

**COUNTRY PROFILE:****REPUBLIC OF NICARAGUA****DATED:****OCTOBER 2007****CREDIT GUARANTEE:**

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	2B	CILC

*Recent Political Highlights*

- ❑ Left-wing Sandinista leader Daniel Ortega made his political comeback in the November 2006 elections, having led Nicaragua through revolution and a civil war before being voted out in 1990 at the end of his five-year term. He took office again in January 2007, inheriting a country facing a large fiscal deficit and widespread corruption. At his inauguration, he advocated a new path for Nicaragua, away from what he called the savage capitalism that had mired millions into poverty. Mr Ortega says he backs a regional free trade deal with the US.
- ❑ According to the EIU, Mr Ortega's policy direction is increasingly generating concern among the business community, civil society and donors. He has consistently signalled his intent to transform Nicaragua's fragile political system into a direct democracy, which critics fear may eventually resemble aspects of the Sandinista revolutionary regime (1970-90). The UN's highest court has settled a territorial dispute between Nicaragua and Honduras that almost led to war, giving Honduras sovereignty over four islands and redrawing the maritime border. The decision awards more or less, half of the disputed Caribbean territory which contains rich fishing grounds and potential oil and gas reserves, to each Central American nation. The ruling, cheered by both countries also clears the way for Honduras to offer concessions to explore for oil and gas off its Caribbean coast, with a view to easing its reliance on costly oil imports.

*Recent Economic Highlights*

- ❑ Nicaragua's population is estimated at 5.7 million with an annual growth rate of 1.85%.
- ❑ It's striving to overcome the after effects of political instability, civil war, macroeconomic mismanagement, and a series of natural and man-made disasters that left the country vulnerable to internal and external shocks, making it the second-poorest nation in the western hemisphere. Unemployment is officially estimated at 5% of the economically active population, however an estimated 60% of the workers belong to the informal sector. Nicaragua has traditionally relied on agriculture to sustain its economy but light industry, tourism, banking, mining, fisheries, and general commerce are expanding.
- ❑ The 1991 to 2006 period was characterised by steady growth. The government made dramatic economic progress -it privatised more than 350 state enterprises, reduced inflation from 33,500% in 1988 to 9.45% in 2006 and cut the foreign debt by more than half.
- ❑ In 2006, the economy expanded by 3.7% as GDP reached \$5.3bn; but the growth is still far too low to meet the country's needs, forcing the country to rely on international economic assistance to meet fiscal and debt financing obligations. Foreign assistance totalled 26% of the budget in 2006. It also depends heavily on remittances from Nicaraguans living abroad, which totalled \$655.5m in 2006. Growth is forecast to slow down to 3% in 2007/08.
- ❑ Foreign capital inflows reached \$282.3m in 2006. Mr Ortega's policy direction has already affected relations with the private sector and may discourage prospective investors and slow foreign direct investment. Lack of clarity in the government's economic policies has created particular uncertainty in the power, fuel, tourism and real estate sectors.
- ❑ Nicaragua suffers from persistent trade and budget deficits and a high internal debt-service burden. Public debt was estimated at 82.7% of GDP in 2006.
- ❑ Exports have been one of the key engines of economic growth. In 2006, exports topped \$1bn. The EIU expects the current account deficit to narrow from 16% of GDP in 2006 to 13.2% in 2007.
- ❑ In October, the World Bank approved a new Country Partnership Strategy (CPS) for Nicaragua, with project and investment loans and credits by the IDA totalling \$240m for the five-year period from 2008-2012. The World Bank believes that Nicaragua has the potential and resources to grow its way out of poverty. The new strategy will help build a stronger economy and improve social equity and opportunity for all.

*Latest Trade Developments*

- ❑ Main exports: coffee, seafood, tobacco, beef, sugar, industrial goods, gold and peanuts.
- ❑ Main imports: petroleum, agricultural inputs and equipment and manufactured goods.
- ❑ Major trade partners: Central American Common Market (CACM), US, EU, Mexico, Japan., Venezuela and China. The US is Nicaragua's largest trading partner, accounting for about 20% of Nicaragua's imports and two-thirds of its exports.
- ❑ SA's exports to Nicaragua totaled R88.1m in 2006 and R65.7m in the year to July 2007.

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