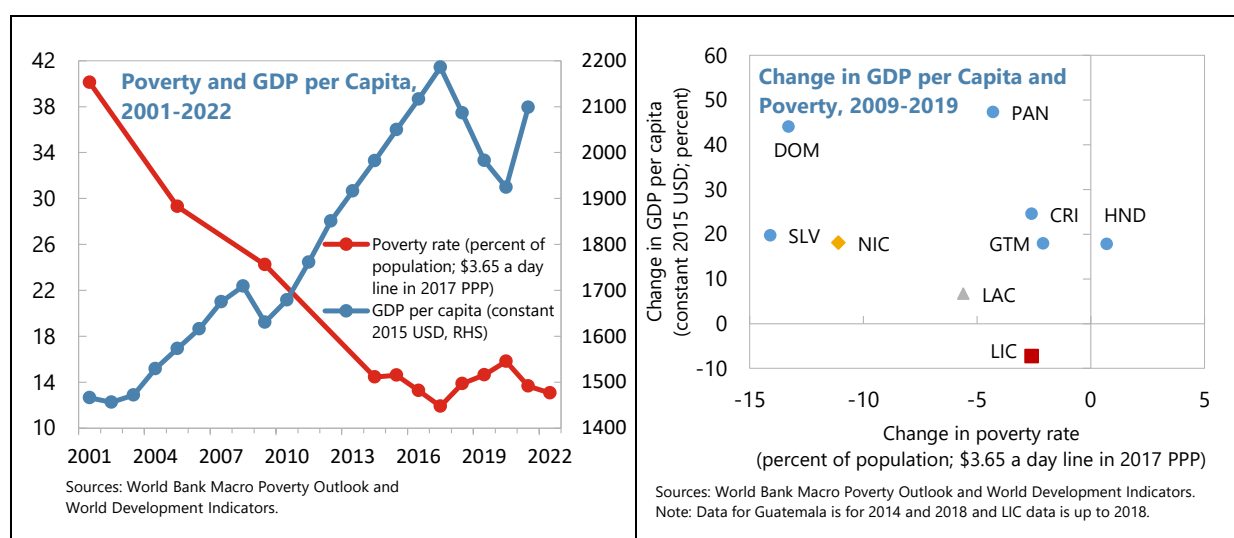


ECONOMIC AND POLITICAL CONTEXT

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



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

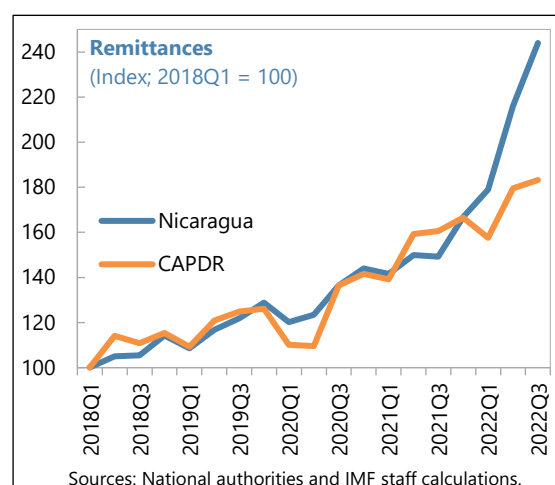
¹ Poverty is defined as the share of the population living at or below the international poverty line of US\$3.65 per day (2017 PPP).

² The Reinforcing Nicaragua's Adherence to Conditions for Electoral Reform Act.

RECENT DEVELOPMENTS

3. The macroeconomic policy responses to the pandemic and the 2020 hurricanes were appropriate. The government provided relief to vulnerable households, procured COVID-19 tests, executed an effective immunization campaign (vaccination rate of 88 percent as of mid-November 2022), and rebuilt infrastructure. External financing was provided by multilaterals, including IMF emergency assistance approved in November 2020.³

4. The economy has rebounded strongly since 2021. Real GDP grew by 10.3 percent in 2021 and 5 percent in the first half of 2022, aided by external demand, buoyant global prices of gold, coffee, and meat, strong remittances, and the return of FDI (mainly in gold mining). By the end of 2021 the level of real GDP has surpassed its pre-crisis (end-March 2018) value (Figure 1). Real GDP is expected to grow by 4 percent in 2022, supported by the continued recovery of domestic demand, underpinned by unusually strong remittances, decoupling from broader regional trends (Central America, Panama, and Dominican Republic, CAPDR), particularly since mid-2021 (text chart, and 128).⁴ The government's preliminary estimate of the damage from hurricane Julia in October 2022 is about 2½ percent of GDP, with a large portion in infrastructure. The annual GDP growth projections are not much affected, due to offsetting positive factors.⁵



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

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

³ Purchase under the Rapid Financing Instrument and the Rapid Credit Facility of 50 percent of quota (equivalent to US\$186.8 million; or 1.5 percent of GDP). Half of this amount was executed by the government and the other half by the United Nations Office for Project Services (UNOPS) and the World Food Program (WFP).

⁴ Remittances grew an average 45 percent year-on-year over the first nine months of 2022 (compared to about 10 percent yearly growth over 2017-2021).

⁵ Although agricultural production is expected to be lower in 2022Q4 and possibly in 2023, in 2022 real GDP growth will be supported by social assistance, and in 2023 by increased public investments for reconstruction.

⁶ The increase in inflation has been mainly driven by the food and transportation components, but in recent months inflation from restaurants, hotels, and retailed home goods have been picking up as well.

grew by 12.5 percent y-o-y. As a result, the CPS balance was in surplus. In May 2022, the authorities adopted temporary untargeted fiscal measures to mitigate the impact of oil and wheat price increases on

households, which are estimated at 1.2 percent of GDP for 2022, set to expire by end-year (see text table).⁷ Reflecting these measures, the CPS deficit is projected to widen to 3.3 percent of

Stabilization Measures amid Rising Oil Prices			
Measures	Estimated Cost for 2022		
	Millions of C\$	Millions of US\$	Percent of GDP
1. Electricity rate subsidy	1,783.5	49.2	0.32
2. Water rate subsidy	392.0	10.5	0.07
3. Gasoline and diesel subsidy	3,973.1	110.5	0.70
4. Liquified gas subsidy	261.9	7.2	0.05
5. Collective transport subsidy	178.3	4.9	0.03
6. Wheat reserves imports	281.4	7.8	0.05
Total Estimated Cost	6,870.2	190.1	1.22
Sources: National authorities and IMF staff calculations.			

GDP in 2022. Financing needs are fully covered in 2022 due to a new concessional loan of US\$200 million from the Central American Bank for Economic Integration (CABEI), which will cover the new measures for gas and fuel subsidies, and a new pandemic loan from the World Bank of US\$116 million.

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

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

⁷ Some of these measures are price caps on gasoline, fertilizers, and wheat, which are expected to dampen inflation.

⁸ The SDR allocation has been maintained at the BCN.

⁹ Maquila are imports of intermediate inputs by foreign companies that export from Nicaragua.

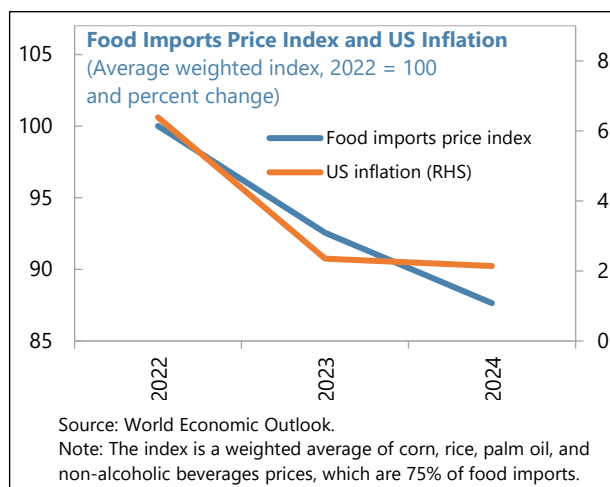
¹⁰ Among other characteristics the Fund Assessing reserve Adequacy (ARA) metric takes into account that Nicaragua is a low-income country and has a crawling exchange rate regime. The range is estimated using a variety of opportunity costs for holding reserves.

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

10. Reported capital and liquidity ratios are above the required levels, but the level of distressed assets remains high, and provisioning is low (Annex II). As of September 2022, reported capital adequacy ratio (CAR) remains high,¹¹ and banks continue operating with comfortable levels of liquidity (although these narrowed recently).¹² Bank deposits¹³ continue to grow (12.4 percent y-o-y), surpassing pre-crisis aggregate level (in Córdobas). Bank credit is also rebounding and reached 12 percent y-o-y growth, but the stock remains 25 percent lower than in March 2018. Although reported Non-Performing Loans (NPLs) have been falling in the past two years to 1.9 percent, the level of distressed assets¹⁴ remains significant (12.1 percent). Profitability of banks has improved since 2021, given the credit rebound and decline in distressed assets as well as the low provisioning of other distressed assets.

OUTLOOK AND RISKS

11. GDP growth and inflation are expected to slow, given the tightening of fiscal and monetary policies, and the global slowdown (Box 2). In 2023 real GDP is projected to grow by 3 percent and inflation to fall gradually to 6 percent, primarily on the back of decelerating food import prices, and a decline in global inflation (text chart). In the medium term, real GDP growth is expected to converge to 3.5 percent (see Medium-Term Growth section) due to sustained domestic demand. This growth rate remains below



pre-crisis and historical average rates, as investors and creditors are expected to remain cautious. Private consumption growth and the associated increase in imports are supported by remittances and FDI, albeit they are conservatively projected at lower growth rates than historical averages.

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

¹¹ Average CAR of the financial system is 20 percent.

¹² Liquid assets represent 37.9 percent of short-term liabilities compared to 36.7 percent in March 2018. In addition, the Liquidity Coverage Ratio (LCR) is 285 percent, well beyond the minimum requirement of 100 percent.

¹³ Deposits from the public held by banks. Data provided by Superintendency of Banks and Financial Institutions (SIBOIF).

¹⁴ Including restructured, refinanced, and forborne loans, as well as repossessed assets.

scenario (Tables 1-7), further monetary tightening (in the U.S.), or a prolongation of Russia's war in Ukraine, could result in lower exports growth due to a decline in demand from trading partners, tighter financial conditions, and lower remittances growth. Continued inflationary pressures could pose risks to food affordability, and the fiscal position. Fiscal balances, economic activity and social outcomes could be strained by natural disasters, given Nicaragua's high exposure and economic dependence on climate sensitive sectors (Annex VI). A deterioration in the business climate and stricter international sanctions pose elevated risks to trade¹⁵ and financing flows, and thereby growth.¹⁶ Risks could intensify should the quality of financial assets deteriorate. Materialization of such risks would require adjustment of fiscal and monetary policies (see Risk Assessment Matrix in Annex III), enhancing financial provisions and frameworks, and acceleration of structural reforms to enhance competitiveness, facilitate job creation, strengthen economic resilience, and support the most vulnerable.

13. Nicaragua is assessed at moderate risk of debt distress (see Debt Sustainability Analysis, DSA). Over the medium-term, the expiration of various subsidies and social benefits, as well as the announced medium-term budget plans for 2023-2026, will lead to a narrowing of the consolidated nonfinancial public sector deficit, and a decline in public debt to 54 percent of GDP by end-2027. Although compared to 2020 the debt path and space to absorb shocks have improved, Nicaragua remains at moderate overall risk of external and public debt distress. This is a similar risk rating assessment to the DSA conducted in 2020.¹⁷ Nevertheless, vulnerabilities to external shocks, natural disasters and contingent liabilities remain elevated, requiring strengthening policy buffers as external financing is expected to remain limited (see DSA ¶12).

Authorities' Views

14. The authorities broadly agreed with staff's views on the outlook and risks, differing in the medium-term growth projection by about $\frac{3}{4}$ percentage points, as they expect higher investment. They also expect trade to continue to be an engine for growth, in the context of implementation of the Memorandum of Understanding to join the Belt and Road Initiative signed in early 2022 with China.¹⁸ The authorities emphasized their commitment to a prudent policy mix to ensure the economy can sustain further external shocks. On inflation, the authorities also broadly agreed with staff's views, and emphasized that they do not see risks of food insecurity, if inflation would rise higher than expected, given the large role of the agricultural sector in the economy and in exports, the solid performance of food production during previous shocks, as well as the extensive social programs in place.

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

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

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

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

POLICY DISCUSSIONS

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

A. Ensuring Fiscal Sustainability

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

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

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

¹⁹ Discussions to reduce the growing deficit in INSS are ongoing. A possible measure is to change the minimum number of contributions required to receive a reduced pension.

²⁰ While S&P raised the long-term credit rating of the sovereign from B- to B in October 2022, citing continued economic recovery and macroeconomic stability, it also noted that the rationale for the rating includes institutional weaknesses, especially weak checks and balances and rule of law, and that the downside scenario could include a deterioration in the rating due to political tensions.

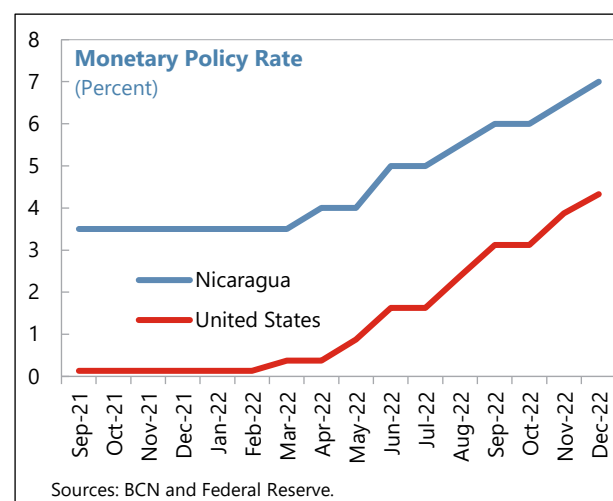
- Streamline VAT exemptions and improve taxation in selected sectors, e.g., the digital and mining sectors, as recommended by Fund technical assistance. Strengthen tax risk management and tax audit procedures to improve voluntary compliance and strengthen domestic revenue mobilization (0.7 percent of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

Authorities' Views

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

B. Maintaining Exchange Rate Stability

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



20. In the medium term, continued reserve accumulation is needed to support the exchange rate regime. Given rising inflation, the appropriate stance of monetary policy is broadly similar in Nicaragua and the United States. Therefore, implementing sound domestic monetary

policy does not require the use of reserves to maintain the crawl rate. The multi-year fiscal consolidation envisaged by the authorities is expected to continue to support external stability. Staff expect a continuation of reserves accumulation in the medium-term, albeit at lower rate, as reflected in the baseline scenario.

Authorities' Views

21. The authorities remain committed to prudent monetary and exchange rate policies.

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

C. Maintaining Financial Sector Stability and Resilience

22. The low provisioning ratio of distressed assets is a concern. The two extraordinary temporary forbearance measures (known as “aliviados”) expired in 2019 and 2020 and the total stock of distressed assets²¹ has been falling from its peak of 22.6 percent as of September 2020. However, it remains significant at 12.1 percent, six times the NPL stock. In addition, the level of provisions relative to total distressed assets is lower than pre-crisis.²² The authorities should extend the provisioning framework beyond NPLs, to be able to increase provisions of restructured loans and other distressed assets.

23. The rebound in credit to the economy and FX risk warrant close oversight. Although bank credit²³ remains below its pre-crisis level, the authorities should ensure that the rebound is coupled with sound and prudent lending policies.²⁴ In addition, they recently reactivated countercyclical provisioning and should consider further macroprudential tools if necessary, such as higher risk weights for unsecured lending. Foreign exchange risk also warrants attention given the high level of dollarization.²⁵

²¹ Comprised of NPLs, restructured, refinanced, and forborne loans, as well as repossessed assets.

²² As of September 2022, the level of provisions relative to NPLs is higher than pre-crisis (272 percent vs. 226 percent), but provisions relative to total distressed assets declined significantly (43 percent compared to their pre-crisis level of 86 percent).

²³ Bank credit defined as gross credit to the economy provided by the credit institutions under SIBOIF's supervision (7 commercial banks, 1 development bank and 2 financing companies).

²⁴ By September 2022, bank credit y-o-y growth accelerated to 12.0 percent (measured in U.S. dollar) and has reached all sectors except for mortgages. Data provided by SIBOIF.

²⁵ More than 90 percent of credit and 70 percent of deposits are denominated in U.S. dollar.

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

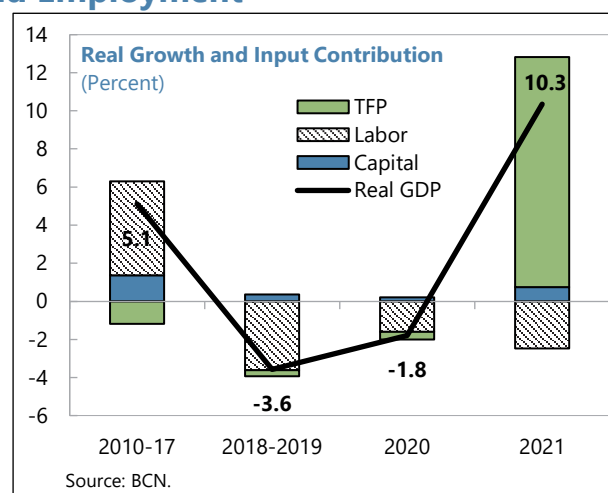
25. The authorities should expand the prudential supervisory perimeter. Although microfinance companies and credit and savings cooperatives are estimated to represent less than 10 percent of the financial system's assets, the authorities should overcome data gaps for credit and savings cooperatives and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

Authorities' Views

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

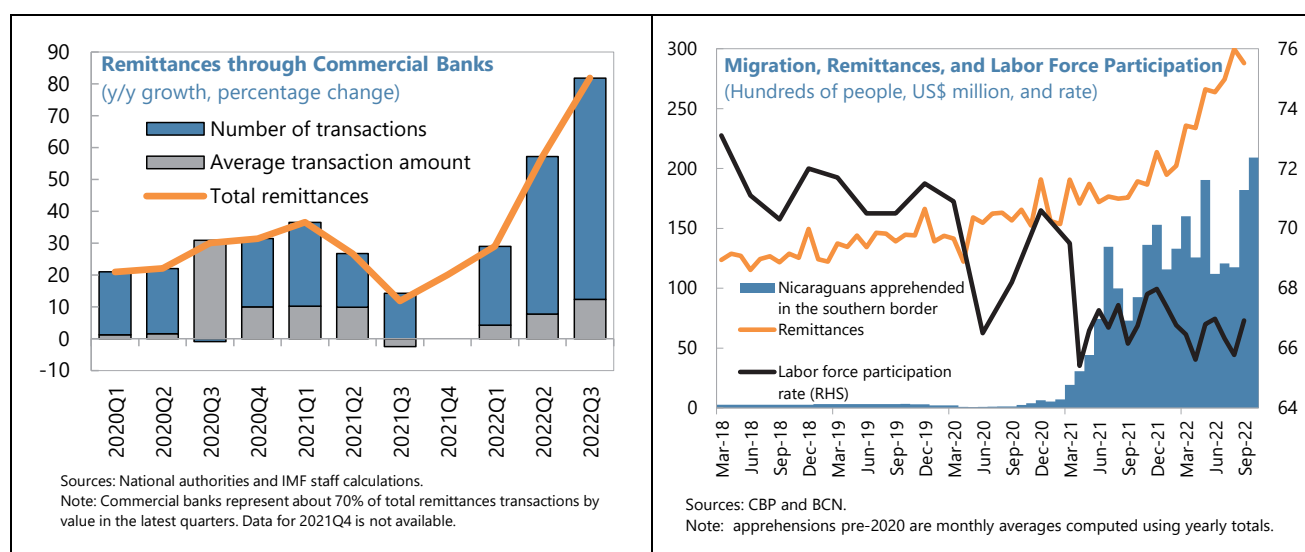
D. Boosting Medium-Term Growth and Employment

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



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

28. To achieve higher medium-term growth, policies to increase labor force participation and a more supportive business environment are needed. Since 2018, the labor contribution to growth has been negative (text chart). In 2021, the labor force participation rate fell to 67.1 percent, even though the unemployment rate declined to 3.7 percent. Policies to increase the labor contribution to output growth could include tax simplification and other measures to support formal jobs creation (Annex V). To support capital accumulation, continued investment in infrastructure and connectivity are needed. Most importantly, investment growth could also be supported by enhancing the business climate. Government institutions and frameworks need to be strengthened in the areas of contract enforcement, protecting property rights, and resolving insolvencies, and additional governance and anti-corruption reforms²⁷ are needed to strengthen competitiveness (see next section). Changes affecting the business environment should also be prepared in consultation with all stakeholders to improve business climate.



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

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

Authorities' Views

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

E. Strengthening Governance

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

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

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

to the United Nations Office for Project Services (UNOPS) and the World Food Program (WFP) of the share of IMF emergency funds.²⁹ In line with IMF and World Bank's TA recommendations (see Informational Annex), a first fiscal risks report was published in May 2022.³⁰ To enhance fiscal governance and improve public financial management, the authorities need to continue to publish all the audit reports regarding the use of pandemic-related funds, promptly publish the annual financial statements of the central government and their audit reports, performed by the Comptroller General Office. The expanded publication and coverage in fiscal reports, including of all SOEs should also be undertaken.

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

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

²⁹ See the publication of the report on the government's website:

<http://www.hacienda.gob.ni/hacienda/documentosdgtec/infocovid19.html>

A second audit is planned to cover the period after May 31, 2021 and to be published in May 2023.

³⁰ The [annual fiscal risks report](#) is published online.

Authorities' Views

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

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

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

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

STATISTICS

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

Authorities' Views

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

STAFF APPRAISAL

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

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

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

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

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

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

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

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

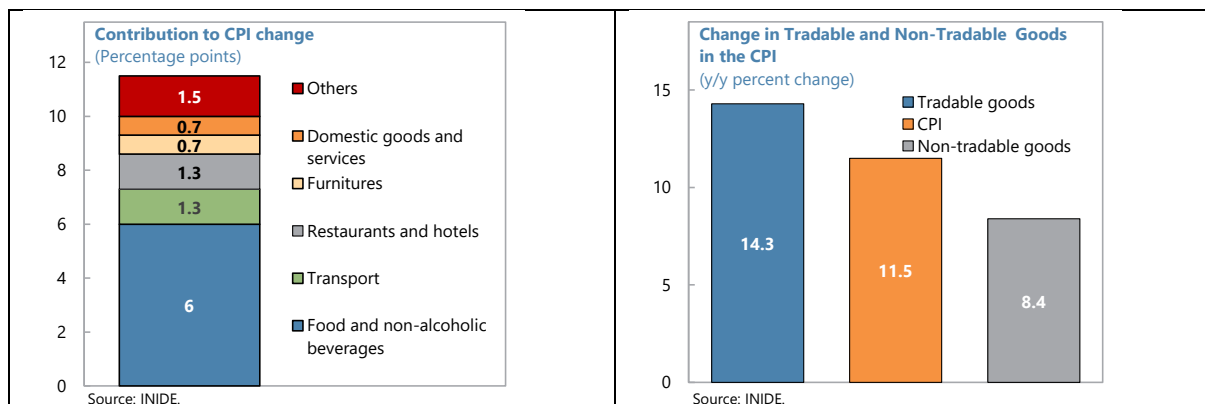
47. The state has taken steps to enhance governance and anticorruption frameworks, and further efforts are needed to strengthen these frameworks and their effective application, since shortcomings remain. The Comptroller General Office has introduced a platform to collect asset declarations of public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

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

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

Box 1. Inflation and Food Affordability

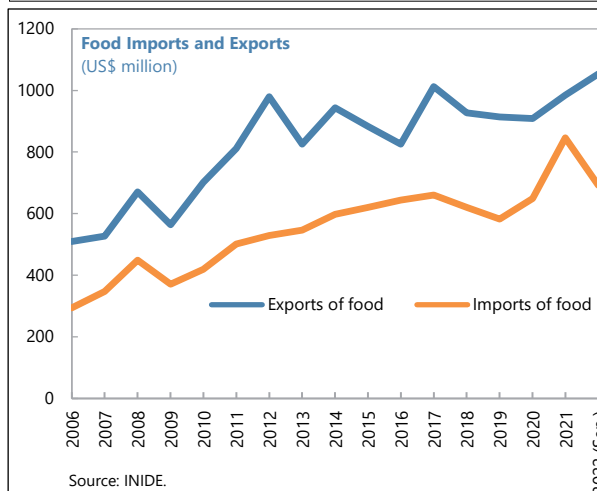
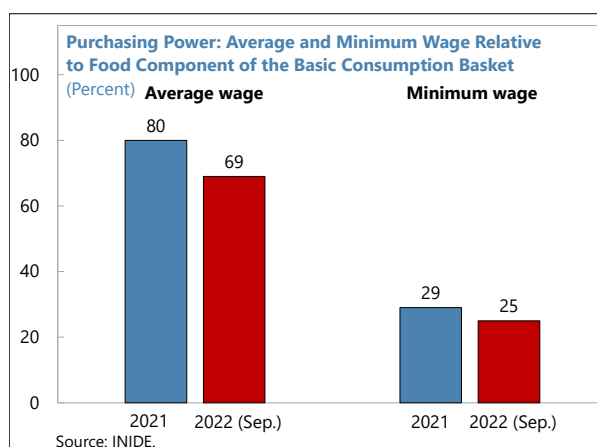
By September 2022 over half of the Nicaraguan CPI yearly increase was due to the increase in food and non-alcoholic beverages prices (text chart). The pass-through on the transportation subset of the basket of the global surge in oil price has been somehow limited, due to the implemented temporary gasoline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



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

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

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

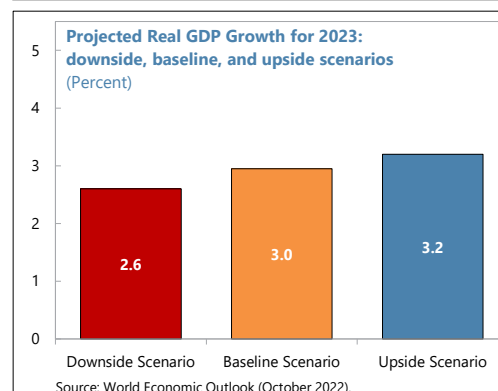
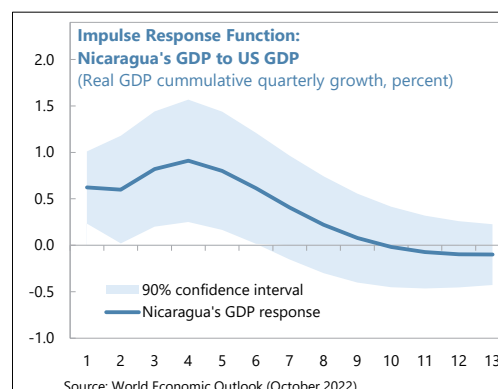


Box 2. Real GDP Projections

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

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

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

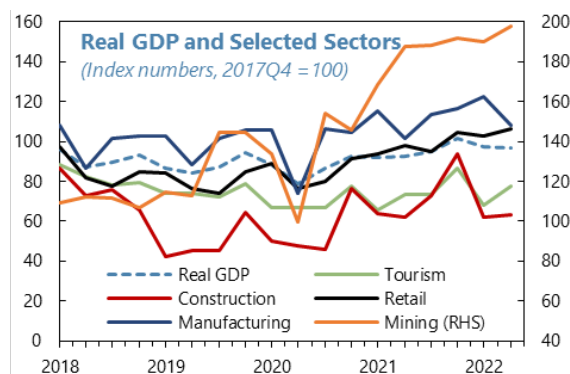


¹ Quarterly GDP for Nicaragua is available as far back as 2006. For data prior to that, we proxied GDP growth by the Index of Economic Activity (IMAE) which are highly correlated.

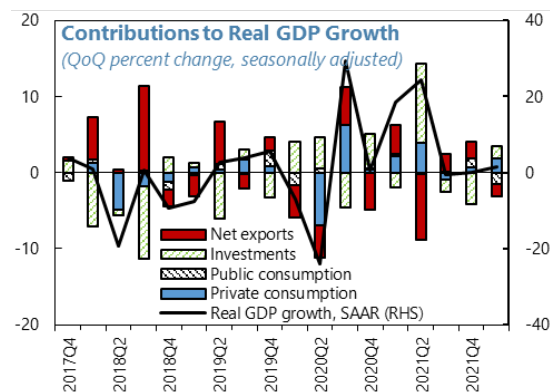
² The U.S. represents about 75 percent of exports, 60 percent of imports, 75 percent of remittances, and ⅓ of FDI sources.

Figure 1. Nicaragua: Real Sector

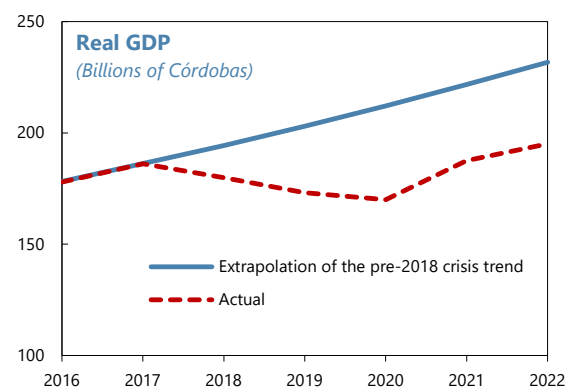
Mining, manufacturing, and retail activity are driving growth...



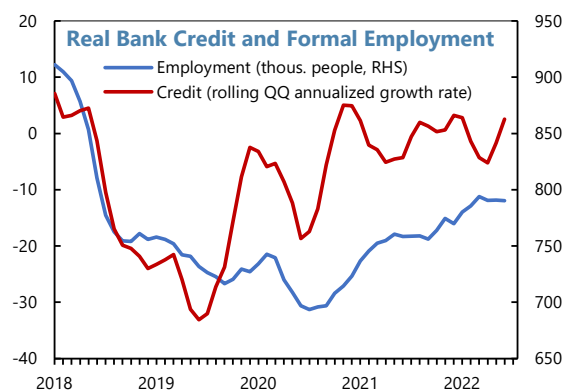
...and aggregate demand recovered.



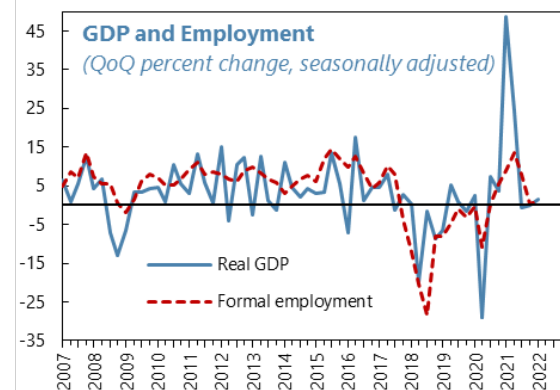
Precrisis real GDP level has been surpassed...



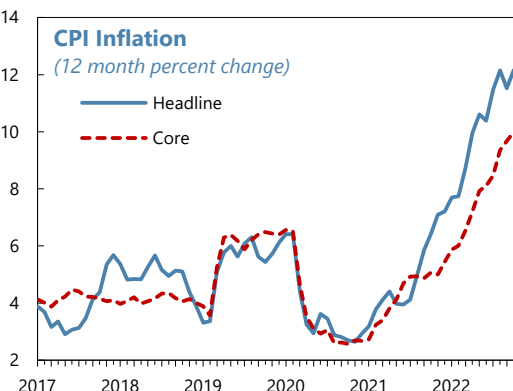
...and the recovery continued in 2022, but real credit growth and employment remain below pre-crisis levels.



While formal employment is somewhat recovering,...



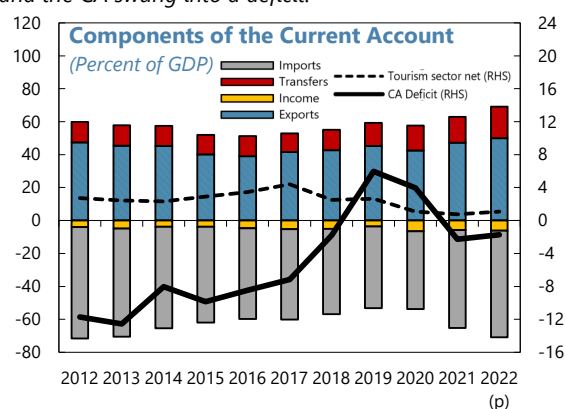
...the two-digit inflation is now the main policy challenge.



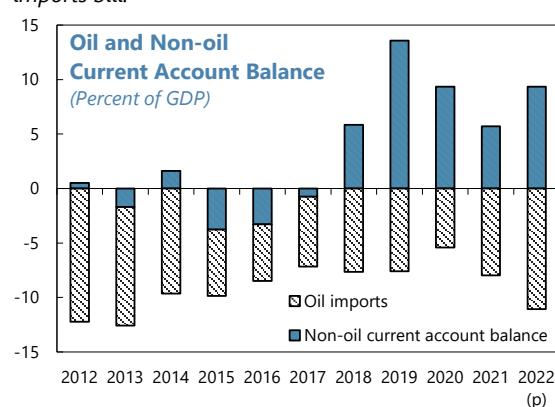
Sources: National authorities and IMF staff calculations.

Figure 2. Nicaragua: External Sector

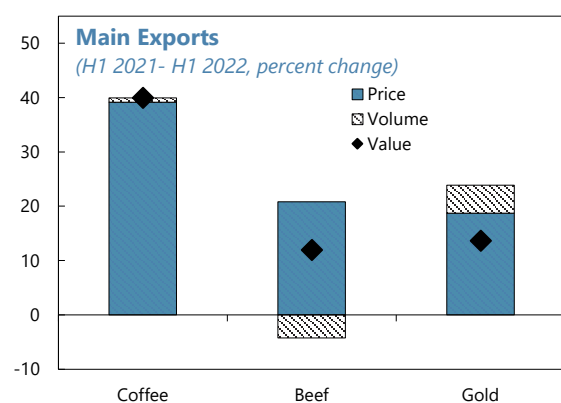
Imports surged driven by demand and commodity prices, and the CA swung into a deficit.



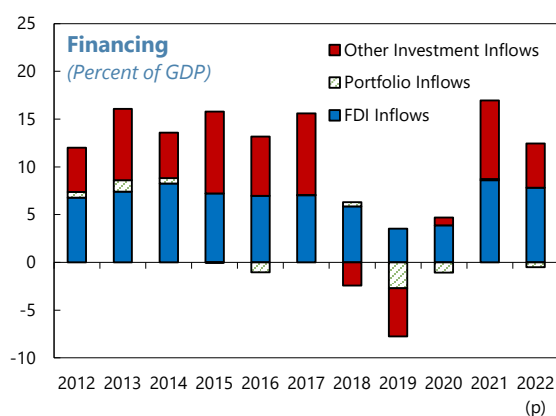
Higher international fuel prices reflected in a rising oil imports bill.



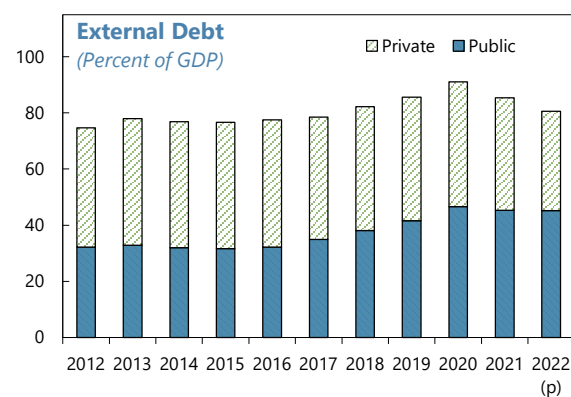
Traditional exports remain buoyant thanks to coffee, beef, and gold...



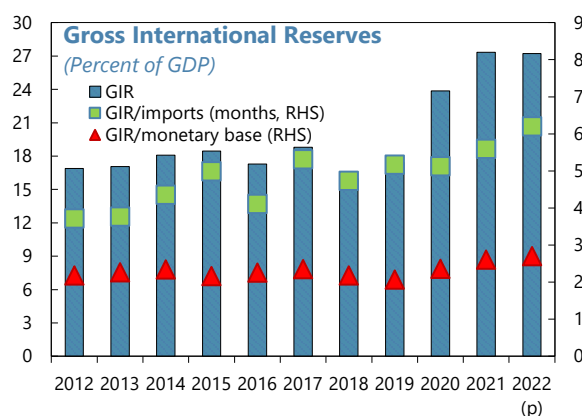
...while capital inflows are normalizing.



Public external debt plateaued...



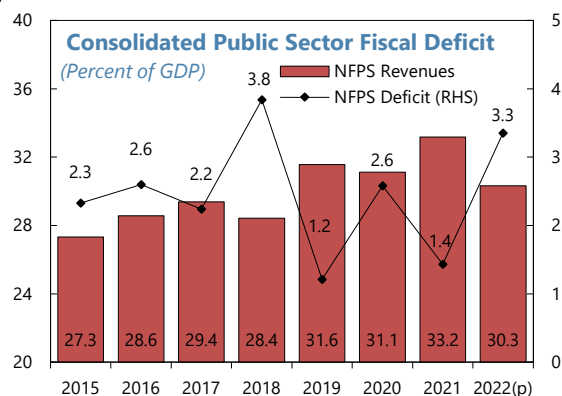
...and international reserves reached historic highs.



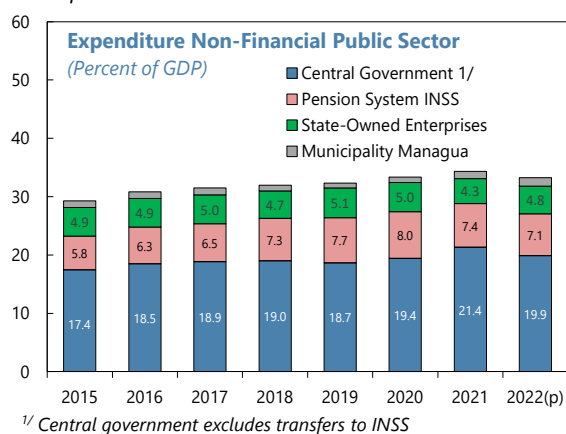
Sources: National authorities and IMF staff calculations.

Figure 3. Nicaragua: Fiscal Sector

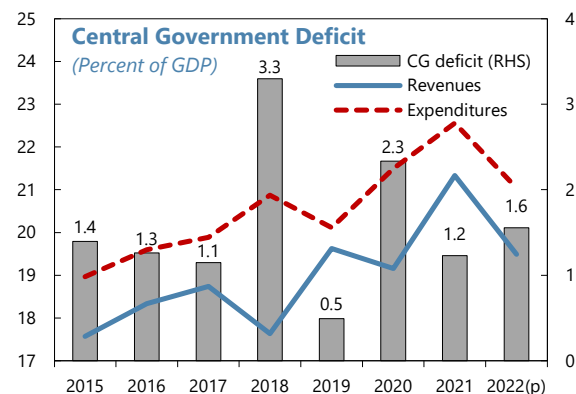
Fiscal deficit increased due to the pandemic and will further widen amid new subsidies...



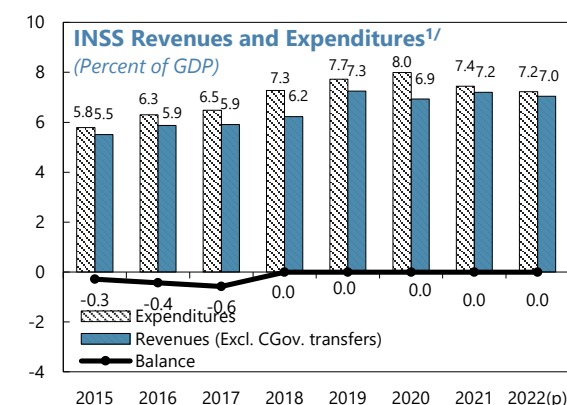
...as central government transfers to state-owned enterprises increased.



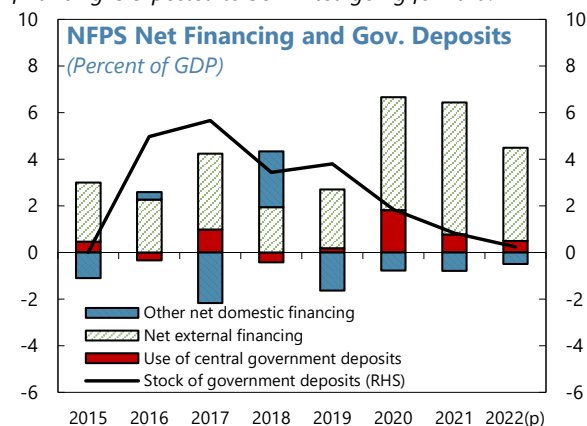
Central government revenues will fall in 2022 while higher energy costs and mitigation measures will increase public expenditures.



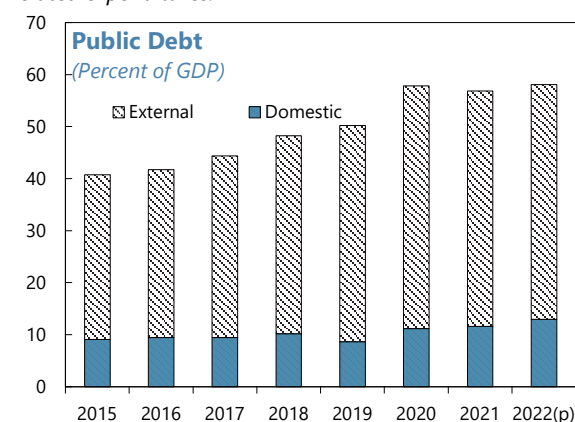
The pension system deficit increased as contributions fell since 2020.



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



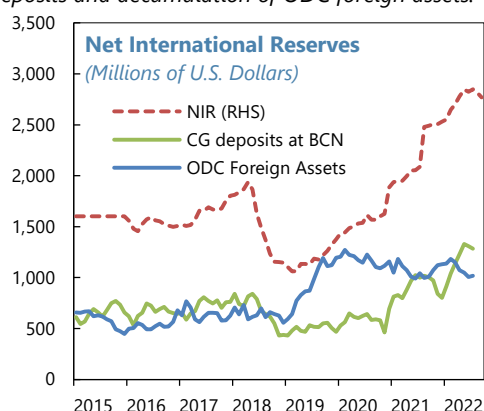
Public debt increased as a result of external financing extended to cover the pandemic and the hurricanes related expenditures.



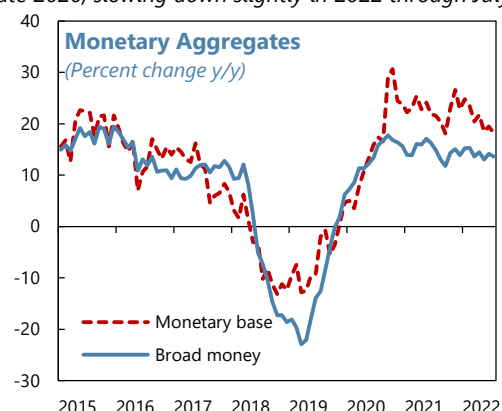
Sources: National authorities and IMF staff calculations.

Figure 4. Nicaragua: Monetary Sector

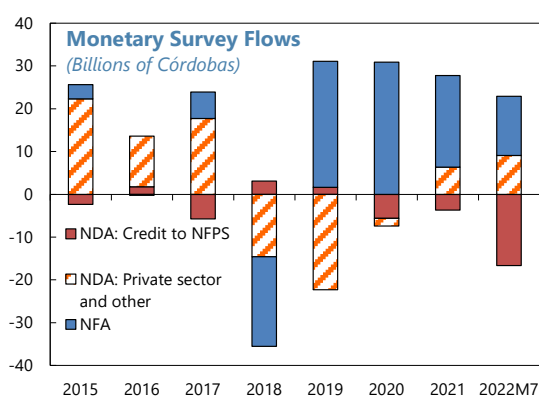
Fast growth in NIR in 2022, matching accumulation of CG deposits and decumulation of ODC foreign assets.



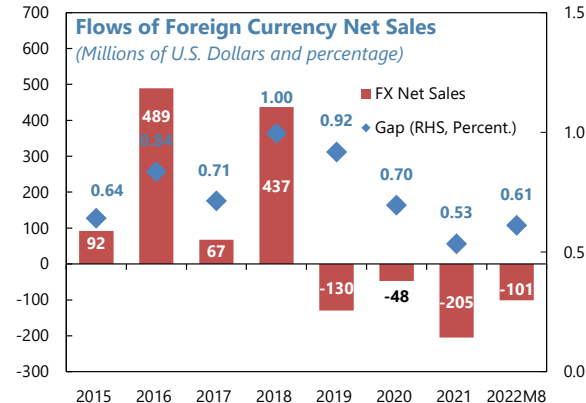
Monetary base and broad money are growing rapidly since late 2020; slowing down slightly in 2022 through July.



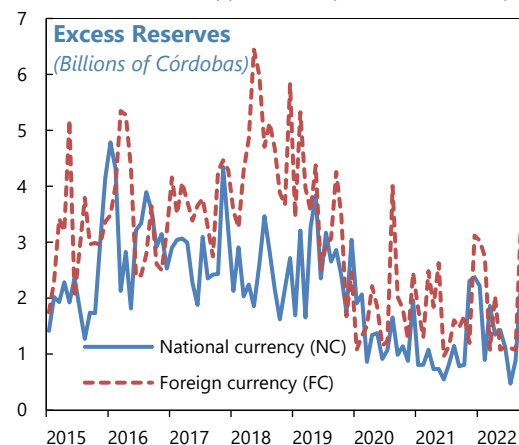
Credit to private sector recovering since 2021. In 2022 through July, NFA and NDA offset NFPS deposits.



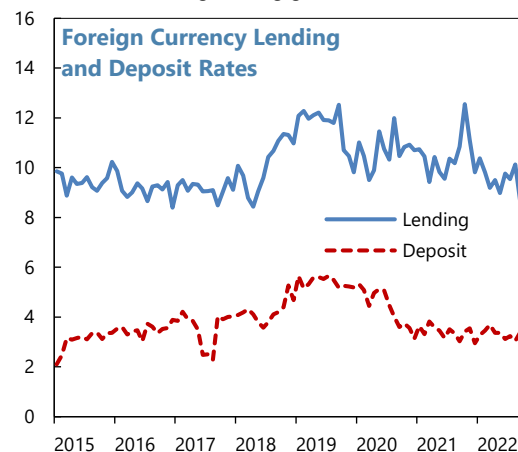
BCN FX net sales remain negative and muted since 2019, with official rate very close to market rate.



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



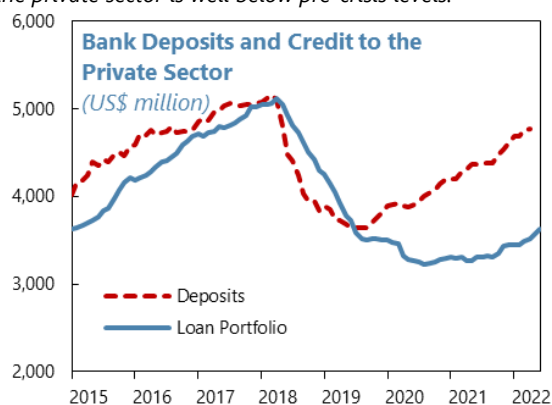
Lending and deposit rates declined since 2018 crisis; remain stable amid tightening global financial conditions.



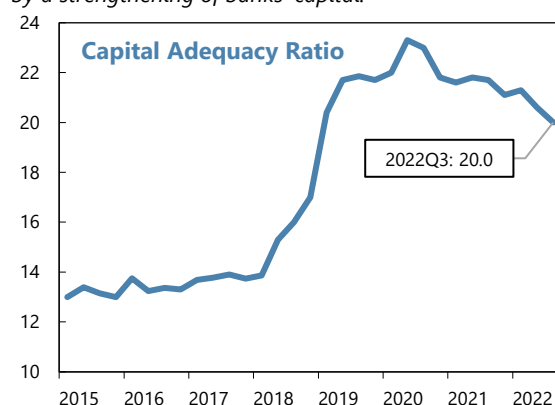
Sources: National authorities and IMF staff calculations.

Figure 5. Nicaragua: Financial Sector

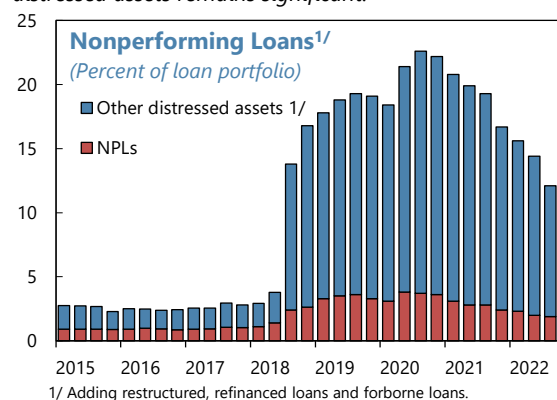
Bank deposits recovered strongly, but the level of credit to the private sector is well below pre-crisis levels.



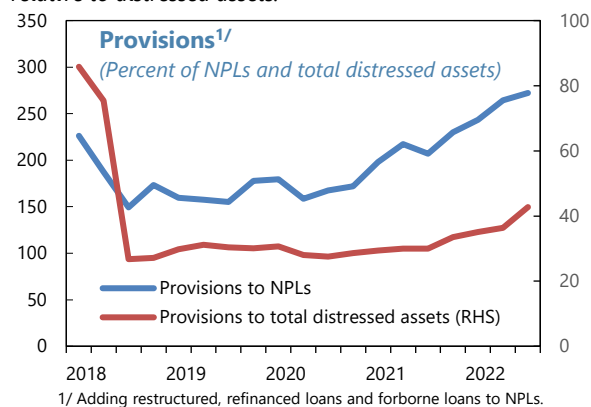
The lower level of credit since mid-2018 was accompanied by a strengthening of banks' capital.



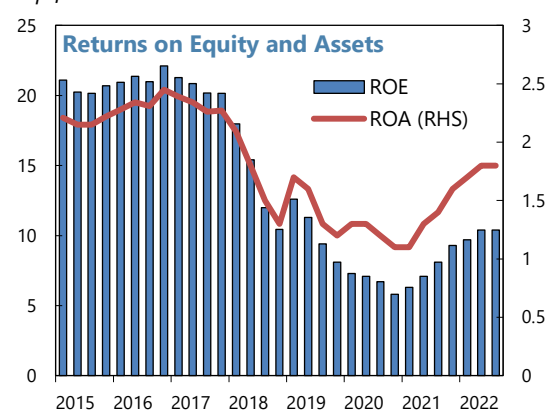
NPLs have been falling since 2021, but the level of distressed assets remains significant.



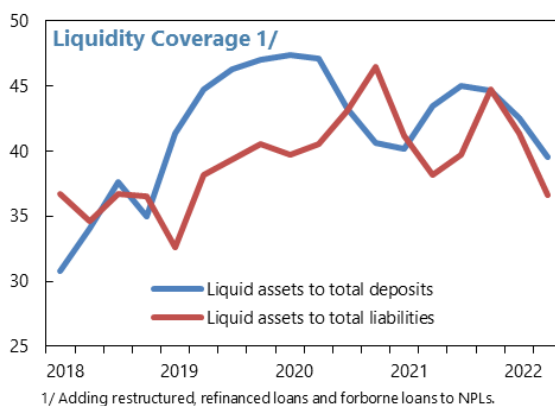
Provisioning seems strong relative to NPLs, but lags behind relative to distressed assets.



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



Banks operate with comfortable liquidity.



Sources: National authorities and IMF staff calculations.

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

I. Social and Demographic Indicators							
GDP per capita (current US\$, 2021)	2,141.0			Income share held by the richest 10 percent (2014)	37.2		
GNI per capita (Atlas method, current US\$, 2021)	2,010			Unemployment (percent of labor force, 2020)	11.1		
GINI Index (2014)	46.2			Poverty rate (national pov. line, in percent, 2016)	24.9		
Population (millions, 2020)	6.5			Adult literacy rate (percent, 2015)	82.6		
Life expectancy at birth in years (2019)	74.7			Infant mortality rate (per 1,000 live births, 2020)	13.8		
II. Economic Indicators							
	2017	2018	2019	2020	2021	2022	2023
					Prel.	Projections	
Output	(Annual percentage change; unless otherwise specified)						
GDP growth	4.6	-3.4	-3.8	-1.8	10.3	4.0	3.0
GDP (nominal, US\$ million)	13,786	13,025	12,611	12,586	14,001	15,737	17,233
Prices							
GDP deflator	4.1	2.7	5.5	5.5	3.3	10.2	8.4
Consumer price inflation (period average)	3.9	4.9	5.4	3.7	4.9	10.2	8.4
Consumer price inflation (end of period)	5.7	3.9	6.1	2.9	7.2	11.2	6.1
Saving and investment (percent of GDP)							
Gross domestic investment	29.9	24.1	17.4	19.3	23.6	23.5	24.0
Private sector	22.0	16.5	10.8	11.4	14.0	14.8	15.0
Public sector	8.0	7.6	6.6	7.8	9.7	8.7	9.0
Gross national savings	22.8	22.3	23.4	23.2	21.4	21.8	22.2
Private sector	17.9	19.6	18.8	18.9	13.9	17.0	16.2
Public sector	4.8	2.7	4.5	4.3	7.4	4.8	6.0
Exchange rate							
Period average (Cordobas per US\$)	30.1	31.6	33.1	34.3	35.2	...	...
End of period (Cordobas per US\$)	30.8	32.3	33.8	34.9	35.6	...	...
Fiscal Sector							
Consolidated public sector (overall balance after grants)^{1/}	-2.2	-3.8	-1.2	-2.6	-1.4	-3.3	-2.6
Revenue (Incl. grants)	29.4	28.4	31.6	31.1	33.2	30.3	29.6
Expenditure	31.6	32.3	32.8	33.7	34.6	33.7	32.2
of which: Central Government overall balance^{2/}	-17.7	-18.9	-0.5	-2.3	-1.2	-1.6	-0.7
Revenue	2.2	1.9	19.6	19.2	21.3	19.5	19.0
Expenditure	19.9	20.9	20.1	21.5	22.6	21.0	19.6
Cash payments for operating activities	15.3	16.6	16.6	17.1	16.7	16.4	15.0
Net cash outflow: investments in NFAs	4.5	3.5	3.5	4.4	5.8	4.6	4.7
of which: Social Security Institute (INSS) overall balance^{3/}	-0.6	0.1	0.2	0.0	0.3	0.0	0.0
Revenue	5.9	7.4	7.9	8.0	7.7	7.2	6.9
Expenditure	6.5	7.3	7.7	8.0	7.4	7.2	6.9
Money and financial							
	(Annual percentage change)						
Broad money	11.7	-18.7	6.2	15.6	13.8	14.9	10.8
Credit to the private sector	16.0	-8.7	-15.6	-3.6	5.3	8.2	9.5
Net domestic assets of the banking system	8.8	-7.7	-15.0	-6.3	2.4	7.9	15.9
Non-performing loans to total loans (ratio)	1.0	2.6	3.2	3.7	2.4	...	...
Regulatory capital to risk-weighted assets (ratio)	13.8	17.1	21.6	21.8	21.1	...	...
External sector							
	(Percent of GDP, unless otherwise indicated)						
Current account	-7.2	-1.8	6.0	3.9	-2.3	-1.7	-1.8
of which: oil imports	6.4	7.6	7.6	5.4	8.0	11.1	9.5
Capital and financial account	11.8	1.8	-1.9	3.0	11.8	9.4	6.3
of which: FDI	7.0	5.9	3.5	3.9	8.6	7.8	5.1
Gross international reserves (US\$ million) ^{3/}	2,593	2,080	2,199	3,003	3,828	4,286	4,344
In months of imports excl. maquila	4.6	4.3	5.0	7.1	6.5	6.3	6.3
Net international reserves (US\$ million) ^{4/}	1,802	1,146	1,374	1,887	2,531	2,792	2,917
In months of imports excl. maquila	3.2	2.3	3.1	4.4	4.3	4.1	4.2
Public sector debt^{5/}	44.4	48.3	50.2	57.8	56.9	58.1	56.1
Domestic public debt	9.5	10.2	8.6	11.2	11.6	12.9	11.8
External Public Debt	34.9	38.0	41.6	46.6	45.3	45.2	44.3
Private sector external debt	43.6	44.2	44.0	44.4	40.1	35.4	32.1
Memorandum items:							
Bank credit (annual percentage change)	8.5	-13.9	-17.4	-5.6	4.5	...	...

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

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

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

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

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

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

Includes data on the domestic debt of SOEs and municipalities.

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

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

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

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

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

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

Table 3. Nicaragua: Savings Investment Balance, 2017–27
(Percent of GDP, unless otherwise specified)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Prel.			Projections			
Gross national disposable income	106.2	107.4	110.2	108.7	109.8	113.0	110.7	110.9	110.9	110.9	111.0
Nominal GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Net factor payments from abroad	-5.2	-5.0	-3.7	-6.6	-5.8	-6.1	-5.8	-5.6	-5.7	-5.8	-5.8
Net transfers from abroad	11.4	12.4	13.9	15.3	15.6	19.1	16.5	16.5	16.6	16.8	16.8
Consumption	83.4	85.1	86.9	85.5	88.4	91.2	88.5	88.9	88.6	87.9	88.0
Public sector ^{1/}	14.4	14.8	15.1	15.0	14.2	14.4	14.1	13.9	13.7	13.4	13.5
Private sector	69.0	70.3	71.8	70.5	74.2	76.8	74.4	75.0	75.0	74.5	74.5
Gross domestic investment	29.9	24.1	17.4	19.3	23.6	23.5	24.0	24.4	24.9	25.6	25.5
Public sector ^{1/}	8.0	7.6	6.6	7.8	9.7	8.7	9.0	8.9	8.9	9.1	8.6
Private sector	22.0	16.5	10.8	11.4	14.0	14.8	15.0	15.5	16.0	16.5	16.9
National saving	22.8	22.3	23.4	23.2	21.4	21.8	22.2	22.1	22.3	23.0	23.0
Public sector	4.8	2.7	4.5	4.3	7.4	4.8	6.0	6.1	6.4	6.6	6.2
Private sector	17.9	19.6	18.8	18.9	13.9	17.0	16.2	16.0	15.9	16.4	16.8
External saving	7.2	1.8	-6.0	-3.9	2.3	1.7	1.8	2.4	2.6	2.6	2.5
Public sector	3.1	4.9	2.1	3.5	2.2	3.9	3.0	2.8	2.5	2.5	2.5
Private sector	4.1	-3.1	-8.1	-7.5	0.0	-2.2	-1.2	-0.4	0.1	0.1	0.1
Memorandum items											
Exports of goods and services	41.6	42.7	45.3	42.4	47.3	50.0	47.2	47.1	47.1	47.1	47.2
Imports of goods and services	55.0	51.9	49.6	47.2	59.3	64.7	59.7	60.4	60.6	60.7	60.7

Sources: National authorities and IMF staff calculations.

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

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

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

Sources: National authorities and IMF staff calculations.

1/Includes financial derivatives

2/Assumes HIPC equivalent terms were applied to the outstanding debt to non-Paris Club bilaterals. Exclude SDR allocation.

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

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

Table 5a. Nicaragua: Operations of the Budgetary Central Government, 2017–27
(Millions of Córdoba, unless otherwise specified; GFSM 2001)

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

Sources: National authorities and IMF staff calculations.

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

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

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

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

Table 5b. Nicaragua: Operations of the Budgetary Central Government, 2017–27
(Percent of GDP, unless otherwise specified; GFSM 2001)

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

Sources: National authorities and IMF staff calculations.

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

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

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

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

Table 6a. Nicaragua: Operations of the Consolidated Public Sector, 2017–27
(Millions of Córdoba, unless otherwise specified; GFSM 2001)

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

Sources: National authorities and IMF staff calculations.

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

Table 6b. Nicaragua: Operations of the Consolidated Public Sector, 2017–27
(Percent of GDP, unless otherwise specified; GFSM 2001)

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

Sources: National authorities and IMF staff calculations.

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

Table 7. Nicaragua: Gross Fiscal Financing Requirements, 2017–27^{1/}

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

Sources: National authorities and IMF staff calculations.

^{1/}Includes the central government, Social Security Institute (INSS); Managua municipality (ALMA); state-owned airport (EAAI); ports (EPN); oil (PETRONIC); electricity generation, transmission and regulation (ENATREL, ENEL, INE); water and sewer (ENACAL); food (ENABAS); trade and public enterprise corporation (ENIMPORT and CORNAP); telecommunications (TELCOR); technological institute (INATEC); post (CORREOS); and lottery (LOTERIA).^{2/}Includes CG amortization of bank recapitalization bonds and non-NFPS debts.^{3/}Includes Central government deficit financing for US\$341 mn, which in the revised 2018 budget is financed by a new bond issuance.^{4/}Includes US\$150 million (1.2 % of GDP) of central government transfers to the INSS, a part of a repayment of a historical debt. Projections for 2020–26 assume that central government will continue to transfer resources to the INSS in order to close the pension system deficits (specific amounts reported in Table 3a and Table 3b).^{5/}Includes SOE suppliers, INSS other investments, floating debt, and privatization receipts.

Table 8a. Nicaragua: Summary Accounts of Central Bank and Financial System, 2017–27
(Billions of Córdoba, unless otherwise specified)

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

Sources: National authorities and IMF staff calculations.

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

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

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

^{4/}Banking system and other financial institutions.

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

^{6/}Currency in circulation plus bank reserves in national currency.

Table 8b. Nicaragua: Summary Accounts of Central Bank and Financial System, 2017–27
(Billions of Córdoba, unless otherwise specified)

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

Sources: National authorities and IMF staff calculations.

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

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

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

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

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

Sources: National authorities and IMF staff calculations.

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

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

Sources: National authorities and IMF staff calculations.

1/ Adding restructured, refinanced and forborne loans, as well as repossessed assets, to NPLs.

2/ 12-month average, except for 2018 that uses annualized data.

3/ Banking system only.

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

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

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

Sources: IMF staff estimates and projections.

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

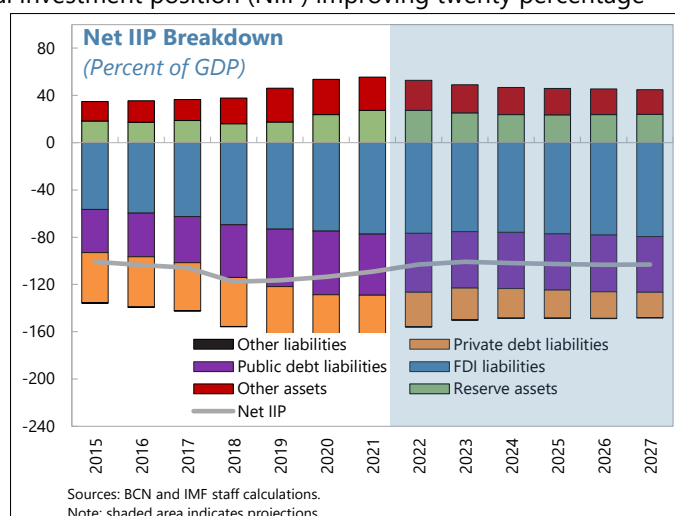
Annex I. External Sector Assessment

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

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

Foreign Assets and Liabilities: Position and Trajectory

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



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

in the medium term. This is projected to occur in spite of a gradual decline in reserve and other assets (relative to GDP) via a larger reduction in public and private external debt and other liabilities.

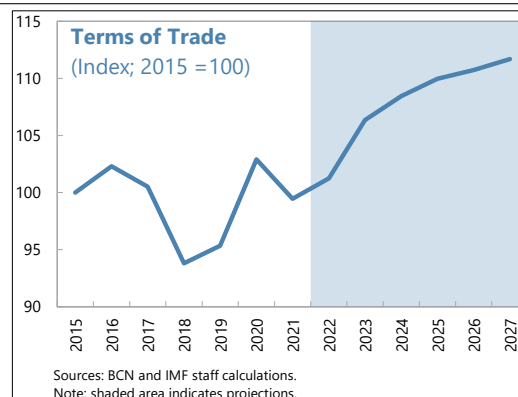
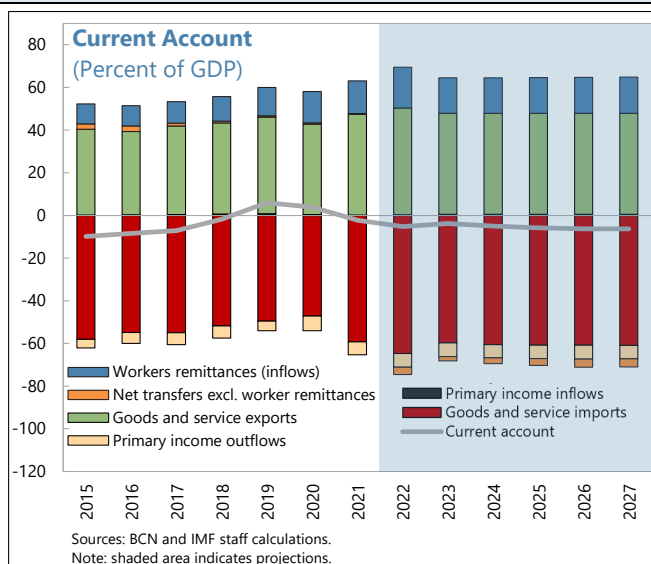
2021 (% GDP)	NIIP: -109	Gross Assets: 55	Debt Assets: 50	Gross Liab.: 165	Debt Liab.: 85
--------------	------------	------------------	-----------------	------------------	----------------

Current Account

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

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

Assessment. The estimated current account gap in relation to the norm using the EBA Lite model is 1.5 percent of GDP. This result is obtained after accounting for cyclical factors, a COVID-related adjustment for tourism (0.45 percent of GDP) and remittances (-0.24 percent). Domestic policy gaps contributed -1.7 percent of GDP to the current account, with the largest gaps due to the lower than desirable fiscal balance (-1.3 percent) and higher than desirable public health spending (-0.8 percent) reducing the current account balance. On the other hand, analogous policy gaps in trading partners more than offset these contributions, with significant gaps due to the lower than desirable fiscal balances (1.7 percent) and higher than desirable public health spending (0.7 percent). On net, these two policy gaps led to a CA gap of about 0.3 percent of GDP. In addition, excessive capital controls in trading partners contributed another 0.3 percent of GDP and insufficient credit growth in Nicaragua contributed another 0.2 percent of GDP. In



aggregate, policy gaps contributed about 1 percent of GDP to the current account gap, with the remainder of about 0.5 percent of GDP reflecting the residual. The magnitude of the current account gap suggests that the 2021 external position is moderately stronger than the level implied by fundamentals and desired policies. With the strong increase in remittances and the rebound in tourism in the first six months of 2022, the current account for 2022 is now estimated to be smaller than in 2021, and, as a result the expected current account gap will be lower for 2022.

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

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

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

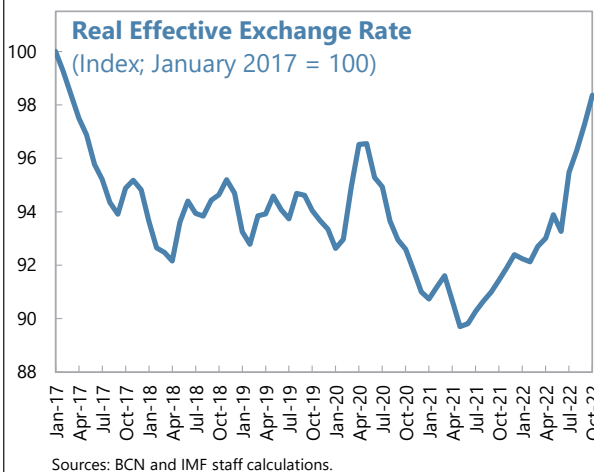
Sources: National authorities and IMF staff calculations.

Real Exchange Rate

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

After declining in 2017, the real exchange rate remained stable until the Covid-19 pandemic, where it first increased. However, the RER gradually decreased as inflation picked up in the United

States. By the end of 2021, and continuing into 2022, substantially higher inflation rates in Nicaragua than



in the United States are contributing to a rapid appreciation of the real exchange rate, by about 5 percent in 2022 alone. The latest reading is 97.3, 4.9 percent above the average level in 2021.

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

Capital and Financial Accounts: Flows and Policy Measures

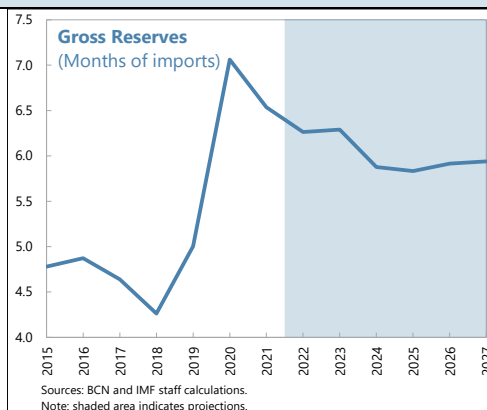
Background. In 2021, the CA deficit of 2.3 percent of GDP was more than fully covered by net FDI inflows of 8.6 percent of GDP and general government external borrowing of 5.8 percent of GDP. 80 percent of FDI inflows were in the form of equity securities. As the current account deficit was substantially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

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

FX Intervention and Reserves Level

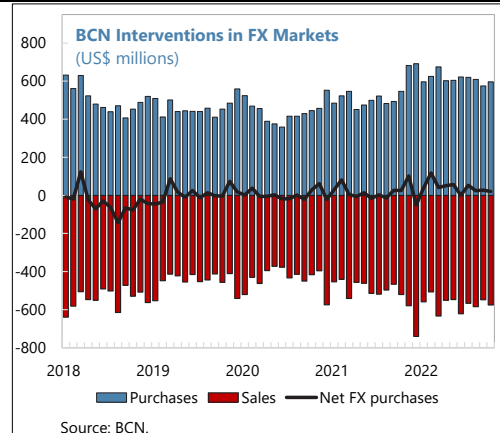
Background. Gross international reserves at end-2021 were US\$3.8 billion or 6.5 months of imports. The stock of reserves grew by US\$830 million in 2021 (US\$1.75 billion since their nadir in end-2018), supported by an increase in FDI inflows outpacing the growing trade deficit. Reserves continue to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

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



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

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



Annex II. Resilience of the Financial Sector and Credit Growth

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

- 1. Before the socio-political crisis of 2018, the Nicaraguan financial system was healthy and rapidly expanding, in both credit and deposits.** The Nicaraguan financial system was composed of six commercial banks, one development bank and four financing companies and its assets represented 61 percent of GDP. By March 2018, Nicaraguan banks ¹ had been growing for several years, both in terms of credit and deposits. They had adequate levels of capital (CAR² of 13.9 percent) and liquidity (liquidity ratio³ of 30.8 percent). Profitability was high (ROA of 2.1 percent and ROE⁴ of 17.9 percent) and nonperforming loans (NPLs) were low (1.1 percent).
- 2. The socio-political crisis of 2018 was the most difficult shock hitting the economy in the past years.** Starting in April 2018, Nicaraguan banks experienced significant deposit withdrawals that threatened their normal functioning. However, the BCN quickly provided liquidity lines to banks to ensure that they could respond to the deposit outflow. In parallel, Nicaraguan banks started to sharply reduce their credit stock in order to swiftly adapt their balance sheets to the lower levels of available funding. By the end of 2018, deposits⁵ had shrunk by 30 percent and gross credit by 11 percent since the beginning of the shock. But by the end of 2019, the cumulative reduction in deposits and gross credit since the beginning of the shock was very similar (29 percent and 30 percent respectively).
- 3. The difficult economic situation also translated into a deterioration of the creditworthiness of borrowers.** Reported NPLs quickly went up, reaching 3.8 percent by mid-

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

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

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

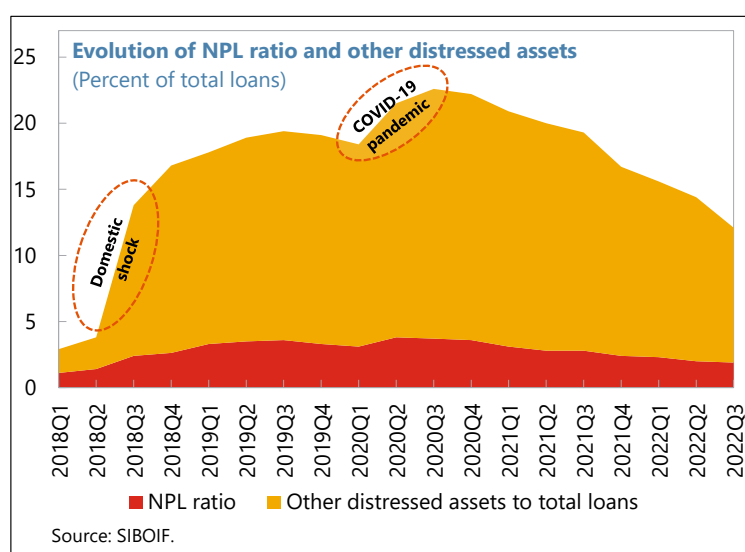
⁴ Return on Equity (ROE), Return on Assets (ROA).

⁵ Deposits from the public held by banks.

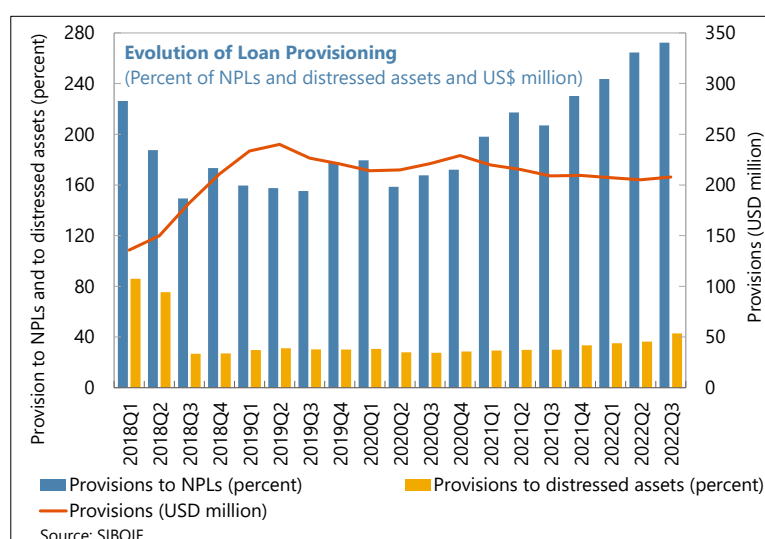
2019. The authorities also granted temporary forbearance to banks until the end of 2019. However forbore loans⁶ were reported as performing which led to banks' balance sheets not adequately reflecting the creditworthiness of their borrowers. In addition, many loans still performing were restructured and refinanced by banks during 2018 and 2019. As a result, when adding restructured, refinanced, and forbore loans, as well as repossessed assets, to NPLs, the ratio of total distressed assets to total loans was six-fold the NPL ratio by the end of 2019 (19.1 percent vs. 3.2 percent).

4. Since April 2020, the COVID-19 global pandemic hit Nicaragua, also affecting the financial system.

Although the effects of the pandemic on the financial system did not impact the recovery of deposits from the previous domestic shock, asset quality was hampered with a further deterioration of banks' credit portfolios. As a result, NPLs and total distressed assets⁷ resurfaced until they reached a peak ratio of 3.7 and 22.6 percent by September 2020. The authorities also approved another temporary forbearance measure—this time transparent and subject to strong safeguards, which led to its very limited use by banks. The new forbearance measure expired at the end of 2020. Both NPLs and other distressed assets have followed a declining trend since September 2020, but the total stock of distressed assets is still significant (12.1 in September 2022).



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



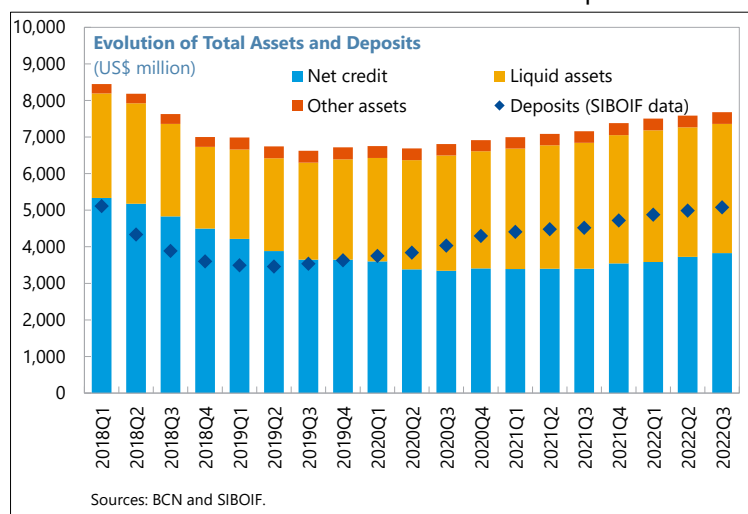
⁶ Known as "Aliviados".

⁷ When adding restructured, refinanced, and forbore loans, as well as repossessed assets, to NPLs.

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

6. The increasing confidence in the resilience of the financial sector led to a strong recovery of deposits⁹. The recovery started in the third quarter of 2019 (well before the recovery in GDP or the sustained increase in remittances), and it was at the beginning of 2020 that deposits started to register positive y-o-y growth. The deposits' recovery path quickly strengthened by mid-2020 leading to 11 percent y-o-y growth and has been maintained for over two years¹⁰. This strong growth rate has allowed deposits to surpass pre-crisis levels (measured in Córdoba).

7. The path of recovery followed in bank credit¹¹ has been much slower. Although credit seemed to have reached its trough at the end of 2019, the COVID-19 pandemic hit the economy and borrowers in April 2020, leading to a further reduction of credit that lasted until September 2020. It was only as of June 2021 that bank credit started to register y-o-y growth. This seems to reflect the lower risk appetite of Nicaraguan banks, which preferred to channel excess liquidity to fixed-term investments, both domestic and internationally¹², until the recovery had a strong hold, rather than providing credit to the private sector in a context where the amount of distressed assets in their balance sheets was still significant. In fact, the portion of liquid assets¹³ went up from representing 54 percent of the net credit portfolio in March 2018 to consistently reach more than 90 percent of the net credit portfolio since mid-2020.



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

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

⁹Deposits from the public held by banks.

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

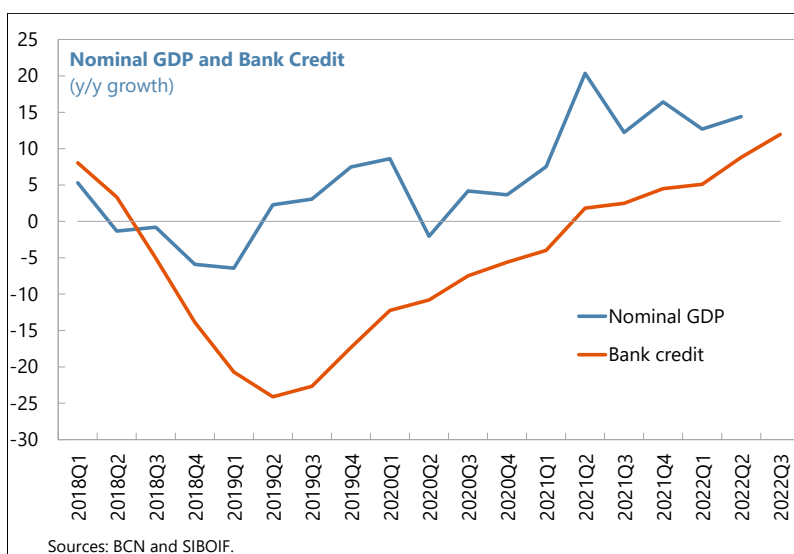
¹¹Gross credit provided to the economy by the credit institutions under SIBOIF's supervision (7 commercial banks, 1 development bank and 2 financing companies). Data provided by SIBOIF.

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

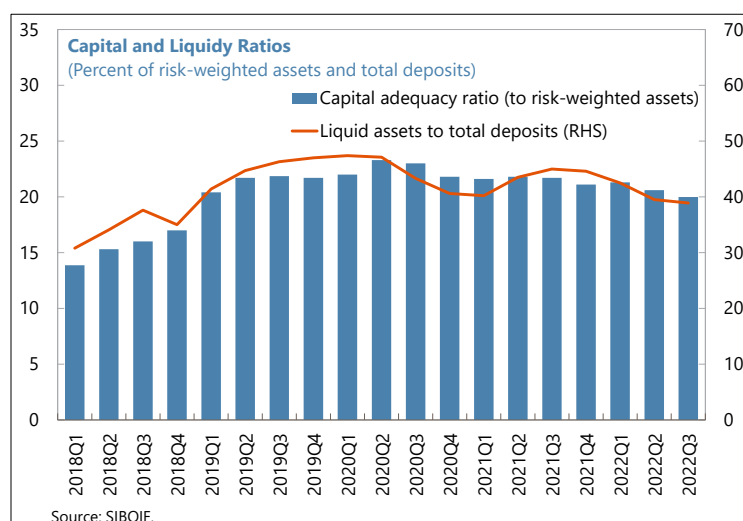
¹³Cash, deposits at the central bank and fixed-term securities.

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

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



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



¹⁴ Data provided in US dollars by the SIBOIF.

Nicaraguan banks have operated with an average capital adequacy ratio above 20 percent¹⁵. As for liquidity, banks have maintained a ratio of liquid assets¹⁶ to total deposits over 40 percent until recently, whereas their average LCR went from 150 percent at the beginning of 2019 to stay beyond 250 percent since mid-2020. These levels are expected to diminish as credit growth continues. At the same time, banks have managed to remain profitable despite the lower yields of fixed-term securities relative to credit and the higher level of capital. However, this profitability also reflects the low level of provisioning relative to total distressed assets.

¹⁵ Or beyond 18 percent if excluding the development bank “Produzcamos” from the sample.

¹⁶ Liquid assets are represented by cash, deposits at the CB and fixed-term securities.

Annex III. Risk Assessment Matrix¹

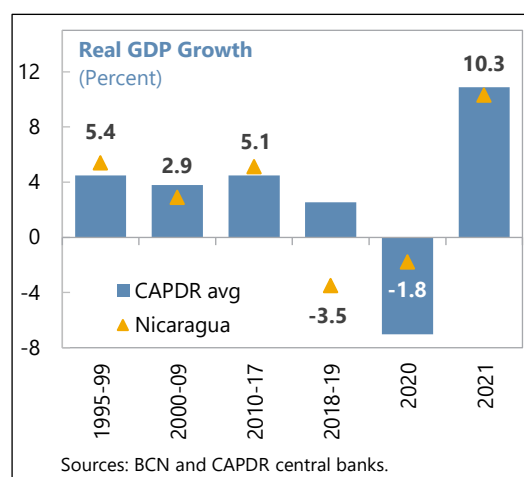
Risks		Policy Response
External		
Commodity price shocks. A combination of continuing supply disruptions (e.g., due to conflicts and export restrictions) and negative demand shocks causes recurrent commodity price volatility and social and economic instability.	High Likelihood Medium Impact	Provide targeted and time-bound fiscal support measures to the vulnerable segments of the population. Strengthen social safety nets. Tighten monetary policy in case second-round inflation effects materialize. Improve the resilience of supply chains in collaboration with the private sector.
Intensifying spillovers from Russia's war on Ukraine. Further sanctions resulting from the war and related uncertainties exacerbate trade and financial disruptions and commodity price volatility, with Europe, LICs, and commodity-importing EMs among the worst hit.	High Likelihood Medium Impact	Accelerate structural reforms aimed at increasing competitiveness and strengthening the resilience of the domestic economy.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth slowdown, with outright recessions in some countries, spillovers through trade and financial channels, and downward pressures on some commodity prices. <ul style="list-style-type: none">• U.S.: Amid persistently high inflation driven by tight labor markets, supply disruptions and continued commodity price shocks, the Fed tightens policies faster and by more than anticipated, resulting in a "hard landing", housing market correction, and a stronger U.S. dollar.	Medium Likelihood High Impact	Provide coordinated response by monetary and fiscal policies. Calibrate the policy reaction to the depth of the global slowdown and Fed policy spillovers. Accelerate structural reforms aimed at improving market flexibility to accommodate shocks to export demand.
Local Covid-19 outbreaks. Outbreaks in slow-to-vaccinate countries or emergence of more contagious vaccine-resistant variants force new lockdowns or inhibit commerce. This results in extended supply chain disruptions, slower growth, capital outflows, and debt distress in some EMDEs.	Medium Likelihood Medium Impact	Continue vaccination campaign and prioritize health spending. Monitor pandemic developments and stand ready to introduce new measures. Strengthen social safety nets.
Domestic		
A deterioration in business climate and intensification of sanctions on Nicaragua. The business climate could deteriorate and sanctions on Nicaragua could intensify and broaden, impeding trade, reducing external demand, and curtailing access to external financing.	Medium Likelihood High Impact	Enhance governance framework and its effective implementation, and accelerate structural reforms to increase competitiveness. Foster diversification and facilitate job creation. Adjust fiscal expenditure, while protecting social spending.
Natural disasters related to climate change. More frequent natural disasters deal severe damage to infrastructure (especially in smaller vulnerable economies) and amplify supply chain disruptions and inflationary pressures, causing water and food shortages and reducing medium-term growth.	High Likelihood Medium Impact	Enhance climate mitigation and adaptation measures. Prioritize investments for infrastructure resilience. Strengthen disaster risk management and preparedness to provide rapid support to affected population.

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

Annex IV. Output Growth Factor Analysis

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

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



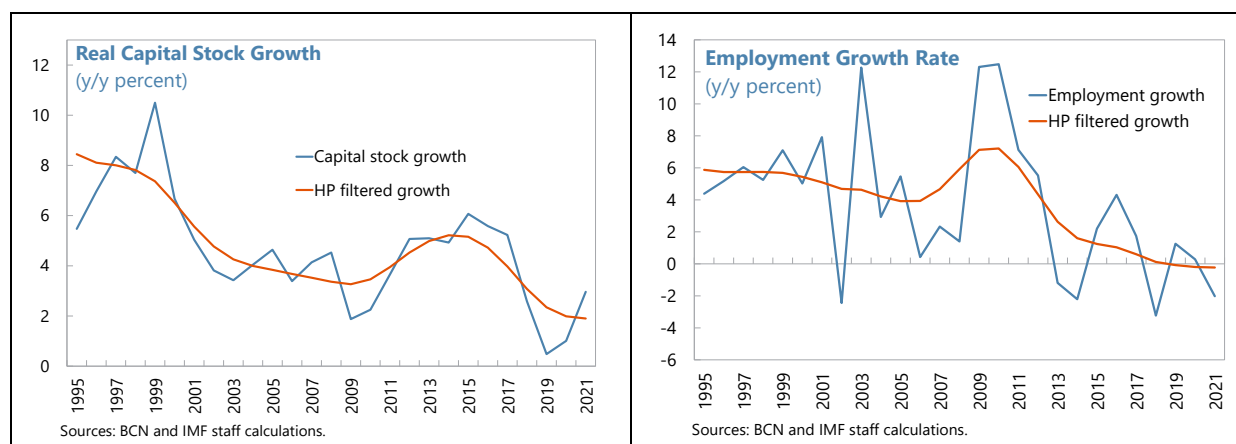
2. A reassessment of growth contributing factors is needed given the much stronger than expected rebound. In the midst of the downturn, the 2019 staff report, published in February 2020 evaluated that potential growth rate declined to 3 percent, given the severity of the shocks, and uncertain political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

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

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

Sources: Haver and IMF staff estimation.

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



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

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

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

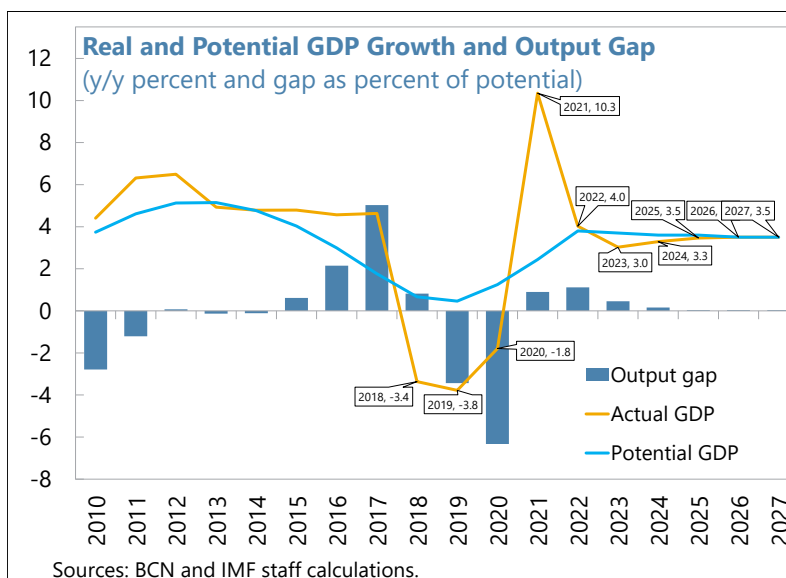
² During the 2018–20 period the potential output growth was estimated to be 0.75 percent on average.

6. Until now the labor market stayed out of synch with the economic recovery.

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

7. The speed of convergence to potential growth is expected to be gradual, due to the expected global slowdown in 2023 and the gradual recovery in investment. To increase its

potential GDP growth in the medium to long term, Nicaragua needs to enable sustained domestic and foreign investment, enhance human capital opportunities and quality, and improve the efficiency of the labor market. These elements would also support productivity growth and lead to a faster convergence to higher potential growth rates.



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

Despite an economic recovery starting in late 2020, Nicaragua still had 120,784 fewer jobs at end 2021 compared to end 2017 as employment fell by 3.3 percent in this period, resulting in a weakened labor contribution to growth. Understanding the drivers of the labor market performance in Nicaragua in the context of CAPDR¹ countries, will contribute to the appropriate policy recommendations to mitigate the impact of downturns on employment in Nicaragua, ease adjustments and inequalities in the labor market to hasten the employment recovery and thus, support growth.

A. Characteristics and Development of the Labor Market

1. The labor market in Nicaragua is characterized by high labor force participation rates but low female participation, low unemployment, and persistent underemployment (Figure 1).

Pre-crisis pre-pandemic Nicaragua had a labor force participation rate of 74 percent, reflecting a much lower participation rate for women than men (64 percent versus 80 percent respectively). Unemployment rate was 3 percent, but underemployment was 40 percent.

2. The three-year contraction has set back the progress made in labor market outcomes during the 2009-2019 decade.

At end 2020, the informality rate stood above the average of the last 10 years, underemployment and unemployment rates climbed back up, and labor force participation fell by 8 percent for women, and 5 percent for men. While the rates of informality, unemployment and underemployment fell back owing to the economic recovery in 2021, the labor force participation rate continued to fall.

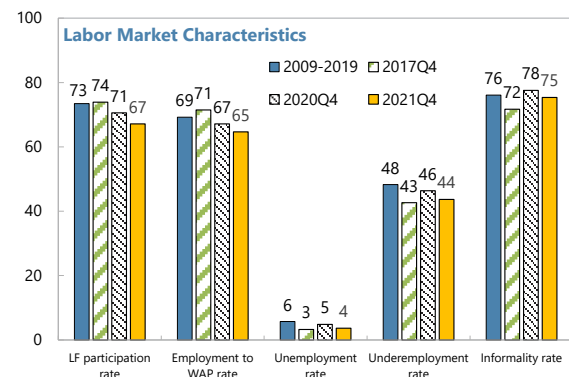
3. The increase in informality amidst the fall in economic activity during the pandemic shock is clear evidence of the countercyclical role of informality.

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

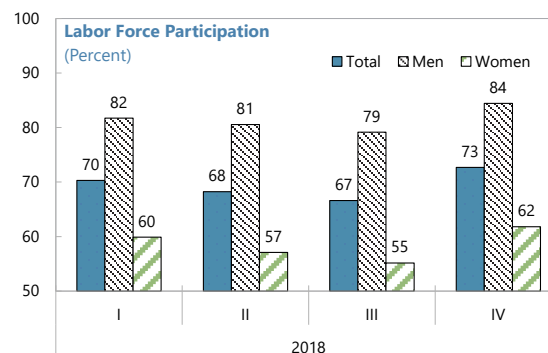
¹ CAPDR countries include Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama.

Figure 1. Nicaragua: Labor Market Characteristics and Development

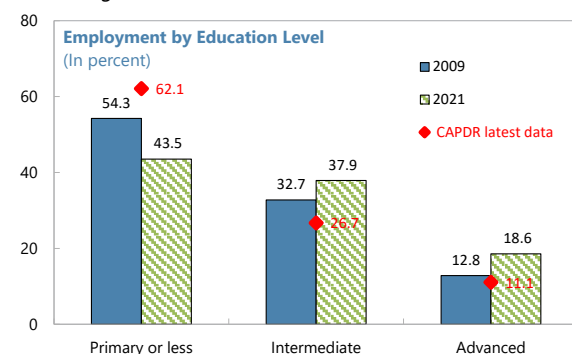
High level of informality and underemployment, low and constant rate of unemployment, high labor force participation...



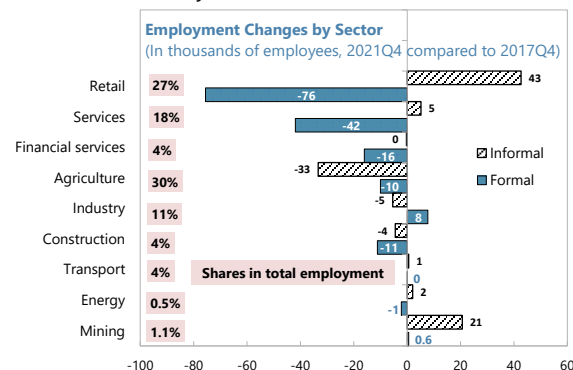
...however, a persistent large gender disparity. In labor force participation rates.



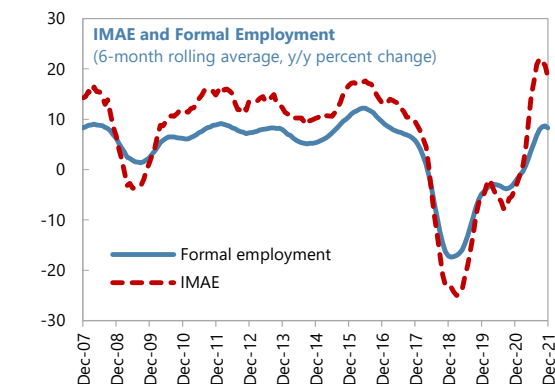
Although education level has improved, it remains low which might hinder transitions within the labor market.



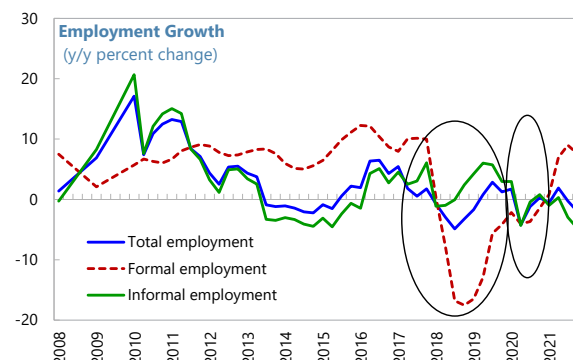
Industries with highest shares in total employment were the most affected by the 2018-20 crisis.



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

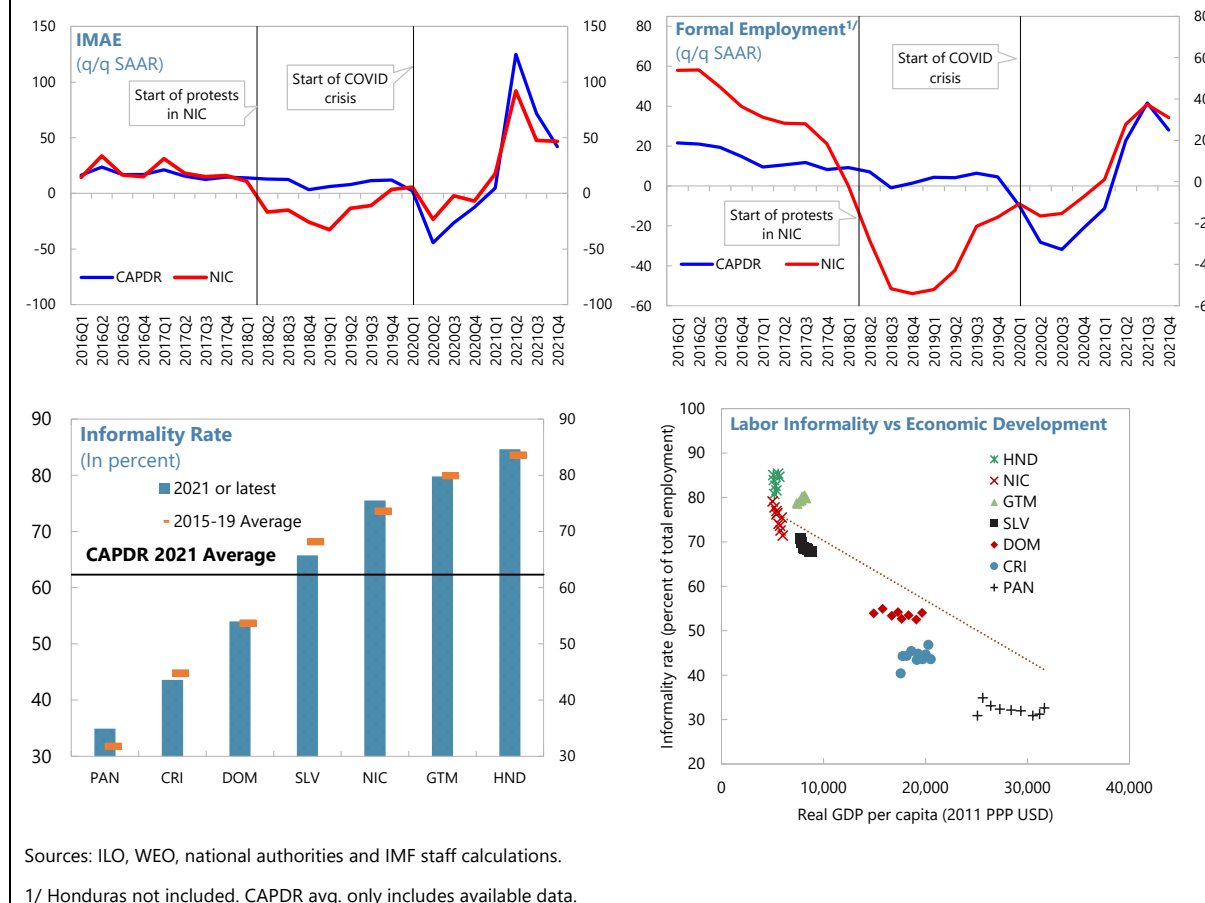


Informality is countercyclical and acted as a buffer during crisis (GFC, 2018 and 2020)



Sources: National authorities and IMF staff calculations.

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



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

² See Brenes and Cruz (2016) and the report of Hernández (2010).

³ As confirmed in The Global Competitiveness Report of 2019, WEF.

Text Table 1. CAPDR: Selected Labor Market Regulations

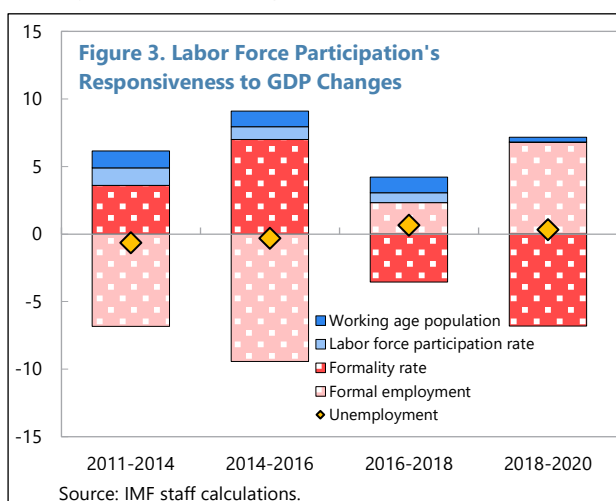
Country	Minimum Wage (US\$/month)	Ratio of Minimum Wage to Value Added	Premium for Night Work (% of hourly pay)	Premium for Overtime Work (% of hourly pay)	Paid Annual Leave (in working days) ^{1/}	Notice Period for Redundancy Dismissal (in weeks of salary) ^{1/}	Severance Pay for Redundancy Dismissal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

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

B. Labor Market Dynamics and Speed of Adjustment

5. Decomposing changes in unemployment reveals the limited fluctuations in unemployment over various phases of the business cycles, while larger fluctuations in informality and participation rates (Figure 3).⁴

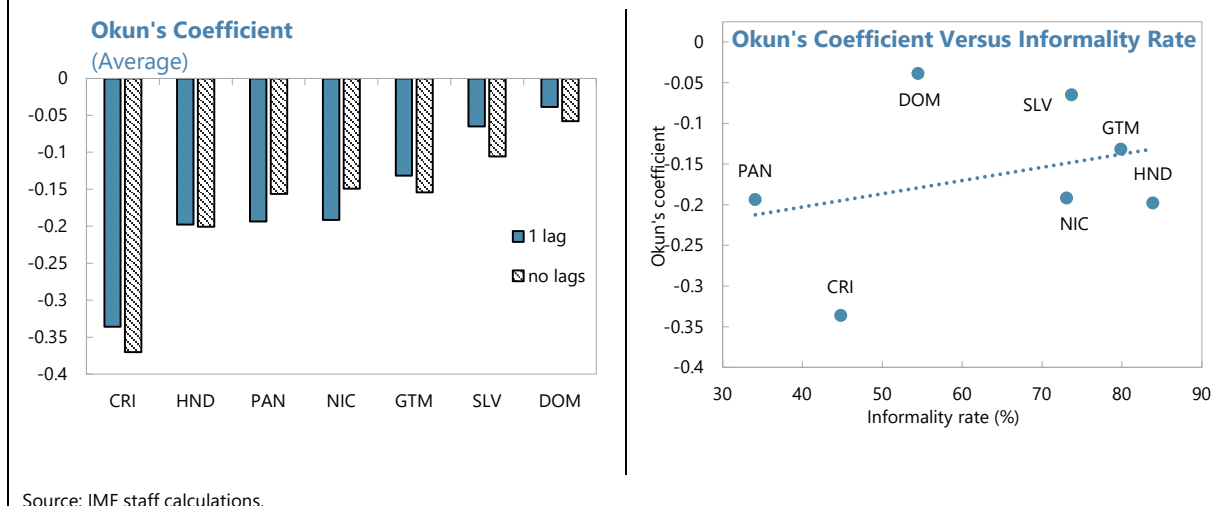
In Nicaragua the impact of shocks in unemployment is limited, although the socio-political crisis in 2018 brought a larger increase in unemployment rate in the country. On the supply side, the labor participation rate has been an active margin of adjustment, mitigating fluctuations in unemployment, expanding during the good growth years, but stopped growing in the years of GDP contraction. On the demand side, labor formalization has also played an important role in limiting movements in unemployment.



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

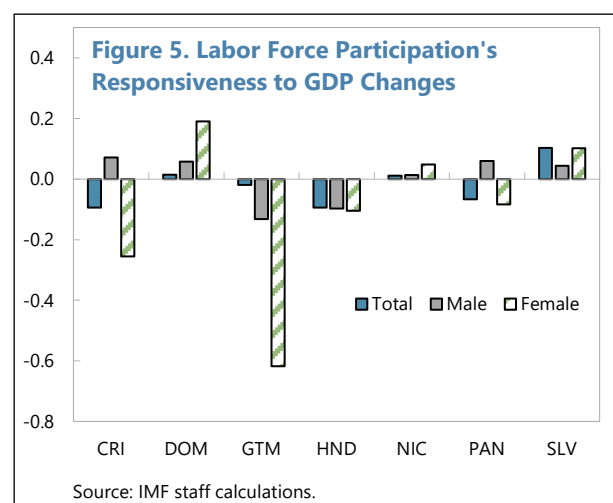
⁴ Following David, Lambert, and Toscani (2019) approach to decompose changes in unemployment for CAPDR countries into different margins of adjustment on the supply and demand side relative to a reference period as follows: $u - u^* \approx -(l_F - l_F^*) + (f - f^*) + (part - part^*) + (wap - wap^*)$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

Figure 4. CAPDR: Unemployment and GDP Growth



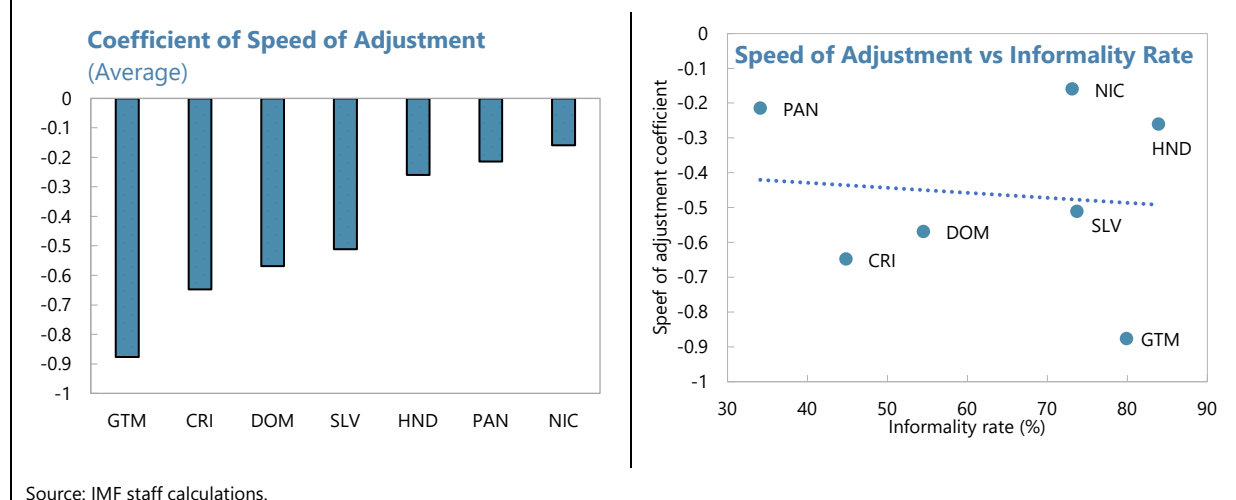
7. Sensitivity of labor force participation rates to changes in GDP stands out to be the smallest in Nicaragua relative to its regional peers, but it seems to be mostly for women

(Figure 5). The responsiveness of aggregate participation rates to cyclical fluctuations seems to be counter-cyclical in several countries due to changes in female participation rates. Within the region, female participation rates in some countries seem to be very responsive to the cycle, particularly in Guatemala, Dominican Republic, and Costa Rica. The response of female participation to changes in GDP is on average negative for CAPDR countries, indicating that as GDP downturns are more severe, the female participation rate increases thus moving in a countercyclical way.



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

Figure 6. CAPDR: Speed of Adjustment



C. Conclusion and Policy Recommendations

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

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

Annex VI. Building Resilience to Natural Disasters and Climate Change

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

A. Macrocriticality of Climate Change in Nicaragua

1. High exposure and sensitivity make climate change risks macro-critical in Nicaragua.

Nicaragua ranked amongst the most severely affected country in the Central America region by extreme weather events during 2000-2019.¹ There were 82 natural disaster events during the period 1960-2021 in Nicaragua, an average of 1.3 natural disasters per year (Text Table 1).² Nicaragua also registered the highest average damage per event (2.4 percent of GDP), and the third highest in terms of population affected per event (on average 2.1 percent of total population; Figure 1).³

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

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

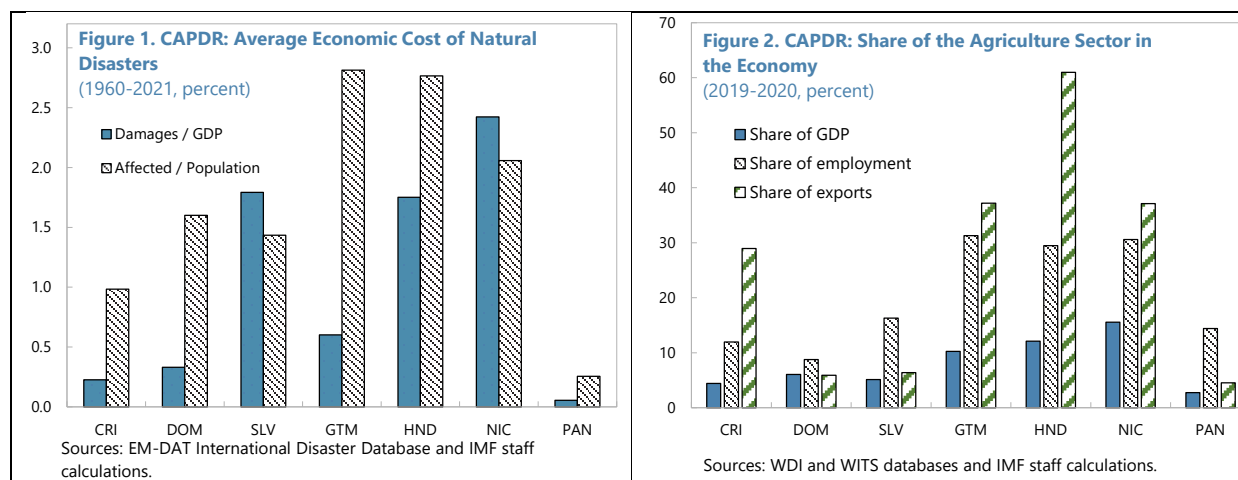
Source: EM-DAT.

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

¹ The 2021 [Global Climate Risk Index](#) ranks 180 countries by level of exposure and vulnerability to extreme events between 2000 and 2019. Nicaragua ranked 35 preceded by Guatemala (16) and El Salvador (28), and followed by Honduras (44), Dominican Republic (50), Costa Rica (89), and Panama (118).

² According to the International Disaster Database maintained by the Center for Research on the Epidemiology of Disasters (EM-DAT).

³ Affected population comprises people requiring immediate assistance during an emergency situation, including injured and homeless people.



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

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

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

Source: IMF staff estimation.

Note: Panel VAR model.

B. National Objectives and Ongoing Measures

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

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

⁴ See *Nicaragua: Macroeconomic Impact of Climate Change and Disasters*, IMF 2017 Selected Issues, [Country Report No. 2017/174](#).

⁵ The regionalized projections from the [World Bank Group's Climate Change Knowledge Portal \(CCKP\)](#) point to the most significant temperature rises occurring in the Pacific North Region by the end of the century, with maximum temperatures projected to rise between 3 to 8°C and a minimum temperatures projected to rise between 2 to 3°C.

⁶ See Kahn et al., 2019, ["Long-Term Macroeconomic Effects of Climate Change: A Cross-Country Analysis"](#), IMF Working Paper WP/19/215.

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

6. Plans to manage the transition to climate policy actions is ongoing, but implementation remains a challenge. Nicaragua's Nationally Determined Contribution (NDC) was last updated in 2020.⁹ It provides national policies and plans, including a general framework for effective land, environmental, climate risk management and resilience. The high-level commitment to the national framework is reflected in the 2019 Presidential Decree to establish the National Policy on Mitigation and Adaptation to Climate Change, and the National System of Response to Climate Change.¹⁰ In May 2021, the National Management System for Climate Change and the Secretary for Climate Change to the Presidency (SNGCC) were created to strengthen the coordination and implementation of climate change policies.¹¹ Disaster risk management is coordinated by the National System for Disaster Prevention, Mitigation and Attention (SINAPRED).

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

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

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

⁹ See [Nicaragua's NDC](#).

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

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

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

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

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

C. Building Disaster Resilience

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

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

- *Reforming taxation.* Although Nicaragua already has implemented several tax exemptions to promote clean energy and reforestation, a carbon tax could be considered to help the shift towards renewable energy sources.¹⁴ The proceeds could be used to finance the National Disaster Fund. Regular assessments of existing exemptions should be carried out to ensure equitability.
- *Incorporating disaster risk management in a comprehensive medium-term fiscal framework* would help better prepare for the realization of disaster shocks. The Ministry of Finance took an important step in this direction by including disaster risks in its first fiscal risks report published in May 2022.¹⁵
- *Adopting countercyclical fiscal policy* will help to build fiscal space to attend to emergency financing. This would require setting aside fiscal surpluses in years of strong growth to offset the costs of rebuilding in years affected by natural disasters.
- *Mobilizing climate financing* by enhancing project preparation, dialogue with donors and transparency to meet climate and resilience building goals.
- *Introducing natural disaster clauses in sovereign debt contracts* could help mitigate the risks from future climate shocks. Such provisions allow for an automatic extension of debt service should a large natural disaster as defined in the clause occur (i.e., either principal or interest payments or both would be deferred for a specific period), thereby temporarily reducing the sovereign’s gross financing needs.

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

¹⁵ See [Fiscal risks report](#).

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

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

11. In parallel, financial resilience measures could include:

- *Increasing resilience of financial institutions* to climate change risks. This would require including climate change risk in bank stress tests and consequent provisioning for climate risk.
- *Further strengthening the regulatory and supervisory framework* of the financial sector. This would imply adopting actual regulations to require financial institutions to provision against climate risks. Financial supervisors would also need to assess the risks of credit portfolios to climate risks.
- *Layering strategy for disaster risk financing.* This strategy uses a combination of contingent credit lines on concessional interest rates, natural disaster insurance, and funds allocated from international reserves to minimize the costs of hedging natural disasters.

Annex VII. Governance

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

A. Fiscal Transparency

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

- *Expanded the publication of documents and fiscal analyses on the Ministry of Finance's website.* Tax expenditures are included in the medium-term projections, policy guidelines for the 2023 budget formulation were published in September 2022, losses and damages from natural disasters are reported under the fiscal risks reports, debt sustainability analyses and the quarterly evaluation of public debt are now also published. Further efforts are planned in 2023, including the publication of disaggregated government guarantees under the annual debt report.
- *Established a plan to publish annual financial statements of the central government in March 2023.* The authorities should also plan to audit them by the Supreme Audit Institution (SAI) and strengthen the independence of the SAI.
- *Planned to expand the annual reporting of financial statements in June 2023 to include one more state-owned enterprises (SOEs) to the five already published.* The authorities should aim at including all SOEs and the audit reports of those statements conducted by the Comptroller General Office.
- *Improved the coverage of stocks and flows in published fiscal reports,* and the internal consistency of fiscal data, especially regarding the reconciliation of above and below the line in fiscal balance calculations. In addition, debt and fiscal statistics publication delays have been reduced.
- *Published the first fiscal risks report in May 2022* and will continue to improve reporting of macroeconomic risks, including from SOEs, and publish them annually.

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

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

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

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

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

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

C. Governance, Anti-Corruption and Rule of Law

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

7. Nicaragua must strengthen its asset declaration regime in line with international good practice and enhance effective monitoring and implementation. The legal framework must be improved, by expanding the categories of information requested to ensure it also covers interests and assets beneficially owned and ensuring online publication of declarations of politically exposed persons obligated under the Law of Public Ethics (Ley de Ética Pública). Further, implementation and monitoring must be improved, by ensuring complete migration to electronic submission and oversight¹, and by adopting risk-based approach monitoring.² The adoption of these reforms will increase trust in public officials, promote a culture of transparency, and help detect suspicious interests or variation of assets of politically exposed persons and other public officials.

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

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

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

² These suggestions are in line with the High Level Principles of the G20 on asset disclosure. For more information, read here: [G20 High Level Principles on Asset Disclosure by Public Officials 2012.pdf \(unodc.org\)](https://www.unodc.org/documents/g20/G20_High_Level_Principles_on_Asset_Disclosure_by_Public_Officials_2012.pdf)

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

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

Annex VIII. Past Fund Policy Advice

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

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

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

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

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

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

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

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