NICARAGUA

Table 1	2023
Population, million	7.0
GDP, current US$ billion	17.8
GDP per capita, current US$	2530.3
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]	74.6
Total GHG emissions (mtCO2e)	39.6

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2014), 2017 PPPs.
b/ Most recent WDI value (2022).

Nicaragua's economy grew by 4.6 percent in 2023, primarily driven by the services sector. Prudent fiscal and macroeconomic policies have supported growth and lowered inflation to 4.8 percent by mid-2024, aided by stable exchange rates and subsidies. Poverty was reduced to 12.5 percent in 2023 but remains a challenge. GDP is projected to grow 3.6 percent in 2024, with stable inflation and declining debt. Risks, including financial conditions, economic downturns, and natural disasters, persist.

Key conditions and challenges

In recent years, Nicaragua has demonstrated strong macroeconomic management with a prudent fiscal approach that supported the accumulation of gross international reserves. GDP grew at an average rate of 5.1 percent from 2010 to 2017, fueled by strong domestic private demand and export performance. During this time, Nicaragua has benefited from high foreign direct investment (FDI) and remittances, which accounted for an average of 7.3 and 9.6 percent of GDP, respectively.

Nicaragua has made notable progress in reducing the poverty rate, defined as living on less than US$3.65 per day, dropping from approximately 29 percent in 2005 to 12 percent in 2018. However, socio-political unrest, the pandemic, and hurricanes contributed to a renewed increase in poverty rate to 15 percent by 2020. Despite challenges, the economy rebounded in 2021, supported by public investment, export demand, and external aid pushing GDP above pre-crisis levels. However, post-2014 survey data, based on simulation, shows improvements in housing conditions and education from 2015 to 2022, but no economic progress. Public debt climbed from 48.2 percent of GDP to 65.9 percent of GDP between 2017 and 2021.

Nicaragua, largely reliant on agriculture, faces vulnerability from external shocks, natural disasters, and systemic weaknesses in human capital, infrastructure, and governance. Improving fiscal management, government effectiveness, and strengthening the fiscal position are crucial for reducing poverty and enhancing human capital. Investment in human capital and fostering productivity in manufacturing and services will support Nicaragua's potential to sustainably lift growth and generate productive jobs.

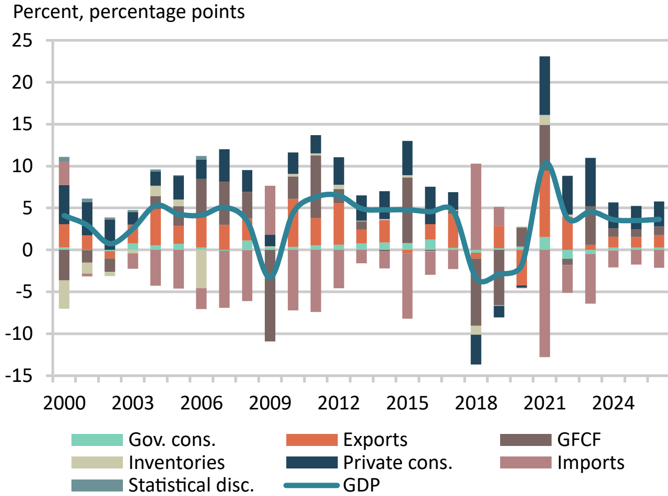
Recent developments

The economy grew by 4.6 percent in 2023, surpassing expectations (3.8 percent in 2022), fueled by vigorous growth in the services sector, particularly hotels, restaurants, and retail. Despite a slowdown in net external demand, remittances buoyed private consumption while improved economic expectations boosted investment. Growth slowed in 2024, with the monthly economic activity index growing 1.7 percent in June 2024, due to reduced production in fishing, livestock, agriculture, and manufacturing.

Poverty (US$3.65/day 2017 PPP) is estimated to have declined to 12.5 percent in 2023 from 13.1 percent in 2022 reflecting the sustained growth in the service sector. The employment rate for women (54.9 percent in June 2024) has increased in recent years but remains well below that for men (75.9).

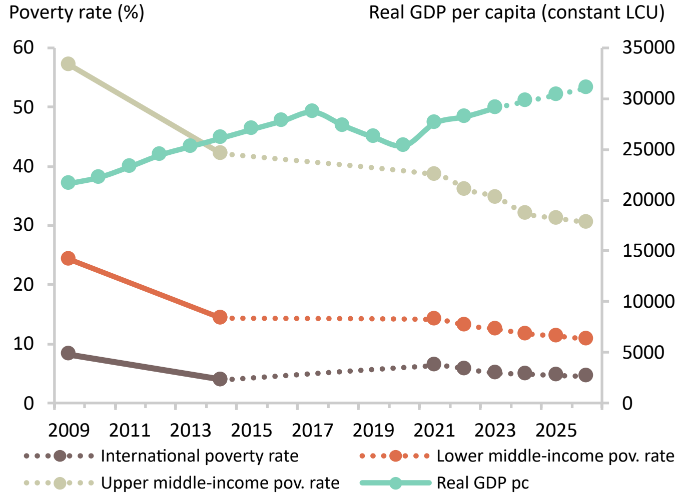
After inflation surged to 10.5 percent in 2022, Nicaragua's Central Bank maintained steady policy rates and a crawling peg exchange rate system to stabilize prices. This, combined with declining

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



Source: World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

global prices and subsidies for energy, public transport, and fuel, helped reduce inflation from 9.9 percent in June 2023 to 4.8 percent by June 2024.

Despite low demand for free zone exports from key trading partners, a surge in remittances, improved terms of trade, and an upturn in tourism revenues led to a current account balance (CAB) surplus in 2023. In the first half of 2024, total exports fell by 0.9 percent y-o-y, mainly due to a 2.2 percent drop in free zone exports, while imports rose by 9 percent, driven by a 12.9 percent increase in merchandise imports. In Q1-2024 compared to Q1-2023, remittances rose by 11.8 percent, while FDI, primarily reinvested earnings, fell by 7.4 percent. As of August 2024, gross international reserves continue strong, covering more than 6 months of imports.

Fiscal consolidation was bolstered by robust tax collection following higher growth in 2023, which extended into the first half of 2024. By H1-2024, the government executed over 40 percent of the budget, driven by wage adjustments, debt interest, transfers, and infrastructure investments. Public debt decreased by 4 percentage points to 56.6 percent of GDP by December 2023. Financing needs, including external donations, concessional loans, and bond issuance, remain heavily dependent on global financial conditions.

Outlook

Nicaragua is projected to grow around 3.6 percent over the next three years, amid an expected global economic deceleration that could persist until 2025, limiting export opportunities and foreign investment. Remittances, however, are expected to continue supporting private consumption at a moderate pace.

Inflation is expected to decrease to 5.2 percent in 2024 from 8.4 percent in 2023 and stabilize around 4.5 percent thereafter, amid declining commodity prices, combined with a stable exchange rate and prudent monetary policies. Poverty (US$3.65/day 2017 PPP) is projected to be 11.7 percent in 2024 and gradually decline to 10.8 by 2026, based on simulations using the 2014 household survey data.

The CAB surplus is expected to narrow in 2024 and 2025, due to the projected decrease in net exports, linked to weaker external demand and robust domestic demand for imports, as well as anticipated slowdown in FDI flows, amid the global slowdown. International reserves are projected to remain sufficient, ensuring the stability of the current exchange rate regime.

The 2024-2027 budget framework aims to stabilize public finances by containing current expenditures and enhancing tax revenue through the modernization of the tax system and improved tax compliance. This is expected to reduce the fiscal deficit from -0.4 percent of GDP in 2024 to -0.1 percent by 2026. Additionally, the framework prioritizes capital spending and job-creating investment projects to promote economic and social development. Debt is projected to decline to 55.5 percent by 2026 through the government's prudent fiscal policy.

The macroeconomic outlook faces downside risks, such as natural disasters, geopolitical uncertainty that pushes up food and oil prices, economic downturns in key trading partners, and tighter financial conditions. These factors could disrupt trade and external flows, leading to inflation that reduces purchasing power, higher unemployment, and poverty, as well as challenges for refinancing public debt.

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

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	10.3	3.8	4.6	3.6	3.5	3.6
Private consumption	8.9	6.0	7.3	3.8	3.4	3.7
Government consumption	9.4	-6.5	-3.2	2.0	2.0	2.2
Gross fixed capital investment	25.7	-3.0	20.3	3.8	3.6	3.9
Exports, goods and services	18.1	8.6	1.3	2.8	2.7	3.2
Imports, goods and services	21.2	5.0	8.9	2.9	2.5	3.1
Real GDP growth, at constant factor prices	10.3	3.8	4.6	3.6	3.5	3.6
Agriculture	6.4	1.7	-2.6	3.4	3.2	5.4
Industry	18.8	2.8	4.1	3.9	2.8	4.4
Services	8.6	4.7	6.7	3.6	3.9	2.9
Inflation (consumer price index)	4.9	10.5	8.4	5.2	4.5	4.4
Current account balance (% of GDP)	-3.8	-2.5	7.7	2.8	1.6	0.1
Net foreign direct investment inflow (% of GDP)	8.5	8.1	6.7	6.5	6.0	6.3
Fiscal balance (% of GDP)[a]	-1.5	0.6	2.7	-0.4	-0.2	-0.1
Revenues (% of GDP)	31.4	31.7	31.0	31.2	31.1	31.5
Debt (% of GDP)[b]	65.9	61.1	56.7	56.3	56.2	55.5
Primary balance (% of GDP)[a]	-0.3	2.0	4.3	1.6	1.5	1.4
International poverty rate ($2.15 in 2017 PPP)[c,d]	6.4	5.8	5.1	5.0	4.7	4.6
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	14.2	13.1	12.5	11.7	11.3	10.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[c,d]	38.6	36.1	34.8	32.0	31.2	30.5
GHG emissions growth (mtCO2e)	0.9	0.8	0.9	1.0	0.9	1.0
Energy related GHG emissions (% of total)	13.5	13.5	13.3	13.2	13.1	13.0

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.