Nicaragua: Ortega signals dynastic succession, raising US-related economic risks, though a super El Niño could pose a greater threat | Credendo

Event

On 19 July, President Daniel Ortega signalled a further tightening of Nicaragua's authoritarian political system, declaring that opposition parties would never again be allowed to compete for power. Ortega, now 80, was a dominant figure in the government established after the 1979 Sandinista revolution. He served as president from 1985 to 1990 before returning to power through elections in 2006. Since then, he has systematically dismantled institutional checks and balances, repressed political opponents and eliminated meaningful electoral competition. Over the past decade, Ortega and his wife and co-president, Rosario Murillo, have consolidated virtually all political power by bringing the electoral system, judiciary, legislature, security forces and much of civil society under their control. As a result, recent elections have lacked the basic conditions required to be considered free, fair and transparent. The latest announcement could therefore mark the start of a managed dynastic succession process aimed at preserving the Ortega-Murillo family's grip on power beyond Ortega's presidency.

Impact

The key external risk arising from Ortega's announcement is the US response. Relations between the US and Nicaragua have deteriorated over the past decade, regardless of which party has governed the US, as the Ortega administration has followed an increasingly authoritarian path. Amid Ortega's growing alignment with China, the Trump administration has recently increased sanctions and imposed tariffs on Nicaragua that are generally higher than those applied to its regional peers. However, Nicaragua remains highly dependent on the US, which absorbs around a third of its goods exports and accounts for 80% of remittances. Remittances are the main source of foreign exchange earnings and have historically accounted for about 40% of current account revenues. The DR-CAFTA trade agreement covers a dominant share of trade with the US, provides duty-free access and underpins sectors such as textiles. Nicaragua's suspension from DR-CAFTA is therefore possible, but currently appears unlikely. Such a move would probably weaken Nicaraguan economic growth, lead to job losses and increase poverty, potentially generating migration pressures that would conflict with a key US policy objective: reducing migration. Hence, additional trade tariffs, such as the recent 12.5% tariff based on alleged forced labour, appear more likely than a suspension of DR-CAFTA benefits as a means of eroding Nicaragua's preferential access to the US market.

Another potential risk is a financial 'nuclear option': the breakdown of international banking relations. Following US sanctions on (government-linked) individuals and entities, Nicaragua adopted legislation requiring domestic banks to serve sanctioned parties, placing Nicaraguan financial institutions between conflicting legal obligations. In an extreme scenario, US banks could therefore sever ties with Nicaraguan financial institutions. Given the central role of the US financial system in Nicaragua's trade, remittances and international payments, widespread de-risking could disrupt financial flows and economic activity. The impact could extend beyond bilateral transactions, as international banks often align their compliance practices with US sanctions to avoid penalties or restrictions on access to the US financial system. Although such far-reaching measures are unlikely, targeted sanctions and voluntary bank de-risking could still result in higher

transaction costs, payment delays and more limited access to US financial services.

A final option that cannot be disregarded, given the events in Venezuela, is US military action. However, there is currently no indication of potential military action against Ortega. Moreover, Ortega has historically demonstrated considerable pragmatism in his relations with successive US administrations. Despite deep political disagreements, he has generally sought to avoid actions that would endanger Nicaragua's access to US markets. Likewise, the US is aware that a severe economic shock could accelerate migration flows from Nicaragua. This suggests that, while tensions are likely to remain elevated, both sides have strong incentives to avoid a full-scale economic confrontation.

Ultimately, climate change rather than the US may pose the greatest immediate risk to the Nicaraguan economy. El Niño is returning and, because of climate change, could become one of the strongest episodes in centuries. Nicaragua typically experiences drought during El Niño events, so a particularly severe episode could weigh on agricultural production. This sector generates roughly a quarter of current account receipts, meaning that lower production could dampen economic growth.

In this context, the risk ratings remain unchanged, albeit at elevated levels.

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