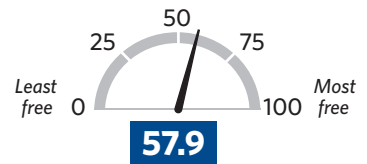




# NICARAGUA

## Economic Freedom Score



World Rank: **101** Regional Rank: **21**

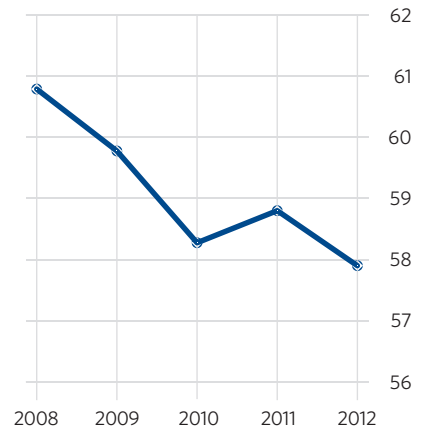
Nicaragua's economic freedom score is 57.9, making its economy the 101st freest in the 2012 *Index*. Its score is 0.9 point worse than last year, with declines in property rights, fiscal freedom, business freedom, and labor freedom. Nicaragua is ranked 21st out of 29 countries in the South and Central America/Caribbean region, and its overall score is below the world average.

The Nicaraguan government's efforts to improve macroeconomic stability and enhance economic growth have been modest. Government spending has been relatively well controlled, strengthening the management of public finance, but inefficiency and uncertainty in other key areas such as the regulatory and investment frameworks have held back dynamic growth. Entrepreneurs wishing to establish new businesses must overcome numerous bureaucratic hurdles.

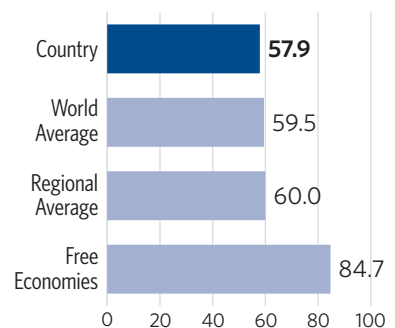
Legal and institutional weaknesses continue to constrain overall economic development. The judicial system lacks the capacity to defend property rights effectively. Corruption remains widespread, and the government, lacking a strong commitment to open-market policies, has left burdensome non-tariff barriers and investment restrictions in place, raising costs, hurting productivity growth, and impeding the emergence of a vibrant private sector.

**BACKGROUND:** Sandinista leader Daniel Ortega returned to power in 2006 despite having won only 38 percent of the vote. Claiming to embrace "fair markets" and democracy, Ortega supports Venezuela's Hugo Chávez and his Bolivarian Alliance for the Americas (ALBA), a Latin American socialist trade organization. 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. Ortega has manipulated the election laws to make himself eligible to run again in November 2011. Nearly half of the workforce is unemployed or underemployed in the formal sector. The Central America–Dominican Republic–United States Free Trade Agreement came into force in 2006, and the economy has diversified to include mineral and textile production.

## Freedom Trend



## Country Comparisons



## Quick Facts

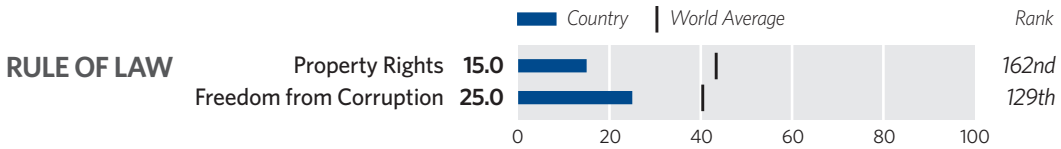
- Population:** 5.8 million
- GDP (PPP):** \$17.7 billion
- 4.5% growth in 2010
- 5-year compound annual growth 2.6%
- \$3,045 per capita
- Unemployment:** 8.0%
- Inflation (CPI):** 5.5%
- FDI Inflow:** \$508.0 million
- Public Debt:** 80.3% of GDP

### How Do We Measure Economic Freedom?

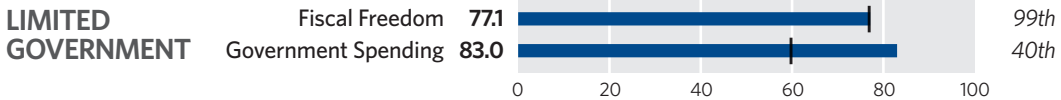
See page 455 for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

2010 data unless otherwise noted.  
Data compiled as of September 2011.

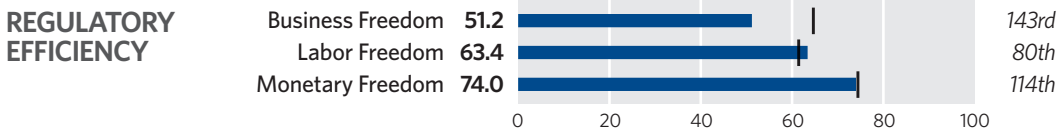
**THE TEN ECONOMIC FREEDOMS**



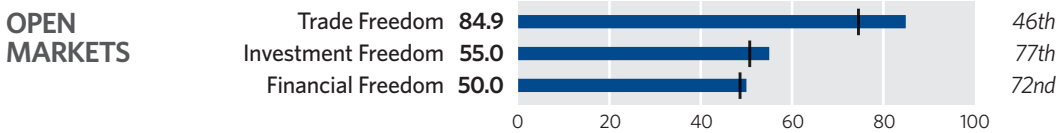
The rule of law remains uneven across the country, and the judicial system is not independent of political interference. Protection of private property rights is not enforced effectively, and contracts are not always secure. The registry of land titles is inefficient, and many expropriation cases from earlier years remain unresolved. Corruption, nepotism, and political deal-making continue to undermine the foundations of economic freedom.



The top income and corporate tax rates are 30 percent. Other taxes include a value-added tax (VAT) and a capital gains tax, with the overall tax burden amounting to 22.2 percent of total domestic income. Government spending is equivalent to 23.8 percent of GDP, and the budget balance has registered small deficits in recent years. Public debt hovers at around 80 percent of total domestic output.



Burdensome regulations continue to hinder private-sector development. The regulatory system suffers from a lack of transparency and clarity, and regulations are not always enforced consistently. The labor market remains rigid, and the lack of employment opportunities has caused chronic underemployment. Inflation has been volatile, eroding monetary stability.



The trade weighted average tariff rate is moderate at 2.6 percent, but additional trade barriers in the form of complex regulations increase the cost of trade. The investment regime is not transparent and efficient, although foreign investment is formally welcome. Ongoing political uncertainty and instability add to the risk of long-term investment. The financial sector remains underdeveloped, providing a limited range of services.

**Score Changes**

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	-5.0	Fiscal Freedom	-1.7	Business Freedom	-3.1	Trade Freedom	+0.1
Freedom from Corruption	0	Government Spending	+1.7	Labor Freedom	-3.7	Investment Freedom	0
				Monetary Freedom	+2.3	Financial Freedom	0