

NICARAGUA

1. General trends

In 2022, the Nicaraguan economy grew by 3.8%, following a 10.3% expansion in 2021. The sharp slowdown is due partly to the dissipation of the statistical effect of 2021, when the economy recovered after three consecutive years of contraction. In addition, the weaker momentum of the global economy and, in particular, that of the United States, resulted in weaker growth of Nicaragua's exports to that market. Meanwhile, an exceptional increase in remittances boosted private consumption, offsetting reduced government spending.

At the end of 2022, year-on-year inflation stood at 11.3% (compared to 7.3% in 2021), owing mainly to external factors such as the rise in global fuel, food and fertilizer prices. After posting a deficit equivalent to 3.1% of GDP in 2021, the current account balance reflected a deficit equivalent to 1.4% of GDP at the end of 2022, largely due to the increase in remittances, which offset a larger trade deficit. Following a decade of deficits, the non-financial public sector ended 2022 with a surplus of 0.8% of GDP (after recording a deficit equivalent to 1.6% of GDP in 2021). The improved fiscal performance is explained mainly by an increase in central government revenue, while public investment decreased sharply. At year-end, the open unemployment rate stood at an all-time low of 2.6%. While this is partly because of economic growth, it also reflects the low overall labour participation rate and migration to the United States.

The Economic Commission for Latin America and the Caribbean (ECLAC) projects GDP growth of 2.4% in 2023 and 2.1% in 2024. The slowdown in 2023 compared to the previous year is expected to stem from weaker momentum in the global economy, and in the United States in particular, which will affect Nicaragua's exports and inflows of foreign direct investment (FDI). In 2023, inflation is expected to moderate to around 7%, given expectations of lower increases in global commodity prices. The uncertainty generated by several recent events, such as the closure of the main business chambers, is expected to lead to a reduction in private sector investments. The continued growth of remittances is projected to boost private consumption and mitigate the negative impact of inflation on wages. As a result of lower oil prices in 2023 and continued growth in remittances, the current account balance could return to surplus by the end of the year. The non-financial public sector is likely to end the year in balance if the current fiscal policy is maintained.

2. Economic policy

(a) Fiscal policy

In view of the upward trend in oil prices during 2022, the Government of Nicaragua imposed a freeze on fuel and butane gas prices in April, which was maintained for the rest of the year. This measure had a cost of roughly 0.5% of GDP. Apart from this exceptional expenditure, fiscal policy focused on consolidating public finances, which resulted in a surplus at both the central government and non-financial public sector levels.

In 2022, total central government income before grants grew by 6.5% in real terms, owing to a 7.2% increase in tax revenue, with income tax revenue growing by 12.7% year-on-year in real terms. Total government expenditure decreased by 4.4% in real terms, with the "Other expenses" category up by 85.2%

as a result of fuel price subsidies. In 2022, central government direct investment decreased by 16.3%, following real increases of 30.3% and 37.9%, respectively in 2021 and 2020. Grants to the central government contracted sharply in 2022 by 52.4% in real terms.

At end-2022, total public debt (US\$ 9.481 billion) represented 60.5% of GDP, 5.0 percentage points lower than in the previous year (US\$ 9.262 billion). The public sector received US\$ 660 million in external financing, 43% less than in 2021, when the government had received exceptional funding to address the consequences of the hurricanes and the COVID-19 pandemic. It is worth noting that 69.3% of total disbursements came from the Central American Bank for Economic Integration (CABEI).

In the first five months of 2023, total central government income before grants was down by 2.8% in real terms relative to the year-earlier period, while total expenditures were 1.2% lower. At the end of the first quarter of the year, total public debt stood at US\$ 9.867 billion, an increase of 4.1% (US\$ 387 million) over the previous quarter. Of the external loan disbursements received in the first quarter (US\$ 141 million), 90% came from CABEI.

(b) Monetary policy and exchange-rate policy

During the course of 2022, the Central Bank of Nicaragua hiked the monetary policy interest rate by 350 basis points, from 3.5% to 7.0%, in line with international interest rate decisions and in response to accelerating inflation. At the same time, all monetary aggregates grew, particularly the monetary base, deposits and the broader monetary aggregate (M3A), which ended the year with double-digit growth year-on-year.

The average annual level of interest rates fell in 2022 year-on-year, despite the policy rate hikes. In nominal terms and in local currency, the average short-term lending rate stood at 9.2% (versus 9.6% in 2021), while the average one-month deposit rate was 1.2% (down from 1.5% in 2021). In real terms and in local currency, the average short-term lending rate was -1.1%, while the average one-month deposit rate was -8.4%. One of the explanations for this trend is the abundant liquidity in the market, caused partly by the growth of public deposits following the increase in remittances.

The banking sector's gross portfolio of credit to the private sector continued to recover in 2022. At year-end it amounted to 152.123 billion córdobas, which meant nominal year-on-year growth of 15.3% (in 2021 it had increased by 4.9%, following yearly contractions between 2018 and 2020). The sectors in which credit expanded most were personal loans (24.6%), manufacturing (18.6%) and trade (17.9%).

In the first half of 2023, the central bank kept the policy rate unchanged at 7.0%. The downward trend of the one-month nominal deposit interest rate (in córdobas), observed in 2022, reversed course in the first few months of 2023 to post growth of 3.0% in June. The short-term nominal lending rate in local currency also rose, climbing to 11.0% in June.

The gross loan portfolio continued to expand in 2023, amounting to 163.991 billion córdobas in May, which represented an increase of 7.8% relative to the end-2022 figure. The sectors in which credit expansion was greatest in the year through May were manufacturing (29.1%), personal loans (11.4%) and trade (8.5%), while lending to agriculture decreased by 15.9%.

(c) Exchange-rate policy

The official exchange rate stood at 36.23 córdobas per dollar at the end of 2022 (compared to 35.52 córdobas per dollar in 2021), in line with the 2% nominal annual depreciation target. The real average exchange rate appreciated by 0.3% in 2022 (following a 2.2% depreciation in the previous year).

At the end of 2022, Nicaragua's gross international reserves amounted to US\$ 4.404 billion, which is US\$ 358 million more than a year earlier and equivalent to 2.8 times the monetary base.

On 23 January 2023, the central bank announced a reduction from 2% to 1%, starting in February, in the annual rate at which the córdoba depreciates against the dollar, through pre-announced mini-devaluations. This was the third time in four years that the authorities reduced the rate, after keeping it unchanged at 5% between 2004 and 2019. In line with the new target, on 31 July 2023, the official exchange rate stood at 36.47 córdobas per dollar, representing a nominal depreciation of 0.7% in the first seven months of the year. Gross international reserves increased considerably in the first half of the year and in June stood at US\$ 4.989 billion (up by US\$ 585 million or 13.3% since December 2022), equivalent to 3.4 times the monetary base. The increase mainly reflects the net purchase of foreign currency at the central bank's foreign-exchange desk.

(d) Other policies

In January 2022, Nicaragua and China signed a memorandum of understanding for cooperation in the framework of China's Belt and Road Initiative. In July 2022, the two countries signed the Early Harvest Agreement, which came into force in May 2023 and allows Nicaragua to export products such as meat, bovine offal, some foods and liquors, textiles and automotive products to China, duty-free. This agreement is considered a first step towards a possible free trade agreement between the two countries.

3. The main variables**(a) The external sector**

The current account improvement in 2022 is mainly due to the exceptional 50.2% increase in remittances, which totalled US\$ 3.225 billion, representing 20.9% of that year's GDP. This increase is the result of increased migration from Nicaragua to the United States. The flow of remittances offset the larger trade deficit of 15.0% of GDP in 2022, compared to a deficit of 12.2% in 2021.

In 2022, the value of total exports (merchandise and free trade zone) increased by 12.6%, following growth of 29.4% in 2021. Nearly two thirds of the growth recorded in 2022 was generated by just two products, coffee (which increased by 40.6%) and textiles (17.9%). Coffee exports benefited from a 37% price increase in 2022, while textiles (exported from the free trade zones) have become Nicaragua's most important export sector. The textile industry generated 29.3% of total exports in 2022 and benefited in recent years from the challenges of global supply chains and subsequent nearshoring of production. Total exports from the free trade zones grew by 14.8% in 2022 (compared to the previous year's 36.7% increase) and accounted for 49.8% of total goods exports. In addition to textiles, exports of harnesses (23.0%) and tobacco (13.7%) also grew substantially. Merchandise exports increased by 10.5% in 2022 and foreign sales of gold, the main product of this type of export, grew by 6.9% in 2022 (compared to 30.4% in the previous year).

In 2022, 46.5% of merchandise exports went to the United States, followed by the markets of Central America (22.9%), Europe (11.1%), the rest of Latin America and the Caribbean (7.9%) and Asia (5.4%).

Service exports increased by 49.5%, as a result of the recovery of tourism revenues (with 224% annual growth), which surpassed the 2019 pre-COVID-19 pandemic level but have not yet reached the levels of 2016 and 2017 (before the sociopolitical crisis).

Excluding free trade zone operations, the value of imports (CIF) grew by 20.7% in 2022 (compared to 38.6% in 2021), owing mainly to the 58.4% increase in the oil bill. Imports of consumer goods grew by 15.1%, intermediate goods by 15.6% and capital goods by 5.2%. Imports from free trade zones increased by 23.1%.

The net annual flow of FDI increased by 6.0% to US\$ 1.294 billion in 2022. This growth is explained mainly by the reinvestment of profits (53.9% annual growth), while capital inflows decreased by 14.0%. The sector that accounted for the largest net investment flows in 2022 was energy and mining (35.9% of net FDI flows).

In the first five months of 2023, total goods exports decreased by 0.9% in value terms. Merchandise exports grew by 4.6% year-on-year, driven by increased sales of gold (13.8%), sugar (62.6%) and cheese (49.8%). Exports from free trade zones decreased by 7.2% year-on-year, mainly as a result of a reduction in textile exports (16.0%), while those of harnesses and tobacco posted increases of 29.4% and 13.1%, respectively. Imports (excluding from free trade zones), on a CIF basis, decreased by 0.7% year-on-year, owing mainly to the reduction in the oil bill (21.3%). The trade deficit (merchandise and free trade zone) amounted to US\$ 540.7 million in January–May 2023, which was 26.5% less than in the year-earlier period.

The robust growth in remittances continued in the first half of 2023, with a year-on-year increase of 58.6%. Of total remittances received in that period, 82.1% were sent from the United States, compared to 76.6% in 2022 and 63.8% in 2021.

(b) Economic activity

In 2022, growth of the Nicaraguan economy slowed gradually in each of the four quarters, with year-on-year rates of 4.8%, 4.6%, 3.4% and 2.4%, in that order. The best performing sectors were services and, in particular, hotels and restaurants (which, with 29.0% annual growth, were recovering from the effects of the pandemic), transportation and communications (8.4%) and trade (7.2%). Agriculture and manufacturing—both important sectors for the national economy—grew by 3.0% and 5.1%, respectively. Construction shrank by 12.2%, following its notable recovery in 2021 (up by 33.3%). Growth in the mining sector slowed in 2022, recording a rate of 3.4%, compared to 38.2% in 2021.

From an expenditure perspective, consumption increased by 3.9% in 2022 (compared to the previous year's growth of 8.8%). Private consumption expanded by 5.9%, driven by the vigorous performance of family remittances, while government consumption declined by 6.0%. Gross fixed capital formation fell back by 4.2%, as a result of a reduction in public investment (-13.0%), which was partially offset by a 2.8% increase in private investment. There was a real expansion of 8.6% in exports of goods and services.

Nicaragua's GDP posted year-on-year growth of 3.5% in the first quarter of 2023. On the expenditure side, consumption grew by 2.9% year-on-year, driven by a 3.9% increase in private

consumption which offset the 3.1% decline in public consumption. Gross capital formation decreased by 24.4%, as a result of reduced inventories. Both private and public fixed investment recorded increases, with year-on-year growth rates of 5.8% and 2.1%, respectively. On the production side, the variation in GDP was based mainly on increased activities in trade (5.6%), hotels and restaurants (27.5%) and manufacturing (3.3%), while fishing and aquaculture decreased by 11.3%. Exports grew by 7.1% year-on-year and imports declined by 4.0%.

(c) Prices, wages and employment

The rise in inflation in 2022, which was the highest among Central American countries, is explained mainly by external factors, such as higher oil and imported food prices. The prices that rose the most were those of restaurants and hotels (16.2%), food (15.9%), recreation (15.7%) and transport (14.4%). The food category contributed the most to overall inflation (5.7 percentage points), followed by restaurants and hotels (1.7 points) and transport (1.1 points).

In late December 2022, the open unemployment rate stood at 2.6%, which was down by 0.9 percentage points year-on-year, an exceptionally low rate not seen in recent years. Migration to the United States of both the unemployed and workers (the latter paving the way for jobs for others) undoubtedly influenced this development. The overall participation rate was 67.9%, similar to that recorded the previous year, but still well below the rates recorded before the pandemic and the sociopolitical crisis (around 73.5% in 2017). There is a large gap between the male and female participation rates (80.8% versus 56.8%, respectively). At the end of 2022, the underemployment rate was 38.3% (compared to 42.4% in 2021), while informality was about 76% (unchanged from 2021). The number of active affiliates in the Nicaraguan Social Security Institute totalled 783,000 in December 2022, 13,000 more than in late 2021, but 130,000 fewer than in late 2017.

According to the Ministry of Labour, the nominal wage was up by 1.3% year-on-year in late 2022. However, this was 9.2% lower in real terms year-on-year. The nominal minimum wage was increased by 7% on 1 March 2022.

In June 2023, year-on-year inflation stood at 9.9%, while the corresponding core inflation rate was 8.3%. In cumulative terms, inflation was 3.6% between January and June, 1.6 percentage points lower than in the year-earlier period. The categories that accounted for the largest proportion of overall inflation during those six months were food (1.9 percentage points), restaurants and hotels (0.7 points) and alcoholic beverages and tobacco (0.4 points), the first two owing to imported food costs and the third because of an increase in the tax on alcohol and cigarettes.

In May 2023, the open unemployment rate was 3.3%, or 0.7 percentage points higher than at the end of the previous year. The underemployment rate was 39.2% and the overall participation rate was 67.6%. The nominal minimum wage was raised by 10% as from 1 March 2023.

Table 1
NICARAGUA: MAIN ECONOMIC INDICATORS

	2014	2015	2016	2017	2018	2019	2020	2021	2022 a/
Annual growth rates b/									
Gross domestic product	4.8	4.8	4.6	4.6	-3.4	-2.9	-1.8	10.3	3.8
Per capita gross domestic product	3.3	3.3	3.1	3.2	-4.7	-4.2	-3.1	8.8	2.3
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	2.1	-0.7	4.8	9.2	1.0	4.0	0.0	6.5	1.6
Mining and quarrying	0.4	-0.3	8.2	-7.5	7.7	15.8	3.7	38.2	3.4
Manufacturing	7.6	1.0	3.7	2.9	1.5	-2.2	-2.3	14.2	5.1
Electricity, gas and water	11.7	1.9	1.3	-3.9	3.5	-2.3	-15.1	10.0	2.0
Construction	1.8	25.4	-1.4	8.6	-13.7	-32.4	12.2	33.3	-12.2
Wholesale and retail commerce, restaurants and hotels	3.6	5.7	5.1	7.2	-11.2	-0.1	-3.2	14.8	10.4
Transport, storage and communications	4.3	7.7	7.1	5.8	-6.6	-5.1	-7.0	8.5	8.4
Financial institutions, insurance, real estate and business services	6.1	4.7	5.6	3.9	-3.3	-9.3	-5.3	-0.6	2.2
Community, social and personal services	5.9	4.2	5.0	3.4	-0.3	-1.0	-0.2	1.5	2.2
Gross domestic product, by type of expenditure									
Final consumption expenditure	4.5	5.3	6.1	2.5	-4.2	-1.2	0.1	8.8	3.9
Government consumption	6.0	6.3	8.2	1.6	-2.3	1.4	2.4	9.3	-6.0
Private consumption	4.2	5.2	5.7	2.7	-4.6	-1.8	-0.4	8.7	5.9
Gross capital formation	-0.4	22.3	-0.3	1.2	-25.1	-26.7	12.6	26.4	-3.2
Investment and saving c/	Percentages of GDP								
Gross capital formation	28.9	33.5	31.2	29.9	24.1	17.8	19.4	23.4	21.9
National saving	20.8	23.6	22.7	22.8	22.3	23.8	23.0	20.3	20.6
External saving	8.0	9.9	8.5	7.2	1.8	-5.9	-3.6	3.1	1.4
Balance of payments	Millions of dollars								
Current account balance	-954	-1 260	-1 127	-987	-234	754	456	-438	-216
Goods balance	-2 143	-2 514	-2 497	-2 370	-1 604	-1 056	-943	-1 901	-2 791
Exports, f.o.b.	4 176	3 873	3 795	4 180	4 197	4 341	4 396	5 574	6 310
Imports, f.o.b.	6 319	6 388	6 292	6 549	5 802	5 397	5 339	7 475	9 101
Services trade balance	187	229	392	527	411	519	333	177	447
Income balance	-448	-489	-634	-712	-652	-466	-824	-897	-1 128
Net current transfers	1 450	1 515	1 612	1 567	1 611	1 758	1 890	2 183	3 256
Capital and financial balance d/	1 236	1 457	1 068	1 325	-286	-772	447	1 271	582
Net foreign direct investment	983	922	924	971	763	444	707	1 206	1 281
Other capital movements	253	535	144	355	-1 049	-1 216	-260	65	-699
Overall balance	282	197	-59	338	-520	-18	903	833	367
Variation in reserve assets e/	-282	-197	57	-300	513	-119	-903	-833	-367
Other financing	0	0	0	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2015=100) c/	115.2	100.0	99.8	103.8	105.4	106.3	106.1	107.9	107.1
Terms of trade for goods (index: 2018=100)	95.4	112.4	111.4	108.9	100.0	103.9	122.5	116.9	114.1
Net resource transfer (millions of dollars)	788	968	434	614	-938	-1 238	-377	374	-545.9
Gross external public debt (millions of dollars)	10 925	11 461	12 120	12 667	12 881	13 498	13 785	14 607	14 661.5
Employment g/	Average annual rates								
Labour force participation rate	74.0	72.4	73.6	73.5	71.6	71.1	69.1	67.5	66.7
Unemployment rate	6.6	5.9	4.5	3.7	5.5	5.4	5.0	4.5	3.5

Table 1 (concluded)

	2014	2015	2016	2017	2018	2019	2020	2021	2022 a/
Prices	Annual percentages								
Variation in consumer prices (December-December)	6.4	2.9	3.1	5.8	3.4	6.5	2.6	7.3	11.3
Variation in industrial producer prices (December-December)	6.6	2.8	1.3	8.5	-1.7	7.7	4.0	16.2	10.4
Variation in nominal exchange rate (annual average)	5.5	5.0	4.8	5.2	5.4	5.1	3.5	2.0	2.2
Variation in average real wage	...	0.8	2.2	1.5	4.5	-0.5	-1.0	-0.5	-2.5
Nominal deposit rate h/	1.0	1.0	1.1	1.3	1.4	3.1	2.1	1.5	1.2
Nominal lending rate i/	13.5	12.0	11.4	10.9	10.9	12.5	11.2	9.6	9.2
Central government	Percentages of GDP								
Total revenue	17.4	17.7	18.5	18.7	17.6	19.5	19.0	21.1	21.7
Tax revenue	15.3	15.6	16.2	16.6	15.7	17.4	17.1	18.9	19.8
Total expenditure	17.7	18.3	19.1	19.3	19.6	19.2	20.1	21.8	20.4
Current expenditure	13.7	13.8	14.6	14.5	15.0	15.6	15.5	15.9	15.5
Interest	0.9	0.9	1.0	1.1	1.1	1.3	1.3	1.2	1.3
Capital expenditure	4.0	4.5	4.5	4.8	4.6	3.6	4.6	5.9	4.9
Primary balance	0.5	0.3	0.4	0.5	-0.8	1.5	0.2	0.5	2.6
Overall balance	-0.3	-0.6	-0.6	-0.6	-1.9	0.3	-1.1	-0.7	1.3
Central government public debt	30.2	29.9	31.2	34.0	37.7	42.0	48.1	47.3	44.2
Domestic	6.0	5.3	5.1	4.9	5.0	5.3	5.7	5.5	4.5
External	24.1	24.6	26.1	29.2	32.7	36.8	42.4	41.8	39.7
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	34.2	35.9	37.0	37.7	34.2	26.3	21.5	19.6	17.4
To the public sector	13.0	11.0	10.7	8.7	9.7	9.7	8.2	6.6	2.6
To the private sector	33.9	36.9	39.6	42.7	38.5	32.2	29.9	28.1	28.6
Others	-12.7	-11.9	-13.6	-13.7	-14.0	-15.7	-16.6	-15.2	-13.8
Monetary base	7.6	8.5	7.7	8.0	7.3	8.4	10.0	10.4	10.3
Money (M1)	7.9	8.8	8.4	8.7	7.6	8.9	10.7	9.2	11.2
Foreign-currency deposits	30.8	32.2	32.6	33.3	26.8	26.8	29.2	26.9	28.0

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.

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

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

Table 2
NICARAGUA: MAIN QUARTERLY INDICATORS

	2021				2022				2023	
	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/	-9.0	-3.8	-3.0	1.2	1.2	-6.4	-0.9	-1.9	3.4	...
Gross international reserves (millions of dollars)	1 968	1 974	1 995	2 133	2 280	2 507	2 632	2 816	3 111	3 337 c/
Real effective exchange rate (index: 2005=100) d/	92.5	93.5	92.8	93.5	93.5	90.4	91.8	91.8	92.2	92.1 c/
Unemployment rate	6.0	5.4	5.4	4.9	4.8	5.4	4.8	4.8	4.9	...
Employment rate	67.4	66.7	66.7	68.0	67.5	62.9	65.0	67.1	66.1	...
Consumer prices (12-month percentage variation)	4.7	5.5	5.7	6.5	4.6	3.8	2.8	2.6	4.2	4.1
Wholesale prices (12-month percentage variation)	4.4	2.1	2.7	1.70	3.6	3.9	4.3	3.71	5.1	3.4 f/
Average nominal exchange rate (córdobas per dollar)	32.7	33.1	33.5	33.8	34.1	34.2	34.7	34.8	35.0	35.1
Nominal interest rates (average annualized percentages)										
Deposit rate f/	3.5	2.4	2.7	3.7	3.7	2.0	2.1	1.8	2.3	1.6
Lending rate g/	12.5	13.3	12.0	12.0	12.0	12.0	10.7	10.4	10.3	9.5
Domestic credit (variation from same quarter of preceding year)	-14.0	-20.9	-24.0	-19.7	-15.1	-12.0	-7.4	-9.2	-12.9	-10.0

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/ Figures as of May.

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

e/ Figures as of April.

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

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