

Nicaragua

According to ECLAC estimates, economic growth in 2011 will be close to 4.5%, owing to a slackening of external demand associated with the faltering economic recovery in the United States. Inflation is expected to reach 8% (7.9% to November 2011). The central bank has announced that it will hold its nominal crawling peg exchange-rate policy at an annual 5% depreciation, which could result in a current account deficit of around 16% of GDP.

In October 2011 the seventh review under the Extended Credit Facility from the International Monetary Fund (IMF) was completed and the final tranche (US\$ 8.74 million of a total of around US\$ 122 million) was disbursed.

The fiscal reform undertaken in late 2009 came fully into effect in 2011. To September 2011, tax revenue increased by 25.9% year-on-year, thanks to a surge of 32.6% in income tax receipts and 30.2% in VAT receipts. Revenues from services provided by State-owned companies were also up, although not by the same margin (9.8% year-on-year to September 2011). As a result, total non-financial public sector revenue rose by 22.6% to September 2011.

Total expenditure increased year-on-year by 22.3%. To December the central government deficit including grants is expected to stand at 0.1% of GDP; excluding grants, it is forecast to be 2.2% of GDP.

The government has used some of the extraordinary revenue generated by its fiscal reform to pay down public debt. At end September 2011, public debt represented 73.2% of GDP, 5.3 percentage points lower than the figure recorded in December 2010. This may fall a bit further by year-end 2011 as a result of the government's policy of using additional tax revenue to pay debt.

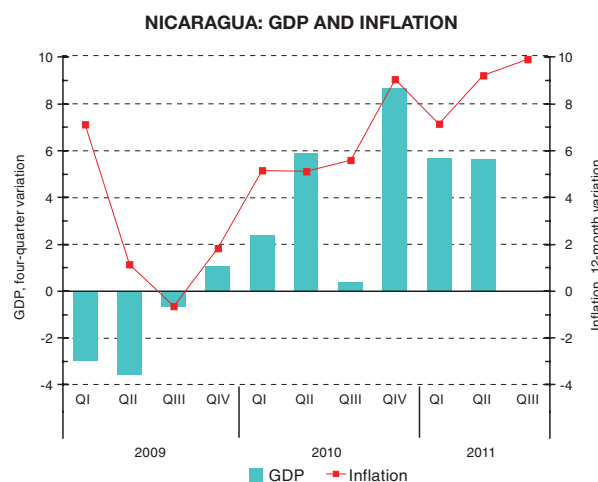
With regard to external cooperation, the Bolivarian Republic of Venezuela continues to be an important source of funding. In June 2011 this stood at US\$ 344.6 million, of which US\$ 292.9 million related to oil cooperation. Official funds received totalled US\$ 585 million to 30 June 2011.

Thanks to the success of the tax reform, fiscal policy was also used to support monetary policy through a coordinated deposit management programme at the central bank, designed to inject liquidity into the banking system. In October 2011 effective reserve ratios for both foreign and domestic currency deposits exceeded the legally

required minimum rates by 6.5 percentage points and 5.3 percentage points, respectively. The average weighted deposit rate in the system thus stood at 2.6% while the average weighted lending rate was 10.31%, taking the intermediation spread to 6.97% in consolidated terms (dollars and córdobas) at end October 2011, compared with 8.09% in October 2010.

Nevertheless, the economic slowdown has hampered the recovery of lending to the private sector which remained almost constant between January and October 2011, despite the excess liquidity, and could accordingly fall by between 3% and 5% in real terms by the end of the year.

In November 2011 a single free-trade agreement was signed between Mexico and Central America. This replaces existing agreements, merging them into a single instrument, and may allow for better use of economies of scale thanks to the clause on value accumulation.



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

To September 2011, formal employment surged by 9.4% year-on-year. The best-performing sectors were mining, construction, electricity, gas and water, and manufacturing. Industrial employment benefited in particular from the accelerated recovery of activity under the free trade zone regime. Average real wages in the formal sector meanwhile fell by 0.4% with respect to the same period in 2010.

The trade deficit continued to widen during 2011: while exports to September showed cumulative growth of 22.9%, imports grew more, by 25.1%. The trade deficit at year-end 2011 is therefore expected to stand at around US\$ 870 million, 17.5% higher than in December 2010.

It should be emphasized, however, that higher prices for the country's principal export products rather than a significant increase in sales volumes are responsible for pushing up export values. The main sectors driving exports are manufacturing (maquila) and mining. As to the destination of exports, the Bolivarian Republic of Venezuela continues to increase its share, partially displacing sales to the rest of Central America and Europe.

Imports have grown in response to manufacturing industry requirements, an increase in consumption (food products) and greater demand for capital goods for transport. In the transport category, the Russian Federation has donated buses and vehicles for taxis. Another major factor contributing to the rise in imports in value terms was the increase in the oil bill. According to central bank figures, the cost of purchasing oil and fuels in 2011 has gone up 22% because of the volume effect and 77.7% owing to the price effect. With regard to funding the deficit, family remittances continue to play an important role and are expected to amount to US\$ 850 million in 2011, around US\$ 25 million more than at year-end 2010. Foreign direct investment may exceed US\$ 800 million in 2011, fuelled by the construction of a new wind farm and investments in telecommunications and in the free trade zones.

It is projected that export growth will slacken in 2012 as a result of the world economic slowdown. This

NICARAGUA: MAIN ECONOMIC INDICATORS

	2009	2010	2011 ^a
Annual growth rates			
Gross domestic product	-1.5	4.5	4.5
Per capita gross domestic product	-2.7	3.2	3.2
Consumer prices	1.8	9.1	7.9 ^b
Real average wage ^c	5.8	1.3	-0.2 ^d
Money (M1)	11.7	28.0	26.9 ^e
Real effective exchange rate ^f	3.6	-2.3	5.1 ^g
Terms of trade	9.7	0.9	-0.4
Annual average percentages			
Open urban unemployment rate	10.5	9.7	...
Central government overall balance / GDP	-2.3	-1.0	-0.1
Nominal deposit rate ^h	6.0	3.0	2.0 ⁱ
Nominal lending rate ^j	14.0	13.3	10.2 ⁱ
Millions of dollars			
Exports of goods and services	2 886	3 628	4 241
Imports of goods and services	4 573	5 486	6 648
Current account balance	-828	-963	-1 429
Capital and financial balance ^k	1 009	1 135	1 390
Overall balance	181	172	-39

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

^a Preliminary estimates.

^b Twelve-month variation to November 2011.

^c Average wages declared by workers covered by social security.

^d Estimate based on data from January to September.

^e Twelve-month variation to September 2011.

^f A negative rate indicates an appreciation of the currency in real terms.

^g January to October average, year-on-year variation.

^h Weighted average rate on 30-day deposits.

ⁱ January-November average.

^j Short-term loans, weighted average.

^k Includes errors and omissions.

may be offset by lower commodity prices, mainly for oil and oil products, and by a drop in capital and consumer goods imports.

A fall in external demand amid rising uncertainty over the world economy may bring about a further slowdown in growth, which could close 2012 at 3.5%. Inflation is also expected to fall to around 7% as a consequence of the projected global slowdown. Meanwhile, the central bank has announced that it will hold its nominal crawling peg policy at an annual 5%, which would result in a current account deficit of around 16%.