NICARAGUA

1. General trends

Nicaragua's economy shrank by 3.8% in 2018 amid the political and social crisis affecting the country, following the previous year's 4.7% expansion. The central government deficit after grants widened significantly from 0.6% of GDP in 2017 to 2% in 2018, while the non-financial public sector (NFPS) deficit relative to GDP doubled to 4%. For the first time in nearly 40 years, the balance-of-payments current account posted a surplus (0.6% of GDP), resulting mainly from the collapse of domestic demand (in 2017 there was a deficit of 4.9% of GDP). Despite a difficult economic environment, the consumer price index had risen by just 3.9% year-on-year at the end of 2018, compared to the previous year's increase of 5.7%. The open unemployment rate for the first three quarters of 2018 averaged 5.5%, compared to 3.8% in the year-earlier period.

Nicaragua's sociopolitical conflict began in April 2018 after various social and business groups rejected the enactment of reforms to the General Regulations of the Social Security Law. Although the reforms in question were subsequently repealed, demonstrations spread throughout the country and were met with the use of force by the government and vigilante groups. The conflict has continued and has affected most economic sectors, in particular tourism, trade and construction, and also investment.

In this context of economic, political and social uncertainty, ECLAC forecasts a further contraction of GDP in 2019, this time by 5%. This would mainly reflect a reduction in domestic demand (both consumption and investment), despite the fact that free zones and remittances are expected to remain buoyant. Although the tax and social security reforms adopted between February and March 2019 are intended to give government finances some breathing space, their impact is likely to be limited and insufficient. This is because, in the current recessionary environment, the reforms further complicate the business and investment outlook for economic agents, and the revenue base can be expected to shrink. Moreover, the risks of informal practices and tax evasion increase, while the social security reform faces a significant reduction in the number of contributing affiliates. The same tax reform provides for a comprehensive review of the outcomes three months after it enters into force.

2. Economic policy

In 2018, economic policy was directed towards maintaining stability and minimizing the adverse effects of the sociopolitical crisis on various sectors of the national economy.

(a) Fiscal policy

The public finances have been undermined by the contraction in economic activity. Total central government income shrank in real terms by 10.1% in 2018 (following a 7.6% expansion in the previous year), mainly owing to substantial reductions in revenue from value added tax (VAT), both on imports (down 21.4%) and on domestic transactions (down 13.9%), and, to a lesser extent, from excise duty (a fall of 12.2%). In contrast, income tax revenue virtually flatlined in real terms.

Central government expenditure contracted in real terms by 3.6% in 2018, as a result of restrictions on goods and services procurement (-13.4%) and other expenses (-10.4%), partially offset by slight increases in employee compensation (+2.3%) and in social benefits (+3.5%). Conversely the net acquisition of non-financial assets decreased by 7.8% in real terms.

The central government deficit before grants grew from 1.5% of GDP in 2017 to 2.6% in 2018, while after grants it increased from 0.6% to 2% of GDP in the same period. Total grants received by the central government were 36.4% less in real terms than in 2017, with those from multilateral sources down the most heavily at US$ 55.7 million in 2018 compared to the previous year's US$ 104.6 million. Moreover, in contrast to previous years when the deficit was financed from external sources, 43.5% of the gap was funded domestically in 2018.

After two years of shortfalls equivalent to 2% of GDP, the NFPS deficit for 2018 widened to 4% (representing a nominal increase of 98.5%). In addition to the increase in the central government deficit, this was driven by significant increases in the deficits of the Nicaraguan Social Security Institute (INSS) (99.8%), the Nicaraguan Water and Sanitation Company (ENACAL) (33.4%), the National Electric Power Transmission Company (ENATREL) (7.9%), the Nicaraguan Electricity Company (ENEL) (64.9%), the Nicaraguan Oil Company (PETRONIC) (44.8%) and the Nicaraguan Telecommunications and Postal Institute (TELCOR) (471.2%).

The total public debt increased sharply, from US$ 6.487 billion in late 2017 to US$ 6.885 billion a year later. As a result of this, in conjunction with the reduction in GDP, the end-2018 total public debt amounted to 52.5% of GDP (46.9% in 2017). As of December 2018, 86.4% of Nicaragua's public debt was held externally.

Going forward, the revenue reforms passed in February and March 2019 are unlikely to be sufficient to prevent the fiscal deficit from widening in the medium term. In the current economic scenario, the provisions of the reforms to the Tax Concertation Law and the Regulations to the Social Security Law are likely to accentuate the slowdown in various sectors and activities, which in turn will generate lower-than-expected tax revenues; so the fiscal outturn will depend largely on adjustments to government spending. In the first quarter of 2019, central government revenues were 11.2% down on the year-earlier period, attaining an execution rate of 29.5% of the total annual budget. Nonetheless, the government had adopted measures to restrict expenditure execution in that period of the year, with the result that total expenditure incurred was down by 26.3% on the year-earlier period. As a result, a temporary fiscal surplus of 3.725 billion córdobas was generated in the first quarter of 2019.

(b) Monetary policy and exchange-rate policy

Gross reserves at the end of 2018 totalled US$ 2.261 billion, down by 18% from the year-earlier US$ 2.758 billion. This level of reserves represented 2.4 times the monetary base (2.6 times in 2017) and 5.2 months of imports measured on a cost, insurance and freight (CIF) basis (5.4 months in 2017).

Unlike in 2017, when the growth of exports, tourism activity and remittances generated a larger foreign-exchange inflow, in 2018 the sources of foreign-currency reserves —merchandise exports, foreign direct investment (FDI), tourism earnings, external financing and grants— all declined. In contrast to this general trend, family remittances alone maintained their growth path.

The monetary aggregates shrank in line with the pace of economic activity during 2018, with significant decreases in cash (-3.8%), transferable deposits in national currency (-23.6%) and other deposits in dollars (-22.5%). The broadest aggregate (M3A) fell by 18.7% (following growth of 11.7% in 2017).

Real interest rates decreased in 2018: the short-term lending rate averaged 5.67% (6.76% in 2017) and the rate on one-month deposits fell by 3.37% (2.49% in 2017). In nominal terms, the average lending rate was 10.90%, virtually unchanged from the previous year's 10.86%, while the one-month deposit rate was 1.41% (1.25% in 2017).

Total deposits in the domestic financial system contracted sharply by 20.7% in 2018, having grown by 10.7% in the previous year. Domestic-currency deposits shrank by 18.6% following the previous year's 12.3% expansion, while foreign-currency deposits decreased by 21.4% (following an increase of 10.2% in the previous year). The gross loan portfolio shrank by 8.9% (having expanded by 13.9% in 2017), partly because banks were reluctant to grant new loans and preferred to maintain their operational liquidity. In terms of destinations of the loan portfolio, housing credit alone reported a larger balance outstanding at the end of the year (up 3.9%, compared to 16% growth in 2017). The steepest falls occurred in personal loans (down 14.1%) and credit for industry (by 13.6%), which in 2017 had grown by 12.1% and 22.8%, respectively.

In 2018, the government maintained its policy of a pre-announced 5% annual depreciation of the exchange rate, as a nominal anchor for the price level, supported by the accumulation of international reserves. Nonetheless, in the unofficial foreign-exchange market —in contrast to previous years when there had also been an annual depreciation of about 5%— at the end of 2018 there was an annual depreciation of 6.3% and an unusual maximum selling gap of 2.36% (as of 31 December). Considering the 5% depreciation of the official nominal exchange rate and the inflation differential between Nicaragua and the United States, the real exchange rate depreciated by an average of 2.5% against the United States dollar in 2018 (3.3% in 2017).

Interest rates could play an important role in discouraging the withdrawal of bank deposits in 2019. Rates have risen in the first few months of the year: for example, the January–April 2019 average nominal one-month deposit rate in córdobas was 3.0% (versus 1.4% in the year-earlier period), while the equivalent rate in dollars was 4.0% (1.2% in the same period of 2018).

On the foreign-exchange market, in the first quarter of 2019 the central bank sold large amounts of foreign currency to banks and financial companies and also to central government, through its foreign-exchange desk. These sales totalled roughly US$ 96 million (compared to US$ 1.1 million in the first quarter of 2018) and were intended basically to meet the liquidity needs of the domestic financial system. The volume of foreign currency traded with the public by banks and finance companies decreased sharply relative to the last quarter of 2018 (by 3.4% in terms of purchases and 13.1% in sales). In the first quarter of 2018, the official exchange rate rose in line with the pre-announced 5% depreciation to reach 32.7 córdobas to the dollar at the end of March; and no changes are expected during the year. Gross international reserves stood at US$ 2.174 billion at the end of April, down by 3.8% since the end of 2018, and covering the monetary base by a multiple of 2.35.

(c) Other policies

Nicaragua faces challenges in terms of its international financing, the amounts received from Venezuelan cooperation having plummeted from a peak of US$ 563.8 million in 2011 to just US$ 27.2 million in 2018. The Nicaragua Human Rights and Anti-Corruption Act, known as the NICA Act, was passed by the United States Congress and subsequently signed by President Trump on 20 December 2018. This law imposes restrictions on financing from international institutions, such as the International Monetary Fund (IMF), the World Bank and the Inter-American Development Bank (IDB). As from 2019, multilaterals are prevented from funding new projects benefiting Nicaragua. In addition, at the start of 2019, the European Parliament passed a resolution requesting activation of the democracy clause of the Association Agreement between Central America and the European Union, as a result of which Nicaragua would be suspended from the agreement. The decision on whether to apply these sanctions is now in the hands of the European Union Foreign Affairs Council.

3. The main variables

(a) The external sector

The balance-of-payments current account generated a surplus of US$ 83 million (0.6% of GDP) in 2018, in contrast to deficits in previous years. The sharp 11.4% fall in merchandise imports, measured free on board (FOB), including those of the free zone, is one of the main factors explaining this result. By contrast, exports, including the free zone, increased modestly (by 0.6% in 2018, compared to the previous year's 9.8%); and family remittances grew by 7.9% to reach US$ 1.501 billion in 2018, equivalent to 11.4% of GDP.

Merchandise exports, excluding free zone operations, contracted by 1.2%, following 14.5% growth in 2017. The 3.8% growth in export volume was insufficient to offset the fall in international prices. Agricultural exports were the worst hit, recording a sharp 9.1% reduction in value. This was due both to the fall in international prices and to factors rooted in the crisis, such as the mid-year blocking of communication channels and the higher cost of certain inputs. On the other hand, mining exports grew by 13.2%, thanks to increased volumes of the two main minerals exported by Nicaragua (gold and silver) and the rise in the price of gold on the international market. Lastly, fishery and manufacturing exports edged up slightly (0.9% and 0.1%, respectively).

Imports, excluding free zone data, fell by 13.7% in CIF value terms in 2018 (compared to the previous year's growth of 4%); if free zone imports are included, the decrease is 8.8%. Excluding the oil bill, which increased by 12.7%, imports contracted by 18.3% in the wake of slacker domestic demand and weak flows of exported products incorporating domestic intermediate goods. Capital goods imports were down by a hefty 29.7%, especially those destined for the transport sector (-39.5%) and manufacturing (-24.6%). The reduction in consumer goods imports (-16.1%) included a 32.1% drop in consumer durables.

The terms of trade deteriorated by 6.3% (following a 6.2% improvement in 2017), mainly owing to lower prices for coffee and beef exports (partially offset by the rise in the price of gold), compounded by a rise in fuel and steel prices on international markets. Net flows of FDI in 2018 were 59.8% lower than the previous year, reflecting the uncertainty that has been prevailing in 2019.

In the first two months of 2019 the annualized rate of growth of exports fell by 4%, while import growth was down by 23.1%.

(b) Economic activity

The complicated sociopolitical situation that emerged in April 2018 has had both direct and indirect repercussions on various economic activities, particularly those related to the tertiary sector. Central bank data show that hotel and restaurant activity declined sharply, by 20.2%, while commerce and financial intermediation shrank by 11.4% and 5.4%, respectively. Other major activities in the Nicaraguan economy also retreated sharply, including construction (by 15.7%) and livestock activities (5.4%).

On the expenditure side, consumption was down by 4.5% in 2018, owing to decreases in both private and government consumption (by 4.8% and 2.8%, respectively). Compounding this, gross fixed capital formation was 19.7% lower in 2018, with reductions of 21.4% in the private sector and 15.4% in the public sector.

The variation in the monthly index of economic activity continued to trend down in the first few months of 2019, with a year-on-year fall of 7.5% in February (a cumulative 6.6% January–February reduction). By activity sector, the steepest falls were in hotels and restaurants (-24.7%), fishing and aquaculture (-22.5%), financial intermediation (-21.1%), construction (-18.7%) and commerce (-16.3%).

(c) Prices, wages and employment

In keeping with the stability of the mini-devaluation scheme and the sharp drop in domestic demand, year-on-year inflation (national index) in Nicaragua was 2.4 percentage points lower than the end-2017 level of 5.8%. By sector, prices rose by least among food and non-alcoholic beverages (up 2.38%) and restaurants and hotels (3.20%), while those of accommodation, water and electricity (6.01%) and recreation and culture (6.95%) increased by the most.

The open unemployment rate was 5.4% in 2018 (the most recent figure available), well above that registered in 2017 of 3,7%. The overall participation rate slipped by nearly three percentage points, from 70.8% in the third quarter of 2017 to 67.0% a year later. In terms of formal employment, INSS reported that the average number of affiliates in 2018 was 10.5% lower than in the previous year; and, at the end of 2018, the total number stood at 755,874, or 17.3% fewer than a year earlier.

Average wages among INSS-affiliated workers grew by 9.7% in nominal terms in 2018 (4.5% in real terms), while minimum wages were raised by 10.4% during the year (half of this increase being paid in March and the remaining 5.2% in September).

In the first two months of 2019, the number of INSS affiliates was virtually unchanged from the end of the previous year (755,908 in February 2019, compared to 755,874 in the previous December). The average nominal wage of INSS affiliates grew by 7% year-on-year during the same period. In March 2019 the National Minimum Wage Commission (on this occasion without participation from the Supreme Council of Private Enterprise) and the Ministry of Labour announced that, during the first half of the year at least, the minimum wage in Nicaragua would not be increased, but that they would meet periodically to decide whether there should be any change in the second semester. As of May, cumulative inflation stood at 3.6% (more than double the equivalent for the same period in 2018 and very close to the variation for the whole of that year), while the year-on-year figure was 6.0%, reflecting significant price increases in categories such as alcoholic beverages and tobacco and miscellaneous goods and services. Partly as a consequence of the tax pressures associated with the recent reforms, different economic agents are likely to raise the prices of their products, so inflation at the end of 2019 is projected to be significantly above the 2018 level.

Table 1

NICARAGUA: MAIN ECONOMIC INDICATORS

	2010	2011	2012	2013	2014	2015	2016	2017	2018 a/
	Annual growth rates b/								
Gross domestic product	4.4	6.3	6.5	4.9	4.8	4.8	4.6	4.7	-3.8
Per capita gross domestic product	3.1	5.0	5.2	3.7	3.6	3.6	3.4	3.6	-4.8
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	2.6	5.1	-0.9	-1.8	2.5	-0.8	4.6	8.5	0.5
Mining and quarrying	51.6	25.7	10.9	22.4	0.4	-0.3	8.2	-9.1	1.7
Manufacturing	8.9	9.8	10.2	6.5	7.6	1.0	3.7	5.1	1.1
Electricity, gas and water	3.5	8.3	15.4	15.7	9.4	2.1	2.1	-1.7	4.1
Construction	-17.2	10.8	27.1	11.0	1.8	25.4	-1.4	1.2	-15.7
Wholesale and retail commerce, restaurants and hotels	7.3	9.0	7.2	3.5	3.6	5.8	5.1	6.8	-13.4
Transport, storage and communications	17.5	12.6	6.0	5.4	4.3	7.7	7.1	1.8	-3.5
Financial institutions, insurance, real estate and business services	-3.0	-0.3	2.3	4.8	5.4	4.4	5.0	4.3	-2.7
Community, social and personal services	5.3	0.9	5.0	5.4	6.2	4.2	5.1	4.4	-0.2
Gross domestic product, by type of expenditure									
Final consumption expenditure	2.9	2.8	4.1	4.1	4.5	5.3	6.1	5.5	-4.5
Government consumption	2.2	3.6	4.1	5.4	6.0	6.3	8.2	3.9	-2.8
Private consumption	3.0	2.6	4.1	3.8	4.2	5.2	5.7	5.8	-4.8
Gross capital formation	10.7	29.2	5.6	3.5	-0.4	22.3	-0.3	-5.1	-23.6
Investment and saving c/	**Percentages of GDP**								
Gross capital formation	24.8	31.0	31.0	30.9	28.9	33.5	31.2	28.0	22.9
National saving	15.9	19.1	20.3	20.0	21.8	24.6	24.6	23.1	23.6
External saving	8.9	11.9	10.7	10.9	7.1	8.8	6.6	4.9	-0.6
Balance of payments	**Millions of dollars**								
Current account balance	-780	-1 166	-1 132	-1 199	-844	-1 128	-871	-675	83
Goods balance	-1 787	-2 254	-2 290	-2 262	-2 169	-2 528	-2 520	-2 407	-1 633
Exports, f.o.b.	2 726	3 416	3 919	3 852	4 150	3 859	3 772	4 143	4 169
Imports, f.o.b.	4 513	5 670	6 210	6 114	6 319	6 388	6 292	6 549	5 802
Services trade balance	96	131	163	21	188	232	394	529	414
Income balance	-250	-273	-314	-327	-314	-346	-357	-364	-310
Net current transfers	1 161	1 230	1 310	1 369	1 450	1 515	1 612	1 567	1 611
Capital and financial balance d/	999	1 253	1 117	1 294	1 126	1 325	814	975	-596
Net foreign direct investment	475	929	704	665	790	905	833	707	284
Other capital movements	524	325	412	629	336	420	-19	268	-880
Overall balance	219	87	-15	96	282	197	-57	300	-513
Variation in reserve assets e/	-219	-87	15	-96	-282	-197	57	-300	513
Other financing	0	0	0	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	99.8	105.9	103.8	100.4	105.6	100.9	104.0	113.0	98.0
Terms of trade for goods (index: 2010=100) g/	100.0	106.6	106.5	98.2	100.1	113.3	115.1	110.3	103.4
Net resource transfer (millions of dollars)	749	980	802	967	812	979	457	611	-905.4
Gross external public debt (millions of dollars)	7 286	8 126	8 957	9 677	10 132	10 543	11 028	11 516	11 666.6
Employment	**Average annual rates**								
Labour force participation rate h/	71.2	75.6	76.8	75.8	74.0	72.4	73.6	73.5	71.7
Open unemployment rate i/	10.5	8.1	8.7	7.7	8.5	7.7	6.3	5.2	7.5

Table 1 (concluded)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Prices	**Annual percentages**								
Variation in consumer prices									
(December-December)	9.1	8.6	7.1	5.4	6.4	2.9	3.1	5.8	3.4
Variation in nominal exchange rate									
(annual average)	5.0	5.0	5.0	5.0	5.0	5.0	4.8	5.2	5.4
Variation in average real wage	1.3	0.1	0.3	0.3	1.7	2.6	2.3	1.5	4.5
Nominal deposit rate j/	3.0	1.8	1.0	1.0	1.0	1.0	1.1	1.3	1.4
Nominal lending rate k/	13.3	10.8	12.0	15.0	13.5	12.0	11.4	10.9	10.9
Central government	**Percentages of GDP**								
Total revenue k/	16.3	17.2	17.6	17.2	17.4	17.7	18.5	18.7	17.4
Tax revenue	13.7	14.5	15.0	15.0	15.3	15.6	16.2	16.5	15.6
Total expenditure	17.0	16.7	17.1	17.1	17.7	18.3	19.1	19.2	19.4
Current expenditure	13.1	13.2	13.4	13.3	13.7	13.8	14.6	14.5	14.9
Interest	1.1	1.0	1.0	0.9	0.9	0.9	1.0	1.1	1.1
Capital expenditure	3.9	3.5	3.7	3.8	4.0	4.5	4.5	4.8	4.6
Primary balance	0.3	1.5	1.5	1.0	0.5	0.3	0.4	0.5	-0.9
Overall balance	-0.7	0.5	0.5	0.1	-0.3	-0.6	-0.6	-0.6	-2.0
Central government public debt	33.2	31.8	31.2	30.8	30.2	29.9	30.5	33.9	37.6
Domestic	10.6	9.4	8.3	6.8	6.0	5.3	5.1	4.9	5.0
External	22.6	22.4	23.0	24.1	24.1	24.6	25.4	29.0	32.6
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	35.6	31.6	34.1	36.7	34.2	35.9	37.0	37.6	35.0
To the public sector	23.5	20.1	17.2	16.7	13.0	11.0	10.7	8.7	9.6
To the private sector	26.8	26.2	28.7	31.9	33.9	36.9	39.6	42.5	39.6
Others	-14.7	-14.7	-11.9	-11.8	-12.7	-11.9	-13.6	-13.7	-14.2
Monetary base	77.6	8.3	7.7	7.5	7.6	8.5	7.7	8.0	7.3
Money (M1)	7.7	7.9	7.6	7.9	7.9	8.8	8.4	8.7	7.6
Foreign-currency deposits	28.3	26.8	27.8	30.3	30.8	32.2	32.6	33.1	26.7

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/ Economic Development Division, calculations for Economic Survey of Latin America and the Caribbean, 2019.
h/ Nationwide total.
i/ Urban total.
j/ 30-day local-currency pasive rates, weighted average.
k/ Weighted average of short-term lending rates in local currency.

Table 2
NICARAGUA: MAIN QUARTERLY INDICATORS

	2017				2018				2019	
	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/	7.3	4.0	3.6	4.1	2.4	-5.2	-4.4	-7.7	...	...
Gross international reserves (millions of dollars)	2 298	2 385	2 419	2 523	2 662	2 671	2 240	2 078	1 967	1 987 c/
Real effective exchange rate (index: 2005=100) d/	107.5	111.2	115.4	118.1	105.2	97.8	94.8	94.4	93.3	93.5
Consumer prices (12-month percentage variation)	3.2	3.2	4.3	5.8	5.0	5.3	4.8	3.4	4.7	5.8 e/
Average nominal exchange rate (córdobas per dollar)	29.4	29.8	30.2	30.6	31.0	31.4	31.9	32.3	32.7	33.0 e/
Nominal interest rates (average annualized percentages)										
Deposit rate f/	1.1	1.2	1.0	1.6	1.6	1.0	0.7	2.3	3.5	2.8 e/
Lending rate g/	11.1	12.5	9.6	10.2	9.8	10.1	11.1	12.5	12.5	13.1 e/
Interbank rate	5.4	5.2	4.8	4.9	4.8	4.8	5.5 h/	...	...	...
Domestic credit (variation from same quarter of preceding year)	16.6	18.2	15.5	12.7	7.8	3.0	-2.0	-6.8	...	...

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 May.
f/ 30-day local-currency pasive rates, weighted average.
g/ Weighted average of short-term lending rates in local currency.
h/ Figures as of July.