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Press Release: IMF Concludes Staff Visit to Nicaragua

April 29, 2016

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A staff team from the International Monetary Fund (IMF) led by Gerardo Peraza visited Managua during April 25–29, 2016. The visit took place as part of a regular dialogue with the authorities in order to assess the performance of the Nicaraguan economy. The staff team met with officials from the central bank, the ministry of finance, other members of the economic cabinet, and other representatives of public and private sector entities. The staff reviewed recent economic developments and discussed the economic outlook for Nicaragua. Mr. Peraza issued the following statement at the conclusion of the visit.

"The Nicaraguan economy continues to register high growth rates and sustainable macroeconomic policies. In 2015, real Gross Domestic Product (GDP) grew by 4.9 percent and the average of the last five years (5.2 percent) is one of the highest in the region. Inflation was lower than in earlier years (3.1 percent at end 2015) as a result of the fall in oil prices. The consolidated public sector registered a deficit of 2.2 percent of GDP, which is below what was projected during the last Article IV consultation, largely on account of greater dynamism in tax revenues. Gross international reserves increased by more than US$200 million, thus expanding the reserves coverage from 4 to 4.4 months of imports (excluding imports from the free trade zone) between 2014 and 2015.

"The economic outlook remains favorable. For 2016, staff project real GDP will grow by 4.5 percent while annual inflation is projected at 6 percent. The consolidated public sector deficit is expected to widen to 2.4 percent of GDP owing primarily to the costs related to the presidential elections and an increase in capital expenditure. The external current account deficit is expected to widen, but the gross international reserves coverage will remain broadly stable (4.2 months of imports excluding the free trade zones).

"Nicaragua's main challenge is to maintain sustainable growth and economic stability in a context of greater uncertainty regarding global economic activity and where there could be changes in the availability of external financing. For this reason, Nicaragua needs to continue strengthening its public finances through creating fiscal buffers, as well as continuing to modernize the functioning of the financial system. This will be possible through reducing tax exonerations and the least targeted components of its electricity subsidies, and with the introduction of macro-prudential tools that can strengthen the resilience of the financial system. In the long run, it is also necessary to continue examining the factors that negatively impact the financial sustainability of the social security system.

"It is also necessary to further strengthen the statistical framework as this is a crucial tool to conduct an effective macroeconomic policy. Therefore, in addition to the continuation of efforts to strengthen the methodologies for the compilation of national and external accounts, in particular the strengthening of the collection of base data, it is necessary to continue strengthening fiscal statistics and the reports on public debt.

"The IMF team wishes to thank the authorities for their cooperation and candor of discussions. The next visit will be at the end of 2016 to evaluate the budget for 2017."

IMF COMMUNICATIONS DEPARTMENT

Media Relations

E-mail: media@imf.org

Phone: 202-623-7100