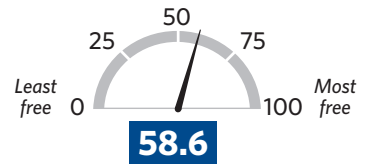




NICARAGUA

Economic Freedom Score



World Rank: **109**

Regional Rank: **18**

Anti-free market policies and populism have driven what amounts to a permanent campaign to justify the large state presence in Nicaragua's economy. The inefficient regulatory framework impedes expansion and diversification of the productive base. A state-directed average 10 percent increase in the minimum wage for most sectors in 2015 typifies the type of government interference that is politically popular but does nothing to improve productivity.

ECONOMIC FREEDOM SNAPSHOT

- 2016 Economic Freedom Score: **58.6 (up 1.0 point)**
- Economic Freedom Status: **Mostly Unfree**
- Global Ranking: **109th**
- Regional Ranking: **18th in the South and Central America/Caribbean Region**
- Notable Successes: **Trade Freedom**
- Concerns: **Rule of Law, Regulatory Efficiency, and Financial Freedom**
- Overall Score Change Since 2012: **+0.7**

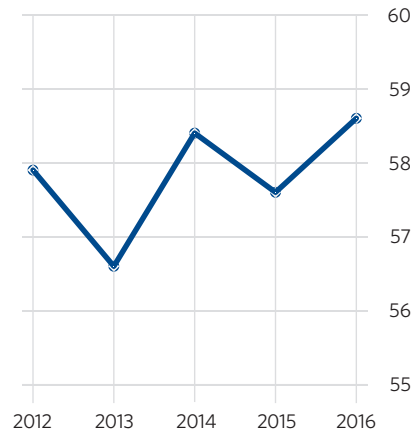
The lack of domestic access to long-term financing precludes dynamic entrepreneurial growth, and the investment regime lacks transparency. Poor protection of property rights and widespread corruption discourage private-sector growth. The rule of law is weak, and local courts are subject to substantial political interference.

BACKGROUND: Constitutional changes approved in 2014 allow Sandinista President Daniel Ortega to stay in power indefinitely. The Central America–Dominican Republic–United States Free Trade Agreement has helped the economy, which grew 4.7 percent in 2014. Agricultural goods and textile production account for 50 percent of exports. Nicaragua is the second-poorest nation in the Americas. The government has granted a company headed by Chinese billionaire Wang Jing a concession to construct a canal connecting the Caribbean Sea and the Pacific Ocean. A major hiatus in supply or a disorderly collapse of Venezuela's economy and the subsequent end of subsidized oil shipments through PetroCaribe could provoke an energy crisis.

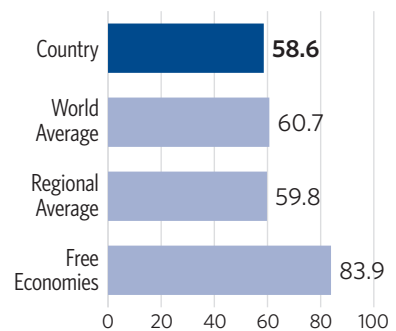
How Do We Measure Economic Freedom?

See page 467 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

Freedom Trend



Country Comparisons

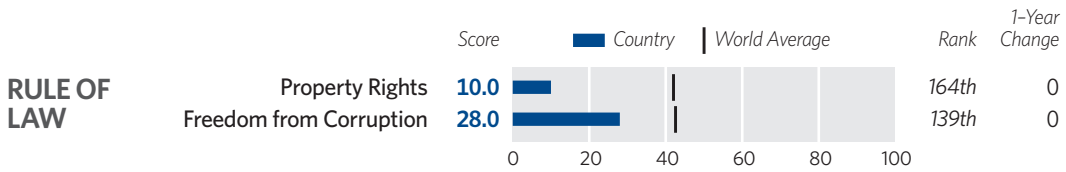


Quick Facts

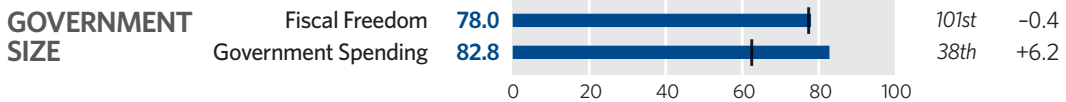
- Population:** 6.2 million
- GDP (PPP):** \$29.5 billion
- 4.5% growth in 2014
- 5-year compound annual growth 4.7%
- \$4,736 per capita
- Unemployment:** 5.3%
- Inflation (CPI):** 6.0%
- FDI Inflow:** \$840.0 million
- Public Debt:** 32.2% of GDP

2014 data unless otherwise noted.
Data compiled as of September 2015.

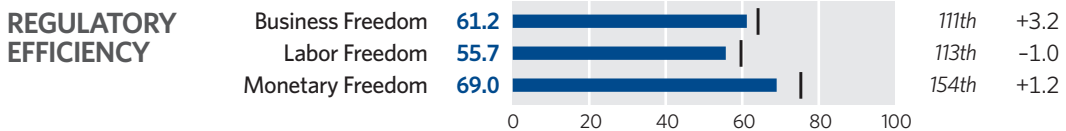
THE TEN ECONOMIC FREEDOMS



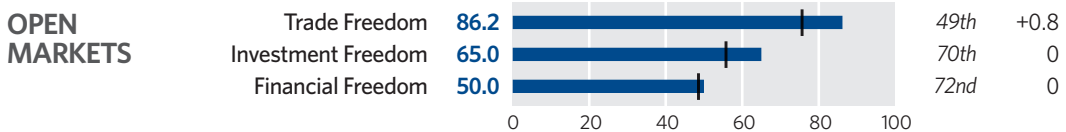
Daniel Ortega’s authoritarian, open-ended rule is the greatest threat to the rule of law in Nicaragua. Public-sector corruption, including bribery of public officials, remains a major challenge. The judicial system suffers from corruption and long delays; the politicized Supreme Court is controlled by Sandinista judges. Private property rights (especially those of foreign investors) are not protected effectively, and contracts are not always secure.



The top individual income and corporate tax rates are 30 percent. Other taxes include a value-added tax and a capital gains tax. The overall tax burden equals 20 percent of GDP. Government spending amounts to 24 percent of GDP. Public debt equals about 32 percent of GDP. The growth of public spending has outstripped revenue expansion and is likely to continue in 2016.



Red tape and inconsistent enforcement of commercial regulations undermine entrepreneurial activity. Because of an inefficient and inflexible labor market, many Nicaraguans are underemployed. Preferential PetroCaribe financing for oil imports (equal to more than 10 percent of government revenue) permits state subsidies for fuel and electricity.



Nicaragua’s average tariff rate is 1.9 percent. Imports of used cars are restricted. State-owned enterprises operating in several sectors distort the economy. The legal and regulatory systems discourage private foreign investment. The financial sector remains vulnerable to state interference. The high cost of long-term financing continues to hinder more dynamic private-sector growth.

Long-Term Score Change (since 1995)

RULE OF LAW		GOVERNMENT SIZE		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	-20.0	Fiscal Freedom	-0.3	Business Freedom	+6.2	Trade Freedom	+31.8
Freedom from Corruption	+18.0	Government Spending	+7.7	Labor Freedom	-17.2	Investment Freedom	+15.0
				Monetary Freedom	+69.0	Financial Freedom	+20.0