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Press Release: IMF Concludes Staff Visit to Nicaragua

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A staff team from the International Monetary Fund (IMF) led by Przemek Gajdeczka visited Managua during May 6-14, 2014. The visit took place in the context of regular contacts with the authorities to evaluate the performance of the Nicaraguan economy and prepare the next Article IV Consultation. The staff team met with officials from the central bank, the ministry of finance, other members of the economic cabinet, and representatives of the private sector. They reviewed recent economic developments and discussed the economic outlook for Nicaragua. After the visit, Mr. Gajdeczka issued the following statement.

"Over the past few years, Nicaragua's economy grew at relatively high rates and macroeconomic stability strengthened. In 2013, the real growth of GDP was 4.6 percent and inflation was 5.7 percent. In spite of a slowdown in tax revenue collections, the consolidated public sector deficit after grants was in line with the budget (1.4 percent of GDP) and the public debt ratio declined. At the same time, the external current account deficit, while large, narrowed and the coverage of gross international reserves remained stable at 3.7 months of imports (excluding imports of export processing zones). In 2013, growth in private sector credit remained elevated (20 percent) while the capitalization of the banking system remained above the regulatory requirements.

"Nicaragua's economic outlook remains favorable. For 2014, the staff team projects real GDP growth of 4.3 percent, inflation of about 7 percent, and the consolidated public sector deficit below 2 percent of GDP. Private sector credit growth is expected to decline to levels consistent with the growth in the deposits of commercial banks. The external current account deficit will increase somewhat but the coverage of gross international reserves is expected to remain stable. The main risks to these projections stem from potential changes to the external environment, such as a result of a slowdown in global economic activity or changes in the availability of external financing.

"To maintain this favorable economic outlook it is necessary to further strengthen public finances, continue modernizing the functioning of the financial system, and implement additional improvements to the electricity generation matrix. The fiscal outlook has strengthened as a result of the parametric changes introduced to the pension system. Going forward, improvements in public finance management can be achieved through rationalizing public spending and improving the presentation of fiscal and quasi-fiscal operations in conformity with international standards. In addition, the financial system would benefit from a strengthening of the payments system, the development of the domestic bond market, and further enhancements in monetary and inter-bank operations.

"The IMF team wishes to thank the government and representatives of the civil society for their cooperation and the candor of the conversations held during the mission. The next visit will be in the context of the 2014 Article IV currently scheduled for the end of the year."

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