

Nicaragua

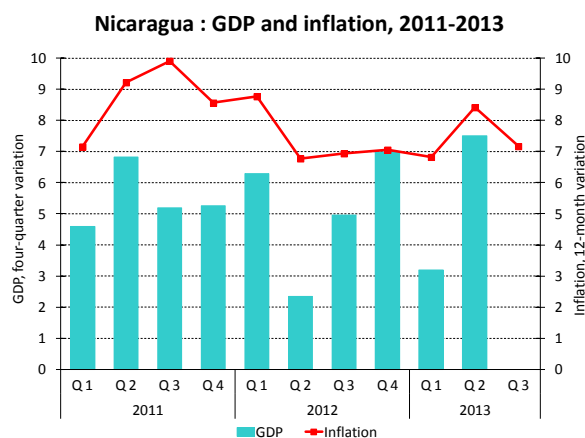
Nicaragua's economy, as measured by GDP, is expected to grow by 4.6% in 2013, compared with 5.2% in 2012, driven by expansion in construction, manufacturing, commerce and public services. A fiscal reform package that began roll-out in January 2013 will support further consolidation of public finances. As a result, the central government deficit before donations will be around 0.5% of GDP at end-2013. This outturn, along with a slowdown in credit to the private sector prompted by conservative monetary policy (nominal exchange rate depreciation of 5% per annum), will put year-on-year inflation at around 5.5%, compared with 6.6% at end-2012. However, the external sector is weakening, primarily on the drop in prices for export products (by about 10%), which could push up the deficit in the current account of the balance of payments to 13.7% of GDP (13.1% in 2012).

For 2014, growth of around 5% is expected. This will be supported by rising external demand as the United States economy expands, as well as an uptick in domestic demand as some major infrastructure projects get underway, including a new refinery, the Pacific coastal highway, the photovoltaic energy project in Masaya and a favorable environment for foreign direct investment, which has been promoted by the consensus reached between the government and the private sector, as reflected in, for example, the wage increase and fiscal reform agreements. Another relevant factor would be the signing of a new programme with the International Monetary Fund (IMF).

In the period between January and August 2013, the total revenue of the central government increased by 7.2% in real terms, while expenditures grew at a real rate of 9.2%. The revenue trend was shaped by nominal increases of 19.5% in direct collections (compared with 19% during the same period in 2012) and 13.5% in value-added tax (VAT) revenue (compared with 21.5% in 2012). The increase in direct revenue was mainly the result of administrative and control improvements set out in the tax harmonization law that entered into force on 1 January 2013. The fact that VAT revenue grew less than in the previous year can be traced to weaker imports of both capital and final goods, a drop in fuel prices, which lowered the oil bill, and to a lesser extent, slower domestic sales. At the end of the first half of the year, public sector external debt stood at nearly US\$ 4.322 billion, or 38.9% of GDP, just 0.3 percentage points higher than the level at the end of 2012.

The authorities kept to a contractionary monetary policy as the volume of open-market operations rose, in order to avoid putting pressure on the external sector and the exchange rate and to hold the nominal depreciation rate at the target of 5% per annum. The improvement in public finances brought about by fiscal reform made it possible to finance the budget without seeking external support. However, this translated into a slight decline in adjusted net international reserves, which totaled US\$ 39 million in October. As a result, gross reserves stood at US\$ 1.904 billion, equivalent to 2.6 times the monetary base.

Also consistent with the monetary policy actions and the behaviour of economic activity,



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

growth in credit to the private sector tapered to 14.7% in October, compared with 30% in the same month the previous year. Less demand for credit was reflected in a drop in the lending rate from 24.1% in October 2012 to 21.4% in October 2013. Bank profits, however, rose slightly as efficiency and collection policies improved. The return on assets was 2.2%, compared with 2% in October 2012, and the return on equity was 38.7%, a slight gain on the October 2012 rate of 38.5%.

In other economic policy actions, Nicaragua was the first country to sign the Association Agreement between Central America and the European Union, together with Honduras and Panama, which entered into force on 1 August. In February 2013, Nicaragua launched operations as a member of the Consolidated System of Regional Payment Compensation (SUCRE), which has boosted its trade with the member countries.

As for foreign trade, the value of exports is expected to dip by about 1% at the end of 2013, primarily due to a decline in the terms of trade brought about by plummeting prices for the country's main export products (10% on average), offset by growth in the value of mineral exports (gold) and customs-free areas. Meanwhile, import values are expected to post a slight improvement of around 1%, mostly due to lower oil prices and weaker imports of capital goods, explained by a 1% drop in domestic private investment. As a result, the current account may post a deficit of 13.7% of GDP at end-2013.

Family remittances, which as of June remained at levels very close to those of 2012, could see an annual increase of nearly 3.5% by the close of 2013, rising to US\$ 1.050 billion. By originating country, the United States continues to be the largest source of foreign currency for Nicaragua (52%), followed by Costa Rica (22%), with an average monthly remittance of US\$ 195. Foreign direct investment also continues to play an important role as a source of foreign currency for Nicaragua, with net inflows of around US\$ 800 million in 2013, channeled to the country's customs-free areas and the energy, hydrocarbons and construction sectors. Accordingly, gross reserves could surpass US\$ 1.950 billion by the end of 2013, equivalent to more than four times the country's monthly imports.

The economy is forecast to grow by 4.6% in 2013, down from 5.2% in 2012 on a slump in private and central government consumption, possibly related to the tight money supply, and a sharp slide in external demand.

Private consumption will increase by about 1.5%, compared with 4.7% in 2012, sustained primarily by family remittances and a shift in the structure of lending towards consumer operations. On the supply side, the sectors driving growth will continue to be construction, manufacturing, commerce and public services. In the case of manufacturing, customs-free areas are an important engine of economic growth.

Nicaragua: main economic indicators, 2011-2013

	2011	2012	2013 ^a
	Annual growth rate		
Gross domestic product	5.4	5.2	4.6
Per capita gross domestic product	4.0	3.7	3.1
Consumer prices	8.6	7.1	6.5 ^b
Real average wage ^c	0.1	0.3	-0.1
Money (M1)	24.8	17.6	6.8 ^d
Real effective exchange rate ^e	4.9	1.7	-0.9 ^b
Terms of trade	-0.4	0.0	-2.3
	Annual average percentage		
Central government			
Overall balance / GDP	0.5	0.5	0.5
Nominal deposit rate	1.0	0.9	1.6 ^f
Nominal lending rate ^g	10.8	12.0	15.2 ^b
	Millions of dollars		
Exports of goods and services	4 720	5 340	5 063
Imports of goods and services	6 964	7 709	7 559
Current account balance	-1 268	-1 350	-1 411
Capital and financial balance ^h	1 295	1 329	1 443
Overall balance	27	-21	32

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

^a Estimates.

^b Figures as of October.

^c Weighted average of lending rates.

^d Figures as of August.

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

^f Figures as of June.

^g Short-term loans rate, weighted average.

^h Includes errors and omissions.

Inflation is expected to come to rest at around 5.5%, down by 1.1 percentage points from the end-2012 rate. This is a result of contractionary monetary policy and lower fuel prices, which has brought down freight costs, as well as an increase in agricultural output, which contributed to lower prices for foodstuffs and nonalcoholic beverages in October. As of that month, year-on-year inflation was 6.66% and trending downwards.