

Nicaragua

ECLAC expects the economy to grow by 4.0% in 2015, as against 4.7% in 2014. The slower pace of expansion owing to a less buoyant external sector was offset partially by domestic demand. According to official estimates, the central government deficit after grants will end the year at around 0.8% of GDP, half a percentage point higher than in 2014, while the balance-of-payments current account deficit will widen from 7.1% to 7.8% of GDP. The average inflation rate is expected to fall by more than 2 percentage points with respect to December 2014 to stand at 4% at the end of the year.

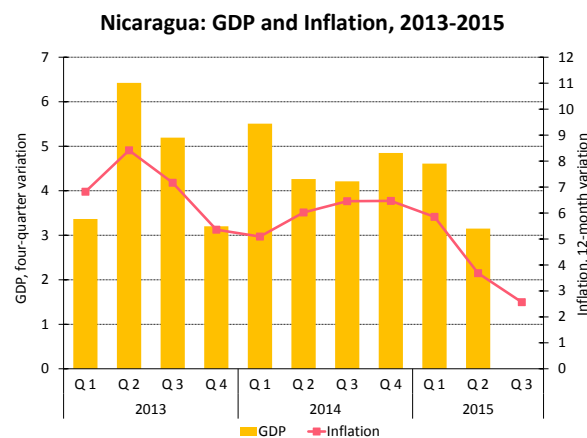
Fiscal policy was marginally expansionary in 2015. The central government primary deficit before grants is expected to reach 0.7% of GDP by the end of the year, slightly above the 0.4% recorded in 2014. External grants (which are equivalent to 1% of GDP) contracted by 4.1% in real terms to September 2015, which explains the expected widening of the central government fiscal deficit after grants.

Central government revenue grew by 7.8% in real terms between January and September 2015, down from 9.9% in the same period in 2014 owing to a fall in tax revenues, which had represented 15.4% of GDP in 2014. In particular, after growing by 11.6% in 2014, value added tax revenues dropped by 2.6% in 2015, hit by the slowdown in activity and lower price levels. This decline was not offset by the 15.0% increase in income tax receipts brought about by the administrative improvements associated with amendments to the tax law introduced in late 2014. In the same period, spending grew by 6.3% in real terms. Although this was well below the rate of 12.2% recorded in September 2014, spending did increase slightly as a proportion of GDP.

The upsurge in external borrowing by the central government as a result of the widening fiscal deficit will be offset by a reduction in the balance of compensation bonds in the consolidated public sector and the continued downward trend in external borrowing by the central bank. Total public debt was equivalent to 48.5% of GDP in September 2015, almost 2 percentage points lower than at the end of 2014. Nicaragua is expected to gain more ready access to funds with fewer conditions attached since the country was reclassified by the World Bank as a lower-middle-income economy and the requirement to obtain waivers from the United States in order to access multilateral resources has been suspended.

The central bank maintained its nominal target of a 5% annual depreciation in the exchange rate, which will close the year at 27.9 córdobas to the United States dollar. The accumulation of gross international reserves remained the operational objective of monetary policy. In September, the balance of international reserves amounted to US\$ 2,420 billion, equivalent to 2.9 times the monetary base and 5.1 months of imports.

The average monthly nominal deposit rate held steady at around 1% between January and September, which was equivalent to -3.2% in real terms, as against -4.4% in the same period in 2014. Short-term nominal lending rates, despite rising slightly in the third quarter, fell by 2 percentage points



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

on average to September 2015 to stand at 12.1%. This resulted in a 50-basis-point reduction in the real lending rate, which averaged 7.4% over the same period.

In the year to August, slower growth was recorded in both nominal deposits, which fell from 16.9% year-on-year in 2014 to 13.9% in 2015, and credit, which was down by almost 1 percentage point to 20.9%. The commercial sector and personal loans continued to account for the bulk of borrowing.

Exports fell by 5.1% in nominal terms up to the third quarter of 2015 as compared with the same period in 2014, owing mainly to the contraction in manufactures (-6.1%) and mining exports (-19%). The former were hit by the end of preferential access for Nicaraguan textiles to the United States and the latter by the adverse impact of the unfavourable international prices scenario. Even though the value of non-oil imports expanded by 10.4%, the 32.8% fall in the oil bill meant that imports on the whole grew by only 1%. These factors drove up the trade deficit by 9.1% in September 2015. Remittances were up by 4.8% over the period and are expected to be equivalent to 9.6% of GDP by the end of 2015. Foreign direct investment totalled US\$ 421.3 million in June 2015 and is expected to close the year at a level equivalent to 6.4% of GDP.

GDP grew at a rate of 3.9% in the first half of 2015, down by 1 percentage point on the year-earlier period. This slowdown was attributable to the contraction in mining (-10.3%) and manufacturing (-2.8%), and less vigorous growth in the agricultural sector (0.7%), which were offset partly by the expansion of construction (24.6%). On the expenditure side, domestic demand was robust, with consumption growing by 4.3% and investment by 19.2%. The slowdown is therefore explained by the 2.8% fall in exports and the impact of domestic demand on imports, which grew by 15.0%.

Markedly slower growth in the prices of food and non-alcoholic beverages, and the fall in energy and transport prices, resulted in a year-on-year inflation rate of 3.0% in October 2015, well below the rate of 6.7% recorded in the same period in 2014. However, core inflation rose from 5.2% in October 2014 to 6.3% in October 2015.

Average annual growth in contributors to the Nicaraguan Institute of Social Security increased from 5.4% in August 2014 to 7.9% in August 2015, owing to higher demand for workers in the commercial and construction sectors. Average private sector real wages rose by 6.2% between June 2014 and June 2015, which was a significant increase considering that the rate for the year-earlier period was 3.5%. The greatest increases were in the mining and quarrying sector, followed by construction and finance.

The economy is expected to grow by 4.3% in 2016 on the back of increased foreign demand for manufactures and higher public sector expenditure associated with the elections in November. According to projections, the current account deficit will be around 7.5% of GDP, the central government deficit will stand at roughly 1% of GDP and average inflation will be close to 6%.

Nicaragua: main economic indicators, 2013-2015

	2013	2014	2015 ^a
	Annual growth rate		
Gross domestic product	4.5	4.7	4.0
Per capita gross domestic product	3.3	3.5	2.8
Consumer prices	5.4	6.4	2.8 ^b
Real average wage ^c	0.3	1.7	2.7
Money (M1)	8.5	16.5	19.9 ^d
Real effective exchange rate ^e	-0.2	-0.1	-2.9 ^b
Terms of trade	-7.1	4.2	9.5
	Annual average percentage		
Central government			
Overall balance / GDP	0.1	-0.3	-0.7
Nominal deposit rate ^f	1.0	1.0	1.1 ^b
Nominal lending rate ^g	15.0	13.5	12.1 ^b
	Millions of dollars		
Exports of goods and services	4,617	5,010	4,800
Imports of goods and services	6,873	6,983	7,089
Current account balance	-1,200	-838	-1,177
Capital and financial balance ^h	1,295	1,120	1,324
Overall balance	96	282	148

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 extraregional real effective exchange rate.

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

g Short-term loans rate, weighted average.

h Includes errors and omissions.