

NICARAGUA

1. General trends

During a difficult year caused by the coronavirus disease (COVID-19) pandemic, the Nicaraguan economy contracted by 2.0% in 2020: one of the least marked declines in the region. There are several reasons for this. First, the adverse sociopolitical situation that began in April 2018 translated into two consecutive years of economic decline: -3.7% in 2019 and -3.4% in 2018. Because of that, several sectors (such as hotels, restaurants, and construction) had already been hit prior to the pandemic. In addition, the Nicaraguan Government imposed few restrictions on movements and economic activities in order to address the pandemic. Even so, the economy suffered the effects of both the complicated global economic environment and the difficult domestic sociopolitical situation. Towards the last quarter of 2020, the economy was also hit by Hurricanes Eta and Iota. Although the immediate economic impact was slight, it is possible that agricultural output will fall this year.

Year-on-year inflation was 2.6% in December 2020 (6.5% in 2019). Despite supply constraints, weak demand and lower international fuels prices translated into a slowdown in inflation.

The non-financial public sector deficit widened from 1.7% of GDP in 2019 to 2.5% of GDP in 2020, owing mainly to the higher central government deficit as a result of the decline in tax revenue (-2.1% in real terms) and the increased net purchase of non-financial assets (30.2% in real terms), above all in the infrastructural works and construction component. In 2020, as in 2019, the balance of payments current account posted a surplus, in this case equivalent to 7.6% of GDP. The average annual open unemployment rate fell slightly from 5.6% in 2019 to 5.0% in 2020.

The Economic Commission for Latin America and the Caribbean (ECLAC) expects the Nicaraguan economy to grow 2.5% in 2021, following three consecutive years of contraction, although a return to pre-pandemic growth rates is unlikely. The global economic recovery, especially in the United States, will bolster Nicaragua's GDP, particularly free-trade zone activities, traditional exports, and remittances. By May 2021, exports and remittances recorded significant year-on-year growth of 27.5% and 26.0%, respectively. However, the presidential elections scheduled for November add a level of uncertainty to the projection, given that social and political polarization may impede full recovery and stability in the country.

Inflation at the end of 2021 is expected to be approximately 4.5%, an increase compared to 2020, as a result of the recovery of private investment, higher international energy and raw materials prices, and increased public expenditure. The non-financial public sector deficit is expected to widen significantly, to around 6% of GDP, given that most of the expenditure to address the pandemic, to roll out vaccination and to assist communities hit by the hurricanes is being incurred in 2021. The current account is projected to record a surplus of around 5% of GDP, as a result of increased exports and remittances partly offset by an increase in imports.

2. Economic policy

(a) Fiscal policy

Amendments to the Tax Coordination Act and to the Regulations to the Social Security Act, in effect since 2019, allowed for some breathing space for Nicaragua's public finances in 2020. Nevertheless, the financial situation of the Nicaraguan Social Security Institute (INSS) continues to worsen, and the institution ended 2020 with a financial deficit of 3.598 billion córdobas, exceeding the 2.710 billion deficit reported in 2019. As a result of the sociopolitical crisis and associated economic downturn, the INSS lost 18% of its members between the end of 2017 and March 2021, despite having recovered members since August 2020.

Fiscal policy played a limited role in dealing with the economic crisis triggered by the pandemic in 2020. Total central government revenue fell by 1.7% in real terms to the equivalent of 18.6% of GDP (19.0% of GDP in 2019). Tax revenue fell by 2.1% in real terms to the equivalent of 17.2% of GDP.

In 2020, central government expenditure fell by 0.2% in real terms to 16.5% of GDP. The decline was mainly caused by lower employee wages (-2.1% in real terms), and a drop in the purchase of goods and services (-4.4% in real terms). The central government posted a primary fiscal deficit equivalent to -0.2% of GDP, having registered a surplus of 0.9% of GDP in 2019.

Nicaragua received US\$ 830 million in international financing in 2020, the Central American Bank for Economic Integration (CABEI) being the main creditor, lending US\$ 322 million. The total public debt at the end of 2020 increased to US\$ 8.719 billion (64.8% of GDP in 2020, compared to 56.8% in 2019), as a result of the decline in GDP as well as the newly contracted debt. Of that total public debt, 85% was external debt and 15% domestic debt.

The Nicaragua Human Rights and Anticorruption Act, better known as the NICA Act, promulgated by the United States Congress in December 2018, may hamper the country's access to international finance. No major impediments were registered in 2019 and 2020, largely because multilateral organizations had already approved financing and because the country had received specific financing to address the pandemic and the impacts of the hurricanes.

By May 2021, central government revenue posted year-on-year growth of 22.2%, thanks to the notable increase in tax revenue; specifically, direct taxes (on income, profits, and capital gains), and taxes on goods and services transactions. Central government expenditure rose 4.4% year-on-year in real terms, financed in part by disbursements of multilateral funds. At the end of April 2021, total external debt had grown 2% over the figure for the end of 2020.

Central government expenditure is expected to increase in 2021, owing to the purchase of both COVID-19 vaccines and cold chain equipment and to the need to mitigate the effects of the hurricanes. This year, when the country is likely to require approval of new loans, the restrictions imposed by the NICA Act could have a more severe impact. Moreover, in June 2021, the United States Senate Committee on Foreign Relations passed the bill calling for reinforced Nicaraguan adherence to the terms of the electoral reform (Ley Renacer). Provisions in this law include increased supervision of loans from international financial institutions and coordination of sanctions with Canada and the European Union. In addition, the law urges the Government of the United States to review Nicaragua's ongoing participation in the Central American Free Trade Agreement (CAFTA). Its entry into force is subject to Senate and congressional approval and signing by the President.

(b) Monetary policy and exchange-rate policy

The Central Bank of Nicaragua adopted an expansionary monetary policy stance in 2020. On ten occasions throughout the year, it adjusted the monetary repo reference rate, cutting it by a total of 375 basis points, from 7.50% to 3.75%. In line with this expansionary strategy, monetary aggregates and base money recorded two-digit growth rates.

The annual average interest rate fell in 2020, compared to 2019. In nominal terms and in local currency, the average short-term lending rate was 11.3% (12.5% in 2019), while the one-month deposit rate was 2.1% (3.1% in 2019). In real terms, the local currency short-term lending rate increased to 6.4%, while the one-month deposit rate was -1.5%.

In December 2020, the gross loan portfolio closed the year at 127.645 billion córdobas, a year-on-year decline of 3.6%. The annual decline was below that recorded in 2019. However, even though there are no signs of a liquidity shortage, both banks and applicants are being precautionary in granting or requesting loans. Between March 2018 (prior to the start of the sociopolitical crisis) and March 2021, the loan portfolio fell by 25.7%, which translates into a loss of 707,432 loans.

At the end of 2020, the official exchange rate was 34.84 córdobas to the dollar (33.84 córdobas in 2019), in line with the annual nominal depreciation target of 3%. The real terms average exchange rate depreciated by 1.2% in 2020 (1.4% in 2019). It should be noted that the Central Bank of Nicaragua announced a crawling peg rate of 2.0% per year from 1 December 2020.

At the end of 2020, gross international reserves totalled US\$ 3.212 billion (net international reserves: US\$ 3.074 billion), US\$ 815 million more than in December 2019 and equivalent to 2.6 times the monetary base and 8.4 months of imports.

The Central Bank of Nicaragua continued its expansionary stance in 2021. In early March, it reduced the monetary repo reference rate by 25 basis points to 3.5% and, in May, reported that it would leave it at that level. The downward trend in the average nominal one-month deposit rate (in córdobas) registered in 2020 continued in the first half of 2021 and stood at 1.0% in June. The local currency short-term lending rate fell to 9.3% in the same month.

In line with the new pre-announced devaluation rate, on July 31, 2021, the official exchange rate stood at 35.23 córdobas to the dollar, a 1.17% change in nominal terms. In the first months of 2021, international reserves continued to increase. On June 30, gross international reserves totalled US\$ 3.612 billion (US\$ 400 million more than in December 2020) and were equivalent to 3.4 times the monetary base.

3. The main variables

(a) The external sector

In 2020, the balance of payments current account recorded a surplus equivalent to 7.6% of GDP (6.0% in 2019). This higher surplus was above all the result of two factors: (i) higher remittance flows, which, despite the pandemic, increased by 10% over the figure for 2019 and were equivalent to 14.7% of GDP; and (ii) improved terms of trade (2.4%), owing to the drop in the average price of imports (such as oil) and some higher export prices (mainly gold). The goods and services trade deficit was US\$ 599 million in 2020 (US\$ 537 million in 2019), amounting to 4.7% of GDP.

Goods exports (excluding the free trade zone) recorded annual growth of 5.8% in 2020. Beef (3.7%), gold (33.6%) and beans (50%) were among the main export products that registered a positive growth rate in the year. In the case of gold, the increase was explained primarily by the higher price (a year-on-year increase of 25%), while in the case of beans the increase was owed to larger export volumes (30%).

Free trade zone exports, which account for 46% of total exports, fell by 14.7%, with most of the decline occurring in the second and third quarter. The steepest declines were in textiles (-55%) and electrical harnesses (-90%), owing to lower demand from the United States economy, the major destination for exports from Nicaragua.

Services exports fell by 31.3% in 2020, largely due to reduced income from travel services (-61.5%). It was the third consecutive year of decline in this services account item, following the negative impact of the sociopolitical crisis in the two years prior.

Not counting free trade zone operations, imports of goods measured free on board (FOB) increased slightly (1.4%) in 2020 (-9.9% in 2019). Imports of consumer goods rose by 5.9%, intermediate goods by 10.0%, and capital goods by 19.3%. Oil and fuel imports dropped by 29.5%, as a result of the lower international price for these commodities. Free trade zone imports fell by 19.9%.

Foreign direct investment (FDI) inflows plummeted from US\$ 1.035 billion in 2017 to US\$ 182 million in 2020. The sociopolitical situation since April 2018 and, specifically in 2020, the pandemic, explain the reduction in FDI flows to Nicaragua.

In the first five months of 2021, exports (excluding the free trade zone) grew 16.4% over the prior-year period, thanks mainly to increased gold exports (58.6%). The increase stemmed from both the higher price (up on average by 5.9% year-on-year in the first four months) and an even larger uptick in volume (49.3%). Free trade zone exports grew by 43.6% year-on-year in the first five months of 2021, driven by increased sales of textiles (31.4%), electrical harnesses (94.3%) and tobacco (53.2%). Imports (FOB, excluding the free trade zone) posted a 34.8% year-on-year increase through May, mainly as a result of higher imports of consumer goods (18.6%), oil and other fuels (52.6%) and capital goods (75.9%). The trade deficit (FOB, excluding the free trade zone) in the first four months of 2021 was 87.1% wider than the year-earlier period, in part because of higher international oil prices, but also because of the increase in other imports driven by economic recovery.

Family remittances recorded a 26.0% year-on-year increase in the first five months of 2021 thanks to favourable trends in the United States economy and cash transfers made to residents in that country.

Exports and remittances are projected to continue to grow in the rest of 2021, thanks to the dynamism expected in the United States economy. Imports are also projected to increase, compared to 2020, in response to more robust domestic demand, but also owing to higher oil prices. Thus, the current account deficit is expected to post another surplus, albeit one that is lower than that registered in 2020.

(b) Economic activity

The economic sectors that performed best in 2020, despite the pandemic, were construction (11.7%) and trade (4.9%). Those two sectors had plummeted in the two previous years as a result of the sociopolitical crisis and recovered in the first quarter of 2020 (prior to the pandemic) and in the fourth quarter of 2020. Mining (3.3%), livestock activities (1.6%) and agriculture (1.0%) posted growth, albeit at lower rates than in 2019. The greatest declines were in hotels and restaurants (-32.5%) and energy.

On the expenditure side, consumption fell by 0.1% in 2020 (-1.1% in 2019). Private consumption contracted by 0.7%, but government expenditure expanded by 4.6%. Gross fixed capital formation grew by 10.2%, after falling by 22.0% and 25.1% in 2018 and 2019, respectively. That growth was driven by public fixed investment, which increased by 21.2%, while private fixed investment grew by 3.2%. Exports of goods and services fell by 8.8% and imports were up by 1.0%.

Nicaragua's GDP grew by 3.4% year-on-year in first quarter of 2021. On the expenditure side, consumption rose by 2.4% over the previous quarter, thanks to the recovery of government consumption quarter-on-quarter and the recovery of private consumption, following three consecutive quarterly declines. Gross capital formation increased by 6.9%, driven by fixed government investment (34.9%). Both exports (-0.8%) and imports (-0.1%) fell, mainly as a result of declines in the sale of services. On the production side, GDP growth was driven primarily by the increase in mining and quarry activities (27.7%), construction (25.0%), and manufacturing (8.6%), while hotel and restaurant activities contracted again (-22.4%).

During the remaining months of 2021, construction is expected to continue recovering, thanks to increased public investment. The tourism sector could gradually pick up in the second half of the year, depending on both progress with vaccination abroad and the sociopolitical situation in the run-up to elections. Given the pace of investments, the mining sector, gold especially, is projected to continue experiencing high growth rates.

(c) Prices, wages and employment

Year-on-year inflation (December–December) was 2.6% in 2020, less than half of 2019 levels (6.5%). This largely reflected the decline in international energy prices. The largest price increases were seen in alcoholic beverages, tobacco, health and education.

The open unemployment rate averaged 5.0% in 2020 (5.6% in 2019). The average overall participation rate fell for the third consecutive year, from 71.0% in 2019 to 69.0% in 2020 (80.6% for men and 58.7% for women). In 2017, prior to the sociopolitical crisis, the participation rate had stood at 73.5%. The decline was more marked for women (-2.3 percentage points) than for men (-1.7 percentage points). In 2020, the share of employed persons in underemployment stood at 45.8% on average (47.5% in 2019).

For 2020, the average annual salary increased by approximately 0.5% in nominal terms compared to 2019. However, in real terms, it fell (by about -3%). In March 2020, the minimum wage increased by 2.63% and by 3% in March 2021.

In June 2021, year-on-year inflation stood at 3.9%, while year-on-year core inflation was 4.7%. The consumer price index was trending up as of December 2020, driven by the higher international oil price and the effects of the 2019 tax reform, which is still impacting prices in 2021, especially in the case of sweetened beverages, cigarettes and alcoholic beverages.

In the first five months of 2021, the number of persons insured in the INSS increased by 37,300, or 5.2%, compared to the end of 2020, above all thanks to an increase in formal employment in manufacturing.

Table 1
NICARAGUA: MAIN ECONOMIC INDICATORS

	2012	2013	2014	2015	2016	2017	2018	2019	2020 a/
	Annual growth rates b/								
Gross domestic product	6.5	4.9	4.8	4.8	4.6	4.6	-3.4	-3.7	-2.0
Per capita gross domestic product	5.1	3.5	3.4	3.4	3.2	3.3	-4.6	-4.9	-3.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-0.4	-2.1	2.1	-0.7	4.8	9.2	1.0	3.0	0.9
Mining and quarrying	10.9	22.4	0.4	-0.3	8.2	-7.5	7.7	17.5	3.3
Manufacturing	10.2	6.5	7.6	1.0	3.7	2.9	1.5	-0.3	-2.3
Electricity, gas and water	19.3	21.4	11.7	1.9	1.3	-3.9	3.5	-1.3	-15.5
Construction	27.1	11.0	1.8	25.4	-1.4	8.6	-13.7	-34.5	11.7
Wholesale and retail commerce, restaurants and hotels	7.2	3.6	3.6	5.7	5.1	7.2	-11.2	-4.3	-4.0
Transport, storage and communications	6.0	5.4	4.3	7.7	7.1	5.8	-6.6	-8.9	-7.6
Financial institutions, insurance, real estate and business services	2.4	5.1	6.1	4.7	5.6	3.9	-3.3	-10.1	-5.4
Community, social and personal services	5.0	5.4	5.9	4.2	5.0	3.4	-0.3	-1.6	-0.8
Gross domestic product, by type of expenditure									
Final consumption expenditure	4.1	4.1	4.5	5.3	6.1	2.5	-4.2	-1.1	-0.1
Government consumption	4.1	5.4	6.0	6.3	8.2	1.6	-2.3	1.1	3.1
Private consumption	4.1	3.8	4.2	5.2	5.7	2.7	-4.6	-1.5	-0.9
Gross capital formation	5.6	3.5	-0.4	22.3	-0.3	1.2	-25.1	-29.6	14.7
Investment and saving c/	Percentages of GDP								
Gross capital formation	31.0	30.9	28.9	33.5	31.2	29.9	24.1	17.7	19.2
National saving	19.3	18.3	20.9	23.6	22.7	22.8	22.3	23.6	26.8
External saving	11.7	12.6	8.0	9.9	8.5	7.2	1.8	-6.0	-7.6
Balance of payments	Millions of dollars								
Current account balance	-1 235	-1 380	-954	-1 260	-1 127	-987	-234	754	958
Goods balance	-2 290	-2 235	-2 143	-2 514	-2 497	-2 370	-1 604	-1 056	-928
Exports, f.o.b.	3 919	3 879	4 176	3 873	3 795	4 180	4 197	4 341	4 396
Imports, f.o.b.	6 210	6 114	6 319	6 388	6 292	6 549	5 802	5 397	5 324
Services trade balance	162	20	187	229	392	527	411	519	329
Income balance	-416	-534	-448	-489	-634	-712	-652	-466	-364
Net current transfers	1 310	1 369	1 450	1 515	1 612	1 567	1 611	1 758	1 920
Capital and financial balance d/	1 220	1 476	1 236	1 457	1 070	1 287	-279	-635	-51
Net foreign direct investment	712	815	983	922	924	971	763	444	143
Other capital movements	507	661	253	535	147	316	-1 041	-1 079	-193
Overall balance	-15	96	282	197	-57	300	-513	119	907
Variation in reserve assets e/	15	-96	-282	-197	57	-300	513	-119	-907
Other financing	0	0	0	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	103.8	100.4	98.9	91.1	91.4	95.4	95.6	93.0	91.9
Terms of trade for goods (index: 2010=100)		98.4	98.3	115.8	114.7	112.2	103.0	106.5	123.5
Net resource transfer (millions of dollars)	804	942	788	968	436	575	-931	-1 101	-414.0
Gross external public debt (millions of dollars)	8 957	9 677	10 134	10 548	11 054	11 551	11 703	11 763	12 040.4
Employment g/	Average annual rates								
Labour force participation rate	76.8	75.8	74.0	72.4	73.6	73.5	71.7	71.1	69.1
Open unemployment rate	5.9	5.8	6.6	5.9	4.5	3.7	5.4	5.4	5.0

Table 1 (concluded)

	2012	2013	2014	2015	2016	2017	2018	2019	2020 a/
Prices	Annual percentages								
Variation in consumer prices (December-December)	7.1	5.4	6.4	2.9	3.1	5.8	3.4	6.5	2.6
Variation in industrial producer prices (December-December)	3.3	5.1	6.6	2.8	1.3	8.5	-1.7	...	...
Variation in nominal exchange rate (annual average)	5.0	5.0	5.0	5.0	4.8	5.2	5.4	5.1	3.5
Variation in average real wage	0.3	0.3	1.7	2.6	2.3	1.5	4.5	-0.5	-2.0
Nominal deposit rate h/	1.0	1.0	1.0	1.0	1.1	1.3	1.4	3.1	2.1
Nominal lending rate i/	12.0	15.0	13.5	12.0	11.4	10.9	10.9	12.5	11.2
Central government	Percentages of GDP								
Total revenue	17.6	17.2	17.5	17.7	18.5	18.7	17.6	19.6	19.1
Tax revenue	15.0	15.0	15.3	15.6	16.2	16.6	15.7	17.5	17.2
Total expenditure	17.1	17.1	17.7	18.3	19.1	19.3	19.6	19.3	20.1
Current expenditure	13.2	13.0	13.3	13.3	14.1	14.1	14.5	15.2	15.1
Interest	1.0	0.9	0.9	0.9	1.0	1.1	1.1	1.3	1.3
Capital expenditure	3.9	4.2	4.4	5.0	5.0	5.2	5.0	4.1	5.1
Primary balance	1.5	1.0	0.6	0.3	0.4	0.5	-0.8	1.6	0.2
Overall balance	0.5	0.1	-0.3	-0.6	-0.6	-0.6	-1.9	0.3	-1.0
Central government public debt	31.2	30.8	30.2	29.9	31.2	34.0	37.6	42.3	50.0
Domestic	8.3	6.8	6.0	5.3	5.1	4.9	5.0	5.3	6.0
External	23.0	24.1	24.1	24.6	26.1	29.2	32.6	37.0	44.1
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	34.1	36.7	34.2	35.9	37.0	37.7	34.2	28.1	23.4
To the public sector	17.2	16.7	13.0	11.0	10.7	8.7	9.7	9.8	8.2
To the private sector	28.7	31.9	33.9	36.9	39.6	42.7	38.5	32.4	30.0
Others	-11.9	-11.8	-12.7	-11.9	-13.6	-13.7	-14.0	-14.2	-14.8
Monetary base	7.7	7.5	7.6	8.5	7.7	8.0	7.3	8.4	10.1
Money (M1)	7.6	7.9	7.9	8.8	8.4	8.7	7.6	9.0	10.8
Foreign-currency deposits	27.8	30.3	30.8	32.2	32.6	33.3	26.8	27.0	29.4

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.

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

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

Table 2
NICARAGUA: MAIN QUARTERLY INDICATORS

	2019				2020				2021	
	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/	-9.0	-3.8	-3.0	1.2	1.2	-6.4	-0.9	-1.9	3.4	...
Gross international reserves (millions of dollars)	1 968	1 974	1 995	2 133	2 280	2 507	2 632	2 816	3 111	3 337 c/
Real effective exchange rate (index: 2005=100) d/	92.5	93.5	92.8	93.5	93.5	90.4	91.8	91.8	92.2	92.1 c/
Open unemployment rate e/	6.0	5.4	5.4	4.9	4.8	5.4	4.8	4.8	4.9	...
Employment rate e/	67.4	66.7	66.7	68.0	67.5	62.9	65.0	67.1	66.1	...
Consumer prices (12-month percentage variation)	4.7	5.5	5.7	6.5	4.6	3.8	2.8	2.6	4.2	4.1
Average nominal exchange rate (córdobas per dollar)	32.7	33.1	33.5	33.8	34.1	34.2	34.7	34.8	35.0	35.1
Nominal interest rates (average annualized percentages)										
Deposit rate f/	3.5	2.4	2.7	3.7	3.7	2.0	2.1	1.8	2.3	1.6
Lending rate g/	12.5	13.3	12.0	12.0	12.0	12.0	10.7	10.4	10.3	9.5
Interbank rate	...	...	...	...	...	...	...	...	...	...
Domestic credit (variation from same quarter of preceding year)	-14.0	-20.9	-24.0	-19.7	-15.1	-12.0	-7.4	-9.2	-12.9	-10.0

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/ Nationwide total.

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

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

h/ Figures as of April.