

## NICARAGUA

### 1. General trends

Following a strong uptick in the second half of the year, the Nicaraguan economy grew 4.9% in 2015, 0.3 percentage points of GDP more than in 2014. There was a marked slowdown in the year-on-year rate of inflation, from 6.5% at the end of 2014 to 3.1% in 2015.

The central government deficit, after grants, was equivalent to 0.6% of GDP, 0.3 percentage points higher than in 2014. Nevertheless, thanks to the debt relief received under the heavily indebted poor countries (HIPC) initiative and the concessional nature of a significant portion of the external debt, total public debt continued its downward trend, ending 2015 at a level equivalent to 45.3% of GDP.

The current account deficit widened from the equivalent of 7.7% of GDP in 2014 to 8.2% in 2015. This was due to the poor performance of the export sector, which was severely affected by the discontinuation of the Nicaraguan textile industry's preferential access to the United States market and by the impact of domestic demand on imports.

Economic growth is expected to be moderate in 2016, as various investment projects are completed and consumption slows. ECLAC projects GDP growth at around 4.6%. Prices are expected to rise in line with the 5% annual depreciation rate, which acts as the nominal anchor for inflation expectations.

According to the estimates contained in the medium-term budget framework and to data for the early months of 2016, the central government fiscal deficit will increase as a result of the costs of the presidential and legislative elections in November. Lastly, the foreign trade data available for 2016 indicate that the current account deficit will be of a similar size to that of 2015.

### 2. Economic policy

Economic policy in 2015 was characterized by an expansionary fiscal stance, driven by higher tax revenues and the space created by the reduction in public debt, while monetary policy remained unchanged.

#### (a) Fiscal policy

Fiscal policy was marginally expansionary in 2015. The central government primary deficit before grants reached 0.7% of GDP by the end of the year, slightly above the 0.4% recorded in 2014. Including interest rates (equivalent to 0.9% of GDP), the central government fiscal deficit before grants increased from 1.3% of GDP in 2014 to 1.6% of GDP in 2015.

Central government revenue grew by 10.3% in real terms. While part of the 8.6% jump seen in 2014 was due to lower inflation, the tax burden increased by 0.3 percentage points of GDP in 2015, to 15.7% of GDP.

Tax revenues were up thanks to a better yield from both income tax and excise duties, offsetting the drop in value added tax (VAT) revenue. While revenue from income tax and excise duties increased by 0.2 and 0.3 percentage points of GDP, respectively, to reach levels equivalent to 6% and 2.8% of GDP, VAT receipts dropped from 6.3% to 6.0% of GDP owing to the higher value of refunds. Higher income tax receipts, which in 2015 exceeded revenue from VAT, are the result of businesses' solid performances and administrative improvements resulting from amendments made in late 2014 to the Tax Coordination Act. Meanwhile, higher revenue from excise duties mainly reflects expansion in consumer goods imports.

While growth in grants slowed from 7.7% to 4.3% in real terms, as a proportion of GDP it remained constant at around 1%. In this context, the solid revenue performance allowed the government to make two adjustments to the 2015 budget, allocating additional resources to the transport and infrastructure, health and education ministries, to the Managua mayor's office and to the national police force.

Total central government spending grew 11.9% in real terms, driven by a surge in capital transfers which, after falling by 18.9% in real terms in 2014, reached a real rate of 34.4% in 2015, and by growth of 7.9% in real wages (which accounted for nearly half of spending), purchases of goods and services (11.1%), and current transfers (11.4%). While the real wage rise reflects salary adjustments and the recruitment of new staff in the health, education and security sectors, the increase in transfers went to strengthen capital spending by public institutions. Public investment was concentrated on road building and the health sector.

By December 2015, total public debt was US\$ 5.754 billion, 0.8% lower than a year earlier. The drop in the nominal debt mainly reflects lower domestic borrowing, 16.5% of the total, which offset the marginal increase in foreign debt.

Nicaragua is expected to gain more ready access to non-concessional funds now that the country has been reclassified by the World Bank as a lower-middle-income country and the requirement to obtain waivers from the United States to access multilateral resources has been suspended. Loans taken out in 2015 were for 26.5 years, on average, with a grace period of almost 10 years and an interest rate of 2.6%, which according to central bank estimates means average levels of concessionality are around 34%.

By April 2016, central government income and expenditure had increased by 12.6% and 18.9%, respectively, in real terms. As a result, the primary deficit before grants widened by more than 1 billion córdobas (approximately 0.3% of GDP).

## **(b) Monetary policy and exchange-rate policy**

The central bank maintained its nominal target of a 5% annual depreciation in the exchange rate, which closed the year at 27.9 córdobas to the United States dollar. Monetary policy continued to be geared towards building up gross international reserves. By the end of 2015, the balance of international reserves had risen to US\$ 2.492 billion, equivalent to 2.3 times the monetary base and 5.1 months of imports.

As part of the changes made in September to the 2015 monetary programme, and in an effort to tighten control of short-term liquidity, bills with maturities of less than 30 days were issued and the monetary policy position shifted from a slightly contractionary to a neutral stance.

The interest rate spread narrowed by nearly 400 basis points in 2015, reaching 9.8%, following a slight increase in the weighted average rates for córdoba-denominated deposits, from 2.1% to 2.8%, and a drop of 131 basis points in the weighted average borrowing rates in córdobas to 12.45%. Despite an increase in the nominal rate on deposits, the rate remained negative in real terms.

Financial system returns remained stable, with a 2.2% return on assets and a 20.4% return on capital, thanks largely to the performance of the loans portfolio, which increased nominally by 23%, driven by corporate and industrial lending. Meanwhile, the non-performing loans portfolio decreased slightly to end the year at 0.9% of gross lending, while average capital adequacy remained steady at 3 percentage points above the statutory 10%.

### **(c) Other policies**

The arrangement that had allowed clothing made using fabrics from countries outside the Dominican Republic - Central America - United States Free Trade Agreement (DR-CAFTA) to be exported to the United States under preferential tariffs expired at the end of 2014.

Various measures were implemented in 2015 to diversify and strengthen the export supply, including proposals to develop a brand Nicaragua for exports, create laboratories to improve the quality and ensure the safety of products, and progress with the establishment of the single window facility for foreign trade.

The first two rounds of negotiations for a free trade agreement between Central American countries and Republic of Korea were held in the second half of 2015. The negotiations are expected to conclude in the second half of 2016. Among products with export potential, the main beneficiaries of a possible agreement with the Republic of Korea would be coffee, sugar, fish products, fruit juices and nectars, leather shoes and plastic products, according to data from the Central Bank of Nicaragua.

The special import safeguard was kept in place in 2015 to guarantee the supply of certain commodities, with zero tariffs for some foodstuffs, toiletries and zinc sheets, among other products.

## **3. The main variables**

### **(a) The external sector**

The current account deficit increased by half a percentage point of GDP in 2015, to 8.2% of GDP, owing to the deterioration in the trade balance, as the trade deficit reached 21.6% of GDP, and a slowdown in the flow of remittances, which at the end of 2015 were equivalent to 9.4% of GDP.

The rising trade deficit is rooted in the 7.7% decrease in the value of exports, which reflects both lower volumes (-3.9%) and lower prices (-4.0%). The contraction in exports took place across the board—except for the fishing sector, thanks to a rebound in volumes of exported shrimp—but was heaviest for textile manufactures.

Despite the 15.2% increase in the volume of imported goods, falling international oil prices lowered the unit value by 12.4%, so that the value of imports, excluding freightage and insurance, grew by a scant 1%. Imports generally fell into the following categories: consumer goods (8.9%), non-durable

consumer goods (9.0%), and capital goods (10%) for the manufacturing and transport sectors, reflecting the level and composition of domestic demand.

The goods trade deficit was partially offset by growth of almost 1 percentage point of GDP in the services balance, which was equivalent to 3.9% of GDP, driven by tourism-related flows. Meanwhile, as growth in remittances from workers, which account for 9.4% of GDP, fell from an annual rate of 5.4% to 5.1 %, the current transfers surplus dropped slightly to 12.3% of GDP.

With regard to foreign trade prices, while the export unit value decreased by 2.7% in 2015, the 12.5% drop in the import unit value resulted in an 11.3% improvement in the terms of trade. The real effective exchange rate fell by 0.9% against the United States dollar, reflecting nominal exchange rate movements and the inflation differential between Nicaragua and its main trading partner.

In 2015, Nicaragua received foreign direct investment (FDI) in the amount of US\$ 835 million (equivalent to 6.6% of GDP), a 5.5% drop on FDI in 2014. The main beneficiaries of FDI were the communications, energy and mining, manufacturing and services sectors. The rest of the current account deficit was financed by public sector loans and grants.

In the first four months of 2016, the value of goods exports shrank by 13.2%, reflecting, to some extent, the relatively high basis for comparison in agricultural exports. Meanwhile, the value of imports expanded by 6.1%, largely thanks to the 23.4% jump in imports of consumer goods. At May 2016, remittances had increased by 5.1%, half a percentage point above the rate recorded in the prior-year period.

## **(b) Economic activity**

The robust economic performance, with 4.9% growth, was driven by buoyant domestic demand. Final consumption grew by 5.2%, thanks largely to households' greater real disposable income and, to a lesser extent, public spending. Higher disposable income was the product of good labour market conditions, the substantial reduction in inflation rates over the course of the year, and the considerable inflow of remittances from Nicaraguans abroad.

Moreover, investment increased by 29.5%, as private investors' expectations regarding economic performance improved and more public investment projects were carried out. While private investment focused on house building and commerce, public investment went mostly to capital formation in infrastructure. In addition, the surge in domestic demand led to an 11.6% increase in imports. Accordingly, net exports deducted 8.1 percentage points from GDP growth.

Reflecting expansion in private consumption and investment, the fastest-growing sectors were commerce and construction, which were up by 7% and 25.4%, respectively, more than offsetting the 1.1% contraction in manufacturing.

According to the monthly economic activity index, economic growth has remained strong, reaching 4.4% as of April 2016, thanks to the solid performance of the agricultural, construction and trade sectors.

**(c) Prices, wages and employment**

The significant slowdown in consumer price inflation to 3.1% at the close of 2015 was the result of falling international prices, for both oil and its derivatives and food, which ultimately brought down average prices for housing, water, electricity, gas and other fuels (-0.6%) and transport (-3.5%), and slowed inflation in food and non-alcoholic beverage prices, with average rates dropping from 7.9% in 2014 to 4.7% in 2015. Prices rose only slightly for food and non-alcoholic beverages, despite the effects of the drought on the production of certain crops, because harvests in the rest of the country offset those in affected areas.

With regard to employment and wages, the number of workers paying social security contributions increased by 8.9% in 2015, according to data from the Nicaraguan Social Security Institute. In line with their strong economic performance, the sectors that created the most formal jobs were construction and services.

In the light of lower inflation rates, the real wage index rose from 3.1% in 2014 to 5.3% in 2015. With the exception of community, social and personal services, where wages fell by 2.3%, all other sectors saw real increases. Real wages were also affected by the minimum wage adjustment made by the Ministry of Labour after workers, business owners and the government failed to reach a consensus. In March and September 2015, minimum wages rose in two equal increments totalling 11.48% in the agricultural sector, 9.8% in small and medium-sized enterprises and 10.98% in all other sectors.

Between the close of 2015 and May 2016, cumulative inflation was 2.2%, 0.6 percentage points higher than during the year-earlier period. This uptick is due to the statistical effect of a relatively low basis of comparison for food and non-alcoholic beverages, a product group that accounts for nearly 35% of the national consumer price index. Data from the first few months of 2016 indicate that annual average growth in the formal employment rate continued to accelerate, reaching 12.5% in April, driven by demand for labour in the construction sector and an increase in formal job creation in manufacturing, which have offset the downturn in the number of workers paying social security contributions in the commerce sector.

Table 1  
NICARAGUA: MAIN ECONOMIC INDICATORS

	2007	2008	2009	2010	2011	2012	2013	2014	2015 a/
	<b>Annual growth rates b/</b>								
Gross domestic product	5.3	2.9	-2.8	3.2	6.2	5.6	4.5	4.6	4.9
Per capita gross domestic product	3.9	1.5	-4.0	1.9	4.9	4.3	3.3	3.4	3.8
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	11.5	0.5	1.7	3.2	5.0	-4.1	0.8	3.1	2.8
Mining and quarrying	-3.7	-3.4	-3.2	51.8	25.6	10.9	20.6	-0.5	-6.7
Manufacturing	5.9	-2.7	-2.6	1.1	9.3	7.5	3.4	5.6	-1.1
Electricity, gas and water	-14.3	65.7	-5.9	2.3	16.2	16.7	4.8	3.5	2.6
Construction	-8.6	-14.6	-29.0	-17.6	11.0	26.6	12.5	3.2	25.4
Wholesale and retail commerce, restaurants and hotels	5.3	3.2	-2.8	7.1	8.5	7.9	4.5	5.6	6.7
Transport, storage and communications	17.2	6.4	0.7	15.4	12.8	7.2	6.9	7.4	5.3
Financial institutions, insurance, real estate and business services	-1.0	3.0	-4.0	-2.6	-0.6	2.3	4.4	5.4	4.8
Community, social and personal services	4.7	8.8	1.2	4.8	1.1	5.0	4.6	4.7	4.3
Gross domestic product, by type of expenditure									
Final consumption expenditure	3.6	3.9	1.1	3.9	2.6	3.9	4.4	4.5	5.2
Government consumption	-5.9	10.8	-0.3	7.8	3.3	3.2	5.5	5.2	4.1
Private consumption	4.7	3.3	1.2	3.5	2.6	4.0	4.2	4.5	5.2
Gross capital formation	20.5	7.3	-29.1	16.5	29.2	0.2	0.0	-0.8	29.5
Exports (goods and services)	11.1	9.0	0.8	19.9	7.7	12.0	3.3	6.6	-2.0
Imports (goods and services)	13.3	10.6	-8.9	21.7	11.1	4.8	1.5	3.5	11.6
	<b>Percentajes of GDP</b>								
Investment and saving c/									
Gross capital formation	29.7	31.1	22.0	24.6	31.0	30.2	28.9	27.4	31.9
National saving	14.0	13.3	13.3	15.5	18.9	19.7	18.0	19.7	23.6
External saving	15.7	17.8	8.7	9.0	12.1	10.5	10.9	7.7	8.2
	<b>Millions of dollars</b>								
Balance of payments									
Current account balance	-1,168	-1,508	-729	-791	-1,178	-1,098	-1,180	-913	-1,045
Goods balance	-2,006	-2,460	-1,752	-1,925	-2,426	-2,447	-2,476	-2,402	-2,741
Exports, f.o.b.	1,754	1,958	1,927	2,425	3,036	3,491	3,326	3,622	3,341
Imports, f.o.b.	3,759	4,417	3,679	4,350	5,463	5,938	5,802	6,024	6,083
Services trade balance	-26	40	162	223	291	345	254	352	489
Income balance	-212	-224	-257	-249	-272	-307	-328	-314	-342
Net current transfers	1,075	1,135	1,118	1,161	1,230	1,310	1,369	1,450	1,548
Capital and financial balance d/	1,336	1,540	1,152	1,009	1,265	1,083	1,276	1,195	1,242
Net foreign direct investment	366	608	463	474	929	703	700	804	785
Other capital movements	969	931	689	536	336	380	576	392	458
Overall balance	167	32	424	219	87	-15	96	282	197
Variation in reserve assets e/	-167	-32	-424	-219	-87	15	-96	-282	-197
Other financing	0	0	0	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	100.4	94.9	103.4	100.8	105.8	103.4	100.1	101.9	102.4
Terms of trade for goods (index: 2010=100)	94.6	90.9	97.9	100.0	106.6	106.7	98.4	102.2	113.8
Net resource transfer (millions of dollars)	1,124	1,316	895	761	993	777	948	881	901
Gross external public debt (millions of dollars)	3,385	3,512	3,661	4,068	4,263	4,481	4,724	4,796	4,804
	<b>Average annual rates</b>								
Employment									
Labour force participation rate g/	53.4	53.3	66.6	71.2	75.6	76.8	75.8	74	...
Open unemployment rate h/	5.9	6.1	7.9	7.8	5.9	5.9	5.6	6.6	...

Table 1 (concluded)

	2007	2008	2009	2010	2011	2012	2013	2014	2015 a/
<b>Prices</b>	<b>Annual percentages</b>								
Variation in consumer prices (December-December)	16.2	12.7	1.8	9.1	8.6	7.1	5.4	6.5	2.9
Variation in nominal exchange rate (annual average)	6.3	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Variation in average real wage	-2.1	-4.0	5.8	1.3	0.1	0.3	0.3	1.7	2.6
Nominal deposit rate i/	6.1	6.6	6.0	3.0	1.8	1.0	1.0	1.0	1.0
Nominal lending rate j/	13.0	13.2	14.0	13.3	10.8	12.0	15.0	13.5	12.0
<b>Central government</b>	<b>Percentajes of GDP</b>								
Total revenue k/ Tax revenue	17.8 13.8	16.4 13.2	15.8 13.0	16.3 13.7	17.2 14.5	17.8 15.1	17.4 15.2	17.6 15.4	17.8 15.7
Total expenditure	17.5	17.3	17.5	17.0	16.8	17.3	17.3	17.9	18.4
Current expenditure	12.3	13.1	13.6	13.1	13.3	13.5	13.5	13.8	13.9
Interest	1.1	0.9	1.0	1.1	1.0	1.0	0.9	0.9	0.9
Capital expenditure	5.2	4.2	3.9	3.9	3.5	3.7	3.8	4.0	4.5
Primary balance	1.5	0.0	-0.7	0.3	1.5	1.5	1.0	0.6	0.3
Overall balance	0.3	-0.9	-1.7	-0.7	0.5	0.5	0.1	-0.3	-0.6
Central government public debt	32.3	28.6	32.3	33.3	31.9	31.5	30.8	30.2	30.7
Domestic	12.8	10.6	11.1	10.6	9.4	8.4	6.8	6.0	5.4
External	19.5	18.0	21.2	22.7	22.4	23.2	24.1	24.1	25.3
<b>Money and credit</b>	<b>Percentages of GDP, end-of-year stocks</b>								
Domestic credit	46.7	43.1	38.0	35.0	31.1	34.0	36.6	34.0	36.2
To the public sector	26.4	23.5	24.7	23.5	20.1	17.4	16.8	13.1	11.2
To the private sector	32.8	31.4	28.2	26.8	26.3	29.0	32.2	34.1	37.1
Others	-12.5	-11.8	-14.9	-15.4	-15.3	-12.4	-12.4	-13.2	-12.0
Monetary base	7.2	6.3	7.3	77.8	8.4	7.8	7.6	7.7	8.6
Money (M1)	6.4	6.1	6.7	7.7	7.9	7.6	8.0	7.9	8.8
Foreign-currency deposits	24.8	21.8	24.1	26.5	25.1	26.2	28.6	29.2	30.2

**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 passive rates, weighted average.

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

k/ Includes grants..

Table 2  
NICARAGUA: MAIN QUARTERLY INDICATORS

	2014				2015				2016	
	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	4.0	4.1	4.9	4.4	3.1	5.5	6.5	4.1	...
Gross international reserves (millions of dollars)	1,879	1,951	1,981	2,063	2,168	2,256	2,255	2,315	2,300	2,377 c/
Real effective exchange rate (index: 2005=100) d/	101.3	102.4	102.4	101.4	100.1	101.7	103.2	104.8	103.6	104.0 c/
Consumer prices (12-month percentage variation)	5.1	6.0	6.5	6.4	5.9	3.7	2.6	2.9	3.6	3.6 e/
Average nominal exchange rate (lempiras per dollar)	25.5	25.8	26.1	26.4	26.8	27.1	27.4	27.8	28.0	28.4
Nominal interest rates (average annualized percentages)										
Deposit rate f/	1.2	1.1	1.1	0.9	1.2	1.1	1.0	0.9	0.8	0.9 c/
Lending rate g/	14.6	14.5	13.2	11.8	11.5	12.0	12.9	11.7	11.8	12.0 c/
Interbank rate	5.2	4.7	4.8	4.8	4.8	4.7	4.7	4.6	4.9	5.4 c/
Domestic credit (variation from same quarter of preceding year)	14.9	12.4	12.1	6.3	11.5	11.5	12.1	18.3	13.7	12.1 c/
Non-performing loans as a percentage of total credit	0.9	1.0	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.9 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/ Quarterly average, weighted by the value of goods exports and imports.

e/ Figures as of May.

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

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