Best's Country Risk Report

Nicaragua
CRT-5

August 22, 2018

Region: Latin America

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Nicaragua, a CRT-5 country, has high levels of economic and financial system risk, and very high levels of political risk.
- Real GDP growth is expected to remain relatively stable over the medium term, averaging 4.5%. Inflation is expected to accelerate to above 7% in 2018. Widespread poverty and political unrest are the major challenges in Nicaragua in 2018.
- The map depicts the countries in Central America, South America, and the Caribbean that A.M. Best evaluates. The majority of Latin American countries are categorized as CRT-3, CRT-4, and CRT-5.

Vital Statistics 2017		
Nominal GDP	USD bn	13.73
Population	mil	6.2
GDP Per Capita	USD	2,207
Real GDP Growth	%	4.9
Inflation Rate	%	3.9
United Nations Estimates		
Literacy Rate	%	82.8
Urbanization	%	59.4
Dependency Ratio	%	54.1
Life Expectancy	Years	73.5
Median Age	Years	25.7
Insurance Statistics		
Insurance Regulator	The Superintendency of Banks and Other Financial Institutions	
Premiums Written (Life)	USD mil	43
Premiums Written (Non-Life)	USD mil	177
Premiums Growth (2016 - 2017)	%	7.8
Regional Comparison		
	Country Risk Tier	
Nicaragua	CRT-5	
Costa Rica	CRT-4	
El Salvador	CRT-4	
Guatemala	CRT-4	
Honduras	CRT-5	
Panama	CRT-4	

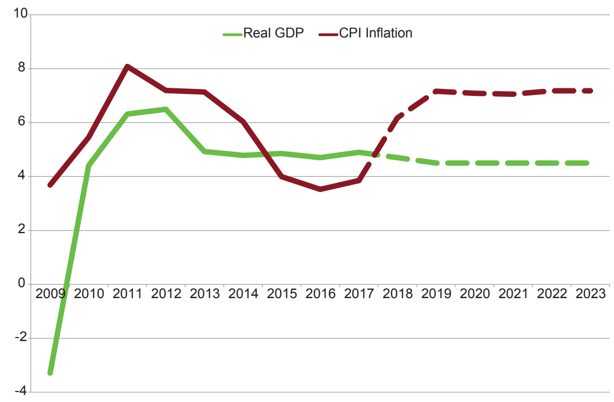
Source: IMF, UN, Swiss Re, Axco and A.M. Best

- **Country Risk Tier 1** (CRT-1) Very Low Level of Country Risk
- **Country Risk Tier 2** (CRT-2) Low Level of Country Risk
- **Country Risk Tier 3** (CRT-3) Moderate Level of Country Risk
- **Country Risk Tier 4** (CRT-4) High Level of Country Risk
- **Country Risk Tier 5** (CRT-5) Very High Level of Country Risk

Regional Summary: Latin America

- Growth in the region is likely to continue in 2018 due to expanding global growth, rebounding commodity prices, and strengthening domestic demand. However, risks are tilted to the downside owing to rising domestic political uncertainty, currency volatility, growing trade protectionism, rising fiscal deficits, and negative spillover effects from international financial markets.
- Conditions are largely positive, but several countries in the region are experiencing heightened risk. Years of unsustainable social programs, higher spending, and growing corruption have led to significant challenges for Venezuela, as well as Brazil and Argentina, albeit to a lesser extent.
- So far this year, there have been several presidential elections in Colombia, Mexico, and Venezuela; Brazil's is scheduled for later this year. The election environment is complex owing to mounting social conflicts, corruptions scandals, and policy uncertainty. According to the IMF's 2017 estimates, four countries are responsible for the largest proportion of the region's economic output: Brazil at USD2,055 billion, Mexico at USD1,149 billion, Colombia at USD309 billion, and Venezuela at USD210 billion.

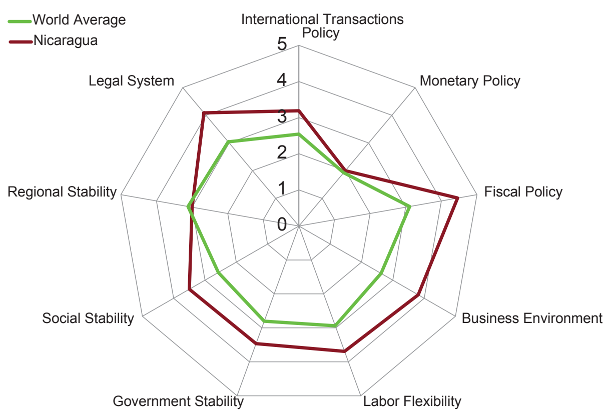
Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

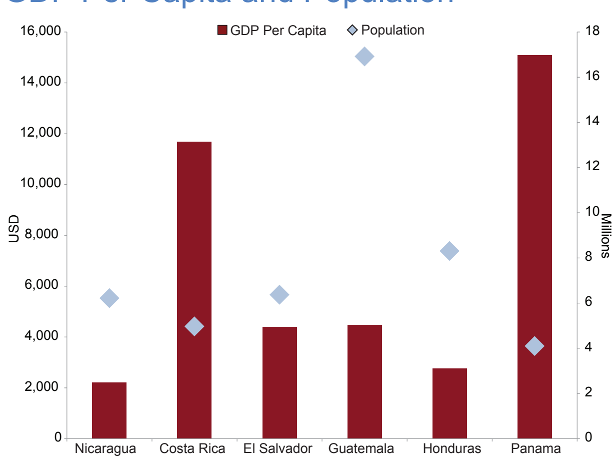
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: High

- Nicaragua is one of the poorest countries in the Western Hemisphere. Nearly one third of its population lives below the poverty line. The economy has been growing at a healthy rate in recent years, but further measures and improvements are required to tackle the issues.
- The country's infrastructure requires improvement given Nicaragua's vulnerability to severe weather conditions. High levels of corruption and discriminative treatment of different companies continue to hinder operational efficiency. Crime levels are high, but the impact on the business environment is relatively low.
- The government welcomes foreign direct investment, especially in the extractive industries. Corporate tax rates are unlikely to be raised under the current administration.
- Healthy economic growth in the US will have a positive spillover effect on Nicaragua's economy, by promoting tourism and remittance inflows, if relations between the two countries are kept positive.

Political Risk: Very High

- President Daniel Ortega is currently serving his third term in office and has been facing strong public opposition since April 2018. Widespread, sometimes violent, anti-government protests have been provoked primarily by the government's social security reforms.
- Political turmoil is likely to damage business confidence and to hurt foreign investment inflows, while Nicaragua relies heavily on international financial support. In the US, the NICA Act would diminish Nicaragua's ability to receive multilateral loans if passed.
- The ongoing consolidation of political power in the executive office brings higher risks for businesses, although expropriations and nationalizations have been uncommon in recent years.
- The judiciary of Nicaragua is of poor quality. Judicial independence is ranked 136 out of 137 countries by World Economic Forum. Judges are subject to political manipulation and legal processes are inefficient. Nicaragua is ranked 131 out of 190 countries by World Bank Group's Ease of Doing Business Index.

Financial System Risk: High

- The Superintendency of Banks and Other Financial Institutions is responsible for regulation of the insurance sector.
- The financial sector is stable. Bank statistics remain solid, with non-performing loans below 1% of total loans and capital adequacy ratios stand at sufficient levels.
- However, the IMF recommends that the country strengthen external and financial buffers to make it more resilient to potential external shocks.
- Banks should enhance liquidity, provisioning buffers, and capital buffers to help maintain financial stability.