

Nicaragua

1. General trends

In 2009, the Nicaraguan economy posted 1.5% negative GDP growth after 15 years of uninterrupted expansion, and per capita GDP was down 2.7% compared with its 1.4% growth in 2008. Falls in gross investment, consumption and goods exports were partly made up for by rising services exports and international cooperation from the Bolivarian Republic of Venezuela. Pressure on inflation declined, and the national figure ended 2009 at 0.9%. The current account deficit was significantly smaller than the previous year, at 13% of GDP. The central government deficit, however, was higher (2.3% of GDP) and unemployment rose (8.2%).

The Nicaraguan economy was hit hard in 2009 by the slowdown in the world economy, and particularly the recession in the United States. The crisis spread to Nicaragua mainly through a drop in external demand for goods, as well as falls in remittances and foreign direct investment (FDI).

A fiscal reform was adopted in December 2009 in response to the slide in fiscal revenues. The main objectives were to make the tax system more equitable, to generalize the collection of taxes and to modernize and simplify tax payment procedures. The new law came into effect in 2010, and is expected to bring in an additional US\$ 46 million in revenue (equivalent to 0.7% of GDP) to cover part of the 2010 budget deficit.

GDP is expected to grow by an estimated 2% in 2010, driven by a recovery in external demand, remittances and FDI flows, and this will boost consumption and gross investment. There will be upward inflationary pressure because of rising world fuel prices, as well as falling supply of agricultural products caused by weather phenomena which have hit the country. The inflation figure is therefore expected to be around 7% by the end of the year. Rising oil prices, together with stronger internal demand, will be reflected in greater growth of imports and a rise in the current account deficit. Improved levels of economic activity will boost fiscal revenue in the framework of a policy of moderate increases in spending.

2. Economic policy

Three times in the course of 2009 the government had to adjust its budget downwards owing to falling fiscal revenue. In early 2009, the government announced a series of countercyclical measures, but the lack of resources obstructed their implementation. A variety of external factors significantly slowed the pace of price rises, which

had been under considerable upward pressure in the previous two years.

(a) Fiscal policy

Total government revenue was down 3.9% in real terms in 2009 because the growth of economic activity

had slowed. The largest falls were in import taxes (17.8%), caused by a drop in purchases of consumer durables and capital goods, and in grants (16.9%), owing to reduced international cooperation from the member countries of the Budget Support Group. The tax burden diminished from 18% in 2008 to 17.7% in 2009. These figures do not include cooperation from the Bolivarian Republic of Venezuela, which the central bank estimated at US\$ 443 million in 2009, equivalent to 7.2% of GDP, compared to 7.4% in 2008. The main components of that cooperation, classified as financial resources provided to the private sector, were energy assistance in the framework of the PETROCARIBE Energy Cooperation Agreement, direct energy-sector investments and bilateral grants.

Total central government spending was up 0.7% in real terms in 2009, after a 1% fall in 2008. Current spending rose by 4.5% owing to increases in wages (8.9%), transfers (6.1%) and interest payments (26.9%). Capital spending fell by 10% as a result of reduced investment (-0.2%) resulting from constraints on resources and delays in project execution, as well as a decline in transfers (-18.8%). In the course of the year, the authorities responded to falling revenue by making significant budget cuts, mainly through reductions in purchases of goods and services and a temporary freeze on the filling of vacant posts and on wage reviews.

In January 2009 the government announced a set of measures to counteract the effects of the crisis by supporting production and private investment and promoting employment and financial stability. The implementation of some of these measures, however, was held back by the aforementioned fall in fiscal revenue.

The central government deficit excluding grants stood at 4.8% of GDP, 0.6 percentage points above the 2008 figure. The fiscal deficit after grants stood at 2.3% of GDP (1.3% in 2008), with a fall in external budget support from 3% of GDP in 2008 to 2.5% in 2009. The remainder of the fiscal deficit was mainly financed with loans from multilateral bodies, pushing the external public debt up by US\$ 150 million to 59.5% of GDP (56.2% in 2008). The internal public debt closed at 19% of GDP (17.4% in 2008). Following the second and third revisions of the agreements in the framework of the economic and financial programme, the International Monetary Fund (IMF) disbursed US\$ 38 million to support the balance of payments.

In the first quarter of 2010, thanks to the economic recovery, central government revenue was up 11.5% in real terms compared with the same period in 2009. This improvement was due to higher receipts from taxes on external trade, value added tax and selective consumption taxes. Total spending rose by 8.8% over the same period in 2009, easing the pressure on public finances.

(b) Monetary and exchange-rate policy

In 2009, monetary policy did not deviate from the goal of stabilizing price levels and ensuring the currency's convertibility. The central bank continued to use the exchange rate as a nominal anchor for prices and held the crawling-peg rate at 5% per year, so the nominal exchange rate closed the year at 20.8 córdobas to the dollar. The real bilateral exchange rate with the dollar depreciated by 0.9% following five years of real appreciation.

The legal reserve requirement remained at 16.25%, but the actual level remained above that rate throughout the year. Excess reserves stood at 5.4% in national currency and 4.1% in foreign currency, on average. Open-market operations were more widely used in 2009 in order to manage international reserves, mostly owing to high liquidity in the financial system. Adjusted net international reserves rose by US\$ 101.7 million, above what had been agreed with the International Monetary Fund, owing to central government deposits in the central bank resulting from rising receipts towards the end of the year and the increase in reserve deposits. In late 2009, gross international reserves were equivalent to 2.6 times the monetary base, exceeding the minimum coefficient set by the central bank (2.0 times), and equivalent to 4.8 months of imports.

The nominal deposit interest rate for national-currency deposits stood at 5.6% in December, 130 basis points above its level at the end of 2008. The nominal lending rate in national currency was up by 70 basis points, standing at 14.3%. With the steep drop in inflation, the real deposit rate showed positive values from May 2009, following a number of years of negative values, and stood at 4.7% at the end of the year. Similarly, the real lending rate rose steadily in 2009 to stand at 13.2% in December, compared with -0.2% in December 2008.

Credit unions' loan portfolios contracted by 6.3%, after having enjoyed double-figure annual growth rates for the previous seven years. This was due to rising real interest rates and constraints on borrowing. Particularly hard hit were personal loans (-28%), credit cards (8.4%), and credit to the livestock sector (-7.5%) and farming sector (-7.4%).

In late 2009, the amount of currency in circulation and current-account deposits (M1) showed an annual growth rate of 10.8%, owing to the economic recovery towards the end of the year and the arrival of resources from international cooperation. Deposits in foreign currency grew at a greater rate (19.7%) than deposits in national currency (6.4%), leading to a greater dollarization of the economy (70.1% of broad money), owing to outlays of resources from external cooperation.

Lower real interest rates are expected in 2010, following the upturn in inflation and the downwards adjustment of nominal rates. Nonetheless, the adoption in February 2010 of the Moratorium Act, which grants favourable conditions to delinquent borrowers, could discourage the recovery of credit supply.

(c) Trade policy

In 2009, trade policy remained focused on establishing or strengthening trade agreements with the country's main trade partners. As for Central American integration, the National Assembly approved the framework agreement for the establishment of a Central American Customs Union and progress was made in the negotiation of requirements and guidelines for facilitating intraregional trade in agricultural products.

15 January 2009 saw the signing of the bilateral protocol with Panama, in the framework of its free-trade agreement with the rest of Central America. In order to continue with export diversification, progress was made in trade and cooperation relations with the member countries of the Bolivarian Alliance for the Peoples of Our America (ALBA). Negotiations also continued for the adoption of trade treaties with Canada and Chile. Negotiations with the latter were completed in May 2010.

Efforts continued for the signing of an association agreement between Central America and the European Union, and significant advances were made in areas such as market access, rules of origin and intellectual property. Negotiations restarted in early 2010 after they had been temporarily suspended because of the political crisis in Honduras. Lastly, the Agreement was signed in May, so the ratification process should be getting under way.

3. The main variables

(a) Economic activity

The country's GDP declined in real terms as a result of lower gross domestic investment (-22.3%) and total consumption (-1.2%). Private consumption was down 0.5% despite the increase in the minimum wage, owing to the fall in remittances and rising unemployment. Public consumption, hit by significant central government spending cuts, fell by 7.4%. Private investment (-22%) and construction (-4.1%) felt the effects of shrinking credit and the decline in inflows from foreign direct investment. Contrary to expectations in light of the international situation, goods and services exports recorded a real-terms increase of 3.8%. This was due to increased trade with the Bolivarian Republic of Venezuela and rising tourism income.

During 2009, the variation of the monthly index of economic activity behaved in a variety of ways. In the first four months the rate was increasingly negative, following the trend begun in the last few months of 2008. The rate of fall began to slow down from May 2009 and the index reached a positive rate of increase as of December, impelled by recovering external demand.

Agricultural output did not grow in real terms, compared to its 6.7% expansion in 2008. Production was held down by the El Niño phenomenon and the low phase of the two-year coffee-growing cycle. Manufacturing was down 2.7% owing to lower internal demand and falling

exports from the free zones. Construction experienced a fall which was smaller (4.1%) than that of 2008 (6.7%). Services as a whole declined by 0.5%. Contractions in commerce and restaurants (down 2.7%) and financial services (1.3%) were partly made up for by relatively strong performances in the energy (2%), transport (1.8%) and government services (3.3%) sectors.

In the first four months of 2010, the monthly index of economic activity averaged increases of 1.7%, compared with a fall of 2.8% during the same period in 2009. This recovery was mainly due to growth in manufacturing, livestock breeding and commerce.

(b) Prices, wages and employment

At the national level, year-on-year inflation measured by the Consumer Price Index ended 2009 at 0.9%, the lowest level in over 30 years, following two years of double-digit inflation. This change was due to the contraction of internal demand and falls in world prices for foodstuffs and fuels, despite the crawling peg and the rise in real wages. The food and beverages segment even showed an annual fall of 6.1%.

The national unemployment rate jumped for the second consecutive year, from 6.1% in 2008 to 8.2% in 2009, owing to decreased economic activity. Urban unemployment stood at 10.5% (8% in 2008). The nationwide proportion of people employed in the informal sector

Table 1
NICARAGUA: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 ^a
Annual growth rates^b									
Gross domestic product	3.0	0.8	2.5	5.3	4.3	4.2	3.1	2.8	-1.5
Per capita gross domestic product	1.4	-0.6	1.2	4.0	2.9	2.8	1.7	1.4	-2.7
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	2.7	-0.3	1.9	5.7	4.6	2.5	-2.8	6.7	0.0
Mining and quarrying	13.6	5.6	-10.5	20.0	-10.5	2.7	-6.3	-5.6	-10.5
Manufacturing	5.9	2.1	2.4	9.0	5.6	6.4	6.8	1.1	-2.7
Electricity, gas and water	8.3	1.4	5.1	4.4	3.6	1.5	2.0	4.0	2.0
Construction	2.1	-13.3	2.7	12.1	7.3	-3.2	-4.8	-6.7	-4.1
Wholesale and retail commerce, restaurants and hotels	1.6	3.3	1.4	4.6	2.3	4.9	4.4	2.7	-2.7
Transport, storage and communications	3.7	2.7	9.7	4.8	6.7	7.2	7.5	3.8	1.8
Financial institutions, insurance, real estate and business services	3.9	2.3	6.8	7.2	4.0	4.9	7.9	3.3	-1.3
Community, social and personal services	5.1	2.0	2.4	2.2	4.0	4.2	3.3	3.6	1.1
Gross domestic product, by type of expenditure									
Final consumption expenditure	4.1	3.6	2.1	2.1	3.6	2.7	4.1	3.3	-1.2
Government consumption	-2.9	-4.6	5.6	3.2	6.9	-0.5	4.8	6.2	-7.4
Private consumption	4.9	4.5	1.8	2.0	3.3	3.1	4.0	3.1	-0.5
Gross capital formation	-8.4	-7.1	-1.0	10.7	11.3	-0.1	11.4	2.4	-22.3
Exports (goods and services)	7.4	-3.5	9.2	17.1	7.7	12.5	9.2	2.2	3.8
Imports (goods and services)	0.7	-0.1	3.5	8.2	8.6	4.4	13.2	3.2	-7.7
Percentages of GDP									
Investment and saving^c									
Gross capital formation	28.2	26.1	25.9	28.0	30.1	30.8	33.2	33.6	23.4
National saving	8.7	7.6	9.7	13.5	15.0	17.2	15.3	9.4	10.5
External saving	19.5	18.5	16.2	14.5	15.1	13.6	17.9	24.2	12.9
Millions of dollars									
Balance of payments									
Current account balance	-805	-744	-663	-649	-734	-710	-1 001	-1 513	-796
Goods balance	-910	-939	-971	-1 088	-1 302	-1 451	-1 759	-2 211	-1 540
Exports, f.o.b.	895	914	1 056	1 369	1 654	2 034	2 336	2 538	2 387
Imports, f.o.b.	-1 805	-1 853	-2 027	-2 457	-2 956	-3 485	-4 094	-4 749	-3 927
Services trade balance	-141	-130	-119	-123	-140	-134	-182	-209	-85
Income balance	-240	-206	-198	-192	-150	-129	-135	-161	-190
Net current transfers	486	530	625	755	857	1 003	1 075	1 068	1 018
Capital and financial balance ^d	542	531	441	531	670	772	1 093	1 499	1 004
Net foreign direct investment	150	204	201	250	241	287	382	626	434
Other capital movements	-141	335	75	389	187	427	287	-51	-4
Overall balance	-263	-213	-222	-118	-64	62	92	-14	208
Variation in reserve assets ^e	110	-69	-55	-160	-6	-186	-173	-30	-262
Other financing	153	282	278	278	70	124	80	45	54
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^f	101.1	103.3	106.9	107.7	110.2	108.2	110.9	106.8	108.9
Terms of trade for goods (index: 2000=100)	88.4	87.0	84.1	82.5	81.4	79.4	78.6	75.2	82.4
Net resource transfer (millions of dollars)	455	607	520	616	590	768	1 039	1 383	868
Gross external public debt (millions of dollars)	6 374	6 363	6 596	5 391	5 348	4 527	3 385	3 512	3 661
Average annual rates									
Employment									
Labour force participation rate ^g	57.5	...	53.7	53.1	53.8	51.4	53.4	53.3	51.8
Open unemployment rate ^h	11.3	11.6	10.2	9.3	7.0	7.0	6.9	8.0	10.5
Annual percentages									
Prices									
Variation in consumer prices (December-December) ⁱ	6.7	8.9	9.7	10.2	16.2	12.7	1.8
Variation in nominal exchange rate (annual average)	9.0	6.5	5.4	5.6	3.4	6.1	6.3	5.0	5.0
Variation in average real wage	1.0	3.5	2.1	-2.2	0.1	2.2	-2.2	-4.0	5.8
Nominal deposit rate ^j	11.6	7.8	5.6	4.7	4.0	4.9	6.1	6.6	6.0
Nominal lending rate ^k	18.6	18.3	15.5	13.5	12.1	11.6	13.0	13.2	14.0

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 ^a
	Percentages of GDP								
Non-financial public sector									
Total revenue ^l	23.0	24.3	26.6	28.9	29.6	32.1	33.4	32.4	32.7
Current revenue	20.1	21.2	22.8	25.3	26.2	27.7	29.3	29.2	29.2
Tax revenue	17.2	18.0	19.9	20.6	21.7	23.1	24.1	23.8	24.0
Total expenditure	29.6	26.3	28.9	30.3	30.6	31.4	32.1	33.1	34.1
Current expenditure	23.7	20.7	22.2	22.9	24.1	26.3	26.8	28.7	29.2
Interest	2.2	2.2	3.1	2.1	1.9	1.9	1.5	1.2	1.4
Capital expenditure	6.0	5.6	6.6	7.4	6.5	5.1	5.2	4.4	4.9
Primary balance	-4.4	0.3	0.8	0.8	1.0	2.5	2.8	0.5	-0.1
Overall balance	-6.6	-1.9	-2.3	-1.4	-1.0	0.7	1.3	-0.8	-1.5
Non-financial public sector debt	111.3	134.1	138.0	100.7	92.8	70.0	44.0	40.1	45.3
Domestic	...	21.5	22.5	21.5	21.1	19.1	17.1	14.5	15.2
External	111.3	112.6	115.5	79.3	71.7	50.8	26.9	25.6	30.2
Money and credit^m									
Domestic credit	78.0	79.7	80.7	71.4	67.3	63.6	62.5	57.4	46.9
To the public sector	74.7	72.7	68.2	56.4	48.1	40.3	33.7	29.9	30.7
To the private sector	17.7	19.6	22.9	25.4	29.3	34.1	39.9	38.3	34.3
Others	-14.4	-12.5	-10.4	-10.4	-10.1	-10.8	-11.1	-10.6	-18.1
Liquidity (M3)	37.4	40.0	41.8	43.0	41.3	39.9	41.9	38.2	43.1
Currency outside banks and local-currency deposits (M2)	12.4	12.1	13.4	14.4	13.5	13.7	14.5	12.1	12.9
Foreign-currency deposits	25.0	27.9	28.4	28.6	27.8	26.1	27.4	26.1	30.2

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.

rose by 1.4 percentage points to 64.9%. Lower inflation resulted in a significant increase in the average real wage (up 8.5%, or 6.5% among those insured by the Nicaraguan Social Security Institute).

Cumulative inflation for the first six months of 2010 was 3.8% (0.15% in the same period in 2009). This upswing was caused by the economic recovery and a further rise in world prices for foodstuffs and fuels. The food and beverages segment has contributed 1.98 percentage points to total cumulative inflation, while transport accounted for 0.22 percentage points.

(c) The external sector

The balance-of-payments current account deficit declined sharply as a percentage of GDP (down 11.3 percentage points), because of the sharp drop in imports (17.3%). The downturn in economic activity and falls in international prices had a particular impact on imports of oil and fuels (-31.6%), raw materials for construction (-34.2%) and consumer durables (-24.9%).

Goods exports fell in nominal terms (by 5.9%), but more slowly than imports. The decline in external demand

affected the three major export segments: the free zones (down 4.3%); traditional exports (down 5.1%) and other exports (-9%). Within traditional exports, the biggest falls were in coffee (down 14.9%), shellfish (13.9%) and cattle on the hoof (33.7%). Some 45% of the variation in the value of exports was due to lower volumes, and the remainder to falling prices.

In the first half of 2009, exports recorded the highest rates of year-on-year contraction, whereas in the last two months of the year, the variation was actually positive. The United States remains the largest export market (32.4% of total exports), followed by El Salvador (14.3%). The Bolivarian Republic of Venezuela became the third largest market following a significant increase in the past year (US\$ 119.2 million, compared with US\$ 30.2 million in 2008). The main exports to that country were coffee, fluid milk, bovine meat and black beans. The terms of trade improved by 9% following eight consecutive years of downward trend, resulting from declining prices for fuels and raw materials.

The goods and services trade balance showed a deficit of US\$ 1.625 billion, 33% lower than the 2008 figure. This was equivalent to 26.4% of GDP and reflected mainly

Table 2
NICARAGUA: MAIN QUARTERLY INDICATORS

	2008				2009 ^a				2010 ^a	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) ^b	3.2	4.1	3.9	0.3	-3.0	-3.8	0.8	0.1	4.0	...
Goods exports, f.o.b. (millions of dollars)	399	413	385	292	354	362	370	305	478	146 ^c
Goods imports, c.i.f. (millions of dollars)	1 010	1 165	1 158	1 005	803	875	848	952	799	265 ^c
Gross international reserves (millions of dollars)	1 073	1 123	1 165	1 141	1 078	1 143	1 394	1 573	1 485	1 553
Real effective exchange rate (index: 2000=100) ^d	109.3	108.1	106.5	103.2	103.8	107.7	110.8	113.5	107.7	108.5 ^e
Consumer prices (12-month percentage variation)	18.9	22.7	23.0	12.7	7.1	1.1	-0.6	1.8	5.1	5.4 ^e
Average nominal exchange rate (córdobas per dollar)	19.0	19.3	19.5	19.7	20.0	20.2	20.5	20.7	21.0	21.2
Average real wage (variation from same quarter of preceding year)	-5.0	-5.6	-7.0	2.6	-0.2	13.6	9.2	3.5	7.0	...
Nominal interest rates (annualized percentages)										
Deposit rate ^f	6.7	6.5	6.4	6.7	6.5	6.4	5.4	5.6	3.9	3.0 ^c
Lending rate ^g	13.6	12.6	13.1	13.4	14.3	14.2	13.9	13.8	13.9	13.9 ^c
Interbank rate	9.6	10.1	11.3	11.2	11.6	11.1	8.3	5.8	5.4	5.2 ^c
Domestic credit (variation from same quarter of preceding year)	8.0	7.2	10.8	7.7	5.9	-1.5	-13.0	-15.6	-14.7	-14.4 ^c
Non-performing loans as a percentage of total credit	2.3	2.0	2.3	2.6	2.6	2.7	2.9	2.8	2.8	2.7 ^c

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 Data to April.

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

^e Data to May.

^f Weighted average rate on 30-day deposits.

^g Weighted average rate on short-term loans.

trade in goods, since the services trade deficit narrowed in 2009 to US\$ 85 million, thanks to an upturn in the travel segment.

Family remittances diminished by 6.1%, owing to the contraction of economic activity in the two main countries of origin, Costa Rica and the United States. As a proportion of GDP, remittances stood at 12.5% in 2009 compared with 13.1% in 2008.

The capital and financial account balances were positive, at US\$ 430 million and US\$ 470 million, respectively. These amounts, together with inflows of remittances, financed the deficit on the goods and services trade balance. In 2009, FDI inflows totalled US\$ 434 million (equivalent to 7.1% of GDP), US\$ 192 million below the record level set in 2008, but above the average for the previous

10 years. Investment inflows to the telecommunications and energy sectors were seriously affected by the international economic situation. The largest source of FDI was, for the first time, the Bolivarian Republic of Venezuela (32%), followed by the United States (18%) and Mexico (16%).

External trade flows are expected to pick up in 2010, reflecting the economic upturn in both Nicaragua and the global economy. Imports will show stronger growth than exports, owing to rising world prices for fuels and raw materials and the great elasticity of imports in relation to income variations, and this will widen the current account deficit. Inflows of FDI and family remittances will also increase.