Nicaragua

The Nicaraguan economy grew in 2010, with GDP expanding by just over 3.0% compared with a 1.5% contraction in 2009. This recovery was driven by rallying exports, which were up nearly 25% on the strength of sales to new destinations such as the Bolivarian Republic of Venezuela and Canada. The export products posting the largest gains were coffee, bovine meat, gold and sugar. Domestic consumption rose slightly (2.4%) thanks to a 2.1% increase in private consumption. Fuelled by the upswing in economic activity and rising oil and basic grain prices, inflation will be in the area of 8.5% after closing 2009 at 0.9%. Consumer and capital goods imports are expected to be higher, too, driving the current account deficit up to 16.5% of GDP at year-end 2010.

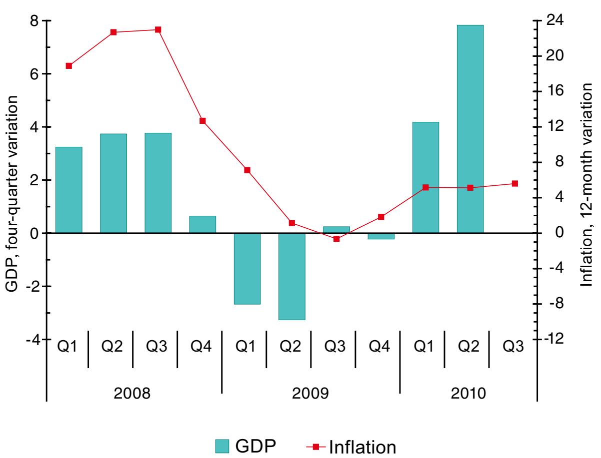
According to ECLAC estimates, economic activity will slacken slightly in 2011 and GDP will grow by some 3% depending on the strength of the economic recovery in the United States, where a slowdown would decrease external demand.

GDP growth by sector in 2010 was marked by a steady rise in manufacturing activity —the 8.9% average annual increase to September stood in sharp contrast to the 2.9% drop as of September 2009. The food and garment sectors contributed the most to this performance, growing by an average 40.3% and 12.1% respectively. The crop sector posted average growth of 3.8% to September, and the livestock industry recorded an average gain of 10.3%. Commercial activity continued to trend up, expanding by an annual average of 5.4%. The financial sector contracted by an average 8.4%, due above all to a decline in the issue of credits.

The nominal wage at the national level posted year-on-year growth of 3.7% to August, while the real wage recorded a slight year-on-year decline of 1.6% for the same period. According to social security figures, the number of employees rose by 4.3% in 2010.

The central government's fiscal account balance continues to improve thanks to higher-than-expected revenues under the amended Fiscal Equity Act that took effect in late 2009. The 1.1% rise in fiscal revenues was a major factor in paring the central government deficit, including grants, which is expected to end 2010 at 1.1% (2.8% in 2009). The reduction in expenditure (from 24.3% of GDP in 2009 to 23.7% in 2010) was also key in narrowing the deficit and was achieved by holding the wage bill steady and cutting back subsidies for electricity consumption, thus improving macroeconomic expectations and ensuring the continuation of the Extended Credit Facility arrangement from the International Monetary Fund (IMF), which was extended to 4 December 2011. This arrangement provides key guidance, especially in view of the risk of rising expenditure during the 2011 electoral period. Extending the IMF arrangement also ensured the flow of international cooperation resources, especially from multilateral sources. Worthy of note is

NICARAGUA: GDP AND INFLATION



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

the contribution of the Bolivarian Republic of Venezuela, which accounted for US$ 351.0 million (60.2%) of the total US$ 582.9 million in resources received from official bilateral and multilateral sources as of June 2010; most of that contribution came under the PetroCaribe energy cooperation agreement. As part of the programme to strengthen the fiscal and quasi-fiscal accounts, the administration launched a programme to reform the power sector, clamping down on illegal connections and trimming the subsidy. The social security contribution rate was increased by one percentage point. These measures helped reduce the impact of public sector operations on total aggregate demand by bringing the consolidated public sector debt down to no more than 2.3% of GDP at year-end 2010.

The authorities have proposed a complementary agenda calling for improvements in tax and customs administration and strengthening the institutional structure of the central bank by means of the recently enacted Organic Law of the Central Bank of Nicaragua. The goal is to increase transparency and lay the groundwork for fiscal consolidation. Significant effort is being put into strengthening and simplifying the tax system, focusing on ways to streamline the exemptions and exceptions scheme.

As work on fiscal consolidation and on improving the management of external cooperation continued, transparency got a boost in the form of support from the central bank as it issued detailed reports on external cooperation. Continuing and deepening this disclosure policy will help build confidence among economic stakeholders, especially during the electoral period.

Monetary policy has been geared towards moderating inflationary pressures. At 31 October 2010, inflation stood at 7.26%. The banking system lending rate was relatively high in real terms (6.7%); this contributed to the stagnation of credit for the private sector, which posted a 6% net decline to September. At year-end 2010 inflation could be slightly above the central bank's target owing to rising prices for oil and for crops such as wheat, rice and beans. The central bank will hold its nominal crawling peg policy at an annual 5%, thereby helping ease pressure on reserves and checking the loss of competitiveness due to the foreign exchange situation.

Brightening expectations in view of the performance of the external sector, coupled with efforts on the monetary and fiscal policy front and the extension of the IMF arrangement, helped drive the demand for money up. This took pressure off international monetary reserves, which could end 2010 with a gain of approximately US$ 20 million.

The external sector was boosted by surging exports (up 30% to September), thanks especially to the doubling of sales to the Bolivarian Republic of Venezuela and Canada between 2009 and 2010. Sales to the United States market rallied as well, posting a 40% increase on the strength of rising exports from maquila firms producing textiles and wiring assemblies for the automotive industry and a 10% gain in tourism. But the economic recovery drove imports up as well (by 21%), especially imported consumer goods such as food and pharmaceutical products (up 22%) and capital goods for the manufacturing industry (16% increase). Import value is expected to rise again in the final quarter, driven by rising international prices for oil and foodstuffs such as wheat combined with slower export growth. Remittances to September 2010 stood at US$ 598 million (13% of GDP); estimates are that they could close the year with a 6.5% gain over 2009.

NICARAGUA: MAIN ECONOMIC INDICATORS

	2008	2009	2010 [a]
	Annual percentage growth rates		
Gross domestic product	2.8	-1.5	3.0
Per capita gross domestic product	1.4	-2.7	1.7
Consumer prices	12.7	1.8	7.7 [b]
Average real wage	-4.0	5.8	1.6 [c]
Money (M1)	2.8	10.8	25.3 [d]
Real effective exchange rate [e]	-3.7	2.0	1.1 [f]
Terms of trade	-4.4	9.7	-0.9
	Annual average percentages		
Urban unemployment rate	8.0	10.5	...
Central government overall balance / GDP	-1.2	-2.3	-1.5
Nominal deposit rate	6.6	6.0	3.3 [g]
Nominal lending rate	13.2	14.0	13.9 [g]
	Millions of dollars		
Exports of goods and services	2 937	2 857	3 539
Imports of goods and services	5 357	4 482	5 311
Current account	-1 513	-841	-969
Capital and financial account [h]	1 499	1 049	895
Overall balance	-14	208	-74

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 2010.
[c] Estimate based on data from January to September.
[d] Twelve-month variation to September 2010.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] Year-on-year variation, January to October average.
[g] Average from January to August, annualized.
[h] Includes errors and omissions.