Nicaragua

ECLAC expects the Nicaraguan economy to contract by 4.1% in 2018 (compared to growth of 4.9% in 2017), mainly as a result of the complex current social and political situation, which has had direct and indirect repercussions on a number of economic activities, especially tourism, commerce and the livestock sector. The central government deficit before grants will be equivalent to 2.8% of GDP (1.5% in 2017), and after grants it is expected to widen from 0.6% of GDP in 2017 to 2.1% of GDP in 2018. The current account deficit will narrow slightly to the equivalent of 4.9% of GDP (from 5% of GDP in 2017), primarily as a result of imports declining more than exports. Inflation will stand at 5.0% at the end of 2018 (compared to 5.7% in 2017).

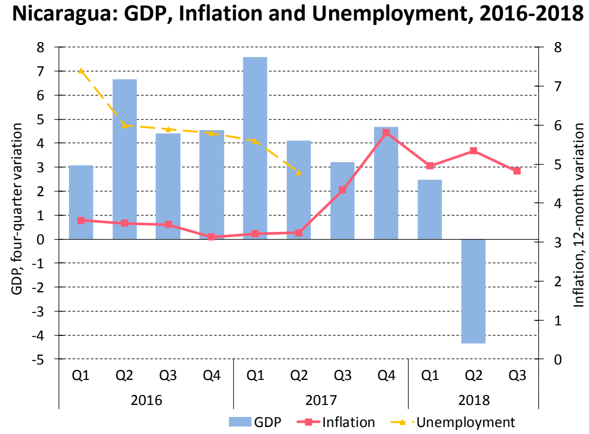
Central government revenues will come to 17.2% of GDP in 2018 (compared to 18.7% in 2017). In the first eight months of 2018, these revenues fell by 8.2% in real terms over the year-earlier period. Tax revenue has declined since April, especially from VAT on imports and domestic VAT. Total central government expenditure is expected to close the year below the previous year's figure as a result of the current conditions. As a percentage of GDP, it will again be equivalent to 19.3%, as in 2017. In the first eight months of 2018, total expenditure posted 0.1% growth in real terms over the previous-year period. A notable component of that growth was government employee remuneration, which posted 13.7% growth, in nominal terms, in that period.

To June, the total public debt was equivalent to 51.3% of GDP, 4.3 percentage points over the figure at 31 December 2017. External public debt (which accounts for 82.7% of total public debt) increased by 1.8% in that period, while domestic public debt increased by 25.8%. Nicaragua is facing challenges with respect to international financing. On the one hand, Venezuelan assistance flows have fallen significantly, from a peak of US$ 563.8 million in 2011 to US$ 30.9 million in 2017 and only US$ 9.2 million in the first half of 2018. The possible adoption of sanctions by the United States Congress could further limit access to international financing. At the same time, the principal risk rating agencies have lowered their ratings for Nicaragua.

The Government of Nicaragua has maintained a policy of pre-announced 5% devaluations in the average annual exchange rate, as a nominal anchor for inflation, relying for this purpose on the accumulation of international reserves. Gross international reserves totalled US$ 2.302 billion in September, a decline of US$ 456 million year-end 2017. The reserve ratios in relation to the monetary base and imports did not fall as much as they might have, however, owing to declines in each of these variables. Reserves were equivalent to 2.71 times the monetary base and covered 4.65 months of imports (C.I.F.). At the close of 2017, the ratio of reserves to the monetary base had been lower (2.6 times), while coverage of imports had been significantly higher (5.5 months of imports, C.I.F.)

The gross loan portfolio recorded a year-on-year decline of 0.1% in September and has been falling month-on-month since May. Personal

Nicaragua: GDP, Inflation and Unemployment, 2016-2018



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

credit has also lost momentum, posting a year-on-year decline to September of 5.4%.

The deficit on the balance of payments current account in respect of goods (F.O.B.), including the free zone, is expected to narrow in 2018 by 11%, mainly because imports will contract more heavily (by 5.5%) than exports (by 2.2%), in value terms. The blocking of key communication channels and, in general, the current social and political conflict has greatly impaired foreign trade. Based on figures through August, as regards imports (C.I.F. in value terms), purchases of capital goods posted a marked decline (of 19.9%), while the drop in exports (excluding the free zone) was triggered by contractions for agricultural and livestock products (of 7.2%) and manufactured products (down 2.9%); offsetting those declines, free zone and maquila sector exports posted a 10.1% increase in the same period. Family remittances grew by 7.6% between January and August 2018, compared with the prior-year period. Total remittances by the end of the year are expected to be equivalent to 11% of GDP. ECLAC expects foreign direct investment (FDI) to amount to US$ 344 million by the end of 2018, significantly less than the US$ 897 million received in 2017.

Nicaragua: main economic indicators, 2016-2018

	2016	2017	2018 [a]
	Annual growth rate		
Gross domestic product	4.7	4.9	-4.1
Per capita gross domestic product	3.5	3.7	-5.1
Consumer prices	3.1	5.7	4.8 [b]
Real average wage [c]	2.2	1.5	4.8
Money (M1)	9.5	8.9	4.6 [d]
Real effective exchange rate [e]	3.2	10.4	-2.3 [d]
Terms of trade	-11.7	6.2	-6.3
	Annual average percentage		
Central government			
Overall balance / GDP	-0.6	-0.6	-1.5
Nominal deposit rate [f]	1.1	1.3	1.1 [d]
Nominal lending rate [g]	11.4	10.9	10.4 [d]
	Millions of dollars		
Exports of goods and services	5 166	5 700	5 430
Imports of goods and services	7 384	7 656	7 048
Current account balance	-989	-694	-149
Capital and financial balance [h]	933	994	-319
Overall balance	-57	300	-468

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Estimates.
b/ Figures as of October.
c/ Average wage declared by workers covered by social security.
d/ Figures as of September.
e/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.
f/ Weighted average l deposit rates in local currency up to 1 month.
g/ Short-term loans rate, weighted average.
h/ Includes errors and omissions.

In the second quarter, GDP posted a year-on-year decline of 4.4%, which meant that the decline for the first six months of the year was 0.9%. On the spending side, consumption fell by 1.5% in the first six months of the year, as a result of declines in both government consumption (by 2.8%) and private consumption (down 1.8%). Also notable was the 3.2% decline in gross fixed capital formation. One of the sectors least affected by the current social and political situation was agriculture, which posted 3.5% growth. The sectors most impacted in the first half-year were livestock, hotels and restaurants and commerce, which contracted by 12.2%, 9.7%, and 4.5%, respectively.

Year-on-year inflation in October was 5.1% (compared to 4.37% in the same month of 2017); cumulative inflation to October was 2.7% (compared to 3.26% to October 2017). No recently updated data are available for open unemployment or underemployment. However, an examination of the data on formal sector jobs recorded in the Nicaraguan Social Security Institute (INSS) reveals the effect of social and political developments on the labour market in Nicaragua: in August, the number of those covered (active insured) was 762,522, that is to say, 17.1% fewer than the 919,724 insured in August 2017. In August, the real wages of workers covered by INSS posted a year-on-year increase of 5.2% (compared to 2.5% in August 2017).

Faced with deep uncertainty regarding the performance of the Nicaraguan economy in 2019, given the social and economic problems besetting the country since April 2018, ECLAC forecasts a 2.0% drop in GDP. The performance of a number of economic sectors —especially construction, tourism and financial services— will continue to be significantly impaired. The country is expected to face serious difficulties in gaining access to international financing and attracting investments, until confidence and economic certainty are restored. Although central government revenues will decline, ECLAC expects expenditure cuts to be even greater; accordingly, the deficit, before grants, will be close to 2.3% of GDP and, after grants, 1.9% of GDP. The current account deficit will widen to 5.5% of GDP, essentially owing to stagnation in the value of merchandise exports and the heavy drop in exports of services. Although price increases are forecast for some goods and services, no across-the-board hike in inflation is expected. ECLAC therefore projects inflation at close to 5.4%, provided that the current exchange-rate policy remains unchanged.