

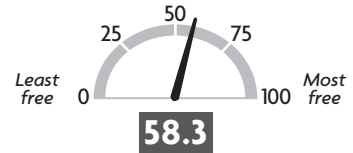
NICARAGUA



World Rank: **98**

Regional Rank: **19**

Economic Freedom Score



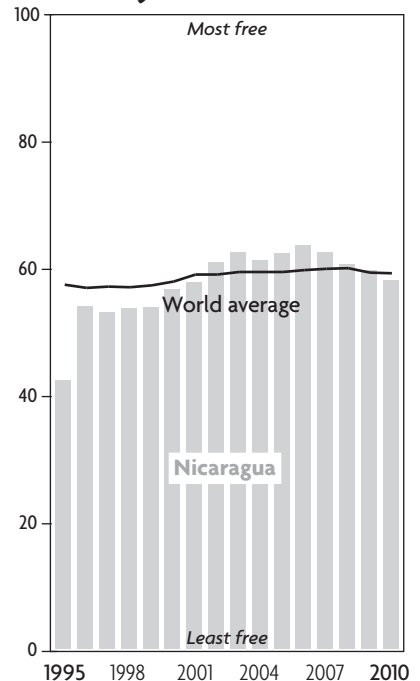
Nicaragua's economic freedom score is 58.3, making its economy the 98th freest in the 2010 *Index*. Its overall score is 1.5 points worse than last year, reflecting declines in six of the 10 economic freedoms. Nicaragua is ranked 19th out of 29 countries in the South and Central America/Caribbean region, and its overall score is below the world average.

Nicaragua's trade liberalization has progressed, although moderately high non-tariff barriers still limit overall trade freedom. Tax administration has improved, and reforms to improve public finance management have gradually moved forward. Foreign investment is welcome, and foreign capital is accorded equal treatment, although certain restrictions still exist. The government has tried to enhance the economy's competitiveness and efficiency, but overall structural reforms have been sluggish, and privatization has all but stalled.

Other considerable challenges to Nicaragua's economic freedom include institutional weaknesses in strengthening property rights and combating corruption. The inefficient judicial system is inconsistent in contract enforcement and subject to political interference. Corruption is perceived as widespread and persistent.

BACKGROUND: Following a decade of Sandinista dictatorship, economic and political stability and respect for human rights improved under democratically elected governments from 1990 until 2006, when Sandinista leader Daniel Ortega returned to power with 38 percent of the vote. Despite claims that he has abandoned Marxism for "fair markets" and democracy, Ortega supports Venezuela's Hugo Chávez and Bolivia's Evo Morales and has been slow to restore confiscated properties to their rightful owners. Nearly half of the workforce is unemployed or underemployed. The Central America–Dominican Republic–United States Free Trade Agreement came into force in 2006, and the economy has diversified to include minerals and textiles. Electoral fraud in the November 2008 municipal elections and a crackdown on civil liberties led the U.S. to cancel part of its Millennium Challenge grant to Nicaragua.

Country's Score Over Time



Quick Facts

Population: 5.7 million

GDP (PPP): \$15.2 billion

3.5% growth in 2008

3.6% 5-year compound annual growth

\$2,682 per capita

Unemployment: 5.6%

Inflation (CPI): 19.9%

FDI Inflow: \$626 million

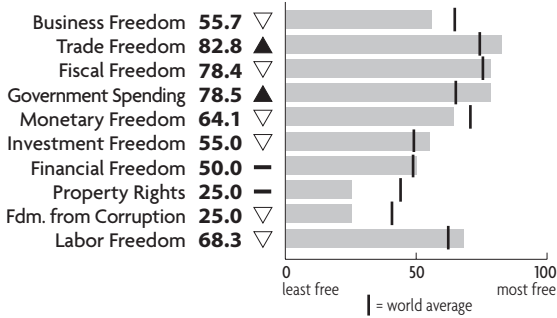
2008 data unless otherwise noted

Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

NICARAGUA'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 55.7

The overall freedom to start, operate, and close a business is limited under Nicaragua's regulatory environment. Starting a business takes an average of 39 days, compared to the world average of 35 days. Obtaining a business license requires about the world average of 18 procedures and 218 days, but the cost is high. Closing a business is relatively easy.

TRADE FREEDOM — 82.8

Nicaragua's weighted average tariff rate was 3.6 percent in 2007. The government has made progress in liberalizing the trade regime, but import restrictions, import taxes and fees, import licensing requirements for some goods, restrictive technical standards, weak enforcement of intellectual property rights, corruption, and delays in customs clearance add to the cost of trade. Ten points were deducted from Nicaragua's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 78.4

The top income and corporate tax rates are 30 percent. Other taxes include a value-added tax (VAT), a capital gains tax, and a property tax levied at the municipal level. During the most recent year, overall tax revenue as a percentage of GDP was 19.0 percent.

GOVERNMENT SPENDING — 78.5

Total government expenditures, including consumption and transfer payments, are relatively low. In the most recent year, government spending equaled 26.8 percent of GDP. Privatization has all but stalled.

MONETARY FREEDOM — 64.1

Inflation has been very high, averaging 16.8 percent between 2006 and 2008. Most price controls have been eliminated, but the government sets prices for pharmaceuticals, sugar, domestically produced soft drinks and cigarettes, and liquefied natural gas; regulates the retail price of butane gas and rates for electricity, energy, water, and telecommunications; and has a history of negotiating voluntary price restraints with domestic producers of important consumer goods. Ten points were deducted from Nicaragua's monetary freedom score to account for policies that distort domestic prices.

INVESTMENT FREEDOM — 55

Foreign investment is guaranteed equal treatment and allowed in most sectors. It is not screened and generally faces no performance requirements; however, the government has used the administration of regulations to introduce non-commercial concessions in contracts, and the labor code states that 75 percent of all employees (not including management posts) must be Nicaraguan. Commercial dispute resolution is burdensome, contract enforcement is weak, and property rights are poorly protected. Regulatory bureaucracy can be time-consuming and inconsistent. The law grants repatriation of capital and immediate remittance abroad of profits. Investors may hold foreign exchange accounts, but the process is cumbersome. There are no controls or restrictions on payments and transfers and very few restrictions on capital transactions. Investors may own property.

FINANCIAL FREEDOM — 50

Nicaragua's financial sector is concentrated in urban areas and not fully developed. Mergers and acquisitions have consolidated the banking system. The small banking sector is highly dollarized and has eight commercial banks that are majority private-owned and provide a limited but expanding range of financial services. The three largest banks account for about 70 percent of total assets. Insurance, once a state monopoly, is now open to private investors. A state-owned firm remains the largest insurer and controls the market. Capital markets are small, and the stock exchange trades primarily in government bonds, with only a small number of private companies listed.

PROPERTY RIGHTS — 25

Protection of property rights is weak. Contracts are not easily enforceable, and the judiciary is politicized and subject to corruption. Protection of intellectual property rights is almost nonexistent. Estimates of optical media piracy range from 70 percent of DVDs sold to almost 100 percent of music CDs sold. Weak land title registries and the many unresolved land expropriation cases from the 1980s seriously undermine real property interests.

FREEDOM FROM CORRUPTION — 25

Corruption is perceived as widespread. Nicaragua ranks 134th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. Nicaragua's legal environment is among the weakest in Latin America. Influence peddling in the judicial branch puts foreign investors at a sharp disadvantage in any litigation or dispute. Corruption and political deal-making, especially within the ruling Sandinista party, the National Police, and the judiciary, are viewed as pervasive.

LABOR FREEDOM — 68.3

Nicaragua's labor regulations are relatively flexible. The non-salary cost of employing a worker is moderate, and dismissing an employee is not costly. Regulations on work hours remain rigid.