Nicaragua: Table of Common Indicators Required for Surveillance (continued)

(AS OF OCTOBER 28, 2013)

Exports and Imports of Goods and Services	July 2013	9/26/2013	M	M	M		
GDP/GNP	Q4 2012	9/26/2013	Q	Q	Q	O, O, O, LO	LO, O, LO, O, LNO
Gross External Debt	Aug. 2013	9/26/2013	M	M	M		
International Investment Position[6]	2012	9/26/2013	A	A	A		

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign banks, domestic banks, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).

[8] Reflects the assessment provided in the data ROSC published on December 8, 2005, and based on the findings of the mission that took place during January 11-26, 2005 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

[9] Same as footnote 7, except referring to international standards concerning source data, assessment and validation of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

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IMF Executive Board Concludes 2013 Article IV Consultation with Nicaragua

On December 4, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation [1] with Nicaragua.

Over the past two years, macroeconomic developments in Nicaragua have been generally favorable. Real gross domestic product (GDP) grew by an average of 5¼ percent during 2011–12, and the annual average inflation was 7¼ percent during the same period. Looking ahead, the macroeconomic outlook also remains broadly positive. Real GDP is expected to grow by 4¼ percent in 2013 and then stabilize at its potential level of 4 percent over the medium-term. Inflation is projected to remain at about 7 percent supported by the crawling-peg exchange rate system that has helped anchor inflation expectations.

Fiscal discipline contributed to lower public debt ratios. After a balanced position in 2011, the combined public sector experienced a deficit of ¾ percent of GDP last year. In 2013, the deficit is expected to widen to 1½ percent of GDP. This reflects mostly an increase in capital spending by public sector enterprises while the accounts of the central government are projected to remain balanced. As a result, the ratio of public debt to GDP is projected to decline to about 42 percent in 2013, compared with 50 percent in 2010.

The external position remains vulnerable. The external current account deficit is projected to be about 13 percent of GDP in 2013, broadly unchanged from the previous year, reflecting a large dependence on oil imports and relatively tepid increases in exports and remittances inflows. Strong capital inflows, mostly foreign direct investment (FDI) and oil-related financing from Venezuela, are expected to help finance the current account deficit and increase gross international reserves to nearly US$2 billion (equivalent to 3½ months of imports).

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

The soundness indicators of the banking system appear robust. The average adequacy ratio of the system was 13 percent as of August 2013, above the regulatory norm of 10 percent and nonperforming loans have declined from their 2009 peak. However, commercial bank credit to the private sector increased rapidly over the past two years. As of August 2013, bank credit increased by 23 percent (yoy), following an annual increase of 26 percent in 2012. Credit expansion was the strongest in the personal loan sector.

Progress is being made in the structural reform area. In 2012, a tax reform was approved featuring the elimination of some VAT exemptions, changes in the personal income tax thresholds, and a plan for further rationalization of tax exemptions over the medium term. In April 2013, electricity tariffs were increased by close to 13 percent to bring the actual tariffs closer in line with international energy prices.

The near-term outlook contains risks. Adverse external shocks, such as the deterioration of Nicaragua's main export prices (e.g., for coffee, gold, and meat) or an increase in oil prices, could widen trade deficits and negatively impact growth. A slowdown in global economic activity could reduce FDI and remittances inflows. Also, the terms and levels of the economic cooperation with Venezuela could change and add to external pressures. On the domestic front, the rapid increase in private sector credit could pose risks and merits careful monitoring.

Executive Board Assessment[2]

Executive Directors welcomed Nicaragua's stable macroeconomic condition despite the weak global environment. They commended the authorities' efforts to maintain fiscal discipline and monetary stability, which, combined with progress in structural reform, have helped to strengthen confidence and boost economic growth. However, Directors noted that downside risks remain, stemming from Nicaragua's large external deficit and uncertainties regarding the global outlook and the oil import financing scheme with Venezuela. They welcomed the authorities' commitment to continue implementing prudent macroeconomic policies and structural reforms and encouraged development of contingency plans to address potential external vulnerabilities.

Directors stressed that fiscal discipline should remain the cornerstone of Nicaragua's macroeconomic policy framework. They supported the fiscal stance of the draft 2014 budget, which, while incorporating a wage bonus, remains consistent with the medium term goals of strengthening fiscal buffers and lowering further public debt ratios. They underscored the importance of broadening the revenue base by fully implementing the 2012 tax reform, rationalizing public expenditures, and reforming the pension system to ensure its financial viability, while reinforcing the social safety net. Directors noted that the risk of external public debt distress remains moderate, and called for renewed efforts to conclude debt relief

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

negotiations with non-Paris Club official creditors. In this respect, they encouraged all creditors to deliver fully the debt relief envisaged under the HIPC Initiative.

Directors agreed that monetary policy should aim to contain inflation and keep the real exchange rate broadly in line with fundamentals, and that external reserves coverage should stay above the established international benchmarks. Directors also observed that, while financial soundness indicators appear to be satisfactory, the recent rapid, albeit slowing, increase in bank credit to the private sector needs to be monitored closely. They welcomed the progress in strengthening bank supervision and the authorities' commitment to continue recapitalizing the central bank.

Directors encouraged the authorities to advance quickly with structural reforms to spur economic growth and reduce poverty. These would include reforms to lower informality in labor markets, improve and expand education and training, reduce dependence on oil imports, and strengthen the framework for private investment in infrastructure. Directors welcomed the authorities' intention to expand further the electricity sector's capacity and efficiency, and encouraged continued reform of the subsidy system to reduce fiscal risks. Directors commended the increased dissemination of information on international cooperation, and recommended full disclosure of the oil import financing agreement with Venezuela.