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IMF Concludes Staff Visit to Nicaragua

December 5, 2016

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. This mission will not result in a Board discussion.

- Despite challenging external conditions, economic activity remains buoyant
- The financial system appears to be robust, notwithstanding strong credit growth
- Nicaragua needs to continue strengthening its public finances by creating fiscal buffers

A staff team from the International Monetary Fund (IMF) led by Gerardo Peraza visited Managua from November 29–December 5, 2016. The visit took place as part of a regular dialogue with the authorities in order to assess the performance of the Nicaraguan economy. Staff reviewed recent economic developments and discussed the medium-term development strategy, policy agenda and the economic outlook .

Mr. Peraza issued the following statement at the conclusion of the visit.

“Notwithstanding challenging external conditions, economic activity remains buoyant. Growth in 2016 is projected at 4.7 percent, largely supported by strong agricultural and commercial activity. Inflation is projected to moderate to below 4 percent given low food and other commodity prices. The consolidated public sector deficit is projected to reach 3.1 percent of GDP in 2016, modestly higher than in 2015, notably because of higher pension and investment expenditure of the social security institute, election-related spending, and increased investment in infrastructure. Despite a smaller oil bill, the external current account is expected to deteriorate, owing to weak external demand and lower prices of key exports. Gross international reserves are projected to remain stable at about 4 months of imports (excluding imports from the free trade zone). The financial system appears to be robust, notwithstanding strong credit growth, with capital adequacy ratios remaining above the regulatory level and non-performing loans being low and stable.

“Nicaragua’s main challenge is to maintain strong, sustainable and inclusive growth in the context of greater uncertainty regarding global trade and economic activity. While the reduction in Petrocaribe flows has been absorbed so far without major impact on the availability of external financing, macroeconomic risks should be closely monitored and mitigating policies put in place. For this reason, Nicaragua needs to continue strengthening its public finances by creating fiscal buffers, including by reducing tax exonerations and poorly targeted components of electricity subsidies. It is also imperative to address the financial sustainability of the social security institute.

“Efforts to strengthen financial stability are ongoing. In particular, the implementation of banking regulations in line with Basel III in terms of liquidity and solvency is welcome. Amid declining concessional financing, it would be important to improve the resilience of the domestic financial system and deepen domestic financial markets. These efforts need to be accompanied by strengthening central bank independence and balance sheets. The introduction of macro-prudential tools that can strengthen the financial system would be welcome.

“Further strengthening the statistical framework is crucial for improving macroeconomic management. Additional efforts are needed to continue strengthening the accuracy and consistency of the reporting of national and external accounts, as well as of fiscal statistics and the reports on public debt.

The staff team met with members of the economic cabinet, officials from the central bank, the ministry of finance, the superintendency of banks, and other representatives of public and private sector entities.

“The IMF team wishes to thank the authorities for their cooperation and candor. The next Article IV mission, which will be led by Fernando Delgado, is scheduled to take place in May 2017.”

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