

NICARAGUA

1. General trends

The Nicaraguan economy grew by 5.2% in 2012, compared with 5.4% in 2011.¹ Economic growth was buoyed by rising private investment, a revival in lending and higher private consumption. The non-financial public sector deficit stood at 0.2% of GDP (as against a 0.2% surplus in 2011). With the central bank holding its nominal devaluation policy at 5%, the real exchange rate remained virtually unchanged at year-end, while inflation closed the year at 6.62%, lower than the rate recorded in 2011 (7.95%). The balance-of-payments current account deficit fell slightly to 12.8% of GDP, from 13.2% in 2011. Economic growth is projected to remain steady at around 5% in 2013, and inflation could jump to about 8%, given the need to finance economic growth through private-sector lending. As a result, the balance-of-payments current account deficit is expected to remain near 13%.

2. Economic policy

(a) Fiscal policy

In 2012, the government maintained a fiscal policy designed to support economic growth under the National Human Development Plan and to underpin stability through an increase in central bank deposits. Discussions were held with the International Monetary Fund (IMF) with a view to reaching an agreement, which has yet to be concluded.

Total central government revenue expanded by 16% in nominal terms (compared with 24% in 2011), as a result of administrative improvements in tax collection processes (systematic monitoring of taxpayers) and economic growth. The expansion was more modest in 2012 than the previous year, partly because the 2011 figure reflected the full impact of the Fiscal Equity Act adopted in December 2009, and partly because VAT rebates increased in 2012. Tax revenue climbed 17% on the back of a 17.7% jump in direct tax revenue and a 13.4% rise in indirect tax revenue. The resulting tax burden was equivalent to 15% of GDP (compared with 14.7% in 2011). November 2012 saw the adoption of the Tax Coordination Act (*Ley de Concertación Tributaria*), which aims to continue the process of restructuring the tax system by expanding the tax base and strengthening oversight. The Act includes amendments to the law on the taxation of labour income, new rules against the use of transfer pricing, and the amendment of tax regimes for flat-rate taxpayers and the agricultural exchange, as well as measures to strengthen tax administration.

Total expenditure increased by 15.8% as a result of municipal election costs, the reimbursement of political parties for expenses incurred in the 2011 presidential elections, and public-sector pay settlements. Capital expenditure also rose sharply, by 22.7% (as against 9.4% in 2011), reflecting significantly higher infrastructure spending.

The central government deficit (excluding grants) stood at 0.7% of GDP (compared with 1% in 2011). Adding in the consolidated net total for non-financial public-sector enterprises, the deficit widened

¹ Figures correspond to the new System of National Accounts applied by the Central Bank of Nicaragua, with 2006 as the base year.

to 1.5% (compared with 1.6% in 2011). With the inclusion of income from grants, the non-financial public sector deficit narrowed to 0.2% of GDP (as against a 0.2% surplus in 2011).

As a result of external and internal funding operations, total public debt as of December 2012 stood at US\$ 5.412 billion, or 51.5% of GDP, compared with 54.4% in 2011. The foreign debt-to-GDP ratio fell from 42.3% in 2011 to 40.8% in 2012.

Tax revenue improved over the first four months of 2013, with year-on-year growth of 19.1% largely spurred by higher receipts from domestic VAT (up 49.7%), VAT on imports (24%) and income tax (16.5%). As a result, the tax burden is expected to rise to around 16%, and a balanced fiscal position should be achieved by year-end 2013.

(b) Monetary and exchange-rate policy

The central bank held its nominal crawling-peg exchange-rate policy at 5% by controlling monetary aggregates through open-market operations and reserve requirements. This helped curb inflation to 6.62%, compared with 7.95% in December 2011.

Monetary policy became expansionary owing to the 2011 reduction in the legal reserve requirement, the biggest impact of which was felt in 2012, when the biweekly reserve requirement was held at 15% and the daily requirement at 12%. This helped bring financial system liquidity back to more normal levels, in line with those observed prior to September 2008 (cash and equivalents represented 28.1% of total deposits at the end of 2012). However, the increase in central government deposits reduced the central bank's net asset position and forced economic agents to bring in foreign currency to meet their liquidity needs, leading to a US\$ 102.7 billion increase in adjusted net international reserves. As a result, gross reserves rose to US\$ 1.887 billion (equivalent to 2.4 times the monetary base). No changes in monetary policy are expected in 2013.

(c) Trade policy

In 2012, the Nicaraguan government took further steps to liberalize trade under the National Human Development Plan, which establishes recognition of economic asymmetries between countries as one of the main factors that should influence the pursuit of new treaties and agreements. In this context, the government secured ratification by the National Assembly of the country's accession to the Latin American Integration Association (LAIA), allowing unilateral preferential treatment for Nicaraguan exports to the association's member countries,² while facilitating their investment in Nicaragua. Free trade agreements with Chile and Mexico also came into force; the agreement with Mexico was concluded in the context of that country's move to standardize its individual trade agreements with each country in the Central American subregion.

The most important action in the area of trade policy, which also supports monetary and exchange-rate policy, was the National Assembly's adoption of the treaty establishing the Unified Regional Payment Clearing System (SUCRE).³ The current participants in the system are the Bolivarian

² LAIA member countries: Argentina, the Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Paraguay, Peru and the Plurinational State of Bolivia.

³ SUCRE is a mechanism for channelling international payments resulting from reciprocal trade transactions between member countries. It facilitates trade by allowing the use of local currencies in international transactions.

Republic of Venezuela, Cuba, Ecuador, Nicaragua and the Plurinational State of Bolivia. Nicaragua made its first transactions within the system in February 2013.

3. The main variables

(a) The external sector

The value of Nicaraguan exports totalled US\$ 4.581 billion in 2012, a 14.1% advance on 2011. Growth was largely driven by higher exports of traditional products (up 15.5%), especially coffee and sugar (up 21.6% and 24.7%, respectively), and, to a lesser extent, goods from free trade zones (8.6%). Exports of gold, shrimp and meat also rose, by 20%, 8.7% and 5.7%, respectively. Among the products exported from free trade zones, sales of vehicle wiring assemblies climbed 43% to US\$ 458.2 million, amid increased vehicle production and sales from Mexico to the United States.

Export performance was boosted by access to new markets and efforts to expand existing ones. In 2012, the United States purchased goods equivalent to 28.6% of total exports, while the Bolivarian Republic of Venezuela accounted for 16.6%, Canada for 11.9% and the Central American countries for 18.9%. Exports to the Bolivarian Republic of Venezuela surged by 46.7% in 2012.

Imports climbed 12.4% to US\$ 5.851 billion in 2012, after a 24.5% surge in 2011. The 2012 increase was primarily driven by higher purchases of capital goods, especially machinery and equipment for industry and telecommunications (up 28.8% in 2012, as against 23.2% in 2011). The transport sector also made an important contribution, and consumer goods imports were up, albeit by a more modest 9.6% (compared with 10.5% in 2011), mainly in the category of non-durable consumer goods (food, clothing and footwear). Purchases of intermediate goods rose by 13.8%, after soaring 19.2% in 2011. These goods were mainly acquired by the mining, base metals, chemical and pharmaceutical industries.

Workers' remittances are still an important source of foreign trade financing for Nicaragua. Remittances increased by 11.2% to US\$ 1.014 billion (9.6% of GDP) in 2012, mainly on the back of greater remittance flows from Costa Rica and, to a lesser degree, the United States. However, the United States remained the principal source of remittances, accounting for US\$ 569.3 million (56.1% of the total). The trend in income from workers' remittances has remained positive up to March 2013, with growth of 2.9% over the year-earlier period.

The strong performance of remittance income in 2012, modest growth in exports and the import slowdown all contributed to a current account deficit of 12.8% of GDP at year-end 2012, as against 13.2% in 2011.

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

Gross foreign investment⁴ stood at US\$ 1.102 billion, with net inflows of US\$ 810 million (7.7% of GDP). Renewable energies and mining accounted for the bulk of the investment, with communications and industry also benefiting. Mining investments totalled US\$ 260 million between 2009 and 2012, according to data from the Nicaraguan Chamber of Mines (CAMINIC). Investment in the energy sector

⁴ In 2012, Nicaragua applied the benchmark definition of foreign direct investment, which prevents direct comparison with the 2011 figures. However, central bank estimates point to a gross increase of some 10.9%.

was focused on building Nicaragua's third wind farm on the shores of Lake Nicaragua, in the municipality of Rivas, 123 kilometres south of Managua.

Grants remain a major component of public-sector financing (45% of the total), the main donors being the World Bank, the Russian Federation, Switzerland and Japan. These grants mainly targeted support for health, education and other social services (31.4%), electricity, water and transport (31.4%), and public administration (12.3%). Loans were mostly earmarked for strengthening economic infrastructure in the energy, gas, water, transport and communications sectors (53.7%), as well as providing support for public administration and social spending.

In the area of credit to the non-financial private sector, the cooperation of the Bolivarian Republic of Venezuela remains significant, with loans totalling US\$ 550.7 million (5.2% of GDP) extended primarily to the company ALBANISA, on concessional terms with 25-year maturities, a two-year grace period and an annual interest rate of 2%.

As a result of balance-of-payments transactions, adjusted net international reserves stood at US\$ 1.166 billion at the end of 2012, while gross reserves amounted to US\$ 1.887 billion (equivalent to 2.4 times the monetary base).

(b) Economic growth

Growth slowed slightly to 5.2% in 2012, compared with 5.4% in 2011.¹ On the expenditure side, the economic expansion was affected by a slowdown in consumption growth to 4.8%, from 5.6% in 2011, mainly attributable to flagging collective government consumption, which increased by just 8% in 2012 after a 12.3% advance the previous year.

Gross fixed capital formation rose 29.7% in 2012 (outstripping the 22.6% increase recorded in 2011), on the back of a 31.2% surge in private investment (as against 27.5% in 2011) and, to a lesser extent, a rise in public investment (8.2%) in line with the 2011 figure. Private investment rose most sharply in the construction and manufacturing sectors, mainly reflecting the emergence of new free trade zones and tourist developments.

On the external demand side, exports were up 8.6% in real terms (compared with 9.2% in 2011). Real growth in imports stood at 13.6% (14.1% in 2011).

An analysis of sources of growth on the production side shows continued expansion across all sectors, despite the difficult international climate. The agriculture and livestock sector gained 1% (as compared with 4.3% in 2011), mainly on the back of a 2.6% rise in the agricultural subsector driven by an increase in the value added of sugar cane output (up 4.1%) and the coffee crop (13%), despite lower yields caused by coffee rust.⁵ Livestock activities declined by 2.8%, primarily owing to a reduction in cattle slaughter and weaker livestock exports. Aquaculture and fisheries output rose 15.6%, against 0.3% in 2011.

Mining activity continued to expand, albeit at a slower rate of 8.2% (compared with 23% the previous year), mostly thanks to an increase in gold mining capacity for the Canadian and United States markets, and greater extraction of non-metallic minerals in response to stronger construction sector demand.

⁵ Disease of the coffee plant caused by the fungus *Hemileia vastatrix*.

The construction sector expanded by 32%, after 21.1% growth in 2011, on the strength of a 37.3% increase in private residential construction, coupled with more modest growth in construction for industrial purposes (up 7.7%) and commercial and services use (up 5.3%). The upturn in industrial construction was chiefly the result of new free trade zones established in Managua, Masaya and Estelí; services construction was concentrated in tourism developments in the department of Rivas.

The manufacturing sector grew by 5% (against 6.7% in 2011) on the back of increased production of food (8.3%), as well as of machinery and equipment, reflecting the jump in value added of vehicle wiring assembly production (8.1%) for export to Mexico and the United States.

(c) Inflation, wages and employment

Year-on-year inflation stood at 6.62% in December 2012, compared with 7.95% at the close of 2011. The food and non-alcoholic beverages category was the main driver, with cumulative inflation of 8.09% (compared with 8.7% in 2011) contributing 2.84 percentage points to total inflation. Inflation of about 8% is projected for 2013. As of May, the consumer price index (CPI) showed a cumulative increase of 3.6%, against 2.53% in the same period in 2012.

On the wages front, in February 2012 the National Commission on the Minimum Wage approved an increase in the minimum wage by tripartite agreement, for the third year running. A 7% hike was agreed for the agricultural and livestock sector and a rise of 6.5% for all other economic sectors in the first half of the year, followed by a 6% hike in all economic sectors in the second half. Workers in micro and small cottage industries, and in tourism, received a 5% rise in each half of the year. Meanwhile, a special increase of 9% for the whole of 2012 was applied to workers in free trade zones, under the agreement between workers and employers endorsed by the government.

The Ministry of Labour reported that the average wage in formal employment rose by 5.7% in nominal terms, equivalent to a fall of 1.5% in real terms. The average wage for workers covered by the Nicaraguan Social Security Institute (INSS) went up by 7.8% in nominal terms and by 0.5% in real terms.

According to INSS figures on formal employment, enrolment in social security rose by 7.8%, compared with 8.1% in 2011. The sectors posting the largest gains in employment were industry (up 6.2%), commerce, hotels and restaurants (15.1%), agriculture and livestock (11.5%), and construction (18.3%). The strongest growth occurred in the free trade zones, which employed 103,652 workers in December 2012 (of whom 53.9% were women), a level that reflects the robust performance of the manufacturing sector.

Table 1
NICARAGUA: MAIN ECONOMIC INDICATORS

	2004	2005	2006	2007	2008	2009	2010	2011	2012 a/
	Annual growth rates b/								
Gross domestic product	5.3	4.3	4.2	5.0	4.0	-2.2	3.6	5.4	5.2
Per capita gross domestic product	4.0	3.0	2.8	3.7	2.7	-3.4	2.3	4.0	3.7
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	5.7	4.6	2.5	5.5	4.4	-1.4	9.8	4.3	1.0
Mining and quarrying	20.0	-10.4	2.7	-5.1	6.0	-14.0	36.9	23.1	8.2
Manufacturing	9.0	5.6	6.4	8.4	-2.8	-2.4	6.1	6.7	5.0
Electricity, gas and water	4.4	3.6	1.5	-5.0	55.0	8.7	10.0	7.0	5.7
Construction	12.1	7.3	-3.2	-5.0	-6.8	-17.6	-14.5	21.1	32.0
Wholesale and retail commerce, restaurants and hotels	4.6	2.3	4.9	2.6	3.1	-1.6	4.0	4.0	4.0
Transport, storage and communications	4.8	6.7	7.2	19.4	6.8	1.2	7.3	9.1	6.9
Financial institutions, insurance, real estate and business services	7.6	4.0	5.1	1.8	3.0	-5.1	-3.1	-2.4	1.2
Community, social and personal services	2.2	4.0	4.2	4.2	9.9	0.7	2.2	3.5	3.8
Gross domestic product, by type of expenditure									
Final consumption expenditure	2.2	3.6	2.7	3.3	3.4	0.8	4.5	5.7	5.0
Government consumption	3.2	6.9	-0.5	-6.2	11.6	9.0	4.7	12.3	8.0
Private consumption	2.0	3.3	3.1	4.4	2.6	-0.1	4.5	4.9	4.7
Gross capital formation	13.3	12.2	-1.4	17.2	2.3	-23.3	0.0	19.7	22.3
Exports (goods and services)	17.1	7.7	12.5	12.9	12.7	3.6	18.7	9.2	8.8
Imports (goods and services)	8.2	8.6	4.4	12.5	6.7	-5.2	13.8	14.1	13.6
	Percentajes of GDP								
Investment and saving c/	24.1	25.9	26.5	29.5	29.7	23.0	21.9	23.4	25.4
Gross capital formation	12.2	13.5	14.0	13.1	11.4	13.4	11.9	10.2	12.6
National saving	11.9	12.4	12.5	16.4	18.3	9.5	10.0	13.2	12.8
External saving									
	Millions of dollars								
Balance of payments	-687	-784	-845	-1 225	-1 507	-776	-859	-1 268	-1 350
Current account balance	-1 088	-1 302	-1 472	-1 803	-2 200	-1 539	-1 635	-2 068	-2 161
Goods balance	1 369	1 654	1 932	2 186	2 531	2 391	3 158	4 057	4 628
Exports, f.o.b.	2 457	2 956	3 404	3 989	4 731	3 929	4 792	6 125	6 789
Imports, f.o.b.	-123	-140	-156	-283	-224	-101	-142	-175	-207
Services trade balance	-231	-199	-220	-213	-224	-255	-243	-254	-292
Income balance	755	857	1 003	1 075	1 140	1 118	1 161	1 230	1 310
Net current transfers									
Capital and financial balance d/	570	720	900	1 312	1 494	957	1 030	1 295	1 329
Net foreign direct investment	250	241	287	382	626	434	508	968	810
Other capital movements	320	479	613	930	868	523	522	327	519
Overall balance	-118	-64	55	87	-13	181	172	27	-21
Variation in reserve assets e/	-160	-6	-179	-167	-32	-259	-222	-73	3
Other financing	278	70	124	80	45	78	50	46	18
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	99.0	100.0	99.6	100.3	97.6	103.7	101.2	106.1	107.8
Terms of trade for goods (index: 2005=100)	101.4	100.0	97.6	96.6	92.4	101.3	102.2	101.8	101.8
Net resource transfer (millions of dollars)	616	590	804	1 178	1 315	780	838	1 087	1 056
Gross external public debt (millions of dollars)	5 391	5 348	4 527	3 385	3 512	3 661	3 876	4 073	4 289

Table 1 (concluded)

	2004	2005	2006	2007	2008	2009	2010	2011	2012 a/
Employment	Average annual rates								
Labour force participation rate g/	53.1	53.8	51.4	53.4	53.3	66.9	72.1
Open unemployment rate h/	9.3	7.0	7.0	6.9	8.0	10.5	9.7
Prices	Annual percentages								
Variation in consumer prices (December-December)	8.9	9.7	10.2	16.2	12.7	1.8	9.1	8.6	7.1
Variation in nominal exchange rate (annual average)	5.5	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Variation in average real wage	-2.2	0.2	1.4	-1.8	-3.7	5.8	1.3	0.2	0.3
Nominal deposit rate i/	4.7	4.0	4.9	6.1	6.6	6.0	3.0	1.8	1.0
Nominal lending rate j/	13.5	12.1	11.6	13.0	13.2	14.0	13.3	10.8	12.1
Central government	Percentajes of GDP								
Total revenue k/	15.8	16.5	17.8	17.8	16.9	16.2	16.6	17.4	17.7
Tax revenue	12.2	12.9	13.6	13.8	13.6	13.4	14.0	14.7	15.0
Total expenditure	17.5	17.9	17.7	17.5	17.8	18.0	17.3	16.9	15.9
Current expenditure	10.2	10.8	12.4	12.3	13.4	14.0	13.4	13.4	13.4
Interest	1.6	1.5	1.4	1.1	0.9	1.0	1.1	1.0	1.0
Capital expenditure	7.3	7.1	5.4	5.2	4.4	4.0	3.9	3.5	2.5
Primary balance	-0.1	0.1	1.5	1.5	0.0	-0.7	0.3	1.6	2.7
Overall balance	-1.7	-1.4	0.1	0.3	-0.9	-1.7	-0.7	0.5	1.7
Central government public debt	77.5	71.4	53.6	32.4	29.5	33.2	34.0	32.3	31.4
Domestic	16.6	16.3	14.7	12.9	11.0	11.4	10.9	9.6	8.4
External	61.0	55.1	38.9	19.6	18.5	21.8	23.1	22.7	23.0
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	52.5	49.7	46.7	45.0	41.6	36.4	33.4	29.5	31.7
To the public sector	45.3	39.0	31.8	26.4	23.8	24.9	23.6	20.1	17.1
To the private sector	19.6	22.6	26.4	30.1	29.0	25.9	24.8	24.4	26.9
Others	-12.5	-11.9	-11.4	-11.5	-11.2	-14.4	-15.1	-15.0	-12.3
Monetary base	56.8	51.7	67.1	72.3	68.4	71.5	85.1	97.2	118.1
Money (M1)	32.9	31.5	30.3	31.2	28.8	31.7	34.9	33.3	33.6
M2	5.2	5.5	5.6	6.4	6.3	6.9	7.9	8.0	7.6
Foreign-currency deposits	27.7	26.1	24.8	24.8	22.5	24.8	27.0	25.4	26.0

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

	2011				2012				2013	
	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/	5.3	6.5	4.7	5.3	5.8	2.2	5.6	7.0	3.6	...
Goods exports, f.o.b. (millions of dollars)	637	611	488	527	695	699	644	639	632	231 c/
Goods imports, c.i.f. (millions of dollars)	1 225	1 274	1 320	1 385	1 395	1 497	1 414	1 545	1 288	492 c/
Gross international reserves (millions of dollars)	1 715	1 787	1 711	1 892	1 932	1 862	1 815	1 887	1 859	1 886 d/
Real effective exchange rate (index: 2005=100) e/	104.5	106.8	107.2	105.9	106.5	106.9	108.6	109.3	106.2	104.8 d/
Consumer prices (12-month percentage variation)	7.2	9.2	9.9	8.6	8.8	6.8	6.9	7.1	6.8	8.0 d/
Average nominal exchange rate (lempiras per dollar)	22.01	22.28	22.55	22.84	23.12	23.40	23.69	23.98	24.27	24.55
Nominal interest rates (annualized percentages)										
Deposit rate f/	2.1	2.3	1.5	1.2	1.3	1.0	0.8	0.9	1.0	1.0 d/
Lending rate g/	11.7	9.8	10.5	11.1	10.4	13.0	13.1	11.5	15.7	14.4 d/
Interbank rate	12.6	11.7	10.6	10.8	12.1	13.4	12.1	12.7	12.8	13.5
Domestic credit (variation from same quarter of preceding year)	-6.9	-13.2	-10.4	1.4	11.4	23.9	30.6	25.9	27.1	30.4 c/
Non-performing loans as a percentage of total credit	3.1	2.9	2.6	2.2	2.0	2.0	1.8	1.7	1.6	1.4 c/

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 April.

d/ Figures as of May.

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

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

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