

## Nicaragua

According to ECLAC estimates, Nicaragua's grew 3% in 2008, which is 0.3 percentage points lower than the figure for 2007. Although exports remained buoyant (having expanded by 19%), the current account deficit is expected to widen to the equivalent of 26% of GDP as a result of the even greater increase in imports (24%). The fiscal deficit of the central government after grants should widen to represent 1.3% of GDP. Inflation closed the year at around 15%.

The country's economic performance was negatively affected by a surge in the prices of food, fuel and raw materials, which reduced available income and pushed up imports significantly. On the other hand, the impact of adverse factors was mitigated by the rise in public spending and the international aid received in the context of the Bolivarian Alternative for Latin America and the Caribbean (ALBA). Municipal elections were held on 9 November. The periods prior to, during and following the elections were marked by disputes among the various political and social stakeholders.

In 2009, the Nicaraguan economy will be impacted by slower world economic growth, particularly in the United States. According to ECLAC forecasts, GDP will grow by 2%, in the light of slower export growth and lower remittances and foreign direct investment (FDI). Although the growth rate of inflation will fall as a result of reduced pressure from international food and fuel prices, inflation will remain in double figures.

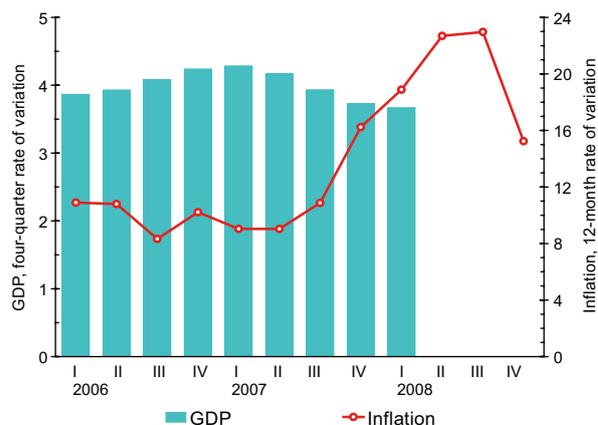
Total central government outlays in 2008 climbed by around 8% in real terms. The significant increase in expenditure was due to investment to rebuild infrastructure in the wake of hurricane Felix and the torrential rains in the north west of the country, higher social spending (on education, health and housing) and the cost of organizing the municipal elections. In addition, the central government also used non-recurring expenditure to tackle the rise in international prices by introducing electricity and fuel subsidies and purchasing food to stabilize prices and strengthen supply networks.

Total central government revenues improved by around 0.5% in real terms. Despite higher receipts thanks to the introduction of new auditing software, the increase in revenues was limited by the reduction or temporary suspension of

the import tariffs on various products (including edible oils, beans, pasta and barley), designed to offset the impact of rising international food prices. The fiscal budget of the central government does not include the hundreds of millions of dollars in aid estimated to have been received through the cooperation of the Bolivarian Republic of Venezuela, estimated at several hundreds of millions of dollars, and the use made of those funds has not been disclosed either. In 2009, the fiscal budget could come under pressure as a result of reductions in international cooperation following friction that has arisen between the donor community and the Government of Nicaragua.

In 2008, monetary policy generally continued to feature the measures that had been in place throughout 2007. The effectiveness of monetary policy remained

NICARAGUA: GDP AND INFLATION



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

somewhat compromised by the high level of dollarization of the economy.<sup>1</sup> The legal reserve requirement was maintained at 16.25%, while the nominal deposit rate for local currency deposits remained relatively stable throughout the year (at levels close to 6.5%). The nominal lending rate in national currency also remained largely the same during the year, with an annual average of nearly 13%. The real lending rate was in negative figures, which fostered an expansion of domestic credit (about 26% higher than in 2007). In 2008, the authorities continued with their policy of pre-announced mini-devaluations at an annual rate of 5%, as an anchor for inflationary expectations. Owing to the difference in inflation with the United States, the real bilateral exchange rate appreciated by around 8%. With a view to supporting the foreign-exchange regime, the central bank continued to accumulate net international reserves, although at a slower pace than in 2007.

As far as trade policy is concerned, negotiations were ongoing towards an Agreement of Association between Central America and the European Union. In 2008, five rounds of talks were held, with a view to concluding negotiations in 2009. In January, the agreement with Taiwan Province of China entered into force. The Government of Nicaragua has also been seeking closer political and economic ties with the Islamic Republic of Iran and the Russian Federation.

In 2008, economic activity maintained the trend of slower growth that had begun in mid-2007. Private consumption suffered the effects of rising inflation. In contrast, external demand and fixed gross investment grew more quickly than in 2007 (the latter thanks to increased public spending). The agricultural sector picked up considerably (with growth of almost 7% compared with 1.4% in 2007), thanks to the recovery of production following the adverse climatic conditions in 2007, rising international food prices and the positive phase of the biannual coffee cycle. The growth rate of the manufacturing industry slowed down (with growth of around 4%, compared with 7.6% in 2007), as a result of weaker external demand.

December-to-December inflation, measured through variation in the consumer price index, stood at around 15% (16.9% in 2007). Year-on-year inflation in August reached a record 23.9%, before decreasing in the last few months of the year amidst falling international food and fuel prices. The sectors that posted the largest price increases in 2008 were food and beverages and transport.

The balance-of-payments current account deficit widened from 18.3% of GDP in 2007 to around 26% of

## NICARAGUA: MAIN ECONOMIC INDICATORS

	2006	2007	2008 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	3.9	3.8	3.0
Per capita gross domestic product	2.5	2.4	1.7
Consumer prices	10.2	16.2	15.2 <sup>b</sup>
Average real wage	1.4	-1.8	-5.1 <sup>c</sup>
Money (M1)	17.5	23.6	15.5 <sup>d</sup>
Real effective exchange rate <sup>e</sup>	-1.2	2.1	-4.5 <sup>f</sup>
Terms of trade	-2.4	-1.0	-3.6
<b>Annual average percentages</b>			
Urban unemployment rate	7.0	6.9	...
Central government			
overall balance / GDP	0.0	0.6	-0.8
Nominal deposit rate	4.9	6.1	6.5 <sup>g</sup>
Nominal lending rate	11.6	13.0	13.1 <sup>g</sup>
<b>Millions of dollars</b>			
Exports of goods and services	2 375	2 685	3 168
Imports of goods and services	3 928	4 673	5 798
Current account	-679	-1 048	-1 750
Capital and financial account	740	1 140	1 802
Overall balance	62	92	52

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to November 2008.

<sup>c</sup> Estimate based on data from January to September.

<sup>d</sup> Twelve-month variation to October 2008.

<sup>e</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>f</sup> Year-on-year average variation, January to October.

<sup>g</sup> Average from January to October, annualized.

GDP in 2008, owing to worsening terms of trade: the oil bill rose by around 58%, while imports of raw materials and intermediate goods for agriculture and construction increased by 19% and 57%, respectively.

Merchandise exports and remittances expanded more significantly than in 2007 (by around 19% and 7%, respectively). The slower world economic growth did have an effect on these items in the last few months of 2008. Traditional exports increased substantially (by around 19%, compared with 4.4% in 2007), as coffee, sugar and meat exports soared in a context of higher international prices and better weather conditions than in 2007. Exports from free zones expanded by about 11%, in a continuation of the slowdown observed in the last three years. Flows of FDI represented approximately US\$ 400 million, or 5% more than in 2007. The pressure on the balance of payments in 2009, due to reduced inflows of remittances and FDI, could be partially offset by a lower import bill, caused by falling international prices for fuel and other raw materials.

<sup>1</sup> In 2008, approximately 65% of the broad money supply (M3) was in the form of deposits in United States dollars.