Nicaragua: Recession And Job Loss Mark "Horrible Year"

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Nicaragua ended a tumultuous political year with some dour economic news as well. For the first time since 1993, the economy slipped into recession. Although observers forecast a modest recovery in the months to come, rising unemployment, falling trade, foreign-aid cuts, and a growing fiscal deficit made 2009 a year to forget for the already deeply impoverished Central America nation. Official estimates vary somewhat. The UN's Chile-based Economic Commission for Latin America and the Caribbean (ECLAC) calculates the contraction at 1.5%.

The fundacion Nicaraguense para el Desarrollo Economico y Social (FUNIDES) agrees, while other economists insist Nicaragua's GDP fell by as much as 2%. What is clear is that, after 15 years of steady growth, the Nicaraguan economy took a hit it can ill afford. Even before the recession, some 60% of the population was estimated to live on US$2.08 or less per day. The second-poorest nation in the hemisphere, Nicaragua has an overall per capita GDP of approximately US$1,125 per year, or US $3.07 per day. And yet as alarming as the poverty figures are, Nicaraguans are even more concerned about the employment situation, according to a recent survey by M&R Consultores, which found that nearly 33% consider job loss the biggest problem facing the country. Just over 23% cited poverty as their principal concern, while 11.8% identified crime and 9% political instability as Nicaragua's primary problems. FUNIDES estimates the 2009 recession cost Nicaragua some 30,000 jobs in zona-franca (duty-free) assembly plants, whose sales fell by 7%.

The Consejo Nicaraguense de la Micro, Pequena y Mediana Empresa (CONIMIPYME) claims 800 small businesses shut down during the course of the year, resulting in 5,000 lost jobs. Independent unions claim the government cut 12,000 public-sector jobs, bringing the number of layoffs to more than 45,000, Agence France-Presse recently reported. "From an economic point of view, it was an annus horribilis, a horrible year for Nicaragua," former foreign affairs minister Francisco Aguirre Sacasa told the Web site Informe Pastran. "For the first time in 15 years, our emerging economy contracted rather than grew," said Sacasa. "I estimate it was about 2%. In part, our recession is the result of external factors. For example, remittances one of the pillars of our economy fell by more than 5%, and exports, especially in the zonas francas, also dropped." While the ongoing global financial crisis certainly took its toll, internal political instability starting with the much-questioned November 2008 municipal elections (see NotiCen, 2008-11-13) has also contributed to the slump, claim many observers.

Described as "the least transparent with the greatest intimidation in recent years" by the local chapter of Transparency International (TI), the allegedly fraudulent elections prompted the US and European Union (EU) to freeze millions in foreign aid, setting up a significant budget shortfall in 2009. Nicaraguan President Daniel Ortega further isolated himself this past October when he used the Sandinista-stacked Corte Suprema de Justicia (CSJ) to dump a constitutionally imposed term limit that prevented him from competing in the 2011 presidential elections (see NotiCen, 2009-11-19). The blatant power push by the longtime Frente Sandinista de Liberacion Nacional
(FSLN) leader, who after several failed attempts won a long-coveted second presidency in 2006 (see NotiCen, 2006-11-09), earned rebuke both at home and abroad. Opposition leaders characterized the move as a "coup d'etat," while US Ambassador to Nicaragua Robert Callahan said the CSJ ruling was "improper, unusual, and rushed." "The opposition parties have expressed their dissatisfaction and questioned [the ruling's] legality," reported ECLAC.

"This resolution has given rise to a climate of economic uncertainty." One bright spot for the Nicaraguan economy has been increased trade with Venezuela, whose controversial President Hugo Chavez supports the Ortega government both politically and financially. Exports to Venezuela jumped 339% in 2009, a huge spike though not enough on its own to stop Nicaragua's overall exports from dropping by 7.59%. Direct aid from Venezuela also increased.

By midyear, Ortega had already received US$283 million from Venezuela, US$71 million more than at the same point in 2008, Nicaragua's Banco Central reported. As the Nica Times recently wrote, the Venezuelan money is all held in private accounts controlled by the FSLN, which is using the funds to finance a network of businesses.

The "ALBA businesses" include energy company Albanisa as well as hotels and other private ventures. Critics complain that the business dealings, carried out within the framework of the Venezuela-dominated Alianza Bolivariana para los Pueblos de Nuestra America (ALBA) trade association, are opaque at best and downright corrupt at worst. A Dec. 15 survey by M&R Consultores suggests that few in Nicaragua support the ALBA arrangement. Nearly 67% of those polled said they see no real benefit from the dealings.

Both ECLAC and FUNIDES expect the Nicaraguan economy to once again grow in 2010, albeit modestly (approximately 2%). More robust economic improvement, FUNIDES explained in its year-end report, will require both political and structural changes to attract more private investment. "The investment climate continues to be much deteriorated because of the institutional crisis we have had since the end of [2008]," the report said. "For the recovery to be solid and sustainable, we must resolve the institutional crisis, improve the country's competitiveness, and avoid an excessive fiscal burden. Otherwise, things will continue to be stagnant [in 2010] and grow very little in 2011, further contributing to poverty and unemployment."

Former Nicaraguan ambassador to the US Arturo Cruz Jr. said the country's persistent economic woes could actually end up helping Ortega, who seems intent on forcing his way onto the ballot in 2011. In an interview with the Nica Times, Cruz Jr. explained that entrenched poverty helps prop up Nicaragua's "caudillo" system, which is dominated by leftist Ortega on the one hand and conservative former President Arnoldo Aleman (1997-2002), later jailed on a corruption conviction, on the other. "Now the poor want a protector who alleviates their poverty and responds to their immediate demands," said Cruz Jr.

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