

## Nicaragua

### 1. General trends

The economy grew by 4.5% in 2010, after shrinking by 1.5% in 2009, indicating that Nicaragua has recovered from the recent international financial crisis. This recovery is attributable to the rebound of exports by almost 32% (13.2% in real terms) and a slight increase in consumption (3.2% in real terms), reflecting the 3.7% growth in household consumption as a result of higher minimum wages, increased family remittances and the transfers to public sector workers using grants from the Bolivarian Republic of Venezuela.

Inflation stood at 9.1%, after closing 2009 at 1.8%, owing to the upswing in economic activity and higher prices for oil, some foods (because of climatic factors) and basic grains.

According to ECLAC estimates, economic growth will slow slightly to about 4% in 2011, depending on

expectations relating to the strength of the economic recovery in the United States, where a slowdown would decrease external demand. For 2011, the Central Bank of Nicaragua expects inflation of between 8.5% and 9.5%.

### 2. Economic policy

#### (a) Fiscal policy

The amended Fiscal Equity Act (adopted at the end of 2009) and the upturn in economic activity led to improved fiscal outcomes, with the non-financial public sector deficit narrowing from 1.9% of GDP in 2009 to 0.5% of GDP in 2010 once grants had been included.

Total non-financial public sector revenues rose slightly as a percentage of GDP, from 30.4% to 30.8%, owing to the 0.8% increase in real terms in total central government revenues mainly as a result of higher tax revenues (1.6% in real terms). The higher revenues made it possible to augment the social spending budget. Under the financial prudence policy, the central government deficit (not including grants) was reduced from 5.2% of GDP to 3.1%

of GDP, giving a total of 4.185 million córdobas. Indirect taxes went up from 6.6% of GDP to 7.0% of GDP, while direct taxes remained at almost the same level, shifting slightly from 6.2% of GDP to 6.1% of GDP. The revenue inflows of the Nicaraguan Social Security Institute also rose by 0.7% of GDP, while those of the Municipality of Managua held steady at about 1% of GDP.

Total non-financial public sector spending contracted from 32.3% of GDP in 2009 to 31.4% in 2010, owing to lower central government current spending, especially on wages, which fell from 6.9% of GDP to 6.6% of GDP in 2010. That reduction was offset by the increase in transfers using resources contributed by the Bolivarian Republic of Venezuela (530 córdobas to all public sector workers who earn less than 5,500 córdobas

per month), which were recorded as extrabudgetary private-sector transfers. Transfers established under the constitution and by law (to universities, municipalities and the Supreme Court of Justice), which depend on tax revenues, increased substantially, swelling from 5.189 billion córdobas to 6.087 billion córdobas (17.3% of GDP). Central government capital spending held steady at 5.6% of GDP in 2009 and 2010. Spending by State-owned companies rose on the back of higher operating costs, in particular, wages, while investment spending, especially by the Nicaraguan Water Supply and Sewage Company (ENACAL), shrank.

In order to finance the fiscal deficit, external debt had to be increased by US\$ 215 million, following a US\$ 54 million reduction in domestic debt. As a result, total public debt stood at US\$ 5.140 billion (78.5% of GDP). Of that total, US\$ 3.876 billion was external debt and US\$ 1.264 billion was domestic debt. Central bank liabilities accounted for 28% of domestic liabilities.

### **(b) Monetary and financial policy**

With a view to maintaining the credibility of the exchange-rate regime as an anchor for price stability—nominal slippage of 5% in the exchange rate—a target level of international reserves was set at a minimum of 2.2 times the monetary base. In order to meet this objective, the central bank maintained the reserve requirement at 16.25% (no change in relation to 2009). As demand for credit remains low—although higher than in 2009—actual reserves closed 2010 at 24.1% (30.2% in 2009).

The central bank continued carrying out open market operations, but also sought, as far as possible and without jeopardizing its objectives, to reduce its operating costs. This effort was backed by fiscal policy through the increase of non-financial public sector deposits in the central bank and especially social security deposits (increasing the deposits of more than US\$ 50 million).

As a result of the monetary policy operations, the monetary aggregate M2 grew by 21.9% in 2010, compared with 10.4% in 2009, owing to lower interest rates on central bank bills, which went from an annual rate of 3.8% at the end of 2009 to 4% at the end of 2010.

Adjusted net international reserves<sup>1</sup> rose by US\$ 105.0 million, while the programme with the

International Monetary Fund (IMF) allowed for a reduction of US\$ 20 million. As a result of this increase, gross international reserves totalled US\$ 1.799 billion (2.7 times the monetary base), thus strengthening the credibility of the exchange-rate system.

In line with the growth of the monetary aggregates, the financial system's liabilities grew by 6% in real terms while credit diminished by 5.8% in real terms, which could indicate the banking system's preference for government paper.

Banking indicators showed a slight improvement. While the quality of the portfolio improved somewhat in relation to A-credit (0.2%), which makes up 80% of total credit, all other categories deteriorated, especially those with the highest default levels. The arrears rate for D-credit and E-credit loans went up from 2.8% to 3% and from 1.4% to 2.2%, respectively. With regard to the breakdown of lending, the lion's share went to commercial loans (35.3%) and consumer loans (23%) and to a lesser extent mortgage credit (15.4%) with smaller amounts going to agriculture (11.8%) and industry (11.2%). The level of provisions (over 150%) and the increased equity of institutions—the capital to risk-weighted assets ratio went from 17.2% in 2009 to 18.8% in 2010—allowed the financial system to begin a recovery process, which can be seen in the net returns on equity (adjusted for provisions outstanding) which stood at 19.2% in 2010 compared with 8.1% in 2009. In accordance with the new Central Bank of Nicaragua Organization Act, which was adopted in July 2010, the central bank has also set the objective of financial stability, which is an important step forward for the development of the sector.

### **(c) Trade policy**

In 2010 Nicaragua continued to phase out tariffs in accordance with the provisions of the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) and signed the Association Agreement between the European Union and Central America. Nicaragua also began negotiations of a peoples' trade agreement within the framework of the Bolivarian Alliance for the Peoples of Our America. The free trade agreement signed with Panama in 2009 entered into force.

<sup>1</sup> Adjusted net international reserves exclude the reserve requirement for foreign-currency deposits and IMF disbursements.

### 3. The main variables

#### (a) Economic activity

In early 2010, after three quarters of negative growth in 2009, the economy of Nicaragua showed signs of recovery when GDP posted growth of 0.3% in the first quarter, which accelerated to 2.6% in the second quarter, giving an annual rate of 4.5% for 2010, compared with the 1.5% contraction recorded in 2009.

The agriculture, forestry, hunting and fishing sector grew by 6.5%, which was attributable, among other factors, to the 5.9% increase in agricultural activities, especially because of the higher value added of coffee production (14.9%) owing to the peak of the production cycle, favourable climatic conditions and better harvesting conditions as a result of strong international prices. The value added of sugar cane also rose by 13%, with a larger area harvested and higher productivity thanks to improved farming practices. Oilseed also went up significantly (21%), owing to the increased areas sown with soybean, sesame and peanuts. The opposite was seen in basic grains (a decrease of 0.8%), in particular because of the heavy rains that fell in the bean-growing region, which reduced productivity per plot significantly.

The value added of the livestock sector grew by 10.3% in particular as a result of the upturn in beef exports to Guatemala following the elimination of non-tariff barriers.

Fishing and aquacultural activities grew slightly by 2.1%, owing essentially to larger fish catches, since shrimp and lobster catches were hit by the closed season in Central America and the harvesting of farmed shrimp was delayed so that larger shrimp could be produced, with a view to commanding higher prices abroad.

Another activity that grew substantially was mining (39.8%), owing to higher international prices for gold and silver and the reopening of one of the largest mines following a technological renovation process aimed at increasing the volumes extracted.

The value added of the manufacturing industry also grew by about 7% thanks to the uptick in external demand. For example, Venezuelan demand for meat and fish led to a 7.8% increase in the production of those products. Thanks to the upturn in demand in the United States, the textiles and apparel branch of the manufacturing industry also rallied by 18%, after contracting by 6% in 2009.

The construction sector contracted once again, although less markedly than in 2009 (15%), shrinking by 12.5%

in 2010. The contractions might have been sharper had it not been for the social housing credit programme and construction start-ups in the new free zones.

Lastly, the commerce, restaurants and hotels sector picked up by 3.8% in 2010, compared with a fall of 2.5% in 2009.

#### (b) Prices, wages and employment

Higher international prices for oil and some basic grains and the economic upturn led to a surge in inflation, which stood at 9.1% at the end of December, compared with 1.8% in 2009. Food and non-alcoholic beverages climbed by 13.7%, contributing 4.6 percentage points to inflation in 2010, mainly because of the rise in prices for fresh vegetables and beans. Other areas that saw a marked increase were transport (8.9%) and housing, water, electricity and other fuels (8.3%), in both cases as second-round effects of the rising price of oil and petroleum products. The price index for construction materials grew by 8% to December 2010, in particular as a result of the rising price of iron in the international market.

The continuous household surveys, which have been conducted quarterly since February 2009, constitute a significant improvement in the measurement of employment, although it should be borne in mind that the data are not comparable with previous series given how frequently the surveys are carried out and the methodological improvements that have been made in accordance with the recommendations of the International Labour Organization (ILO).

With regard to the quality of employment, the surveys show that 75.7% of those who are employed work in informal establishments (which do not keep accounts or make social security contributions), while 53.7% of the economically-active population is underemployed. Of those, 45.2% work fewer than 40 hours a week and the rest receive wages that are lower than the legal minimum. The data show a decrease in the open unemployment rate from 7.7% in 2009 to 7.4% in 2010.

According to the Ministry of Labour, average real national wages in 2010 were the same as in 2009, but the average wages of workers covered by social security rose slightly by 1.3% in real terms, mainly as a result of the 12.36% increase in the national minimum wage. In the agriculture sector, coffee received differentiated treatment

Table 1  
NICARAGUA: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 <sup>a</sup>
<b>Annual growth rates<sup>b</sup></b>									
<b>Gross domestic product</b>	0.8	2.5	5.3	4.3	4.2	3.6	2.8	-1.5	4.5
<b>Per capita gross domestic product</b>	-0.6	1.2	4.0	2.9	2.8	2.3	1.4	-2.7	3.2
<b>Gross domestic product, by sector</b>									
Agriculture, livestock, hunting, forestry and fishing	-0.3	1.9	5.7	4.6	2.5	-0.1	6.6	-0.2	6.5
Mining and quarrying	5.6	-10.5	20.0	-10.5	2.7	-9.6	-6.2	-8.9	39.8
Manufacturing	2.1	2.4	9.0	5.6	6.4	7.4	0.9	-1.5	7.0
Electricity, gas and water	1.4	5.1	4.4	3.6	1.5	2.7	4.0	3.7	4.2
Construction	-13.3	2.7	12.1	7.3	-3.2	-5.4	-7.8	-15.0	-12.5
Wholesale and retail commerce, restaurants and hotels	3.3	1.4	4.6	2.3	4.9	4.8	2.7	-2.5	3.8
Transport, storage and communications	2.7	9.7	4.8	6.7	7.2	7.2	3.8	1.9	2.9
Financial institutions, insurance, real estate and business services	2.3	6.8	7.2	4.0	4.9	7.4	3.3	-0.9	-1.7
Community, social and personal services	2.0	2.4	2.2	4.0	4.2	2.9	3.6	0.9	2.2
<b>Gross domestic product, by type of expenditure</b>									
Final consumption expenditure	3.6	2.1	2.1	3.6	2.7	3.9	4.3	-1.7	3.2
Government consumption	-1.0	5.0	3.5	4.7	1.9	2.7	8.0	-2.6	0.0
Private consumption	4.4	1.7	1.9	3.4	2.9	4.1	3.7	-1.6	3.7
Gross capital formation	-7.1	-1.0	10.7	11.3	-0.1	10.7	0.8	-19.8	10.0
Exports (goods and services)	-3.5	9.2	17.1	7.7	12.5	8.3	7.5	2.5	13.2
Imports (goods and services)	-0.1	3.5	8.2	8.6	4.4	10.9	7.6	-7.8	10.8
<b>Percentages of GDP</b>									
<b>Investment and saving<sup>c</sup></b>									
Gross capital formation	26.1	25.9	28.0	30.1	30.8	33.4	32.9	24.6	27.5
National saving	7.6	9.7	13.5	15.0	17.2	15.7	9.1	11.0	12.8
External saving	18.5	16.2	14.5	15.1	13.6	17.7	23.7	13.5	14.7
<b>Millions of dollars</b>									
<b>Balance of payments</b>									
Current account balance	-744	-663	-649	-734	-710	-1 001	-1 513	-841	-963
Goods balance	-939	-971	-1 088	-1 302	-1 451	-1 759	-2 211	-1 540	-1 636
Exports, f.o.b.	914	1 056	1 369	1 654	2 034	2 336	2 538	2 387	3 157
Imports, f.o.b.	1 853	2 027	2 457	2 956	3 485	4 094	4 749	3 927	4 792
Services trade balance	-130	-119	-123	-140	-134	-182	-209	-85	-222
Income balance	-206	-198	-192	-150	-129	-135	-161	-235	-278
Net current transfers	530	625	755	857	1 003	1 075	1 068	1 018	1 173
Capital and financial balance <sup>d</sup>	531	441	531	670	772	1 093	1 499	1 049	1 135
Net foreign direct investment	204	201	250	241	287	382	626	434	508
Other capital movements	327	239	281	429	485	711	873	615	627
Overall balance	-213	-222	-118	-64	62	92	-14	208	172
Variation in reserve assets <sup>e</sup>	-69	-55	-160	-6	-186	-173	-30	-262	-222
Other financing	282	278	278	70	124	80	45	54	50
<b>Other external-sector indicators</b>									
Real effective exchange rate (index: 2000=100) <sup>f</sup>	103.3	106.9	107.7	110.2	108.2	110.8	106.8	110.7	108.2
Terms of trade for goods (index: 2005=100)	106.9	103.3	101.4	100.0	97.6	96.6	92.4	101.3	102.2
Net resource transfer (millions of dollars)	607	520	616	590	768	1 039	1 383	868	907
Gross external public debt (millions of dollars)	6 363	6 596	5 391	5 348	4 527	3 385	3 512	3 661	3 876
<b>Average annual rates</b>									
<b>Employment</b>									
Labour force participation rate <sup>g</sup>	...	53.7	53.1	53.8	51.4	53.4	53.3	51.8	72.1
Open unemployment rate <sup>h</sup>	11.6	10.2	9.3	7.0	7.0	6.9	8.0	10.5	9.7
<b>Annual percentages</b>									
<b>Prices</b>									
Variation in consumer prices (December-December) <sup>i</sup>	...	6.6	8.9	9.7	10.2	16.2	12.7	1.8	9.1
Variation in nominal exchange rate (annual average)	6.5	5.4	5.6	3.4	6.1	6.3	5.0	5.0	5.0
Variation in average real wage	3.5	1.9	-2.2	0.2	1.4	-1.8	-3.7	5.8	1.3
Nominal deposit rate <sup>j</sup>	7.8	5.6	4.7	4.0	4.9	6.1	6.6	6.0	3.0
Nominal lending rate <sup>k</sup>	18.3	15.5	13.5	12.1	11.6	13.0	13.2	14.0	13.3
<b>Percentages of GDP</b>									
<b>Non-financial public sector</b>									
Total revenue <sup>l</sup>	24.3	26.6	28.9	29.6	32.1	33.0	31.7	32.3	32.4
Current revenue	21.2	22.8	25.3	26.2	27.7	29.0	28.6	28.9	30.3
Tax revenue	18.0	19.9	20.6	21.7	23.1	23.8	23.4	23.8	24.9
Total expenditure	26.3	28.9	30.3	30.6	31.4	31.7	32.5	33.8	32.9

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 <sup>a</sup>
Current expenditure	20.7	22.2	22.9	24.1	26.3	26.5	28.2	28.9	28.9
Interest	2.2	3.1	2.1	1.9	1.9	1.5	1.2	1.4	1.4
Capital expenditure	5.6	6.6	7.4	6.5	5.1	5.2	4.3	4.9	4.1
Primary balance	0.3	0.8	0.8	1.0	2.5	2.8	0.4	-0.1	0.9
Overall balance	-1.9	-2.3	-1.4	-1.0	0.7	1.3	-0.7	-1.4	-0.5
<b>Non-financial public sector debt</b>									
Domestic	134.1	138.0	100.7	92.8	70.0	43.5	39.3	44.8	45.6
External	21.5	22.5	21.5	21.1	19.1	16.9	14.2	15.0	14.2
	112.6	115.5	79.3	71.7	50.8	26.6	25.1	29.9	31.4
<b>Money and credit<sup>m</sup></b>									
Domestic credit	80.0	81.1	71.6	67.3	63.6	61.8	56.5	46.4	43.2
To the public sector	72.9	69.1	57.9	49.6	40.3	33.7	29.7	30.4	28.7
To the private sector	19.6	22.9	25.4	29.3	34.1	39.5	37.5	33.9	32.4
Others	-12.5	-10.9	-11.8	-11.5	-10.9	-11.3	-10.8	-17.9	-17.9
Liquidity (M3)	40.0	41.8	43.0	41.3	39.9	41.4	37.5	42.6	49.6
Currency outside banks and local-currency deposits (M2)	12.1	13.4	14.4	13.5	13.7	14.3	11.9	12.7	14.9
Foreign-currency deposits	27.9	28.4	28.6	27.8	26.1	27.1	25.6	29.9	34.6

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

<sup>a</sup> Preliminary figures.

<sup>b</sup> Based on figures in local currency at constant 1994 prices.

<sup>c</sup> Based on figures in local currency expressed in dollars at current prices.

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

<sup>e</sup> A minus sign (-) denotes an increase in reserves.

<sup>f</sup> Annual average, weighted by the value of goods exports and imports.

<sup>g</sup> Economically active population as a percentage of the working-age population; nationwide total.

<sup>h</sup> Percentage of the economically active population, urban total.

<sup>i</sup> Consumer price index in the Managua metropolitan area.

<sup>j</sup> Weighted average rate on 30-day deposits.

<sup>k</sup> Weighted average of the weekly lending rate for loans in national currency in the system.

<sup>l</sup> Includes grants.

<sup>m</sup> The monetary figures are end-of-year stocks.

because of the strong international prices for the product and a wage increase of 25.6% was set as of November 2010, which will apply to the 2010/2011 harvest. The free zones are also dealt with separately: workers there negotiated a 12.0% raise in 2010 and 8% for 2011.

### (c) The external sector

The balance of payments was positive and was reflected in the boost in net international reserves to the tune of US\$ 208 million compared with 2009, giving a total of US\$ 1.631 billion. This was a result of a combination of factors, including the upturn in family remittances (7.1%), which exceeded US\$ 800 million in 2010, the 17% increase in foreign direct investment (FDI), especially in the telecommunications sector, thanks to the entry of a new mobile telephony company into the market (representing an investment of over US\$ 118.0 million), and the increase in investments in the free zone (over US\$ 100 million). In total, FDI exceeded US\$ 508 million in 2010. The external debt balance of the non-financial private sector grew by US\$ 275.2 million, mainly thanks to the support of the Bolivarian Republic of Venezuela and the banking sector's greater access to foreign lines of credit.

The upturn in external demand and the availability of lines of credit for foreign trade led to increased goods exports, totalling US\$ 3.157 billion (an increase of 32.1% in relation to 2009). This increase is also part of an aggressive trade policy aiming at opening up and diversifying Nicaragua's markets, which has led the Bolivarian Republic of Venezuela to become the second largest importer of Nicaraguan products (13.4% of the total), after the United States (with 30.6%). The third main destination of Nicaraguan goods was El Salvador with 11.1%.

The exports that experienced the highest increases in nominal terms were coffee (44.3%), beef (33%), gold (156.6%) and sugar (153.5%). Exports of manufactured products were up by 8.3% as a result of the upturn in exports of textiles and wiring assemblies for vehicles from the free zones.

At the end of 2010 goods imports stood at US\$ 4.792 billion, representing an increase of 22%, compared with a contraction of 17% in 2009. As with exports, one factor that contributed to the increase in imports was the availability of lines of credit for foreign trade and, similarly, the recovery of consumer credit and the availability of disposable income as a result of the increase

Table 2  
NICARAGUA: MAIN QUARTERLY INDICATORS

	2009				2010 <sup>a</sup>				2011 <sup>a</sup>	
	I	II	III	IV	I	II	III	IV	I	II <sup>b</sup>
Gross domestic product (variation from same quarter of preceding year) <sup>c</sup>	-2.8	-4.0	-0.6	1.2	2.4	6.0	0.4	8.6	...	...
Goods exports, f.o.b. (millions of dollars)	355	362	370	307	479	499	435	438	637	195 <sup>d</sup>
Goods imports, c.i.f. (millions of dollars)	801	874	848	966	880	1 054	1 081	1 158	1 221	357 <sup>d</sup>
Gross international reserves (millions of dollars)	1 078	1 143	1 394	1 573	1 485	1 553	1 567	1 799	1 715	1 739
Real effective exchange rate (index: 2000=100) <sup>e</sup>	105.4	109.2	112.6	115.5	106.2	107.3	109.5	109.8	111.6	113.9
Consumer prices (12-month percentage variation)	7.1	1.1	-0.6	1.8	5.2	5.1	5.6	9.1	7.2	8.7
Average nominal exchange rate (córdobas per dollar)	19.97	20.21	20.46	20.71	20.97	21.22	21.49	21.75	22.01	22.24
Average real wage (variation from same quarter of preceding year)	-1.4	12.4	8.8	3.7	7.8	-3.1	1.1	-0.2	0.3	...
Nominal interest rates (annualized percentages)										
Deposit rate <sup>f</sup>	6.5	6.4	5.4	5.6	3.9	3.0	2.7	2.4	2.1	2.5 <sup>d</sup>
Lending rate <sup>g</sup>	14.3	14.2	13.9	13.8	13.9	14.6	13.1	11.7	11.0	9.4 <sup>d</sup>
Interbank rate	19.3	22.3	19.0	18.1	17.2	16.1	15.2	15.3	12.6	11.7
Domestic credit (variation from same quarter of preceding year)	5.9	-1.5	-13.0	-15.6	-14.7	-6.6	-0.4	3.0	-7.1	...
Non-performing loans as a percentage of total credit	2.8	2.9	3.4	3.3	3.1	3.5	2.4	3.0	3.1	3.0 <sup>d</sup>

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

<sup>a</sup> Preliminary figures.

<sup>b</sup> Data to May.

<sup>c</sup> Based on figures in local currency at constant 1994 prices.

<sup>d</sup> Data to April.

<sup>e</sup> Quarterly average, weighted by the value of goods exports and imports.

<sup>f</sup> Weighted average rate on 30-day deposits.

<sup>g</sup> Weighted average rate on short-term loans.

in family remittances, the minimum wage and transfers to public-sector workers.

Imports of consumer goods registered growth of 19.8% at the end of 2010, standing at US\$ 1.497 billion, compared with a fall of 10.6% in 2009. Imports of consumer durables burgeoned by 36.8%, after shrinking by 24.9% in 2009; non-durable consumer goods rose by 16.4%, after contracting by 7.1% in 2009.

Increased foreign investment was also reflected in higher imports, especially of capital goods (16.8%), owing to the rise in imports of telecommunications equipment, light vehicles and farming machinery and tools.

Nicaragua's trade balance in 2010 was negative, reaching US\$ 1.636 billion (25% of GDP), and was reflected in a widening of the current account deficit, which went from 13.3% of GDP in 2009 to 14.7% of GDP in 2010.