

External financing needs drive risk

General Information



GDP	USD13.231bn (World ranking 121, World Bank 2016)
Population	6.15 million (World Ranking 109, Worlds Bank 2016)
Form of state	Republic
Head of government	José Daniel ORTEGA Saavedra (FSLN)
Next elections	2021, presidential



Strengths

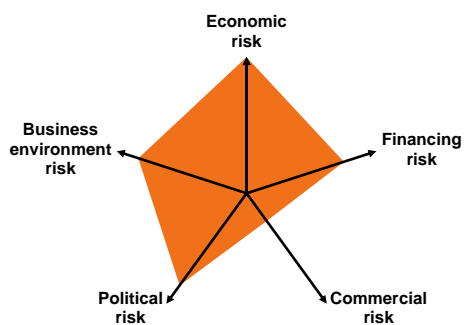
- Dollarized Economy
- Above average growth and stable inflation
- Strong destination for FDI
- Sound banking system

Weaknesses

- Exposure to US trade policy and sanctions
- Dwindling oil cooperation with Venezuela
- Weak political institutions
- High dependence on remittances, particularly from the US
- Wide current account deficit

Country Rating

D3



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
United States	54% 1	20% United States
Mexico	11% 2	13% China
El Salvador	5% 3	10% Mexico
Canada	4% 4	8% Costa Rica
Costa Rica	3% 5	7% Guatemala

By product (% of total)

Exports	Rank	Imports
Clothing	29% 1	13% Petroleum & products thereof
Electrical Machinery	15% 2	8% Road vehicles
Coffee, tea, cocoa, spices	8% 3	6% Textile yarn and related products
Meat and meat preparations	8% 4	6% Electrical Machinery
Non-monetary Gold	7% 5	5% Pharmaceuticals

Source: UNCTAD (2016)



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Economic Overview

Growth stable and prices anchored

The trend that saw real GDP growth in Nicaragua outperform regional peers for the past 5 years is slowing. In 2017, we expect real GDP to grow by +4.3%, down from +4.7% in 2016. Inflation is expected to edge up to +3.6% in 2017 and pick up in 2018 as food prices rise. The crawling peg against the dollar has anchored inflation expectations and guaranteed competitive access to Nicaragua's largest export market: the U.S. Real Effective Exchange Rate data (REER) reveals the Nicaraguan Cordoba is stable and not overvalued. Import cover hovers around 4 months.

The current account deficit remains wide but is expected to stabilize at -9.4% of GDP in 2017. It remains well-financed by Foreign Direct Investment (FDI) at 114%. The dollarization of the economy remains elevated. The IMF estimates that about 88% of deposits and 89% of local loans are foreign currency denominated (mainly USD). This means tighter financial conditions in the US can spill over.

Heightened external vulnerabilities

Nicaragua's economy is intertwined with the US, with exposure well above regional peers. The US is the largest export partner (54%) and an important source of FDI. Between 2014 and 2016, remittances from Nicaraguan workers in the US help offset nearly a quarter of the current account deficit according to the IMF. Thus, more protectionist trade policies and tighter immigration laws in the US could have a detrimental impact.

Moreover, voting irregularities during Daniel Ortega's contested third term election led to the introduction of the Nicaragua Investment Conditionality Act (NICA) in the US Congress. If passed, it could limit Nicaragua's ability to receive loans from multilateral institutions.

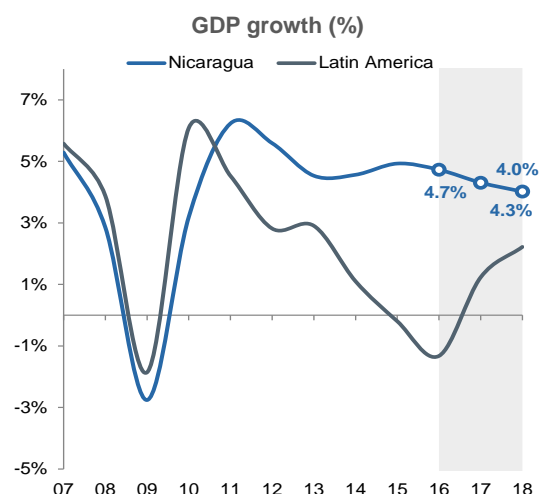
The economic and political turmoil in Venezuela - Nicaragua's largest FDI partner according to IMF data - poses risk to the Petrocaribe alliance. This agreement allowed Nicaragua to buy Venezuelan oil at preferential rates. In 2016, a revised accord was signed reducing oil imports three fold to 10,000 barrels per day. The reduction in Venezuelan FDI has been largely compensated by increases in non-Venezuelan inflows. That said, winding down the cooperation means a weakened trade account and additional risk to fiscal consolidation as programs are transferred to the budget.

Nicaragua's business climate remains below its regional peers. The World Bank ranks it 127th out of 190 countries in its 2017 Ease of Doing Business survey.

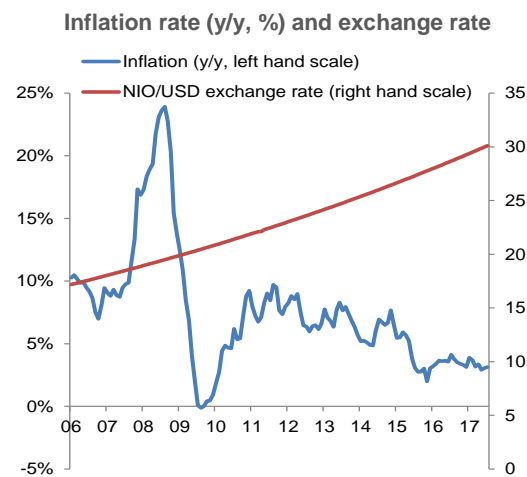
Key economic forecasts

	2015	2016	2017f	2018f
GDP growth (% change)	4.9	4.7	4.3	4.0
Inflation (% end-year)	4.0	3.8	3.6	5.6
Fiscal balance (% of GDP)	-1.4	-1.7	-1.6	-1.4
Public debt (% of GDP)	29.4	31.1	32.0	32.7
Current account (% of GDP)	-8.2	-9.5	-9.4	-8.5
External debt (% of GDP)	82.6	83.0	80.7	77.7

Sources: National statistics, IMF-WEO, Euler Hermes



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