

NICARAGUA

Key conditions and challenges

Table 1	2023
Population, million	7.0
GDP, current US\$ billion	17.9
GDP per capita, current US\$	2547.2
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	107.2
Life expectancy at birth, years ^b	73.8
Total GHG emissions (mtCO2e)	39.4

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Most recent value (2014), 2017 PPPs.
 b/ Most recent WDI value (2021).

GDP growth in Nicaragua is estimated at 4.3 percent in 2023, supported by a steep increase in remittances and foreign direct investment. Growth will be sustained over the medium term, though at a slightly slower rate in the context of prudent fiscal policy and limited progress in the implementation of growth-enhancing structural reforms. The country has high exposure to external shocks and poverty remains a persistent challenge.

Nicaragua is a small, open economy, driven by light manufacturing, services, and agriculture. The country has improved access to basic services and set the fundamentals for macroeconomic stability. It has demonstrated sound macroeconomic management with prudent fiscal and monetary policies, and continued reserve accumulation in recent years. Nicaragua has benefited substantially from foreign direct investment (FDI) and large remittances. Between 2010 and 2017, GDP growth averaged 5.1 percent on the back of solid private domestic demand and exports. Poverty rate, measured at US\$3.65 per day, more than halved between 2005 and 2014, from 29 to 14 percent, and is estimated to have continued declining in subsequent years up to 2018.

However, poverty increased to 15 percent by 2020 after the shocks from the sociopolitical unrest in 2018, the pandemic, and two hurricanes. GDP rebounded strongly in 2021, helped by large public investment, financed by government deposits, external financial assistance, and export demand. But this came at the expense of a surge in public debt which rose from 47.1 percent of GDP in 2017 to a peak of 65.5 percent in 2021.

Nicaragua is among the poorest countries in the region. Despite significant increases in trade openness in the past two decades, exports primarily consist of low-complexity products with limited destinations. High vulnerability to external shocks and

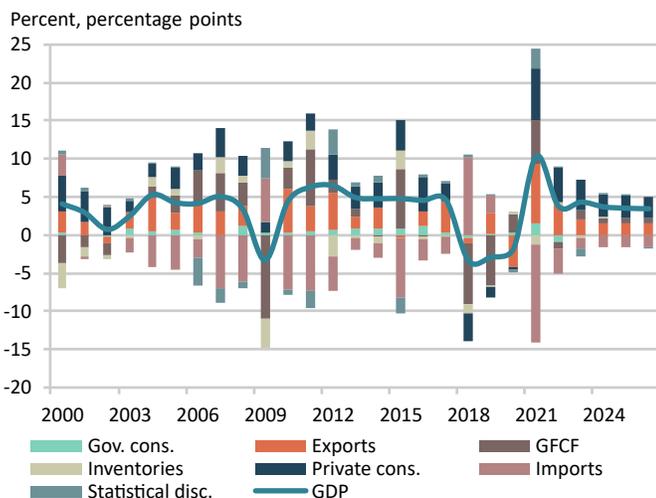
natural hazards, along with low levels of human capital, infrastructure gaps, and the weak institutional and business environment, have constrained its growth and social dividends. Nevertheless, Nicaragua has opportunities for sustainable growth, through investment in human capital and value addition in manufacturing and services sectors.

Recent developments

In 2023, the economy demonstrated robust performance, with growth estimated at 4.3 percent. This expansion was driven by sectors such as electricity, mining, trade, construction, finance, transport, and communications, exceeding expectations. Consumption and investment increased. The Monthly Index of Economic Activity (IMAE) reflected a year-over-year increase of 5.5 percent in December 2023. Consumption and investment increased by 13.3 and 10 percent in the third quarter of 2023 compared to the third quarter of 2022. Fiscal policy was managed prudently, with a slight increase in revenues and controlled public spending, resulting in a 0.7 fiscal deficit and 0.7 primary surplus. By the close of the year, 95.7 percent of the Public Investment Program had been executed, and public debt stood at 59.9 percent of GDP, marginally lower than the previous year.

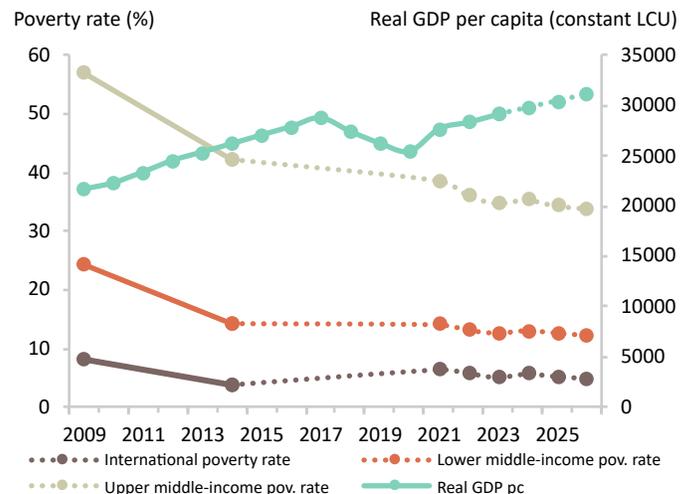
Tight monetary policy, a managed exchange rate, and declining global prices have helped reduce inflation to 5.6 percent year-over-year in December 2023

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.

from 11.6 percent in December of the previous year. The Central Bank of Nicaragua (CBN) kept the Monetary Policy Rate (MPR) at 7 percent throughout the year, maintaining the rate set after an increase in 2022.

The current account deficit turned into a surplus of 4 percent of GDP in 2023, as lower import costs, particularly for petroleum and fertilizers, improved the terms of trade, and remittances reached a record high of over 27 percent of GDP. Strong FDI flows further helped to bolster net international reserves, which reached approximately six months of goods and services imports in 2023.

The sustained growth, coupled with lower inflation and higher remittances, led to an increased employment rate of 66.9 percent in the second half of 2023, close to pre-pandemic levels. Poverty, measured at US\$3.65 per day (2017 PPP), was projected to decrease to 12.5 percent in 2023 from 13.1 percent in 2022. The employment rate for women, at 56.9 percent in December 2023, showed a more significant increase compared to men's rate, at 78.2 percent,

relative to December 2022, but it remains substantially lower.

Outlook

In 2024, GDP growth is expected to decelerate, stabilizing at around 3.5 percent in the medium term. This anticipated slowdown is attributed to a decline in investment as projects funded by multilateral organizations are completed and private investors remain cautious. A moderation in remittances, exports, and FDI inflows is projected to reduce the external surplus yet continue to support the accumulation of international reserves.

In line with the expected decreasing trend in international inflation, domestic inflation is anticipated to be within the 4.0–5.0 percent range in the medium term. The easing of intense inflationary pressures should help maintain short-term stability in the Monetary Policy Rate (MPR) and alleviate pressures on purchasing power. Poverty levels, measured at US\$3.65 per

day (2017 PPP), are expected to hover around 13 percent in 2024–25.

The 2024 budget adheres to the medium-term budget framework and is consistent with fiscal prudence goals to decrease public debt and strengthen fiscal sustainability. Fiscal consolidation in the medium term is expected to rely on public investment cuts, with negative effects on growth, as significant adjustments in current spending require more profound reforms. The macroeconomic outlook is subject to several downside risks, including natural disasters, geopolitical uncertainties that could increase oil and food prices, economic downturns in major trading partners, and a decrease in concessional borrowing. The ongoing El Niño climate phenomenon has resulted in drought and extreme temperatures, reducing crop productivity and increasing food insecurity, impacting the Dry Corridor, which could offset the positive effects of remittances and lower inflation for certain population segments. Growth prospects may also be dampened by a reduced labor supply due to significant emigration.

TABLE 2 Nicaragua / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	10.3	3.8	4.3	3.7	3.5	3.5
Private consumption	8.7	5.9	4.9	3.8	3.7	3.6
Government consumption	9.3	-6.0	0.2	0.2	0.3	0.3
Gross fixed capital investment	26.3	-3.2	6.0	3.1	3.1	3.0
Exports, goods and services	18.1	8.6	4.0	3.2	3.1	3.0
Imports, goods and services	21.1	5.0	2.0	2.6	2.5	2.4
Real GDP growth, at constant factor prices	10.3	3.8	4.3	3.7	3.5	3.5
Agriculture	6.6	1.7	2.0	1.8	1.7	1.7
Industry	18.8	2.7	2.9	2.7	2.8	2.9
Services	8.5	4.7	5.5	4.6	4.3	4.1
Inflation (consumer price index)	4.9	11.6	5.6	4.8	4.3	4.0
Current account balance (% of GDP)	-3.1	-1.4	4.0	3.0	2.4	2.0
Net foreign direct investment inflow (% of GDP)	8.5	8.2	6.8	6.4	6.0	5.6
Fiscal balance (% of GDP)^a	-1.5	0.5	-0.7	-0.6	-0.5	-0.3
Revenues (% of GDP)	31.4	32.0	32.1	32.0	32.1	32.2
Debt (% of GDP)^b	65.5	60.5	59.9	59.0	58.6	57.8
Primary balance (% of GDP)^a	-0.3	1.9	0.7	0.8	0.9	0.9
International poverty rate (\$2.15 in 2017 PPP)^{c,d}	6.4	5.8	5.1	5.7	5.3	5.0
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{c,d}	14.2	13.1	12.5	13.0	12.6	12.1
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{c,d}	38.6	36.1	34.8	35.3	34.4	33.9
GHG emissions growth (mtCO₂e)	1.3	0.8	1.0	0.9	1.0	1.0
Energy related GHG emissions (% of total)	12.8	12.6	12.7	12.7	12.8	12.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

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: 2015-2023. Forecasts are from 2024 to 2026.

d/ Projections using microsimulation methodology.