

## Nicaragua

According to ECLAC estimates, Nicaragua's economy grew by 4% in 2012 as against 5.1% in 2011 as the faltering economic recovery in the United States and debt problems in Europe weakened external demand. The central bank held its nominal crawling peg exchange-rate policy at an annual depreciation rate of 5%. Inflation is expected to close the year at 6.5%; the balance-of-payments current account deficit is projected to be in the area of 16.5% compared with 17.8% in 2011. After successfully completing the International Monetary Fund (IMF) programme in December 2011, the government held negotiations with the Fund with a view to drafting a three-year arrangement that could be signed in the first quarter of 2013. Economic growth of 4.5% is projected for 2013.

In October, the National Assembly ratified the economic partnership agreement between the European Union and six Central American countries in order to continue positioning Nicaragua in international markets. In November, a tax reform bill was submitted to the National Assembly for consideration. Its objectives include continuing to consolidate public finances and making the tax system more equitable.

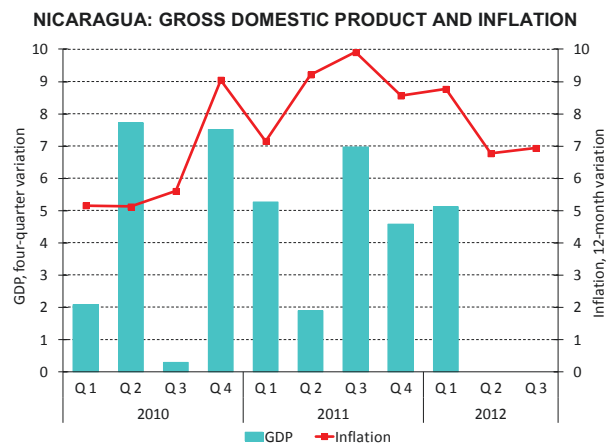
Total non-financial public sector revenue rose by 13.7% to September (as against 22.6% in 2011), largely thanks to the 16% rise in tax revenues (compared with 20% to July 2011). This was something of a slowdown, as the cooling economy impacted both income tax revenue (which rose by 11%) and value added tax revenue (up by 6%).

In the first nine months of the year, current expenditure represented 82% of total central government expenditure as a result of the wage increase in early 2012. Spending to reduce poverty under the government's social programme stood at 16.128 billion córdobas to September –10% more than in 2011 and equal to 42% of non-financial public sector expenditure as of that date. Execution of the public investment programme exceeded 65% as of September and is therefore expected to be close to 90% at year-end 2012. As a result, total income and expenditure to September were virtually in equilibrium.

In September, the National Assembly adopted a general

budget reform measure to include higher-than-expected revenue. The aim of the reform included providing funding for greater public investment and social expenditure and backing monetary policy.

At the end of the third quarter, total public debt stood at US\$ 5.373 billion (54% of GDP). Government debt accounted for 57.9% of the total, while central bank and other non-financial public sector debt represented 40.8% and 1.3%, respectively. The increase in revenues, the use of part of the surpluses to reduce the debt, and stronger economic and export growth contributed to a slight improvement in the debt



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

sustainability ratios, which as of September stood at 41.9% for the external debt-to-GDP ratio and 110% for the debt-to-exports ratio, down by 1.8 percentage points and 7.9 percentage points, respectively, compared with December 2011.

Nicaragua continued to receive substantial financial support from the Bolivarian Republic of Venezuela in 2012. Public sector financing to June 2012 was around US\$ 400 million, similar to the amount received to June 2011. The public sector received greater support from multilateral financial institutions in the form of loans and grants totalling US\$ 241.7 million, compared with US\$ 194.2 million to September 2011.

Lending to the private sector continued to surge and grew by more than 30% to September, largely targeting the commerce and agricultural sectors as well as consumer lending.

To August 2012, the index of economic activity grew by 5.2% (versus 8.3% during the same period in 2011) on the strength of the fishing industry, which posted 32% growth compared with 2.7% in 2011. Much of this growth was due to farmed shrimp output buoyed by good weather conditions. Industrial activity climbed by 4.3% to August, which was slower than the 5.7% posted in the prior period. Another major factor was the growth of financial activity, with a variation of 9.9% during the period that was far better than the 0.5% drop during the same period in 2011. This growth has continued to boost private construction and commerce.

In 2013, the economy of Nicaragua is expected to pick up again and grow by 4.5% thanks to stronger external demand, particularly in the Bolivarian Republic of Venezuela, Canada and China, where Nicaragua focuses its export efforts. Foreign direct investment (FDI) inflows from the Bolivarian Republic of Venezuela, China and the Russian Federation are expected to increase.

To November, cumulative inflation stood at 4.9%, as against 6.7% for the same period in 2011. The central bank continues to hold its nominal crawling peg policy at an annual depreciation rate of 5% as a price anchor. To November, food and non-alcoholic beverages had the greatest impact on prices (1.8 percentage points), particularly rice, chicken pieces and boneless beef. Hotels and restaurants followed, at 0.75 percentage points. Year-on-year inflation stood at 6.5%, compared with 7.9% in November 2011. The average deposit rate was 2.9% at the end of October, compared with 2.8% in December 2011, while the

#### NICARAGUA: MAIN ECONOMIC INDICATORS

	2010	2011	2012 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	3.1	5.1	4.0
Per capita gross domestic product	1.8	3.6	2.5
Consumer prices	9.1	8.6	6.8 <sup>b</sup>
Real average wage <sup>c</sup>	1.3	0.1	0.2
Money (M1)	21.4	24.8	21.4 <sup>d</sup>
Real effective exchange rate <sup>e</sup>	-2.4	5.0	1.6 <sup>f</sup>
Terms of trade	0.9	-0.4	-0.5
<b>Annual average percentages</b>			
Open urban unemployment rate	9.7	...	...
Central government			
overall balance / GDP	-0.8	0.5	0.2
Nominal deposit rate	3.0	1.8	1.0 <sup>g</sup>
Nominal lending rate <sup>h</sup>	13.3	10.8	12.1 <sup>g</sup>
<b>Millions of dollars</b>			
Exports of goods and services	3 731	4 717	4 981
Imports of goods and services	5 511	6 963	7 471
Current account balance	-883	-1 302	-1 465
Capital and financial balance <sup>i</sup>	1 055	1 329	1 444
Overall balance	172	27	-20

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> Estimates.

<sup>b</sup> Twelve-month variation to October 2012.

<sup>c</sup> Average wage declared by workers covered by social security.

<sup>d</sup> Year-on-year average variation, January to September.

<sup>e</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>f</sup> Year-on-year average variation, January to October.

<sup>g</sup> January-October average.

<sup>h</sup> Short-term loans rate, weighted average.

<sup>i</sup> Includes errors and omissions.

average lending rate was 24.1% (versus 22.8% in December 2011). The financial spread therefore stood at 21.3%.

In the external sector, exports posted year-on-year growth of 15.3% to stand at US\$ 2.002 billion in September 2012. A significant factor was the increase in sales to the Bolivarian Republic of Venezuela, which is the second most important destination market for exports from Nicaragua, accounting for 15.2% of export value. The United States is the primary destination market, receiving 29.1% of total exports. To September, imports were up by 12.9% year-on-year, reaching US\$ 4.311 billion; the oil bill accounts for a quarter of this amount. Imports of industrial capital goods also rose (by 30.7% year-on-year). Family remittances posted year-on-year growth of 12% to August. Although remittances from the United States remained constant and those from Europe declined, this was offset by the 25% increase in remittances from Costa Rica. As a result, the current account deficit was around US\$ 850 million to August and it is expected to close 2012 at 16.5% of GDP, as compared with 17.8% to December 2011.

FDI, which is expected to close 2012 at US\$ 850 million (8.5% of GDP, compared with 13.5% in 2011) continues to contribute to the balance of payments.

Canada, Mexico, Panama and the United States of America have been the largest sources of investment; mining, telecommunications and commercial banking have been the target sectors.

Gross international reserves to October were US\$ 1.856 billion, which is US\$ 95.9 million more than to October 2011 and equal to 2.5 times the monetary base.