NICARAGUA

Table 1	2021
Population, million	6.7
GDP, current US$ billion	14.0
GDP per capita, current US$	2090.9
International poverty rate ($2.15)[a]	3.9
Lower middle-income poverty rate ($3.65)[a]	14.4
Upper middle-income poverty rate ($6.85)[a]	42.1
Gini index[a]	46.2
School enrollment, primary (% gross)[b]	120.6
Life expectancy at birth, years[b]	74.7
Total GHG emissions (mtCO2e)	39.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2014), 2017 PPPs.
b/ WDI for School enrollment (2010); Life expectancy (2020).

Robust remittance inflows, fiscal stimulus, and favorable export prices drove economic recovery following the three-year recession brought on by the 2018 sociopolitical crisis, the COVID-19 pandemic, and two major hurricanes. Growth is expected to decelerate in 2022 and thereafter with moderation in external demand, unwinding of the fiscal stimulus, and slowdown in private investment. Nicaragua still faces lingering pandemic-associated negative welfare impacts with lower wages, employment, and activity compared to the pre-crisis period.

Key conditions and challenges

Nicaragua – one of the poorest countries in Latin America – continues to recover from three years of recession. A history of market-oriented reforms and sound macroeconomic management (including a crawling peg exchange rate serving as a nominal inflation anchor, and modest fiscal deficits) underpinned economic expansion before the 2018 sociopolitical crisis. Between 2000 and 2017, growth averaged 3.9 percent, led by remittance-fueled domestic demand and foreign direct investment (FDI). Nevertheless, productivity was low, growth was driven by factor accumulation and led by low-skill agriculture and manufacturing exports. A weak business environment stymied the country's growth prospects. Poverty, measured at US$3.65/day, more than halved between 2005 and 2017, from 29 to 12 percent, driven by growth in rural areas. Poverty ratcheted up since the onset of the sociopolitical crisis in 2018 followed by the Covid-19 pandemic and the hurricanes Eta and Iota reaching 16 percent by the end of 2020.

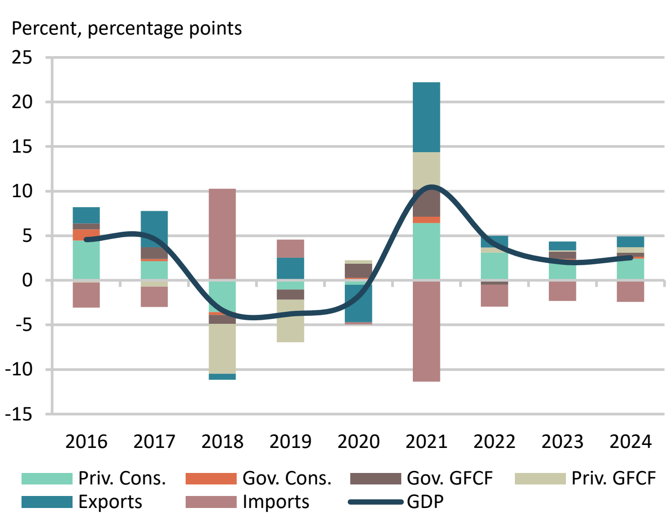
The economic impact of the pandemic in Nicaragua was limited due to mild containment measures and strong remittance inflows. Nevertheless, real GDP declined 1.8 percent in 2020 as voluntary shutdowns weighed on domestic demand, while the global crisis dragged external demand. Cumulative losses amounted to 8.7 percent over 2018-2020. Economic activity rebounded in 2021, recovering to pre-2018 levels, driven by large-scale public investment and strong export demand. However, the impacts of the COVID-19 crisis on the welfare of Nicaraguans continued to linger, as the main sources of income – wages and family businesses – remained affected. Tourism (12.9 percent of GDP in 2017) started to recover in 2021 but remains 6.3 percent below 2017 levels.

The global environment is expected to weigh on growth in Nicaragua as growth in advanced economies slows and inflationary pressures spark interest rate hikes globally. The current domestic political context and subsequent international reaction pose additional challenges to economic growth, including lower FDI inflows and higher borrowing costs. It will therefore be more urgent to establish productivity-boosting and confidence-enhancing reforms, including improved access to finance, property rights, and innovation.

Recent developments

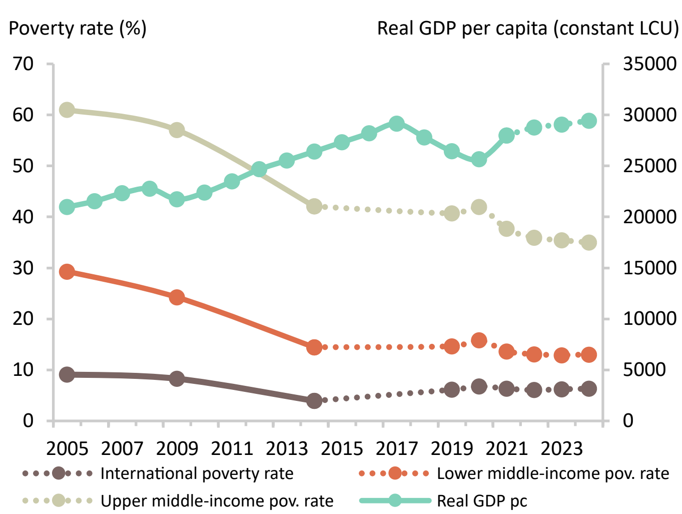
Real GDP increased 10.3 percent in 2021 and continued through the first half of 2022 with a 5.0 percent growth. Remittance-fueled private consumption and exports drove the expansion in 2022H1. Public consumption, COVID-19-related investment, and hurricane reconstruction fueled growth in 2021, but subsequently decelerated in 2022H1 following fiscal consolidation efforts and projects being finalized. Trade, manufacturing, hotel and restaurants, mining and transportation, and

FIGURE 1 Nicaragua / Real GDP growth and contributions to real GDP growth



Sources: Central Bank of Nicaragua and World Bank.

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



Source: World Bank. Notes: see Table 2.

communications were the leading sectors in 2022H1.

Welfare impacts of the COVID-19 crisis remain. Employment rates in 2022Q2 were lower than 2019Q2 (64 vs 66 percent), as labor-intensive sectors like construction, hotels, and restaurants have not fully recovered. According to the World Bank High Frequency Survey, around 10 percent of those formally employed, prior to the pandemic, transitioned to an informal job by the end of 2021. Employment and wage declines drove a reduction in family income for 28 percent of households. Inflation increased from 4.9 percent in 2021 to 12.1 percent (yoy) in August 2022, as commodity price pressures and supply-chain disruptions affected domestic food and transport prices, prompting the central bank to tighten monetary policy. As a result, food price inflation continues to rise in the country increasing the risk of food insecurity for parts of the population. The financial system has been recovering slowly, as asset quality and profitability have continuously improved. Credit growth was robust in 2022H1 as deposits continued to grow.

The fiscal deficit narrowed to 1.5 percent of GDP in 2021 as revenue growth surpassed spending growth. To mitigate the impact of higher prices, the government expanded energy and agricultural subsidies and froze gas prices, costing an estimated 1.5 percent of GDP. Higher revenues, particularly from income tax and VAT on imports, and multilateral loans are expected to finance the additional spending. Debt ratios nevertheless declined to 63 percent of projected GDP in 2022Q2.

The current account returned to deficit in 2021 but narrowed in 2022Q1 as a rising imports bill was offset by strong merchandise exports, a gradual resumption in tourism, and strong remittances. FDI remained robust at 12.9 percent of GDP in 2022Q1, in part destined for mining and energy projects, while international reserves remained adequate at 3.5 times the monetary base as of July 2022.

Outlook

The pace of expansion is expected to slacken in the second half of the year amid slowing external demand and fiscal consolidation. Growth is projected to moderate to 4.1 percent in 2022 and to slow further to 2.0 percent in 2023, consistent with a global economic deceleration. These events will prevent further reductions in poverty (defined as $3.65/day PPP) in 2022, which will then remain at around 13 percent. Inflation is expected to peak in 2022 and decline thereafter as commodity price pressures ease and higher interest rates reduce domestic demand.

The current account deficit is expected to widen in 2022 amid deteriorating terms of trade. In 2023 and onwards, the current account deficit is projected to narrow as import pressures ease due to lower commodity prices and weakening domestic demand. Meanwhile, FDI inflows are expected to slow, given the present political context.

Despite an anticipated fiscal consolidation as COVID-19 and hurricane reconstruction-related projects come to an end, the deficit is expected to increase in 2022 amid government subsidies, aimed at easing rising fuel costs, and narrow thereafter. Financing needs will be met through domestic borrowing and semi-concessional external borrowing, which will increase the cost of debt but will not compromise debt sustainability. The debt burden is expected to decline to 64.3 percent of GDP in 2024.

Risks to the forecast are on the downside and include: (i) deterioration of the political context which could lead to further international isolation ii) deterioration in the terms of trade; iii) faster-than-expected slow-down in advanced economies, and (iv) natural disasters.

TABLE 2 Nicaragua / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	-3.8	-1.8	10.3	4.1	2.0	2.5
Private Consumption	-1.3	-0.6	8.1	4.0	2.8	3.1
Government Consumption	0.7	1.9	4.4	-0.2	1.3	1.4
Gross Fixed Capital Investment	-24.5	10.4	33.9	0.5	3.8	4.3
Exports, Goods and Services	5.6	-8.9	18.0	2.8	2.2	2.6
Imports, Goods and Services	-3.4	0.4	18.5	3.7	3.5	3.6
Real GDP growth, at constant factor prices	-3.3	-1.7	8.3	4.2	2.1	2.5
Agriculture	2.0	0.1	6.9	2.4	1.5	1.4
Industry	-3.3	-1.4	17.7	3.9	2.7	2.6
Services	-4.8	-2.4	5.0	4.9	2.1	2.8
Inflation (Consumer Price Index)	5.4	3.7	4.9	8.9	5.5	4.5
Current Account Balance (% of GDP)	6.0	3.9	-2.3	-2.5	-1.4	-0.8
Fiscal Balance (% of GDP)[a]	-1.7	-2.6	-1.5	-2.1	-1.4	-1.2
Debt (% of GDP)[b]	58.1	65.9	66.5	67.0	66.2	64.3
Primary Balance (% of GDP)[a]	-0.4	-1.3	-0.3	-0.9	-0.1	0.0
International poverty rate ($2.15 in 2017 PPP)[c,d]	6.1	6.8	6.3	6.1	6.2	6.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	14.6	15.8	13.7	13.1	12.9	13.0
Upper middle-income poverty rate ($6.85 in 2017 PPP)[c,d]	40.7	42.0	37.7	36.0	35.5	35.0
GHG emissions growth (mtCO2e)	1.4	1.2	2.4	1.9	1.7	1.8
Energy related GHG emissions (% of total)	14.0	14.0	14.8	14.9	15.0	15.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
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: 2015-2021. Forecasts are from 2022 to 2024.
d/ Projections using microsimulation methodology.