5-5-1989

Nicaragua: Government Responds To Farm Crisis; Questions Remain About Funding Sources

Deborah Tyroler

Follow this and additional works at: https://digitalrepository.unm.edu/noticen

Recommended Citation


This Article is brought to you for free and open access by the Latin America Digital Beat (LADB) at UNM Digital Repository. It has been accepted for inclusion in NotiCen by an authorized administrator of UNM Digital Repository. For more information, please contact amywinter@unm.edu.
Nicaragua: Government Responds To Farm Crisis; Questions Remain About Funding Sources

by Deborah Tyroler
Category/Department: General
Published: Friday, May 5, 1989

On April 20, the Nicaraguan government announced a series of economic policy measures designed to persuade farmers to plant crops for the 1989/90 agricultural cycle, and boost overall export and food production. High inflation, high interest rates on bank loans (compared to previous years), and economic uncertainty led farmers to hold off on investment plans and planting for the next season. The 1988/89 harvest was extremely poor, result of economic instability and heavy damage caused by Hurricane Joan last October. The new policies are summarized below: * 50% write-off of bank loans held by producers of basic grains, cotton, sesame and vegetables. The remaining 50% of the loans is to be renegotiated at concessionary terms, including a five-year repayment period, and a one-year grace period on principal and interest. Beneficiaries number about 60,000, including large- and small-scale operators and members of farm cooperatives. * Interest rates are to be adjusted every four months, rather than on a monthly basis, as decreed by the government early this year. For the May-August period, most bank loans will carry a 15% interest rate, and rural credit, 12%. * For farmers, interest rates will not surpass 20% for the duration of the 1989/90 production cycle. Consequently, if general price level inflation exceeds 20%, state-run banks will be obligated to absorb financial losses. * Reduction of customs duties and port fees on imported inputs for agriculture and agro-industry. * Cotton growers are permitted to purchase imported inputs on the basis of overvalued cordobas. The exchange rate pertaining to such transactions is to be "no more than" 5,836 cordobas per dollar throughout the 1989/90 production cycle. [Currency devaluation has already transformed cotton growers into subsidy beneficiaries, with every indication of the subsidy increasing in subsequent months. On April 24, the official rate was 6,700 per dollar.] * Government companies are to reduce profit margins on imported goods sold to the agricultural sector. * Producers making capital investments will qualify for a 50% income tax exemption. Producers who spend a sum they would have paid in taxes for employee benefits will be exempted from all income tax. * Coffee and cattle growers making capital investments such as in acquiring new coffee plantings, and purchasing breeding stock, respectively will qualify for special long-term loans. The grace period on repayment for such loans will extend until the project in question reaches maturity. Cattle and coffee growers contracting other types of long-term loans will benefit from interest rates at half the going rate. * The government pledged to sell foreign grain donations on the domestic market at prices equal to domestic production costs. This pledge was in response to farmers' complaints about the government's "dumping" practices which reduced market prices. Agriculture Minister Jaime Wheelock estimates that farm subsidies implied in the new policies will total at least $40 million. Government officials have acknowledged that the necessary funds are not available at present. It is hoped that President Daniel Ortega will obtain sufficient aid commitments during his European tour to cover the $40 million in subsidies, and much more. [In an open letter published April 22 in La Prensa, newspaper editors urged European leaders to refuse to channel future aid through the government. Instead, European governments are encouraged to disburse aid funds through a "neutral" commission proposed by La Prensa general director Violeta Chamorro. The "open letter" was forwarded to the offices of all European leaders who received Ortega during
his tour.] (Basic data from 04/25/89 report by Regional Coordination for Economic and Social Research of Central America and the Caribbean-CRIES, Managua)

-- End --