



Rating Action: Moody's Ratings affirms Nicaragua's B2 ratings, maintains stable outlook

23 Feb 2026

New York, February 23, 2026 -- Moody's Ratings (Moody's) has today affirmed the Government of Nicaragua's B2 long-term foreign-currency and domestic currency issuer ratings. The outlook remains stable.

The affirmation of the B2 ratings reflects heightened geopolitical and sanctions-related risks, the sovereign's low income levels and small economic size, and a weak institutional framework shaped by the erosion of checks and balances and rising political risks that constrain Nicaragua's credit profile. These credit weaknesses are partially offset by a strong fiscal performance characterized by consecutive general government surpluses, declines in the debt burden, and the continued accumulation of sizable fiscal buffers, which together underpin improving fiscal strength. In addition, Nicaragua's consecutive current account surpluses and the build-up of foreign-exchange reserves bolster its capacity to absorb external shocks.

The stable outlook reflects the balance between elevated geopolitical and sanctions risks that pose material downside risks to overall macroeconomic stability, and the authorities' demonstrated commitment to maintaining prudent macro-fiscal policies. The persistent risk of an intensification or broadening of sanctions or trade-related measures represents a key source of downside risk, particularly given Nicaragua's continued heavy dependence on remittances from the US and its exposure to US trade policy. Continued fiscal and external surpluses, ample liquidity buffers and efforts to diversify financial and economic ties toward China and other partners support our view that Nicaragua's credit profile will remain resilient in the face of geopolitical pressures.

Nicaragua's local-currency country ceiling remains unchanged at Ba3, while the foreign-currency country ceiling remains at B1. The two-notch gap between the local-currency ceiling and the sovereign rating reflects weak predictability and reliability of institutions, moderate external imbalances, and elevated domestic political risks. The one-notch gap between the foreign-currency ceiling and the local-currency ceiling reflects the high share of government debt relative to the country's total external indebtedness, low capital account openness on a global basis, and a moderate level of policy effectiveness.

RATINGS RATIONALE

RATIONALE FOR THE AFFIRMATION OF THE B2 RATINGS

WEAK INSTITUTIONS AND ELEVATED GEOPOLITICAL RISKS CONSTRAIN THE B2 RATING

Nicaragua's B2 ratings are constrained by weak institutions and elevated political and geopolitical risks, which outweigh the sovereign's strong fiscal and external balance sheet metrics. The country's low income levels per capita of \$8,709 on a purchasing power parity basis, small economic size with a nominal GDP of \$19.7 billion, and limited economic diversification further limit economic strength and increase vulnerability to external shocks. The economy's dependence on commodity-producing and exporting sectors and its substantial reliance on the US market as an important source of remittances and export destination inhibit economic strength, both of which would be negatively affected if international sanctions were tightened. Governance risks remain high and are a central rating constraint, reflecting a weak institutional framework marked by the erosion of checks and balances and the concentration of power within the executive branch.

Geopolitical and sanctions-related risks further constrain the credit profile. Nicaragua remains subject to targeted sanctions imposed by the US, the EU, the UK, and Canada, which, while not directly affecting exports or remittances, continue to weigh on investor sentiment and financing conditions. The persistent risk of an intensification or broadening of sanctions — including trade-related measures — represents a key source of

downside risk, particularly given Nicaragua's continued heavy dependence on remittances from the US and its exposure to US trade policy despite efforts to diversify economic ties toward China and other partners.

Political risks have intensified following constitutional and legal reforms enacted in 2024-25, which subordinated legislative, judicial, and electoral institutions to the executive. In our view, these developments have significantly weakened institutional counterweights, reduced accountability, and heightened the risk of abrupt policy or enforcement shifts driven by political considerations rather than economic objectives. While economic institutions have thus far retained the capacity to safeguard macro-fiscal stability, governance weaknesses materially constrain the scope for further credit improvement.

STRONG FISCAL AND EXTERNAL BUFFERS PARTIALLY OFFSET STRUCTURAL CREDIT CONSTRAINTS

These structural and institutional weaknesses are partially offset by Nicaragua's large and growing fiscal and external buffers, a favorable debt maturity profile, and very strong debt affordability relative to peers. General government surpluses since 2022 have driven a firm downward trend in public debt ratios and supported the continued accumulation of government deposits. At the general government level, surpluses remained at around 2% in 2025, above prior expectations. These surpluses have been achieved by design, reflecting conservative revenue assumptions, stable revenue performance at around 29% of GDP, and high expenditure execution rates of 97-98% of approved budgets. All levels of government, including the social security system, have remained in surplus, reinforcing the strength of the public sector balance sheet.

As a result of these surpluses, government deposits at the central bank reached a record 13.5% of GDP as of September 2025, covering approximately 38% of outstanding government debt. The accumulation of liquid fiscal assets materially reduces financing and liquidity risks and provides the authorities with significant shock-absorption capacity, particularly in an environment of constrained external financing options. Public debt dynamics have improved meaningfully. General government debt declined to an estimated 35.4% of GDP in 2025 from 36.9% in 2024.

Gross financing needs remain low, estimated at 0.9% of GDP in 2025 and rising only modestly in 2026-27 as surpluses decline. Debt affordability remains among the strongest in the 'B' rating category, supported by low interest costs, declining reliance on more expensive domestic borrowing, and continued access to concessional external financing, despite some moderation in multilateral disbursements.

External buffers have also strengthened. Persistent current account surpluses, driven largely by robust remittance inflows, have supported the accumulation of very high foreign-exchange reserves. Remittances now exceed 25% of GDP and have offset persistent trade and income deficits, contributing to a current account surplus estimated at 2.0% of GDP in 2025. Foreign-exchange reserves reached around 36% of GDP in 2025 and will remain above 30% of GDP through 2027, among the highest levels in Latin America, providing strong coverage against external shocks and supporting exchange-rate stability under the crawling peg regime.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects the balance between elevated geopolitical and sanctions risks that pose material downside risks to overall macroeconomic stability, and the authorities' demonstrated commitment to maintaining prudent macro-fiscal policies.

Downside risks stem from the threat of economic sanctions that could pose downside risks for economic stability should they disrupt investment and financing flows, as well as constrained access to multilateral or other external funding. Beyond sanctions, additional downside risks stem from commodity price volatility, weaker global growth, and global shifts in trade and immigration policies, which could weigh on exports, remittance inflows, and near-term economic activity.

Sustained and higher than expected fiscal surpluses arising from continued overcompliance with fiscal targets constitute the main upside risks. Larger surpluses than we currently assume would lead to faster declining debt ratios, and the continued accumulation of large government deposits that provide Nicaragua with enhanced shock-absorption capacity. Should these buffers continue to grow, they would materially reduce near-term refinancing and liquidity risks, even under highly adverse financing conditions.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) CONSIDERATIONS

Nicaragua's ESG Credit Impact Score (CIS-4) indicates the credit rating is lower than it would have been if ESG

risk exposures did not exist. For Nicaragua, this reflects social and governance risks as a result of persistent geopolitical and weak political institutions despite the authorities' capacity to respond to shocks. Environmental risks also weigh on Nicaragua's rating.

Nicaragua's E-4 exposure to environmental risks score stems from physical climate, water management and natural capital risks. Nicaragua's geography is dominated by a region known as the Dry Corridor, characterized by recurrent drought and heavy precipitation events that lead to flooding and landslides, or in dry periods, wildfires. The steady rise in the frequency and severity of drought and other climate-related shocks poses a moderate threat to Nicaragua's agricultural sector, which employs nearly 30% of the country's population and accounts for about 15% of GDP.

Nicaragua's S-4 exposure to social risks issuer profile score reflects its exposure to a variety of social risks including pressures related to labor and income, education, housing, health and safety and access to basic services. Social considerations have played a role in increasing political risk in the country. While Nicaragua does not experience gang-related violence as other neighbors in the region, the country's domestic politics were embroiled in a national political conflagration in 2018-19 following the government's attempt to reform the pension system in April 2018, with violent protests disrupting economic activity. Although the protests ceased in 2019, our assessment of social risks remains elevated.

Nicaragua's G-4 governance issuer profile score reflects of the sovereign's ongoing challenges with respect to the weak rule of law and control of corruption, issues that we expect to persist over the medium term. These challenges more than offset the benefits from more than a decade-long record of prudent monetary and fiscal policy, which was partly cultivated through strong relationships with the IMF and multilateral creditors.

GDP per capita (PPP basis, US\$): 8,709 (2024) (also known as Per Capita Income)

Real GDP growth (% change): 3.6% (2024) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 2.8% (2024)

Gen. Gov. Financial Balance/GDP: 2.3% (2024) (also known as Fiscal Balance)

Current Account Balance/GDP: 4.2% (2024) (also known as External Balance)

External debt/GDP: 79.8% (2024)

Economic resiliency: b1

Default history: At least one default event (on bonds and/or loans) has been recorded since 1983.

On 18 February 2026, a rating committee was called to discuss the rating of the Nicaragua, Government of. The main points raised during the discussion were: The issuer's economic fundamentals, including its economic strength, have not materially changed. The issuer's institutions and governance strength have not materially changed. The issuer's fiscal or financial strength, including its debt profile, has materially increased. The issuer's susceptibility to event risks has not materially changed.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

A lifting of international sanctions that unlocks Nicaragua's economic potential and sustains higher growth rates, or a continued increase in fiscal and external buffers and reduction in public debt that further mitigates the impact of potentially stricter sanctions, could lead to an upgrade. Progress on structural reforms that support economic strength through a quicker diversification of trade partners, decreasing dependence on the US, or a softening of geopolitical tensions would enhance the sovereign's creditworthiness.

Downward pressure on the sovereign's credit profile would emerge if a material escalation in geopolitical or sanctions developments significantly disrupts external investment and financing flows, trade performance, or remittances. A prolonged period of weak economic activity derived from social or political tensions would substantially weaken Nicaragua's credit profile and could lead to a rating downgrade. A stronger than expected weakening of fiscal metrics that substantially erodes fiscal buffers could also exert downward pressure.

The principal methodology used in these ratings was Sovereigns published in November 2022 and available at

<https://ratings.moodys.com/rmc-documents/395819>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable.

The net effect of any adjustments applied to rating factor scores or scorecard outputs under the primary methodology(ies), if any, was not material to the ratings addressed in this announcement.

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Jaime Reusche
VP - Senior Credit Officer

Ariane Ortiz-Bollin
Associate Managing Director

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.

JOURNALISTS: 1 212 553 0376

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