

Nicaragua

The Economic Commission for Latin America and the Caribbean (ECLAC) estimates that Nicaragua's economy will grow by 3.8% in 2022, following the previous year's 10.3% expansion. This sharp slowdown is due partly to the end of the statistical effect of a low comparison base that operated in 2021, when the economy recovered after three consecutive years of contraction. It is also explained by the growth slowdown in the global economy and the weakening of Nicaragua's terms of trade.

The current account is projected to post a deficit of 0.5% of GDP in 2022 (compared to the previous year's shortfall of 2.9%), with sharp increases in family remittance flows and exports offsetting import growth fuelled by the rise in international commodity prices. The latter will lift inflation to 10.0% (compared to 7.2% in 2021). The Central Bank of Nicaragua forecasts a non-financial public sector deficit of around 3.3% of GDP at year-end, up from 1.4% in 2021, mainly reflecting the fuel subsidy policy. The unemployment rate is expected to close out the year between 3.0% and 4.0%.

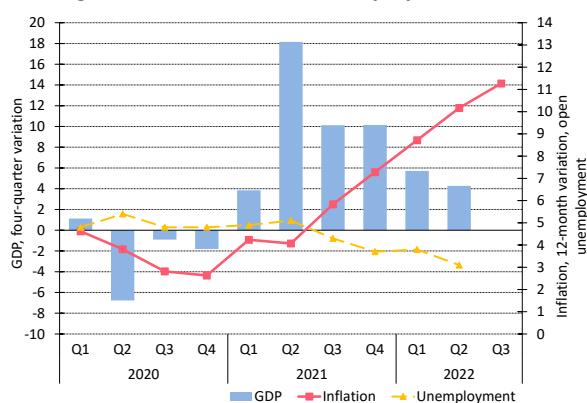
In the first eight months of 2022, total central government income was 7.2% higher in real terms than a year earlier, powered by an increase of 9.2% in tax revenues. Income tax revenue posted outstanding real year-on-year growth of 16.7%, while value-added taxes and excise duties maintained levels similar to those of the previous year. Total central government expenditure was up by 2.7% in real terms year-on-year as of August. This included an increase in social benefits and other expenditures (+54.9%), while other items reported amounts similar to those of the previous year.

In late 2021, the total non-financial public sector debt (US\$ 9.226 billion) represented 65.8% of GDP; and in the first half of 2022, it increased by 3.6% to US\$ 9.563 billion. During the same period, the external share of the total debt dropped from 84.6% to 82.5%. In the first six months of the year, 75.8% of total disbursements (and 96.2% of newly contracted loans) were sourced from the Central American Bank for Economic Integration (CABEI).

In 2022, monetary policy adopted a contractionary stance. Between January and November, the central bank hiked its benchmark repo rate by 300 basis points, from 3.50% to 6.50%, in line with international interest rate decisions and in response to accelerating inflation. Despite these measures, financial market interest rates in 2022 were below the previous year's levels, owing to the abundance of liquidity in the market. In the first eight months of 2022, the average nominal interest rate on one-month córdoba deposits stood at 1.0% (equivalent to a real rate of minus 8.0%), compared to 1.7% (-2.3% real) in the year-earlier period. The average short-term nominal rate on loans in local currency was 9.2% (-0.6% real), compared to 9.6% (5.4% real) in the same period a year earlier.

Nicaragua's gross international reserves totalled US\$ 4.244 billion on 30 September 2022, 4.9% more than at the end of 2021 and equivalent to 3.2 times the monetary base. The official

Nicaragua: GDP, Inflation and Unemployment, 2020-2022



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

exchange rate stood at 36.2 córdobas per dollar in late November, with a nominal variation of 1.83% since the end of 2021, in line with the 2.0% nominal annual depreciation target established through the pre-announced mini-devaluation regime. In real terms, in the third quarter of 2022 the exchange rate had appreciated by an average of 0.5% since the last quarter of the previous year.

The banking sector's gross portfolio of credit to the private sector continued to recover in 2022, growing by 9.3% in the first nine months to a level of 144.285 billion córdobas (in 2021 it grew by 4.9%, following yearly contractions between 2018 and 2020). The sectors in which credit expansion was greatest were manufacturing (+24.5%) and personal loans (+20.8%).

Between January and September, total goods exports increased by 18.8% in value terms, relative to the same period in 2021, owing to growth in goods exports (+15.3%) and in exports from free trade zones (+22.5%). In the free trade zones, the textile sector accounted for more than half of this export category (a 29.4% year-on-year increase). Among merchandise exports, coffee increased by 46.1%, driven by the rise in price (+41.1%). Foreign sales of gold, Nicaragua's main export product, grew by 9.2%. In September, merchandise imports (in CIF, cost, insurance and freight, values) were up by 21.7% year-on-year, explained mainly by oil and fuel imports (+65.3%). Imports of consumer goods increased by 16.4%, intermediate goods were up by 17.2%, and capital goods were 0.2% higher.

Remittances grew at an annual rate of 45.0% in the first nine months of 2022, mainly owing to a sharp increase in funds sent from the United States (+74% year-on-year), reflecting the recent increase in migration to that country. In the first half of the year, foreign direct investment (FDI) flows increased by 12.9% year-on-year to US\$ 812 million.

Gross domestic product grew at an annual rate of 5.0% in the first half of 2022, with strong sector performances in restaurants and hotels (+20.2%), mining (+9.1%), commerce (+9.0%) and manufacturing (+6.5%). On the demand side, consumption expanded by 5.1%, driven by private consumption (+6.1%), while public consumption declined by 0.2%. Gross fixed capital formation grew by 0.2%, with public fixed investment increasing by 6.9% and private fixed investment declining by 2.2%.

In October 2022, year-on-year inflation was 12.2%, fuelled mainly by the import component. The categories with the largest price increases were transportation (+16.1%) and food and non-alcoholic beverages (+18.6%). Core inflation was 10.0% year-on-year (compared to 5.1% in October 2021).

The National Institute for Development Information (INIDE) reported an open unemployment rate of 3.1% in the second quarter of 2022, down by 2.0 percentage points from a year earlier.

Nicaragua: main economic indicators, 2020-2022

	2020	2021	2022 ^a
	Annual growth rate		
Gross domestic product	-1.8	10.3	3.8
Per capita gross domestic product	-3.0	9.1	2.6
Consumer prices	2.6	7.3	11.9 ^b
Real average wage ^c	-1.0	-0.5	...
Money (M1)	29.5	24.3	20.5 ^d
Real effective exchange rate ^e	-0.2	1.7	-1.0 ^b
Terms of trade ^f	16.0	-5.2	-10.1
	Annual average percentage		
Unemployment rate	5.0	4.5	3.1 ^f
Central government			
Overall balance / GDP	-1.1	-0.7	...
Nominal deposit rate ^g	2.1	1.5	1.0 ^d
Nominal lending rate ^h	11.2	9.6	9.2 ^d
	Millions of dollars		
Exports of goods and services	9 738	12 192	14 527
Imports of goods and services	11 263	15 757	18 384
Current account balance	27 103	-4 817	-7 026
Capital and financial balance ⁱ	-15 113	15 105	...
Overall balance	11 990	10 288	...

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 August.

e/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.

f/ Figures as of June.

g/ Weighted average 1 deposit rates in local currency up to 1 month.

h/ Short-term loans rate, weighted average.

i/ Includes errors and omissions.

Nonetheless, the overall labour market participation rate continues to decline, reaching 66.4% in late June, the lowest rate in the last five years. There is a wide disparity between men and women, especially in rural areas, where 86.7% of men were participating in the labour market as of June 2022, compared to just 48.8% of women. The number of active affiliates in the Nicaraguan Social Security Institute (INSS) totalled 787,000 in November 2022, 17,000 more than in late 2021, but 127,000 fewer than in late 2017. The real wage was 9.2% lower year-on-year in September, owing to the high inflation rate, even though the nominal minimum wage had been hiked by 7% as from 1 March.

According to ECLAC projections, Nicaragua's GDP is set to grow by 2.1% in 2023. The slowdown relative to 2022 will reflect more subdued economic activity, both globally and in the United States in particular, which will reduce exports, remittances and FDI flows. Inflation will be lower in 2023 (by about 7%), given the expectation of smaller increases in international commodity prices. The latter, and in particular lower oil prices, is expected to generate a current account surplus equivalent to about 1% of GDP. The non-financial public sector deficit will be approximately 1.5%, as a result of the ending of fuel subsidies. The open unemployment rate is projected to remain around 4%.