SUMMARY

1. This fourth Trade Policy Review of Nicaragua covers the period 2012-20. In recent years, the potential growth of the Nicaraguan economy increased by half a percentage point according to International Monetary Fund (IMF) estimates, thanks to significant infrastructure improvements, especially to transport, telecommunications and the electricity supply. This additional potential growth contributed to average annual real GDP growth of 4.7% between 2013 and 2017. Nevertheless, the Nicaraguan economy has been severely affected by the political and social crisis that began in April 2018 in connection with reforms to the social security system. The crisis has led to job losses and a fall in consumer and business confidence, which, combined with international financial sanctions, caused real GDP to fall by 3.9% in 2018 and 4.0% in 2019. For 2020 and 2021, the IMF estimates that the growth rates for real GDP will be -5.5% and -0.5% respectively, essentially as a result of the effects of the COVID-19 pandemic.

2. Nicaragua's economy is relatively diversified, and the portion of GDP corresponding to services and construction showed an upward trend during the review period, whilst that of agriculture (and related activities) and manufacturing declined. The agricultural sector continues to play a major role in creating jobs. Nicaragua's development has progressed in recent years, with a slight increase in per capita GDP and improved poverty indicators. However, reducing poverty and the disparities between urban and rural areas are still among the country's main challenges, especially given the economic impact of COVID-19.

3. During the review period, Nicaragua has kept inflation under control by appropriately managing fiscal and monetary policy. The free convertibility of the Nicaraguan córdoba (NIO) has been maintained through an exchange-rate system involving pre-determined daily mini-devaluations. The depreciation of the exchange rate of the córdoba to the US dollar was reduced from 5% per year to 3% in November 2019 to reduce costs and improve the purchasing power of wages. The credibility of the pre-determined devaluation programme, backed up by international reserves, serves as a nominal anchor for prices, as the economy is highly dollarized.

4. Fiscal policy has sought to contribute to macroeconomic stability and the sustainability of public finances. Nonetheless, the non-financial public sector (NFPS) deficit rose as a percentage of GDP from 2.2% in 2017 to 4.0% in 2018, due in part to the effect of the slowdown in economic activity on tax revenues, especially from value added tax (VAT) and other taxes. Consequently, fiscal policy has been adjusted since 2018 through a cautious approach to containing public spending, a package of fiscal and pension reforms and the rationalization of subsidies. These measures reduced the NFPS deficit to 2.0% of GDP in 2019. The NFPS deficit is expected to grow in 2020, as public spending is stepped up in response to the pandemic.

5. Historically, Nicaragua has had a structural savings-investment gap that is reflected in a relatively high deficit in the balance-of-payments current account (8.0% of GDP on average in 2013-18). Nonetheless, the adverse economic climate in 2018 led to the first current account surplus since 1979 (6.0% of GDP in 2019). The positive current account balance in 2019 was generated primarily by a significant reduction in imports, reflecting domestic adjustment in the public and private sectors, the strong performance of exports, and strong flows of remittances.

6. Nicaragua is dependent on foreign trade for its development. The lower deficit in trade in goods was one of the key elements contributing to the current account surplus in 2019. It was the result of lower demand for imports of non-petroleum goods, especially capital goods, and the buoyancy of free-zone exports, mainly in the textiles industry.

7. In recent years, Nicaragua's merchandise exports have been adversely affected by lower international prices for its main export products, especially coffee. Thus, textiles and textile articles are now the country's main exports, contributing 29.3% of total exports in 2019. Nicaragua's merchandise exports go mainly to the United States (61.7% of all exports in 2019), the other members of the Central American Common Market (CACM), and Mexico. In 2019, 96.7% of Nicaragua's export income was generated by exports to economies with which it has free trade agreements.

8. As is the case with exports, textiles and textile articles are Nicaragua's main imports, having risen from 2.0% of the total in 2012 to 21.7% in 2019. Next come mineral products, chiefly fuel.

Imports of merchandise from economies with which Nicaragua has preferential agreements accounted for 74.5% of the total in 2019. The country that provides the largest share of Nicaraguan merchandise imports is the United States (almost 30% in 2019), followed by China and Mexico, whose shares also increased during the review period.

9. Nicaragua is a growing net exporter of services, although total exports of services, especially tourism, have been affected by social unrest since April 2018.

10. During the review period, Nicaragua took measures to attract foreign direct investment (FDI), in particular through the adoption of the Law establishing the Investment and Export Promotion Agency (PRONicaragua); the Law on Export Free Zones; and the Law on Public-Private Partnerships governing the formulation, tendering, financing, implementation, operation and termination of investment projects. Nevertheless, annual FDI inflows, which reached a historic high in 2013, have fallen in recent years. In addition to concerns about political and social instability, the main obstacles to foreign investment are dealing with construction permits, protecting minority investors, paying taxes, and registering property.

11. Nicaragua's trade policy is largely shaped by the commitments adopted under the Central American Common Market and the Dominican Republic - Central America - United States Free Trade Agreement (CAFTA-DR). The main objectives of Nicaragua's trade policy include increasing the country's participation in international trade, broadening its exportable supply and forging strategic alliances with trading partners to foster innovation and production chains.

12. During the review period, Nicaragua, together with other Central American countries, brought into force trade agreements with the Republic of Korea and the European Union, a new Central America–Mexico agreement, and partial scope agreements with Cuba and Ecuador. Consequently, in addition to the CACM, Nicaragua has free trade agreements and/or partial scope agreements in force with Chile, Colombia, Cuba, the Dominican Republic, Ecuador, the Republic of Korea, Mexico, Panama, Chinese Taipei, the United States, Venezuela and the countries of the European Union.

13. According to the authorities, although trade agreements are important in determining the country's trade policy and trade flows, Nicaragua gives special importance to participation in the multilateral trading system, which it considers essential for small and vulnerable economies. Since its last Review, Nicaragua has not been a complainant or respondent in any case brought under the WTO dispute settlement mechanism, but it has participated as a third party in one case. Nicaragua has submitted various notifications under different WTO Agreements. Nonetheless, it has a number of pending notifications, mainly in the field of agriculture.

14. The general objective of Nicaragua's trade policy continues to be to promote access to foreign markets and further the country's integration into the international economy by negotiating and administering international trade and investment agreements. The National Human Development Plan 2018-21 includes continuing with work to strengthen the national quality assurance system and the intellectual property register, improving the Central American free trade zone, taking advantage of the preferential agreements in force, and signing new trade agreements. As regards investment promotion and facilitation, Nicaragua seeks to continue boosting domestic and foreign investment, cutting red tape, modernizing the legal framework, and strengthening the country's performance in terms of international indicators.

15. On 4 August 2015, Nicaragua became the first country in Latin America to ratify the WTO Trade Facilitation Agreement (TFA) and deposit its instrument of acceptance. Nicaragua has notified the WTO of its category A, B, and C commitments under the TFA.

16. Nicaragua has implemented several initiatives in recent years to facilitate trade, including the electronic exchange of information contained in the Central American Single Declaration (DUCA). The DUCA, which entered into force on 7 May 2019, has three variants: DUCA-F, for trade in goods originating from the Central American region; DUCA-D, for imports and exports of goods with third countries outside the Central American region; and DUCA-T for the movement of goods under the overland international customs transit regime. The Border Integration Programme (PIF), meanwhile, aims to modernize infrastructure, equipment and information technology systems at border

crossings to improve the efficiency of border controls, reduce wait times and improve competitiveness.

17. The country's single window for foreign trade (VUCEN), which the authorities have stated they expect to implement during the first six months of 2021 at the latest, will facilitate foreign trade operations by simplifying formalities for pre-customs import and export permits, reducing the time required of, and costs incurred by, companies engaged in foreign trade.

18. Nicaragua's tariff is based on the Central American Tariff System and contains 7,768 *ad valorem* tariff lines at the 12-digit level under HS 2017. Nicaragua does not apply seasonal or variable tariffs. The simple average of Nicaragua's applied most-favoured nation (MFN) tariffs did not change during the period under review, remaining at 6.2%. The average tariff on agricultural products (WTO definition) is 11.8% and remains well above the average applied tariff on non-agricultural products (5.2%). Nicaragua bound all its tariffs at rates between 0% and 200%.

19. Nicaragua grants preferential treatment to imports originating in the countries with which it has preferential trade agreements. Most imports originating in the CACM enter duty-free, except for sugar and coffee. The average preferential tariffs in the agreements negotiated by Nicaragua are all well below the average MFN rate. Preferential tariffs range from 0.1% to 6.1% and are always lower for non-agricultural products. The tariff preferences granted under some of the agreements cover nearly 100% of the tariff universe.

20. In addition to customs tariffs, Nicaragua applies internal taxes to imports as well as domestic production, namely: VAT, selective consumption tax (ISC), a customs security service fee and a goods import service fee (TSIM). Customs duties accounted for 2.5% of total receipts in 2019 (3.9% in 2013). VAT remains one of the pillars of the tax system, but its weight has diminished in recent years, falling from 36.5% of total receipts in 2013 to 30.4% in 2019.

21. Nicaragua makes little use of non-tariff barriers. Imports and exports of certain products are banned or restricted to protect the environment, human health and species, as well as for security reasons, in conformity with domestic legislation or international commitments. Automatic and non-automatic licences are maintained for the same reasons. The licensing regime used for all imports, irrespective of their origin, has not changed substantially since 2012 and, according to the authorities, it is not intended to limit import volumes or values.

22. Nicaragua did not modify its legislation on anti-dumping, countervailing and safeguard measures during the review period, and has not imposed measures or initiated investigations pertaining to such measures since the last Review. Moreover, it did not make any use of the special safeguard provisions in Article 5 of the Agreement on Agriculture during the period 2012-20. No trading partner is exempt from the application of anti-dumping or countervailing measures under the preferential trade agreements signed by Nicaragua.

23. During the review period, Nicaragua did not provide notification as to having granted, or not, any of the subsidies permitted under Annex VII to the WTO Agreement on Subsidies and Countervailing Measures. Nicaragua notified the WTO that it did not grant any export subsidies within the meaning of the Agreement on Agriculture during the period 2012-19.

24. Nicaragua has two subsidy-related programmes: the free zone regime and the inward processing regime. These programmes provide tax incentives to domestic and foreign investors that meet specific criteria on investment, employment and national value added. The legal framework for free zones was modified in 2015; it is now covered by the Law on Export Free Zones. The activities of free zones are exclusively for the purpose of exportation. In some cases, however, subject to prior authorization by the Ministry of Development, Industry and Trade (MIFIC), a portion of the products concerned are allowed to enter national customs territory for domestic consumption. In addition to export incentives, Nicaragua maintains some sectoral incentives for tourism, forestry and the generation, transmission, distribution and marketing of electricity for public use.

25. The institutional and legal framework for standards and other technical requirements has changed little during the review period. By December 2019, around 90% of standards and 15% of technical regulations were based on international standards. Between 2012 and 2020, Nicaragua

adopted numerous standards and technical regulations, including technical regulations harmonized at the CACM level, with some of the measures dealing with conformity assessment procedures.

26. Major changes have been made to the country's sanitary and phytosanitary (SPS) requirements since the previous Review. In 2014, the Institute for Agricultural and Livestock Protection and Health was created to implement SPS measures related to the production, import and export of plant material, plants, and agricultural, aquaculture and fisheries products and by-products. In 2015, the Basic Law on Animal Health and Plant Health entered into force. In 2016, the National Commission for the Registration and Control of Toxic Substances (CNRCST) was created. No Member has turned to the WTO's formal dispute settlement procedure in relation to matters concerning the SPS measures applied by Nicaragua.

27. The institutional and legal framework for competition policy remained essentially the same during the review period, but Article 99 of the Constitution was reformed in 2014 to incorporate the culture of free competition. Between 2013 and 2019, most of the cases addressed by PROCOMPETENCIA were related to economic concentrations (51%), followed by unfair behaviour (40%), vertical practices and horizontal practices. Nicaragua continues to regulate airport services and the services provided by the National Port Authority, as well as the tariffs for electricity (transmission and public consumption), bottled liquefied petroleum gas (LPG), sanitary sewerage services and drinking water for public consumption. Profit margins on pharmaceutical products for human consumption are also regulated.

28. State involvement in the economy remains important. According to the authorities, its purpose is to support strategic activities for Nicaragua, such as food security, the supply of water, and the administration of ports and airports.

29. No major changes were made to the regulatory framework for government procurement during the review period. The Law on Public Sector Administrative Procurement has no preference margin provisions. Nevertheless, government procurement contracts may prioritize products made of wood bearing a certificate from the National Forestry Institute (INAFOR), with a preference margin of up to 5%.

30. The main change to Nicaragua's legal framework in the area of intellectual property rights (IPR) since the previous Review is that the owner of a geographical indication or appellation of origin is now required to prove that the indication or appellation was registered in its country of origin. Previously, this requirement applied only to appellations of origin. In 2019, Nicaragua ratified the Marrakesh Treaty to Facilitate Access to Published Works for Persons Who Are Blind, Visually Impaired or Otherwise Print Disabled.

31. Major changes have been made to the institutional framework in the areas of agriculture, livestock and forestry since Nicaragua's last Review. In 2012, the Ministry of Family, Community, Cooperative and Associative Economy (MEFCCA) was created to promote and develop family agriculture, family enterprises, small and medium-sized enterprises (SMEs) and cooperativism. Following the restructure at the Ministry of Agriculture and Forestry, the Office of the President of the Republic, through the National Forestry Institute (INAFOR), is now responsible for forestry management throughout the country. The main agricultural policy objectives for 2018-21 are: to sustainably increase production, productivity, quality and added value in the agricultural sector, and to foster good practices in the catching, processing and marketing of fishery and aquaculture resources.

32. Nicaragua supports its agricultural sector and has notified the WTO of seven green-box sectoral projects for which it provided support to the sector during the period 2012-16. Internal support between 2012 and 2016 totalled USD 15.6 million, or an average of USD 3.1 million a year (compared with a yearly average of USD 5.4 million for the period 2005-10). Measures were also introduced to foster and support coffee growing, fisheries and aquaculture.

33. The mines and quarries sector is still not developing to its full potential. Although mining output at constant prices gradually rose during the review period, the number of mining concessions and the total area under concession both fell. At 31 December 2019, the total area still available for mining activity was 55.2% of Nicaragua's total land area. The state-owned Nicaraguan Mines Company (EMIMINAS) was created in 2017 to develop the exploration and rational exploitation of

the country's mineral resources. Meanwhile, the Mining Development and Promotion Fund was created to finance and execute mineral promotion activities, while the Mine Monitoring and Surveillance Fund was created to finance inspection and monitoring in the mining sector.

34. While oil and biofuels still dominate the energy matrix, Nicaragua has reduced its dependency on petroleum products to generate electricity. The authorities estimate that, at December 2019, Nicaragua was tapping 12.5% of its approximately 4,500 MW in potential for renewable energy generation. During the review period, Nicaragua adopted legal frameworks for distributed electricity generation and more rational and efficient energy use.

35. Nicaragua does not impose restrictions on the import, export, storage, refining, transport or distribution of petroleum or petroleum products. Apart from LPG, fuel prices are not regulated. The mission of the state-owned Nicaraguan Oil Company (PETRONIC) is to promote investment in the hydrocarbon subsector and guarantee permanent reserves of fuels in Nicaragua. Since 2014, PETRONIC is required to participate as the state representative in the surveying, exploration and exploitation of domestically produced hydrocarbons.

36. Since Nicaragua's financial system is poorly developed, especially in the non-bank segments, it still underperforms in terms of its contribution to the growth of the national economy. Banks continue to dominate the financial system, though their relative weight declined from 94.8% of total assets in 2012 to 91.4% in 2019. During the review period, Nicaragua strengthened its regulatory and prudential framework by updating capital adequacy and leverage requirements, adopting a standard for comprehensive risk management, establishing countercyclical provisions and special capital buffers, and approving the accounting framework for banks, insurance, securities and warehouses on the basis of the International Financial Reporting Standards. Standards have also been implemented for simplified savings accounts and for managing and preventing the risks associated with the financing of terrorism.

37. There have been no substantial changes to Nicaragua's institutional and legal framework for the telecommunications sector since its last Review. In 2014, the sector's regulatory body, the Nicaraguan Institute of Telecommunications and Postal Services (TELCOR), once again assumed exclusive responsibility for dealing with competition-related matters in the telecommunications market. The regulatory framework would benefit from the adoption of regulatory provisions establishing technological neutrality in the granting of authorizations; infrastructure-sharing requirements; interconnection conditions (mandatory publication of reference offers and regulated interconnection charges); number portability; and market access for virtual operators.

38. Following a public tender in 2013, a new telecommunications operator was authorized (for fixed telephony, mobile telephony, Internet, subscriber television and data transmission services), and began its operations in April 2016. In 2014, Nicaragua launched Project Broadband (*Proyecto Banda Ancha*) to contribute to the country's social and economic development by expanding the fibre-optic backbone of the National Electricity Transmission Company (ENATREL), which will provide data-carrier services at the wholesale level and passive infrastructure. By May 2020, 2,580 km of optical fibre had been laid, serving 93 of Nicaragua's 153 municipalities.

39. All the telecommunications equipment used domestically is imported; manufacturers must be approved and import permits must be granted. Nicaragua does not recognize foreign conformity certificates.

40. There have been no major institutional changes in the transport sector since Nicaragua's previous Review. In 2013, Nicaragua adopted a new regulatory framework governing the construction, administration and operation of ports and port facilities. In 2019, the transport services sector (maritime, air and land) accounted for 4.4% of GDP, up from 4.1% in 2012. Most passengers and goods are transported by road and water. Nicaragua does not have any rail transport services.