S&P Global Ratings

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Research Update:

Nicaragua Outlook Revised To Negative On Weaker Growth And Fiscal Prospects Because Of Political Turmoil

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Ratings

Foreign Currency: B+/Negative/B
Local Currency: B+/Negative/B
For further details see Ratings List.

Overview

- Public protests and political discord have disrupted Nicaragua's economy and created political uncertainty.
- The difficult political environment will hurt economic and fiscal performance in 2018 and potentially next year.
- As a result, we are revising the outlook on Nicaragua to negative from stable and affirming our 'B+/B' sovereign credit ratings.
- The negative outlook reflects the risk that this prolonged political impasse worsens Nicaragua's governability and hurts the country's public finances and growth prospects, leading to a downgrade.

Rating Action

On June 8, 2018, S&P Global Ratings revised its outlook on Nicaragua to negative from stable. At the same time, we affirmed our 'B+/B' foreign and local currency sovereign credit ratings on Nicaragua.

We also affirmed our transfer and convertibility (T&C) assessment at 'BB-'.

Outlook

Recent political developments in Nicaragua have disrupted economic activity and undermined cooperation between the government and the private sector. The negative outlook reflects the risk of a downgrade if prolonged political discord worsens our assessment of Nicaragua's governance effectiveness and hurts the country's public finances and GDP growth prospects. We could lower the ratings in the next few months if the current political impasse persists or worsens, auguring greater long-term negative consequences for the economy.

Conversely, a potential quick resolution of the political impasse within the next few months could contain the negative impact on Nicaragua's economy and public finances. That, along with other steps that reduce divisions between the government and the private sector and create investor confidence in key economic policies, could sustain the country's medium-term growth prospects. We could revise the outlook to stable in that case.

Rationale

Our ratings on Nicaragua are constrained by its low per capita GDP, weak external position, and monetary rigidities. They also reflect its still moderate but eroding government debt burden. The ratings incorporate a track record of steady GDP growth based on pragmatic economic policies. The recent events in the country have raised doubts about future growth prospects and the political pillars that had sustained pragmatic economic policies in recent years.

Political tensions are high following seven weeks of protests against the government, triggered by a controversial reform to the social security institute (INSS, by its Spanish acronym). The reform was cancelled by President Daniel Ortega after vociferous public protests, but political tensions have not dissipated.

Recent events have hurt the country's business environment. In the short term, they will likely weaken domestic consumption and investment, reduce tourism and foreign investment inflows, and lower employment. If political tensions were to diminish substantially in the coming months, we expect GDP might still grow around only 1.5% in 2018, down from 4.9% in 2017. This would translate into per capita real GDP growth of close to zero in 2018. However, a prolonged political impasse could produce worse economic outcomes this year and likely reduce our expectation for the country's GDP growth rates over the next couple of years.

Nicaragua's general government deficit is likely to worsen in 2018 beyond 2% of GDP, from 1.3% in 2017. As a result of the larger fiscal deficit, we expect the net general government debt burden to increase in 2018 to 37% of GDP from around 34% in 2017. Our economic projections are subject to variability, given the considerable political uncertainty in the country.

We expect the current account deficit (CAD) to increase to 7.6% of GDP in 2018, from 5% in 2017, as exports of both goods and services are hit by the political crisis and lower prices for some of Nicaragua's commodities exports. In our opinion, poor domestic demand will reduce Nicaragua's imports, although the country's oil bill will increase on higher oil prices. We also assume that foreign direct investment will decline significantly in 2018 and cover a lower portion of the CAD compared with previous years. We anticipate that the CAD will be financed by official lending, because we expect the country to maintain access to multilateral financing this year, and we expect it to make some moderate drawdowns in foreign currency reserves.

Key Statistics

Table 1

Nicaragua--Selected Indicators											
	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018f**	**2019f**	**2020f**	**2021f**
ECONOMIC INDICATORS (%)											
Nominal GDP (bil. LC)	219.18	247.99	271.53	308.40	343.74	377.35	415.13	417.92	451.59	496.12	547.71
Nominal GDP (bil. $)	9.77	10.53	10.98	11.88	12.61	13.18	13.81	13.24	13.63	14.26	14.99
GDP per capita (000s $)	1.6	1.7	1.8	1.9	2.0	2.1	2.2	2.0	2.1	2.2	2.2
Real GDP growth	6.3	6.5	4.9	4.8	4.8	4.7	4.9	1.5	3.0	4.5	4.5
Real GDP per capita growth	5.0	5.2	3.8	3.7	3.7	3.6	3.8	0.5	1.9	3.4	3.4
Real investment growth	28.6	7.7	2.7	1.2	22.9	4.4	(2.3)	(2.0)	2.3	3.2	4.0
Investment/GDP	37.4	34.0	33.5	30.4	34.3	32.1	29.9	29.3	29.2	29.0	29.0
Savings/GDP	23.7	21.7	20.7	21.4	23.7	24.6	25.1	21.7	22.2	22.3	22.5
Exports/GDP	45.0	47.5	45.2	45.0	40.6	39.1	41.2	40.0	40.1	40.7	40.9
Real exports growth	8.3	12.4	3.8	6.4	(2.8)	4.5	10.2	(6.0)	3.0	5.2	4.8
Unemployment rate	5.9	5.9	5.7	6.6	5.9	4.5	3.7	3.7	3.7	3.7	3.7
EXTERNAL INDICATORS (%)											
Current account balance/GDP	(13.7)	(12.3)	(12.8)	(9.1)	(10.6)	(7.5)	(5.0)	(7.6)	(6.9)	(6.7)	(6.5)
Current account balance/CARs	(25.3)	(21.9)	(24.1)	(17.1)	(21.8)	(14.5)	(8.9)	(14.3)	(12.7)	(12.3)	(12.0)
CARs/GDP	54.1	56.2	53.2	53.0	48.7	51.6	53.6	53.5	54.5	54.5	54.6
Trade balance/GDP	(24.8)	(23.2)	(22.5)	(20.2)	(21.8)	(19.8)	(17.9)	(17.7)	(17.3)	(17.5)	(18.0)
Net FDI/GDP	9.5	6.7	6.1	6.7	7.2	6.3	5.9	4.1	4.7	5.5	6.1
Gross external financing needs/CARs plus usable reserves	125.2	118.7	122.5	115.8	115.4	105.0	106.0	105.6	106.9	107.6	107.3
Narrow net external debt/CARs	95.6	99.0	113.0	107.6	110.0	113.0	104.4	109.3	105.8	103.3	101.9
Narrow net external debt/CAPs	76.3	81.2	91.1	91.8	90.3	98.7	95.9	95.6	93.8	92.0	91.0
Net external liabilities/CARs	178.8	182.2	211.0	213.0	232.6	233.1	224.6	242.3	241.1	242.4	244.6
Net external liabilities/CAPs	142.7	149.5	170.1	181.9	190.9	203.6	206.3	212.0	213.8	215.9	218.5
Short-term external debt by remaining maturity/CARs	31.2	25.1	27.2	25.2	24.5	18.6	21.9	21.1	21.1	21.0	20.6
Usable reserves/CAPs (months)	2.4	2.3	2.3	2.3	2.6	2.8	2.6	3.0	2.7	2.6	2.5
Usable reserves (mil. $)	1,412	1,376	1,444	1,653	1,819	1,731	1,996	1,872	1,854	1,926	1,890
FISCAL INDICATORS (%, General government)											
Balance/GDP	1.1	0.6	(0.2)	(0.6)	(0.8)	(1.2)	(1.3)	(2.2)	(2.1)	(1.9)	(1.9)

Table 1

Nicaragua--Selected Indicators (cont.)											
Change in net debt/GDP	2.8	0.9	4.7	0.6	0.2	3.7	5.9	3.2	3.2	2.9	3.3
Primary balance/GDP	2.1	1.6	0.8	0.2	0.1	(0.2)	(0.2)	(1.2)	(1.0)	(0.7)	(0.7)
Revenue/GDP	23.0	23.4	23.2	23.6	24.7	25.5	25.7	24.4	25.2	25.8	26.1
Expenditures/GDP	21.9	22.8	23.4	24.2	25.5	26.7	26.9	26.6	27.3	27.7	28.0
Interest /revenues	4.5	4.3	4.0	3.7	3.6	3.9	4.2	4.3	4.4	4.6	4.5
Debt/GDP	53.5	50.8	51.3	47.8	44.9	45.1	47.5	51.3	51.8	51.1	50.3
Debt/Revenue	233.3	216.9	220.8	202.7	181.6	176.5	185.1	210.4	205.4	198.2	192.8
Net debt/GDP	39.4	35.7	37.3	33.5	30.2	31.2	34.3	37.3	37.7	37.2	37.0
Liquid assets/GDP	14.2	15.0	14.0	14.3	14.7	13.8	13.2	14.1	14.1	13.9	13.3
MONETARY INDICATORS (%)											
CPI growth	8.1	7.2	7.1	6.0	4.0	3.5	3.9	4.0	5.0	6.0	6.0
GDP deflator growth	10.2	6.2	4.3	8.4	6.4	4.9	4.9	(0.8)	4.9	5.1	5.6
Exchange rate, year-end (LC/$)	22.98	24.13	25.33	26.60	27.93	29.32	30.79	32.33	33.95	35.64	37.43
Banks' claims on resident non-gov't sector growth	15.6	25.8	20.1	20.5	24.7	17.2	17.1	1.8	9.1	10.8	10.8
Banks' claims on resident non-gov't sector/GDP	24.2	26.9	29.5	31.3	35.0	37.4	39.8	40.2	40.6	40.9	41.1
Foreign currency share of claims by banks on residents	0.0	60.7	62.4	62.9	63.8	65.0	0.0	0.0	0.0	0.0	0.0
Foreign currency share of residents' bank deposits	91.8	89.0	83.7	88.5	82.1	82.5	78.0	86.0	90.3	94.8	99.5
Real effective exchange rate growth	(4.0)	2.1	0.4	0.6	5.1	(0.8)	N/A	N/A	N/A	N/A	N/A

Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid assets held by nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. LC--Local currency. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. f--Forecast. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

Ratings Score Snapshot

Table 2

Nicaragua--Ratings Score Snapshot	
Key rating factors	
Institutional assessment	4
Economic assessment	5
External assessment	6
Fiscal assessment: flexibility and performance	4
Fiscal assessment: debt burden	2

Table 2

Nicaragua--Ratings Score Snapshot (cont.)	
Key rating factors	
Monetary assessment	5

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Criteria

- Criteria - Governments - Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Default, Transition, and Recovery: 2017 Annual Sovereign Default Study And Rating Transitions, May 8, 2018
- Sovereign Ratings History, May 7 2018
- Global Sovereign Rating Trends: First-Quarter 2018, April 11, 2018
- Sovereign Risk Indicators, April 10, 2018
- Banking Industry Country Risk Assessment Update: April 2018, April 26, 2018
- Sovereign Debt 2018: Global Borrowing To Remain Steady At US$7.4 Trillion, Feb. 22, 2018

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Nicaragua		
Sovereign Credit Rating	B+/Negative/B	B+/Stable/B

Ratings Affirmed

Nicaragua	
Transfer & Convertibility Assessment	BB-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.