



EUROPEAN PARLIAMENT

DIRECTORATE-GENERAL FOR EXTERNAL RELATIONS

DIRECTORATE B

Thematic Department

NOTE

ON RELATIONS BETWEEN

NICARAGUA AND THE EUROPEAN UNION

Summary:

President Bolaños has never had a majority in the Nicaraguan Parliament, impeding government action. The forthcoming November 2006 presidential elections have occupied the centre of the political stage prematurely. The traditional parties have broken up into various factions, giving rise to the birth of new parties.

Economic growth has remained positive in recent years, inflation has been brought under control and foreign debt has been substantially reduced; Nicaragua still, however, needs international cooperation.

At the Vienna Summit 2006, the EU and Central America agreed to sign a Global Association Agreement, including the establishment of a free trade zone.

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ANNEXES

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GENERAL INTRODUCTION¹

Nicaragua's history, culture and economy are closely linked to those of its neighbours: Guatemala, Honduras, El Salvador and Costa Rica. These countries, together with Panama and Belize (the former British Honduras), form a strip of land with an area of 540 000 km² (as large as France), which in 1950 had a population of 8 million. Little more than fifty years later, it has a total population of 35 million. In 2005, Nicaragua had 5.7 million inhabitants.

The countries of Central America were under Spanish colonial domination from the 16th century until 1821, when they became independent. In 1824 the Central American Federation was created, consisting of the following countries: Guatemala, Honduras, El Salvador, Nicaragua and Costa Rica. fifteen years later (1839), the Federation ceased to exist, as a result of trends towards regional nationalism and foreign interests. A second 'post-independence' period began, marked by the consolidation of nation States, the region's integration in the world economy (because of the cultivation of coffee and bananas) and by the rise of a 'coffee' oligarchy heavily dependent on outside capital and markets.

The crisis of 1929 hit the countries of Central America particularly hard because of the fall in the prices of raw materials, reduced export opportunities the absence of an alternative industrial sector and a drastic cut in investments by the United States. In addition to this there was frequent military intervention by Washington, as a prelude to a long period of domination by the 'Depression Dictators': Maximiliano Hernandez in El Salvador, Tiburcio Carias in Honduras, the Somoza dynasty in Nicaragua and Jorge Ubico in Guatemala.

During the 60s the rising price of coffee and the formation of the Central American Common Market (MCCA) fostered limited attempts at reform. Twenty years later, an unfavourable international economic situation (a fall in the prices of traditional Central American exports, a rise in foreign debt, etc.) led to devaluation, inflation, unemployment and, consequently, great social unrest. The Central American oligarchies, fearing a repetition of what happened in Cuba, delegated political power to the military. Conflicts broke out in almost all the Central American countries. The Contadora Group, set up in 1983 and consisting of Mexico, the Venezuela, Panama and Colombia, was to have a decisive role in the negotiated settlement of the conflicts, on the basis of respect for the independence of the countries concerned. Action by the Group, backed by Argentina, Brazil, Peru and Uruguay, resulted, on 7 August 1987, in the peace agreement known as Esquipulas II, which marked a rejection of Washington-style diplomacy and a more independent attitude on the part of the Central American countries who signed it.

Peace returned to Central America, but the region was devastated. It is estimated that between 100 000 and 150 000 people died in Guatemala, 75 000 in El Salvador and 100 000 (during the conflicts) in Nicaragua. More than two million inhabitants were also forced to leave their homes in the 1980s, and more than half of these displaced persons left the region. Peace negotiations, the result of a political compromise, nevertheless ignored the underlying socio-economic causes of the conflicts. Despite spectacular progress as regards institutions, the introduction of the rule of law and the emergence of a democratic way of life, the continuing deterioration in the economic and social situation made the prospect of political stabilisation problematic. A long period of civil war put an end to the military dictatorships. However, an alternative development model has not yet emerged. The crisis has ended where it began: how is social injustice to be overcome?

Geography¹

¹ See Annex I

Nicaragua, situated between the Pacific and the Caribbean, covers an area of 120.254km², has a population of more than 5 million, which is growing substantially at a rate of 2,6%. The population consists of a high percentage of *mestizo* groups (European and indigenous) who represent 69% of the population, in addition to 17 % whites, 9% blacks of Jamaican origin and 5% pure indigenous people.

Traditionally a rural country, Nicaragua is becoming increasingly urbanised; at present an estimated 60 % of the population live in urban areas, the city with the largest population being the capital, Managua, with approximately one million inhabitants. The official language is Spanish, alongside a number of indigenous languages. The main religion is Catholic (95%) and the church is of great importance in the country.

Nicaragua has characteristics in common with a number of other Central American countries, in particular a weak economy and dependence on the outside world, aggravated over the last few years by major natural disasters, in particular the hurricanes which hit the area periodically and have decimated the sources of wealth which used to ensure the population's livelihood, causing extreme poverty among a large section of the population, mainly indigenous people.

¹ See Annexes II and III

I. POLITICAL SITUATION

1. Introduction

1.1. History

During its history Nicaragua, which belonged to the former Spanish empire, after a brief period of dependence on Mexico (1821) became an independent republic in 1838, at which time the two rival parties which were to dominate Nicaraguan politics appeared, the Liberals, based in León, and the Conservatives, well-established in Granada. Managua was found in 1855 as a compromise to serve as the capital, since it was not dominated by either group.

Rivalry and wars between the elite groups generated chronic political instability and made it difficult to consolidate a democratic representative system of government. In practice this meant that the country became dependent on foreign powers, especially the United States, which began to consider it as a kind of protectorate and controlled Nicaragua's entire economy on the basis of a form of agriculture geared to the export of a small number of raw materials, such as coffee and cotton. The great inequalities between regions and the lack of suitable infrastructure made the integration of the country's economy difficult.

Exploiting the conflicts among the elite and local rivalries between populations, Anastasio Somoza came to power in 1936, consolidating a dictatorial system which marked almost forty years of Nicaragua's history, relying on the backing of the army the National Guard and support from strong US pressure groups. During these years Nicaragua was governed by various members of the Somoza family, who encouraged the privatisation of public assets and made the dictator's relatives and associates rich.

In 1979, after a bloody civil war which left more than 50,000 dead, the Somoza regime collapsed and was replaced by the main opposition movement, the Frente Sandinista de Liberación Nacional (FSLN) (after General Sandino, who rebelled against the domination of the United States and was assassinated in 1934), which launched a revolutionary project designed to radically change socio-economic structures and reduce the great inequalities in society. Its priorities were literacy, agrarian reform, access to health care and extending the right to education. In the political field Sandinismo promoted representative democracy via farmers', trade union and social organisations.

In 1987 a Constitution was adopted incorporating the principal fundamental freedoms in order to create a modern nation State. Moves towards democracy were thwarted by a combination of factors: the reaction of the traditional ruling class, the belligerence of the anti-Sandinista guerrillas (Contras) - with massive backing from the United States - and the growing bipolarisation between the supporters of the Sandinistas and the opposition.

The elections of 25 February 1990 led to the consolidation of representative democracy, and constituted a substantial step towards true democracy based on peace, reconciliation and the subordination of the military to civilian power, thus ensuring the formal division of state power. For the first time all the country's political forces participated in the elections and the results were unanimously accepted as legitimate and accompanied by guarantees both internally and internationally. The elections were won by the opposition to the FSLN, the Alianza Nacional Opositora (UNO), led by Violeta Chamorro, which took over power and held the presidency of Nicaragua for almost seven years.

Violeta Chamorro's government was characterised by the quest for a delicate balance between the Sandinista legacy and the antagonistic attitudes of the polarised opposition. Its mandate was difficult, since it had to tackle an economic situation characterised by chaotic public finances and

unstable politics resulting from conflicts with the UN, since it did not completely abolish the Sandinista legacy, and the existence of insurgent groups consisting of former Contras and Sandinistas.

On 20 October 1996 the third election since the fall of Somoza was held under different conditions from the 1990 election, since on the international front the Cold War had ceased to exist, and inside the country tension had lessened since the previous elections. Representative democracy was not a cause of conflict and all the parties accepted the principles of a market economy and there was a high turn-out rate - more than 76% of the electorate of 2.4 million people voted. The election was won by the Alianza Liberal, whose leader Arnoldo Alemán, until then the mayor of Managua, was appointed President. Power was handed over peacefully on 10 January 1997.

On 4 November 2001, the presidential election was fought between the Sandinista Daniel Ortega, who had relinquished power in 1990 after 'reigning' for eleven years and the Liberal Party candidate Enrique Bolaños, penalised during the election campaign by the disastrous government record of the former president Arnoldo Alemán, also a Liberal. He had left a his successor a difficult legacy: agriculture in ruins, partly due to the collapse of coffee prices and a devastating drought which led to a famine affecting 70% of Nicaraguans. Foreign currency reserves fell in the last few months of the Alemán administration and the IMF denounced the government's inability to achieve the tax revenue targets and threatened to suspend aid. Despite this handicap, Mr Bolaños emerged victorious. The Belgian Presidency made the following statement on behalf of the EU: 'The European Union congratulates the Nicaraguan people and political parties on the democratic maturity which they demonstrated during the Presidential elections on 4 November, when turn-out was massive... The European Union would congratulate His Excellency Mr Enrique Bolaños on his election as President of the Republic of Nicaragua (...) and urges President Bolaños and the Government of Nicaragua to take all measures necessary to cope with the problems of good governance and the eradication of corruption, as a sine qua non for the development of the country.'

2. Institutions and domestic politics

2.1. The Constitution

The Constitution drawn up by the *Sandinista* government in 1987 provides for a republic with independent executive, legislative and judicial branches. A fourth independent branch, the Supreme Electoral Council, that organises and holds elections, seems a bit exotic but makes sense, because elections in Nicaragua's past were frequently accompanied by allegations of fraud from the losing party. Since the civil war in the 1980's created a highly polarised society with a huge and seemingly insurmountable gulf between the FSLN and the conservative parties, an amendment to the Constitution in 1995 aimed at reconciling and balancing the two factions. This amendment, called *El Pacto*, had an impact on the electoral alliances, the shares of the vote needed for small parties (there were 23 in the 1996 elections), the ban on non-party candidates and the reestablishment of better 'Sandinist representation' in State bodies. It was also decided to abandon the minimum of between 45% and 40% required to win the first round of the election, and even 35% if the distance from the next candidate was at least 5%. Former presidents, who automatically became members of the national Parliament, would benefit from impunity.

Many consider that *El Pacto* weakens democracy by concentrating too many powers in the two main parties and ensuring them reciprocal impunity. Some Sandinistas see this as a betrayal of the revolutionary ideals and a compromise with the forces representing corruption. A new amendment to the Constitution in 2000 went even further than *El Pacto*, giving the parties more influence over the Supreme Court of Justice.

2.2 The Executive

The President is elected for a five-year term in a single ballot with the National Assembly and heads the government. He may not stand for re-election. Mistrust against any strong executive power, fear of nepotism and the wish to balance the political powers in the country rather than concentrating power in an institution lead to cutbacks in the power of the President in the 1995 and 2000 amendments to the Constitution. As a result of the political polarisation in Nicaragua, each change of government leads to a considerable change of administrative staff. This seems to be a major problem, because every new government relies on a completely inexperienced administration. Important positions are dealt out on the basis of political concerns rather than on the criteria of skill and knowledge. It is thus difficult to build up a useful national administration. The next election will be held in November 2006.

2.3 Parliament

The Legislature is a unicameral National Assembly consisting of 92 deputies, who serve a five-year term. 90 Deputies are elected from party lists drawn up at department and national level. The outgoing President and the runner-up in the presidential race are granted seats in the National Assembly, bringing the number up to a total 92. In 1995, *El Pacto* gave impressive new powers to the parliament, such as to override a presidential veto with a simple majority vote.

2.4 The judicial system

The judicial system is, according to observers, still largely ineffective and overburdened. A new Judicial Organic Law, that was meant to tackle the problems of corruption and inefficiency was introduced in 1999 but had hardly any effect. The Supreme Court, which supervises the functioning of the judicial system was strengthened by the constitutional reforms of 1995 and 2000. The number of judges was increased from 9 to 12 in 1995 and finally brought up to 16 in 2000. However, party influence increased as well, since all judges are nominated by the parties according to a quota and elected for a five-year term by the National Assembly.

2.5 The Supreme Electoral Council

The Supreme Electoral Council consists of seven judges and is responsible for organising and conducting elections, plebiscites and referendums. The judges are elected for a five-year term by the National Assembly. Since the amendment to the Constitution in 2000, the two big parties in the Assembly, the PLC and the FSLN, have a strong grip on the nomination of judges, which leads to a further politicising of the electoral process and an exclusion of smaller parties. With the imminence of the November 2006 elections, and the appearance of new political parties, complaints about the politicisation of the SEC have increased.

2.6 Political parties

Nicaragua's political landscape has traditionally been dominated by two parties: The *Partido Liberal Constitucional* (PLC) and the *Frente Sandinista de Liberación Nacional* (FSLN or *Sandinistas*). The left wing FSLN overthrew the Somoza regime in 1979 and ruled until 1990. The right wing PLC emerged from the *Union Nacional Opositoria* (UNO), which took over power from the FSLN in 1990. In 1996 elections, the PLC candidate Arnoldo Alemán became president and ruled until January 2002. During Alemán's presidency, the PLC was tainted by corruption scandals, but in spite of that, it won a majority of 53 seats in the National Assembly in the 2001 national elections. Under Daniel Ortega, the FSLN moved away from its socialist roots and accepted free-market principals. In the 2001 national elections, the FSLN won 38 seats. The Conservative Party (PC) was able to gain only one seat.

2.7 Important recent events

Enrique Bolaños took office in February 2002, promising to fight against corruption, which brought him into opposition with his predecessor Arnoldo Alemán. However, former President Alemán used his formidable political power to gain election as speaker of the National Assembly shortly after he left office. He used this position to defend himself against any prosecution because of his corruption scandals.

On 19 September 2002, the leadership of the Congress of Nicaragua was toppled, following a vote by the Members present, because of its opposition to the withdrawal of the immunity of its president, the former President Arnoldo Alemán, who was being pursued on corruption charges. The exclusion of Mr Alemán and his close associates - who were opposed to any parliamentary committee of inquiry into embezzlement and misappropriation of money during his term of office - from the leadership of the Congress was the result of an alliance between some of the liberals in his party, the PLC, and the Sandinistas¹.

Former President Alemán, currently under house arrest, continues to play a leading political role as Chairman of the Partido Liberal Constitucionista (PLC) in the run-up to the November 2006 elections. Pressure exists at national and international level for Alemán to hand over the leadership of the PLC and abandon his role in politics; to this end, Europe has banned the former president for ten years².

The Permanent Council of the OAS issued a declaration encouraging the Managua government in its determination to bring the former president to justice for money-laundering, fraud, corruption and illicit profiteering. This unprecedented situation opposing the current and former presidents, both belonging to the same party, led to a split within the PLC. The supporters of President Bolaños decided to create a new party (APRE). As a result, the current President lost the majority in Congress, since the *arnoldista* bloc now considers itself an opposition party.

President Bolaños has been in the minority in parliament since the alliance of the leftwing FSLN and the rightwing PLC. The political situation worsened in September 2005, when this coalition proposed withdrawing the parliamentary immunity of members of the government accused of electoral crimes.

Against this background, it looked as though the FSLN-PLC coalition would bring a motion of censure against the President, but the USA threatened to withdraw economic aid, should Bolaños be deposed by the opposition. In October 2005 the opposition and government reached an agreement postponing all the outstanding reforms until after a new government takes office in 2007. Thanks to the way the opposition dominates congress, President Bolaños has had very little room for manoeuvre.

2.8. Presidential elections in November 2006

The present government's weakness in Congress means that the forthcoming elections have prematurely taken centre stage in Nicaraguan political life. The electoral campaign has not been free of external interference, since the US Ambassador has openly voiced his support for the PLC candidate José Rizo, while the Venezuelan President, Hugo Chávez, openly supports Daniel Ortega of the FSLN. Furthermore, the complaints made by various candidates about the supposed politicisation of the Supreme Electoral Council should by no means be overlooked.

¹ Members wonder how the assets of the former President, who was mayor of Managua (1990-1996) before being elected President (1997-2002), rose from 50.000 dollars in 1989 to 250 million dollars in 2001 (see *Le Monde* of 3 October 2002).

² 'Europa prohíbe la entrada del ex presidente nicaragüense Alemán por iniciativa española', *El País*, 31.05.2006.

The traditional left and right-wing parties have broken up into various factions, giving rise to the appearance of new parties. The main candidates for the forthcoming elections belong to the following political parties:

- Alianza Liberal Nicaragüense (ALN) which will be standing in coalition with the Partido Conservador (PC) and other right-wing organisations. The presidential candidate and head of list is Eduardo Montealegre, a banker and former Foreign Minister. The ALN is made up of PLC dissidents, who left the party following the corruption scandals and the arrest of ex president Arnoldo Alemán.
- Alternative Cristiana (AC), whose presidential candidate is Edén Pastora Gómez, better known as 'Comandante Cero', the former Sandinista guerrilla leader who led the spectacular capture of the Nicaraguan Congress in 1978. The AC, which has been in existence for two years, is a small party which brings together centre-left groups.
- Frente Sandinista de Liberación Nacional (FSLN), whose presidential candidate is Daniel Ortega, the historic leader of the FSLN and former President of Nicaragua. The FSLN has been harmed by dissidents within the party, to the benefit of the MRN, but even so, Ortega is a serious candidate for President.
- Movimiento Renovador Sandinista (MRN), whose presidential candidate is the former mayor of Managua and FSLN dissident, Henry Lewites, who initially tried to become the head of the AC electoral list, a position finally won by Edén Pastora.
- Partido Constitucional Liberal (PLC), whose candidate is ex Vice-President José Rizo, who is supported by ex President Arnoldo Alemán; the PLC brings together right-wing political parties and associations, and constitutes the anti-Sandinista platform.

The most recent polls (April 2006) indicate that Eduardo Montealegre, ??? Henry Lewites and Daniel Ortega are the best positioned candidates in the presidential race.

3. Foreign Policy

3.1. Relations with neighbouring countries

Latent conflict persists between Nicaragua and its neighbour Costa Rica because both countries want to use the San Juan river, which delimits the boundary between the two countries, for transport, and the right to carry out border controls along the river. Costa Rica took the territorial dispute to the Hague International Court in September 2005.

With Honduras and Colombia, Nicaragua disputes maritime rights in the Atlantic. A group of islands in the Caribbean, including San Andres and Providencia, is claimed by Nicaragua and Colombia. In a treaty between Colombia and Honduras in 1999, Honduras sanctified the Colombian claims. Nicaragua reacted by cutting commercial links with its neighbour Honduras and a warning that Central American integration would be at risk. A military solution of this conflict is not likely, but both countries have engaged in a kind of trade war since then. In December 2001, Nicaragua took the case to the International Court of Justice in the Hague. President Bolaños lifted the 'patriotic' import tax on Honduran products, with mutual promises to respect the conclusion of the International Court of Justice on the maritime limits of both countries.

Nicaragua is an active member of the Central American Integration System (SICA) and the Central America Economic Integration process (SIECA), which brings together the region's countries.

3.2 Relations with the USA

Links with the USA are strong, and Washington has proved a strong ally of the Bolaños government. The USA are worried by a possible Sandinista victory in the 2006 presidential elections, and the US Ambassador has therefore openly supported PLC candidate José Rizo.

The USA continue to be the country's main trading partner, and economic development depends on the USA. The US-Central America Free Trade Agreement was adopted in 2006. Links with the USA are very strong thanks to the immigration of Nicaraguan citizens into the USA; their economic remittances play an ever increasing role in the national economy.

II. ECONOMIC SITUATION

1. Introduction¹

In October 1998, Hurricane Mitch wrecked the country's economy, causing heavy flooding in great swathes of Nicaragua. Most subsistence crops are thought to have been lost. At least 20% of the coffee harvest was destroyed, while new crops such as citrus fruits were completely wiped out. The cost of reconstruction meant that no economic growth was possible at all until 2001, because of the massive damage suffered by infrastructure and agriculture.

In 2006, Nicaragua's annual per capita income is 851 dollars. It should be noted that more than 50% of the population is below the poverty line. There is widespread unemployment or under-employment and a booming unofficial economy, a situation which results in great social unease. The Nicaraguan economy has a permanent trade and budget deficit and needs substantial outside help.

The Nicaraguan economy is based mainly on agricultural products (30% of GDP) intended for export, mainly coffee, cotton, meat and sugar, traditional products to which have recently been added bananas, onions, melons, sesame and fishery products. In 2004, exports totalled 1000 million dollars. Manufacturing contributes a third of all export revenues, mainly in the form of processed foodstuffs such as meat products and refined sugar. The mining sector, fisheries, commerce and financial services increased substantially over the last few years, as has tourism, which is now the country's third largest source of income.

The Nicaraguan economy is dependent on that of the United States, the destination of 63.5% of its exports in 2004 and the origin of most of its tourist revenue. For this reason the recent vicissitudes in the United States, which have led to a decrease in tourism, and in the medium term will probably lead to a slowdown in the US economy, will have negative repercussions on the Nicaraguan economy. Other export markets are Central America (26,5%) and the EU (10,1%). Consumer goods, intermediate goods and capital goods dominate the import profile, as well as crude oil and oil derivatives. The main sources of these, by import share at source were in 2004: US (26.29%), Venezuela (9.60%) and Central America (24%).

President Bolaños has pressed for economic expansion, led by the export sector, agriculture and construction. Private investment, from both domestic and foreign sources, had been rising, and the private banking sector was continuing to expand. These policies had been implemented with the support of the International Monetary Foundation (IMF), which has released US \$ 26,1m in loans to assist the government's poverty reduction programme. The credit is part of a three-year US \$ 138,3m economic programme with the IMF, signed in 1998. Part of the programme recommends adherence to an Interim Poverty Reduction Strategy. In particular, government action to address serious banking system problems and a new framework of banking laws and supervision is required. The agreement has been renegotiated with the government of President Bolaños, and a US \$ 129m Poverty Reduction and Growth Facility (PRGF) was approved by the IMF in December 2002.

The PRGF is based on four pillars:

- broad-based economic growth and structural reform;
- investment in human capital (education and health services);
- better protection for vulnerable group (access to public services);
- good governance and institutional development.

¹ See Annex IV

The programme to monitor the agreement concluded with the IMF characterises the Government's macroeconomic policy, entailing the adoption of measures with a high social cost derived from the need for public expenditure cuts, to increase the country's reserves and the need to sell some of the public companies, such as the Empresa Nicaragüense de Electricidad, and the State's holding of shares (40%) in the Empresa Nicaragüense de Telecomunicaciones, which was sold in August 2001 to a Swiss-Honduran consortium (Telia Swedtel and ECME), a controversial sale which was the subject of legal proceedings brought by Managua city council. The World Bank is currently advising on the reactivation of the privatisation process.

2. Current economic situation

Nicaragua's economy has grown significantly since the return of democracy and relative civil peace, this despite the damage caused by Hurricane Mitch and subsequent natural disasters, which led to lower levels of growth in 2001 and 2002. The primary sector has been characterised by declining international prices reflected in a deterioration in terms of trade, due mainly to falls in the price of coffee and a rise in real oil prices. Private investment, from both domestic and foreign sources, is rising and the private banking sector continues its expansion.

2.1 Growth

Now that the devastating impact of Hurricane Mitch has been overcome, the economy has recovered, with growth at 5.1% in 2004, 3.9% in 2005 and forecast at 3.4% for 2006. Growth in global demand means that this growth is expected to continue. Economic growth remains closely linked to international aid and to economic performance in the USA, Nicaragua's main trading partner.

2.2 Inflation

Inflation hit its lowest rates in 2002 (4%) and in 2003 (5.1%), settling around 9% from 2004 to 2006. Inflation has risen as a result of increased oil prices and domestic consumption. Bringing it under control has been one of the successes of the economic policies implemented.

2.3 Current account

Nicaragua suffers from a chronic external-accounts deficit. Despite growing export and tourism earnings and government progress on structural adjustment measures and foreign debt reduction, the country remains highly dependent on donor assistance to balance its accounts. This dependence will continue for the foreseeable future¹. The 2004 trade deficit was US \$ 1100, and it will remain linked to variations in the price of raw materials, which are the main exports.

2.4 External debt

External debt remains high, even after nearly half of it was cancelled in 1995-1996. However, although it continues to be a drag on public finance, the situation is expected to improve in the coming years. Nicaragua has succeeded in cutting the 2001 7000 million dollar external debt to 3500 million in 2006, although it still represents 71% of GDP and will therefore remain the most significant macroeconomic problem of the next few years.

¹ World Market Research Centre

III. RELATIONS BETWEEN THE EUROPEAN UNION AND NICARAGUA¹

1. Introduction

In 1984 political dialogue began between the European Union and the countries of Central America, consisting in the periodic meetings known as the San José Interministerial Dialogue. These meetings are held every year between the foreign ministers of Central America and the European Union Member States. The aim of the process is to strengthen cooperation, consolidate democratic governments, the rule of law and cooperate on regional integration. In March 2001 one of these interministerial conferences was held in Guatemala. At the meeting various issues were promoted, such as democratisation and the development of the rule of law in Central American countries, measures to combat light weapons and anti-personnel mines, the problem of Latin American drug-trafficking and the shared responsibility of the consumer countries and, finally, the subject of regional integration.

Between 1976 and 2000 bilateral Community aid to Central America amounted to more than EUR 280 million. Of this about 120 million were allocated to technical and financial cooperation. Another important field is food aid, in which more than EUR 55 million was invested, making Central America the region which receives most Community aid per capita.

2. Regional relations

In 1992 the European Union and the Central American analysed a project for global cooperation, which resulted in the conclusion of a framework agreement in 1999 (Council Decision 1999/194/EC).

The agreement focuses on respect for human rights and democratic principles, containing an evolutive clause allowing for the extension of cooperation to all areas of mutual interest: the economy, commerce, social aspects, science and technology, the environment and regional integration.

In 1993, the European Parliament approved the conclusion of a framework cooperation agreement between the European Union and Central America. It is a 'third-generation' agreement and covers economic, commercial and development cooperation, aimed at improving communication and trade between countries and providing better access to the market for its products.

In 1994 three main cooperation areas were defined:

- aid for the strengthening and modernisation of the constitutional state,
- support for ongoing and permanent development of the regions (investment in human resources and agricultural and non-agricultural sectors),
- economic cooperation .

The Madrid Summit in May 2002 called on the EU and Central America to intensify their relations. Thus the recent Political Dialogue and Cooperation Agreement between the two partners, signed in December 2003, institutionalises the San José Dialogue process launched twenty years ago, which helped to restore peace and democracy in the region at the beginning of the 1990s. Furthermore, it will extend cooperation to immigration controls, the fight against terrorism and economic cooperation, beyond the fields already covered by the 1993 agreement. The basis for negotiations aimed at the liberalisation of trade, modelled on the EU-Mexico and the EU-Chile agreements, was established at the Guadalajara Summit in May 2004.

¹ See Annexes V - VIII

3. Bilateral relations

In the early 1990s, following the signing of the peace agreements, Community aid was focused on alleviating poverty and resettling refugees, returnees and displaced persons; in so doing it played an important role in restoring peace in many areas of the country. Since 1992 the Community has committed approximately EUR 350 million, 10 million as humanitarian aid and around 50 million as NGO co-financing. In total, the country received substantial amounts of aid from the EU Member States in the 1980s and 1990s but Hurricane Mitch has destroyed much of what was achieved in those years.

In 1999 the Commission launched a regional programme for the reconstruction of Central America (PRRAC). The programme is centred on health policy, social affairs and education, and EUR 256.6 million has been invested in it. Administration of the programme is based in Managua, under the responsibility of the head of the Commission's delegation in Nicaragua. The PRRAC has allocated EUR 84 million to Nicaragua.

In March 2001 the Commissioner for development and humanitarian aid, Paul Nielson, visited Nicaragua and a series of support projects were established there via a humanitarian aid organisation (ECHO): the financing of the region of Masaya, which was severely damaged by hurricane Mitch (a project worth EUR 11.6 million), the reconstruction of the region damaged by earthquakes in July 2000 (project worth EUR 1.8 million) and a third camp for humanitarian aid, with a budget of EUR 1.1 million.

Between 1998 and 2000, the Community budget for the country was EUR 98 million, considered to be the largest amount received by Nicaragua, and making the Union the principal donor. There were three priorities for EU aid to Nicaragua, set out in the Country Strategy Paper 1998-2000: support for democratic governance, developing agricultural production and livestock and social cooperation.

Nicaragua also participates actively in horizontal programmes such as AL-INVEST (cooperation between business), ECIP (European Community Investment Partners), URB-AL (EU-Latin American urban programme) and ALFA (EU-Latin America higher education programme). A new Country Strategy Paper was approved for the years 2001-2006.

A Memorandum of Understanding was signed in Managua 29 March 2001 between the EC and the Republic of Nicaragua. It has an indicative amount of € 191,5 million for technical and economic cooperation.

The Country Strategy Paper (CSP), decided by the Commission in May 2002, defines the principle for technical and economic cooperation for the years 2002-2006. The cooperation will be a contribution to the programme of poverty reduction and will focus on:

- rural and local development policy (including rural property) for an amount of 55% of the indicative programme,
- education (20% of the indicative programme),
- governance and civilian security (10% of the indicative programme),
- economic cooperation (5% of the indicative programme).

In addition to this indicative programme, funds could be provided for NGO co-financing, regional activities, food security or other specific development tools.

4. Role of the European Parliament

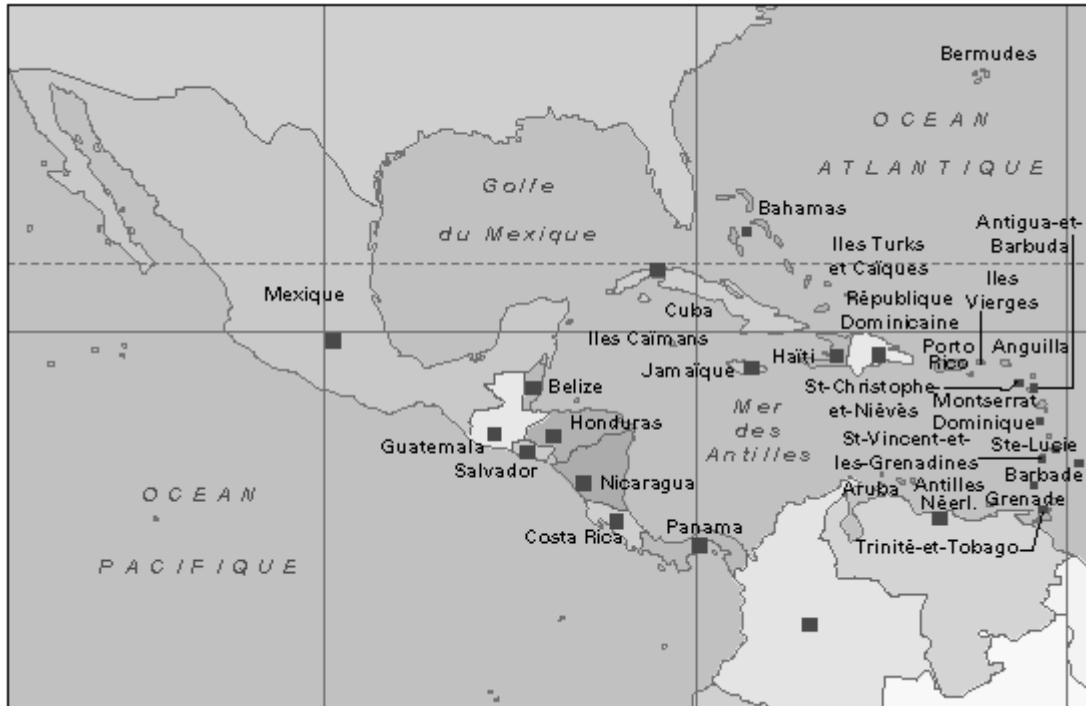
The work of the European Parliament European delegation for relations with Central America includes participation by members of the EP as observers at elections and as mediators in regional

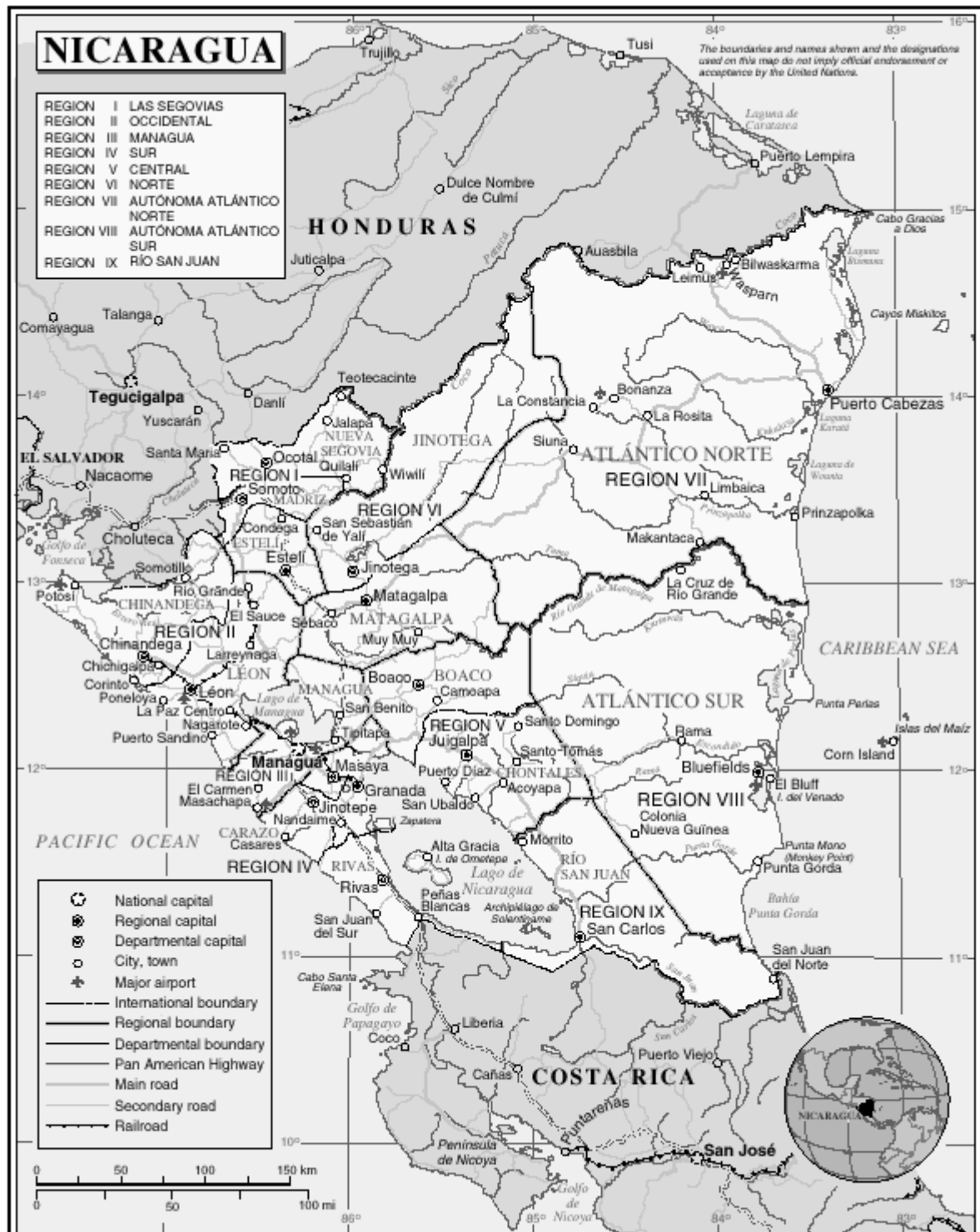
conflicts. The EP also maintains relations with the parliaments in the region and the Central-American Parliament (Parlacen). In 1974 the European Community-Latin America interparliamentary conferences started to be held every two years. Since the 1980s the EP has focused its attention on the process of peace and democracy in the region, seeing regional integration as a solution to the problems encountered by these countries. This is one reason why relations between Nicaragua and the Union should also be envisaged as part of the Union's relations with the whole of Central America.

The increase in resources for cooperation, the extension of the EIB's activities to Central America and the general reorientation of Community cooperation policy are being encouraged by the EP. It hopes that the Union will make the whole of Latin America one of its principal interlocutors in the world and is for this purpose establishing a 'transatlantic dialogue', covering security and defence, and drawing up a global action programme for the region, to which adequate funding has been allocated.

The EP feels that these objectives should lead to new agreements which go beyond mere commercial and development aid agreements by envisaging free-trade areas and more far-reaching political cooperation with a view to the creation of a free-trade area by 2010, thanks to the impetus provided by the 2006 Vienna Summit.

CENTRAL AMERICA AND THE CARIBBEAN





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Department of Peacekeeping Operations
Cartographic Section

CENTROAMÉRICA: EXTENSIÓN TERRITORIAL, POBLACIÓN TOTAL
Y DENSIDAD POR KM²

	Extensión (miles de km ²)	Población total (millones)		Densidad (habitantes por km ²)	
		1950	2000	1950	2000
Guatemala	109	3,0	11,4	27	105
El Salvador	21	1,9	6,3	90	300
Honduras	112	1,4	6,5	13	58
Nicaragua	130	1,1	4,7	8	36
Costa Rica	51	0,9	3,8	18	75
Total	423	8,3	32,7	20	77

FUENTE: Celade, *Boletín Demográfico*, núm. 59, enero de 1997.CENTROAMÉRICA: POBLACIÓN URBANA EN CIUDADES DE MÁS DE
20.000 HABITANTES COMO PORCENTAJE DE LA POBLACIÓN TOTAL

	1930	1950	1970	1980
Guatemala	10	11	16	19
El Salvador	10	13	20	25
Honduras	5	7	20	24
Nicaragua	18	15	31	37
Costa Rica	13	18	27	30
América Latina	18	29	42	47

FUENTE: *Statistical Abstract of Latin American*, vol. 21 (1981), cuadro 634 y vol. 26 (1988), cuadro 663.CENTROAMÉRICA: PRODUCTO PER CÁPITA
(EN DÓLARES DE 1970)

	1920	1940	1960	1980	1998
Guatemala	166	352	335	582	538
El Salvador	157	193	311	434	460
Honduras	198	191	236	303	306
Nicaragua	171	178	278	311	198
Costa Rica	299	301	471	870	955

ANNEX IV

NICARAGUA
MACRO ECONOMIC DATA AND FORECASTS

	1999	2000	2001	2002	2003	2004	2005	2006
Real GDP Growth %	7.0	4.2	3.0	1.0	2.3	5.1	3.9	3.4
GDP Nominal US \$bn	3.7	4.0	4.0	4.0	4.1	4.5	4.7	5.0
GDP Per Capita US \$	757	779	776	751	757	795	829	851
Inflation (CPI) %	11.2	11.5	7.4	4.0	5.1	8.6	9.7	9.0
Population m	4.94	5.07	5.20	5.34	5.47	5.60	5.72	5.85
Population Growth %	2.7	2.6	2.6	2.5	2.5	2.4	2.3	2.2
Current Account Balance US \$bn	-0.9	-0.8	-0.8	-0.8	-0.8	-0.8	-0.9	-0.9
Current Account Balance % GDP	-24.8	-20.0	-19.4	-19.6	-18.9	-17.9	-18.5	-19.0
Trade Balance US \$bn	-1.1	-0.9	-0.9	-0.9	-1.0	-1.1	-1.1	-1.2
Trade Balance % GDP	-28.6	-23.3	-22.2	-23.4	-24.4	-25.2	-24.0	-23.2
Local Currency to Euro	12.37	12.15	12.20	15.39	19.64	22.24	20.23	23.94
Foreign Direct Investment US \$bn	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Foreign Direct Investment % GDP	9.0	6.8	3.7	5.1	4.9	4.7	4.7	4.7
Total External Debt US \$bn	6.9	6.9	7.0	6.7	7.0	3.3	3.4	3.5
Total External Debt % GDP	184.6	173.4	174.3	167.4	169.5	74.1	72.4	71.0
Total External Debt Service % F.E.	19.3	26.0	37.8	36.1	27.5	19.6	22.1	20.9

Source: Global Insight

Trade relations EU(25)-Nicaragua, 2005

By products

1000 EUR

HS Chapters	Harmonised System (HS): Sections and chapters	Imports (cif)		Exports (fob)	
		1000 EUR	% of total	1000 EUR	% of total
01-99	Total	100.487	100,0	114.195	100,0
	of which:				
01-24	Agricultural prod. (incl. fish, prepared foodstuffs etc.)	95.990	95,5	15.561	13,6
	of which:				
01-05	Live animals; animal products	17.424	17,3	1.538	1,3
	of which:				
03	Fish and crustaceans, molluscs and other aquatic invertebrates	17.070	17,0	3	0,0
06-14	Vegetable products	70.664	70,3	3.619	3,2
	of which:				
09	Coffee, tea, mat+ and spices	56.056	55,8	0	0,0
12	Oil seeds/oleaginous fruits; misc.grains/seeds/fruit; indust./medical plants etc.	11.506	11,5	6	0,0
16-24	Prepared foodstuffs; beverages	7.694	7,7	9.837	8,6
	of which:				
19	Prep. Of cereals, flour, starch or milk; pastrycooks' products	0	0,0	4.323	3,8
22	Beverages, spirits and vinegar	4.337	4,3	651	0,6
24	Tobacco and manufactured tobacco substitutes	2.916	2,9	17	0,0
28-38	Products of the chemical or allied industries	2	0,0	10.761	9,4
	of which:				
30	Pharmaceutical products	0	0,0	3.950	3,5
31	Fertilisers	0	0,0	2.396	2,1
39-40	Plastics and rubber and articles thereof	32	0,0	1.753	1,5
41-43	Raw hides and skins, leather, furskins and articles thereof; saddlery etc.	1.146	1,1	26	0,0
44-49	Wood/art. of woods etc; pulp of wood or other fibrous cellulosic	329	0,3	4.808	4,2
	of which:				
48	Paper and paperboard; art. of paper pulp, of paper or of paperboard	17	0,0	2.573	2,3
49	Printed books, newspapers, pictures and other products of printing industry etc.	3	0,0	1.882	1,6
50-63	Textiles and textile articles	1.905	1,9	927	0,8
68-70	Articles of stone, plaster, cement, asbestos etc.	33	0,0	2.033	1,8
72-83	Base metals/articles of thereof	3	0,0	5.036	4,4
	of which:				
72+73	Iron and steel and articles of iron or steel	1	0,0	3.109	2,7
84-85	Machinery and mechanical appliances; elec. eq., sound recorders etc.	279	0,3	53.810	47,1
	of which:				
84	Nuclear reactors, boilers, machinery and mechanical appliances	49	0,0	28.240	24,7
85	Electrical machinery/equip. and parts thereof; sound recorders etc.	230	0,2	25.570	22,4
86-89	Vehicles, aircrafts, vessels and associated transport equipment	163	0,2	6.980	6,1

	of which:				
87	Vehicles other than railway/tramway rolling-stock etc.	57	0,1	6.933	6,1
90-92	Optical, photographic, cinematographic etc. instruments	94	0,1	6.449	5,6
	of which:				
90	Optical/photographic/cinematographic/measuring/medical or surgical inst. Etc.	93	0,1	6.426	5,6
Various ch	Other products	509	0,5	4.365	3,8

Source: COMEXT database, EUROSTAT

Production: JDa/DG4/European Parliament