Nicaragua

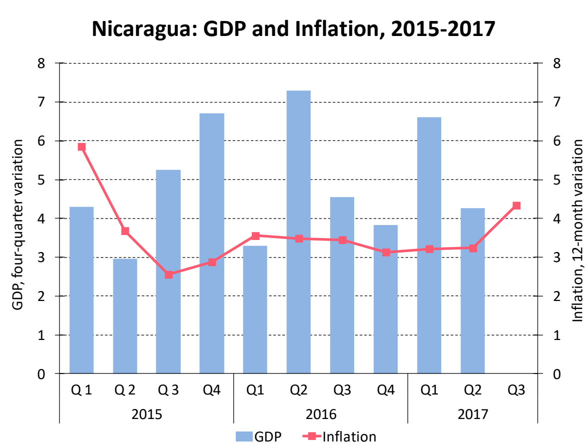
ECLAC expects the Nicaraguan economy to grow by 4.9% in 2017 (compared to 4.7% in 2016), driven by higher agricultural output and favourable external demand conditions, but amid slowing public consumption. The current account deficit will narrow from 8.6% of GDP in 2016 to 5.2% of GDP in 2017, thanks to the robust performance of goods exports. Year-on-year inflation at the end of 2017 will be 4%, above the 3.1% observed in 2016.

The central government deficit before grants will be equivalent to 1.7% of GDP (1.8% in 2016), and after grants it will widen from 0.6% of GDP in 2016 to 0.9% of GDP in 2017. In the first eight months of 2017, central government revenues were up by 6.6% in real terms over the year-earlier period (compared to an increase of 11.8% in the same period of 2016). Growth in revenues from income tax and value added tax was down in the early months of 2017, owing, in the latter case, to more sluggish growth in merchandise imports. On the expenditure side, a deceleration during the first eight months, with an increase of 6.8% in real terms (compared to 12.2% in 2016), primarily because of slower current transfers, employee remuneration and, above all, purchases of goods and services.

In the month of June, the balance of the total public debt was equivalent to 44.6% of GDP, down slightly from the 44.8% recorded at the end of 2016. Over the short and medium terms, Nicaragua will face challenges with respect to international financing: on one hand, lower inflows of Venezuelan assistance, which are being partially offset by other sources of international financing, and on the other hand, the likelihood that the United States Congress will pass the Nicaraguan Investment Conditionality Act (NICA), which will limit access to credit from multilateral organizations.

The Government of Nicaragua has maintained a policy of pre-announced 5% devaluations in the average annual exchange rate, as a nominal anchor for inflation, relying for this purpose on the accumulation of international reserves, which have held steady at around 2.5 times the monetary base. In terms of import coverage, net international reserves, which stood at US$ 2.422 billion in July 2017, have grown from 4.9 months at the close of 2016 to 5.2 months at the end of 2017.

The nominal interest rate on deposits remained at 1.1% in the first nine months of the year. However, inflation has been such that the average real interest rate in the third quarter was negative, at -2.4%, compared to 2.7% in the same period of 2016. The nominal short-term lending rate in national currency averaged 9.6% in the first quarter of 2017 (compared to 11.3% for the same period of the previous year). The gross loan portfolio recorded year-on-year growth of 16.1% in August (versus 21.7% in the same month of 2016). Credit to the livestock sector has slowed heavily, from year-on-year growth of 26.7% in 2016 to 9.1% in 2017. Growth in personal credit (32.0% in 2016 versus 15.7% in 2017) and commercial credit (22.4% in 2016 versus 15.7% in 2017) also lost some momentum, reflecting the drop in sales of automobiles and housing units, among other goods.



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

The narrowing of the current account deficit is primarily a reflection of a stronger export performance and a decline in imports, as well as the strength of family remittances. For the year from January to August, total exports were up by 7.4% by value over the same period in 2016, including the free zone. Among the fastest-growing export products, by volume and value, during this portion of 2017 were coffee (up by 17.1% in volume and 21.6% in value), beef (up by 20.5% in volume and 19.8% in value) and sugar (up by 56.3% in volume and 97.1% in value). On the other hand, the total amount of imports, including in the free zone and the maquila sector, barely edged up (by 1% from January to August 2017 over the prior-year period), primarily owing to a drop in imports of both capital goods and consumer durables.

Family remittances recorded cumulative growth of 10.6% to September, compared to 5.4% for the same period in 2016. Net foreign direct investment (FDI) amounted to US$ 386 million in the first quarter of 2017 (very close to the figure for the year-earlier period). These flows went primarily to the manufacturing and financial sectors.

Nicaragua: main economic indicators, 2015-2017

	2015	2016	2017 [a]
	Annual growth rate		
Gross domestic product	4.9	4.7	4.9
Per capita gross domestic product	3.7	3.6	3.8
Consumer prices	2.9	3.1	4.6 [b]
Real average wage [c]	2.7	1.2	2.0
Money (M1)	21.0	9.5	8.0 [d]
Real effective exchange rate [e]	-4.3	2.4	6.5 [b]
Terms of trade	13.2	1.6	-1.8
	Annual average percentage		
Central government			
Overall balance / GDP	-0.6	-0.6	-0.9
Nominal deposit rate [f]	1.0	1.1	1.3 [b]
Nominal lending rate [g]	12.0	11.4	10.8 [b]
	Millions of dollars		
Exports of goods and services	5 113	5 166	5 617
Imports of goods and services	7 426	7 531	7 574
Current account balance	-1 144	-1 133	-685
Capital and financial balance [h]	1 341	1 077	1 077
Overall balance	197	-57	332

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 July.
e/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.
f/ Weighted average l deposit rates in local currency up to 1 month.
g/ Short-term loans rate, weighted average.
h/ Includes errors and omissions.

In the first half of 2017, GDP growth was driven by the agricultural sector, the recovery of construction and, within the manufacturing sector, the food industry. The agricultural sector expanded by 10.8% in this period of 2017, thanks to favourable climatic conditions which boosted the volume of various agricultural products for export. The construction sector achieved a growth rate of 9.7% in the first half of 2017, after recording negative growth (-0.2%) for 2016 as a whole. The main items supporting the contribution of the food industry were beef, sugar and dairy products.

On the demand side, the first half of 2017 witnessed an acceleration in external demand (15.4%, compared to 7.7% in 2016), which was countered by slower growth in government consumption (2.3%, compared to 9% in 2016). Gross fixed capital formation recorded a year-on-year increase of 5.1% during the first half of 2017, owing primarily to increased construction activity.

The open unemployment rate eased from 4.6% in the second quarter of 2016 to 3.8% in the same quarter of 2017. The underemployment rate was virtually unchanged, at 43.8%. Real wages rose by 4.9% in the first half of 2017, compared to 2.9% for the same period of 2016.

In October, at the national level, year-on-year inflation stood at 4.4% versus 3.4% in the same month of 2016. This hike was due primarily to the rise in the average contracted price of oil, which in 2016 was US$ 43.3 per barrel and in 2017 will be US$ 54.9 per barrel, as well as the repercussions of that increase on other, related economic activities.

ECLAC projects that the Nicaraguan economy will grow by 5.0% in 2018, driven primarily by the export performance of the agriculture sector and the food industry, and inertial growth in construction activity. This will offset the slowdown in consumption, particularly on the part of government (recognizing that in 2018, in contrast to the two previous years, there will be no outlays for the holding of elections), and in private consumption as well. A slight increase in the current account deficit is expected, due to a recovery of imports. The central government's fiscal deficit will shrink, thanks to lower public spending and a continued increase in revenues. Lastly, inflation is forecast to continue its upward trend in 2018, as a result of higher prices for tradable goods and a slight rise in the price of oil.