Nicaragua

ECLAC expects Nicaragua's economy, as measured by GDP, to continue growing faster than the regional average in 2014, expanding by 4.5%, compared with 4.6% in 2013. Two main factors were responsible for the slowdown: the earthquake and aftershocks in April, which forced the closure of most production facilities, and the El Niño phenomenon, which had a negative impact on agricultural production. The process of fiscal consolidation will continue apace thanks to the tax reform introduced in January 2013. As a result, the central government deficit before grants will stand at about 0.7% of GDP at the end of 2014. Meanwhile, year-on-year inflation will be around 6.5%, almost 1 percentage point higher than the 5.7 % recorded year-end 2013. The balance-of-payments current account deficit could stand at 11% of GDP (compared with 11.3% in 2013).

Growth of around 4.5% is expected for 2014 overall, on the back of rising external demand as the United States economy expands, as well as an uptick in domestic demand —both factors that staved off a worse economic impact from the April earthquakes and the drought.

During the year discussions continued on the interoceanic canal megaproject, which would involve an investment in infrastructure equivalent to nearly four times Nicaragua's GDP. The first findings of the environmental impact study were presented in early November. The government continues to support the scheme, which could be the region's largest infrastructure project if it comes to fruition. The construction of the Tumarín hydroelectric plant in the South Atlantic Autonomous Region was postponed until February 2015.

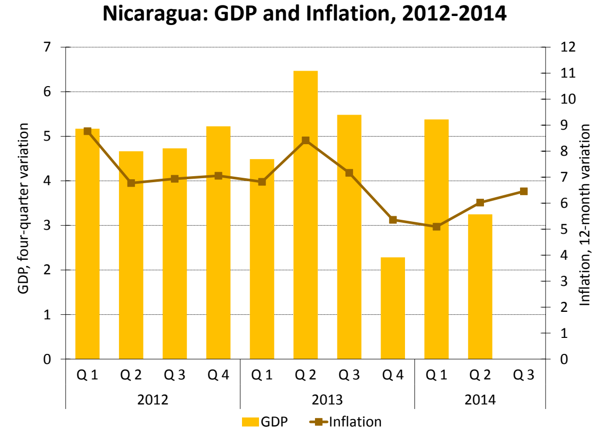
In September 2014 total central government revenue expanded by 15.5%, while spending rose by 18.2%, both in nominal terms over the same period in 2013. The more progressive tax structure contributed to the higher revenues: 39% of revenues came from direct taxes, compared with 37% for the same date in 2013. The rising share of income tax is a result of the full implementation of the Tax Coordination Act, which led to administrative improvements and tighter surveillance. At the end of the third quarter, value added tax revenues were 25% higher than the year-earlier period.

The authorities maintained a contractionary monetary policy, stepping up the volume of open market operations in order to avert pressures on the external sector and the exchange rate and to hold nominal local currency depreciation to the target rate of 5% per annum. The government shored up this policy by increasing its deposits in the central bank, as part of a coordinated fiscal and monetary policy.

This monetary policy stance led to slightly smaller growth in credit to the private sector: up by 20.9% at the end of the third quarter, compared with 22.6% in September 2013. The largest loan volumes went to the livestock, commerce, industry and construction sectors.

The implicit lending rate remained virtually unchanged, standing at 12.65% in September 2014, compared with 12.63% in December 2013. Meanwhile, at the end of the third quarter financial system profitability stood at 2.22% in terms of return on assets (compared with 2.20% in September 2013), while return on equity remained at 21.5%. A 20% year-on-year increase in credit is

Nicaragua: GDP and Inflation, 2012-2014



Source: Economic Commission for Latin America and the Caribbean expected by the end of the year, in line with the central bank's financial stability objective.

Monetary policy actions and inflows of resources from external loans and grants, as well as the improvement in the trade balance, pushed net international reserves up by US$ 31.7 million. Gross international reserves thus totalled US$ 2.170 billion, which is equivalent to 2.87 times the monetary base and more than four months of imports.

In 2014, official external cooperation remained the third largest source of external resources in Nicaragua, after exports of goods and services, and remittances. Total cooperation to June amounted to US$ 528 million, of which US$ 345.6 million went to the private sector and US$ 182.4 million to the public sector. The Bolivarian Republic of Venezuela remained the primary source of international cooperation, although its grants decreased slightly owing to the drop in oil prices. Total external debt as a percentage of GDP stood at 39.7% at the end of the third quarter of 2014.

Nicaragua: main economic indicators, 2012-2014

	2012	2013	2014 [a]
	Annual growth rate		
Gross domestic product	5.0	4.6	4.5
Per capita gross domestic product	3.5	3.1	3.0
Consumer prices	7.1	5.4	6.8 [b]
Real average wage [c]	0.3	0.3	1.9 [d]
Money (M1)	17.6	8.5	16.8 [d]
Real effective exchange rate [e]	-1.3	-0.8	0.2 [b]
Terms of trade	0.0	-8.2	0.2
	Annual average percentage		
Central government			
Overall balance / GDP	0.9	0.1	-0.8
Nominal deposit rate	1.0	1.0	1.1 [b]
Nominal lending rate [f]	12.0	15.0	13.8 [b]
	Millions of dollars		
Exports of goods and services	5,008	5,000	5,477
Imports of goods and services	7,364	7,335	7,459
Current account balance	-1,347	-1,280	-837
Capital and financial balance [g]	1,332	1,375	1,049
Overall balance	-15	96	212

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Estimates.
b/ Figures as of October.
c/ Average wage declared by workers covered by social security.
d/ Figures as of September.
e/ A negative rate indicates an appreciation of the currency in real terms.
f/ Short-term loans rate, weighted average.
g/ Includes errors and omissions.

The export sector continued to perform robustly. Exports of goods and services increased by 9.7% year-on-year to September, while imports grew at a moderate, cumulative rate of 1%.

Ten products accounted for 76% of the value of exports, the top five of which were coffee, beef, gold, sugar and milk. The top five destinations captured 67.8% of exports. The largest markets remain the United States, Central America, the Bolivarian Republic of Venezuela and Canada. Central America as a whole received 20% of exports, underscoring how important this subregion is to the Nicaraguan economy.

With respect to imports, the main increase was seen in consumer goods, while capital goods fell by 2.1% year-on-year in September, with the largest contractions for purchases of telecommunications equipment and transportation. The balance-of-payments current account deficit could stand at 11% of GDP at the end of 2014.

Cumulative remittances to August totalled US$ 740 million. By the end of December inflows are expected to be at least 7% higher than in 2013 and to represent about 9% of GDP. The largest source of remittances to Nicaragua remains the United States (accounting for 54%), followed by Costa Rica (with 20%). In the case of remittances from the United States, the monthly average is US$ 205 per sender.

Foreign direct investment (FDI) also continues to play an important role in foreign-exchange inflows to Nicaragua. At the end of 2014 net FDI inflows could total US$ 780 million (compared with US$ 850 million in 2013). These resources are directed primarily at the energy, free zone and construction sectors. The main pull factors continue to be public safety, favourable free zone conditions and wage competitiveness compared with elsewhere in the region.

ECLAC estimates that economic activity as a whole will grow by 5% in 2015, reflecting an increase in external demand and in both private and central government consumption. Inflation could reach around 6.5%, while the nominal depreciation target holds steady at 5% per annum.

Cumulative inflation to November was 6.5%, driven mainly by rising prices for food and non-alcoholic beverages (accounting for 4.1 percentage points of the increase mentioned), restaurants and hotels (0.9 percentage points) and, to a lesser extent, education (0.5 percentage points).

Nicaragua maintained its policy of wage bargaining twice a year. Thus, on 1 July wages rose by between 4.9% and 5.38% for all workers, with the exception of maquila workers, who had received an annual increase of 8% in January 2014. As a result, the minimum wage for the agricultural sector was 2,850.78 córdobas (US$ 114), compared with 6,410 córdobas (US$ 256.40) in the financial and insurance sector.