Nicaragua’s economic freedom score is 56.3, making its economy the 125th freest in the 2021 Index. Its overall score has decreased by 0.9 point, primarily because of a decline in trade freedom. Nicaragua is ranked 23rd among 32 countries in the Americas region, and its overall score is below the regional and world averages.

Nicaragua’s economy remains mostly unfree this year as it has been for more than a decade. If market-based democracy is ever restored in Nicaragua, the first step needed to resuscitate economic freedom will be a complete overhaul of the country’s rule-of-law institutions to protect property rights, establish a transparent and reliable judicial system, and expunge the many forms of corruption that flourish under an authoritarian and socialist system.

**IMPACT OF COVID-19:** As of December 1, 2020, 161 deaths had been attributed to the pandemic in Nicaragua, and the economy was forecast to contract by 5.5 percent for the year.

**BACKGROUND:** In the late 1970s, Sandinista National Liberation Front (FSLN) leader Daniel Ortega overthrew the authoritarian Somoza regime and headed a provisional FSLN-led government until losing several free and fair elections. Elected president again in 2006, he was reelected for a third five-year term in a 2016 election that observers deemed illegitimate and fraudulent. Ortega and his wife, who is also his vice president, completely control the government, security forces, and key sectors of the economy. Since 2018, the country has been locked in a political crisis provoked by the Ortegas’ brutal response to peaceful anti-government protests. Senior officials in the authoritarian regime are subject to various Western sanctions for corruption and violations of human rights.
Property rights and enforcement are extremely unreliable, as are contracts. The government regularly fails to enforce court decisions on the seizure of, restitution for, or compensation for private property. The weak and cumbersome judicial system is vulnerable to corruption and political influence. Corruption pervades every element of government from top to bottom. The Ortega family’s authoritarian rule is the greatest threat to the rule of law.

The top individual income and corporate tax rates are 30 percent. Other taxes include value-added and capital gains taxes. The overall tax burden equals 22.2 percent of total domestic income. Government spending has amounted to 27.4 percent of total output (GDP) over the past three years, and budget deficits have averaged 1.7 percent of GDP. Public debt is equivalent to 41.4 percent of GDP.

The costs involved in starting a business, obtaining electricity, and dealing with permits have risen. Business freedom has fallen for the third year in a row. The labor law says that 90 percent of any company’s employees must be Nicaraguan, but some exceptions are made. The government maintains substantial controls on prices of butane gas, electricity for households, and pharmaceuticals while heavily subsidizing fuel and water.

Nicaragua has nine preferential trade agreements in force. The trade-weighted average tariff rate is 5.8 percent, and 54 nontariff measures are in effect. The judicial and regulatory systems favor state-owned enterprises and undermine foreign investment inflows. The low level of financial intermediation continues to hamper private-sector growth. Approximately 33 percent of adult Nicaraguans have an account with a formal banking institution.