Nicaragua

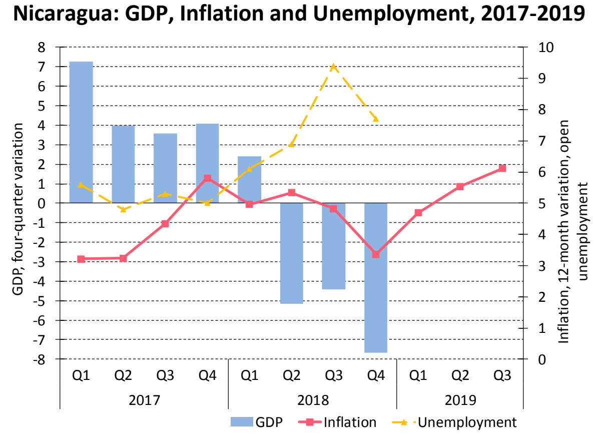
Nicaragua's economy is set to shrink for the second consecutive year, as the Economic Commission for Latin America and the Caribbean (ECLAC) projects a decline of 5.3% for 2019, after a 3.8% contraction in 2018. The political and social unrest that began in April 2018 is still significantly affecting different economic activities, especially construction, commerce, activities linked to tourism and restaurants. The impact on revenues from the tax reform, combined with highly contained public spending, puts the central government deficit before grants on course to represent a smaller proportion of GDP at year-end 2019 (0.5%) than it did in 2018 (2.6%). After grants, the balance is expected to be close to zero (-2% in 2018). The current account is expected to show a surplus of 5.9% of GDP for 2019 (0.6% in 2018), mainly as a result of a fall in imports and a slight increase in exports. Inflation is set to close the year at around 6.5% (3.9% in 2018).

Two reforms were implemented in the early months of 2019 that were significant for Nicaragua's economy: one amending the Tax Coordination Act and another amending the Regulations to the Social Security Act. While both reforms are aimed at supporting public finances, they also accentuate the contractionary trend in economic activity.

Central government revenues, excluding grants, are projected to amount to 18.8% of GDP at the end of 2019, compared to 16.8% in 2018. Between January and September, they grew 5.2% year-on-year in real terms, driven mainly by a substantial increase in the collection of income tax and selective consumption tax (ISC). Indeed, tax revenues account for 93% of total revenues. At year-end, total expenditure is expected to be at the same level as the previous year (around 19.4% of GDP). However, the breakdown of spending shows a decline in capital expenditure and a rise in current expenditure. Accrued expenditure in the first half of the year was down 6.3% year-on-year. Equally important is the increase in the deficit of the Nicaraguan Social Security Institute (INSS), which doubled between 2017 and 2018. At the beginning of 2019, INSS was considered to need more than US$ 200 million, an amount that has increased as contributions have decreased amid higher unemployment. The reform of the Regulations to the Social Security Act and the historical debt instalments that the central government has transferred to INSS have helped alleviate its financial problems, but they are far from resolved.

Public debt represented more than 54% of GDP in August, compared to 52.5% at the end of 2018. The country is still facing difficulties in meeting its financing needs. The total grants received in 2019 (representing 0.6% of GDP) will be 9.3% lower than in 2018. In the first four months of the year there was no demand for government bonds on the domestic market, but from May onward these covered the domestic public financing target (more than US$ 120 million).

Nicaragua: GDP, Inflation and Unemployment, 2017-2019



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

In the first few months of the year, gross international reserves continued the decline seen in the prior year. However, the trend of reserves became more mixed beginning in March. By the end of September, they stood at US$ 2.257 billion, a similar level to year-end 2018 (US$ 2.261 billion). Nevertheless, declines in the monetary base and in imports have meant that the ratios of gross international reserves to these two indicators are even higher than in previous years (2.82 times the monetary base and 5.7 months of imports). Monetary aggregates continue to record negative year-on-year growth, although the rate of contraction has slowed in recent months. The M2A aggregate was down 0.6% year-on-year in September, after recording falls of 3.7% in the prior month and 5.7% in September 2018.

The central bank cut the crawling peg rate for the córdoba from 5% to 3% devaluation against the dollar per annum, applicable from November. It argued that the measure would have short-term effects, such as reduced inflation, smaller external and domestic public debt payments, and a potential drop in the cost of imported products. However, it has also negatively affected areas such as exports — especially goods produced mostly with domestic inputs— remittances and pensions for older persons (which are updated each year according to the crawling peg rate). This change may weaken the role of the exchange rate as a nominal anchor, since inflation is projected to be above the depreciation rate.

Nicaragua: main economic indicators, 2017-2019

	2017	2018	2019 [a]
	Annual growth rate		
Gross domestic product	4.7	-3.8	-5.3
Per capita gross domestic product	3.6	-4.8	-6.3
Consumer prices	5.8	3.4	6.1 [b]
Real average wage [c]	1.5	4.8	...
Money (M1)	8.8	0.1	-10.4 [b]
Real effective exchange rate [d]	4.3	0.2	-3.6 [e]
Terms of trade [f]	-4.1	-6.3	3.3
	Annual average percentage		
Unemployment rate	3.7	5.4	...
Central government			
Overall balance / GDP	-0.6	-2.0	-2.0
Nominal deposit rate [g]	1.3	1.4	2.9 [b]
Nominal lending rate [h]	10.9	10.9	12.7 [b]
	Millions of dollars		
Exports of goods and services	5 700	5 512	5 163
Imports of goods and services	7 578	6 730	6 127
Current account balance	-675	83	385
Capital and financial balance [i]	975	-596	-404
Overall balance	300	-513	-18

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/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.
e/ Figures as of September.
f/ Economic Development Division, calculations for Preliminary Overview 2019.
g/ Weighted average I deposit rates in local currency up to 1 month.
h/ Short-term loans rate, weighted average.
i/ Includes errors and omissions.

There was yet another substantial year-on-year decline in the gross loan portfolio (by 19.0% in August), with the largest contraction in the lending to the industrial sector (down 33.2% year-on-year). Performing loans at July represented 88.7% of this portfolio, with the remaining 11.3% at-risk (extended, restructured, overdue or in recovery).

At August, the largest declines in imports were recorded in capital goods, followed by intermediate goods. In the first nine months of 2019, two of the four main export products (coffee and gold) increased in value year-on-year. Family remittances have grown, and are expected to represent around 13% of GDP at year-end (11.4% in 2018). Although foreign direct investment (FDI) is still low compared to the years prior to 2018, inward FDI amounted to US$ 364 million in the first half of 2019, more than in the whole of the preceding year.

GDP data for the second and third quarters have not yet been published, but only a meagre improvement in the economy's performance is expected. The sectors that fell sharply in 2019 included construction, which shows no signs of recovery. On the expenditure side, the greatest impact on the economy has been seen in private consumption, which contributes approximately 70% of GDP, and which is expected to have contracted by more than 5% by year-end.

Year-on-year inflation at August stood at 6.1% (5.0% in the same month in 2018), while cumulative inflation was 4.03% (1.66% in August 2018). In particular, there was a cumulative 42.89% rise in alcoholic beverages and tobacco. The number of economically active persons paying into the

INSS social security system is projected to fall around 5% in 2019 and the open unemployment rate is expected to top the 5.2% recorded in the fourth quarter of 2018. The negotiating committee has decided against increasing the minimum wage this year.

ECLAC projects a contraction of 1.4% of GDP in 2020. Although some activities are beginning to reverse the downturn, construction, financial intermediation and commerce show no clear signs of recovery. This suggests confidence has not yet been restored among economic agents. The central government's fiscal balance is expected to be close to zero after grants, primarily due to ongoing spending containment. Export and import growth will be moderate, meaning that a current account surplus is again expected. Inflation is projected to slow in 2020 compared to 2019, partly due to the reduction in the crawling peg rate, provided that pressure on reserves does not force the exchange rate to be maintained. The open unemployment rate is set to remain at levels similar to 2019.