

Nicaragua

Economic growth in Nicaragua slowed slightly in 2007. Real GDP climbed by 3%, driven by the increase in exports. However, the rise in consumption (the main component of aggregate expenditure) was smaller than in 2006. At the same time, private investment grew more slowly, while public investment was affected by underexecution of the budget expenditure.

In this macroeconomic context, the open unemployment rate increased from 5.2% in 2006 to 5.9% in 2007. Inflation (measured by annual variation in the consumer price index) stood at 13.8%, which was much higher than both the 9.4% recorded in 2006 and the 7.3% target set by the central bank. There was a worsening of the central government's fiscal situation (including grants), which went from a balanced result to a 0.9% deficit, while the balance-of-payments current account deficit remained virtually unchanged at 16% of GDP.

According to estimates by ECLAC, in 2008 real GDP will grow by 3.5% and inflation should not exceed 8.5%. The central government's fiscal imbalance (1.1% of GDP) is expected to increase slightly, while the balance-of-payments current account deficit is expected to represent a similar percentage of GDP as in 2007.

The main objectives of the government's new economic programme are to contribute to macroeconomic stability while providing enough fiscal leeway to reduce poverty without compromising debt sustainability. In October 2007, the government signed a three-year agreement with the International Monetary Fund (IMF) for US\$ 111.3 million, which resulted in an immediate payment worth US\$ 18.5 million.

It should nonetheless be pointed out that macroeconomic stability is perceived as a means of reducing poverty, rather than an end in itself. This stability, as well as promoting a business environment conducive to national and foreign investment, is considered essential for achieving export growth, job creation and higher incomes.

In 2007, the fiscal imbalance of the central government after grants (0.9% of GDP) was due to increases in current

expenditure and, to a lesser degree, capital expenditure. Despite higher expenditure, however, the authorities have kept the fiscal situation under control by increasing revenues through improvements to tax and customs administration. In 2008, urgent spending on top-priority social programmes and infrastructure (especially energy and water) is expected to result in a temporary fiscal expansion. To make sure the Millennium Development Goals are achieved, the programme of the authorities aims to enhance the targeting of social spending, while increasing access by the poor to health, education, water and sanitation, food security, housing and training opportunities.

Nicaragua continued to benefit from debt-relief initiatives, with the external public debt decreasing by almost US\$ 4.5 billion to just over US\$ 2.0 billion.

The main objectives of monetary policy were to contain inflationary pressure, strengthen the stability of the exchange-rate regime, consolidate international reserves and improve some vulnerability indicators such as coverage of the monetary base and imports. The central bank therefore continued to use the exchange rate as a nominal price anchor and maintained the annual pre-announced daily rate of devaluation of 5%. Another measure to guarantee currency convertibility was to have an ongoing target for international reserves. In addition, the central bank continued its attempts to reactivate the securities market by placing short-term financial instruments with a view to neutralizing the increases in liquidity that resulted from internal debt payments.

A striking development in terms of international cooperation was Nicaragua's incorporation into the Bolivarian Alternative for Latin America and the Caribbean (ALBA), which is an initiative launched by the Bolivarian

Republic of Venezuela and Cuba and subsequently joined by Bolivia. For Nicaragua, the ALBA project will mean energy sector cooperation, as well as resources for infrastructure, health, agricultural development and the construction of housing.

In 2007, real output growth was more moderate: 3% compared with 3.7% in 2006, which resulted in a 1% increase in per capita GDP. The country's economic performance was affected by adverse climatic conditions. In September and October, the country experienced hurricane Felix (level five), a low-pressure centre and two tropical waves. Particularly badly hit was the Bosawás ecological reserve, the largest in Central America, where 1.3 million hectares of moist broadleaf and pine forests were affected.

In terms of demand components, the export sector was extremely buoyant, thanks to both increased demand and higher export prices. Another positive contributing factor was the entry into force of the Dominican Republic – Central America – United States Free Trade Agreement (CAFTA-DR), which helped to push up exports, particularly of clothing and textiles. At the same time, domestic demand slumped as high international oil prices affected the structure of production costs and caused electricity supply cuts, domestic price hikes and a fall in disposable income. Other determining factors in the slowdown included the downward trend of real wages, slower growth of family remittances and the less favourable results of the tourist sector compared with previous years.

Year-on-year inflation stood at 13.8%, which was significantly higher than the 9.4% recorded in 2006. This was mainly due to higher international oil prices, which in turn had a direct effect on domestic fuel, electricity and transport prices. Other generators of inflationary pressure were the climatic phenomena affecting agricultural production, the high external cost of some food products and the energy crisis.

The current-account deficit (US\$ 913.8 million) swelled slightly but continued to represent around 16% of GDP. This is the result of the wider trade deficit, as the

NICARAGUA: MAIN ECONOMIC INDICATORS

	2005	2006	2007 ^a
Annual growth rates			
Gross domestic product	4.3	3.7	3.0
Per capita gross domestic product	3.0	2.3	1.7
Consumer prices	9.6	10.2	12.8 ^b
Average real wage	0.2	1.4	-1.0 ^c
Money (M1)	24.5	20.0	16.7
Real effective exchange rate ^d	-0.7	0.3	2.9 ^e
Terms of trade	-1.4	-2.4	-1.9
Annual average percentages			
Urban unemployment rate	7.0	7.0	...
National administration overall balance / GDP	-1.8	0.0	-0.9
Nominal deposit rate	4.0	4.9	6.0 ^f
Nominal lending rate	12.1	11.5	13.1 ^f
Millions of dollars			
Exports of goods and services	1 963	2 319	2 567
Imports of goods and services	3 404	3 905	4 264
Current account	-745	-855	-914
Capital and financial account	748	875	851
Overall balance	3	21	-63

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

^a Preliminary estimates.

^b Twelve-month variation to October 2007.

^c Estimate based on data from January to September.

^d A negative rate indicates an appreciation of the currency in real terms.

^e Year-on-year average variation, January to October 2007.

^f Average from January to October, annualized.

income account remained practically the same and current transfers (including family remittances) continued to grow healthily, although more slowly than in 2006.

The f.o.b. value of merchandise exports rose by 10.7% and that of imports by 9%. The most buoyant exports were agricultural products and foods (such as meat, livestock on the hoof, sugar, dairy products and peanuts), manufactures, beverages and rum. There was also a considerable rise in net exports from free zones (20%), especially from the maquila textile industry. The import expansion, for its part, was the result of significant increases in the oil bill and imports of consumer goods.