

NICARAGUA

1. General trends

The Nicaraguan economy expanded by 4.7% in 2014, compared with 4.5% in 2013, driven by consumption (especially private consumption) and external demand. The non-financial public sector ran a deficit after grants of 1.5% of GDP (1.1% of GDP in 2013). The balance-of-payments current account deficit narrowed to 7.1% of GDP, from 11.1% of GDP in 2013. Annual cumulative inflation rose to 6.5% in 2014, up from 5.7% in 2013. Gross international reserves (excluding those of the financial institutions deposit guarantee fund (FOGADE)) reached a record high of US\$ 2.147 billion in December 2014 (representing year-on-year growth of 14.6%), which is equivalent to 2.4 times the monetary base and 4.4 months of import requirements.

Economic growth of 4.8% is projected for 2015, as the world economy performs more positively, operating costs fall owing to lower fuel and electricity prices, economic activity among Nicaragua's main trade partners picks up and the terms of trade stabilize. Inflation will stand at between 6.0% and 7.0%, thanks to lower oil prices, a steady nominal crawling-peg devaluation rate at 5% per year and stable imported inflation. The current account deficit will remain at around 5.9% of GDP for the end of 2015 primarily because of the expectation of robust growth in exports and remittances. The trend-cycle series of the monthly index of economic activity (IMAE) was up by 2.8% year-on-year in March and by an annual average of 3.9% in the first quarter of 2015. On the external front, goods exports fell by 1.8% in March 2015 with respect to the year-earlier period.

2. Economic policy

(a) Fiscal policy

In 2014, the government maintained a mildly expansionary fiscal policy whose primary objective was to ensure the sustainability of public finances. Efforts were made to strengthen revenue collection and modernize the tax and customs administration. The 2014 general budget was adopted by Act No. 851 for a total of 55.781 billion córdobas. The deficit was financed through external cooperation, concessional loan disbursements and government bond issues. The budget was amended twice in 2014, first in August by Act No. 877 and then in November by Act No. 887. Furthermore, during the year, an amount of 1.300 billion córdobas in international donations was added to the budget.

Total central government revenues expanded by 15% in nominal terms in 2014 (higher than the 6.7% growth recorded in 2013). Tax revenues increased by 15.8% as a consequence of higher direct and indirect tax revenues. Income tax and value added tax (VAT) receipts grew by 21.6% and 15.8%, respectively, in 2014. The tax burden was therefore equivalent to 15.4% of GDP, slightly higher than in 2013. Total central government expenditure also increased (16.1% versus 8.5% in 2013), as a result of higher wages and salaries (20.4%) and capital and current transfers (11.2%).

The central government balance, including grants, was equivalent to 0.3% of GDP in 2014. When added to the net results of State-owned enterprises, the consolidated deficit of the non-financial public

sector, including grants, stood at 1.5% of GDP (compared with 1.1% in 2013). External and internal funding operations nudged up total public debt by 0.2% to US\$ 5.800 billion in December 2014, representing 49.1% of GDP (as against 53.3% of GDP in 2013). The foreign debt-to-GDP ratio held steady at 40.6%.

In the first quarter of 2015, total central government revenues rose by 12.4% year-on-year. Cumulative income tax receipts totalled 7.597 billion córdobas, a rise of 16.2%. Total VAT receipts grew at a cumulative rate of 5.6%, mainly because of the VAT hike on imports. The tax burden is expected to reach about 15% at the end of the year. Spending rose by 26.5% year-on-year to March (compared with 19.5% in the first quarter of 2014) owing mainly to the early payment of the April payroll and a rise in purchases of goods and services. Meanwhile, grants increased by 15.2% year-on-year. In the first quarter of 2015, a surplus, after grants, of 167.8 million córdobas was recorded, compared with 1.729 billion córdobas in the same period of 2014. A central government deficit, after grants, of around 2% of GDP is expected in 2015, in line with projected revenue and expenditure of 16.5% of GDP and 18.2% of GDP, respectively. Total public debt stood at US\$ 5.791 billion in March (47.1% of GDP), with 82% of that debt financed by external sources.

(b) Monetary and exchange-rate policy

In 2014, the central bank held its nominal crawling-peg exchange-rate policy at 5% and continued to use instruments such as open-market operations and reserve requirements. The reserve requirement continued to be used, furthermore, as a monetary and prudential control instrument, maintaining a dual system of daily and fortnightly reserve requirements (12% and 15%, respectively, on deposits subject to the requirement under resolution CD-BCN-VI-1-11 adopted by the Board of Directors of the Central Bank of Nicaragua, in force since 4 April 2011).

In April 2015, in response to a liquidity shortage, the central bank implemented an expansionary monetary policy through the net redemption of securities worth US\$ 21 million. Gross international reserves thus totalled US\$ 2.243 billion, equivalent to 2.5 times the monetary base.

(c) Financial policy

The gross loan portfolio grew by 19.4% to December 2014 over the previous year (compared with growth of 21.3% in 2013), ending the year with a balance of 99.354 billion córdobas (US\$ 3.827 billion). By institutional sector, credit to households posted the most robust growth (23.2%), followed by lending to companies (17.2%). By type of debtor, the largest growth was seen in credit to the livestock sector (31.2%), personal loans (28.2%) and mortgages (20.7%). In 2014, financial sector assets grew by 19.4% (17.4% at the end of 2013), while total liabilities expanded by 19.1% (17.1% in 2013). In terms of the distribution of deposits by currency, dollar-denominated deposits (22%) grew faster than those denominated in domestic currency (16.2%).

In March 2015, the national financial system continued to build on its momentum, with growth in both deposits (13.8%) and credit (19.0%, owing mainly to increased commercial and personal loans). Deposits were higher for both national currency (9.7%) and foreign currency (15.3%). The profitability of the financial sector remained stable in the first quarter of 2015. The return on total assets (RoA) stood at 2.2% (slipping down from 2.3% in March 2014), while the return on equity (RoE) was 20.7% (compared with 21.9% in the same period last year).

(d) Trade policy

A key area of progress in trade policy was the entry into force of a partial scope agreement between Cuba and Nicaragua in October 2014, which establishes tariff preferences and eliminates non-tariff barriers between the two countries. Furthermore, Nicaragua continued negotiating lists of market openings, which remain pending with Colombia and Paraguay, as part of the process of acceding to the Latin American Integration Association (LAIA). It also pursued negotiations on a partial scope agreement with Ecuador and the Plurinational State of Bolivia, and on an economic complementarity agreement with the Bolivarian Republic of Venezuela. In 2014, trade policies were applied to ensure the supply of goods and to establish fair prices for the population. In this connection, the government approved safeguards for products including oil, wheat flour, personal hygiene products, chicken, rice, red beans and maize. The preferential tariff treatment granted by the United States to Nicaragua since 2006 under the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) expired on 31 December 2014. Under this arrangement, Nicaragua had enjoyed preferential access to the United States market for garments produced in the free zone with fabric or yarn not originating from the signatory countries of the Agreement.

3. The main variables

(a) The external sector

In 2014, trade with the rest of the world was stimulated by the growth of domestic production sectors and the recovery of the United States economy and its main partners. In value terms, goods exports grew by 9.6% in 2014, compared with a year-on-year fall of 10.1% in 2013. The leading exports in terms of total revenue were meat, coffee, gold, sugar, dairy products, peanuts, beans, lobster, shrimp and beverages and rum. In 2014, 30.9% of Nicaragua's total exports went to the United States, 14.8% went to the Bolivarian Republic of Venezuela (especially sugar, meat, coffee, beans and cattle), 8.8% to Canada, 8.4% to El Salvador and 5.7% to Costa Rica.

Merchandise imports reached a total of US\$ 5.876 billion in 2014 (up by 3.9% over 2013), with capital goods and consumer goods expanding by 13.5% and 7.8%, respectively. Capital goods imports were spurred by purchases of telecommunications equipment and industrial and scientific machinery. The most robust growth in consumer goods was seen in foodstuffs, medicines, pharmaceutical products and household appliances. The oil bill fell by 4.1%, owing chiefly to the drop in oil and fuel prices, which were down by 5.4% and 9.0%, respectively.

The current account deficit as a percentage of GDP stood at 7.1% in 2014, compared with 11.1% in 2013, and was offset primarily by movements in the capital and financial account, loans and grants to the public sector and credit to the private sector. The terms of trade improved by 3.8% as import prices dropped by 3.9% and export prices dipped only slightly (0.2%).

The unit value of exports decreased by 1.8% year-on-year to March 2015 (after growing by 9.8% in the year-earlier period) due mainly to lower exports of sugar. The highest growth was seen in exports of agricultural products, such as coffee; whereas mining products, especially gold, fell owing to low international prices and export volumes. The cumulative value of exports rose overall on the back of an improvement in average export prices (1.8%), since volumes were down by 3.6% year-on-year. In 2015, exports are expected to grow by at least 2.6%. Meanwhile, imports rose by 4.9% year-on-year to March

2015 (3.3% in 2014), driven by purchases of capital goods for industry, intermediate goods for agriculture and consumer goods. The trade deficit widened by 9.8% to US\$ 602.9 million over this period.

Official external cooperation amounted to US\$ 1.128 billion (9.6% of GDP) in 2014, 14% lower than in 2013. Of that total, US\$ 610.3 million was directed to the private sector and US\$ 518.1 million to the public sector. As for financing to the public sector, grants remain a very significant component in the support provided for health and education services and for public goods such as water supply and transportation. The leading donors are the Inter-American Development Bank (IDB), the World Bank, the Central American Bank for Economic Integration (CABEI), the International Fund for Agricultural Development (IFAD), the Republic of Korea and Switzerland. Major resources continue to be provided to the private sector by the Bolivarian Republic of Venezuela, including through the PetroCaribe Energy Cooperation Agreement. Of the total amount (about US\$ 619.6 million in 2014), US\$ 435.6 million corresponds to loans by Petróleos de Venezuela, S.A. and the rest to foreign direct investment. The economic and political situation in the Bolivarian Republic of Venezuela poses an emerging macroeconomic risk, but one that has not yet had an impact on the Nicaraguan economy.

Net foreign direct investment totalled US\$ 840.0 million, representing 7.1% of GDP in 2014. The largest recipients were industry (US\$ 269.7 million), the energy sector and mining (US\$ 249.6 million) and communications (US\$ 102.4 million). Remittances increased by 5.4% in 2014 (6.3% in 2013) to US\$ 1.136 billion (9.7% of GDP), owing mainly to higher remittances from the United States (which represent 59% of the total), Costa Rica (22%), Spain (5.9%) and Panama (3.5%). At the end of the first quarter of 2015, income from remittances grew by 4.3% year-on-year over the March 2014 figure and totalled US\$ 289.2 million

(b) Economic activity

Nicaragua's economy grew by 4.7% in 2014, compared with 4.5% in 2013, driven by a rise in external and domestic demand, particularly in private consumption, which grew by 3.8% on the back of rising disposable income as a result of higher wages, family remittances and loans. By contrast, gross capital formation decreased by 1.7% (it had increased by 1.8% in 2013) as other investments dropped by 25.5% and inventories were destocked. As for fixed capital investment (which contracted by 0.9%), the private component decreased by 3.4%, while the public component increased by 8.3%.

On the production front, most sectors recorded growth. The largest contributions came from the services and commerce sector (which grew by 4.8% and contributed 3 percentage points to GDP growth) and manufacturing (which grew by 5% year-on-year and contributed 0.6 percentage points to the total), as a result of increases in the production of meat, fish and other foodstuffs, and the manufacturing of machinery and transport equipment. Financial activity contributed 0.4 percentage points to GDP and grew by 11.4% year-on-year owing to higher loan placements and deposits. Agricultural activities grew by 5.2% in 2014 and contributed 0.4 percentage points to aggregate growth. The coffee sector expanded by 8.3% thanks to increased production and investments in new plantations, despite the impact of coffee-leaf rust, which continued to affect crops at higher altitudes. The 2.8% uptick in construction (12.6% in 2013) was the product of increased non-residential building projects, civil engineering works and construction services.

The trend-cycle series of the monthly index of economic activity (IMAE) recorded year-on-year growth of 2.8% in March 2015 and an annual average of 3.9% in the first quarter of the year. The largest contributions came from commerce and services (especially transport and communications), construction and manufacturing (especially the production of beverages, machinery and equipment, dairy products and

basic chemicals). Agricultural activity fell year-on-year to March 2015 owing to the slack performance of coffee and basic grains.

Growth of 4.8% is projected in 2015, driven by the economic performance of Nicaragua's major trade partners, fuel prices and improved terms of trade.

(c) Prices, wages and employment

Cumulative inflation to December 2014 was 6.5% (compared with 5.7% in 2013), which was determined by the crawling-peg devaluation rate set at 5.0% per annum. The rainy season pushed up domestic prices of basic grains in the first part of the year, which was partially offset by the decline in international oil and fuel prices in the fourth quarter and the introduction of government subsidies for basic grains. With a view to protecting the purchasing power of households, the government continued to subsidize public transport and electricity consumption. In 2014 the food and non-alcoholic beverages category posted cumulative inflation of 11.7% (6.0% in 2013).

Year-on-year inflation to May 2015 was 5.2% (4.9% in 2014), driven by transportation; food and non-alcoholic beverages; recreation and culture; restaurants and hotels; and education. These increases were partially offset by lower prices for communications. Core inflation rose by 6.9% year-on-year. Inflation continues to trend upward and is expected to end the year within the target range of 6.0%-7.0%.

In 2014, the Ministry of Labour raised the minimum wage despite not reaching a tripartite agreement between the government, employers and workers. It adopted annual increases (divided into two equal parts) of 10.77% for the agricultural sector, 9.80% for small and medium-sized enterprises (SMEs) and 10.27% for other sectors. In January 2014, an annual adjustment of 8% was applied to the wages of workers in the free zone. Public-sector workers in health and education received a 7% raise, while other workers in the public sector received 5%. Enrolment in the Nicaraguan Social Security Institute (INSS) increased by 5.4% with respect to 2013, as more jobs were created in commerce, hotels and restaurants, and community, social and personal services. In the third quarter of 2014 the open unemployment rate was 6.7% (5.3% in 2013) according to the findings of the continuous household survey.

In the first quarter of 2015, growth in the number of workers enrolled in the INSS rose to 7.6%. Most of the new jobs were concentrated in the commerce and services sector.

Table 1
NICARAGUA: MAIN ECONOMIC INDICATORS

	2006	2007	2008	2009	2010	2011	2012	2013	2014 a/
	Annual growth rates b/								
Gross domestic product	4.2	5.3	2.9	-2.8	3.2	6.2	5.1	4.5	4.7
Per capita gross domestic product	2.8	4.0	1.6	-4.0	1.8	4.8	3.6	3.0	3.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	2.5	11.5	0.5	2.4	3.1	4.8	-1.3	1.1	4.4
Mining and quarrying	2.7	-3.7	-3.4	-3.2	51.8	25.6	11.2	21.1	-0.3
Manufacturing	6.4	5.9	-1.9	-3.8	1.7	9.4	5.5	2.2	5.1
Electricity, gas and water	1.5	-14.3	67.1	-6.4	2.3	3.3	7.5	3.2	2.9
Construction	-3.2	-8.6	-14.6	-29.0	-17.6	11.0	30.6	12.6	2.8
Wholesale and retail commerce, restaurants and hotels									
	4.9	5.3	3.2	-2.8	7.1	8.5	5.8	4.6	5.5
Transport, storage and communications									
	7.2	17.2	6.4	0.7	15.4	12.8	9.7	6.8	7.4
Financial institutions, insurance, real estate and business services									
	5.1	-1.0	3.0	-4.0	-2.6	-0.6	2.9	4.3	5.6
Community, social and personal services									
	4.2	4.7	8.8	1.2	4.8	1.1	4.9	4.9	4.7
Gross domestic product, by type of expenditure									
Final consumption expenditure									
Government consumption	2.7	3.6	4.0	1.0	3.9	2.6	3.6	3.6	3.8
Private consumption	-0.5	-5.9	10.8	-0.3	7.8	3.3	0.0	1.4	1.4
Gross capital formation	3.1	4.7	3.3	1.2	3.5	2.6	4.0	3.8	4.0
Exports (goods and services)	-0.1	20.5	7.3	-29.1	16.4	28.6	0.8	2.5	-1.3
Imports (goods and services)	12.5	11.1	9.0	0.8	19.9	7.7	16.2	3.5	7.5
	4.4	13.3	10.6	-8.9	21.7	11.1	6.9	1.4	2.4
Investment and saving c/									
Porcentajes of GDP									
Gross capital formation	26.5	29.7	31.1	22.0	24.6	31.0	28.7	28.6	26.7
National saving	14.1	14.0	13.3	13.3	15.7	19.1	18.0	17.6	19.6
External saving	12.4	15.7	17.8	8.6	8.9	11.8	10.6	11.1	7.1
Balance of payments									
Millions of dollars									
Current account balance	-842	-1,168	-1,508	-724	-780	-1,155	-1,113	-1,200	-838
Goods balance	-1,630	-2,006	-2,460	-1,752	-1,925	-2,426	-2,447	-2,510	-2,402
Exports, f.o.b.	1,515	1,754	1,958	1,927	2,425	3,036	3,491	3,292	3,622
Imports, f.o.b.	3,145	3,759	4,417	3,679	4,350	5,463	5,938	5,802	6,024
Services trade balance	3	-26	40	162	223	291	345	254	428
Income balance	-219	-212	-224	-253	-238	-250	-321	-313	-308
Net current transfers	1,003	1,075	1,135	1,118	1,161	1,230	1,310	1,369	1,443
Capital and financial balance d/									
Net foreign direct investment	1,021	1,336	1,540	1,148	999	1,242	1,097	1,295	1,120
Other capital movements	266	366	608	463	474	930	715	708	756
	755	969	931	685	526	312	382	587	364
Overall balance									
Variation in reserve assets e/	179	167	32	424	219	87	-15	96	282
Other financing	-179	-167	-32	-424	-219	-87	15	-96	-282
	0	0	0	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	99.6	100.4	94.9	103.4	100.8	105.8	103.4	100.1	101.9
Terms of trade for goods (index: 2010=100)	95.4	94.5	90.4	99.1	100.0	99.6	99.6	91.3	95.2
Net resource transfer (millions of dollars)	802	1,124	1,316	895	761	993	777	983	812
Gross external public debt (millions of dollars)	4,527	3,385	3,512	3,661	4,068	4,263	4,481	4,724	4,796
Employment									
Average annual rates									
Labour force participation rate g/	51.4	53.4	53.3	51.8	71.4	77.0	76.8	75.8	74.2
Open unemployment rate h/	5.2	5.9	6.1	8.2	7.8	5.9	5.9	5.7	6.8

Table 1 (concluded)

	2006	2007	2008	2009	2010	2011	2012	2013	2014 a/
Prices	Annual percentages								
Variation in consumer prices (December-December)	10.2	16.2	12.7	1.8	9.1	8.6	7.1	5.4	6.5
Variation in nominal exchange rate (annual average)	6.1	6.3	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Variation in average real wage	1.4	-1.8	-4.0	5.8	1.3	0.1	0.3	0.3	1.7
Nominal deposit rate i/	4.9	6.1	6.6	6.0	3.0	1.8	1.0	1.0	1.0
Nominal lending rate j/	11.6	13.0	13.2	14.0	13.3	10.8	12.0	15.0	13.5
Central government	Percentages of GDP								
Total revenue k/	17.8	17.8	16.4	15.8	16.3	17.2	17.8	17.4	17.5
Tax revenue	13.6	13.8	13.2	13.0	13.7	14.5	15.1	15.2	15.4
Total expenditure	17.7	17.5	17.3	17.5	17.0	16.8	17.2	17.3	17.8
Current expenditure	12.4	12.3	13.1	13.6	13.1	13.3	13.5	13.5	13.8
Interest	1.4	1.1	0.9	1.0	1.1	1.0	1.0	0.9	0.9
Capital expenditure	5.4	5.2	4.2	3.9	3.9	3.5	3.7	3.8	4.0
Primary balance	1.5	1.5	0.0	-0.7	0.3	1.5	1.5	1.0	0.6
Overall balance	0.1	0.3	-0.9	-1.7	-0.7	0.5	0.5	0.1	-0.3
Central government public debt	54.8	32.3	28.6	32.3	33.3	31.9	31.5	31.5	30.9
Domestic	15.1	12.8	10.6	11.1	10.6	9.4	8.4	6.9	6.2
External	39.7	19.5	18.0	21.2	22.7	22.4	23.1	24.6	24.7
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	46.7	45.0	41.4	36.4	33.8	30.2	32.9	36.7	34.0
To the public sector	31.8	26.4	23.5	24.7	23.5	20.1	17.4	16.9	13.1
To the private sector	26.4	30.0	28.6	25.7	24.9	24.6	27.5	32.3	34.1
Others	-11.4	-11.5	-10.7	-13.9	-14.6	-14.6	-11.9	-12.4	-13.2
Monetary base	6.8	7.2	6.3	7.3	7.8	8.4	7.8	7.6	7.7
Money (M1)	5.6	6.4	6.1	6.7	7.7	7.9	7.6	8.0	7.9
Foreign-currency deposits	24.8	24.8	21.8	24.1	26.5	25.1	26.1	28.7	29.2

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 2006 prices.

c/ Based on values calculated in national currency and expressed in current dollars.

d/ Includes errors and omissions.

e/ A minus sign (-) indicates an increase in reserve assets.

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

g/ Nationwide total. New measurements have been used since 2009; the data are not comparable with the previous series.

h/ Urban total.

i/ 30-day local-currency pasive rates, weighted average.

j/ Weighted average of short-term lending rates in local currency.

k/ Includes grants.

Table 2
NICARAGUA: MAIN QUARTERLY INDICATORS

	2013				2014				2015	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross domestic product (variation from same quarter of preceding year) b/	4.7	5.9	4.8	2.9	6.8	4.5	4.1	3.6
Gross international reserves (millions of dollars)	1,759	1,766	1,771	1,824	1,879	1,951	1,981	2,063	2,168	2,243 c/
Real effective exchange rate (index: 2005=100) d/	99.6	99.2	100.0	101.5	101.3	102.4	102.4	101.4	99.8	100.8 e/
Consumer prices (12-month percentage variation)	7.1	7.6	7.6	6.0	5.2	5.2	6.6	7.0	5.6	5.4 e/
Average nominal exchange rate (lempiras per dollar)	24.3	24.6	24.9	25.2	25.5	25.8	26.1	26.4	26.6	26.8
Nominal interest rates (average annualized percentages)										
Deposit rate f/	1.0	1.0	1.0	1.2	1.2	1.1	1.1	0.9	1.2	1.5 c/
Lending rate g/	15.7	14.0	15.4	14.9	14.6	14.5	13.2	11.8	11.5	12.3 e/
Interbank rate	3.1	4.1	5.3	5.4	5.2	4.7	4.8	4.8	4.8	4.9 c/
Domestic credit (variation from same quarter of preceding year)	30.1	28.8	21.6	20.1	14.9	12.4	12.1	6.3	10.6	11.3 c/
Non-performing loans as a percentage of total credit	1.6	1.4	1.4	0.9	0.9	1.0	1.0	1.0	0.9	0.9 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 2006 prices.

c/ Figures as of April.

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

e/ Figures as of May.

f/ 30-day local-currency pasive rates, weighted average.

g/ Weighted average of short-term lending rates in local currency.