2000 Country Reports on Economic Policy and Trade Practices
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NICARAGUA

Key Economic Indicators

(Millions of U.S. dollars unless otherwise indicated)

	1998	1999	2000 1/
Income, Production and Employment:			
Nominal GDP 2/	2,126.2	2,267.9	2,381.3
Real GDP Growth (pct) 2/3/4	4.1	7.0	5.0
GDP by Sector: 2/			
Agriculture 4/	601.7	630.5	657.2
Manufacturing	542.2	607.8	643.0
Services 5/	822.3	873.1	933.4
Government	159.5	154.2	147.6
Per Capita GDP (US$)	442.0	459.0	470.1
Labor Force (000s)	1,661.3	1,728.9	1,799.1
Unemployment Rate (pct)	13.2	10.7	10.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	18.0	26.3	10.0
Consumer Price Inflation (pct)1	18.5	7.2	10.0
Exchange Rate (Cordobas/US$ - annual average)			
Official	10.6	11.8	12.5
Parallel	10.6	11.9	12.6
Balance of Payments and Trade:			
Total Exports FOB 6/	573.2	543.8	663.4
Exports to U.S. 7/	453.0	493.0	603.2
Total Imports CIF 6/	-1,383.6	-1,683.2	-1,691.2
Imports from U.S. 7/	-337.0	-374.0	-378.4
Trade Balance 6/	-810.4	-1,139.4	-1,027.8
Balance with U.S. 7/	116.0	119.0	224.8
External Public Debt (US$ bns) 8/	6.3	6.5	6.7
Fiscal Deficit/GDP (pct)	2.9	11.9	3.0
Current Account Deficit/GDP (pct)	38.5	47.3	46.0
Debt Service Payments/GDP (pct)	10.0	6.8	7.1
Gold and Foreign Exchange Reserves 9/	305.8	356.8	332.0
Aid from U.S. 10/	27.0	70.0	157.0
Aid from All Other Sources 11/	306	326.4	N/A

1/ Most 2000 figures are Central Bank projections based on data available in September 2000.
2/ GDP data is based on Embassy projection.
3/ Percentage changes calculated in local currency.
4/ Includes livestock, fisheries, and forestry.
5/ Includes construction and mining.
6/ Merchandise trade.
7/ Source: U.S. Department of Commerce; 2000 figures are estimates based on trade data through July 2000.
8/ Source: Central Bank. World Bank figures indicate $6.0 billion for 1998 and project $4.9 and $5.2 billion for 1999 and 2000.
9/ Source: Central Bank figure from May 2000.
10/ Source: Embassy estimate of assistance from AID, USDA, and U.S. military for Hurricane Mitch relief.
11/ Includes debt forgiveness.

1. General Policy Framework

Nicaragua has made considerable progress since 1990 in moving from a centralized to a market-oriented economy. The country has liberalized its foreign trade regime, brought inflation under control, and eliminated foreign exchange controls. With the inauguration of President Arnoldo Aleman in January 1997, Nicaragua began to quicken the pace of its opening to foreign trade. The economy grew by seven percent in 1999. To foster macroeconomic stability, the Aleman administration signed an Economic Structural Adjustment Facility (ESAF) program with the IMF in January 1998. Nicaragua has received significant debt relief in the aftermath of Hurricane Mitch, including the deferral of all bilateral debt service payments between November 1998 and February 2001 by the Paris Club. Nicaragua with its huge debt of $6 billion seeks significant debt forgiveness through the Heavily Indebted Poor Countries (HIPC) Initiative.

At the end of its fourth year in office, the Aleman administration faced important economic challenges including: meeting the targets of a structural adjustment program with the International Monetary Fund; making progress on the resolution of thousands of Sandinista-era property confiscation cases; and reducing unemployment and poverty in the hemisphere’s second-poorest nation. Nicaragua’s large current account deficit and fiscal deficit are counterbalanced by strong inflows of foreign assistance and private capital.

Nicaragua is essentially an agricultural country with a small manufacturing base. The country is dependent on imports for most manufactured, processed, and consumer items. A member of the World Trade Organization, Nicaragua has reduced tariffs sharply and eliminated most non-tariff barriers. Private investment, from both domestic and foreign sources, is rising. Agriculture, construction, and the export sector have led Nicaragua’s recent economic growth. The United States is Nicaragua's largest trading partner, with both exports and imports expanding in recent years.

2. Exchange Rate Policy

Since January 1993, the Nicaraguan government has followed a crawling-peg devaluation schedule. The cordoba to dollar rate is adjusted daily. The Government of Nicaragua, in December 1999, reduced the devaluation rate of the cordoba to six percent per annum. A legal parallel exchange market supplies foreign currency for all types of exchange transactions. The spread between the official and parallel markets was slightly over one half percent in 2000. The government eliminated all significant restrictions on the foreign exchange system in 1996.

3. Structural Policies

Pricing Policies: The Nicaraguan government maintains price controls only on sugar, domestically produced soft drinks, certain petroleum products, and pharmaceuticals. In the past, however, the government has negotiated voluntary price restraints with domestic producers of important consumer goods. During the aftermath of Hurricane Mitch, the government instructed distributors of basic food products to maintain stable food prices. However, that control no longer exists.

Tax Policies: Nicaragua is in the process of progressive import tax reductions through the year 2002. Nicaragua imposes regular import duties (DAI) of 10 percent on final consumption goods and 5 percent on intermediate goods (there is no DAI on raw materials and capital goods produced outside of Central America, but to import raw materials and capital goods that are produced in any Central American country one must pay a 5 percent DAI). Some 900 items are levied with a temporary protection tariff (ATP) of 5 to 10 percent, above the DAI. The maximum rate of the combined DAI and ATP on most items is 20 percent. A luxury tax is levied through the specific consumption tax (IEC) on 609 items. The tax generally is lower than 15 percent (with significant exceptions; see below). DAI and ATP are based on CIF value. IEC for domestically produced goods are based on the manufacturer's price, and for imported goods on CIF, except for alcoholic beverages and tobacco products, in which case the IEC is assessed on the price charged to the retailer. Nicaragua levies a 15 percent value added tax (IGV) on most items, except agricultural inputs. Import duties on so-called "fiscal" goods (e.g., tobacco, soft drinks, and alcoholic beverages) are particularly high. Some protected agricultural commodities such as corn and rice face import tariffs of up to 55 percent. Cars with large engines (greater than 4000 cc) face an IEC tax of 25 percent. Vehicles with smaller engines are charged between zero and three percent IEC tax. Importers of many items face a total import tax burden of 15 to 63 percent. Chicken parts are levied up to 180 percent DAI duties.

Nicaragua's 1997 tax reform law marked an important step by the Aleman administration towards fostering Nicaragua's insertion into the global economy. The reform: a) banned almost all non-trade barriers on imports; b) eliminated the discretionality of government officials to exonerate tariffs; c) repealed the restrictive Law on Agents, Representatives or Distributors of Foreign Firms (effective July 1, 1998); d) established a "rebate" of 1.5 percent of FOB value for all exports; e) eliminated payments for permits and licenses related to export activities; f) eliminated IGV on several activities; g) reduced municipal taxes from 2 to 1.5 percent in 1998 and to 1 percent in 2000; h) eliminated income tax on interest and capital gains stemming from transactions on the local stock exchange; and i) set a schedule of progressive import tax reductions through the year 2002.

In March 1999 the National Assembly passed an ambitious tax package that put Nicaragua ahead of the rest of Central American countries in lowering tariffs and reducing exemptions. The amendment to the Ley de Justicia Tributaria (Tax Justice Act) established: a) tax exemptions for NGOs (non-governmental organizations) as long as they perform non-profit activities; b) exemptions on import taxes (DAI), luxury taxes (IEC), and sales taxes for hospital investments; c) reduction of the tax levied on vehicles based on engine size (this amendment has reduced the discriminatory tariff treatment that arises from the fact that American cars have bigger engines than their similar Asian competition); d) exemption of DAI, ATP and IGV on crude or partially-refined petroleum, as well as on liquid gas and other petroleum derivatives; e) higher taxes on liquors and tobacco; and f) elimination of import taxes on capital goods, intermediate goods, and raw materials destined for the agricultural sector, small handicraft industry, fishing and aquaculture. In December 1999 Nicaragua instituted a 35 percent tariff on all goods from Honduras as a retaliatory measure for Honduras' signing of a maritime border delineation agreement with Colombia.

In April 2000 the National Assembly again modified the Tax Justice Law to further reduce nominal luxury (IEC) taxes and to extend benefits enjoyed by cooperatives and the small business, agricultural, aquaculture and fishing sectors. This reform lowered the IEC levied on alcoholic beverages to between 34-43 percent (down from 40-50 percent). Cigars and cigarettes went down to 40 percent IEC tariff from 59-61 percent. The IEC on soft drinks will decrease by 3 percentage points annually until it reaches 9 percent. Cigars and cigarettes will decrease by 1 percentage point annually until the tax reaches 38 percent, and rums and liquor until the IEC arrives at 35 percent. Beers will decrease by 1 percentage point annually as well, until the IEC reaches 32 percent. The benefits of this cut, however, were reduced for imported alcoholic beverages and tobacco products, since the tax will now be based on the sales price to the retailer, rather than on CIF price. The same amendment to the tax law calls for a 37-cent tax rebate for every pound of trawled shrimp exported; or 7 cents for every pound of farmed shrimp. The legislation conditionally extends the exemptions granted to cooperatives of income tax, IGV, DAI and ATP.

4. Debt Management Policies

The previous administration of Violeta Chamorro inherited a $10.7 billion debt from the Sandinista regime in 1990. Over the next eight years, Nicaragua negotiated a series of deals that reduced its stock of debt to $6.3 billion at the end of 1998. Despite this progress, Nicaragua's debt, at almost three times GDP, remains high. Accordingly, the Aleman government has made debt reduction a top priority. In April 1998 the Paris Club creditors and the Nicaraguan government reached an agreement on the terms and conditions for reducing and rescheduling a large portion of Nicaragua's official debt. In response to damage caused by Hurricane Mitch, the Paris Club agreed in December 1998 to defer all debt service payments through February 2001. Nicaragua also received special assistance from bilateral donors, mainly through the Central American Emergency Trust Fund (CAETF) that reduced its debt service payments to multilateral creditors. A promising avenue for debt reduction of multilateral debt is through the Heavily

Indebted Poor Countries (HIPC) Initiative. There was a preliminary discussion of Nicaragua's eligibility in September 1999, but Nicaragua has not yet reached a decision point.

5. Aid

Nicaragua is highly dependent on foreign aid to cover its trade and fiscal deficits. More than half of its assistance is provided by multilateral financial institutions like the Inter-American Development Bank and World Bank. European countries, Japan, Taiwan, and the United States are also major donors. Since 1990, the United States has provided more than $1.2 billion in assistance and debt-relief to Nicaragua. That money has funded such projects as balance of payments support for economic stabilization, primary education, health care reform, employment generation, food donations, and the strengthening of democratic institutions. In May 1999 as part of relief for damage caused by Hurricane Mitch, donor countries in Stockholm for a Consultative Group meeting agreed to provide Nicaragua with more than $2 billion in assistance and concessionary loans. The U.S. commitment totaled nearly $100 million. Nicaragua is not believed to receive extensive amounts of military equipment from any third country, although Spain, Mexico, Taiwan, and France, among others, do provide training.

6. Significant Barriers to U.S. Exports

Import Licenses: In most cases, the issuance of import licenses is a formality. Permits are required only for the importation of sugar, firearms and explosives. U.S. exporters of food products must meet some phytosanitary requirements.

Services Barriers: Although nine private banks are now operating, no U.S. bank has yet re-entered the Nicaraguan financial market. Legislation passed in 1996 opened the insurance industry to private sector participation and four private insurance companies have been formed. No U.S. insurance company has entered the Nicaraguan market, either.

Investment Barriers: Remittance of 100 percent of profits and original capital three years after investment is guaranteed through the Central Bank at the official exchange rate for those investments registered under the Foreign Investment Law. Investors who do not register their capital may still make remittances through the parallel market, but the government will not guarantee that foreign exchange will be available. The United States is aware of no investor who has encountered remittance difficulties since the inception of the Foreign Investment Law in 1991. The fishing industry remains protected by requirements involving the nationality and composition of vessel crews, and a requirement for domestic processing of the catch. Expropriations from the Sandinista era remain an impediment to investment, as land titling is often unclear. The government in 2000 opened new property tribunals to help address the issue.

Customs Procedures: Importers complain of steep secondary customs costs, including customs declaration form charges and consular fees. In addition, importers are required to utilize the services of licensed customs agents, adding further costs. Nicaragua had been scheduled to implement WTO customs valuation procedures in September 2000, but has missed this target date and continues to use reference prices to determine import tax valuations.

Private Property Rights: The need to resolve thousands of cases of homes, businesses and tracts of land confiscated without compensation by the Sandinista government during the 1980s remains a divisive issue in Nicaragua. The Nicaraguan government has made the resolution of these cases a priority. Nonetheless, potential investors must carefully verify property titles before purchase.

In 1996 Nicaragua ratified the U.S.-Nicaragua Bilateral Investment Treaty that is designed to improve protection for investors. The treaty has been submitted but not ratified by the U.S. Senate.

7. Export Subsidy Policies

All exporters receive tax benefit certificates equivalent to 1.5 percent of the FOB value of the exported goods. Foreign inputs for Nicaraguan export goods from the country's free trade zones enter duty-free and are exempt from value-added tax.

8. Protection of U.S. Intellectual Property

Nicaragua belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is signatory to the Paris Convention, Mexico Convention, Buenos Aires Convention, Inter-American Copyrights Convention, Universal Copyright Convention, and the Satellites Convention.

The government has indicated a firm commitment to providing adequate and effective intellectual property rights protection. However, current levels of protection still do not meet international standards. Although unable to dedicate extensive resources to protecting intellectual property rights, Nicaragua is working to modernize its intellectual property rights regime. In January 1998 Nicaragua and the United States signed a bilateral IPR agreement covering patents, trademarks, copyright, trade secrets, plant varieties, integrated circuits, and encrypted satellite signals. In 1999 the National Assembly approved a new copyright law, a plant variety protection law, a law on the protection of satellite signals, and a law on integrated circuit design. In 2000 a new law on patents was passed and a draft law on trademarks still requires a vote in the National Assembly.

Trademarks: Protection of well-known trademarks is a problem area for Nicaragua. Current procedures allow individuals to register a trademark without restriction for a renewable 10-year period at a low fee.

Copyrights: Pirated videos are readily available in video rental stores nationwide, as are pirated audiocassettes and software. In addition, cable television operators are known to intercept and retransmit U.S. satellite signals, a practice that continues (at a lower level) despite a trend of negotiating contracts with U.S. sports and news satellite programmers. On August 21, 1999 a new copyright law went into effect; however, criminal penalties were delayed for 6-12 months. The U.S. government and the industry are working with the Nicaraguan government to provide training for effective enforcement. Video and audiocassette pirates as well as small cable operators have asked the National Assembly for additional delays.

9. Worker Rights

a. *The Right of Association:* The constitution provides for the right of workers to organize voluntarily in unions. The 1996 labor code reaffirmed this right. Less than half of the formal sector workforce, including agricultural workers, is unionized, according to labor leaders. The constitution recognizes the right to strike. Unions freely form or join federations or confederations, and affiliate with and participate in international bodies.

b. *The Right to Organize and Bargain Collectively:* The constitution provides for the right to bargain collectively. According to the 1996 labor code, companies engaged in disputes with employees must negotiate with the employees' union if they are organized.

c. *Prohibition of Forced or Compulsory Labor:* The constitution prohibits forced or compulsory labor. There is no evidence that it is practiced.

d. *Minimum Age for Employment of Children:* The constitution prohibits child labor that can affect normal childhood development or interfere with the obligatory school year. The 1996 labor code raised the age at which children may begin working with parental permission from 12 to 14. Parental permission is also required for 15 and 16 year-olds. The law limits the workday for such children to 6 hours and prohibits work at night. However, because of the economic needs of many families and lack of effective government enforcement mechanisms, child labor rules are rarely enforced, except in the formal sector of the economy.

e. *Acceptable Conditions of Work:* The 1996 labor code maintains the constitutionally mandated 8-hour workday. The standard legal workweek is a maximum of 48 hours, with one day of rest. The 1996 code established that severance pay shall be from one to five months' duration, depending on the length of employment and the circumstances of termination. The code also seeks to bring the country into compliance with international standards of workplace hygiene and safety, but the Ministry of Labor lacks adequate staff and resources to enforce these provisions. Minimum wage rates were raised in November 1997, and increased further in August 1999, but the majority of urban workers earn well above the minimum rates.

f. *Rights in Sectors with U.S. Investment:* Labor conditions in sectors with U.S. investment do not differ from those in other sectors of the formal economy.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on

(Millions of U.S. dollars)

Category	Amount

Petroleum		(1)
Total Manufacturing:		4
Food & Kindred Products	0	
Chemicals & Allied Products	4	
Metals, Primary & Fabricated	(2)	
Machinery, except Electrical	0	
Electric & Electronic	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		6
Banking		0
Finance/Insurance/Real Estate		0
Services		0
Other Industries		(1)
TOTAL ALL INDUSTRIES		167

(1) Suppressed to avoid disclosing data of individual companies.
(2) Less than $500,000 (+/-).
Source: U.S. Department of Commerce, Bureau of Economic Analysis.