3-13-1992

Nicaragua: Government Reduces Tax Rates, Raises Investment & Production Loan Levels To Stimulate Economy

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LADB Article Id: 062181
ISSN: 1089-1560

Nicaragua: Government Reduces Tax Rates, Raises Investment & Production Loan Levels To Stimulate Economy

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Category/Department: General
Published: Friday, March 13, 1992

On Feb. 28, Finance Minister Emilio Pereira announced fuel price reductions, and tax relief measures aimed at stimulating the economy or reducing overall production costs. Gasoline and diesel prices were reduced by 4% to 5%. As of Feb. 28, the new gasoline prices in the Atlantic region and Managua were US$1.90 and US$1.80 per gallon, respectively. The tax on net assets (IPN) was eliminated. Effective in July, individual and business income taxes (ISR) were reduced from 35.5% to 30%, and the general sales tax (IGV) from 15% to 10%. The fee paid for passports obtained by adults was reduced by half to US$50. Farm taxes were reduced from 2% to 1%, and a 2% tax on coffee and cotton exports was eliminated. Presidency Minister Antonio Lacayo told reporters that the government plans to invest 1.4 billion cordobas (US$280 million) in infrastructure repair and upgrade in 1992. In addition, production loans will be increased by US$174.4 million. The lion's share of credit is to be channeled to the farm sector, mainly livestock and export crops. According to Lacayo, the increment in production loans, and a reduction in interest rates from an average 18% to 12%, is expected to generate 80,000 new jobs. At present, an estimated 700,000 people are unemployed, equivalent to 40% of the labor force. Public sector investment in 1991 totaled only US $60 million, and government-provided production loans this year are up 85% compared to 1991. Lacayo said Nicaragua will lose US$40 million this year in export revenue due to low world market prices for coffee and cotton. Independent economists say that 80% of Nicaraguan households are so impoverished they will not benefit at all or very little from the tax and fuel price cuts. (Basic data from Notimex, Agence France-Presse, Agencia Centroamericana de Noticias-Spanish news service EFE, 02/28/92, 03/04/92)

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