

Nicaragua

1. General trends

Real GDP grew by 3.2% in 2008, as it did in 2007. Per capita GDP increased by 1.9%, similar to the decade average of 2%. The unemployment rate rose, standing at 6.1%. The acceleration of inflation subsided in the third quarter, and the rate closed the year at 13.8%. The current account deficit and the central government deficit both rose.

Municipal elections were held 9 November 2008 and the pre- and post-election periods were characterized by social and political conflicts among the stakeholders involved. As a result, some members of the international community with a presence in Nicaragua suspended budgetary assistance and financing for development projects, demanding the country's institutions be strengthened.

Results were mixed in the productive sectors. The manufacturing and service sectors slowed, while agriculture expanded significantly. The external sector withstood the international economic and financial crisis initially, but began to feel its adverse effects towards the end of the year. Goods exports grew at a rate similar to that of 2007, while exports of services contracted. Foreign direct

investment (FDI) flows and remittances expanded faster than in the previous year. The terms of trade worsened (-4.4%), owing to higher prices for imported goods.

According to ECLAC forecasts, GDP will fall by 1% in 2009 in the face of weakening external demand and slowing public and private consumption. The economy will be affected by the falls in remittances, exports and FDI flows which were felt in late 2008 and, to a greater extent, in early 2009. Private consumption will slacken owing to a drop in real household incomes and public consumption will be dented by falling fiscal revenue. The current account deficit will narrow owing to a significant drop in imports. Given that inflationary pressure has abated, a single-digit inflation rate is expected.

2. Economic policy

The central government incurred extraordinary expenses in 2008 in an effort to mitigate the impact of external shocks. Its ability to effectively implement expansionary fiscal policy, however, was curbed by falls in fiscal revenue and international assistance. The monetary policy implemented in 2007 remained in place.

(a) Fiscal policy

As a proportion of GDP, the central government's fiscal deficit—not including grants—stood at 4.1% (3.3%

in 2007), reversing the trend observed over the last four years. Although external grants (2.9% of GDP) helped lower the fiscal deficit to 1.2% of GDP, they totalled considerably less than in 2007 (3.7% of GDP).

Total tax revenue dropped by 4.5% in real terms, compared with 5% growth in 2007. Tax receipts climbed by 14.5% in nominal terms, but declined in real terms because of a jump in the average annual inflation rate (19.8%). As a result, the tax burden decreased to 17.6% of GDP (18.1% in 2007). Revenue from direct taxes grew by 1.7% while that from indirect taxes dropped by 11.3%.

The reduction or elimination of tariffs on many products to offset rising food prices led to decreased revenue from import taxes.

As a result of rising inflation, total central government expenditure dropped by 1% in real terms but increased by 18.6% in nominal terms. Capital expenditure underwent the largest contraction (16.7% in real terms) which can be attributed to funds being transferred from this segment to current expenditure. Growth in wages (10.8%) and purchases of goods and services (38.3%) fuelled the expansion of current expenditure (6.1%). The government incurred extraordinary expenses in the form of subsidies on electric power and fuels (to offset international price increases) and food purchases to stabilize prices and boost food supply networks.

The external public debt dropped by 4.3 percentage points to 55.2% of GDP by the end of the year. Unlike the previous two years, there was no significant reduction through debt forgiveness in 2008. Domestic debt also declined, ending the year at 17.1% of GDP (19.8% in 2007). Nicaragua has not included in its national accounts the international aid it receives under the Bolivarian Alternative for Latin America and the Caribbean (ALBA).

Total central government income dropped sharply in early 2009 owing to a slowdown in economic activity, forcing the authorities to rein in current expenditure and rework the budget. External grants of direct budgetary assistance have also decreased. According to preliminary estimates, the combined impact of these two items could exceed 2.5 GDP points in 2009.

In January the government unveiled the “Production, growth and employment support programme, 2009” to deal with the economic crisis. The programme’s main pillars are: financial stability and external cooperation; public investment; support for production and private investment; promotion of solidarity-based employment and fiscal austerity. Implementation of the programme—particularly those measures requiring significant funding— will be limited by dwindling central government income.

(b) Monetary and exchange-rate policy

In order to curb inflationary pressure, and despite the worsening of the terms of trade and the growing trade gap, the devaluation rate was held at 5% annually. In late 2008, the official nominal exchange rate reached 19.8 córdobas to the dollar. The real bilateral exchange rate with the dollar rose by 9.1% (annual average), while the real effective exchange rate with respect to the country’s main trading partners appreciated by 5.2%.

Monetary aggregates grew much more slowly in nominal terms than in 2007 because of the slowing of economic activity in late 2008. M1, including cash in

circulation and current account deposits, posted a nominal increase of 2.8% (23.6% in 2007), also held back by anti-inflation measures. Term deposits in local currency dropped by 11%. Dollar-denominated deposits, on the other hand, grew by 11.5%, and their share of broad money (M3) rose from 65.4% in 2007 to 68.2% in 2008 as a result of high inflation.

Credit union loan portfolios grew by 12.3% in nominal terms, as compared with 31.6% in 2007, thanks to precautionary measures taken by the banking sector in light of the international financial crisis, as well as the economic slowdown in late 2008. Personal loans and credit card lending were particularly hard hit. Lending to the commercial and agricultural sectors, on the other hand, continued expanding.

The legal reserve requirement remained at 6.25%, but the financial system held excess reserves as a precautionary measure given the current international situation. In late 2008, the nominal deposit rate in local currency reached 6.9%, slightly higher than the rate at the end of 2007 (6.6%). Likewise, the nominal lending rate in local currency jumped 70 basis points to 13.6%, owing to the reduced availability of liquidity caused by the international financial crisis. The real deposit and lending rates in local currency were negative throughout the year and stood at -6.1% and -0.2% respectively in December. The effectiveness of these monetary-policy instruments continued to be hampered by high dollarization of the economy and lack of a more fully developed local financial system.

Adjusted net international reserves held by the central bank dropped by US\$ 27 million to stand at US\$ 710 million in December 2008, owing to lower demand for córdobas, as well as a decrease in central government transfers owing to delayed receipt of budgetary assistance from external sources. The central bank maintains its commitment to hold sufficient international reserves to ensure effective convertibility.

In 2009, the central bank is expected to hold the devaluation rate at 5% annually. Similarly, given lower international interest rates and lower domestic inflation, interest rates in Nicaragua are likely to trend downward. Adjusted net international reserves reached US\$ 622 million in June, and monetary aggregates posted a negative variation in nominal terms.

(c) Trade policy

Trade policy in 2008 focused on continuing the negotiations begun in previous years, as well as on creating favourable conditions for diversifying export markets through new trade agreements or treaties. The government monitored the negotiations of the Doha

Round and continued its negotiations with the member countries of the Caribbean Community (CARICOM) with a view to Nicaragua (along with El Salvador, Guatemala, Honduras and Panama) joining the free trade agreement between Costa Rica and CARICOM.

In the area of Central American integration, negotiations on the Pluriannual Plan 2009-2011 of the Central American Integration System were concluded and the plan was approved. In the context of continuing negotiations for an Association Agreement between Central America and the European Union, five rounds of talks were held in 2008

and negotiations are slated to conclude in 2009. Other achievements in 2008 include the consolidation of the Generalized System of Preferences Plus (SGP+) and the creation of a list of Nicaraguan goods and services.

In January 2008, the free trade agreement with Taiwan Province of China entered into force, and the investment protocol for the treaty was signed in May. Lastly, with a view to expanding export markets, steps were taken to initiate trade negotiations in the near future with the governments of the Bolivarian Republic of Venezuela, Cuba and the Russian Federation.

3. The main variables

(a) Economic activity

Despite unfavourable external conditions, economic activity in Nicaragua grew at the same rate in 2008 as in 2007. Consumption (4%) and investment (11.1%) expanded at rates similar to those of the previous year. Export growth slowed to 5.1%, compared with 9% in 2007. Growth in imports (9.6%) continued to hold back the expansion of the economy. Gross fixed investment grew, thanks to more FDI flows, particularly for equipment and machinery in the telecommunications and energy sectors. Consumption expanded, fuelled by increased family remittances, which helped offset the negative effects of inflation in the first three quarters. Exports, for their part, were dented by lower external demand.

Throughout 2008, the rate of variation of the monthly index of activity showed a downward trend, in keeping with the behaviour observed since mid-2007. The slowdown in economic activity worsened in the last few months of the year. The Nicaraguan economy benefitted from favourable export prices in the first half of 2008, when external demand was still growing and remittances were robust, despite the negative external shocks caused by rising fuel and raw-material prices. These favourable trends were reversed in the second semester, particularly near the end of the year.

Agriculture (5%) was the sector that expanded the most in 2008, followed by government services (4.9%). The buoyant growth in agriculture was driven by an increase in planted areas, the recovery of production following the damage caused by bad weather in 2007 and the peak of the two-year coffee cycle. Manufacturing slowed significantly (2.2% growth as compared with 7.4% in 2007) owing to weaker textile and clothing production,

which is concentrated in the free zones. Transport and communications and commerce, restaurants and hotels grew more slowly than in 2007 (3.6% and 3.3%, respectively), and construction posted negative growth (-2.8%) for a third consecutive year.

In the first four months of 2009, the monthly index of economic activity showed an average contraction of 5.7% (as compared with 5% growth in the same period in 2008). The most heavily affected sectors were construction (-21.3%), agriculture (-13.3%) and commerce (-6.5%).

(b) Prices, wages and employment

Despite a dramatic spike in inflation in the middle of the year, cumulative inflation was lower in 2008 (13.8%) than in 2007 (16.9%). Year-on-year inflation peaked in August (23.9%) then quickly retreated. Marked increases in international food and fuel prices had a direct effect on domestic prices. Likewise, when the international prices fell back, so did domestic inflation. Food and beverage prices posted the largest cumulative variation (22.5%). Core inflation (14.5%) ended the year higher than overall inflation since it does not include fuel prices.

The nationwide open unemployment rate rose significantly from 4.9% in 2007 to 6.1% in 2008. The economically active population nationwide grew by 5.6%, exceeding the increase in the employment rate (4.3%). According to data from household surveys, the informal employment rate rose slightly from 62.7% to 63.5% of the working population. Nominal average wages climbed by 7.8%, not enough to offset the average inflation registered in 2008. This translated into a decrease in real average wages of 10.2%.

Table 1
NICARAGUA: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 ^a
Annual growth rates^b									
Gross domestic product	4.1	3.0	0.8	2.5	5.3	4.3	3.9	3.2	3.2
Per capita gross domestic product	2.4	1.5	-0.6	1.2	4.0	2.9	2.5	1.8	1.9
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	12.1	2.7	-0.3	1.9	5.7	4.6	3.4	-2.4	5.0
Mining and quarrying	-15.5	13.6	5.6	-10.6	20.0	-10.4	-3.4	-7.4	-3.6
Manufacturing	4.3	5.9	2.1	2.4	9.0	5.6	6.5	7.4	2.2
Electricity, gas and water	8.9	8.3	1.4	5.1	4.4	3.6	2.7	2.3	3.2
Construction	-1.0	2.1	-13.3	2.7	12.1	7.3	-3.2	-2.6	-2.8
Wholesale and retail commerce, restaurants and hotels	1.7	1.6	3.3	1.4	4.6	2.3	3.9	4.7	3.3
Transport, storage and communications	0.9	3.7	2.7	9.7	4.8	6.7	4.4	7.5	3.6
Financial institutions, insurance, real estate and business services	5.1	3.9	2.3	6.8	7.2	4.0	5.6	8.2	2.7
Community, social and personal services	2.3	5.1	2.0	2.4	2.2	4.0	4.4	3.4	3.6
Gross domestic product, by type of expenditure									
Final consumption expenditure	5.2	4.1	3.6	2.1	2.1	3.6	4.0	4.1	4.0
Government consumption	4.8	-2.9	-4.6	5.6	3.2	6.9	8.0	4.0	4.8
Private consumption	5.3	4.9	4.5	1.8	2.0	3.3	3.6	4.1	4.0
Gross domestic investment	-16.8	-8.4	-7.1	-1.0	10.7	11.3	-1.5	10.8	-40.0
Exports (goods and services)	12.5	7.3	-3.5	9.2	17.1	7.7	12.6	9.0	5.1
Imports (goods and services)	-4.7	0.7	-0.1	3.5	8.2	8.6	6.8	12.4	9.6
Percentages of GDP									
Investment and saving^c									
Gross domestic investment	31.0	28.2	26.1	25.9	28.0	30.1	30.2	33.2	33.3
National saving	9.6	8.7	7.6	9.7	13.5	15.0	16.7	15.7	10.1
External saving	21.4	19.5	18.5	16.2	14.5	15.1	13.4	17.6	23.2
Millions of dollars									
Balance of payments									
Current account balance	-842	-805	-744	-663	-649	-734	-710	-1 001	-1 475
Goods balance	-921	-910	-939	-971	-1 088	-1 302	-1 451	-1 759	-2 173
Exports, f.o.b.	881	895	914	1 056	1 369	1 654	2 034	2 336	2 675
Imports, f.o.b.	1 802	1 805	1 853	2 027	2 457	2 956	3 485	4 094	4 848
Services trade balance	-129	-141	-130	-119	-123	-140	-134	-182	-209
Income balance	-202	-240	-206	-198	-192	-150	-129	-135	-161
Net current transfers	410	486	530	625	755	857	1 003	1 075	1 068
Capital and financial balance ^d	644	542	531	441	531	670	772	1 093	1 460
Net foreign direct investment	267	150	204	201	250	241	287	382	626
Other capital movements	377	392	327	239	281	429	485	711	834
Overall balance	-198	-263	-213	-222	-118	-64	62	92	-14
Variation in reserve assets ^e	16	110	-69	-55	-160	-6	-186	-173	-30
Other financing	182	153	282	278	278	70	124	80	45
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^f	100.0	101.2	103.3	106.9	107.7	108.4	107.0	110.8	105.4
Terms of trade for goods (index: 2000=100)	100.0	88.4	87.0	84.1	82.5	81.4	79.4	78.6	75.2
Net resource transfer (millions of dollars)	624	455	607	520	616	590	768	1 039	1 344
Gross external public debt (millions of dollars)	6 660	6 374	6 363	6 596	5 391	5 348	4 527	3 385	3 512
Average annual rates									
Employment									
Labour force participation rate ^g	53.8	57.5	...	53.7	53.1	53.8	51.4	51.1	53.3
Open unemployment rate ^h	7.8	11.3	11.6	10.2	9.3	7.0	7.0	6.9	8.0
Prices									
Annual percentages									
Variation in consumer prices (December-December) ⁱ	9.9	4.7	4.0	6.6	8.9	9.6	10.2	16.2	12.7
Variation in nominal exchange rate (annual average)	7.4	5.4	6.6	6.0	5.5	2.6	6.1	6.3	5.0
Variation in average real wage	0.0	1.0	3.5	1.9	-2.2	0.2	1.4	-1.8	-6.0
Nominal deposit rate ^j	10.8	11.6	7.8	5.6	4.7	4.0	4.9	6.1	6.6
Nominal lending rate ^k	18.1	18.6	18.3	15.5	13.5	12.1	11.6	13.0	13.2

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 ^a
	Percentages of GDP								
Non-financial public sector									
Total income ^l	24.0	23.0	24.3	26.6	28.9	29.6	31.7	32.8	31.8
Current income	19.4	20.1	21.2	22.8	25.3	26.2	27.4	28.8	28.6
Tax income	18.1	17.2	18.0	19.9	20.6	21.7	22.8	23.7	23.4
Total expenditure	28.5	29.6	26.3	28.9	30.3	30.5	31.0	31.5	32.5
Current expenditure	16.7	23.7	20.7	22.2	22.9	24.1	26.0	26.4	28.2
Interest	2.2	2.2	2.2	3.1	2.1	1.9	1.8	1.5	1.2
Capital expenditure	11.7	6.0	5.6	6.6	7.4	6.5	5.0	5.1	4.3
Primary balance	-2.3	-4.4	0.3	0.8	0.8	1.0	2.5	2.8	0.4
Overall balance	-4.5	-6.6	-1.9	-2.3	-1.4	-0.9	0.7	1.3	-0.7
Non-financial public sector debt	114.7	111.3	134.1	138.0	100.7	92.8	69.1	43.3	39.3
Domestic	0.0	0.0	21.5	22.5	21.5	21.1	18.9	16.8	14.2
External	114.7	111.3	112.6	115.5	79.3	71.7	50.2	26.4	25.1
Money and credit^m									
Domestic credit	...	78.0	79.7	80.7	71.4	67.3	62.8	61.5	56.4
To the public sector	...	74.7	72.7	68.2	56.4	48.1	39.8	33.1	29.2
To the private sector	...	17.7	19.6	22.9	25.4	29.3	33.7	39.3	37.6
Others	...	-14.4	-12.5	-10.4	-10.4	-10.1	-10.7	-10.9	-10.4
Liquidity (M3)	37.5	37.4	40.0	41.8	43.0	41.3	39.4	41.2	37.5
Currency outside banks and local-currency deposits (M2)	12.9	12.4	12.1	13.4	14.4	13.5	13.6	14.3	11.9
Foreign-currency deposits	24.6	25.0	27.9	28.4	28.6	27.8	25.8	27.0	25.6

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

^a Preliminary figures.

^b Based on figures in local currency at constant 1994 prices.

^c Based on figures in local currency expressed in dollars at current prices.

^d Includes errors and omissions.

^e A minus sign (-) denotes an increase in reserves.

^f Annual average, weighted by the value of goods exports and imports.

^g Economically active population as a percentage of the working-age population; nationwide total.

^h Percentage of the economically active population, urban total.

ⁱ Consumer price index in the Managua metropolitan area.

^j Weighted average rate on 30-day deposits.

^k Weighted average rate on short-term loans.

^l Includes grants.

^m The monetary figures are end-of-year stocks.

Inflation dropped significantly in the first five months of 2009. The year-on-year variation was 4.1% in May, compared with 21.8% for the same period in 2008. Cumulative inflation in the first five months of the year was practically zero (0.1%, compared with 9.5% in the same period in 2008), owing to falling international food prices and the slowdown in economic activity.

(c) The external sector

The balance-of-payments current account deficit widened from 17.6% of GDP in 2007 to 23.2% in 2008. This was essentially due to a worsening of the terms of trade. Exports of goods, including those from free zones, totalled US\$ 2.675 billion in 2008, an annual increase of 14.5% compared with 14.8% in 2007. Of the increase in exports, 45% was attributable to heavier export volume and the rest to higher prices. The modest expansion in free-zone exports (5.9%) contrasted with robust growth in traditional exports (14.2%) and other exports (30.1%). Under traditional exports, primary goods exports rose owing to

higher international prices and agricultural exports expanded thanks to better weather conditions than in 2007.

For the second consecutive year, goods imports (18.4%) grew faster than exports, totalling US\$ 4.848 billion in late 2008. The principal import products were crude oil, human medications, diesel fuel and gasoline. The merchandise trade balance posted a deficit of US\$ 2.173 billion, 23.6% larger than in 2007 and equivalent to 34.1% of GDP. The services trade deficit widened by US\$ 209 million, compared with US\$ 182 million in 2007, and was mostly due to growth in transport expenses (30.4%).

The terms of trade worsened for the eighth consecutive year (-4.4% with respect to 2007), which explains the deterioration of the merchandise balance owing to higher fuel and raw materials prices.

Income from family remittances totalled US\$ 818 million (US\$ 740 million in 2007), with an annual growth rate higher than in the previous year (10.7% as compared with 6% in 2007). The rate of growth of remittances slowed sharply in late 2008, however, and they contracted in the first months of 2009.

Table 2
NICARAGUA: MAIN QUARTERLY INDICATORS

	2007				2008 ^a				2009 ^a	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) ^b	4.3	4.2	3.9	3.7	3.7	1.7	...
Goods exports, f.o.b. (millions of dollars)	310	310	292	291	399	413	385	292	355	...
Goods imports, c.i. f. (millions of dollars)	741	859	913	1 085	1 010	1 165	1 158	1 005	771	...
Gross international reserves (millions of dollars)	896	1 009	1 036	1 103	1 073	1 123	1 165	1 141	1 078	1 143
Real effective exchange rate (index: 2000=100) ^c	110.8	110.9	111.6	109.8	108.3	107.0	105.1	101.1	101.1	104.1 ^d
Consumer prices (12-month percentage variation)	9.0	9.0	10.9	16.2	18.9	22.7	23.0	12.7	7.1	3.1 ^d
Average nominal exchange rate (córdobas per dollar)	18.1	18.3	18.6	18.8	19.0	19.3	19.5	19.7	20.0	20.2
Average real wage (variation from same quarter of preceding year)	-1.9	-0.7	-0.3	-4.2	-5.0	-5.6	-7.0	2.6	-0.2	...
Nominal interest rates (annualized percentages)										
Deposit rate ^e	5.7	5.9	6.4	6.3	6.7	6.5	6.4	6.7	6.5	6.5 ^d
Lending rate ^f	12.7	13.2	13.2	13.0	13.6	12.6	13.1	13.4	14.4	14.2 ^d
Interbank rate	44.0	42.5	27.0	8.3	9.6	10.1	11.3	11.2	11.6	11.6 ^d
Domestic credit (variation from same quarter of preceding year)	14.1	12.9	8.9	10.5	8.0	7.2	10.8	7.7	5.9	...
Non-performing loans as a percentage of total credit	2.1	2.3	2.5	2.4	2.8	2.8	3.1	3.0	2.8	2.7 ^g

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

^a Preliminary figures.

^b Based on figures in local currency at constant 1994 prices.

^c Quarterly average, weighted by the value of goods exports and imports.

^d Data to May.

^e Weighted average rate on 30-day deposits.

^f Weighted average rate on short-term loans.

^g Data to April.

The financial accounts posted a surplus of US\$ 596 million, which, together with the capital account surplus, helped to partially fund the current account deficit. The rest of the deficit was covered by a surplus in the errors and omissions account of US\$ 502 million. FDI flows in 2008 totalled US\$ 626 million, compared with US\$ 382 million in 2007. This significant growth can be attributed mainly to sizable investments in power generation (US\$ 270 million).

The current account deficit is projected to shrink in 2009, owing to an improvement in the terms of trade and weakening imports. FDI flows are also expected to decline. In the first four months of 2009, goods exports totalled US\$ 470 million (US\$ 81 million less than the same period in 2008), while imports reached US\$ 977 million (US\$ 364 million less than in 2007). Consequently, the trade deficit narrowed from US\$ 790 million to US\$ 507 million in the first three months of 2008 and 2009, respectively.