Nicaragua

The Economic Commission for Latin America and the Caribbean (ECLAC) estimates that Nicaragua will post GDP growth of 7.4% for 2021 (as compared to -2% in 2020). This projection is based on the solid expansion of external demand (particularly from the United States, where economic activity is surging), which is driving activity in the free trade zones, along with traditional exports and remittances. The low levels of the comparators, owing to the contraction of Nicaragua's economy in 2018–2020, are also a factor.

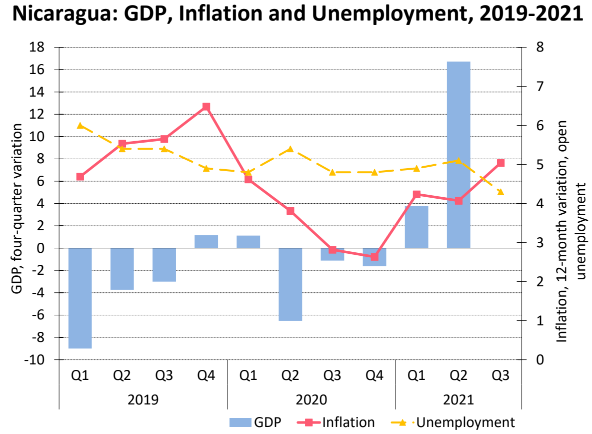
The 6.0% inflation rate (versus 3.7% in 2020) is primarily attributable to the upswing in international commodity prices. In September 2021, the number of persons registered with the Nicaraguan Social Security Institute (INSS) reached and then surpassed its pre-pandemic level. The Central Bank of Nicaragua has forecast that, by the end of the year, the non-financial public sector's deficit (net of grants and donations) will come to 4.6% of GDP (well over the 2.6% of GDP posted in 2020) owing to increased expenditure, including public-sector investment. The central bank also estimates that the current account on the balance of payments will close out the year with a surplus equivalent to 2.7% of GDP, which is far lower than the 5.9% surplus recorded in 2020 owing to a sharp rise in imports.

Total central government revenues exhibited year-on-year growth in real terms of 25.2% in the first nine months of 2021, with this increase being driven in large part by a 23.3% jump in tax receipts. The largest sources of those revenues —the income tax, value added tax and excise taxes— were up sharply, with real year-on-year increases of 19.8%, 29.7% and 18.1%, respectively, thanks to the recovery of economic activity and upswings in consumption and imports. Total year-on-year central government expenditure climbed by 17.9% in real terms between January and September. The categories in which the increase was the steepest were capital expenditure and, in particular, direct investment (55.4%), especially in production infrastructure.

At the close of 2020 the total non-financial public sector's debt (US$ 8.179 billion) was equivalent to 64.8% of GDP. In the first nine months of 2021, it rose by 13.5% to US$ 9.287 billion. During this same period, the external debt declined from 85.1% of the total debt to 82.0% as a result of the government's placement of bond issues on the national market.

In 2021, monetary policy continued to reflect the expansionary position adopted by policymakers in 2020. In the first quarter, the Central Bank of Nicaragua lowered the repo reference rate by 50 base points to 3.50%. This expansionary policy helped to bring down interest rates on the financial market. Between January and October 2021, the average nominal monthly rate on deposits (in córdobas) was 1.6%, down from the average 2.2% rate for the same period in 2020. The average nominal short-term lending rate in córdobas was 9.6% (11.3% for the corresponding period the year before). In real terms, the January–

Nicaragua: GDP, Inflation and Unemployment, 2019-2021



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

October average monthly rate on córdoba-denominated deposits was -2.8%, while the short-term rate on loans was 5.0%.

In November 2021, gross international reserves totalled US$ 4.001 billion (2.8 times the monetary base), which was a 24.6% increase over the year-end figure for 2020. This expansion was brought about by the additional deposits made by the government of funds received from disbursements from international organizations and other Central Bank income. At the end of November, the official exchange rate was 35.5 córdobas to the dollar, for a nominal variation in the year of 1.83%, which was in line with the 2.0% target for the nominal annual depreciation rate set under the government's system of preannounced mini-devaluations. In real terms, the exchange rate exhibited an average depreciation of 2.3% in the third quarter of 2021 relative to its level in the final quarter of 2020.

In July, the banking system's total private-sector loan portfolio came to 128,214,000,000 córdobas, which was a slight year-on-year increase of 3.1%. The expansion of credit for commerce (9.4%) and credit cards (7.5%) was especially notable.

Nicaragua: main economic indicators, 2019-2021

	2019	2020	2021 [a]
	Annual growth rate		
Gross domestic product	-3.7	-2.0	7.4
Per capita gross domestic product	-4.9	-3.1	6.2
Consumer prices	6.5	2.6	5.0 [b]
Real average wage [c]	-0.5	-1.0	0.2 [d]
Money (M1)	-4.5	29.5	25.9 [e]
Real effective exchange rate [f]	-2.7	0.0	4.6 [d]
Terms of trade [f]	3.4	16.0	-6.2
	Annual average percentage		
Unemployment rate	5.4	5.0	5.0 [d]
Central government			
Overall balance / GDP	0.3	-1.0	...
Nominal deposit rate [g]	3.1	2.1	1.7 [e]
Nominal lending rate [h]	12.5	11.2	9.8 [e]
	Millions of dollars		
Exports of goods and services	5 714	5 339	6 055
Imports of goods and services	6 252	5 938	7 306
Current account balance	754	739	406
Capital and financial balance [i]	-635	168	...
Overall balance	119	907	...

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

In the first nine months of 2021, total goods exports were 28.9% above their level during the same period of the year before thanks to the momentum provided by the 38.5% upturn in exports of goods from the country's free trade zones. The performance of textile exports (28.8%) and wiring harness exports (75.4%) were especially robust owing to greater demand from the United States. Other merchandise exports rose by 21.2%, mainly as a result of the expansion of export volumes (19.6%), with gold (36.7%) and beef (27.6%) making particularly strong showings. Goods imports (c.i.f.) jumped by a year-on-year rate of 40.5% up to September: imports of consumer goods climbed by 22.8%, imports of capital goods by 69.9% and imports of inputs by 40.3%. Oil and fuel imports were up by 65.0%.

The 16.0% increase in family remittances for January–September 2021 (for a total of US$ 1.557 billion) was chiefly driven by the recovery of the United States economy. Inflows of foreign direct investment (FDI) amounted to US$ 578 million in the first half of the year, for a year-on-year growth rate of 180.2%, thanks to a hefty investment in a natural gas plant and investments in the mining industry, particularly gold mining.

In the third quarter of 2021, year-on-year GDP growth came to 9.7%, following on growth rates of 3.7% in the first quarter and 17.0% in the second, for an overall rate of 9.9% for the first three quarters of the year. Economic activity was buoyed by almost all sectors of the economy except for some services, such as financial services and the "other services" category, where the level of activity dipped slightly. The strongest performers up to September were mining (432%), construction (40.7%), commerce (17.3%) and manufacturing (14.7%). In terms of spending levels, consumption rose by 7.6%

in the first three quarters, while gross domestic investment surged by 37.8%, with both private investment (39.8%) and public investment (39.5%) contributing to its robust performance.

In November 2021, the year-on-year inflation rate came to 7.1%, mainly as a consequence of international price pressures. The categories where prices jumped the most were transport (16.4%), food and non-alcoholic beverages (10.2%) and recreation and culture (7.0%).

A total of 774,000 economically active persons were registered with INSS as of November 2021, which meant that the social security institution recovered all the members it had lost during the pandemic (around 50,000 people). The labour market still bears the marks of the political and social crisis that first erupted in 2018, however: at the end of 2017, INSS had 914,000 members. The open unemployment rate remained fairly steady in 2020 and 2021: it was nearly 5% in 2020 and 4.3% in the third quarter of 2021. The variation in the overall labour market participation rate was somewhat larger, however, as it fell from 70.9% in the first quarter of 2020 to 66.5% in the third quarter and closed out the year at 70.6%. Despite the fact that the economy rebounded in 2021, the rate declined again in the second quarter of 2021 to 66.5%, and it remained virtually flat in the third quarter (66.6%). In October, real wages in the formal sector of the economy were down by 5.7% year on year, mainly because of the uptick in inflation. The minimum wage was raised by 3% on 1 March.

ECLAC projects 2.0% GDP growth for the country in 2022. This substantial reduction relative to the 2021 growth rate is attributable to the fact that the United States economy is expected to grow more slowly and to lower public investment levels than in 2021, as well as the fading of the effect of having a lower basis for comparison. Lower investment and lower current expenditure levels in connection with the pandemic will be reflected in a smaller fiscal deficit than in 2021. At a projected level of around 2.5% of GDP, the current account is expected to register a surplus similar to the one posted in 2021. Inflation should ease in 2022, as international commodity prices are expected to climb more slowly. The open unemployment rate is projected to remain around 5%. Yet the projections for 2022 are subject to a great deal of uncertainty, as the outcome of the November elections could have a strong impact on the economy's performance.