

## NICARAGUA

### 1. General trends

In 2013 the Nicaraguan economy expanded by 4.6% —after growth of 5.0% in 2012— driven by external demand, private investment and, to a lesser extent, private consumption. The non-financial public sector ran a deficit after grants of 1% of GDP (down from a surplus of 0.2% of GDP in 2012). With the central bank holding its nominal devaluation policy at 5%, the real exchange rate remained virtually unchanged at the end of the year. The balance-of-payments current account deficit fell slightly to 11.4% of GDP, from 12.7% in 2012. Efforts to prop up growth were made in a climate of macroeconomic stability that facilitated the reduction of inflation by around one percentage point, from 6.6% at the end of 2012 to 5.7% at the close of 2013. Economic growth is projected to remain steady in the region of 5% in 2014, while inflation is likely to be around 6%. As a result, the balance-of-payments current account deficit is expected to remain at around 12%. Monetary reserves were sufficient to cover more than two and a half times the monetary base and four months' worth of import requirements. The goal of a nominal devaluation of 5% over the year therefore appears realistic.

### 2. Economic policy

#### (a) Fiscal policy

In 2013 the government maintained a fiscal policy designed to underpin economic growth, as part of the National Human Development Plan, and shored up its monetary policy by maintaining deposits in the central bank with a view to ensuring stability. In this context, it continued to hold discussions with the International Monetary Fund and launched a plan to strengthen the córdoba by increasing reserves and reducing pressures with the aim of avoiding further dollarization of the economy.

Total central government revenue expanded by 6.7% in nominal terms (a moderation on the growth of 16.1% seen in 2012) driven by entry into force of Law No. 822, the Tax Coordination Act, which led to certain administrative improvements to tax collection processes (namely the systematic monitoring of taxpayers). This slowdown in growth in tax receipts to 9.6% in 2013, as a result of an increase of 31.4% in VAT rebates thanks to a transparency agreement, was driven by an expansion of 32.4% in revenue from direct taxation, which itself offset a 16% fall in indirect tax income. This latter development was caused by a slowdown in growth in VAT on imports to 11.2% (down from 20% in 2012) due to falls in imports of capital goods and oil of 10.3% and 7.8% respectively.

The tax burden therefore stood at the equivalent of 14.7% of GDP, virtually unchanged on 2012.

Total central government expenditure, meanwhile, increased by 9.5% (as against 15.8% in 2012) driven by growth of 11.3% in wages and salaries and an increase of 10.6% in current and capital transfers to make good on promises made to universities.

The central government's fiscal balance, including grants, stood at the equivalent of 0.1% of GDP. When added to the overall net results of State-owned companies in the non-financial public sector,

the consolidated deficit of that sector, including grants, stood at 1% of GDP (compared with 0.2% in 2012).

As a result of external and internal funding operations, total public debt as of December 2013 stood at US\$ 5.594 billion, or 49.7% of GDP, compared with 50.8% of GDP in 2012. The outstanding external debt balance was equivalent to 40.3% of GDP.

The first few months of 2014 saw an uptick in tax revenue that is likely to translate into a tax burden of around 15% at the end of the year.

The tax measures adopted included improvements to the pension system, which mark a step forward in ensuring its long-term financial sustainability. A major milestone in this regard was the tripartite agreement reached between the government, the private sector and workers, whose provisions included a gradual increase of three percentage points in the rate of employers' social contributions to 14% by 2017 without any attendant increase in workers' contributions. The highest wage for which contributions are due was also increased from 54,964 to 74,410 córdobas (US \$2,198.56 to US \$2,976.4)<sup>1</sup> from January 2015; before the reform it had been just 37,518 córdobas (half the current amount). The aim was to bring in a more progressive sliding scale in which higher earners pay more into the system.

#### **(b) Monetary policy**

The central bank held its nominal crawling-peg exchange-rate policy at 5% by controlling monetary aggregates by means of open-market operations and reserve requirements. This helped curb inflation to 5.7% in December 2013, compared with 6.6% in December 2012.

Monetary policy became slightly contractionary. The fortnightly reserve requirement remained at 15%, and the daily requirement at 12%. The overall effect of open market operations was a net increase of 1.534 billion córdobas in issues of central bank credit notes (up from 984.7 million córdobas in 2012). This caused a reduction in the central bank's net asset position, thus enabling levels of liquidity in the financial system to return to normal levels and swelling reserves to the equivalent of 2.5 times the monetary base.

#### **(c) Financial policy**

The direction taken in monetary policy helped bolster growth without jeopardizing stability. Lending to the private sector thus rose by 21.3% in 2013 (making up 61.9% of total assets on banks' balance sheets). Underpinning this increase was a 28.7% surge in credit to households and a 17.3% rise in lending to companies. This drove up returns on assets for banks by 2.3% and returns on equity by 39.8%, compared with respective figures of 2.1% and 39.1% in 2012. Growth in credit is expected to continue apace in 2014 given the recently adopted legal reforms to open up access to subsidies on mortgage interest by raising the maximum value of homes eligible for such subsidies from US\$ 20,000 to US\$ 32,000. On a loan with a 9% interest rate, for example, the State would cover 2.5 points. New homes costing US\$ 20,000 or less to build are also eligible for an initial allowance of US\$ 2,000. Year-on-year growth in banks' loan portfolios to April 2014 stood at 20.9%.

#### **(d) Trade policy**

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<sup>1</sup> At an exchange rate of 25 córdobas to the United States dollar.

In 2013 the Government of Nicaragua took further steps to liberalize trade under the National Human Development Plan. In this context, the country began export operations under the agreement with the Latin American Integration Association (LAIA), allowing unilateral preferential treatment for Nicaraguan exports to the association's member countries, while facilitating their investment in Nicaragua. Free-trade agreements with Chile, Mexico, Taiwan Province of China and the Dominican Republic also entered into force. Negotiations were also finalized on a partial-scope agreement with Cuba, while the trade chapter of the Association Agreement between Central America and the European Union came into effect on 1 August 2013.

### 3. The main variables

#### (a) The external sector

Nicaraguan exports totalled US \$4.456 billion in 2013, slightly down (-2.7%) on 2012 figures of 4.581 billion as a result of, among other factors, the reduction in goods exports, which was offset to some extent by rising exports of non-monetary gold and goods from free-trade zones. Coffee exports slumped 18.5% by volume, chiefly owing to the spread of coffee-leaf rust, which was compounded by a drop in value in the wake of a 17.9% fall in prices. Non-monetary gold exports reached record levels of approximately 34,400 troy ounces per month in 2013, which compensated for the reduction in prices. In respect of goods exported from free-trade zones, considerable growth was seen in sales of vehicle wiring assemblies, amid increased vehicle sales from Mexico to the United States.

Export performance was boosted by access to new markets and efforts to expand existing ones. In 2013 the United States purchased goods equivalent to 25.2% of Nicaragua's total exports, while the Bolivarian Republic of Venezuela accounted for 16%, Canada for 3.1% and El Salvador for 8.9%.

Imports totalled US\$ 5.649 billion (3.4% less than in 2012), with falls in the sectors of capital goods (10.3% down on 2012) and oil (7.8%). The fall in capital goods imports was attributable to the completion in 2012 of certain energy projects and lower purchases of industrial machinery.

Little change was seen on 2012 levels in imports of consumer goods, while intermediate goods saw a slight contraction of 2.7%. Imports of agricultural inputs dropped off by 12%, however, with the most notable falls in fertilizers and agrochemicals. Imports of building materials were also down as a result of the slowdown in growth of the construction sector.

The foreign trade balance was positive in the first four months of 2014, with year-on-year growth of 6.8% in exports, on the back of higher sales of manufacturing goods. The main markets for Nicaragua's goods and services continued to be the United States, the Bolivarian Republic of Venezuela, Canada, El Salvador and Costa Rica, which together absorbed 65.8% of its exports. Imports to April 2014, meanwhile, contracted by 0.3% in respect of the same period of 2013.

Family remittances remain an important source of foreign trade financing for Nicaragua. Remittances increased by 6.3% to US\$ 1.078 billion in 2013, chiefly driven by greater remittance flows from Costa Rica and, to a lesser extent, the United States, although the latter, which provided US\$ 629.4 million (58% of the total), remained the main source of remittances. Flows from Costa Rica amounted to US\$ 241.9 million (22%) and Spain US\$ 56.8 million (5%).

The strong performance of remittance income in 2013, the slight fall in exports and the import slowdown all contributed to a current account deficit of the equivalent of 11.4% GDP at the end of 2014, down from 12.7% in 2012.

At the end of the first quarter of 2014, remittance income was up 7.7% on March 2013, with the United States and Costa Rica continuing to provide the bulk of it. Most of the remittance flows into the country are channelled through remittance transfer agencies (57%) and financial institutions (32.8%).

In 2013 the balance-of-payments current account deficit was mainly offset by private investment income, credit and grants to the public sector and loans to the private sector.

Net foreign direct investment stood at US\$ 849 million, a slight increase (of 4.8%) on the US\$ 810 million posted in 2012, with the sectors of renewable energies and mining the main beneficiaries, followed by communications and industry.

Grants remain a major component of public-sector financing, the main donors being the World Bank, the Russian Federation, Switzerland and Japan. These grants were concentrated on support for health, education and other social services, electricity, water and transport and public administration. Loans were chiefly used mainly for strengthening economic infrastructure in the energy, gas, water, transport and communications sectors, while the rest was used to underpin public administration and social spending.

In the area of credit to the private sector, cooperation with the Bolivian Republic of Venezuela, under the PetroCaribe energy cooperation agreement, remains significant, with loans totalling around US\$ 560 million (equivalent to 5% of GDP), a reduction on 2012 figures, chiefly as a result of the lower cost of oil imports due to falling prices. There may well be further reductions in the future owing to the political and economic situation in the Bolivarian Republic of Venezuela, a scenario that is yet to present itself but should be considered a macroeconomic risk.

## **(b) Economic activity**

In 2013 the Nicaraguan economy expanded by 4.6%, as against 5.0% in 2012, driven by a rise in net external demand and, to a lesser extent, in domestic demand. Exports grew by 3.1% in real terms, while imports fell by just as much. Domestic demand was driven by an increase in consumption of 3.7% (as against 4.4% in 2012), which was in turn chiefly attributable to rising disposable income as a result of higher wages and buoyant family remittances. Gross fixed capital formation fell by 1.4%, dragged down by a contraction of 11.3% in gross private capital formation, which was in turn partially offset by 8.8% growth in gross public capital formation. Private investment was down as a result of the completion in 2012 of certain major energy projects, as well as a drop in imports of agricultural machinery. Construction, however, surged 19.6% on the back of an expansion in commercial buildings and facilities (hotels and shopping centres). Public investment was concentrated on the drinking water supply and road infrastructure, as well as expanding the national sustainable electrification and renewable energy programme.

Production rose in most sectors, but the largest contribution to economic growth was made by services and commerce, which accounted for two percentage points of growth, and manufacturing, which accounted for one. The crop-growing sector saw an 8.7% reduction in the value added of coffee cultivation, following an 11.2% decline in 2012; this was offset by a 23.7% value added increase in sugar cane production thanks to higher productivity and an expansion of the area under cultivation. Similar

expansions occurred in banana plantations and areas growing tobacco, soybean and peanuts. Livestock activities once again contracted by 3.3% in 2013 (following a decrease of 4.5% in 2012), hit by falls in beef and milk production. Fishing and aquaculture output, meanwhile, rose by 5.3% —although a slowdown in respect of growth of 15.3% in 2012— driven by an increase in yields in farmed shrimp and farmed and caught fish. Value added in manufacturing increased by 5.6%, up slightly from 5.2% in 2012. Growth in foreign direct investment, particularly from Central America, played an important role in increasing production in this sector, particularly of sugar and other foods.

### **(c) Prices, wages and employment**

Accumulated inflation to December 2013 stood at 5.7%, as against 6.6% in 2012. This was the result of the monetary policy applied, together with the moderate behaviour of international prices of raw materials and other goods, which led to a reduction in the rate of inflation in the food and non-alcoholic beverages sector from 8.1% in 2012 to 6.0% in 2013. Inflation in the transport sector also tailed off, contributing only 0.4% to the overall total, following declines in the prices of oil and oil products. The sectors of accommodation, water and electricity were up as a result of the adjustment to electricity rates (the government maintained subsidies for users consuming less than 150 kWh per month). With a view to ascertaining long-term trends in inflation, the central bank calculates core inflation, excluding price-controlled goods and products displaying above average levels of volatility in the 2006-2009 period. This indicator fell from 7.4% to December 2012 to 5.1% at the end of 2013, thus confirming the downward trend in inflation in the country.

On the wages front, a new consensus was reached between employers, the government and workers, providing for an increase in the minimum wage that did not upset the favourable climate for labour and investment. In the first half of the year minimum wages were raised by 6.5% in the agricultural sector and 6.0% for other sectors, and in the second half they were again increased by 6% across the board. The sole exceptions were workers in the free-trade zones (whose minimum wage was increased by 10% for the year) and in micro and small cottage industries (whose wages were raised 5% in the first half and 5% in the second). As for government employees, pay rises of 9% were awarded to health and education workers and 7% to all other civil servants.

In the third quarter of 2013 the open unemployment rate stood at 5.3% (down from 5.7% in the same quarter of 2012). The survey also found that 48.3% of the economically active population was underemployed, an increase on the figure of 47.1% in the same period of 2012.

Table 1  
NICARAGUA: MAIN ECONOMIC INDICATORS

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
	<b>Annual growth rates b/</b>								
Gross domestic product	4.3	4.2	5.3	2.9	-2.8	3.3	5.7	5.0	4.6
Per capita gross domestic product	3.0	2.8	4.0	1.6	-4.0	2.0	4.2	3.5	3.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	4.6	2.5	11.5	0.5	2.4	2.3	5.2	-2.4	0.4
Mining and quarrying	-10.4	2.7	-3.7	-3.4	-3.2	47.0	25.8	10.4	21.7
Manufacturing	5.6	6.4	5.9	-1.9	-3.8	9.7	6.9	6.4	4.0
Electricity, gas and water	3.6	1.5	-14.3	67.1	-6.4	15.6	6.3	7.8	3.5
Construction	7.3	-3.2	-8.6	-14.6	-29.0	-17.7	18.9	32.9	17.2
Wholesale and retail commerce, restaurants and hotels	2.3	4.9	5.3	3.2	-2.8	4.1	4.0	4.4	3.7
Transport, storage and communications	6.7	7.2	17.2	6.4	0.7	5.4	5.9	7.0	2.0
Financial institutions, insurance, real estate and business services	4.0	5.1	-1.0	3.0	-4.0	-2.5	-2.6	3.3	4.2
Community, social and personal services	4.0	4.2	4.7	8.8	1.2	3.1	3.7	5.3	4.6
Gross domestic product, by type of expenditure									
Final consumption expenditure	3.6	2.7	3.6	4.0	1.0	3.9	5.0	4.3	3.6
Government consumption	6.9	-0.5	-5.9	10.8	-0.3	-1.9	5.9	1.2	1.8
Private consumption	3.3	3.1	4.7	3.3	1.2	4.5	4.9	4.6	3.8
Gross capital formation	11.3	-0.1	20.5	7.3	-29.1	-6.4	21.2	7.4	-5.2
Exports (goods and services)	7.7	12.5	11.1	9.0	0.8	12.2	8.0	13.4	3.1
Imports (goods and services)	8.6	4.4	13.3	10.6	-8.9	5.8	12.5	10.3	-3.1
Investment and saving c/	<b>Percentajes of GDP</b>								
Gross capital formation	25.9	26.5	29.5	29.7	23.0	21.9	23.4	25.4	25.6
National saving	13.5	14.0	13.1	11.4	13.4	11.9	10.2	12.6	14.2
External saving	12.4	12.5	16.4	18.3	9.5	10.0	13.1	12.8	11.4
Balance of payments	<b>Millions of dollars</b>								
Current account balance	-784	-845	-1,225	-1,507	-775	-857	-1,267	-1,347	-1,280
Goods balance	-1,302	-1,472	-1,803	-2,200	-1,619	-1,751	-2,178	-2,296	-2,279
Exports, f.o.b.	1,654	1,932	2,186	2,531	2,104	2,744	3,666	4,146	4,123
Imports, f.o.b.	2,956	3,404	3,989	4,731	3,723	4,495	5,844	6,442	6,402
Services trade balance	-140	-156	-283	-224	-22	-28	-68	-60	-56
Income balance	-199	-220	-213	-224	-253	-239	-250	-301	-313
Net current transfers	857	1,003	1,075	1,140	1,118	1,161	1,230	1,310	1,369
Capital and financial balance d/	720	900	1,312	1,494	1,199	1,076	1,354	1,332	1,375
Net foreign direct investment	241	287	382	626	463	491	961	761	784
Other capital movements	479	613	930	868	735	585	392	571	591
Overall balance	-64	55	87	-13	424	219	87	-15	96
Variation in reserve assets e/	-6	-179	-167	-32	-424	-219	-87	15	-96
Other financing	70	124	80	45	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	100.0	99.6	100.4	97.6	103.4	100.8	105.8	107.7	107.3
Terms of trade for goods (index: 2005=100)	100.0	97.6	96.6	92.4	101.3	102.2	101.8	101.8	93.4
Net resource transfer (millions of dollars)	590	804	1,178	1,315	946	837	1,104	1,031	1,062
Gross external public debt (millions of dollars)	5,348	4,527	3,385	3,512	3,661	3,876	4,073	4,289	4,532

Table 1 (concluded)

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
<b>Employment</b>	<b>Average annual rates</b>								
Labour force participation rate g/	53.8	51.4	53.4	53.3	66.9	72.1	...	...	...
Open unemployment rate h/	7.0	7.0	6.9	8.0	10.5	9.7	...	...	...
<b>Prices</b>	<b>Annual percentages</b>								
Variation in consumer prices (December-December)	9.7	10.2	16.2	12.7	1.8	9.1	8.6	7.1	5.4
Variation in nominal exchange rate (annual average)	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Variation in average real wage	0.2	1.4	-1.8	-3.7	5.8	1.3	0.2	0.3	0.3
Nominal deposit rate i/	4.0	4.9	6.1	6.6	6.0	3.0	1.8	1.0	1.0
Nominal lending rate j/	12.1	11.6	13.0	13.2	14.0	13.3	10.8	12.0	15.0
<b>Central government</b>	<b>Percentajes of GDP</b>								
Total revenue k/	20.7	22.4	22.8	22.2	21.7	22.6	23.3	23.4	22.9
Tax revenue	16.7	17.8	18.1	18.0	18.1	19.0	19.8	20.2	20.1
Total expenditure	21.2	21.3	21.2	22.1	22.9	22.5	22.2	22.9	23.0
Current expenditure	16.9	18.5	18.1	19.7	20.3	20.1	19.9	20.3	20.1
Interest	1.5	1.4	1.1	0.9	1.0	1.1	1.0	1.0	0.9
Capital expenditure	4.3	2.9	3.1	2.5	2.5	2.4	2.2	2.6	2.9
Primary balance	1.0	2.5	2.8	0.9	-0.2	1.2	2.1	1.6	0.8
Overall balance	-0.5	1.1	1.6	0.0	-1.2	0.1	1.1	0.6	-0.1
Central government public debt	71.3	54.8	32.4	29.4	33.2	33.9	32.3	31.3	29.6
Domestic	16.3	15.1	12.8	11.0	11.4	10.8	9.6	8.3	6.5
External	55.0	39.7	19.5	18.5	21.8	23.1	22.7	23.0	23.1
<b>Money and credit</b>	<b>Percentages of GDP, end-of-year stocks</b>								
Domestic credit	49.6	46.7	45.0	41.4	36.4	33.0	29.7	32.3	34.2
To the public sector	39.0	31.8	26.4	23.5	24.7	23.0	19.9	17.1	16.3
To the private sector	22.6	26.4	30.0	28.6	25.6	24.3	24.2	27.0	29.3
Others	-12.1	-11.4	-11.5	-10.7	-13.9	-14.3	-14.4	-11.7	-11.4
Monetary base	6.0	6.8	7.2	6.3	7.3	7.6	8.2	7.6	7.4
Money (M1)	5.5	5.6	6.4	6.1	6.7	7.6	7.8	7.5	7.7
Foreign-currency deposits	26.1	24.8	24.8	21.8	24.1	25.9	24.7	25.7	27.7

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

a/ Preliminary figures.

b/ Based on figures in local currency at constant 2006 prices.

c/ Based on values calculated in national currency and expressed in current dollars.

d/ Includes errors and omissions.

e/ A minus sign (-) indicates an increase in reserve assets.

f/ Annual average, weighted by the value of goods exports and imports.

g/ Nationwide total. New measurements have been used since 2009; the data are not comparable with the previous series.

h/ Urban total.

i/ 30-day local-currency pasive rates, weighted average.

j/ Weighted average of short-term lending rates in local currency.

k/ Includes grants.

Table 2  
**NICARAGUA: MAIN QUARTERLY INDICATORS**

	2012				2013				2014		a/
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	
Gross domestic product (variation from same quarter of preceding year) b/	6.0	5.1	4.9	3.9	4.1	6.4	5.3	2.6	5.3	...	
Gross international reserves (millions of dollars)	1,738	1,768	1,691	1,764	1,759	1,766	1,771	1,824	1,879	1,951	c/
Real effective exchange rate (index: 2005=100) d/	104.5	106.8	107.2	105.9	106.5	106.9	108.6	109.3	106.2	104.8	c/
Consumer prices (12-month percentage variation)	8.8	7.8	6.7	6.8	7.1	7.6	7.6	6.0	5.2	4.8	c/
Average nominal exchange rate (lempiras per dollar)	23.12	23.40	23.69	23.98	24.27	24.55	24.86	25.18	25.48	25.74	
Nominal interest rates (annualized percentages)											
Deposit rate e/	1.3	1.0	0.8	0.9	1.0	1.0	1.0	1.2	1.2	1.4	
Lending rate f/	10.4	13.0	13.1	11.5	15.7	14.0	15.4	14.9	14.6	14.3	c/
Interbank rate	12.1	13.4	12.1	12.7	3.1	4.1	5.3	5.4	5.2	4.8	
Domestic credit (variation from same quarter of preceding year)	15.5	28.4	35.1	28.7	26.7	25.3	17.9	16.3	15.0	12.6	c/
Non-performing loans as a percentage of total credit	2.1	2.0	1.9	1.8	1.6	1.4	1.4	0.9	0.9	...	

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

a/ Preliminary figures.

b/ Based on figures in local currency at constant 2006 prices.

c/ Figures as of May.

d/ Quarterly average, weighted by the value of goods exports and imports.

e/ 30-day local-currency pasive rates, weighted average.

f/ Weighted average of short-term lending rates in local currency.