

## Nicaragua

The Economic Commission for Latin America and the Caribbean (ECLAC) forecasts 3.3% growth in Nicaragua's real GDP in 2023. This would represent a small slowdown compared to 2022, when GDP grew by 3.8%, reflecting a decline in exports and public spending in the country, partially offset by buoyant remittances, which accounted for more than 25% of GDP in the first half of the year and boosted private consumption.

The end-of-year unemployment rate is expected to be in the region of 3.6% to 4.0% (2.6% at the end of 2022). Average inflation for the year will be around 8.0%, down from 10.5% in 2022. This slower rate is a result of lower international commodity prices. The current account will show a surplus equivalent to around 8.0% of GDP as a result of the considerable growth in remittances (in 2022 the account showed a deficit of 1.4%). Estimates from the Central Bank of Nicaragua suggest that the balance for the non-financial public sector will be close to equilibrium at year-end 2023, following a surplus of 0.6% of GDP in 2022.

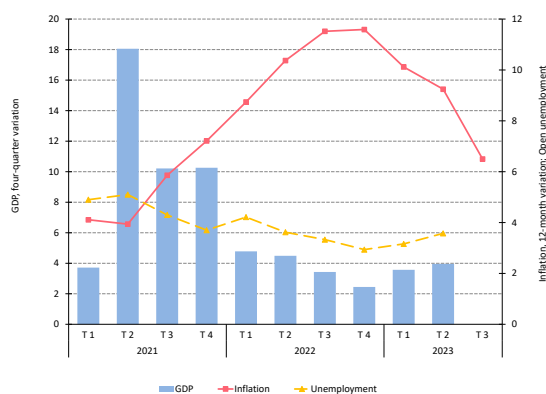
In the first eight months of 2023, central government income grew by 0.8% in real terms year-on-year. The slight rise was a result of a 1.5% increase in tax revenues, which offset a sharp drop in grants (-53.2%). Total central government expenditure was up by 2.7% in real terms year-on-year in August. There was a notable growth in interest on external debt (33.3%) and a significant decline in other expenses (-46.1%), the latter owing to less spending on fuel subsidies in the first seven months of 2023.

At the end of 2022, total public sector debt (US\$ 9.481 billion) was equivalent to 60.5% of GDP. Over the first half of 2023, this debt climbed by 4.9% to US\$ 9.950 billion. The increase was primarily caused by a rise in domestic debt, which accounted for 14.3% of total public debt at the end of 2022 and 16.8% at the end of June 2023. In the first half of the year, 75.9% of total disbursements came from the Central American Bank for Economic Integration (CABEI) and there were no new contracts for future debt issues in the period.

In 2023, the central bank maintained its benchmark rate for repurchase agreements at the same level as at the end of 2022 (7.0%), given the persistent inflationary pressure. The increases in the benchmark rate over the last few months of 2022 have passed through in part to the rest of the financial system. The average nominal interest rate on one-month córdoba deposits for the first ten months of 2023 was 2.0% (-6.4% in real terms), compared to 1.2% (-8.2% in real terms) for the year-earlier period. The average short-term nominal rate on loans in local currency was 9.2% (-0.2% in real terms), the same rate as the 9.2% (-0.9% in real terms) for the first ten months of 2022.

The gross credit portfolio continued to expand in 2023, reaching 169.034 billion

**Nicaragua: GDP, Inflation and Unemployment, 2021-2023**



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

córdobas in May, up 11.1% relative to the end of 2022. Through to September 2023, the items that grew the most in the portfolio were personal loans (23.7%), credit cards (18.0%) and industrial loans (17.6%), while the balance for agriculture shrank by 0.3%.

On 31 October 2023, gross international reserves stood at US\$ 5.289 billion, up 25.8% from the same month in 2022, representing 3.6 times the monetary base. This growth in reserves mainly came from net purchases of foreign currency at the foreign exchange desk, owing to a significant rise in remittance flows to the country. In January 2023, the central bank announced a reduction from 2% to 1%, starting in February, in the annual rate at which the córdoba is devalued against the dollar, through pre-announced mini-devaluations. In line with the new target, on 30 November 2023, the official exchange rate stood at 36.59 córdobas per dollar, representing nominal devaluation of 1.0% over the first 11 months of 2023. In real terms, the average exchange rate for the third quarter of 2023 revealed a year-on-year appreciation of the córdoba of 0.5%. In August 2023, the central bank announced that it would maintain its exchange rate regime, but that in 2024 it would again reduce the annual rate at which the córdoba is devalued against the dollar, this time to 0%.

In terms of trade policy, Nicaragua signed a free trade agreement with China at the end of August, after a year of negotiations. The treaty will enter into force in January 2024.

In the first ten months of 2023, the value of total exports of goods fell by 2.1% year-on-year as a result of a decline in sales of goods from free zones (-7.3%), which more than offset the growth in general goods exports (3.0%). The drop in exports from free zones was caused by a fall in textile shipments (14.7%), owing to weaker demand from the United States. Exports of cheese (35.6%), beans (31.9%), gold (19.4%) and sugar (19.3%) all grew, while shipments of coffee and beverages and rums fell by 12.6% and 32.7%, respectively. Imports of goods on cost, insurance and freight terms (CIF) grew by 3.8% year-on-year, on the back of a 20.7% rise in 2022. While there was a reduction in the oil bill (-9.8%), imports of consumer goods (8.8%) and capital goods (14.6%) both expanded.

In October 2023, remittances grew at an annual rate of 49.1% as a result of a steady and significant increase in remittances from the United States, which accounted for 82.7% of the total (compared to 76.6% in 2022), owing to a large wave of emigration from Nicaragua to the United States. Foreign direct investment inflows fell year-on-year by 3.4% in the first half of 2023 and accounted for 10.4% of GDP (11.9% of GDP in the same period of 2022).

#### Nicaragua: main economic indicators, 2021-2023

	2021	2022	2023 <sup>a</sup>
<b>Annual growth rate</b>			
Gross domestic product	10.3	3.8	3.3
Per capita gross domestic product	8.8	2.3	...
Consumer prices	7.3	11.3	6.5 <sup>b</sup>
Real average wage <sup>c</sup>	-0.5	-2.5	-0.2 <sup>b</sup>
Money (M1)	24.3	16.0	19.7 <sup>d</sup>
Real effective exchange rate <sup>e</sup>	1.7	-0.9	-4.5 <sup>b</sup>
Terms of trade <sup>f</sup>	-4.6	-2.3	4.3
<b>Annual average percentage</b>			
Unemployment rate	4.5	3.5	3.6 <sup>d</sup>
Central government			
Overall balance / GDP	-0.7	1.3	...
Nominal deposit rate <sup>g</sup>	1.5	1.2	2.0 <sup>b</sup>
Nominal lending rate <sup>h</sup>	9.6	9.2	9.3 <sup>b</sup>
<b>Millions of dollars</b>			
Exports of goods and services	6 618	7 870	2 144
Imports of goods and services	8 342	10 213	2 354
Current account balance	-438	-216	507
Capital and financial balance <sup>i</sup>	1 271	582	-68
Overall balance	833	367	438

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

a/ Estimates.

b/ Figures as of September.

c/ Average wage declared by workers covered by social security.

d/ Figures as of June.

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 deposit rates in local currency up to 1 month.

h/ Short-term loans rate, weighted average.

i/ Includes errors and omissions.

In the first half of the year, GDP grew by 3.8% year-on-year, driven by the good performance of the restaurant and hotel sector, which grew by 25.4%, and commerce, which grew by 5.0%. On the demand side, consumption increased by 3.8%, driven by growth in private consumption (5.1%); public consumption, however, fell by 3.6%. Gross fixed capital formation rose by 10.4% in the first half of the year owing to a large increase in private fixed investment (15.5%).

Year-on-year inflation was 6.0% in October 2023. The categories with the largest price increases were alcoholic beverages and tobacco (14.8%), and restaurants and hotels (11.8%). In the same month, the open unemployment rate was 3.8% (2.6% at the end of 2022). Overall, the labour participation rate remains relatively low (67.4% in October) compared to levels before the pandemic and the sociopolitical crisis (around 73.5%). There is still a significant gap between men and women: 79.9% of men participate in the labour market compared to 56.3% of women. The nominal minimum wage was increased by 10% on 1 March 2023, but the real wage showed a year-on-year drop of 1.0% in the third quarter.

ECLAC forecasts GDP growth of 2.9% for 2024. This slower rate of growth would reflect weaker momentum in the global economy, and in the United States in particular, which will affect Nicaragua's exports and foreign direct investment inflows. Inflation will be around 4.5%, as international commodity prices are expected to increase less. The current account will continue to show a surplus (of around 5%) thanks to considerable growth in remittances. The non-financial public sector balance will again come in close to equilibrium, as the current fiscal strategy is expected to be maintained. The open unemployment rate is projected to stay at around 3.5%.