

Press Release: IMF Concludes 2013 Article IV Mission to Nicaragua

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A mission from the International Monetary Fund (IMF) led by Przemek Gajdeczka visited Managua from 17 to 26 September 2013 to conduct discussions in the context of the Article IV. The mission met with officials from the Ministry of Finance, the Central Bank and other economic cabinet members as well as members of the business community and trade union leaders.

The mission reviewed recent economic developments and discussed the economic outlook for Nicaragua. After the visit, Mr. Gajdeczka issued the following statement.

"The recent economic performance has been favorable. Real growth of Gross Domestic Product (GDP) in the last two years averaged 5.3 percent, while the annual average inflation was 7.3 percent. In 2012, the consolidated public sector deficit was about 0.3 percent of GDP. As a result of this fiscal discipline, public debt declined from 45.7 percent of GDP in 2011 to 42.3 percent in 2012. The deficit on the external current account fell from 13.2 percent of GDP in 2011 to 12.9 percent in 2012, and gross international reserves remain at the equivalent of 3.5 months of imports.

"The macroeconomic outlook for the short- and medium-term is favorable. For 2013 it is estimated that GDP will grow at 4.2 percent while inflation would be about 7 percent. The current account deficit will remain around 13 percent of GDP while international reserves coverage will remain stable. For subsequent years, in the baseline scenario prepared by the mission, GDP growth is at its potential level of 4 percent, while inflation is projected at around 7 percent. However, adverse external shocks could reduce trade flows.

"The mission welcomed the recent prudent management of macroeconomic policy while stressing the need to focus efforts to reduce fiscal and external vulnerabilities.

"The authorities' fiscal policy is anchored by the commitment to significantly reduce the public debt to GDP ratio over the medium term. To protect fiscal discipline, the government intends to incorporate the wage bonus (bono solidario) in the budget while maintaining a stable level of public spending. For 2013, it is expected that the consolidated public sector deficit would be around 1.4 percent of GDP. To strengthen fiscal sustainability in the medium term it will be necessary to carry out a reform of the pension system to ensure its viability. In addition, it would be important to continue strengthening tax administration and rationalize expenditures, including subsidies. The mission supports continued improvements in the transparency of fiscal and quasi-fiscal operations, including the cooperation with Venezuela.

“The mission supports the monetary authority’s commitment to maintain low inflation and increase international reserves. In particular, maintaining a level of reserves over three months of imports in the coming years would be important to reduce the vulnerability of the economy to external shocks. In addition, the mission considers that the crawling peg exchange rate regime has served well to anchor inflation expectations in the Nicaraguan economy. In the banking sector, there has been a very rapid credit growth. However, this rate of growth has slowed in recent months and the banking system is well capitalized.

“The mission wishes to thank the government and representatives of other sectors for their cooperation and openness during the talks. The authorities and the IMF team plan to maintain a close relationship and a continuous and close dialogue. The next mission in the context of Article IV is planned for September next year.”

IMF COMMUNICATIONS DEPARTMENT

Media Relations

E-mail: media@imf.org (<mailto:media@imf.org>)

Phone: 202-623-7100