

Nicaragua

ECLAC expects Nicaragua's economic growth to come in at 4.8% in 2016, slightly less than in 2015 (4.9%), owing to a less buoyant external sector. Robust domestic demand helped drive formal employment creation. According to official estimates, the central government deficit after grants will stand at 0.9% of GDP, while the current account deficit will widen half a percentage point to 8.7% of GDP. The average inflation rate is expected to be at the lower limit of the 4.5%-5.5% target range.

Fiscal policy was expansionary over the course of 2016. Official estimates place the central government deficit before grants at equivalent to 2.1% of GDP by year-end, half a percentage point higher than that registered in 2015. Nevertheless, grants are expected to end the year at around 1.2% of GDP, which will leave the deficit after grants similar to the prior-year figure.

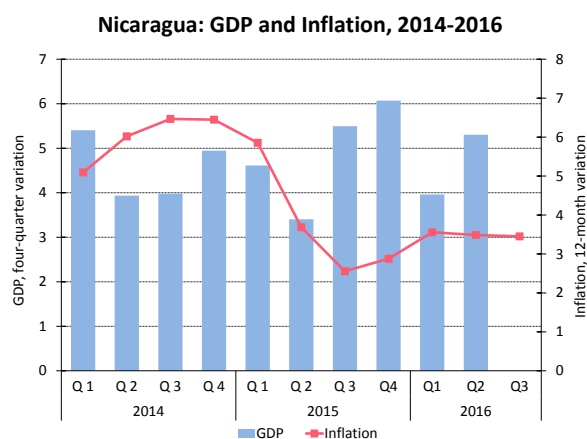
Central government revenue grew by 11.8% in real terms year-on-year in the period up to August 2016, more than the 7.9% seen in the prior-year period thanks to a rise in tax revenues, which are expected to be equivalent to 16.1% of GDP by the end of 2016. While income tax collection maintained growth at about 14% in real terms, value added tax revenue gained 8.4%, thanks to stronger economic activity. Over the same period, total expenditure rose by 14.7% in real terms, reflecting higher current expenditure (14.2%) because of the organization of the national election in November, and a public investment jump of over 20% in real terms. The after-grants deficit will be financed mainly by multilateral loans for investment projects, above all in construction, utilities and health and education services.

While the total public debt balance was up by 5.7% in real terms in August 2016, its share of GDP is expected to be lower than in 2015 (about 45%, compared with 46.4%). According to the debt sustainability analysis in the medium-term budget framework, the main risk to the reduction of the debt-to-GDP ratio is the delay in debt relief negotiations under the heavily indebted poor countries (HIPC) initiative.

Throughout 2016, monetary policy continued to be geared towards achieving a 5% annual depreciation in the exchange rate as a nominal anchor, through the build-up of gross international reserves—which in September averaged 2.7 times the monetary base.

Although the annual average nominal deposit rate has held steady at about 1%, reflecting the evolution of inflation the real rate went from -2% at the end of 2015, to nearly -3% in the third quarter of 2016. This slowed M2 growth, which showed an expansion of 11% until September, much lower than the 26.4% posted in the year-earlier period. The short-term nominal lending rate stayed at about 12%. This helped to maintain private sector lending growth, which saw a nominal increase of 21.1% up to September. While business and consumer loans are still the largest lending segments, credit to the agricultural and industrial sectors also rose (by 15.9% and 8%, respectively).

The value of goods exports up to September



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

2016 showed a cumulative 9% drop year-on-year, owing mainly to a 15% decline in manufacturing exports, including a decrease in the volume of agro-industrial exports. An uptick from 1% to 1.3% in import growth, excluding freight and insurance, reflected a 9.5% rise in consumer goods imports, offset by an 18.6% drop in the oil bill, a slight dip in the rest of intermediate goods imports (-0.7%) and a heavy slowdown in imports of capital goods (from 18.4% in 2015 to 2.9% in 2016). Consequently, the trade deficit widened to 8.7% of GDP. Family remittances posted growth of 5.4% at the end of the third quarter, reflecting the buoyancy of the Costa Rican economy, where about one quarter of Nicaraguan emigrants work. Net foreign direct investment amounted to US\$ 513.8 million in the first half of 2016 and is expected to represent 6.2% of GDP by year-end.

Nicaragua's GDP grew at an average rate of 4.6% year-on-year in the first half of 2016, more than half a percentage point up on the first half of 2015. By sector, economic buoyancy came mainly from the agricultural industry (which grew by 5.7%) and a recovery in mining (6.1%) and manufacturing (3.1%), which had both shrunk in 2015. On the expenditure side, higher government spending (up by 8.6%) neutralized the impact of a dip in household consumption (-4.9%). The improved performance of net exports (down by 1.7% compared with an 8.6% contraction in the prior-year period) offset a heavy slowdown in private investment (which grew by only 1.5%), reflecting the completion of several investment projects.

With food and fuels prices relatively stable, average annual inflation up to October 2016 was 3.4%, almost 1.5 percentage points lower than in the same period in 2015. Core inflation in the first 10 months of the year was 4.7% (compared to 6.3% in the prior-year period). Thanks to robust economic activity, data from the Nicaraguan Social Security Institute place formal job growth at 11.8% year-on-year until August 2016, with virtually half of this growth occurring in the community, social and personal services sector. In the same period, real private sector wages increased only 1%; wage shrinkage was observed across all services with the exception of the transport, storage and communications sectors.

For 2017, ECLAC estimates that Nicaragua's economy will expand 4.7%, driven by private investment—whose strength will counterbalance slowing private consumption—and a recovery in export activity, chiefly in manufacturing. If this projection is borne out, the current account deficit will narrow to around 8% of GDP and the central government deficit, after grants, to about 0.9% of GDP. Although oil prices are expected to remain relatively stable, their rise from the previous relatively low levels will push average inflation up to an estimated 6%.

Nicaragua: main economic indicators, 2014-2016

	2014	2015	2016 ^a
	Annual growth rate		
Gross domestic product	4.6	4.9	4.8
Per capita gross domestic product	3.4	3.8	3.7
Consumer prices	6.4	2.9	3.5 ^b
Real average wage ^c	1.7	2.7	1.2
Money (M1)	16.5	21.0	10.3 ^d
Real effective exchange rate ^e	1.8	0.6	2.1 ^b
Terms of trade	1.9	11.6	2.1
	Annual average percentage		
Central government			
Overall balance / GDP	-0.3	-0.6	-0.9
Nominal deposit rate ^g	1.0	1.0	1.1 ^f
Nominal lending rate ^h	13.5	12.0	11.5 ^f
	Millions of dollars		
Exports of goods and services	5,010	4,779	4,831
Imports of goods and services	7,060	7,031	7,257
Current account balance	-913	-1,045	-1,175
Capital and financial balance ⁱ	1,195	1,242	1,074
Overall balance	282	197	-101

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 August.

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 October.

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

h/ Short-term loans rate, weighted average.

i/ Includes errors and omissions.