal risks could deteriorate public debt dynamics.	High **Short Term**	High	Strengthen fiscal sustainability to weather fiscal shocks from a stronger position. Continue improving SOE governance and fiscal risk management practices.
Political risks. Further deterioration in the political situation, causing socio-economic and political disruptions.	High **Short Term**	High	Strengthen social safety nets to protect the poor and ensure inclusive growth.
External risks. • Further sanctions • Absorption of the private debt to Venezuela (continent liability)	High **Short Term** Low **Short Term**	High High This would deteriorate public debt dynamics	Strengthen reserve accumulation and fiscal sustainability to weather external shocks from a stronger position.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). 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. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

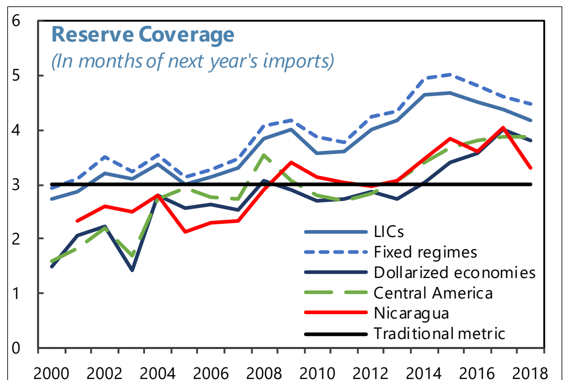
Appendix I. Reserve Adequacy Assessment

1. **The crisis of confidence that erupted in April 2018 resulted in a loss of US$793 million of net international reserves (NIR)** (NIR covered 2.7 months of non-maquila imports by end-2018). As a reference, NIR had nearly tripled during the period 2008–17, reaching a peak of US$1.9 billion at end-April 2018 (equivalent to 4 months of non-maquila imports). A much lower level of imports and reduced bank deposits estimated at end-2019, have prompted discussions about what could be an "optimal" level of international reserves for Nicaragua. This appendix analyzes international reserve adequacy for Nicaragua using traditional measures, the IMF's methodology for assessing reserve adequacy (ARA metrics), and a forward-looking approach[1].



Source: National authorities.

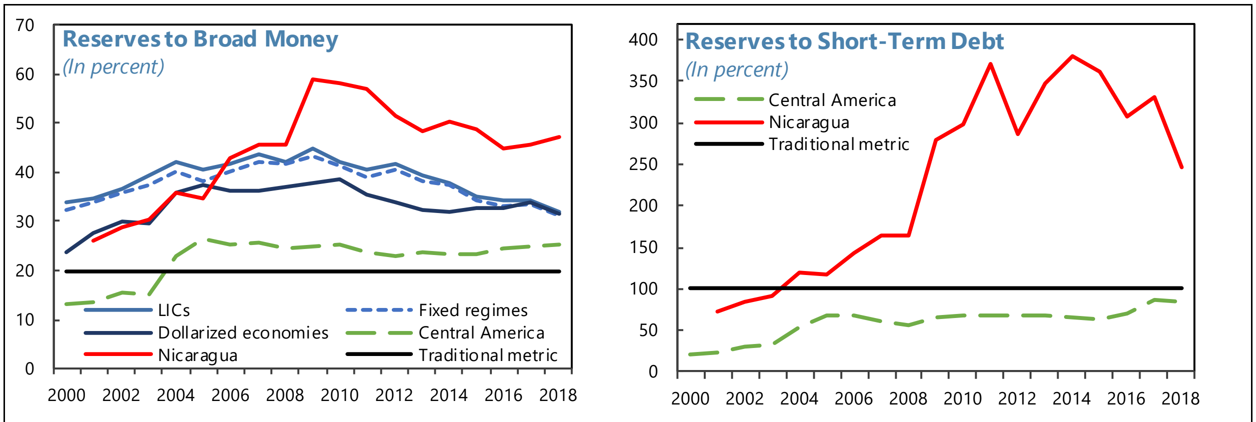
2. **Reserve adequacy needs to be balanced with the associated costs and benefits of holding reserves**. Standard rules-of thumb assesses international levels as appropriate if they cover above 3 months of non-maquila imports, more than 20 percent of broad money and at least 100 percent of short-term external debt. Although Nicaragua's international reserves are well above these traditional measures, past IMF advice has emphasized the need for additional buffers because of the country's crawling peg regime, the high level of dollarization and its high vulnerability to external shocks. To complement existing methodologies, the optimality of holding reserves could look at the costs of holding international reserves in terms of foregone alternative investment opportunities compared to the benefits in terms of precautionary motives. This means evaluating a function such to maximize the net benefit of holding reserves (NBR) Max $\mathrm{NB}R = -q.P(R,Z).\ C(R,Z) - r.R$, where q is the unconditional probability of a large shock event, P is the conditional probability of a crisis given a large shock event, C is the cost of a crisis, r is the marginal product of capital, and R is the optimal level of reserves. In this regression equation, optimal level of reserves is calibrated using the estimated conditional probability of a crisis in the event of external shocks *P(R,Z)* and real absorption loss *C(R,Z)*.[2]



Source: WEO

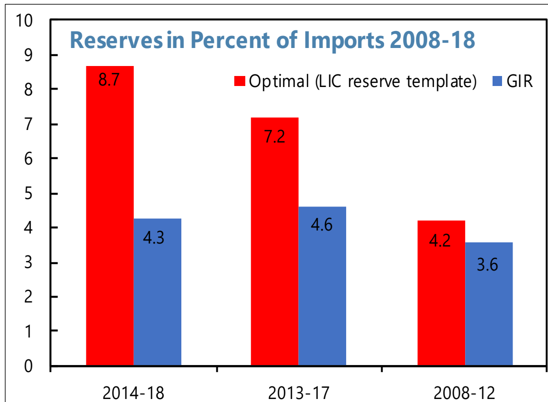
[1] 2016 IMF Guidance Note on the Assessment of Reserve Adequacy and Related Considerations (see https://www.imf.org/external/np/spr/ara/)

[2] For examples of other cases that use this methodology see IMF WP No. 11/249: "Optimal Precautionary Reserves for Low-Income Countries: A Cost-Benefit Analysis", Dabla-Norris, Kim and Shorono.



Source: WEO

3. Nicaragua's international reserve coverage could be increased. Under the IMF's suggested reserve adequacy metric for LICs applied to Nicaragua, the variables measuring the economic fundamental such as fiscal balance, institutional strength —as measured by the World Bank's Country Policy and Institutional Assessment (CPIA) score[3]— and exchange rate regime are set to the average of the last five years. Then the shock variables, represented by external demand, terms of trade, FDI flows, and aid flows are set equal to the bottom tenth-percentile of their historical observations over the last 5 years. Given these assumptions, the estimation to maximize the net benefit of holding reserves and assuming a cost of holding reserves equal to 4 percent, which is the estimated marginal product of capital in LIC peers [4], the adequate level of reserves results in an equivalent level of 8.7 months of non-maquila imports, much higher than the observed GIR coverage of 4.3 months during 2014–18.



Sources: National authorities and IMF staff calculations.

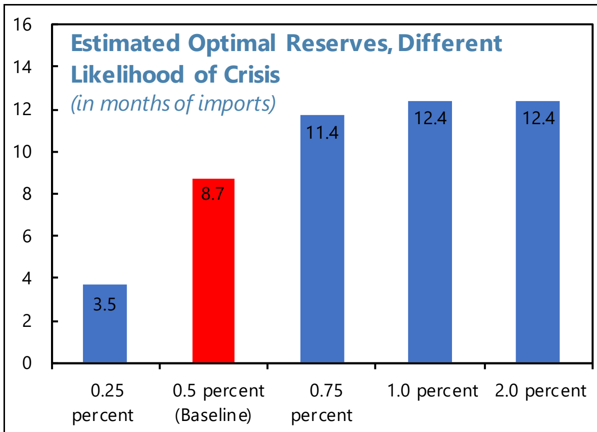
IMF ARA Metrics, 2019-23

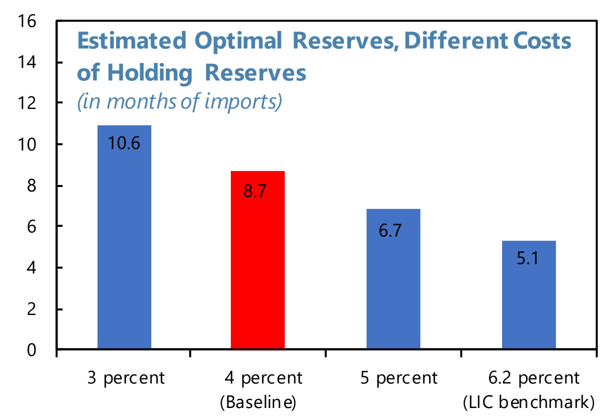
Fundamental variables	**2019-23 average**
Government balance, % GDP	-1.75
World Bank CPIA	3.57
Exchange rate regime	Fixed
External shock variables	**10th percentile of 2019-23**
External demand growth	-1.54
Terms of trade growth	1.11
Change in net FDI to GDP	-0.30
Change in foreign aid to GDP	-10.00

Sources: World Bank, WEO and IMF staff calculations.

[3] The World Bank CPIA score consists of 16 criteria grouped in four equally weighted clusters: Economic Management, Structural Policies, Policies for Social Inclusion and Equity, and Public Sector Management and Institutions. For each of the 16 criteria, countries are rated on a scale of 1 (low) to 6 (high).

[4] Average estimated marginal product of capital in Bolivia and Niger (2% and 6%, respectively) in 2005 reported in Lowe, Papageorgiou and Perez-Sebastian (2019).

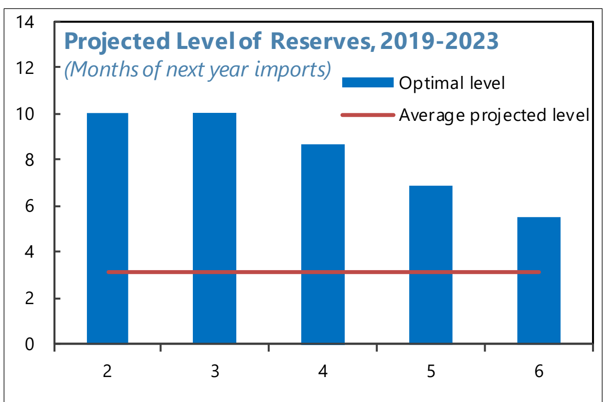




Source: National authorities and IMF staff calculations.

4. **Sensitivity analysis suggests targeting higher levels of international reserves for Nicaragua**. As a cost-benefit approach, the applied methodology is highly sensitive to (i) country- specific fundamentals (exchange rate regime, fiscal position, sources of financing, etc.); (ii) the probability of external shocks; and, (iii) the opportunity cost of holding reserves (proxied by marginal productivity of capital and of public investment). In the case of Nicaragua, the estimated levels of optimal reserves have varied over time and under different economic environments. For instance, the optimal reserve is estimated to reach up to 12.4 months of non-maquila imports when the probability of crises is above 1 percent, as self-insurance demand for external buffers increases, or decrease to 5 months of non-maquila imports when the opportunity cost of holding reserve increases to 6.2 percent.[5]

5. **Staff's baseline projections suggest that Nicaragua's optimal level of reserves should range between 5 and 10 months of non-maquila imports**. In a forward-looking approach, using projected variables for 2019–24 and considering several opportunity cost measures, the optimal reserve levels reach between 5 to 10 months of non-maquila imports.



Source: IMF Staff calculations.

IMF ARA Metrics, 2014–18

Fundamental variables	**2014-18 average**
Government balance, % GDP	-1.81
World Bank CPIA	3.57
Exchange rate regime	Fixed
External shock variables	**10th percentile of 2014-18**
External demand growth	-1.35
Terms of trade growth	-4.49
Change in net FDI to GDP	-0.55
Change in foreign aid to GDP	-2.24

Sources: World Bank, WEO and IMF staff calculations.

[5] When using Nicaragua's rate for social return investments of 8 percent as published by the National System of Public Investments (http://www.snip.gob.ni/Normativa/Preinversion), as a proxy for the marginal product of public capital or cost of holding reserves, the estimated optimal reserve falls to 3.7 months of non-maquila imports.

INTERNATIONAL MONETARY FUND

NICARAGUA

January 30, 2020

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Western Hemisphere Department
(in consultation with other departments)

CONTENTS

FUND RELATIONS

(As of December 31, 2019)

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

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	260.00	100.00
Fund holdings of currency (Exchange Rate)	227.51	87.50
Reserve Tranche Position	32.50	12.50
SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	124.54	100.00
Holdings	39.46	31.68
Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
ECF Arrangements	6.45	2.48

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

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

	2020	2021	2022	2023	2024
Principal	4.78	1.67			
Charges/Interest	0.64	0.63	0.63	0.63	0.63
Total	5.42	2.30	0.63	0.63	0.63

Implementation of HIPC Initiative:

	Enhance 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

[1] Formerly PRGF.

[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.

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): Not Applicable

Exchange Rate Arrangements:

Nicaragua's de jure and de facto exchange rate regime is classified as a crawling peg. The central bank buys/sells any amount of foreign currency from/to financial institutions at the official exchange rate. In November 2019, the monthly crawl has been reduced to an annual rate of 3 percent, from 5 percent since December 2004. As of December 31, 2019, the official exchange rate was C$33.8381 per U.S. dollar. Nicaragua has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions, except for an exchange restriction arising out of Nicaragua's participation in the SUCRE regional payments arrangement (Unitary System of Regional Compensation of Payments).

Article IV Consultation:

The previous consultation was completed by the Executive Board on June 22, 2017 (Country Report No. 17/173).

Safeguards Assessment:

An updated safeguard assessment of the Central Bank of Nicaragua (CBN) was completed in January 2009. The assessment noted continued progress at the BCN in the areas of International Financial Reporting Standards (IFRS) implementation and reserve management operations. Timely publication of the audited financial statements is in place in accordance with the safeguards policy. The 2018 financial statements were audited and published on the CBN's website, however, the external audit opinion continues to be qualified due to the uncertainty surrounding the valuation of government debt. Further, implementation of IFRS remains in progress.

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[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.

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.

Technical Assistance:

Nicaragua has received substantial technical assistance. The schedule below details assistance provided since June 2017.

Department	Purpose	Time of Delivery
	Fiscal	
CAPTAC	Improve management of declarations	November 2018, 2019
CAPTAC	Treasury single account	April 2017; March 2019
CAPTAC	Tax administration and audit	December 2018
CAPTAC	Strengthening the taxpayer's registry	June, October 2017, November 2018
CAPTAC	Treasury cash planning	April 2018
CAPTAC	Strengthening the VAT control	March 2018
CAPTAC	Adjust and Monitor the Strategic Plan for Tax Administration	February 2017, 2018
CAPTAC	Improve audit procedures	January, March 2017; February 2018
CAPTAC	Fiscal risks and financial programming	October 2017
	Monetary and Financial Sector	
CAPTAC	Credit risk supervision	April, May 2019, July, August 2017
CAPTAC	Securities market supervision	April 2019
CAPTAC	Supervision of financial instruments	February, April 2018; 2019
MCM	Financial Sector Stability Review	February 2019
CAPTAC	Systemic risk indicators and monitoring	May 2018
CAPTAC	FX Credit risk	November 2017; March 2018
CAPTAC	Financial supervision	December 2017
	Statistics	
CAPTAC	Annual and high frequency government finance statistics	June 2019
CAPTAC	Annual and high frequency public sector debt statistics	June 2019
CAPTAC	Coverage and sectorization – TA management	April 2019
STA/CAPTAC	Multisector Statistics	December 2018
CAPTAC	Change of reference year	August 2017; March 2018
CAPTAC	Strengthening of capacity development	December 2017
CAPTAC	Implementation strategy of statistics in public finances	November 2017
CAPTAC	Diagnostic mission of statistics in public finances	November 2017

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/nicaragua/

MAIN WEBSITES OF DATA

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

National accounts

Consumer price index

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/)

Fiscal accounts

Central government budget

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

Labor and employment

Household income and expenditure survey

Poverty and inequality

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

Balance sheets and income statements

Financial soundness indicators

STATISTICAL ISSUES

(As of December 31, 2019)

I. Assessment of Data Adequacy for Surveillance

General. Data provision is broadly adequate for surveillance but there are numerous data shortcomings in national accounts, fiscal, debt, and external sector statistics. Moreover, the timeliness in the release of statistical information has deteriorated. Further efforts are needed to improve source data in the real sector, particularly for tourism, manufacturing and retail; incorporate the results of the 2017/18 household survey in the national accounts; harmonize public sector debt with external sector debt data; monitor assets and liabilities of public enterprises; and improve coverage of FDI statistics.

National Accounts. The CBN disseminates national accounts (NA) series based on 2006. As part of this dataset the annual accounts by institutional sector for 2005-14 are disseminated, in accordance with the recommendations of the System of National Accounts 1993 (1993 SNA), and most relevant recommendations of the 2008 SNA for which source data are available. In March 2017, while releasing the 2016 NA data, the CBN had revised earlier years, specifically the 2010–13 data comprising number of refinements (i.e., update of trade and producer price indices, revised agricultural production, and, in particular, addressed discrepancies between NA and the balance of payments (BOP) trade data in the tax-free zones). Since December 2018, the economic surveys for national accounts are collected by the national statistical institute (INIDE).

Price and Labor Statistics. The consumer price index (CPI) uses expenditure weights derived from a 2006/07 household expenditure survey. The CPI covers Managua and eight other cities and is published monthly. Expenditures (weights) and prices in rural areas are excluded. From April 2017 to March 2018 a Household Income and Expenditure Survey was collected to update the period of reference of the current CPI, this survey covers only urban population.

The producer price index (PPI) (July 2006=100) covers a sample of small and medium-size establishments, as well as goods for processing establishments in the maquila sector. There is also scope for expanding the coverage of the PPI to the service sector. Since September 2018, the price quotations and compilation of the CPI and PPI moved from the CBN to INIDE, but the technical validation and dissemination of both indices remains as the CBN responsibility.

Labor market statistics are scarce and unemployment figures are available irregularly during the year.

Government Finance Statistics (GFS). Institutional coverage is not in line with international standards. The consolidated public sector does not cover central government extrabudgetary units, 152 out of 153 municipalities, and 5 out of 10 public nonfinancial corporations. Transactions are recorded mostly on a cash basis but with inconsistencies; for example, checks are recorded when issued rather than when they are cashed. The Ministry of Finance and Public Credit (MHCP) compiles fiscal statistics with a monthly frequency and submits them to the CBN for their inclusion into the CBN's quarterly reports on public finances which are disseminated on the CBN's website. These statistics are usually published with about a 5-week lag. Separately the MHCP produces its own quarterly report on budget execution. Annual financial statements of public enterprises are produced, but they are not externally audited or published. Data on the budgetary central government and social security institute are reported for publication in the GFS Yearbook.

The monitoring of fiscal performance: (i) is complicated by some idiosyncrasies in classifying/netting expenditure items in the budgetary central government, and (ii) needs significant improvement from the financing side. There is also a need to strengthen collaboration between the MHCP and the CBN to derive more accurate and timely estimates of external and domestic financing of the nonfinancial public sector, including the monitoring of domestic public debt transactions and stock positions in the nonfinancial public sector other than the ones of the budgetary central government. Some positive steps towards compiling statistics on the domestic debt of state-owned enterprises have been taken recently.

II. Assessment of Data Adequacy for Surveillance

Monetary and Financial Statistics. The CBN reports monthly monetary statistics for the central bank, other depository corporations, and other financial corporations based on the standardized report forms. These accord with the concepts and definitions of the *Monetary and Financial Statistics Manual 2000* (*MFSM 2000*). However, the lack of proper sectorization detract from the ability to accurately compile the net credit to central government and the rest of the nonfinancial public sector. The institutional coverage of other depository corporations currently includes commercial banks and finance companies. Data exclude the largest microfinance institution, Caja Rural Nacional (CARUNA), which accepts deposits, and saving and loans cooperatives. Other financial corporations comprise the Banco Produzcamos, most microfinance institutions, insurance corporations, and depository warehouses. The CBN reports the 12 core financial soundness indicators (FSIs) and seven encouraged FSIs for deposit takers with a quarterly frequency.

The CBN reports data on some key series and indicators of the Financial Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

External Sector Statistics. Since September 2013, the BOP statistics follow the concepts and definitions set out in the sixth edition of the *Balance of Payments Manual (BPM6),* within the limits set by the availability of information sources. Resident institutional units are defined in conformity with *BPM6*'s concepts of economic territory, residency, and center of economic interest. However, coverage of the private sector is incomplete for the current and financial accounts. The November 2019 TA mission corroborated that the CBN is in the process of revising the transactions and positions of FDI and reinvested earnings from private financial and non-financial companies with the information available. In addition, the series of manufacturing services are being revised historically applying a new methodology. However, the inclusion of these revisions into ESS may take longer than anticipated being the target date late 2020. Looking forward, the central bank also needs to cross check enterprise-by-enterprise trade flows, FDI and external debt to assess any discrepancies between merchandise trade and financial associated flows. These efforts will help to address in part the large errors and omissions in the balance of payments which hinder the assessment of the external sustainability. Preliminary work by the November 2019 TA mission estimate that if revisions are made to the historic series, the average decrease of errors and omission in the BOP during the 2012-2018 period could be around 25 percent of the current errors and omissions average of the same period.

Data Dissemination and Quality. Nicaragua participates in the enhanced General Data Dissemination System (e-GDDS) but has not yet launched a National Summary Data Page (NSDP). Data ROSC was published in December 2005.

Table 1. Nicaragua: Table of Common Indicators Required for Surveillance
(As of December 31, 2019)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:	
						Data Quality-Methodological Soundness[8]	Data Quality – Accuracy and Reliability[9]
Exchange Rates	08/31/2019	09/20/2019	M	M	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	10/31/2019	11/26/2019	M	M	M		
Reserve/Base Money	10/31/2019	11/26/2019	M	M	M		
Broad Money	09/30/2019	11/27/2019	M	M	M	O, LO, LO, LO	LO, O, LO, LO, LO
Central Bank Balance Sheet	10/31/2019	11/26/2019	M	M	M		
Consolidated Balance Sheet of the Banking System	09/30/2019	11/27/2019	M	M	M		
Interest Rates[2]	8/31/2019	11/20/2019	M	M	M		
Consumer Price Index	Feb. 2019	3/29/2019	M	M	M	O, LO, LO, LO	LO, LO, LO, O, LO
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	Dec. 2016	3/8/2017	M	M	M	LO, LNO, LNO, LO	LO, LO, LO, LO
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Dec. 2016	3/8/2017	M	M	M		O, O, O, O, O
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q1 2017	3/3/2017	Q	Q	Q		
External Current Account Balance	Q1 2019	7/26/2019	Q	Q	Q	LO, LO, LO, LNO	LO, LO, LO, LO, LNO
Exports and Imports of Goods and Services	Q1 2019	7/26/2019	Q	Q	Q	LO, LO, LO, LNO	LO, LO, LO, LO, LNO
GDP/GNP	2018	12/31/2019	A	A	Q	O, O, O, LO	LO, O, LO, O, LNO
Gross External Debt	Q4 2016	4/7/2017	M	M	M		
International Investment Position[6]	Q1 2019	07/26/2019	Q	Q	Q		

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

INTERNATIONAL MONETARY FUND

NICARAGUA

January 30, 2020

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

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Prepared by staff of the International Monetary Fund and the World Bank.

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

Under the updated LIC debt sustainability assessment framework, Nicaragua's risk of external debt distress is assessed as moderate with limited space to absorb shocks. Over the 10-year projection horizon, all external debt burden indicators under the baseline scenario remain below the threshold, but the present value (PV) of public and publicly guaranteed debt (PPG) external debt-to-GDP ratio breaches the threshold under three standardized stress scenarios: an export contraction shock, a depreciation shock and a combination of external shocks; and the realization of a contingent liability tailored shock related to the external cooperation with Venezuela. The overall risk of public debt distress is also assessed as moderate. The PV of public debt-to-GDP ratio is projected to be below the threshold under the baseline scenario, but it is projected to surpass the threshold under most standardized stress scenarios, notably lower GDP growth, and realization of contingent liability shocks. Therefore, strengthening both external and fiscal buffers is highly desirable.

PUBLIC DEBT COVERAGE

1. **Nicaragua's debt statistics are reported at the consolidated public sector (CPS) level.** The public debt definition used in this debt sustainability analysis (DSA) covers the consolidated debt of the budgetary central government, decentralized entities, the state-owned enterprises guaranteed debt, and the Central Bank of Nicaragua (CBN) (Text Table 1).[1,2] Consistent with previous DSAs in 2013, 2015 and 2017, this DSA assumes the delivery of expected Heavily Indebted Poor Countries (HIPC) debt relief by Non-Paris club creditors that have yet to deliver it (see Paragraph 5).

2. **The DSA is conducted on a residency basis.** Pursuant to the LIC DSF Guidance Note, foreign holdings of local currency debt issued domestically are now treated as external debt because servicing and repaying this debt requires net resource transfers abroad. In the case of Nicaragua, there are no foreign holdings of local currency debt issued domestically as in the 2017 DSA.

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

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	X
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	

	The country's coverage of public debt	The central government plus social security, central bank, government-guaranteed debt			
		Default		Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0	percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	2.0	
4	PPP	35	percent of PPP stock	1.6	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)			8.6	

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

Sources: National authorities and IMF staff calculations.

BACKGROUND ON DEBT

3. **The deterioration in the economic outlook, compared to the 2017 DSA (Text Table 2), resulted in an increase in the debt trajectory.** In particular, the stock of public debt increased by 3.6 percentage points in 2018, to 47.8 percent of GDP (Text Table 2). Social unrest in 2018 caused a sharp contraction in real GDP that widened the fiscal primary deficit and resulted in higher debt-to-GDP ratio.

[1] The CBN holds non-Paris Club official external debt which amounts to around US$350 million as of December 2018. There is no non-guaranteed state-owned-enterprises' (SOE) debt recorded in Nicaragua.

[2] For 2016 it includes partial data on the domestic debt of SOEs, the Municipality of Managua, and other municipalities for which debt data is available. Estimates for 2017 onwards are based on the 2016 amortization schedule, and an assumption of new domestic financing by domestic suppliers. Debt data on extra budgetary funds, non-guaranteed state-owned enterprises, and debt of all state and local governments is not available, therefore these components of the contingent liabilities are at the LIC-DSF default values. The authorities intend to strengthen their capabilities to widen the coverage of debt reporting and monitoring. In the tailored shock scenarios, contingent liability shock is set as 8.6 percent of GDP in 2020.

About 80 percent of public debt is owned to external creditors (US$4.9 billion), of which 85 percent is owed by the Non-Financial Public Sector (NFPS), and 15 percent by the CBN. Domestic PPG debt amounts to 9.7 percent of GDP, of which 75 percent is owed by the NFPS.

4. **External PPG debt reached 38.1 percent of GDP in 2018.** All PPG external debt is placed in medium and long-term instruments. About 70 percent of PPG external debt is held by multilaterals, with the largest being the Inter-American Development Bank (IaDB), followed by the Central American Bank for Economic Integration (CABEI). Nicaragua is eligible for blended loans from both the IaDB and CABEI. In the IaDB's case, 25 percent of new funding is on a highly concessional basis and 75 percent carries a low but market-linked adjustable rate.

5. **There is a large stock of debt to non-Paris Club creditors which is still pending debt relief under the HIPC Initiative—the Decision Point and Completion Point were reached in December 2000 and January 2004, respectively.** In this report the debt stock has already been adjusted downwards to incorporate total expected debt relief amounts to about US$740 million as of December 2018. This debt corresponds to debt of the CBN. All five non-Paris Club creditors have held negotiations with the authorities on the terms of possible debt relief agreements. The negotiation process has not been completed due to delays in the debt-reconciliation process.

Text Table 2. Nicaragua: Public and Private Debt

	Current DSA			DSA 2017		
	2016	2017	2018	2016	2017	2018
	(in percent of GDP)			(in percent of GDP)		
Public sector debt	**41.7**	**44.2**	**47.8**	**41.9**	**41.5**	**40.0**
Public sector debt external debt (incl. guarantees)	**32.2**	**34.8**	**38.1**	**32.4**	**33.5**	**34.2**
Medium and long-term debt	32.2	34.7	38.1	32.4	33.5	34.2
Short-term debt	0.0	0.0	0.0	0.0	0.0	0.0
Public sector domestic debt	**9.5**	**9.4**	**9.7**	**9.5**	**8.0**	**5.8**
Medium and long-term debt	7.5	8.1	8.1	7.8	7.3	5.6
Short-term debt	1.9	1.4	1.6	1.7	0.7	0.2
Private sector debt	**45.2**	**43.4**	**43.9**	**44.8**	**42.6**	**39.9**

	Current DSA
	2018
	(in percent of PPG external debt)
Public sector debt external debt (incl. guarantees)	**100.0**
Multilateral	**69.6**
IaDB	33.9
CABEI	17.1
World Bank	10.5
IMF	3.3
Others	4.8
Bilateral	**29.6**
Central America	16.7
Paris Club	3.2
Others	9.7
Others	**0.8**

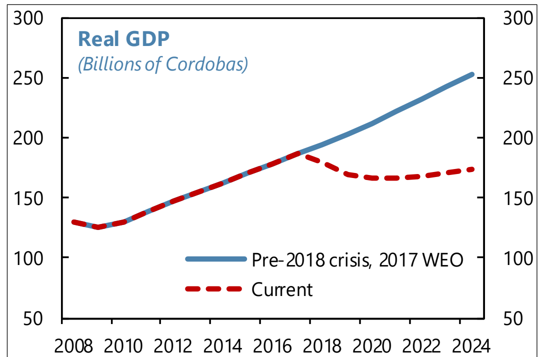
Sources: National authorities and IMF staff calculations.

6. **Public domestic debt stood at 9.7 percent of GDP in 2018.** On maturity terms, 83 percent of public domestic debt is in medium and long term, and 17 percent is in short term. On composition, the NFPS debt accounts for 75 percent, and the CBN debt accounts for 25 percent.

7. Private external debt reached 43.9 percent of GDP in 2018. Private external debt rose by about 8 percent of GDP between 2010 and 2013, when the flows from the oil-cooperation agreement with Venezuela —debt held by private company ALBANISA—were at their peak. Since 2013, it has been declining gradually to 43.4 percent of GDP in 2017, while it rebounded slightly to 43.9 percent of GDP in 2018 due to the sharp contraction in real GDP.

MACROECONOMIC ASSUMPTIONS

8. The economic outlook has deteriorated significantly, compared to the 2017 DSA (Text Table 3). Real GDP contracted by -3.8 percent in 2018 and is projected to decline by -5.7 percent in 2019. Long term growth is estimated to have declined to 3 percent from a previous level of 4.5 percent (estimated in mid-2017).[3] During 2020-21, the sharp contraction in credit, limited external financing, weak FDI, and lower private portfolio flows will continue to depress investment, thus limiting recovery prospects. Subsequently, rising labor productivity and more credit availability is projected to increase exports, and private investment, fostering labor demand and private consumption, increasing real GDP growth gradually to 1.7 percent over the medium term and further to 3 percent over the long term. Tight external financing will continue to constrain public investment over 2020-24. Inflation—measured by the GDP deflator in US dollar term—is subdued to around -1.5 percent in 2018 and is assumed to remain between 0.5 and 1.4 percent over the medium term and recover to 2.3 percent over the long term. The baseline scenario assumes the current crawling peg exchange rate regime is maintained.



Sources: National authorities and IMF staff calculations.

Text Table 3. Nicaragua: Medium-Term Macroeconomic Framework

	2017	2018 Prel.	2019	2020	2021 Proj.	2022	2023	2024
Growth and prices				(Percent)				
GDP growth	4.7	-3.8	-5.7	-1.2	0.0	0.8	1.4	1.7
Consumer price inflation (e.o.p.)	5.7	3.9	6.4	5.0	4.4	3.9	3.5	3.6
Non-financial public sector				(Percent of GDP)				
Revenue	29.2	27.6	30.6	30.0	30.3	30.4	30.4	30.4
Expenditure	31.4	31.7	32.7	32.5	33.4	33.6	33.7	33.5
Overall balance, after grants	-2.2	-4.1	-2.0	-2.6	-3.1	-3.2	-3.3	-3.1
Public sector debt	44.2	47.8	51.0	52.5	55.0	57.8	60.9	63.7
Balance of payments								
Current account (% of GDP)	-4.9	0.6	1.5	1.1	0.8	0.3	0.0	-0.5
Gross reserves (US$million)	2,593	2,080	2,071	2,016	2,047	2,108	2,161	2,272
In months of non-maquila imports	5.3	4.8	4.9	4.8	4.7	4.8	4.7	4.7
NIR (US$million)	1,802	1,146	1,321	1,377	1,450	1,539	1,620	1,722

Sources: National authorities and IMF staff calculations.

[3] The long-term growth projection is based on a growth accounting exercise, using a neoclassical production function with a labor share of 72 percent, assuming a growth rate of labor of 1.3 percent, capital of 1.8 percent and TFP growth of zero percent. The real growth of 3 percent also corresponds to the average observed rate over 2000-10.

9. The external position is expected to strengthen gradually over the medium term. The external financing is projected to remain below historical levels; however, the current account remains in surplus until 2023, and external financing is more than required to finance the small current account deficit in 2024.

- **The economic contraction resulted in a current account surplus in 2018 and 2019 (from a deficit of 4.9 percent of GDP in 2017).** This responds to a significant import compression, a sharp contraction in tourism receipts, and a steady inflow of remittances. Over the medium term, the current account is projected to deteriorate gradually to –0.5 percent of GDP due to recovery of non-maquila imports.

- **FDI inflows contracted to 2.2 percent of GDP in 2018 and are projected to stay low at 2.5 percent of GDP in 2019,** because of a deterioration in the business climate associated to heightened political uncertainly. Over the medium term FDI inflows are projected to increase slightly to 2.8 percent of GDP, much lower than in the recent past.

- **Gross external borrowing by the public sector declined to 1.9 percent of GDP in 2018 and is assumed to stay low at 2.4 percent of GDP in 2019.** Over the medium term gross external borrowing is assumed to be subdued at 2.0–2.3 percent of GDP mostly because of international sanctions [4].

10. On the fiscal side:

- **The fiscal primary deficit widened in 2018, but the implementation of a fiscal policy reform package led to a marked improvement in 2019**. Facing declining revenues, the government adopted a fiscal package of tax and pension reforms in March 2019 (Text Table 4) which, despite some erosion in the tax base and declining economic activity, are projected to yield about 4.2 percentage points of GDP. Net external financing of the NFPS declined by 1.3 percentage points of GDP in 2018 (to 1.9 percent of GDP) but is projected to improve to 2.4 percent of GDP in 2019 (driven by an increase in financing from CABEI).

- **Staff projects a gradual deterioration of the fiscal position over 2020-24.** An increase in the primary deficit will be driven by:

    - A projected decline in tax revenues in 2020 responding to the economic contraction projected that year, coupled by weaker corporate profits. A modest increase in revenue collection is projected for 2021-24 as economic activity gradually improves.

    - Higher expenditures to finance persistent deficits of the Nicaraguan Institute of Social Security (INSS), which is assumed to receive less contributions because of modest growth in formal employment.

    - Consistent with the authorities' commitment to maintain fiscal prudence in line with available financing, which is much lower than in the 2017 DSA, the baseline scenario

[4] In December 2018, the U.S. government enacted the Nicaragua Human Rights and Anticorruption Act, which severely restricts external funding to Nicaragua. In June 2019, Canada followed suit imposing sanctions on targeted Nicaraguan nationals. In October, the European Council established a framework enabling the EU to impose targeted sanctions.

implies a reduction in expenditures over 2025-27 (and maintained thereafter). This adjustment, equivalent to about 2 percentage points cumulative over three years, is assumed to take the form of reduced current expenditures and its impact is already incorporated as one of the determinants of the protracted medium-term growth recovery.

Text Table 4. Nicaragua: Selected Fiscal Policy Decisions Since April 2018

Measures	Date	Description	Proj. Yield (% of GDP)
2018 Budget Revision	Aug-2018	Decrease expenditures (ow/70% capital)	1.4
Tax Policy	Mar-2019		2.7
Increased min. corporate income tax		From 1% to either 2% or 3% of gross sales	1.5
Eliminated VAT exemptions		On selected consumption goods	0.4
Increased excises		- Including on alcoholic drinks & tobacco	0.8
Eliminated import exemptions (DAI)	Jul-2019	On 16 consumption products that were exempt from import tariffs since 2008	...
Pension Reform	Mar-2019	Total	1.5
Increase pension contributions		-Employers by 2.5 ppts. (small firms) and by 3.5 ppts. (other firms)	...
		-Employees by 0.75 ppts, by 4 ppts self-employed	...
Increased gov. health contrib.		By 1.5 ppts.	...
Reduced replacement rate		To 70% (from 80% previously)	...
Decrease min. pension **(not implemented)**		To 75% of min. wage	...
Increase contrib. required for reduced pensions **(not implemented)**		From 250 to 500 weeks	...
Public Wage Freeze	Aug-2019	Frozen until Feb-2020	0.3
Indexation of Pensions	Oct-2019	Reduction from 5% to 3%	...

Sources: National authorities and IMF staff calculations.

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

	2020		2021-24 Avg		2025-35 Avg	
	Previous DSA	Current DSA	Previous DSA	Current DSA	Previous DSA	Current DSA
Real GDP (annual percentage change)	4.5	-1.2	4.5	1.0	4.5	2.8
Consumer prices (period average)	7.3	5.0	7.2	3.8	7.1	3.6
	(in percent of GDP)					
Total revenue and grants	28.5	30.3	28.2	30.7	28.2	30.5
Of which: Revenue	27.8	29.7	27.6	29.9	27.5	29.7
Total expenditure	30.3	33.1	30.9	34.2	32.3	32.1
Of which: Capital expenditure	7.2	6.2	7.2	6.3	7.2	5.9
Overall balance	-1.7	-2.7	-2.7	-3.5	-4.1	-1.5
Current account balance	-8.6	1.1	-8.8	0.1	-9.0	-1.9
Exports of goods and services	36.6	43.4	36.2	45.0	36.1	46.1
Imports of goods and services (excl. maquilla)	47.4	41.3	47.0	40.8	47.0	43.6

Sources: National authorities; and IMF staff calculations.

Sources: National authorities and IMF staff calculations.

11. On financing mix, the new external financing share is projected to account for about 51 percent over the medium term but decline over the long term (to about 36 percent). Of external financing, concessional financing is projected to account for about 14 percent of total financing over medium term and 11 percent over long term. Under current conditions, international sanctions were applied to Nicaragua in 2018, limiting the amount of new multilateral external financing available, but there is a possibility the authorities could access non-concessional financing sources.

12. **The baseline assumptions are credible.** Realism tools suggest significant deviations from recent experience of LICs and Nicaragua's historical experience, reflecting the impact of the recent social unrest on the economy.

- **Drivers of debt dynamics (Figure 3).** Changes between the sum of debt dynamics contributions of 2014–18 against 2019–23, reflect the impact of expected negative GDP growth. In the recent past, strong GDP growth helped to lower external and public debt-to-GDP ratios, but these ratios will increase with the contraction in GDP projected for 2019–23. Moreover, a projected improvement in the current account and a contraction in FDI for 2019–23 will contribute to a lower external debt-to-GDP ratio. Unexpected changes to external PPG debt have been moderate (although with significant unexplained residuals), while unexpected changes to public debt have been high, particularly due to higher than projected primary deficits and lower GDP growth. Projections for external PPG debt dynamics are upward-sloping because the impact of both, GDP growth contraction and rising nominal interest rates, dominate improvements in the current account.

- **Realism of projected fiscal adjustment (Figure 4).** The baseline projected fiscal adjustment of 0.9 percent of GDP over three years is below the top quartile for LICs. However, the current baseline reflects important measures that authorities adopted in 2019, including tax and pension reforms in last February. The baseline fiscal projections reflect the staff's estimates of a 4.2 percentage points of GDP yield from the tax and pension reforms. The projected impact of these reforms was somewhat offset in 2019 by the impact of the GDP contraction.

- **Consistency between fiscal adjustment and growth (Figure 4).** The projected growth path for 2019 deviates from the multiplier-based projections owing to the negative impact of a sharp decline in bank credit to the private sector. A faster economic recovery than suggested by the fiscal multiplier in 2020 reflects a return to positive growth in bank credit to the private sector, and an assumed stabilization of activity in most sectors of production albeit at a much-reduced level of activity.

- **Consistency between public investment and growth (Figure 4).** The tool shows a lower contribution of public investment to growth in the current DSA than that in the 2017 DSA owing to the expected adjustment in public investment from an average of 6.8 percent of GDP during 2015-18, to a projected 6.2 percent of GDP over 2019–24.

COUNTRY CLASSIFICATION AND STRESS TESTS

13. **Nicaragua's debt-carrying capacity under the Composite Indicator (CI) rating of 2.94 is assessed as medium, unchanged from the 2017 DSA (Text Table 6).** CI rating is computed based on October 2019 IMF WEO and the World Bank's 2018 CPIA. The 2018 CPIA score of 3.5 —has been lowered

from the 2017 DSA—contributes a large portion of the CI score.[5,6] Accordingly, the relevant indicative threshold for the medium category are 40 percent for the PV of debt-to-GDP ratio, 180 percent for the PV of debt-to-exports ratio, 15 percent for the debt service-to-exports ratio, and 18 percent for the debt service-to-revenue ratio, respectively (Text Table 7). These thresholds are applicable to the public and publicly guaranteed external debt. The benchmark for the PV of total public debt under medium debt carrying capacity is 55 percent.

Text Table 7. Nicaragua: Public and Publicly Guaranteed (PPG) External Debt Thresholds and Total Public Debt Benchmarks

EXTERNAL debt burden thresholds	Weak	Medium	Strong
PV of debt in % of			
Exports	140	180	240
GDP	30	40	55
Debt service in % of			
Exports	10	15	21
Revenue	14	18	23

TOTAL public debt benchmark	Weak	Medium	Strong
PV of total public debt in percent of GDP	35	55	70

Sources: National authorities and IMF staff calculations.

- **As in 2017 DSA, a customized scenario explores the risk of the ALBANISA contingent liability over the short term.** The scenario assumes the absorption of the private debt to Venezuela by the end-2021, equivalent to an increase in public debt of 22.2 percentage points of GDP (US$2.5 billion), which corresponds to the total projected ALBANISA's debt to Venezuela in 2021.[7] It is assumed that 50 percent of this is financed externally and 50 percent is financed domestically. PPG external debt is projected to increase by 10 percent in 2021. Other macro assumptions remain unchanged from the baseline scenario.

Text Table 6. Nicaragua: Calculation of the Composite Indicator

Components	2016	2017	2018	(A) 10-yr average	(B) Weights	(C) = (A)*(B) 10-yr average	(C) = (A)*(B) Contribution of components
CPIA	3.68	3.62	3.51	3.58	0.385	1.38	47%
Real growth rate (in percent)	4.56	4.68	-3.82	1.05	2.719	0.03	1%
Import coverage of reserves (in percent)	32.27	35.06	31.67	29.30	4.052	1.19	40%
Import coverage of reserves^2 (in percent)	10.41	12.29	10.03	8.58	-3.990	-0.34	-12%
Remittances (in percent)	9.51	10.05	11.44	10.80	2.022	0.22	7%
World economic growth (in percent)	3.39	3.81	3.60	3.50	13.520	0.47	16%
CI Score						2.94	100%

Sources: National authorities and IMF staff calculations.

[5] As in the previous DSF, we use the updated three-year moving average CPIA rating.

[6] 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).

[7] In the baseline scenario, the private debt to Venezuela is projected to be amortized by a cumulative 1.6 percent of GDP over the medium term, and the stock is projected to decrease gradually to 15½ percent of GDP in 2024.

DEBT SUSTAINABILITY

A. External Debt Sustainability Analysis

14. The evolution of external debt in the baseline scenario is relatively benign. PPG external debt is expected to increase gradually to 47 percent of GDP over the medium term and be stable over the long term to around 40.4 percent of GDP in 2039 (Table 1) (similar to the 2017 DSA). The present value of PPG external debt will rise from 27 percent to 34 percent of GDP over the 10-year projection term and remain well under the threshold of 40 percent (Table 3 and Figure 1). A similar path—a slight increase but still under the threshold—can be observed for other solvency (PV of external debt-to-exports from 67 percent) and liquidity indicators (debt service-to-exports and debt service-to-revenue from 5 percent and 7 percent, respectively) (Figure 1). These dynamics are driven by slow recovery in GDP growth over the medium term. At the same time, private external debt is projected to decline as the debt owed to Venezuela is paid down.

15. Three of the standardized stress scenarios exhibit a continuous breach of the threshold for PV of external PPG debt-to-GDP ratio (Table 3 and Figure 1) as in the 2017 DSA.[8] This includes the shock of one-time decline in either exports —baseline projections minus one standard deviation— or depreciation or a combination of external shocks in 2019. These three scenarios are relevant given the contraction in FDI, the continued decline in exports, and higher capital outflows.

16. The ALBANISA contingent liability scenario also shows a minor breach of the threshold for external PPG debt-to-GDP ratio (Table 3 and Figure 1). Under this scenario, the PV of external PPG debt-to-GDP ratio increased from 29 percent in 2020 to 38 percent in 2021, which would marginally breach the PV of external public debt threshold over the medium term.

B. Public Sector Debt Sustainability Analysis

17. In the baseline scenario, public debt is projected to increase to 59.2 percent of GDP by 2039 (Table 2). External PPG debt is projected to be stable around 40.4 percent of GDP over the long run. Domestic public debt is projected to decline initially in 2019 as legacy debt is paid down, and then to rise again due to the issuance of new debt to cover pension and healthcare obligations of INSS. Domestic public debt is projected to increase by 19 percent of GDP over the long run. The increase in public debt responds to a decline in the primary balance and the increase in the average interest rate. Under the baseline scenario there is no breach of the PV of public debt benchmark of 55 percent of GDP while PV of public debt is gradually approaching to the benchmark. Other solvency and liquidity indicators (PV of debt-to-revenues and debt service-to-revenue) also show a gradual increase over the medium term (reaching 165 percent and 19 percent, respectively). The increase in debt service-to-revenue driven by an increase in public domestic and external interest payments would reduce fiscal space over the projection period. The increasing interest rate responds to shift to domestic debt issuance, which has a market-determined rate of interest, as well as a gradual decline to concessional resources.

[8] We apply tailored shock scenarios—contingent liability, natural disaster and commodity price shocks—to Nicaragua and find a breach under contingent liability and natural disaster shock scenarios (Table 3).

18. The standardized shock scenarios demonstrate the sensitivity of public debt to shocks in real GDP growth (Table 4 and Figure 2).[9] Threshold beaches occur under most standardized shock scenarios. Most notably the shock scenario with largest impact on debt-to-GDP ratios by 2029 is a contraction of GDP by 4.9 and 3.7 percent in 2020 and 2021, respectively (Table 4). The primary balance scenario also demonstrates that the public debt path is sensitive to possible deviations from the baseline assumptions.

19. The ALBANISA contingent liability scenario described in the discussion of external debt sustainability is also applied to the public DSA. An absorption of ALBANISA's debt to Venezuela would increase the public debt-to-GDP ratio from 52.8 percent in 2020 to 76.1 percent in 2021 and breach the PV public debt benchmark over the medium term.

RISK RATING AND VULNERABILITIES

20. Nicaragua remains at a moderate risk of external debt distress with limited space to absorb shocks (no judgement was applied). Under the baseline scenario, all external debt burden indicators remain below the threshold over the 10-year projection horizon. However, under the stress scenario of export shocks, the PV of PPG external debt-to-GDP ratio threshold is breached continuously over the projection horizon. Similarly, under the ALBANISA contingent liability scenario, the PV of PPG external debt-to-GDP ratio threshold is breached marginally. These highlight the vulnerability of external PPG debt to external shocks and continent liability risk of the private debt from Venezuela and call for the need to strengthen external buffers.

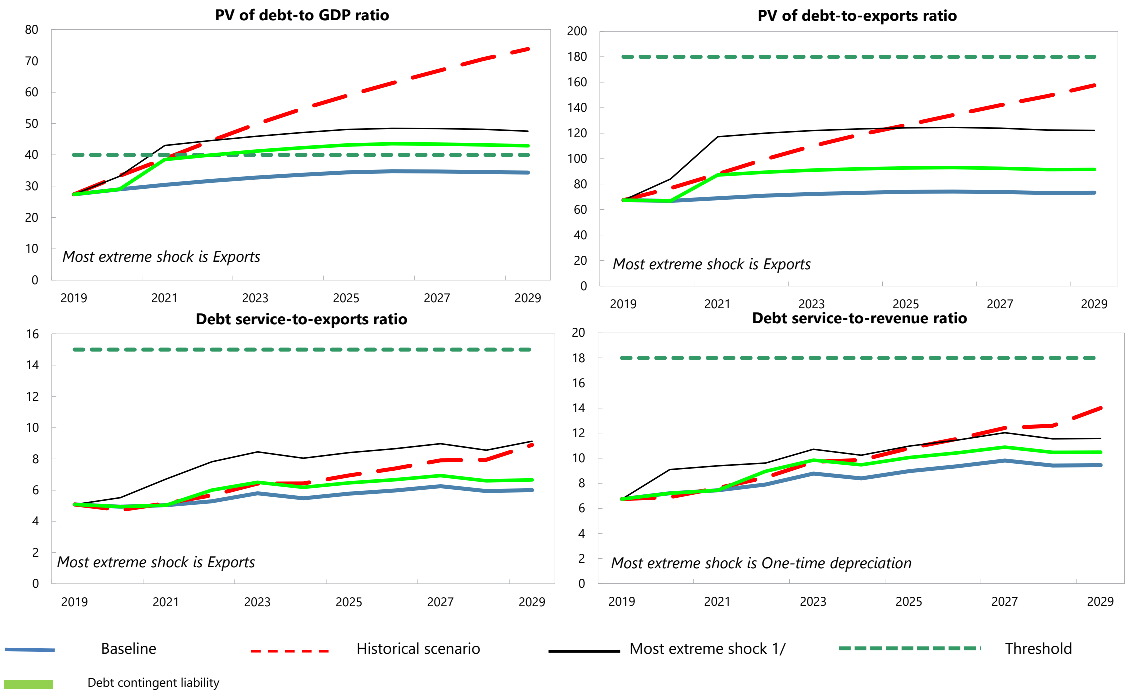
21. Public debt in Nicaragua is also assessed to be at a moderate risk of debt distress. Under the baseline, PV of public debt-to-GDP ratio is projected to remain below the threshold over the 10-year projection horizon. However, under the stress scenario of growth shocks in 2020–21—in addition to projected GDP contraction of 5.7 percent in 2019 in the baseline—the PV of public debt-to-GDP ratio is projected to be on an upward trajectory and above the threshold over the projection horizon. Similarly, under the ALBANISA contingent liability scenario, the PV of public debt-to-GDP ratio is projected to be above the threshold over the projection horizon.

AUTHORITIES' VIEWS

22. The authorities broadly agreed with the debt sustainability analysis and the assessment. On external debt, the authorities also agreed that external debt is vulnerable to external shocks and contingent liability shocks. On public debt, the authorities project lower domestic debt accumulation over the long term, but concurred on the vulnerability of public debt to growth shocks and contingent liability shocks. The authorities are also of the view that strengthening both external and fiscal buffers is desirable over the long term.

[9] We apply tailored shock scenarios—contingent liability, natural disaster and commodity price shocks—to Nicaragua and find a breach under contingent liability, natural disaster and commodity price shock scenarios (Table 4).

Figure 1. Nicaragua: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2019-29



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

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

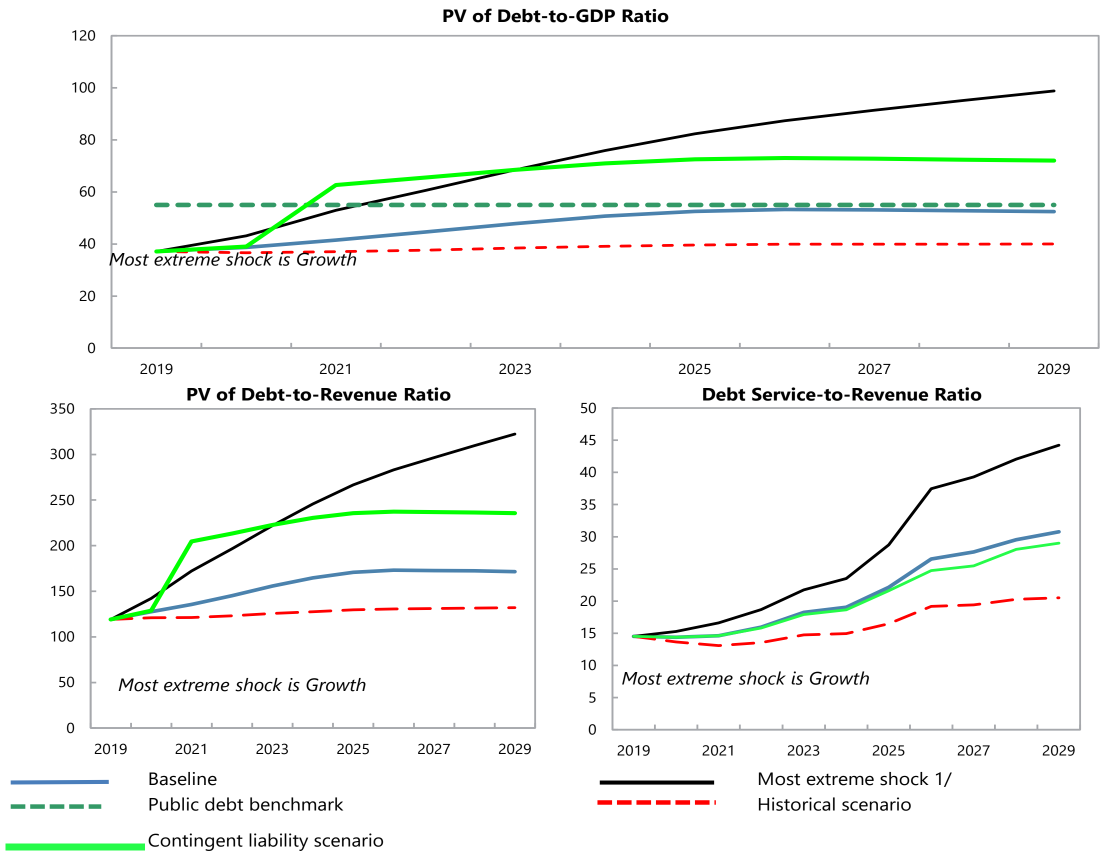
Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	3.2%	3.2%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	26	26
Avg. grace period	8	8

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

Sources: National authorities and IMF staff calculations.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

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

Figure 2. Nicaragua: Indicators of Public Debt Under Alternative Scenarios, 2019-29



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	50%	50%
Domestic medium and long-term	50%	50%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	3.2%	3.2%
Avg. maturity (incl. grace period)	26	26
Avg. grace period	8	8
Domestic MLT debt		
Avg. real interest rate on new borrowing	2.3%	2.3%
Avg. maturity (incl. grace period)	5	5
Avg. grace period	4	4
Domestic short-term debt		
Avg. real interest rate	0.0%	0.0%

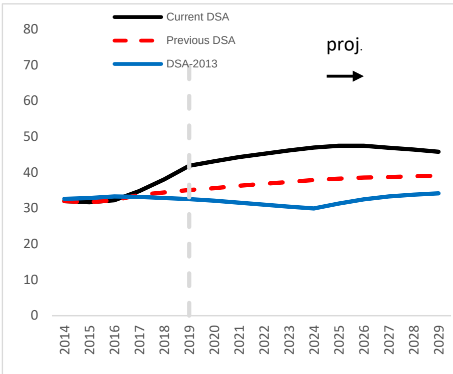
* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: National authorities and IMF staff calculations.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. 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.

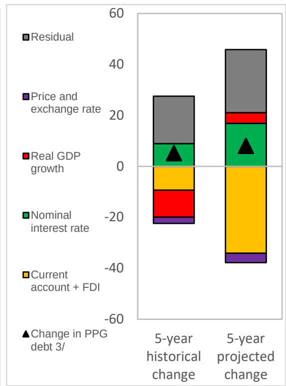
Figure 3. Nicaragua: Drivers of Debt Dynamics – Baseline Scenario External Debt

External debt

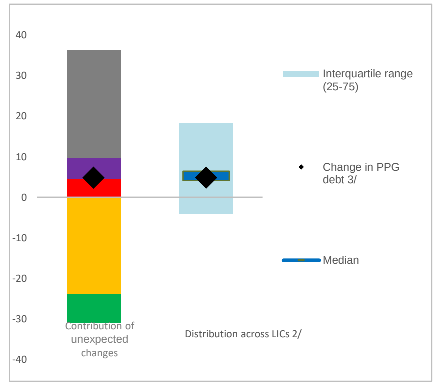
Gross Nominal PPG External Debt
(in percent of GDP; DSA vintages)



Debt-creating flows
(percent of GDP)

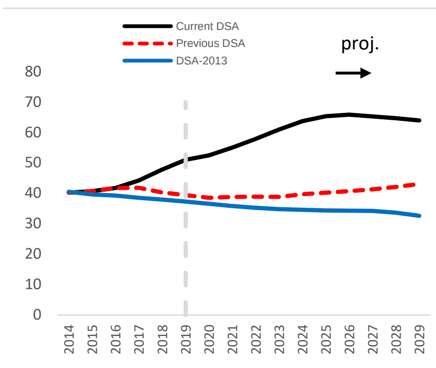


Unexpected Changes in Debt 1/
(past 5 years, percent of GDP)

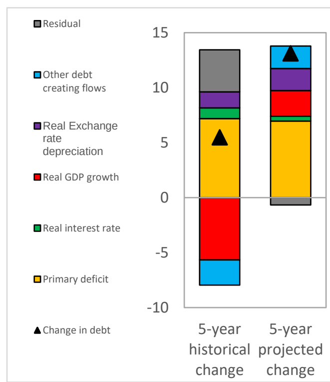


Public debt

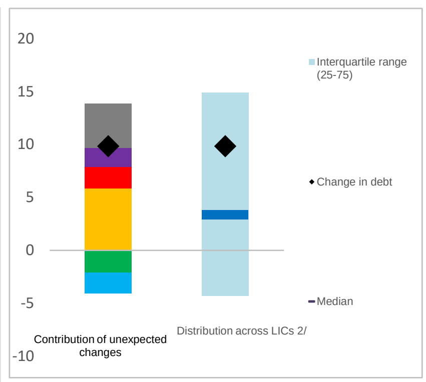
Gross Nominal Public Debt
(in percent of GDP; DSA vintages)



Debt-creating flows
(percent of GDP)



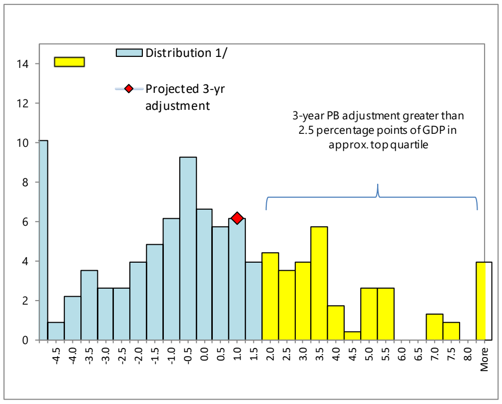
Unexpected Changes in Debt 1/
(past 5 years, percent of GDP)



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

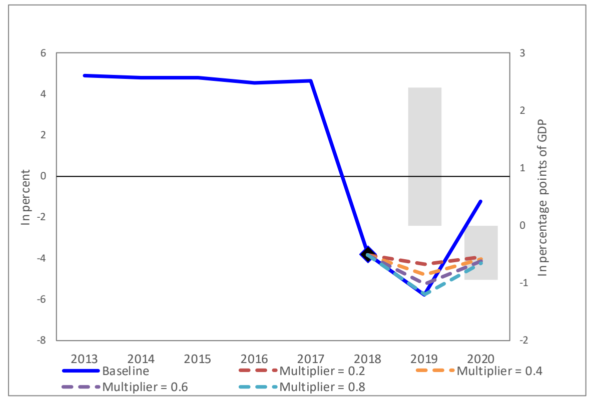
Figure 4. Nicaragua: Realism Tool

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



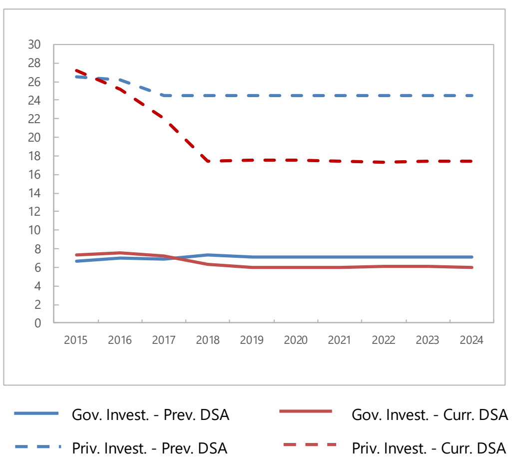
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/
(percent and percentage points of GDP)

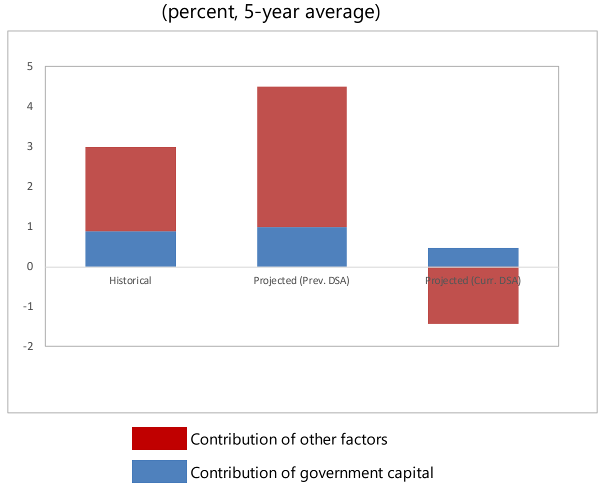


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)

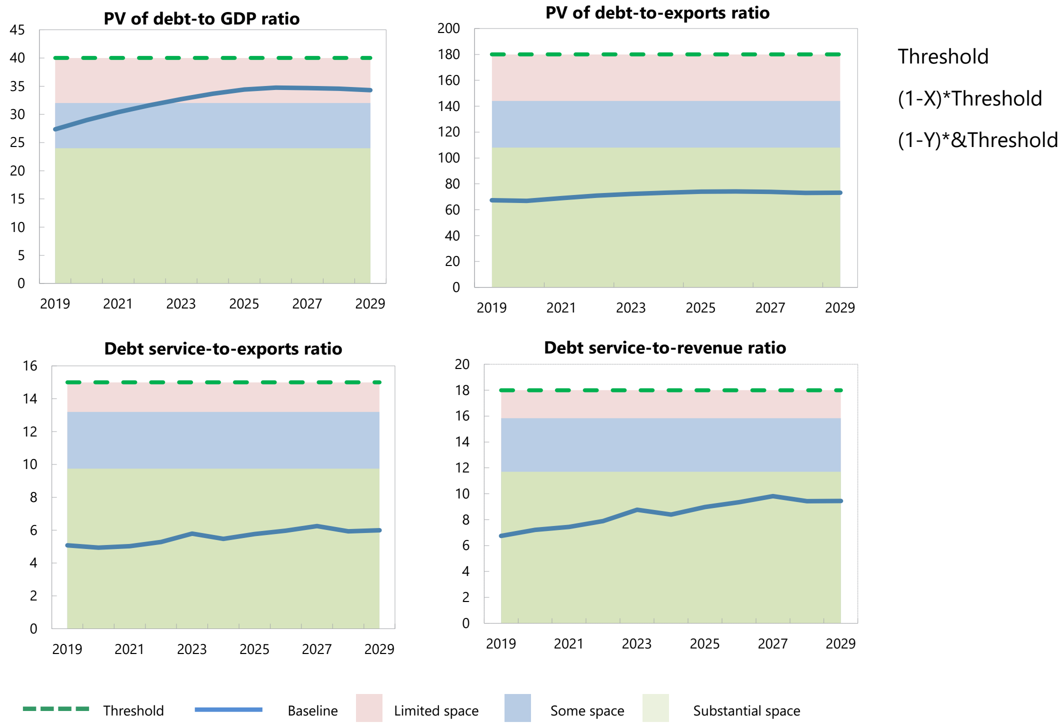


Contribution to Real GDP growth
(percent, 5-year average)



Sources: National authorities and IMF staff calculations.

Figure 5. Nicaragua: Qualification of the Moderate Category 1/



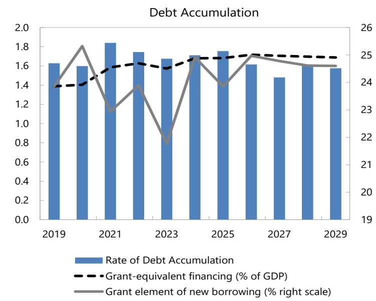
Sources: National authorities and IMF staff calculations.
1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

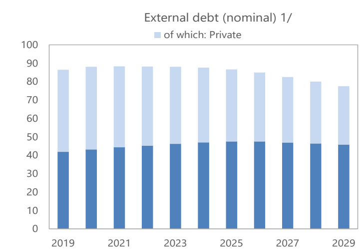
Table 1. Nicaragua: External Debt Sustainability Framework, Baseline Scenario, 2016–39

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
External debt (nominal) 1/	**77.5**	**78.1**	**81.9**	**86.5**	**88.1**	**88.3**	**88.2**	**88.0**	**87.6**	**77.5**	**57.7**	**75.2**	**85.3**
of which: public and publicly guaranteed (PPG)	**32.2**	**34.8**	**38.1**	**41.8**	**43.1**	**44.3**	**45.2**	**46.1**	**47.0**	**45.8**	**40.4**	**33.3**	**45.6**
Change in external debt	0.8	0.6	3.8	4.5	1.6	0.2	-0.1	-0.2	-0.4	-2.5	-1.9		
Identified net debt-creating flows	**-2.8**	**-3.4**	**1.5**	**0.9**	**-2.7**	**-3.5**	**-3.7**	**-3.9**	**-3.8**	**-3.8**	**-1.6**	**-1.3**	**-3.3**
Non-interest current account deficit	**4.8**	**2.9**	**-2.8**	**-4.3**	**-4.4**	**-3.6**	**-4.2**	**-4.0**	**-3.4**	**-1.8**	**1.0**	**6.1**	**-3.2**
Deficit in balance of goods and services	16.0	13.6	9.3	7.6	4.7	3.8	3.5	3.4	3.3	2.6	4.2	**17.4**	**3.7**
Exports	38.9	41.2	42.0	40.6	43.4	44.1	44.6	45.3	46.0	46.8	43.8		
Imports	54.9	54.7	51.3	48.2	48.1	47.9	48.2	48.7	49.3	49.4	48.1		
Net current transfers (negative = inflow)	-12.1	-11.3	-12.3	-13.4	-10.8	-9.7	-10.3	-10.7	-11.2	-11.5	-11.5	**-12.4**	**-11.4**
of which: official	-0.9	-1.0	-0.6	-0.6	-0.6	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8		
Other current account flows (negative = net inflow)	1.0	0.6	0.2	1.4	1.6	2.3	2.6	3.3	4.6	7.0	8.2	**1.1**	**4.4**
Net FDI (negative = inflow)	**-6.3**	**-5.1**	**-2.2**	**-2.6**	**-2.6**	**-2.7**	**-2.7**	**-2.8**	**-2.8**	**-3.0**	**-3.3**	**-6.1**	**-2.8**
Endogenous debt dynamics 2/	**-1.3**	**-1.1**	**6.5**	**7.8**	**4.3**	**2.9**	**3.2**	**2.9**	**2.3**	**1.0**	**0.7**		
Contribution from nominal interest rate	1.7	2.0	2.1	2.8	3.3	2.9	3.9	4.0	3.8	3.3	2.4		
Contribution from real GDP growth	-3.4	-3.5	3.1	5.0	1.0	0.0	-0.7	-1.2	-1.5	-2.2	-1.7		
Contribution from price and exchange rate changes	0.3	0.4	1.2	...	...	...	...	...	...	...	...		
Residual 3/	**3.6**	**4.0**	**2.3**	**3.6**	**4.3**	**3.7**	**3.6**	**3.8**	**3.4**	**1.2**	**-0.2**	**4.1**	**2.9**
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	**...**	**...**	**24.3**	**27.4**	**29.0**	**30.4**	**31.6**	**32.7**	**33.7**	**34.3**	**32.4**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**57.8**	**67.4**	**66.8**	**68.9**	**70.9**	**72.2**	**73.2**	**73.2**	**73.9**		
PPG debt service-to-exports ratio	**14.0**	**14.5**	**1.7**	**5.1**	**4.9**	**5.0**	**5.3**	**5.8**	**5.5**	**6.0**	**7.3**		
PPG debt service-to-revenue ratio	**19.6**	**21.2**	**2.5**	**6.7**	**7.2**	**7.4**	**7.9**	**8.8**	**8.4**	**9.4**	**10.8**		
Gross external financing need (Million of U.S. dollars)	1175.8	1439.9	1036.7	889.7	841.2	973.1	1038.6	1065.3	1090.4	1200.2	1717.1		
Key macroeconomic assumptions													
Real GDP growth (in percent)	4.6	4.7	-3.8	-5.7	-1.2	0.0	0.8	1.4	1.7	2.9	3.0	**3.4**	**0.9**
GDP deflator in US dollar terms (change in percent)	-0.4	-0.5	-1.5	0.5	1.1	1.4	0.8	0.5	0.5	2.3	2.3	**1.1**	**1.2**
Effective interest rate (percent) 4/	2.4	2.7	2.6	3.2	3.8	3.3	4.5	4.7	4.5	4.3	4.2	**2.5**	**4.1**
Growth of exports of G&S (US dollar terms, in percent)	1.0	10.3	-3.3	-8.4	6.8	3.0	2.9	3.3	3.9	4.2	4.7	**7.0**	**3.2**
Growth of imports of G&S (US dollar terms, in percent)	-1.8	3.9	-11.2	-10.9	-0.3	0.8	2.3	3.0	3.5	4.6	4.5	**3.1**	**1.8**
Grant element of new public sector borrowing (in percent)	...	...	...	23.9	25.3	22.9	23.9	21.8	24.9	24.6	20.8	**...**	**24.1**
Government revenues (excluding grants, in percent of GDP)	27.8	28.2	27.4	30.6	29.7	29.8	29.9	29.9	30.0	29.7	29.7	**25.8**	**29.9**
Aid flows (in Million of US dollars) 5/	124.1	142.7	79.4	186.2	188.7	212.4	220.8	217.1	247.4	310.0	469.5		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	1.4	1.4	1.6	1.6	1.6	1.7	1.7	1.6	**...**	**1.6**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	35.7	36.9	37.7	38.5	36.5	39.2	38.7	35.5	**...**	**37.9**
Nominal GDP (Million of US dollars)	13,286	13,844	13,118	12,431	12,416	12,587	12,793	13,027	13,326	16,423	27,588		
Nominal dollar GDP growth	4.1	4.2	-5.2	-5.2	-0.1	1.4	1.6	1.8	2.3	5.3	5.3	**4.5**	**2.1**
Memorandum items:													
PV of external debt 7/	...	...	68.1	72.0	73.9	74.4	74.6	74.6	74.3	66.0	49.7		
In percent of exports	...	...	162.2	177.3	170.4	168.7	167.1	164.7	161.5	140.9	113.5		
Total external debt service-to-exports ratio	26.5	30.7	30.5	34.7	31.9	31.9	33.8	33.0	31.2	25.9	19.5		
PV of PPG external debt (in Million of US dollars)			3186.7	3400.2	3598.9	3827.4	4047.0	4261.4	4484.3	5634.7	8934.8		
(PVt-PVt-1)/GDPt-1 (in percent)				1.6	1.6	1.8	1.7	1.7	1.7	1.6	1.2		
Non-interest current account deficit that stabilizes debt ratio	4.0	2.2	-6.6	-8.8	-6.0	-3.9	-4.1	-3.8	-3.0	0.7	2.9		

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





Sources: National authorities and IMF staff calculations.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

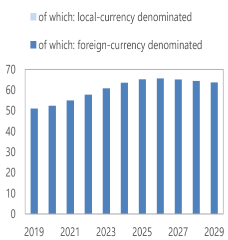
Table 2. Nicaragua: Public Sector Debt Sustainability Framework, Baseline Scenario, 2016–39

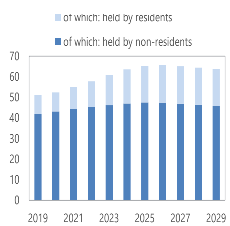
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
Public sector debt 1/	41.7	44.2	47.8	51.0	52.4	54.9	57.7	60.8	63.6	63.7	59.2	43.7	60.4
of which: external debt	32.2	34.8	38.1	41.8	43.1	44.3	45.2	46.1	47.0	45.8	40.4	33.3	45.6
Change in public sector debt	1.0	2.5	3.6	3.2	1.4	2.6	2.8	3.1	2.8	-0.7	-0.4		
Identified debt-creating flows	0.4	0.1	3.6	3.9	1.1	2.9	3.3	2.9	2.7	-2.0	-2.0	-0.7	1.0
Primary deficit	1.3	1.0	2.5	0.2	1.2	1.8	1.9	1.8	1.6	-0.5	-0.7	0.7	0.7
Revenue and grants	28.7	29.2	28.0	31.2	30.3	30.6	30.7	30.7	30.8	30.6	30.5	27.4	30.7
of which: grants	0.9	1.0	0.6	0.6	0.6	0.8	0.8	0.8	0.8	0.8	0.8		
Primary (noninterest) expenditure	30.0	30.2	30.6	31.4	31.5	32.4	32.6	32.6	32.4	30.0	29.8	28.0	31.4
Automatic debt dynamics	-0.9	-0.9	3.4	3.4	0.6	0.2	0.2	0.4	0.2	-1.5	-1.3		
Contribution from interest rate/growth differential	-1.5	-1.5	2.0	3.0	0.7	0.0	-0.4	-0.5	-0.7	-1.3	-1.1		
of which: contribution from average real interest rate	0.2	0.4	0.2	0.1	0.1	0.0	0.0	0.3	0.3	0.5	0.6		
of which: contribution from real GDP growth	-1.8	-1.9	1.8	2.9	0.6	0.0	-0.4	-0.8	-1.0	-1.8	-1.7		
Contribution from real exchange rate depreciation	0.6	0.6	1.4	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	-2.3	0.2	-0.7	0.9	1.2	0.7	0.9	0.0	0.0	-0.2	0.3
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	-2.3	0.2	-0.7	0.9	1.2	0.7	0.9	0.0	0.0		
Residual	0.6	2.4	0.0	-0.2	0.2	-0.2	0.0	1.0	0.9	1.1	1.4	1.1	0.7
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	34.6	37.2	38.7	41.5	44.6	47.9	50.7	52.4	51.4		
PV of public debt-to-revenue and grants ratio	...	...	123.5	119.1	127.5	135.5	145.3	155.7	164.7	171.6	168.1		
Debt service-to-revenue and grants ratio 3/	6.8	9.7	8.2	14.5	14.4	14.6	15.9	18.2	19.0	30.8	21.7		
Gross financing need 4/	3.3	3.8	4.9	4.8	5.5	7.2	8.1	8.1	8.4	8.9	5.9		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	4.6	4.7	-3.8	-5.7	-1.2	0.0	0.8	1.4	1.7	2.9	3.0	3.4	0.9
Average nominal interest rate on external debt (in percent)	1.8	2.0	1.9	1.7	1.8	1.8	1.9	2.5	2.6	2.8	3.1	1.6	2.4
Average real interest rate on domestic debt (in percent)	2.7	3.2	3.3	3.0	3.7	5.7	7.0	7.9	7.3	8.2	9.6	1.5	6.6
Real exchange rate depreciation (in percent, + indicates depreciation)	1.7	1.5	3.0	...	...	...	...	...	...	...	...	0.2	...
Inflation rate (GDP deflator, in percent)	4.6	4.5	3.4	5.4	5.0	4.4	3.9	3.5	3.6	3.6	3.6	6.2	4.0
Growth of real primary spending (deflated by GDP deflator, in percent)	9.9	5.1	-2.5	-3.1	-1.0	2.8	1.6	1.2	1.3	2.6	4.1	5.4	0.7
Primary deficit that stabilizes the debt-to-GDP ratio 5/	0.3	-1.5	-1.1	-3.0	-0.2	-0.8	-0.9	-1.2	-1.1	0.2	-0.3	-0.8	-0.7
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/





Sources: National authorities and IMF staff calculations.

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

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

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

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

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

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

Table 3. Nicaragua: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2019-29

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	PV of debt-to GDP ratio										
Baseline	27	29	30	32	33	34	34	35	35	35	34
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	27	33	39	**44**	**50**	**55**	**59**	**63**	**67**	**71**	**74**
A2. Alternative Scenario: ALBA debt contingent liability scenario	27	29	38	40	**41**	**42**	**43**	**44**	**43**	**43**	**43**
B. Bound Tests											
B1. Real GDP growth	27	31	34	36	37	38	39	39	39	39	39
B2. Primary balance	27	29	31	32	33	34	35	36	36	36	35
B3. Exports	27	33	**43**	**45**	**46**	**47**	**48**	**48**	**48**	**48**	**48**
B4. Other flows 3/	27	31	34	36	37	38	39	39	39	39	38
B5. Depreciation	27	37	36	37	38	40	**41**	**41**	**41**	**41**	**40**
B6. Combination of B1-B5	27	35	38	39	**41**	**42**	**43**	**43**	**43**	**43**	**42**
C. Tailored Tests											
C1. Combined contingent liabilities	27	32	34	35	36	37	40	40	40	40	39
C2. Natural disaster	27	33	35	37	38	40	**42**	**43**	**43**	**43**	**43**
C3. Commodity price	27	29	30	32	33	34	34	35	35	35	34
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
	PV of debt-to-exports ratio										
Baseline	67	67	69	71	72	73	74	74	74	73	73
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	67	77	88	99	110	119	126	134	142	149	158
A2. Alternative Scenario: ALBA debt contingent liability scenario	67	67	87	89	91	92	93	93	92	91	92
B. Bound Tests											
B1. Real GDP growth	67	67	69	71	72	73	74	74	74	73	73
B2. Primary balance	67	67	70	72	74	75	76	76	76	75	75
B3. Exports	67	84	117	120	122	123	124	125	124	122	122
B4. Other flows 3/	67	71	78	80	81	82	83	83	83	82	82
B5. Depreciation	67	67	64	66	67	68	69	69	69	68	68
B6. Combination of B1-B5	67	79	78	90	91	92	93	94	93	92	92
C. Tailored Tests											
C1. Combined contingent liabilities	67	74	77	79	80	81	85	85	85	84	84
C2. Natural disaster	67	78	81	84	86	88	92	93	93	93	94
C3. Commodity price	67	67	69	71	72	73	74	74	74	73	73
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
	Debt service-to-exports ratio										
Baseline	5	5	5	5	6	5	6	6	6	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	5	5	5	6	6	6	7	7	8	8	9
A2. Alternative Scenario: ALBA debt contingent liability scenario	5	5	5	6	7	6	6	7	7	7	7
B. Bound Tests											
B1. Real GDP growth	5	5	5	5	6	5	6	6	6	6	6
B2. Primary balance	5	5	5	5	6	6	6	6	6	6	6
B3. Exports	5	6	7	8	8	8	8	9	9	9	9
B4. Other flows 3/	5	5	5	6	6	6	6	6	7	6	7
B5. Depreciation	5	5	5	5	6	5	6	6	6	6	6
B6. Combination of B1-B5	5	5	6	6	7	7	7	7	7	7	7
C. Tailored Tests											
C1. Combined contingent liabilities	5	5	5	6	6	6	6	6	7	6	6
C2. Natural disaster	5	5	6	6	6	6	6	7	7	7	7
C3. Commodity price	5	5	5	5	6	5	6	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	15	15	15	15	15	15	15	15	15	15	15
	Debt service-to-revenue ratio										
Baseline	7	7	7	8	9	8	9	9	10	9	9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	7	7	8	8	10	10	11	12	12	13	14
A2. Alternative Scenario: ALBA debt contingent liability scenario	7	7	7	9	10	9	10	10	11	10	10
B. Bound Tests	7	7	7	9	10	9	10	10	11	10	10
B1. Real GDP growth	7	8	8	9	10	9	10	11	11	11	11
B2. Primary balance	7	7	7	8	9	8	9	9	10	10	10
B3. Exports	7	7	8	10	11	10	11	11	12	11	12
B4. Other flows 3/	7	7	8	8	9	9	10	10	10	10	10
B5. Depreciation	7	9	9	10	11	10	11	11	12	12	12
B6. Combination of B1-B5	7	8	9	9	10	10	10	11	11	11	12
C. Tailored Tests											
C1. Combined contingent liabilities	7	7	8	8	9	9	9	10	10	10	10
C2. Natural disaster	7	7	8	8	9	9	10	10	11	10	10
C3. Commodity price	7	7	7	8	9	8	9	9	10	9	9
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18

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

Table 4. Nicaragua Sensitivity Analysis for Key Indicators of Public Debt, 2019-29

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of Debt-to-GDP Ratio											
Baseline	37	39	42	45	48	51	53	53	53	53	52
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	37	37	37	38	38	39	40	40	40	40	40
A2. Alternative Scenario: ALBA debt contingent liability	37	39	**63**	**66**	**68**	**71**	**72**	**73**	**73**	**72**	**72**
B. Bound Tests											
B1. Real GDP growth	37	43	53	**61**	**68**	**76**	**82**	**87**	**91**	**95**	**99**
B2. Primary balance	37	40	44	48	52	**55**	**58**	**59**	**60**	**61**	**61**
B3. Exports	37	42	53	**56**	**59**	**62**	**64**	**65**	**65**	**65**	**64**
B4. Other flows 3/	37	41	46	49	52	**55**	**57**	**58**	**57**	**57**	**57**
B5. Depreciation	37	45	46	47	49	50	51	50	49	48	47
B6. Combination of B1-B5	37	39	43	46	50	54	**56**	**58**	**58**	**59**	**60**
C. Tailored Tests											
C1. Combined contingent liabilities	37	47	50	54	**58**	**62**	**64**	**66**	**66**	**67**	**67**
C2. Natural disaster	37	49	53	**57**	**62**	**66**	**69**	**71**	**72**	**73**	**74**
C3. Commodity price	37	41	48	55	**63**	**70**	**76**	**81**	**85**	**88**	**92**
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.
Public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	119	128	136	145	156	165	171	173	173	172	172
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	119	121	121	123	126	128	130	131	131	132	132
A2. Alternative Scenario: ALBA debt contingent liability	119	129	205	213	223	230	236	237	237	236	236
B. Bound Tests											
B1. Real GDP growth	119	142	172	197	222	246	267	283	297	310	322
B2. Primary balance	119	132	144	156	169	180	188	193	196	199	201
B3. Exports	119	140	171	182	193	203	209	212	211	211	209
B4. Other flows 3/	119	134	149	159	169	179	185	187	187	186	185
B5. Depreciation	119	148	149	154	159	163	165	164	160	156	153
B6. Combination of B1-B5	119	127	141	151	163	174	182	188	190	193	195
C. Tailored Tests											
C1. Combined contingent liabilities	119	154	164	176	189	200	208	213	216	218	221
C2. Natural disaster	119	162	173	187	201	214	223	230	234	237	241
C3. Commodity price	119	135	156	179	203	226	247	263	276	289	301
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	14	14	15	16	18	19	22	27	28	30	31
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	14	14	13	14	15	15	16	19	19	20	21
A2. Alternative Scenario: ALBA debt contingent liability	14	14	15	16	18	19	22	25	25	28	29
B. Bound Tests											
B1. Real GDP growth	14	15	17	19	22	24	29	37	39	42	44
B2. Primary balance	14	14	15	16	18	20	23	28	28	30	31
B3. Exports	14	14	15	17	20	20	24	28	29	31	33
B4. Other flows 3/	14	14	15	16	19	20	23	27	28	30	32
B5. Depreciation	14	15	16	17	19	20	22	24	27	29	29
B6. Combination of B1-B5	14	14	15	16	18	19	22	26	28	29	31
C. Tailored Tests											
C1. Combined contingent liabilities	14	14	16	17	19	20	33	28	29	31	32
C2. Natural disaster	14	15	16	18	20	21	37	30	31	33	34
C3. Commodity price	14	14	15	17	19	21	26	34	36	39	41
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: National authorities and IMF staff calculations.

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.

INTERNATIONAL MONETARY FUND

NICARAGUA

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

February 14, 2020

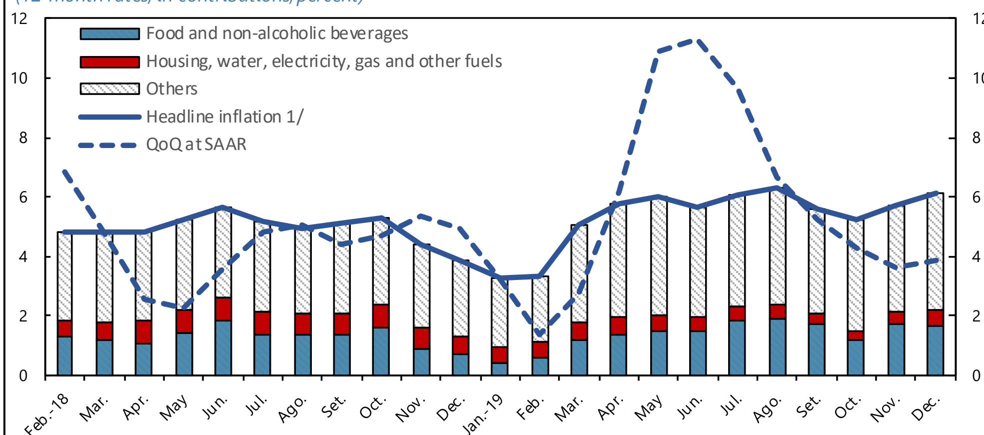
Approved By
Aasim M. Husain (WHD) and Maria Gonzalez (SPR)

Prepared by the Nicaragua team.

This statement provides information that has become available since the staff report was finalized. This information does not alter the thrust of the staff appraisal.

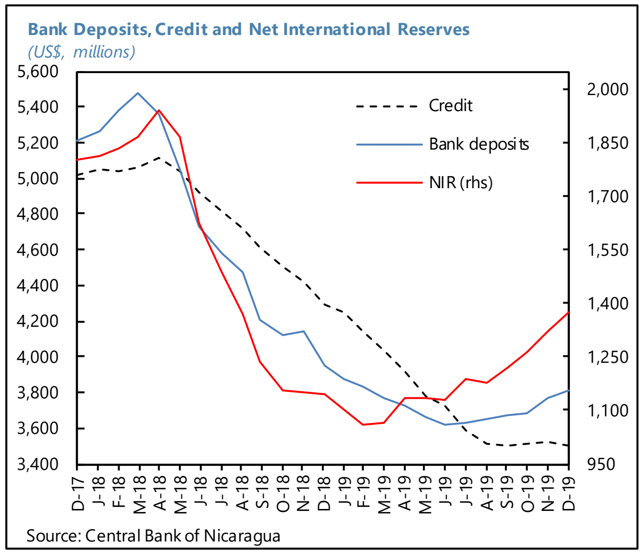
1. Headline inflation reached 6 percent (year-on-year) in December 2019. Consumer Price Index picked up during the last quarter of 2019, reflecting upward adjustments in energy prices.

Inflation developments
(12-month rates, in contributions, percent)



Source: Central Bank of Nicaragua
1/ The tax reform of March 2019 widened the coverage of products subject to VAT.

2. Monetary aggregates continue to signal a bottoming out. Net international reserves reached US$1.4 billion (US$229 million annual increase) in December 2019, corresponding to a gross international reserve coverage of 5.2 months of non-maquila imports. The accumulation of reserves reflected higher external disbursements and lower pressures in the FX market. Likewise, monetary base and broad money increased by 21 and 4 percent, respectively (compared with - 20 and -19 percent in 2018). Bank credit to the private sector contracted by 18 percent annually during 2019 (from US$4.3 billion in December 2018 to US$3.5 billion in December 2019), but the rate of contraction has significantly diminished since last September. In December, the central bank reduced the reference rate by 50 bps to 4.75 percent.



3. The proposed budget for 2020 was approved by the National Assembly in December 2019 with no revisions, in line with staff report (SM/20/36).

4. Minimum wages raised by 2.6 percent starting on March 1. After keeping minimum wages frozen in 2019, the commission in-charge of setting minimum wages (composed by representatives from the government, workers, and employers) decreed a rise in minimum wages for nine economic sectors —the exception being wages in the free-zone industrial sector, where a separate process resulted in an 8.2 percent increase in January. This increase is estimated to reach at least one-hundred-thousand workers (about 14 percent of total formal employment) for which minimum wages are binding. With projected inflation of 4 percent for 2020, minimum wages in real-terms are expected to fall for a second consecutive year, consistent with staff projections

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Statement by Mr. Bevilaqua, Executive Director for Nicaragua, and Mr. Saraiva, Alternate Executive Director, and Mr. Coronel, Advisor to the Executive Director for Nicaragua
February 21, 2020

On behalf of our Nicaraguan authorities, we thank staff for the constructive and useful discussions during the 2019 Article IV mission, held in Managua last November. The authorities acknowledge the analytical value of the staff report, which will help guide their efforts to restore growth under challenging circumstances that arose from the socio-political unrest in the second quarter of 2018. The authorities are also grateful for the consistent cooperation through technical assistance and advice during the course of the Article IV cycle and look forward to continuing the close engagement with the Fund.

The Nicaraguan economy's impressive growth path was interrupted by a severe shock in 2018. Average growth rate between 2010-2017 reached 5.1 percent, one of the highest in Latin America. Against the background of a stable macroeconomic environment, sound policies, and accumulation of buffers, the social safety net strengthened, poverty levels receded and opportunities for social and economic mobility increased markedly. In the second quarter of 2018, Nicaragua faced an acute shock triggered by a socio-political backlash against a set of measures aimed at restoring long-term financial sustainability to the social security system. The measures taken in April 2018, which were a fiscal imperative and consistent with IMF advice, had to be reverted following protests. They were, however, reintroduced in February 2019. Real GDP contracted by 3.8 percent in 2018 and in 2019 the contraction deepened to an estimated 4½ percent.

The devastating effects of the almost 3-month socio-political unrest, which started in mid-April 2018, struck the core of the financial system and nearly halted economic activity. There were widespread roadblocks, extensive damage to public and private infrastructure, as well as job destruction and loss of confidence. Services (mostly tourism and commercial retail) and construction were hit the hardest, yet the primary sector, notably mining, fisheries, and agriculture emerged generally unscathed. As per the seasonally adjusted Monthly Economic Activity Index (IMAE), economic activity reached its trough in June 2018; it has since stabilized, albeit significantly below pre-crisis levels. As expected, tax revenues dwindled, placing an abrupt fiscal strain on the government.

The financial sector experienced a real-life stress test. An immediate consequence of the 2018 shock was the rapid outflow of bank deposits with a subsequent decline in credit, hence exposing the relatively small Nicaraguan financial system to a liquidity crunch. From March 2018—just before the shock—to June 2019, bank deposits dropped by nearly a third. Similarly, credit contracted by 9 percent and 15 percent in 2018 and 2019, respectively, thus setting off a negative feedback loop to economic activity. Fortunately, the banking sector's pre-shock conditions were generally robust, as a result of persistently solid performances—including record profits—and ensuing accumulation of buffers throughout the decade.

The response to the shock, built on years of sound policies and accumulation of buffers, succeeded in preserving financial and economic stability. Despite the severe disruptions to the country's activities during the socio-political crisis in 2018, the authorities kept their ability to formulate and execute timely and effective economic policies. From the onset of the crisis, they have focused on preserving financial and macroeconomic stability and this has proven to be a successful strategic approach.

On the monetary and financial fronts, the authorities' firm and prompt response managed to restore financial and economic stability in a relatively short period of time and under exceptionally challenging conditions. This demonstrated not only the underlying resilience of the Nicaraguan banking sector and the overall economy, but also the authorities' firm commitment to sound macroeconomic policies under duress. While banks adjusted, drawing from their inherent strengths, the Central Bank of Nicaragua (BCN) played a decisive role to avoid a liquidity crisis.

The BCN took a series of measures to support the liquidity of the banking system. Those included the reduction of bank's reserve requirements, the introduction of repos, the increase of interest rates to reduce outflows, the provision of direct liquidity at various stages, and the activation of a precautionary liquidity line from the Central American Bank of Economic Integration (CABEI), among others. By the beginning of 2019, bank outflows had decelerated and by mid-year, deposit flows turned positive, while the increase in NPLs appeared to be contained. At that point, the financial sector had stabilized, and albeit emerging with some vulnerabilities, it had not exhausted its buffers to withstand additional adversities going forward.

The BCN also successfully fought off an aggressive speculative attack on the exchange rate, cautiously managing much-needed, yet limited international reserves, while simultaneously monitoring inflation developments. By early 2019, the exchange rate stabilized, supported by BCN foreign exchange interventions that amounted to USD 920 million between May 2018 and March 2019. Gross International Reserves (GIR), which hovered around USD 3 billion just before the shock, had recovered from their post-shock low of USD 2,090 million to reach USD 2,430 million as of February 1st, 2020. This represents a coverage of 6.3 months of non-maquila imports, which falls within the range recommended by staff. Headline inflation, on the other hand, closed 2019 at 6.1 percent, higher than in the previous year, yet slightly lower than anticipated. To further anchor inflation, in November 2019 the BCN reduced the pace of the exchange rate crawl from 5 percent to 3 percent per year.

On the fiscal front, the authorities also responded resolutely to the shock. Given the absence of external financing, the authorities were compelled to adopt a tax package to offset the abrupt fall in revenue while proceeding with a parametric reform of the social security system (INSS). Both measures became effective in February 2019 and succeeded in improving short and medium-term fiscal prospects, as preliminary data suggests. The authorities will review the impact of the tax reform on both revenue and growth, as required by law. Moreover, should financing conditions ease, they stand ready to shift policy towards a more accommodative stance, albeit in a cautious way to avert threatening fiscal sustainability.

During the response to the shock, the authorities have maintained fiscal discipline by curtailing expenditures—including freezing wages through 2019—and streamlining energy subsidies, while safeguarding the social safety net and preserving much-needed investment. In fact, public spending has continued to support unprecedented improvements in health, education, road infrastructure, and access to water and electricity. For instance, access to electricity has reached 92 percent of the population (from 56 percent in 2006, the lowest in the CAPDR region) and its geographical coverage is now at 97 percent. Moreover, education enrollment this year (2020) is at a historic high.

While our authorities concur with staff that growth potential will be slower than in the recent past, they are more optimistic regarding the outlook and the balance of risks. IMAE data shows that economic activity bottomed out as early as June 2018, while yearly growth rates have done so at the end of 2019. The authorities estimated that GDP contracted by 4.5 percent in 2019. This is more than a percentage point above the contraction that staff projected, and the difference is mainly due to a stronger than anticipated recovery of consumption in the fourth quarter of 2019. In addition, exports in 2019 increased by 5.6 percent and unemployment has been gradually descending from its post-shock peak of 6.2 percent to 5.4 percent by the third quarter of 2019.

Growth is expected to climb gradually, driven by exports increase, moderate credit recovery, and job creation. Underpinned by a more accommodative policy stance, growth should move towards positive territory, at the margin, by the end of 2020. By 2021, the authorities project a 1.6 percent expansion, as confidence is expected to improve and the service sector, particularly tourism, builds momentum. There are signs of improved confidence, such as the rebalancing of the current account—from a deficit of 4.9 percent of GDP in 2017 to a surplus of 0.6 percent of GDP in 2018—and the gradual recovery of international reserves and bank deposits. Also, economic agents are adjusting to the new level of economic activity, banks have reacted positively, and credit activity has started to normalize, particularly to the export sector. Some banks have also resumed mortgage financing.

The Nicaraguan authorities have a high response rate to IMF policy recommendations, as shown in Annex I of the staff report. During the present Article IV cycle, the authorities have heeded staff's advice on overcoming the expenditure rigidities for the 2020 budget to efficiently allocate resources, in line with priorities. The authorities also welcomed staff's inputs on medium-term fiscal sustainability, and on greater fiscal transparency. In this regard, staff's recommendation to improve the financial accounting management of SOEs and municipalities to strengthen the country' overall fiscal framework, as well as the recommendation to establish a fiscal risk unit to reinforce the budget framework were well received.

The authorities appreciate the multiple references to protecting the poor and vulnerable made by staff in the report, a principle that has been at the very core of Nicaragua's policies. In this vein, the authorities reiterated their concern regarding the country's limited access to external financing, which not only hampers the pace of economic recovery but also impairs the authorities' ability to ringfence the social safety net from the effects of the shock, particularly the unavoidable fiscal contraction.

The authorities also welcomed the discussions and advice on competitiveness, governance, and AML/CFT framework. On the latter, recent upgrades were made to the legal framework and the financial intelligence unit (UAF) remains committed to addressing all issues of concern.

Despite the recent shock, the banking system has stabilized and remains well capitalized and liquid. Banks emerged from the crisis generally sound and mostly adjusted to the lower level of economic activity by downsizing and amassing liquidity. Yet, their capitalization and liquidity ratios have remained significantly higher than regional levels. The bank superintendence (SIBOIF) has strengthened supervision and is promoting increased loan-loss provisions while identifying potential sources of further asset distress. SIBOIF has excluded any further regulatory forbearance concerning loan-loss provisioning and has welcomed staff's advice on enhancing the banks' resolution framework, the financial safety net, as well as updating the legal framework to facilitate debt workouts. Further, in 2018, the authorities created the Financial Stability Committee, facilitating the coordination of financial policy and the monitoring of the financial system.

A small, open and vulnerable economy is doing its best to recover. The source of Nicaragua's recession was a strong exogenous shock, and not macroeconomic mismanagement. Throughout the decade-long economic expansion and subsequently during the crisis a sound macroeconomic policy stance has been sustained. However, Nicaragua does not have the means on its own for a fast V-shaped growth rebound. Recovering from a shock of the magnitude seen in 2018 takes time. Nevertheless, the prompt and successful response articulated by the authorities to restore financial and economic stability after the shock, despite the lack of external financial assistance, is proof of the strong credibility of Nicaraguan economic institutions. It also demonstrates their ability to formulate and implement sound policies under duress, as well as the underlying resilience of the Nicaraguan economy, built upon years of macroeconomic stability, robust growth and sound policies.

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