NICARAGUA

1. General trends

In 2016, the Nicaraguan economy lost little of the momentum observed over the most recent five-year period, with growth of 4.7%, 0.2 percentage points down from the previous year. Average annual inflation stood at 3.5% at the end of 2016, half a percentage point down from the end of 2015, despite rising slightly in the second half of the year. The current account deficit narrowed slightly, from 9% of GDP in 2015 to 8.6% of GDP in 2016, partly on the back of an upturn in activity in free zones that offset the negative results in the rest of the export sector. The other contributing factor was the fall in the oil bill, which reflected the impact of changes in the international prices of oil and its derivatives in the first half of the year and of lower demand for fuel owing to the conversion of the country's energy matrix from thermoelectric towards primarily hydroelectric power. Notwithstanding the increase in spending spurred by elections and buoyant public investment, the central government deficit after grants remained practically unchanged compared with 2015, at around 0.6% of GDP. The non-financial public sector (NFPS) deficit expanded from 1.6% to 2% of GDP as a result of the worsening balances of the municipality of Managua, the Nicaraguan Social Security Institute and some State-owned companies. Booming economic activity helped drive formal employment creation, which rose to an annual average of 10.8% against 8.9% in 2015.

The presidential and legislative elections held in early November 2016 saw the victory of the Frente Sandinista de Liberación Nacional candidate for a third consecutive term. In line with the medium-term budget framework 2017-2020, economic policy will focus primarily on reconciling the goal of maintaining public finance sustainability with the funding of poverty reduction programmes.

For 2017, ECLAC projects growth at around 4.7%. Domestic demand will continue to be the main driver of GDP growth, notwithstanding slowdowns in private consumption and public investment, which will be partially offset by better performance in the external sector. An uptick in inflation is expected owing to the statistical effect of a relatively low basis of comparison for fuel prices. However, the rise in prices will be attenuated by the impact of favourable climatic conditions on food prices. The fiscal deficit before grants is expected to decrease, while the fiscal balance after grants will remain at much the same level as in 2016 because of the projected reduction in grant flows. Furthermore, the current account deficit is expected to narrow on the back of the rebound in merchandise exports and increasing inflows from tourism. The effect of the rebound of international oil prices on the oil bill will be mitigated by the impact of greater energy efficiency on import volumes.

2. Economic policy

(a) Fiscal policy

In 2016, the central government primary deficit before grants remained at around 0.7% of GDP, which was indicative of a marginally expansionary fiscal stance. Including debt servicing, the deficit amounted to 1.7% of GDP, slightly above the 1.6% recorded in 2015.

Total central government revenue grew by 9.8% in real terms year-on-year, versus 10.3% in 2015. Despite this slight deceleration, current revenue accounted for 17.5% of GDP, compared with

16.7% of GDP in 2015. This increase was spurred by higher tax receipts (primarily from income tax), against the backdrop of buoyant economic activity, application of the Tax Coordination Act and improved tax management. The tax burden increased by 0.6 percentage points, to 16.2% of GDP.

Central government spending rose 10.2% in real terms, compared with 11.9% in 2015, and stood at 19.3% of GDP at the end of 2016 (18.4% in 2015); this was driven by real growth of 26.4% in current expenditure on goods and services owing mainly to the organization of presidential and legislative elections in November 2016.

The central government deficit was financed primarily by external multilateral grants and loans. At the end of 2016, total public debt continued its downward course, falling to 45.9% of GDP. The drop from 46.2% of GDP registered at the end of 2015 was owed in large part to repayment of domestic debt (6.9% of GDP versus 7.6% in 2015); there was an uptick in external public debt, which stood at 39% of GDP at the end of the year. The shifting composition of debt reflects better access to international financing under favourable conditions, despite borrowing terms becoming less concessional.

By April 2017, the central government primary surplus had risen more than during the same period of 2016, primarily as a result of lower spending on transfers and social benefits, which offset both the slowdown in revenue and the acceleration of domestic debt service payments.

(b) Monetary and exchange-rate policies

In 2016, both the objectives and the implementation of monetary and exchange-rate policies remained unchanged. To meet the nominal target of a 5% annual depreciation in the exchange rate, liquidity requirements were met through international reserves. Notably, the Central Bank’s foreign exchange desk sold US$ 324 million over the course of 2016, in addition to US$ 184 million corresponding to external debt service payments. While this was partially offset by loans and grants to the non-financial public sector (US$ 360 million) and excess reserves of foreign-currency deposits (US$ 70 million), the gross international reserves balance fell by US$ 44 million by the end of 2016, to the equivalent of 2.5 times the monetary base and 5 months of imports.

Against the backdrop of a pick-up in international interest rates and a higher volume of open-market operations designed to absorb surplus liquidities, nominal interest rate patterns were uneven. While short-term lending rates in local currency dropped from 11.7% at the end of 2015 to 10.7% at the end of 2016, the one-month deposit rate rose by 0.9% to 1.7% during the same period. As a result, the interest-rate spread on local currency narrowed; the average spread was 9.9 percentage points in 2016, compared with 13.3 percentage points in 2015.

Despite the uptick in nominal deposit rates, at the end of 2016 deposits were down 1.6%, in real terms; this explains, in part, the slowdown in M2 growth, which slipped from an average of 15.7% in 2015 to 13.3% in 2016. Credit expansion was also less robust, with average growth of 18.4% against 23% the previous year. The bulk of lending by credit institutions went to business and consumer loans, where average credit growth was 21.6% and 30.2%, respectively.

The national financial system maintains non-performing loan rates below 1%, with a return on assets of 2.4% (2.2% in 2015), a return on equity of 21.7% (20.5% in 2015), and capitalization rates of about 13.5%. In 2016, the Superintendence of Banks and other Financial Institutions tightened prudential regulation. The standards adopted seek to shore up liquidity risk management, establish guidelines on leveraging in the banking system, enhance the ability to absorb capital losses and introduce an additional capital reserve of 3% on top of the minimum capital required by the General Banking Act (10%).

The average bilateral real exchange rate in 2016 rose 2.8% against the dollar, reflecting the nominal exchange-rate depreciation (5%) and the inflation differential with the United States.

While lending to the private sector and deposit-taking remained robust to April 2017, with year-on-year growth of 18.2% and 9.7%, respectively, this was down from the figures of 22.1% and 12% registered for the same period the previous year.

(c) Other policies

In November 2016, the countries of Central America finalized negotiations on the free trade agreement with the Republic of Korea.

In line with its strategy for improving the prospects of accessing funding on international markets, the Government of Nicaragua entered into contractual relations with the main credit rating agencies. In 2016, the country's ratings remained stable at B2 (Moody's) and B+ (Fitch and Standard and Poor's). While these ratings are favourable as compared to other countries with similar income levels, they are still below investment grade and reflect the country's high vulnerability to external shocks.

In October 2016, Nicaragua's National Assembly adopted the Public-Private Partnership Act with a view to promoting investment in priority projects. To this end, a set of public policies focusing on production development, capacity-building measures and tax incentives were established to attract investment. Likewise, specific projects giving priority to investment in communications infrastructure, energy efficiency and education were identified.

3. The main variables

(a) The external sector

In 2016, the current account deficit fell by 0.4 percentage points, to 8.6% of GDP, owing to the narrowing of the goods trade deficit (19.7% of GDP, versus 20% of GDP in 2015) and a sizeable flow of remittances from migrant workers, which increased by 5.9%, in nominal terms, to 9.6% of GDP. To a large extent, the relative improvement in the trade deficit reflects the terms-of-trade gain (1.7%), as import prices dropped more heavily (by 7.2%) than export prices (which fell 5.6%).

Annual shrinkage in goods exports (2.3%) was smaller than that registered in 2015 (7%), as exports from free zones climbed by 7.9% (having fallen by 2.4% in 2015) on the back of the demand for textiles, electric harnesses and, to a lesser extent, non-monetary gold from the United States, Mexico and Canada, respectively. The demand for these products partially offset the 11.1% contraction in exports of other goods caused by falling international prices for beef products and weather conditions that hurt sugar production volumes.

Imports of goods excluding freight and insurance, which had grown by 1.4% in 2015, fell by 0.3% in 2016. This was due to the 10.4% drop in the oil bill, which partially offset the 7.2% growth in consumer goods imports and reflects the trend in international oil prices in the first half of 2016 as well as the reduced demand for fossil fuels stemming from the diversification of the energy matrix.

The current account deficit was financed mainly through foreign direct investment (FDI), which was down 5% on the previous year, in line with the deceleration of private domestic investment. The main beneficiaries of the US$ 860 million in net FDI inflows were manufacturing (US$ 275 million) and telecommunications (US$ 232 million).

The export sector rebounded in the first quarter of 2017, with nominal growth of 33.5% compared with the same period of 2016, driven by the growth in the agricultural and manufacturing sectors. Although non-oil imports fell by 3.8%, mainly reflecting lower capital goods imports, imports overall were up by 2.1% (compared with 1.1% in the same quarter of 2016), owing to the 5.5% hike in the oil bill.

(b) Economic activity

As in 2015, the robust growth of the Nicaraguan economy was driven by domestic demand. The strongest component was household consumption, which climbed by 5.3% thanks to increased purchasing power on the back of wage rises and low inflation, readily available consumer credit and the upsurge in family remittances. Government consumption growth accelerated from 6.3% in 2015 to 8.4% in 2016, spurred by expenditure related to the presidential and legislative elections held in November and by outlays under poverty reduction programmes.

On the investment front, 4.9% growth represents a significant slowdown from the 22.3% registered in 2015. This is attributable primarily to the downturn in private sector residential construction as various projects were completed and, in fact, private investment rose just 3.3%, much less than the 19.2% of the previous year. Meanwhile, investment in road and hospital infrastructure under the public investment programme is at the root of the 9.7% increase in public gross fixed capital formation. The contribution of net exports was negative —by 2.5 percentage points of GDP— but less so than in 2015, when they made a negative contribution of 6.6 percentage points.

By sector, growth in 2016 was driven by the buoyant commerce sector (up 5.8%), consistently with strong domestic demand, aided by the acceleration in manufacturing and agricultural activity, where growth rates rose from 1% in 2015 to 3.6% in 2016. In the case of manufacturing, the upturn was driven by activity in free zones, while agriculture benefited from better weather conditions.

As of April 2017, the monthly index of economic activity showed average annual growth of 5.4%, higher than the 4% observed during the same period of the previous year. This increase reflected the rebound in the agricultural sector, which offset the slowdown in commercial activity.

(c) Prices, wages and employment

For the second year running, year-on-year inflation at the national level remained at 3.1% (6.5% in 2014) thanks to the effect of favourable climatic conditions on food supply, which translated into a 0.7% drop in the prices of food and non-alcoholic beverages —a sector that accounts for more than one third of the composition of the consumer price index. This offset the effect of the rebound in international energy prices in the second half of 2016 and accounts for the projected increases of 3.7% in the price of accommodation, water, electricity, gas and other fuels (against a 2.3% rise in 2015) and of 5.4% in transportation (-0.3% in 2015).

The surge in growth of contributors to the Nicaraguan Social Security Institute is primarily explained by the 14.2% expansion of the community, social and personal services sector —which registered more than 40% new formal jobs— and, to a lesser extent, the increase in formal employment in the sectors of commerce (12.2%) and finance (14%).

In 2016, the National Commission on the Minimum Wage approved a 9% increase in the nominal minimum wage for all sectors of the economy and an increase of 8% for small and medium-sized enterprises. The Free Trade Zone Tripartite Commission adjusted the corresponding nominal minimum wage by 8%. As a result, the average wages of workers making social security contributions rose by 2.7% in real terms (3.9% in 2015), while wages in the private sector as a whole edged up by a mere 0.2% during the same period, significantly below the 5.3% increase of 2015. The most growth in real private sector wages occurred in agriculture, forestry, hunting and fishing.

By the end of May 2017, annual average inflation was 3.5%, barely above figures observed during the same period of 2016. This reflects the impact of favourable climatic conditions on trends in food prices, whose growth slowed as of the fourth quarter of 2016 and was offset by the rebound in fuel prices. On the employment front, by April the average annual increase in social security affiliations stood at 9.2%, while real wages of formal sector employees increased by 2.2%. Both figures are more than one percentage point below those observed during the prior-year period.

Table 1

NICARAGUA: MAIN ECONOMIC INDICATORS

	2008	2009	2010	2011	2012	2013	2014	2015	2016 a/
	Annual growth rates b/								
Gross domestic product	2.9	-2.8	3.2	6.2	5.6	4.5	4.6	4.9	4.7
Per capita gross domestic product	1.5	-4.0	1.9	4.9	4.3	3.3	3.4	3.8	3.6
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	0.5	1.7	3.2	5.0	-4.1	0.8	3.1	2.8	3.6
Mining and quarrying	-3.4	-3.2	51.8	25.6	10.9	20.6	-0.5	-6.7	9.4
Manufacturing	-2.7	-2.6	1.1	9.3	7.5	3.4	5.6	1.0	3.6
Electricity, gas and water	65.7	-5.9	2.3	16.2	16.7	4.8	3.5	2.6	3.6
Construction	-14.6	-29.0	-17.6	11.0	26.6	12.5	3.2	25.4	-0.2
Wholesale and retail commerce, restaurants and hotels	3.2	-2.8	7.1	8.5	7.9	4.5	5.6	6.7	5.8
Transport, storage and communications	6.4	0.7	15.4	12.8	7.2	6.9	7.4	5.3	4.2
Financial institutions, insurance, real estate and business services	3.0	-4.0	-2.6	-0.6	2.3	4.4	5.4	4.8	5.2
Community, social and personal services	8.8	1.2	4.8	1.1	5.0	4.6	4.7	4.3	5.1
Gross domestic product, by type of expenditure									
Final consumption expenditure	3.9	1.1	3.9	2.6	3.9	4.4	4.5	5.2	5.7
Government consumption	10.8	-0.3	7.8	3.3	3.2	5.5	5.2	6.3	8.4
Private consumption	3.3	1.2	3.5	2.6	4.0	4.2	4.5	5.2	5.3
Gross capital formation	7.3	-29.1	16.5	29.2	0.2	0.0	-0.8	22.3	4.9
Exports (goods and services)	9.0	0.8	19.9	7.7	12.0	3.3	6.6	-2.0	5.5
Imports (goods and services)	10.6	-8.9	21.7	11.1	4.8	1.5	3.5	11.6	7.0
Investment and saving c/	**Percentajes of GDP**								
Gross capital formation	31.1	22.0	24.6	31.0	30.2	28.9	27.4	31.9	30.6
National saving	14.0	13.6	15.7	19.0	19.3	17.9	20.3	22.9	22.0
External saving	17.1	8.4	8.9	12.0	10.8	11.0	7.2	9.0	8.6
Balance of payments	**Millions of dollars**								
Current account balance	-1 448	-706	-780	-1 166	-1 132	-1 199	-844	-1 144	-1 133
Goods balance	-2 367	-1 606	-1 787	-2 254	-2 290	-2 262	-2 169	-2 545	-2 612
Exports, f.o.b.	2 151	2 091	2 726	3 416	3 919	3 852	4 150	3 859	3 772
Imports, f.o.b.	4 518	3 697	4 513	5 670	6 210	6 114	6 319	6 405	6 384
Services trade balance	5	38	96	131	163	21	188	232	247
Income balance	-222	-256	-250	-273	-314	-327	-314	-345	-354
Net current transfers	1 135	1 118	1 161	1 230	1 310	1 369	1 450	1 515	1 586
Capital and financial balance d/	1 480	1 129	999	1 253	1 117	1 294	1 126	1 341	1 077
Net foreign direct investment	608	463	475	929	704	665	790	905	860
Other capital movements	872	666	524	325	412	629	336	436	217
Overall balance	32	423	219	87	-15	96	282	197	-57
Variation in reserve assets e/	-32	-423	-219	-87	15	-96	-282	-197	57
Other financing	0	0	0	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	94.9	103.4	100.8	105.8	103.4	100.1	105.3	100.8	103.2
Terms of trade for goods (index: 2010=100)	90.9	97.9	100.0	106.6	106.7	98.4	100.3	113.7	115.4
Net resource transfer (millions of dollars)	1 258	873	749	980	802	967	812	996	723
Gross external public debt (millions of dollars)	3 512	3 661	4 068	4 263	4 481	4 724	4 796	4 804	5 042
Employment	**Average annual rates**								
Labour force participation rate g/	53.3	66.6	71.2	75.6	76.8	75.8	74.0	...	...
Open unemployment rate h/	6.1	7.9	7.8	5.9	5.9	5.6	6.6	...	...

Table 1 (concluded)

	2008	2009	2010	2011	2012	2013	2014	2015	2016 a/
Prices	**Annual percentages**								
Variation in consumer prices									
(December-December)	12.7	1.8	9.1	8.6	7.1	5.4	6.5	2.9	3.1
Variation in nominal exchange rate									
(annual average)	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	4.8
Variation in average real wage	-4.0	5.8	1.3	0.1	0.3	0.3	1.7	2.6	2.3
Nominal deposit rate i/	6.6	6.0	3.0	1.8	1.0	1.0	1.0	1.0	1.1
Nominal lending rate j/	13.2	14.0	13.3	10.8	12.0	15.0	13.5	12.0	11.4
Central government	**Percentajes of GDP**								
Total revenue k/	16.4	15.8	16.3	17.2	17.8	17.4	17.6	17.8	18.7
Tax revenue	13.2	13.0	13.7	14.5	15.1	15.2	15.4	15.7	16.3
Total expenditure	17.3	17.5	17.0	16.8	17.3	17.3	17.9	18.4	19.3
Current expenditure	13.1	13.6	13.1	13.3	13.5	13.5	13.8	13.9	14.7
Interest	0.9	1.0	1.1	1.0	1.0	0.9	0.9	0.9	1.0
Capital expenditure	4.2	3.9	3.9	3.5	3.7	3.8	4.0	4.5	4.6
Primary balance	0.0	-0.7	0.3	1.5	1.5	1.0	0.6	0.3	0.4
Overall balance	-0.9	-1.7	-0.7	0.5	0.5	0.1	-0.3	-0.6	-0.6
Central government public debt	28.6	32.3	33.3	31.9	31.5	30.8	30.2	29.9	30.7
Domestic	10.6	11.1	10.6	9.4	8.4	6.8	6.0	5.3	5.1
External	18.0	21.2	22.7	22.4	23.2	24.1	24.1	24.6	25.6
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	43.1	38.0	35.0	31.1	34.0	36.6	34.0	36.2	36.6
To the public sector	23.5	24.7	23.5	20.1	17.4	16.8	13.1	11.2	10.8
To the private sector	31.4	28.2	26.8	26.3	29.0	32.2	34.1	37.1	38.9
Others	-11.8	-14.9	-15.4	-15.3	-12.4	-12.4	-13.2	-12.0	-13.1
Monetary base	6.3	7.3	77.8	8.4	7.8	7.6	7.7	8.6	7.7
Money (M1)	6.1	6.7	7.7	7.9	7.6	8.0	7.9	8.8	8.4
Foreign-currency deposits	21.8	24.1	26.5	25.1	26.2	28.6	29.2	30.2	31.3

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/ Nationwide 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

	2015				2016				2017		
	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/	4.2	2.9	5.3	6.8	3.5	7.4	4.1	4.0	6.6	...	
Gross international reserves (millions of dollars)	2 168	2 256	2 255	2 315	2 300	2 356	2 329	2 253	2 298	2 370	c/
Real effective exchange rate (index: 2005=100) d/	99.0	100.2	101.4	102.5	101.3	102.1	104.2	105.2	105.9	108.2	c/
Consumer prices (12-month percentage variation)	5.9	3.7	2.6	2.9	3.6	3.5	3.5	3.1	3.2	3.1	c/
Average nominal exchange rate (lempiras per dollar)	26.8	27.1	27.4	27.8	28.0	28.4	28.8	29.0	29.4	29.8	
Nominal interest rates (average annualized percentages)											
Deposit rate e/	1.2	1.1	1.0	0.9	0.8	1.0	1.0	1.7	1.1	1.0	f/
Lending rate g/	11.5	12.0	12.9	11.7	11.8	12.0	11.3	10.7	11.1	13.1	f/
Interbank rate	4.8	4.7	4.7	4.6	4.9	5.4	5.3	5.2	5.3	5.3	f/
Domestic credit (variation from same quarter of preceding year)	11.5	11.5	12.1	18.3	13.7	12.8	13.8	12.3	13.0	...	
Non-performing loans as a percentage of total credit	0.9	0.9	0.9	0.9	0.9	1.0	1.0	0.9	0.9	...	

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 May.
d/ Quarterly average, weighted by the value of goods exports and imports.
e/ 30-day local-currency pasive rates, weighted average.
f/ Figures as of April.
g/ Weighted average of short-term lending rates in local currency.

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