NICARAGUA

1. General trends

In 2017 the Nicaraguan economy maintained the buoyancy it has exhibited in recent years, marking up a growth rate of 4.9% – up by 0.2 of a percentage point over the 2016 rate – thanks to the dynamism of exports. Year-on-year inflation climbed to 5.8%, which was well above the 3.1% rate recorded for 2016, as a result of higher international hydrocarbon and raw material prices, along with upswings in the prices of various food items brought about by heavy rains late in the year. The deficit on current account shrank from 7.5% of GDP in 2016 to 5.0% in 2017, primarily thanks to the strength of the country's export sector. The non-financial public-sector deficit remained steady at 2% of GDP, while, thanks to the receipt of grants and donations, the central government managed to hold its deficit to 0.6% of GDP for the second year running. The average open unemployment rate at the national level for the year was 3.7%, down from 4.5% in 2016.

In April 2018, changes made by the executive branch in the general regulations governing the social security system triggered protests in various regions of the country, with some of the protestors blockading major highways. Although the modifications were later rolled back, social and political unrest has deepened, and this has had repercussions on various economic activities, especially tourism, trade and farming, along with the export sector and investment. The deteriorating financial position of the Nicaraguan Social Security Institute (INSS) is also expected to widen the fiscal deficit.

Based on the early statistics that are coming in, which reflect the initial effects of this domestic unrest on the economy, ECLAC is projecting GDP growth of 0.5% for 2018. The central bank had initially projected a year-on-year inflation rate of between 5.5% and 6.5% for 2018, but the rising costs of inputs for the production of many food items and distribution problems are driving up food prices. The situation has been exacerbated by higher international oil prices –in May, the price of a barrel of West Texas Intermediate crude hit its highest mark since November 2016– and the central bank has therefore revised its inflation projections upward to between 6.5% and 8.5% for the year. The discord has also had an impact on employment, and the central bank is projecting an uptick in the unemployment rate to nearly 6% and the loss of about 81,000 jobs. During the first months of the year, tourism earnings were trending upward, but trade and tourism are the sectors that have been the hardest-hit by the early effects of the disturbances, and the initial figures for 2018 point to a drop in tourism earnings for the year equivalent to around 25% of the figure that had initially been projected. The preliminary figures posted by the central bank indicate that the losses for the export sector in 2018 may amount to as much as US$ 440 million, or about 8% of total export earnings in 2017.

2. Economic policy

(a) Fiscal policy

The fact that the non-financial public sector's deficit remained unchanged is the net outcome of the widely differing performances of the country's State-run companies. On the one hand, the water and sewerage company (ENACAL) and Managua City Hall ran smaller deficits than before, and the public food distribution company (ENABAS) and the enterprise that runs the country's international airports (ENAAI) both posted larger surpluses. These results were offset, however, by a steep increase in the

INSS deficit (which expanded by 50.2% over its 2016 level) and by the larger deficits of the national electricity transmission company (ENATREL), the national power company (ENEL), the national oil company (PETRONIC), the national port authority (EPN) and the telecommunications and postal company (TELCOR).

Total current central government income totalled 73.848 billion córdobas, for a real annual increase of 7.6%, which was 2.2 percentage points less than the year before. In terms of GDP, however, the growth rate actually exceeded the previous year's figure by a slight amount (17.5% in 2016 versus 17.8% in 2017). Tax revenues, which accounted for 93% of total current income both in 2017 and in 2016, increased by 7.5% in real terms. Receipts from income taxes and value added taxes (VAT) rose at annual rates of 10.4% and 7.8%, respectively. The growth in income tax revenues was mainly a reflection of the buoyancy of economic activity, while, in the case of the VAT, domestic receipts climbed much more steeply than receipts from imports did. In addition to the expansion of economic activity, the reduction in tax rebates to electrical power companies associated with the cuts in government subsidies for this service was a very influential factor in this connection.

Total central government expenditure amounted to 19.3% of GDP (compared to 19.2% in 2016), for a real annual rate of increase of 6%. This result primarily reflected higher spending levels by the health, education and transport and infrastructure ministries, along with municipal transfers and public debt interest and fees. In 2017, capital transfers climbed by 14.4% in real terms (in contrast to a decrease of 8.7% in 2016), while the growth rate for purchases of goods and services plunged to just 0.8% in 2017 from the 26.4% rate recorded in 2016. This was, in part, the result of a return to more usual procurement levels following the steep increase associated with the organization of presidential elections the year before.

The fact that the central government's deficit narrowed somewhat (1.5% in 2017 compared to 1.7% in 2016) even without counting grants and donations was attributable to improved tax collection and stricter spending controls. This deficit was covered mainly by external credits in the net amount of 9.843 billion córdobas (US$ 328 million), most of which were made up of concessional loan disbursements under various programmes and projects and 3.746 million córdobas (US$ 125 million) in grants, primarily from the World Bank, the European Union and the Inter-American Development Bank (IDB).

At the close of 2017, Nicaragua's public debt balance was US$ 6.487 billion (the equivalent of 47% of GDP), which was two percentage points higher than it had been at the close of 2016. The increase in liabilities held by external creditors thus put an end to the downward trend observed since 2014. In all, 85.5% of the country's total public debt is made up of external debt.

The social and political unrest that erupted in April 2018 has had a number of different impacts on the country's economic activities, and this, together with the mounting INSS financial shortfall, will continue to put a great deal of pressure on public-sector finances. In view of these factors, the non-financial public-sector deficit is now expected to surpass the level of 3% of GDP that had initially been projected for 2018 as a whole.

(b) Monetary policy and exchange-rate policy

Larger inflows of foreign exchange – thanks to higher export earnings, more abundant inflows of remittances and increased income from tourism – played a decisive role in enabling the central government to meet the reserves target that it had set for itself, which, in turn, allowed it to deliver on its previously announced goal of achieving an annual nominal devaluation of the currency relative to the

United States dollar of 5%. The central bank's exchange desk sold US$ 24 million during the year as opposed to US$ 324 million in 2016, and its gross international reserves at the close of the year totalled US$ 2.758 million (compared to US$ 2.448 million in 2016). That level of reserves translates into 2.6 times the monetary base (versus 2.5 times in 2016) and 5.4 months' worth of imports (versus 5 months in 2016).

In real terms, the average short-term lending rate came to 6.8% in 2017 (compared to 7.6% in 2016), while the 30-day deposit rate was -2.5% (-2.3% in 2016). Monetary aggregates expanded in step with the dynamism exhibited by the economy in 2017, with sizeable increases in M1 (11%), transferrable local-currency deposits (16.1%) and dollar deposits (14.9%). The broadest measurement of the money supply —M3— rose at a nominal rate of 11.7%, compared to a rate of 9.4% the year before.

The expansion of financial system lending slowed in 2017 to a growth rate of 13.9% (as compared to 18.5% in 2016). Credit cards and industrial loans were the only categories in which lending increased at a faster pace than before; the upswing in industrial lending was particularly sharp, with the rate of increase for that category rising to 22.8% in 2017 from its 2016 rate of -0.1%. By contrast, the steepest downturn in the growth of credit was seen in the livestock subsector, where the rate dropped to 6.3% in 2017 from its 2016 level of 20.8%.

Taking into account the 5% nominal depreciation of the exchange rate and the differential between the rates of inflation in Nicaragua and the United States, the exchange rate for the córdoba against the United States dollar underwent an average real depreciation of 3.3%.

As at the end of May 2018, gross international reserves were equivalent to three times the monetary base and to 5.7 months' worth of merchandise imports c.i.f. Although the expansion of financial system lending had maintained its pace up until April, recent social and political events are expected to result in a slowdown that will have a dampening effect on economic activity.

(c) Other policies

In the short and medium terms, Nicaragua will face a number of challenges in the area of international finance. Flows of development assistance have plummeted from a high of US$ 729.3 million in 2012 to US$ 248.6 million in 2016 and to US$ 102.4 million in 2017. In addition, the possible passage of the Nicaraguan Investment Conditionality Act (NICA), which is currently stalled in the United States Senate, would limit access to loans from multilateral agencies. At the close of 2017, the external public debt balance was US$ 5.546 million; 68% of that debt is owed to multilateral institutions, and 93% of the US$ 540 million in disbursements during the year came from multilateral lenders.

The negotiations of a free trade treaty with the Republic of Korea and the text's legal review were finalized in 2017, and the agreement was signed by five Central American countries, including Nicaragua, and the Republic of Korea in February 2018. It is estimated that, with this agreement, the volume of trade could swell by between 33% and 68%. Among other products, Nicaragua will now be able to ship duty-free exports of coffee, sugar, cacao, rum and textiles to the Republic of Korea.

As a result of the cancellation of Nicaragua's temporary protected status by the Department of National Security Affairs of the United States on 5 January 2018, some 2,500 Nicaraguans will have to apply for and obtain other types of visas or return to their country by 5 January 2019. This will put pressure on the labour market and will erode potential flows of family remittances in the medium and long terms.

3. The main variables

(a) The external sector

The deficit on current account shrank from 7.5% to 5.0% of GDP owing to a number of different factors: a strong upturn in the volume of commodity exports, which was made possible, in part, by favourable weather conditions; slower overall import growth; a sizeable increase in family remittances (which rose by 10% in nominal terms, or 10.1% of GDP), mainly from the United States and Costa Rica; and higher earnings from tourism (with a nominal growth rate of 30.9%), thanks, in part, to the organization of the Eleventh Central American Games in December 2017.

Merchandise exports f.o.b. were up by 14.5% over the preceding year's level if free-zone and maquila exports are not factored into the total and by 7.2% if these categories of exports are included. The upswing was driven by larger volumes and higher international prices, with particularly significant increases in agricultural products (24%) and manufactures (17.4%). Imports, excluding free-zone purchases, climbed by 3.5% in 2017 (and by 3.2% if free-zone activity is included), chiefly as a result of a substantially higher oil bill (up by 28%), while imports of capital goods slipped by 5.2% as a consequence of decreases in imports of telecommunications equipment (-15.7%), transport equipment (-6.8%) and office machines (-7.6%). After witnessing a favourable trend in its terms of trade for three years running, in 2017 the country's terms of trade worsened by 1.8% (when data for the free trade zone are included), primarily because of the higher prices brought by petroleum and petroleum products.

At US$ 896.6 million in 2017, FDI flows were 0.26% below their 2016 level and were equivalent to 6.5% of GDP. Slightly over half of this amount (50.2%) went to industry and 19.8% to the telecommunication sector.

During the first four months of 2018, a 19.6% year-on-year increase was registered in the overall trade deficit in goods (compared to a 23.9% reduction in the deficit during the corresponding period of 2017). This was mainly the result of a sharp slowdown in export growth (to a year-on-year rate of 0.7%), combined with an 8.9% year-on-year increase in imports for January–April. The closing figures for April 2018 indicate that four of the country's main export items —coffee, beef, cane sugar and dairy products— were down from the previous year's levels.

(b) Economic activity

The Nicaraguan economy remained robust in 2017 but, unlike the situation in 2016, exports were the main driver of growth, accounting for a full four percentage points of total GDP growth. Consumption slowed but nonetheless contributed 3.5 percentage points, while gross capital formation lowered the economy's growth rate by 0.5 percentage points.

The decline in household consumption (a rate of 3.8% in 2017 versus 5.3% in 2016) had to do with the more halting growth of credit and a downturn in real wages. The smaller increase in government consumption (3.5% in 2017 versus 7.7% in 2016) was partly a reflection of a return to more normal levels after the steep increase in spending in 2016 associated with the organization of presidential elections. Factors behind the contraction in gross capital formation (-1.4%) included slowdowns in both gross public capital formation (a growth rate of 3.0% in 2017 versus one of 9.7% in 2016) and private capital formation (a rate of 1.3% in 2017 compared to 1.6% in 2016), along with a steep reduction in inventories.

The areas of activity in which production rose the most in 2017 were livestock (12.7%), fisheries and aquaculture (10.0%) and crop farming (10.0%), thanks to good weather conditions and strong exports. At the opposite extreme, the output of mines and quarries was down by 9.9% for the year.

According to the figures for the period up to April 2018, the average annual variation in the monthly indicator of economic activity –at 3.5% (two percentage points lower than the indicator for the months up to April 2017)– was at its lowest level since 2009. This overall result is principally a reflection of slumps in activity in the forestry and wood industries, mining and quarrying, and construction, but the indicator would have been even lower had it not been for the growth of activity in fisheries and aquaculture, agriculture, and financial intermediation and related services.

(c) Prices, wages and employment

The average annual rate of inflation closed out 2017 at 3.9%, or 0.4 percentage points higher than in 2016. The cumulative year-on-year inflation rate for the nation as a whole climbed to 5.7% after having held at 3.1% for two years in a row. The main factors behind this upswing were higher food prices in the last four months of the year and higher international oil prices. The annual inflation rate for farm products amounted to 8.7%. Core inflation stood at 4.1% and thus remained at its 2016 level, whereas non-core inflation jumped from its 2016 rate of 1.4% to 8.5% in 2017.

By category, the highest annual inflation rate (10.6%) was registered for lodging, electricity, water and fuel, with the main factors underlying this result being the increases in the price of butane gas and in electricity rates.

The number of persons who were paying into the social security system rose, on average, by 6.6% in 2017 (as compared to an increase of 10.8% the year before). A portion of the slowdown in the expansion of coverage was a decline in investment levels.

The results of the Continuous Household Survey indicate that, on average, the total labour-force participation rate for 2017 was 73.5% (versus 73.6% in 2016), while the average open unemployment rate at the national level came to 3.7% (versus 4.5% in 2016).

In February 2017 the National Commission on the Minimum Wage approved an upward revision of the minimum wage of 8.25% for all activities and of 8% for small and medium-sized enterprises, with half of this increase going into effect in March and the other half in September. An 8% increase was introduced in the free trade zone starting on 1 January 2017 under a tripartite multi-annual agreement signed in December 2012. The rise in the average wages of workers who pay into the social security system slowed in 2017, as the increase came to 5.5% in nominal terms (compared to 6.3% in 2016) and to 1.5% in real terms (compared to 2.7% in 2016).

As of mid-2018, the cumulative inflation rate was slightly lower than it had been during the same period in 2017 (1.9% in 2018 versus 2.0% in 2017). The increase in the consumer price index in 2018 was mainly attributable to price rises in transport, education, and food and non-alcoholic beverages; the prices of various products —especially food items— are expected to climb in the second half of the year as a consequence of the prevailing political and social situation. As of May 2018, the number of economically active persons who were paying into the social security system was the lowest it had been since March 2016 and reflected the loss of 66,374 jobs in the formal sector since May 2017. As is also true of the preliminary figures issued by the central bank, these statistics are an early sign of the effects that the unrest in the country is having on job creation. When the National Commission on the Minimum

Wage uncharacteristically failed to reach an agreement, the Ministry of Labour stepped in and mandated a 10.4% increase in the minimum wage that is to enter into effect in two stages, with half of the rise being applied on 1 March and the other half scheduled to come into effect on 1 September 2018.

Table 1
NICARAGUA: MAIN ECONOMIC INDICATORS

	2009	2010	2011	2012	2013	2014	2015	2016	2017 a/
	Annual growth rates b/								
Gross domestic product	-3.3	4.4	6.3	6.5	4.9	4.8	4.8	4.7	4.9
Per capita gross domestic product	-4.5	3.1	5.0	5.2	3.7	3.6	3.6	3.5	3.7
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	0.8	2.6	5.1	-0.9	-1.8	2.5	0.2	4.4	10.3
Mining and quarrying	-3.4	51.6	25.7	10.9	22.4	0.4	-5.4	8.1	-9.9
Manufacturing	-5.5	8.9	9.8	10.2	6.5	7.6	1.0	2.8	5.2
Electricity, gas and water	5.2	3.5	8.3	15.4	15.7	9.4	3.3	3.9	2.5
Construction	-29.1	-17.2	10.8	27.1	11.0	1.8	23.6	1.0	3.1
Wholesale and retail commerce, restaurants and hotels	-3.4	7.3	9.0	7.2	3.5	3.6	6.7	5.8	4.6
Transport, storage and communications	-0.8	17.5	12.6	6.0	5.4	4.3	5.3	3.8	2.0
Financial institutions, insurance, real estate and business services	-4.1	-3.0	-0.3	2.3	4.8	5.4	5.3	5.7	4.1
Community, social and personal services	1.1	5.3	0.9	5.0	5.4	6.2	4.7	5.0	4.4
Gross domestic product, by type of expenditure									
Final consumption expenditure	1.7	2.9	2.8	4.1	4.1	4.5	5.3	5.7	3.7
Government consumption	1.8	2.2	3.6	4.1	5.4	6.0	6.3	7.7	3.5
Private consumption	1.7	3.0	2.6	4.1	3.8	4.2	5.2	5.3	3.8
Gross capital formation	-31.6	10.7	29.2	5.6	3.5	-0.4	22.3	3.9	-1.4
Exports (goods and services)	0.0	16.3	8.3	12.4	3.8	6.4	-2.8	4.5	10.2
Imports (goods and services)	-9.1	12.1	11.5	6.8	2.4	3.1	9.1	5.7	3.4
Investment and saving c/	**Percentajes of GDP**								
Gross capital formation	23.2	24.8	31.0	31.0	30.9	28.9	32.7	30.7	29.0
National saving	14.7	15.9	19.1	20.3	20.0	21.8	23.6	23.2	24.0
External saving	8.5	8.9	11.9	10.7	10.9	7.1	9.1	7.5	5.0
Balance of payments	**Millions of dollars**								
Current account balance	-706	-780	-1 166	-1 132	-1 199	-844	-1 145	-989	-694.0
Goods balance	-1 606	-1 787	-2 254	-2 290	-2 262	-2 169	-2 545	-2 612	-2 470.2
Exports, f.o.b.	2 091	2 726	3 416	3 919	3 852	4 150	3 859	3 772	4 142.5
Imports, f.o.b.	3 697	4 513	5 670	6 210	6 114	6 319	6 405	6 384	6 612.7
Services trade balance	38	96	131	163	21	188	232	394	513.6
Income balance	-256	-250	-273	-314	-327	-314	-346	-357	-390.2
Net current transfers	1 118	1 161	1 230	1 310	1 369	1 450	1 515	1 586	1 652.8
Capital and financial balance d/	1 129	999	1 253	1 117	1 294	1 126	1 342	933	994.0
Net foreign direct investment	463	475	929	704	665	790	905	835	816.2
Other capital movements	666	524	325	412	629	336	437	97	177.8
Overall balance	423	219	87	-15	96	282	197	-57	300.0
Variation in reserve assets e/	-423	-219	-87	15	-96	-282	-197	57	-300.0
Other financing	0	0	0	0	0	0	0	0	0.0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	103.4	100.5	105.9	103.8	100.4	105.6	100.9	104.1	115.0
Terms of trade for goods (index: 2010=100)	98.3	100.0	106.6	106.5	98.2	100.1	113.3	115.1	110.6
Net resource transfer (millions of dollars)	873	749	980	802	967	812	996	576	603.8
Gross external public debt (millions of dollars)	6 533	7 286	8 126	8 957	9 677	10 132	10 543	11 025	11 512.3
Employment	**Average annual rates**								
Labour force participation rate g/	66.6	71.2	75.6	76.8	75.8	74.0	72.4	73.6	73.5
Open unemployment rate h/	10.2	10.5	8.1	8.7	7.7	8.5	7.7	6.3	5.2

Table 1 (concluded)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Prices	**Annual percentages**								
Variation in consumer prices									
(December-December)	1.8	9.1	8.6	7.1	5.4	6.5	2.9	3.1	5.8
Variation in nominal exchange rate									
(annual average)	5.0	5.0	5.0	5.0	5.0	5.0	5.0	4.8	5.2
Variation in average real wage	5.8	1.3	0.1	0.3	0.3	1.7	2.6	2.3	1.5
Nominal deposit rate i/	6.0	3.0	1.8	1.0	1.0	1.0	1.0	1.1	1.3
Nominal lending rate j/	14.0	13.3	10.8	12.0	15.0	13.5	12.0	11.4	10.9
Central government	**Percentajes of GDP**								
Total revenue k/	16.0	16.3	17.2	17.6	17.2	17.4	17.7	18.6	18.7
Tax revenue	13.1	13.7	14.5	15.0	15.0	15.3	15.6	16.2	16.6
Total expenditure	17.7	17.0	16.7	17.1	17.1	17.7	18.3	19.2	19.3
Current expenditure	13.7	13.1	13.2	13.4	13.3	13.7	13.8	14.6	14.5
Interest	1.0	1.1	1.0	1.0	0.9	0.9	0.9	1.0	1.1
Capital expenditure	3.9	3.9	3.5	3.7	3.8	4.0	4.5	4.5	4.8
Primary balance	-0.7	0.3	1.5	1.5	1.0	0.5	0.3	0.4	0.5
Overall balance	-1.7	-0.7	0.5	0.5	0.1	-0.3	-0.6	-0.6	-0.6
Central government public debt	32.6	33.2	31.8	31.2	30.8	30.2	29.9	30.6	34.1
Domestic	11.2	10.6	9.4	8.3	6.8	6.0	5.3	5.1	4.9
External	21.4	22.6	22.4	23.0	24.1	24.1	24.6	25.5	29.2
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	39.3	35.6	31.6	34.1	36.7	34.2	36.3	36.5	37.7
To the public sector	24.9	23.5	20.1	17.2	16.7	13.0	11.1	10.8	8.7
To the private sector	28.5	26.8	26.2	28.7	31.9	33.9	37.3	38.9	42.6
Others	-14.1	-14.7	-14.7	-11.9	-11.8	-12.7	-12.1	-13.1	-13.7
Monetary base	7.4	77.6	8.3	7.7	7.5	7.6	8.6	7.7	8.0
Money (M1)	6.8	7.7	7.9	7.6	7.9	7.9	8.9	8.5	8.7
Foreign-currency deposits	25.6	28.3	26.8	27.8	30.3	30.8	32.5	32.9	33.2

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.
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

	2016				2017				2018	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross domestic product (variation from same quarter of preceding year) b/	3.1	6.8	4.4	4.4	7.5	4.6	3.2	4.3	...	...
Gross international reserves (millions of dollars)	2 300	2 356	2 329	2 253	2 298	2 385	2 419	2 523	2 662	2 671
Real effective exchange rate (index: 2005=100) c/	101.7	103.0	105.3	106.4	108.1	112.4	117.7	121.8	110.3	103.7
Consumer prices (12-month percentage variation)	3.6	3.5	3.5	3.1	3.2	3.2	4.3	5.8	5.0	5.6
Average nominal exchange rate (córdobas per dollar)	28.0	28.4	28.8	29.0	29.4	29.8	30.2	30.6	31.0	31.4
Nominal interest rates (average annualized percentages)										
Deposit rate d/	0.8	1.0	1.0	1.7	1.1	1.2	1.0	1.6	1.6	1.0
Lending rate e/	11.8	12.0	11.3	10.7	11.1	12.5	9.6	10.2	9.8	10.1
Interbank rate	4.9	5.4	5.3	5.2	5.4	5.2	4.8	4.9	4.8	4.8
Domestic credit (variation from same quarter of preceding year)	13.7	12.8	13.8	12.4	13.0	17.1	15.9	13.7	9.8	5.8 f/
Non-performing loans as a percentage of total credit	0.9	1.0	1.0	0.9	0.9	0.9	1.0	1.1	1.1	1.3

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/ Quarterly average, weighted by the value of goods exports and imports.
d/ 30-day local-currency pasive rates, weighted average.
e/ Weighted average of short-term lending rates in local currency.
f/ Figures as of May.

.