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IMF Staff Concludes Visit to Nicaragua

October 31, 2018

An International Monetary Fund (IMF) team led by Roberto Garcia-Saltos visited Managua from October 24-30 to take stock of recent economic developments. The mission held fruitful discussions with senior government officials, representatives from the private sector, and the donor community. At the end of the visit, Mr. Garcia-Saltos issued the following statement:

“Multiple shocks are affecting the Nicaraguan economy. The political instability since April has affected consumer and investor confidence. While some sectors were only temporarily affected by the disruptions, such as transportation, retail and the service sector, other activities including tourism, and construction see lasting impacts from a reduction in demand. The contraction in formal employment, the retrenchment in FDI, and the reduction in credit to the private sector could contribute to exacerbate the effect of the shocks.

“Against this backdrop, the mission forecasts a decline of 4 percent in real GDP in 2018. A fall in disposable income due to continued jobs losses, and the reduction in bank credit are projected to lead to a drop in private consumption and investment. The consolidated public sector (CPS) deficit for 2018 is projected to increase by 2.4 percentage points to 4.6 percent of GDP.

“There are a few positive signs however. The authorities’ efforts to support commercial banks’ continued liquidity are commendable. Measures to contain the expansion in public expenditures to partially offset the tax revenue shortfalls because of the economic downturn are also positive.

“The main challenge for 2019 and beyond is to preserve macroeconomic and financial stability. Addressing medium-term fiscal challenges and undertaking structural reforms—which are unavoidable to safeguard fiscal sustainability—require obtaining broad support. Policies to restore private sector confidence and to prevent the creation of negative feedback loops resulting from lower activity and employment, deterioration in asset quality, credit contraction, and deposit outflows are essential to promote economic recovery and offset an increase in poverty. In the meantime, the authorities are expected to adopt measures to mitigate identified risks affecting the economy.”

The mission has agreed to conduct the next Article IV consultation during the first half of 2019.

IMF Communications Department

MEDIA RELATIONS

PRESS OFFICER: RAPHAEL ANSPACH

PHONE: +1 202 623-7100**EMAIL:** MEDIA@IMF.ORG