PRESS RELEASE NO. 15/486

Press Release: IMF Staff Completes 2015 Article IV Mission to Nicaragua

October 29, 2015

End-of-Mission press releases include statements of IMF staff teams that convey preliminary findings after a visit to a country. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF's Executive Board for discussion and decision.

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A mission from the International Monetary Fund (IMF) headed by Mr. Gerardo Peraza visited Managua from 20 to 29 October 2015 in the context of the Article IV consultation. The mission met with officials from the Central Bank, the Ministry of Finance and Public Credit, and other members of the economic cabinet, as well as members of the economic commission of the National Assembly, business community and labor leaders, academic groups, and representatives of think tanks.

The mission reviewed recent economic developments and discussed the economic prospects of Nicaragua. After the visit, Mr. Peraza issued the following statement.

"Nicaragua continues to experience a favorable economic performance. The Gross Domestic Product (GDP) growth in the past three years has averaged 4.8 percent and is among the highest in the region. In 2014, the consolidated public sector deficit was 2 percent of GDP and public debt (including all the debt relief of the Highly Indebted Poor Countries Initiative) fell by 2.2 percentage points to 40.8 percent of GDP. The deficit of the external current account was reduced from 11 in

2013 to 7 percent of GDP, and international reserves increased to the equivalent of 4.1 months of imports excluding free trade zone imports.

"The macroeconomic outlook is positive. By end-2015, GDP growth is projected at 4 percent and, mainly as a result of the drop in prices of oil and agricultural products, inflation is projected at 3.5 percent. The deficit and the debt of the consolidated public sector are projected to rise, respectively, to 2.7 percent and about 42.5 percent of GDP in 2015. The expectation is that the external current account deficit will widen to 8 percent of GDP and that the coverage of international reserves will remain stable. For the medium term, the mission projects that GDP growth will converge to its potential level (about 4 percent) with inflation at about 7 percent annually.

"The mission stressed the need to reinforce the policy framework in some areas in order to build buffers to face fiscal and external vulnerabilities.

"The consolidated public sector deficit is expected to contract marginally in 2016 and remain at that level for the remainder of the decade (on average, 2.6 percent of GDP). As a result, public debt is projected to stabilize at about 41 percent of GDP. The mission suggests an additional fiscal effort in 2017 to build fiscal buffers in case risks materialize; policy measures that could be considered include a reduction in tax exemptions and improved targeting of electricity subsidies to poor households. Looking further ahead, the mission recommends identifying economic measures to strengthen the financial viability of the social security institute.

"The commitment of the monetary authority to maintain an adequate level of international reserves remains a critical objective of macroeconomic policy. This is crucial to reduce the vulnerability of the Nicaraguan economy to downturns in the global economy or abrupt changes either in the terms of trade or in the availability of external financing. The mission welcomes the central bank's efforts to strengthen short-term liquidity management in the financial system. Moreover, the authorities should continue to monitor the rapid growth in credit and strengthen banking supervision.

"The authorities need to continue strengthening the statistical framework. This includes broadening the institutional coverage of the fiscal accounts and public debt, and improving methodologies for compiling national and external accounts. The mission also recommends to continue strengthening the mechanisms to collect data, the procedures to monitor the quality of statistics, and the communication strategies. The IMF will continue assisting the authorities with these strengthening efforts.

"The mission wishes to thank the Government and other partners for their cooperation and openness in the talks. The next mission in the context of Article IV is planned for late next year."

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