Nicaragua

According to ECLAC estimates, the Nicaraguan economy posted 1.5% negative GDP growth in 2009 after 15 years of uninterrupted expansion and compared with 3.2% positive growth in 2008. External demand, which has driven growth in recent years, fell by 2.5%. Gross internal investment plummeted, whereas consumption grew slightly. Inflation is expected to be significantly lower and end the year at about 2.5%. The current account deficit shrank to 15% of GDP, compared with 23.8% in 2008. In contrast, the fiscal deficit, including donations, expanded to 3.5% of GDP, from 1.2% in 2008.

In August 2009, the Ministry of Finance introduced a fiscal reform bill in order to tackle the slide in fiscal revenues triggered by the economic slowdown and the decline in donations from abroad. The bill's main objectives are to make the tax system more equitable, to generalize the levying of taxes and to modernize and simplify tax payment procedures.

According to ECLAC estimates, the economy will grow by 2% in 2010, driven by a resurgence in external demand. Inflation will remain near 5%, and the balance-of-payments current account deficit will be similar to what it was in 2009. Pressure on public financing will ease slightly, thanks to growth in economic activity and the fiscal reform.

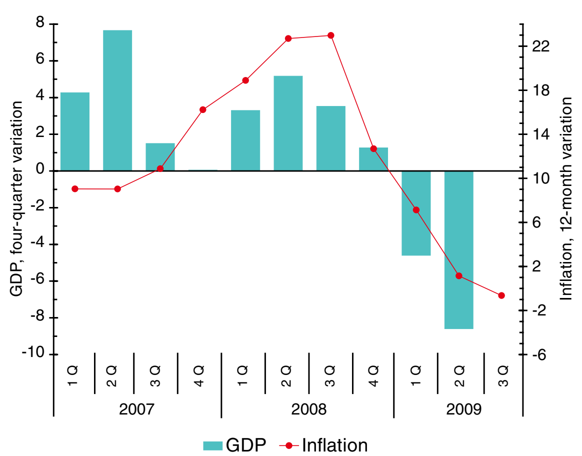
For 2009, total revenue of the central government is expected to drop by 4.1%, in real terms. Import tax receipts have been the hardest hit and fell by 15.9% because of the slump in purchases of durable consumer and capital goods. The 3.3% reduction in indirect taxes reflects both sluggish economic activity and fuel tax credits claimed against value added tax. Total expenditures by the central government are estimated to have risen by 6% in real terms. Current expenditures increased by 8.4% owing to higher wages and direct transfers, whereas capital expenditures decreased by 0.6% because of a lack of funds and delays in the execution of projects. In January, the government introduced a package of measures to counteract the impact of the economic crisis. These measures include initiatives that address financial stability, public investment, support of production and private investment, and job creation.

However, shrinking revenues have made it difficult to implement some of these counter-cyclical measures. In fact, during 2009, the public budget had to be adjusted downwards three times.

In this context, the central Government's fiscal deficit grew considerably and was financed mostly through loans from multilateral organizations. Public external debt is thus expected to reach 58.7% of GDP by the end of 2009, compared with 55.2% in 2008.

In 2009, monetary policy continued to make use of pre-announced mini-devaluations in order to rein in inflationary expectations. The annualized devaluation rate held steady at 5%, closing out the year with the official exchange rate at 20.8 córdobas per dollar. The real bilateral exchange rate (with the United States) depreciated slightly, ending a three-year spell of appreciation. The nominal interest rate for deposits in national currency was 5.5%

NICARAGUA: GDP AND INFLATION



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

in September, compared with 6.3% for the same month in 2008. The nominal lending rate for loans in national currency was 14.2% in September, compared with 12.7% for the same month in 2008. Real interest rates, which were negative throughout 2008, were positive in 2009 because of lower inflation, which exacerbated the credit crunch in the private sector. International reserves are expected to increase by US$ 250 million, primarily because of the Special Drawing Rights disbursement from the International Monetary Fund (IMF), and to close the year at US$ 1.29 billion.

As far as trade policy is concerned, in 2009, the first meetings were held to negotiate a free trade agreement with Chile. Meanwhile, negotiations on an association agreement between Central America and the European Union were suspended after seven rounds of talks, pending resolution of the crisis in Honduras.

The Nicaraguan economy felt the toll of the international financial crisis and, particularly, of the recession in the United States in 2009. The primary transmission channels were weaker external demand, a decrease in the flow of remittances and shrinking foreign direct investment (FDI). The economic downturn was more acute during the first half of the year; the decline of the monthly economic activity indicator slowed in the second semester. The 15.6% plunge in gross internal investment was attributable to the shrinking of credit and FDI and to contraction in the construction sector, against a backdrop of recessive trends and uncertainty sparked by factors unrelated to the economy. Private consumption was up slightly (by 1.9%) because of the increase in real wages and public grant transfer programmes. The hardest-hit sectors were manufacturing, which shrank by 1.5%, construction (by 3.4%) and commerce, restaurants and hotels (by 1.8%).

Inflation, as measured by the consumer price index, was down significantly and is expected to end the year at 2.5%, from 13.8% in 2008. This drop is attributable to lower international prices of food and fuels and the slowdown in economic activity. Negative monthly inflation rates were recorded in three months (April, July and August). Low inflation played a major role in the marked increase in real wages.

The current account deficit shrank as a result of the sharp drop in goods imports (down by 18.5%). The oil bill was down 36%, mainly because of lower international prices, whereas the 42% fall in imports of durable consumer goods and the 19.3% decline in capital goods were attributable primarily to reduced economic activity.

Goods exports were down by 9.4%. Reduced external demand had a huge negative impact on exports from free trade zones, which shrank by 7.2%. Traditional exports were down by 11.2%, a result that was compounded by weather issues, such as altered rainfall patterns due to El Niño, and by the timing of the low-point in the two-year coffee cycle. The international crisis also choked FDI flows, which are expected to reach US$ 420 million in 2009, compared with US$ 626 million in 2008. Remittances from family members were down by 5.7%. As is often the case, remittances proved to be more resilient than other foreign currency flows (such as exports and FDI) when the countries in which they are generated face economic downturns.

NICARAGUA: MAIN ECONOMIC INDICATORS

	2007	2008	2009 [a]
	Annual percentage growth rates		
Gross domestic product	3.2	3.2	-1.5
Per capita gross domestic product	1.8	1.9	-2.8
Consumer prices	16.2	12.7	-0.1 [b]
Average real wage	-1.8	-3.8	7.7 [c]
Money (M1)	23.6	2.8	1.9 [b]
Real effective exchange rate [d]	3.6	-4.9	-1.4 [e]
Terms of trade	-1.0	-4.4	10.5
	Annual average percentages		
Urban unemployment rate	6.9	8.0	...
Central government overall balance/GDP	0.4	-1.2	-3.5
Nominal deposit rate	6.1	6.6	6.1 [f]
Nominal lending rate	13.0	13.2	14.1 [f]
	Millions of dollars		
Exports of goods and services	2 709	2 937	2 826
Imports of goods and services	4 649	5 357	4 460
Current account balance	-1 001	-1 513	-818
Capital and financial account balance [g]	1 093	1 499	1 024
Overall balance	92	-14	207

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

[a] Preliminary estimates.
[b] Twelve-month variation to October 2009.
[c] Estimate based on data from January to September.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Year-on-year average variation, January to October.
[f] Average from January to September, annualized.
[g] Includes errors and omissions.