

Nicaragua

Nicaragua's economy will shrink for the third year running in 2020. ECLAC estimates that the fall in GDP will be 4%, owing to a combination of two factors: (i) the strong impact that the political and social conflict which began in April 2018 continues to have on a number of economic activities and (ii) the adverse effects of the coronavirus (COVID-19) pandemic. With regard to the latter, although the authorities did not initially impose restrictions on social and economic activities or on people's movements within the country, domestic demand has been affected by the uncertainty and by people's cautious behaviour in the face of this global phenomenon, which has also led to a contraction in external demand.

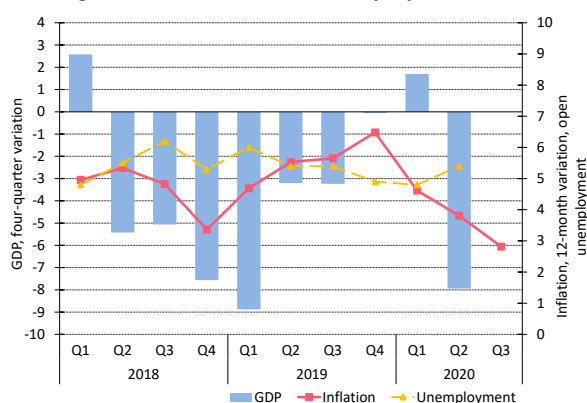
As a result of declining public revenues and increased health-care expenditure in response to the pandemic, the central government deficit before donations as a proportion of GDP is expected to be higher at the end of 2020 (about 1.3%) than in 2019 (0.4%); after donations, the deficit is expected to be 1.2% of GDP, as compared to a surplus of 0.3% in 2019. The balance-of-payments current account is expected to show another surplus at the end of the year, equivalent to 5.2% of GDP (which is lower than the 2019 surplus of 6.0% of GDP), since the fall in exports has been offset by a contraction in imports and a surprising expansion in remittances (of around 10%). Inflation should be about 3.5% at the end of the year (as compared to 6.1% in 2019) and the open unemployment rate between 5.5% and 6.0% (as compared to 4.9% in the fourth quarter of the previous year).

Central government revenues will represent 19.0% of GDP at the end of 2020, as compared to 19.1% in 2019. They fell by 6.2% in real terms between January and August, mainly as a result of declining receipts from both income tax and domestic value added tax (-8.9% and -18.5%, respectively). Tax revenues account for 92.8% of total Nicaraguan government revenues. At the end of the year, total expenditure will be about 20% of GDP, as against 19.5% in 2019. Accrued expenditure in the first half of the year was 17.0% higher than in the same period of the previous year; current expenditure rose by 14.0%, while capital expenditure increased by 28.7%.

Public debt totalled US\$ 7.517 billion at the end of the first half of the year, equivalent to over 60% of GDP, as compared to 57.2% at the end of 2019. External debt, which currently accounts for 85.1% of public debt, stood at US\$ 6.393 billion at the end of June, as compared to the December 2019 figure of US\$ 6.279 billion, representing 88.3% of public debt. The total value of donations received by the public sector between January and August was 4.2% higher than in the same period of 2019; however, it is estimated that donations received over the whole of 2020 will be worth less than half those received in 2017.

Gross international reserves stood at US\$ 2.9076 billion in September 2020, an increase of 21.3% since the end of the previous year; the ratio of gross international reserves to the monetary base was 2.97. At the end of November, the official

Nicaragua: GDP, Inflation and Unemployment, 2018-2020



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

exchange rate stood at 34.77 córdobas to the dollar, giving a nominal depreciation of 2.75% for the year, which was in line with the target of 3.0% nominal annual depreciation set under the regime of mini-devaluations (it should be noted that the central bank has announced a crawling peg rate of 2.0% per year from 1 December 2020). In real terms, the exchange rate depreciated by an average of 1.4% in the third quarter of 2020 relative to the last quarter of 2019.

Between January and September 2020, the average nominal one-month deposit rate (in córdobas) was 2.26%, a decrease from the average rate in the same period of 2019 (2.87%). The average nominal short-term local-currency lending rate was 11.43%, as compared with 12.62% in the same period of 2019. In real terms, the short-term local-currency lending rate averaged 7.14% from January to September, while the one-month deposit rate averaged 1.68%.

At the end of the third quarter, the credit portfolio balance had fallen by 6.3% relative to the balance at the end of the previous year. Regarding the destination of credit, the biggest decrease was in the credit cards item (-13.6%), followed by credit for livestock activities (-12.6%), while only credit to industry showed a positive change in this period (3.7%).

The value of goods exports fell by 6.4% between January and August compared with the same period in 2019, driven by a 20.6% contraction in exports from the free zone regime (due to falling United States demand for the two main export goods of this regime, namely textiles and harnesses). Other goods exports increased by 8.6%. Exports of gold (35.9%) and beef (12.1%) increased particularly strongly. Over the same period, the value of goods imports fell at a year-on-year rate of 8.3%; excluding those of the free trade zone regime, the fall was 2.0%. The contraction was concentrated in raw materials and intermediate goods (-11.6%), mainly because of a drop in the oil bill (-40.3%), while the change for consumer and capital goods was positive (6.7% and 8.6% respectively).

Family remittances to Nicaragua grew by 9.9% year-on-year, taking the cumulative amount for the first 10 months of the year (as against 11.9% for the same period the previous year), despite the contraction in economic activity in the countries of origin. Incoming foreign direct investment in the first half of the year was 43.7% lower than in the same period the previous year, and is expected to close 2020 at its lowest level of recent years.

The fall in GDP slowed in the third quarter, with a year-on-year change of -2.7% (as against -7.5% in the previous quarter), bringing the change for the first three quarters to -2.8%. The activities that recorded the largest cumulative increases in the first three quarters were commerce (5.0%), livestock activities (4.5%), construction (4.2%) and agriculture (4.0%); these increases were offset by significant negative changes in hotels and restaurants (-30.8%), electricity (-17.8%), financial intermediation (-

Nicaragua: main economic indicators, 2018-2020

	2018	2019	2020 ^a
	Annual growth rate		
Gross domestic product	-4.0	-3.9	-4.0
Per capita gross domestic product	-5.1	-5.1	-5.2
Consumer prices	3.4	6.5	2.8 ^b
Real average wage ^c	4.5	-0.5	-1.7 ^b
Money (M1)	0.1	-4.5	26.6 ^d
Real effective exchange rate ^e	0.2	-2.7	-1.1 ^b
Terms of trade ^f	-8.2	3.3	6.7
	Annual average percentage		
Unemployment rate	5.4	5.4	5.1 ^f
Central government			
Overall balance / GDP	-1.9	0.2	...
Nominal deposit rate ^g	1.4	3.1	2.3 ^h
Nominal lending rate ⁱ	10.9	12.5	11.8 ^h
	Millions of dollars		
Exports of goods and services	5 540	5 705	2 679 ^j
Imports of goods and services	6 742	6 240	2 811 ^j
Current account balance	-243	756	577 ^j
Capital and financial balance ^k	-270	-637	-241 ^j
Overall balance	-513	119	335 ^j

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

a/ Estimates.

b/ Figures as of September.

c/ Average wage declared by workers covered by social security.

d/ Figures as of August.

e/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.

f/ The figures in the last column correspond to the measurement of the first semester.

g/ Weighted average 1 deposit rates in local currency up to 1 month.

h/ Figures as of June.

i/ Short-term loans rate, weighted average.

j/ Cumulative figures to the second quarter of 2020.

k/ Includes errors and omissions.

17.5%) and transport and communications (-9.4%). On the expenditure side, total consumption, which has the greatest weight in the composition of GDP, fell by 1.4%, but with private consumption (-2.7%) behaving differently from government consumption (5.0%). Gross capital formation fell substantially (-15.0%), despite the positive change in gross fixed capital formation (1.8%).

Year-on-year inflation in October stood at 2.69% (as against 5.44% in the same month of 2019), while cumulative inflation was 0.86% (as against 4.24% in October 2019). In August, the number of active contributors to the Nicaraguan Social Security Institute (INSS) was 4.3% lower than at the end of the previous year, which means a reduction of 31,158 members. The overall participation rate was down by 4 percentage points in the second quarter of 2020 compared with the second quarter of 2019, to 66.5%, while the open unemployment rate was 5.4% (the same figure as in the same period of 2019). The minimum wage was increased by 2.6% from 1 March.

ECLAC estimates GDP growth of 1.3% for 2021, resulting from consolidation of the recovery in economic activities that were already showing a favourable trend in the second half of 2020, such as agriculture, mining and quarrying, trade, and construction. However, the recovery process will take longer for other activities, such as those related to tourism and the manufacturing export sector. There will be a small fiscal deficit, due to increased public expenditure for the holding of elections and the allocation of greater resources for health care. There is expected to be another current account surplus, but a smaller one than in 2019 or 2020. Inflation should stay in a range of 3% to 4%, while the open unemployment rate should be between 6.5% and 7%.