

NICARAGUA

Key conditions and challenges

Table 1 2020

Population, million	6.6
GDP, current US\$ billion	12.2
GDP per capita, current US\$	1844.7
International poverty rate (\$ 19) ^a	3.4
Lower middle-income poverty rate (\$3.2) ^a	13.1
Upper middle-income poverty rate (\$5.5) ^a	35.4
Gini index ^a	46.2
School enrollment, primary (% gross) ^b	120.6
Life expectancy at birth, years ^b	74.3

Source: WDI, Macro Poverty Outlook, and official data.

Notes:

(a) Most recent value (2014), 2011 PPPs.

(b) Most recent WDI value (2018).

Sociopolitical crisis coupled with the COVID-19 outbreak resulted in a three-year economic recession in Nicaragua and a commensurate increase in poverty levels. Eroding business confidence and uncertainty over the evolution of the pandemic have paralyzed consumption and investment. The external sector has been severely affected by a halt in tourism and financing constraints. Continued heightened political uncertainty and anticipated fiscal consolidation will restrain growth over the medium term.

For nearly two decades prior to the start of the recession in 2018, growth in Nicaragua averaged 4.0 percent a year, benefiting from sound macroeconomic management and a series of reforms to transform the country into a market economy. Consumption and investment were the main engines of the expansion as the country garnered a reputation of a relatively safe destination in a region afflicted by violence. Output growth has been driven primarily by factor accumulation, with total factor productivity lagging. Poverty measured at US\$3.2 more than halved between 2005 and 2014, from 28 to 10 percent, driven by rural growth. The last official poverty estimates date back to 2014, but projections suggest that poverty levels continued declining until 2018.

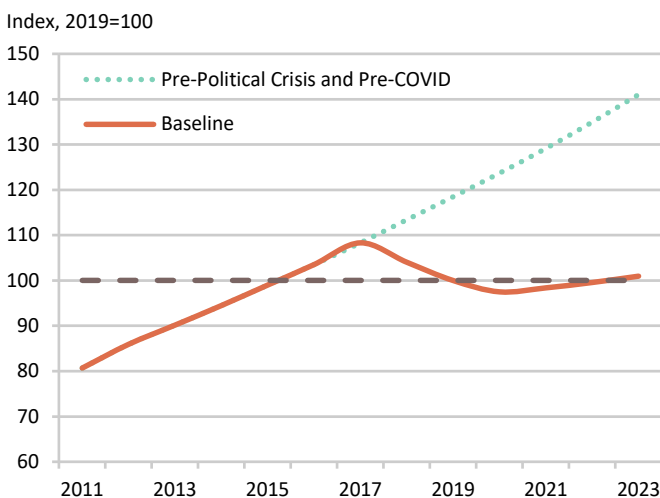
Civil unrest in 2018 followed by the COVID-19 pandemic derailed the economic expansion in Nicaragua and highlighted the country's need for improving institutions and infrastructure. Elevated uncertainty over the political environment and the evolution of the pandemic have led to a collapse in domestic demand, exacerbating vulnerabilities of the fiscal sector – particularly the pensions system. This has exposed the fragility of the country's institutions and has reversed gains in poverty reduction. Nicaragua remains one of the poorest countries in Latin America.

Uncertainties around the forthcoming elections and the evolution of the pandemic are the main immediate challenges the economy faces. Managing political uncertainty will be key to reviving the economy. Otherwise, the country will fail to attract new investment and Nicaragua will remain politically and financially isolated from the international arena, amid a series of sanctions imposed by the United States, Canada and the European Union. Additionally, as COVID-19 cases continue to rise globally, establishing a vaccination plan will be essential in ensuring a revival of tourism, a key sector.

Recent developments

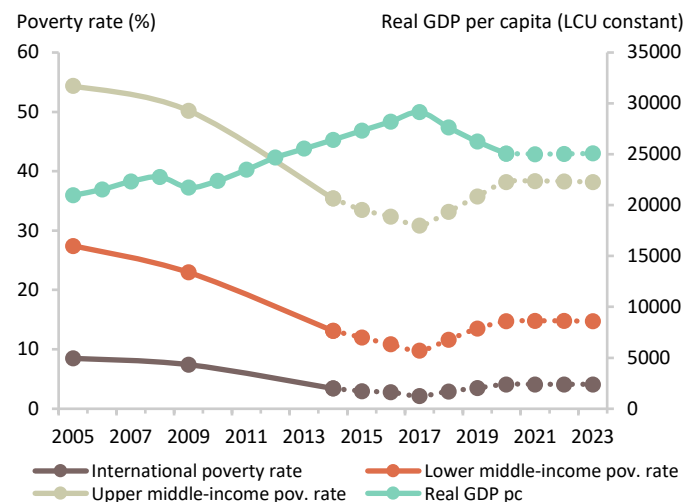
The pandemic derailed an incipient economic recovery at the start of 2020. In the first two months of 2020, a potential rebound was on the horizon driven by agriculture, mining, manufacturing, and hotels and restaurants sectors. However, the COVID-19 outbreak caused real GDP to plunge 7.5 percent (annualized) in 2020Q2 due to rising uncertainty over the evolution of the health crisis, domestic spread of the virus, voluntary private sector shutdowns, capital outflows, and plummeting tourism. Real GDP closed the year contracting an estimated 2.5 percent, which is less acute than early projections given a stronger than expected rebound in 2020Q4. The current account surplus improved to an estimated 7.6 percent of GDP in 2020 (from 6.0 percent in 2019) as a collapse in imports, resilience in remittances, and

FIGURE 1 Nicaragua / GDP level trajectory (pre- and post-crisis)



Sources: Central Bank of Nicaragua, World Bank.

FIGURE 2 Nicaragua / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

buoyant merchandise exports offset the contraction in tourism receipts. Formal employment dropped by 3 percent in 2020, following a 10 percent decline in 2019.

The fiscal deficit widened in 2020 to an estimated 3.7 percent of GDP (1.7 percent in 2019) due to higher COVID-19-related spending, including health care expenses and targeted social assistance programs, and lower revenue mobilization. The devastating humanitarian impact of the pandemic enabled the authorities to secure exceptional financing from multilateral institutions. Consequently, public debt is projected to have increased to 65.7 percent of GDP in 2020.

Complementing the fiscal policy response, the Central Bank of Nicaragua (BCN) took steps to shore up liquidity in the financial system. BCN lowered the reference rate and enabled banks to reduce the ratio of required reserves in local currency. It also tightened the allowable slide in the crawling peg to the US dollar from 5 percent to 3 percent.

The economic crisis, worsened by Hurricanes Eta and Iota in late 2020 (estimated

total economic loss of 6.1 percent of GDP), pushed approximately 90,000 Nicaraguans into poverty by the end of the year. GDP per capita dropped about 14.6 percent from an estimated US\$2,159 in 2017 to US\$1,845 in 2020.

Outlook

Continued fiscal stimulus and remittance inflows will provide support to consumption and private investment. However, growth will remain muted, well below long-term trend at an average 1.2 percent between 2021 and 2023 amid the absence of a clear plan for the vaccine rollout and pervasive political uncertainty. Continuation of the political status quo is likely to extend Nicaragua's international isolation and deter new private investments.

The sustained inflow of remittances into the country could slow the deterioration of household incomes for many Nicaraguans (four out of every ten households receive remittances from relatives

abroad) and thus attenuate the increasing trend in poverty since 2018. The share of poor households living below the international poverty line of US\$3.2/day (2011 PPP) is forecasted to stay flat at 15 percent in 2021 after trending upward since 2018. Unfortunately, the impacts on other welfare outcomes may linger on. For instance, school attendance at basic education levels was less than 10 percent of the total number of students officially enrolled, likely exacerbating learning poverty.

Reconstruction efforts related to Hurricanes Iota and Eta are expected to boost fiscal spending in 2021. However, growing concerns over debt sustainability (debt-to-GDP ratios are projected to peak at 69.0 in 2022) and weak growth prospects will prompt a fiscal consolidation, thereafter, weighing on growth.

Risks to the forecast are tilted toward the downside. Growth could be stalled with a more prolonged outbreak amid vaccine rollout delays, late resumption of travel to Nicaragua, intensification of the political crisis, and natural disasters.

TABLE 2 Nicaragua / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	-4.0	-3.9	-2.5	0.9	1.2	1.4
Private Consumption	-4.5	-2.5	-2.1	2.3	2.2	2.3
Government Consumption	-1.5	1.2	6.8	2.1	-4.3	-6.3
Gross Fixed Capital Investment	-20.1	-26.0	1.5	0.5	5.0	6.6
Exports, Goods and Services	-1.0	5.3	-8.5	3.7	3.5	3.5
Imports, Goods and Services	-14.0	-5.4	-3.0	5.1	3.8	3.7
Real GDP growth, at constant factor prices	-3.2	-3.4	-2.4	0.8	1.2	1.4
Agriculture	1.0	2.3	2.2	1.4	1.6	1.6
Industry	-1.3	-3.7	-3.2	1.2	1.3	1.3
Services	-5.0	-4.8	-3.4	0.4	1.0	1.4
Inflation (Consumer Price Index)	4.9	5.4	3.5	3.0	3.2	3.3
Current Account Balance (% of GDP)	-1.9	6.0	7.6	4.5	2.7	-0.2
Fiscal Balance (% of GDP)^a	-4.0	-1.7	-3.7	-5.4	-3.1	-0.6
Debt (% of GDP)^b	56.2	58.5	65.7	68.6	69.0	66.5
Primary Balance (% of GDP)^a	-2.8	-0.4	-2.5	-3.4	-1.2	1.3
International poverty rate (\$1.9 in 2011 PPP)^{c,d}	2.9	3.5	4.1	4.1	4.1	4.1
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{c,d}	11.6	13.5	14.7	14.8	14.8	14.7
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{c,d}	33.2	35.8	38.2	38.3	38.3	38.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.

(a) Fiscal and Primary Balance correspond to the non-financial public sector.

(b) Debt is total public debt.

(c) Calculations based on SEDLAC harmonization, using 2014-EMNV. Actual data: 2014. Nowcast: 2015-2020. Forecast are from 2021 to 2023.

(d) Projection using neutral distribution (2014) with pass-through = 1 based on GDP per capita in constant LCU.