FOR AGENDA

SM/84/156

CONTAINS CONFIDENTIAL
INFORMATION

July 2, 1984

To: Members of the Executive Board

From: The Acting Secretary

Subject: Costa Rica - Staff Report for the 1984 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1984 Article IV consultation with Costa Rica.

It is proposed to bring this subject to the agenda for discussion on Monday, July 30, 1984.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Elson, (ext. (5)8500).

Att: (1)

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INTERNATIONAL MONETARY FUND

COSTA RICA

Staff Report for the 1984 Article IV Consultation

Prepared by the Western Hemisphere Department

(In consultation with the Exchange and Trade Relations, Fiscal Affairs, Legal, and Treasurer's Departments)

Approved by E. Wiesner and Manuel Guitian

July 2, 1984

I. Introduction

The 1984 Article IV consultation discussions with Costa Rica 1/ were held in San Jose from February 21 to March 17, 1984. Representatives of Costa Rica in the discussions included the Ministers of Agriculture, Economy, Finance, and Planning, the Executive President of the Central Bank and other senior officials of various ministries, government agencies and state enterprises. The staff representatives were R.A. Elson (Head-WHD), A. Antonaya (FAD), T. Lehwing, J. Martelino (both WHD), and H. Corbett (Secretary-TRE). Mr. Umana, the former Fund resident representative in San Jose, and Mr. Tampe the current representative, assisted the mission.

The last Article IV consultation and a review of the stand-by arrangement which expired in mid-December 1983 took place in April 1983 and the staff reports (EBS/83/127 and SM/83/150) were discussed by the Executive Board on July 17, 1983 (EBM/83/104). As of June 25, 1984 Costa Rica had overdue payments to the Fund amounting to SDR 4.5 million in respect of repurchases under the CF facility and quarterly charges (EBS/84/140).

1/ Costa Rica has accepted the obligations of Article VIII, Sections 2, 3 and 4 of the Articles of Agreement.

II. Recent Developments and Performance Under the Last Stand-By Arrangement 1/

In the last year and a half, Costa Rica has taken major steps to recover from the economic and financial crisis experienced during 1980-82. That crisis can be traced to the failure of the Government to adjust its domestic financial policies to the deterioration in its external environment which began in the late 1970s.

Among the adverse external factors confronted by Costa Rica were the sharp fall in its terms of trade arising from the drop in world coffee prices after 1978 and the second round of oil price increases, the recession in the industrialized countries and the surge in interest rates in international markets, and the political turmoil and economic decline in the Central American region. The effects of these adverse external developments were compounded by expansionary financial policies in Costa Rica, which led to a progressive increase in the overall deficit of the nonfinancial public sector to the equivalent of 14 percent of GDP by 1981. These imbalances resulted in large deficits in the current account of the balance of payments in 1980-81, notwithstanding a depreciation of the colon in the free market from ₡ 8.6 per U.S. dollar (selling) in December 1980 to ₡ 36 per U.S. dollar in December 1981. In addition, Costa Rica encountered serious difficulties in servicing its external debt, and in August 1981 it suspended foreign debt service payments and requested foreign creditors to restructure its outstanding obligations. In 1981 the country experienced a sharp decline in real GDP for the first time in 20 years, while inflation accelerated to 65 percent.2/

A further weakening of the overall financial situation took place during the first half of 1982. Inflation continued to accelerate and pressures on the exchange rate increased; the free market exchange rate rose as high as ₡ 62 per U.S. dollar (buying) by July 1982. The performance of the public sector continued to be weak, mainly because of delays in the adjustment of public tariffs and prices, and overall bank credit continued to expand very rapidly, exceeding the growth of private financial holdings in Costa Rica.

1/ The data in this report for 1983 are preliminary and subject to revision, particularly in the area of the public finances and external debt. The monetary accounts, especially for the Central Bank, are undergoing extensive revisions because of problems related to exchange rate adjustments. A brief survey of statistical issues is given in Appendix IV.

2/ During 1980-81 Costa Rica negotiated two arrangements with the Fund, one a two-year stand-by arrangement approved in March 1980 (EBS/80/39 - Supplement 1), and the other an EFF arrangement approved in June 1981 (EBS/81/123 - Supplement 1). Both of these arrangements were canceled after early departures from agreed targets.

Soon after taking office in May 1982, a new Administration began to adopt fiscal and other measures to redress the serious economic and financial deterioration. Major tax measures and large adjustments in public tariffs and prices were put into effect in the second semester of the year. As a result of this effort and the pursuit of a policy of expenditure restraint, the overall deficit of the nonfinancial public sector declined by about 5 percentage points to about 9 percent of GDP in 1982. In August 1982 the authorities took steps to reorganize and simplify the exchange system. The new Administration also opened talks with foreign commercial banks shortly after taking office by resuming partial payments of interest on foreign debt, after an effective suspension of about one year.

The actions initiated during the second half of 1982 paved the way for approval of a one-year stand-by arrangement by the Fund on December 20, 1982. The stabilization program framed by the Government and supported by that arrangement was designed to contain inflationary pressures, to promote an orderly development of the exchange market, and to facilitate the resumption of public external debt service payments. The centerpiece of the stabilization effort was a substantial improvement in fiscal performance as reflected in a programmed reduction in the overall deficit of the nonfinancial public sector to 4 1/2 percent of GDP in 1983 through a combination of revenue measures and a continuation of the policy of expenditure restraint initiated in 1982. An essential feature of the program was the unification of the exchange rates in the banking market and the free market before the end of the program period.

Performance under the program was satisfactory. In particular, inflationary pressures subsided quickly and the rate of domestic price increases decelerated to around 11 percent in the year ended December 1983, compared with a program target of 40 percent. The better than projected price performance appears to have been related to a sharper reduction in the overall public sector deficit than called for in the program and an appreciation of the value of the colon in the free market during the year. Also, output rose by nearly 1 percent, compared with an assumption of no change in the program, on the strength of gains in domestic agricultural production and electricity generation, the latter associated with a surge in sales to the rest of Central America. At the same time, virtually all external debt arrears (which had amounted to around US$1 billion) were eliminated by the end of last year; the overall balance of payments recorded a surplus compared with a target of equilibrium in the program. All quantitative performance criteria were observed throughout the program period and Costa Rica made all purchases available under the arrangement (Table 1).1/

1/ A waiver was granted in September and December 1983 (EBS/83/191 and EBS/83/253) in respect of a modification of the exisiting multiple currency practice arising from the introduction of a 1 percent exchange tax on most foreign payments. This tax was eliminated on January 19, 1984 (EBD/84/26).

Table 1. Costa Rica: Performance Under Stand-By Arrangement 1/

	6/30/83	12/28/83
(In millions of colones)		
Net domestic assets of Central Bank		
Ceiling 2/	69,640	72,640
Actual	64,331	68,923
Margin (within ceiling)	5,309	3,717
Net credit to public sector from the banking system		
Ceiling	11,590	13,090
Actual	8,544	12,251
Margin (within ceiling)	3,046	839
(In millions of U.S. dollars)		
Net international reserve position		
Target 2/	-1,234	-1,234
Actual	-1,159	-1,200
Margin (within target)	75	34
Foreign loans contracted by public sector:		
With maturities 1-5 years (cumulative from 12/21/82)		
Ceiling	50	50
Actual	12	1
Margin (within ceiling)	38	49
With maturities 1-10 years (cumulative from 12/21/82)		
Ceiling	100	100
Actual	37	29
Margin (within ceiling)	63	71

Source: Weekly and monthly cables of the Central Bank of Costa Rica.

1/ The data in this table are consistent with those presented in EBS/82/214, as amended by EBS/83/80, and do not necessarily match the program and actual data shown in Table 3 because of revisions to the monetary accounts which were introduced after the stand-by arrangement expired.

2/ These ceilings and targets are adjusted for the difference between the level of payments arrears on external public debt, subject to rescheduling, projected for the end of December 1982 and the level estimated in January 1983. All foreign currency entries are valued at the accounting rate of ₡ 50 per U.S. dollar.

In the fiscal area, the results of the program in some respects were better than expected. The overall deficit of the nonfinancial public sector turned out to be the equivalent of around 3 percent of GDP, compared with a program limit of 4 1/2 percent. Total public sector revenues rose by somewhat more than the program projections, whereas the growth in total public expenditure was less than programmed. The margin under the program was due to the better than expected performance of the main public entities outside the Central Administration, as the latter's overall deficit turned out to be somewhat higher than projected.

Central government revenues increased sharply last year, rising from 13 1/2 percent of GDP in 1982 to 17 percent in 1983, as a result of a number of tax measures introduced late in 1982, including the introduction of an income tax surcharge and increases in sales taxes and selective consumption duties (Table 2). Central government expenditure rose by a broadly similar amount, mainly as a result of salary decisions taken in the middle of last year. Under the program, public sector wages were to be raised in January and July in line with increases in the index of a basic basket of goods and services. However, actual increases at the beginning and middle of the year turned out to be higher than would have been justified by changes in the basic basket. Moreover, under pressure from the public sector unions, the government accelerated the introduction of a new salary scale which was made retroactive to January 1983 and which effectively raised public sector salary levels by about one half of the combined effect of the other two adjustments. As a result, expenditures for wages and salaries in the central administration (including transfers to the rest of the public sector to cover payments for the new salary scale) rose by some 30 percent in real terms last year.

The financial performance of the rest of the public sector improved sharply last year as a result of substantial increases in social security contributions, the tariffs of the National Electricity Corporation (ICE), and prices charged by the State Petroleum Refinery (RECOPE). The combined operating balance of the rest of the public sector shifted from a deficit equivalent to 2 percent of GDP in 1982 to a surplus of 2 3/4 percent of GDP in 1983, which was close to the program target. However, the current account balance of the enterprise sector improved by less than projected in the program, in part because of a partial rollback of tariff and price adjustments by RECOPE and ICE in June 1983 after a wave of public protests. The effect of this decision on revenues was more than offset by a reduction in investment spending and a stronger than projected improvement in the current account position of the Social Security Institute. All in all, the overall balance of the rest of the public sector was in approximate equilibrium, compared with a deficit of 2 percent of GDP projected in the program.

The lower than projected deficit of the nonfinancial public sector in 1983 resulted in a smaller use of domestic financing than estimated in the program. Moreover, contrary to program assumptions, most of the

Table 2. Costa Rica: Summary Operations of the Nonfinancial Public Sector

	1981	1982	1983 SBA program	1983 Estimate	Proj. 1984
	(In millions of colones)				
Central Administration	-2,999	-3,258	-3,510	-4,115	-1,645
Current revenue	7,333	13,317	19,880	21,612	27,404
Expenditure	-10,332	-16,575	-23,390	-25,727	-29,049
Current 1/	(-8,226)	(-14,363)	(-19,530)	(-20,633)	(-24,079)
Capital	(-2,106)	(-2,212)	(-3,860)	(-5,094)	(-4,970)
Rest of general government	-755	704	-630	1,858	1,155
Revenue	6,374	10,496	8,140	12,042	13,896
Current	(6,148)	(9,828)	(8,140)	(11,344)	(13,689)
Capital	(226)	(668)	(--)	(698)	(207)
Expenditure	-7,129	-9,752	-8,770	-10,184	-12,741
Current 1/	(-5,593)	(-8,799)	(-8,080)	(-9,538)	(-11,304)
Capital 2/	(-1,536)	(-993)	(-690)	(-646)	(-1,437)
State enterprises	-4,407	-6,303	-2,610	-1,704	-2,385
Current account surplus 1/	-1,839	-3,021	4,170	1,623	1,748
Capital revenue	759	135	311	508	1,160
Capital expenditure	-3,327	-3,417	-7,091	-3,834	-5,293
Overall deficit	-8,161	-8,857	-6,750	-3,960	-2,875
Overall financing	8,161	8,857	6,750	3,960	2,875
External	4,767	2,094	4,675	2,214	2,925
Domestic	1,739	2,697	2,075	1,746	-50
Banking system	(1,664)	(1,872)	(2,000)	(686)	
Nonbank financial intermediaries	(20)	(99)	)	(--)	
Private sector	(-76)	(582)	) (75)	(490)	
Other 3/	(131)	(144)	)	(570)	
Interest in arrears	1,655	4,066	--	--	--
Memorandum items					
Public sector revenue	10,268	17,011	31,591	32,376	40,887
Public sector expenditure	18,075	26,093	38,341	36,336	43,762
Current	(12,237)	(19,836)	(26,700)	(27,784)	(32,649)
Capital	(5,838)	(6,257)	(11,641)	(8,552)	(11,113)
	(Annual percentage change)				
Public sector revenue	17.2	65.7	85.7	90.1	26.3
Public sector expenditure	34.9	44.4	46.9	39.3	20.4
Current	(27.0)	(62.1)	(34.6)	(40.1)	(17.5)
Capital	(55.4)	(7.2)	(86.1)	(36.7)	(29.9)
	(In percent of GDP)				
Central administration deficit	-5.2	-3.4	-2.3	-3.3	-1.1
Revenue	12.8	13.7	12.9	17.2	19.0
Expenditure	-18.0	-17.1	-15.1	-20.5	-20.2
Current	(-14.4)	(-14.8)	(-12.6)	(-16.4)	(-16.7)
Capital	(-3.6)	(-2.3)	(-2.5)	(-4.1)	(-3.5)
Nonfinancial public sector					
Current account surplus or deficit (-)	-3.8	-3.1	3.0	3.5	5.1
Central Administration	(-1.6)	(-1.1)	(0.2)	(0.8)	(2.3)
Rest of general government	(1.0)	(1.1)	(--)	(1.4)	(1.6)
State enterprises	(-3.2)	(-3.1)	(2.8)	(1.3)	(1.2)
Fixed capital formation	9.1	7.5	7.5	5.2	6.4
Overall deficit (financing)	14.2	9.1	4.4	3.2	2.0
External	(8.3)	(2.2)	(3.0)	(1.8)	(2.0)
Domestic	(3.0)	(2.8)	(1.4)	(1.4)	(--)
Interest in arrears	(2.9)	(4.1)	(--)	(--)	(--)

Sources: Ministry of Finance; and Fund staff estimates.

1/ Includes all contractual interest (paid and unpaid).
2/ Includes differences arising from reporting on an accrual and cash basis, statistical discrepancies, and operations of public institutions not included in the coverage of the public sector.
3/ Includes bond sales outside the consolidated public sector and changes in floating debt (arrears).

internal financing needs of the public sector were satisfied by bond placements outside the banking system and by an increase in floating debt (arrears).

The reduction in the use of banking system resources by the public sector, together with a rapid growth in private sector financial savings, made possible a strong expansion of bank credit to the private sector in 1983; the latter appears to have been associated, in part, with a rebuilding of inventories after two years of significant decline. Although the nominal growth in bank liabilities to the private sector was about the same as projected in the program, this growth far exceeded the program projection in real terms because the deceleration in inflation was more rapid than assumed in the program (Table 3). This growth in liabilities appears to have been related, in part, to an inflow of financial assets previously held abroad by Costa Rican investors, reflecting a recovery of confidence and a rise in real interest rates. On the basis of actual inflation rates, the estimated real rate of interest for six month deposits in the banking system, which is the basic indicator for the system, shifted from a negative 60 percent a year in December 1982 to a positive 11 percent a year in December 1983.

The recovery of confidence and the strengthening of the fiscal situation facilitated the exchange rate unification which was achieved in mid-November 1983. At the outset of the program, the spread between the banking market and free market rates had been reduced from a maximum of 42 percent in July 1982 to around 11 percent in December 1982. During the course of 1983, this spread was further reduced, mainly as a result of an appreciation of the free market rate in line with market forces. Then, on November 11, 1983, the two exchange rates were formally unified at ₡ 43.65 per U.S. dollar (selling), which represented a depreciation of 4.6 percent for the prevailing banking rate in local currency terms. During the year as a whole, the value of the colon in the banking market, which was the principal exchange market, depreciated by around 3 1/2 percent in real effective terms.

Despite the movement of the exchange rate, the current payments position of Costa Rica in 1983 was weaker than expected, mainly because of a poor performance of exports and a stronger than projected growth in imports associated with the sharp increase in bank credit to the private sector. The current account balance of payments deficit is estimated to have reached 11 percent of GDP in 1983, compared with a target of 8 percent under the program. The widening of the current account deficit last year was associated with larger than projected inflows of private capital and disbursements of special U.S. assistance under the Caribbean Basin Initiative. As suggested earlier, the substantial net inflows estimated for the private capital account appear to have been related to the reflow of private financial savings previously held abroad. However, they may also have included an element of underinvoicing of exports which was encouraged by the incidence of exchange taxes and the presence of a parallel (free) exchange market during most of the year.

Table 3. Costa Rica: Summary Operations of the Banking System

	December 31						
	(US$1 = ₡ 40.00)		(US$1 = ₡ 50.00)			(US$1= ₡ 45.00)	
				1983		Reclass. Actual	Proj.
	1981	1982	1982	Program	Actual	1983 1/	1984
	(In millions of colones)						
	I. Banking System						
Net international reserves 2/	-34,940	-47,474	-59,345	-59,345	-56,372	-4,767	-3,777
Net domestic assets	85,956	114,655	134,902	157,665	150,935	134,284	145,228
Net credit to public sector 3/	9,294	11,626	11,565	13,565	12,251	26,576	26,576
Credit to private sector	13,241	18,094	18,195	27,345	27,569	27,549	31,456
Other 4/	37,749	41,135	50,392	62,005	62,865	78,719	87,156
Counterpart arrears/rescheduling	25,672	43,800	54,750	54,750	48,250	1,440	--
Long-term foreign liabilities 5/	23,696	26,168	32,712	41,970	39,201	75,095	79,684
Liabilities to private sector 6/	27,320	41,013	42,845	56,350	55,362	54,432	61,767
	II. Central Bank						
Net international reserves 2/	-35,420	-47,975	-59,970	-59,970	-56,315	-4,716	-3,726
Official reserves (net)	-9,748	-4,175	-5,220	-5,220	-8,065	3,577	5,467
Payments arrears	-25,672	-43,800	-54,750	--	-1,600	-1,440	--
Rescheduling/revolving trade credit facility	--	--	--	-54,750	-46,650	-6,853	-9,193
Net domestic assets	39,846	54,912	66,907	70,870	65,263	13,664	13,837
Net credit to public sector 3/	9,651	11,885	11,885	13,885	14,519 7/	28,864	28,864
Of which: rescheduling	(--)	(--)	(--)	(--)	(--)	(15,071)	(12,687)
Net credit to banks	-7,191	-9,619	-11,412	-8,412	-13,140	-8,099	-9,350
Of which: rescheduling	(--)	(--)	(--)	(--)	(--)	(4,077)	(3,767)
Stabilization bonds	-1,542	-4,755	-4,755	-9,750	-5,090	-5,090	-5,265
Long-term foreign liabilities 5/	-20,336	-22,414	-28,020	-37,820	-34,542	-72,224	-76,949
Of which: rescheduled debt	(--)	(--)	(--)	(--)	(--)	(-38,128)	(-36,863)
Other 4/	33,592	36,015	44,459	58,217	55,266	68,773	76,537
Counterpart arrears/rescheduling	25,672	43,800	54,750	54,750	48,250	1,440	--
Currency issue	4,426	6,937	6,937	10,900	8,948	8,948	10,111
	(In percent change)						
Banking system							
Net domestic assets 8/	62.9 9/	105.0		51.9	37.4		20.1
Net credit to public sector	21.2 9/	25.1		17.3	5.9		--
Credit to private sector	9.8 9/	36.7		48.5	51.5		14.2
Liabilities to private sector	27.3 9/	50.1		30.7	29.2		13.5
	(As percent of GDP)						
Net credit to public sector	16.3	11.5		8.8	9.7		18.5
Credit to private sector	23.2	18.6		17.7	21.9		21.8
Liabilities to private sector 10/	37.8	34.9		32.0	37.9		40.4
	(In millions of colones)						
Memorandum items							
Exchange subsidies to public sector (cumulative)	886	2,257		3,066	2,712		2,905
Central Government	(360)	(453)		(450)	(456)		(456)
Rest of public sector	(526)	(1,804)		(2,616)	(2,256)		(2,449)

Sources: Central Bank of Costa Rica; and Fund staff estimates.

1/ Reflects the full effect of the rescheduling of payment arrears.
2/ Includes payments arrears and special financing. Except for the last two columns, also includes US$50 million due to a consortium of Mexican banks (COMERMEX) which was converted from a short-term to a medium-term foreign liability in January 1981.
3/ Includes exchange subsidies and in 1982 and 1983 is adjusted for reclassification of public sector deposits with commercial banks previously classified as private sector and also those now classified as financial sector.
4/ Includes valuation adjustment.
5/ Includes SDR allocation and gold revaluation.
6/ Includes liabilities to nonbank financial intermediaries, and in 1982 is adjusted for reclassification of public sector deposits with commercial banks previously classified as private sector and also those now classified as financial sector.
7/ Includes an implicit credit for the equivalent of US$38.3 million on account of external interest payments for which no colones counterpart was deposited.
8/ In relation to liabilities to the private sector, including liabilities to nonbank financial intermediaries, at the beginning of the period.
9/ Changes based on foreign currency accounts valued at ₡ 15 per U.S. dollar.
10/ Ratio of two-year average of liabilities to the private sector, including liabilities to nonbank intermediaries, to GDP. Foreign currency deposits are valued at the actual end-of-year exchange rates.

Virtually all of Costa Rica's external debt arrears accumulated through the end of 1982 were eliminated by the end of last year. About 90 percent of the amount (US$933 million) was rescheduled through agreements negotiated last year with the Paris Club and foreign commercial banks, and the remainder was paid in cash. All in all, the overall balance of payments was in surplus by about US$75 million in 1983, compared with a program target of equilibrium (Table 4).

III. Economic Policy Discussions

The Article IV consultation discussions were focused to an important extent on the issues involved in the design of a new financial program which would qualify for further Fund support in 1984-85. Understandings were reached between the staff representatives and the authorities on the policy content and the quantification of such a program. However, there have been delays in implementing some of the adjustment measures which has made it necessary to postpone the submission of Costa Rica's request for Fund assistance to the Executive Board. The projections for 1984 which are included in this report are based on the assumption that all the measures on which understandings were reached will be implemented. In its discussions with the Costa Rican authorities, the staff was mindful of the concerns expressed in the summing up of the 1983 Article IV consultation regarding the impact of wage decisions and public enterprise operations on overall fiscal management, as well as the impact of Costa Rica's external debt burden on the medium-term outlook.

1. Fiscal policy

The Government's fiscal objectives in 1984 are to strengthen further the current balance on public sector operations and to limit the overall borrowing requirement of the public sector to no more than 2 percent of GDP. Public sector revenue is projected to increase by 26 percent in 1984, or by the equivalent of about 2 1/2 percent of GDP, while public expenditure is programmed to rise by 20 percent. The overall public sector deficit is to be financed mainly by long-term development credits from abroad which are being used to support the projected recovery in public investment after two years of significant decline.

The authorities expected that most of the improvement in overall fiscal performance would take place at the level of the Central Administration, with its overall deficit targeted to decline from around 3 percent of GDP in 1983 to 1 percent in 1984. The major share of the improvement is to be derived from increased revenues arising from new tax measures, the temporary suspension of revenue earmarking, and an increase in transfers from the rest of the public sector. Altogether, the ratio of government revenues to GDP is projected to rise from 17 percent in 1983 to 19 percent in 1984. The authorities indicated that they were in the process of introducing new tax measures, which are projected to yield ₡ 3 billion (2 percent of GDP). These included increases in

Table 4. Costa Rica: Balance of Payments

	1981	1982	1983 Prog.	1983 Prel.	Proj. 1984
		(In millions of U.S. dollars)			
Current account	-426.4	-233.5	-285	-342	-275
Merchandise trade	-210.7	-27.6	135	-132	-88
Exports, f.o.b.	(1,002.6)	(865.8)	(1,085)	(862)	(927)
Imports, c.i.f.	(-1,213.3)	(-893.4)	(-950)	(-994)	(-1,015)
Services	-242.7	-240.4	-465	-281	-267
Nonfactor	(76.6)	(100.2)	(105)	(86)	(87)
Factor	(-319.3)	(-340.6)	(-570)	(-367)	(-354)
Direct investment and private interest	/-11.4/	/1.3/	/-25/	/-11/	/-17/
Official interest	/-307.9/	/-341.9/	/-545/	/-356/	/-337/
Paid	[-160.3]	[-106.0]	[-374]	[-316]	[-297]
Unpaid	[-147.6]	[-235.9]	[--]	[-40]	[-40]
Transfers	27.0	34.5	45	71	80
Capital account	-49.2	-80.5	285	416	297
Private and net errors and omissions	-69.3	8.8	--	168	87
Public (net inflow)	231.3	128.0	285	208	170
Disbursements	(330.3)	(191.0)	(408)	(302)	(319)
Nonfinancial sector	/266.4/	/91.0/	/.../	/117/	/153/
Financial sector	/63.9/	/100.0/	/.../	/185/	/166/
Amortization (paid)	(-99.0)	(-63.0)	(-123)	(-94)	(-149)
Nonfinancial sector	/-49.7/	/-39.0/	/.../	/-63/	/-88/
Financial sector	/-49.3/	/-24.0/	/.../	/-31/	/-61/
Public (net refinancing of current obligations)	-211.2	-217.3	--	40	40
Rescheduling of principal	(--)	(--)	(112)	(146)	(185)
Refinancing of current interest	(--)	(--)	(--)	(40)	(40)
Amortization (unpaid)	(-211.2)	(-217.3)	(-112)	(-146)	(-185)
Other (SDRs/revaluation and transactions with nonmonetary monetary agencies)	5.4	--	--	--	--
Net international reserves (overall balance)	-470.2	-313.8	--	74	22
Accumulation (+) or reduction (-) of arrears	358.8	453.2	-1,177	-1,063	-32
Principal	(211.2)	(217.3)	(-708)	(-695)	(-17)
Interest	(147.6)	(235.9)	(-469)	(-368)	(-15)
Rescheduling of arrears	--	--	638	732	--
Principal	(--)	(--)	(638)	(639)	(--)
Interest	(--)	(--)	(--)	(93)	(--)
Conversion of CDs (P+I)	--	--	--	49	--
Contingent financing (rescheduling/refinancing/new loans)	--	--	539	152 1/	
Net official reserves (increase -)	106.4	-128.8	...	48	
Net use of Fund resources	(45.7)	(-9.7)	(...)	(99)	10
Other net official reserves	(60.7)	(-119.1)	(...)	(-51)	
Valuation adjustment	5.0	-10.6	--	8	
		(As percent of GDP)			
Current account	-15.7	-9.6	-8.0	-11.3	-8.6
Trade balance	-7.8	-1.1	3.8	-4.4	-2.8
Net factor services	-11.7	-14.1	-16.0	-12.1	-11.1
Other services and transfers	3.8	5.6	4.2	5.2	5.3
Capital account	-1.6	-3.3	8.0	13.7	9.3
Private	-2.4	0.4	--	5.5	2.7
Public (net inflow)	8.5	5.3	8.0	6.9	5.3
Public (net refinancing)	-7.7	-9.0	--	1.3	1.3

Sources: Central Bank of Costa Rica; and Fund staff estimates.

1/ Revolving trade credit facility.

the rates of selective consumption duties, the introduction of a gasoline sales tax, and a broadening of the base of the income tax among other things. Some of these measures were approved by the Legislative Assembly in February, but others are still waiting for legislative action. A significant share of the revenue to be derived from these measures is to replace revenue from the export tax based on exchange rate differentials which was first established in December 1981 and lapsed in mid-December 1983. The revenue increase for this year also includes the temporary suspension of earmarking amounting to ₡ 450 million, mainly for certain social welfare agencies, which was reallocated to the Central Administration budget for the current fiscal year.

The other major source of revenue growth this year for the Central Administration is expected to come from transfers from the rest of the public sector arising from direct cuts in the budgets of selected public entities. Early this year, the Legislative Assembly mandated cuts in the expenditure budgets of some 20 public sector entities to accommodate transfers to the Central Administration this year amounting to ₡ 2 billion. These transfers will be enforced by the Budget Authority which is charged with the responsibility of approving a set of revised budgets for the entities in question, and by the Comptroller General's Office which is empowered to audit the operations of public sector entities throughout the year.

Central government expenditures are programmed to increase this year at a rate approximately in line with the projected growth in nominal GDP, which could represent a substantial deceleration in real terms compared with last year. As a result of action taken by the Legislative Assembly in February, the 1984 Central Government Budget, which was originally approved in November 1983, was reduced by ₡ 1 billion (roughly 1 percent of GDP). The Assembly also approved other measures which, together with economy measures of the government itself, are expected to reduce budgeted expenditures by an additional ₡ 1 billion. These include measures which are designed to offset, at least in part, some of the effect of the increase last year in public sector wages and salaries. For example, a freeze on total public sector employment has been established for the first time, and authorization has been given to accelerate the retirement of eligible public sector employees and to reduce the number of public employees by attrition.

Efforts also have been made to strengthen further the financial position of the rest of the public sector. The authorities increased the rates for telephone and electricity services operated by ICE by 70 percent and 9 percent, respectively, in January 1984, and the rates charged by the water authority (ICAA) were raised by an average of around 30 percent in May, in line with World Bank recommendations. In the case of RECOPE, a policy guideline has been set whereby increases in the imported cost of oil arising from changes in international prices or adjustments of the exchange value of the colon will be passed on to domestic retail prices of fuel.

The authorities indicated that changes were being made in the operations of the National Production Council (CNP), which regulates the production and marketing of basic grains. CNP has been incurring losses because of subsidies to rice producers who receive domestic support prices in excess of prevailing international levels and because the controlled prices of beans, wheat and corn are below domestic costs of production. To reduce CNP's losses this year, the government has agreed to a change in the prices of CNP's basic grain operations which involves a reduction of 5 percent in the domestic support price of rice 1/ and an increase of 2 1/2 percent and 20 percent, respectively, in the controlled sales prices of wheat and beans. With these changes and temporary transfers from the Central Government for the remainder of the year, CNP will be able to reduce its financing requirement from the Central Bank to a level consistent with the objective of no increase in internal financing of the public sector as a whole.

The National Development Corporation (CODESA) has been running large deficits in recent years because of the losses incurred by its subsidiaries which operate in the cement, sugar, fertilizer, food processing and aluminum ingot industries. These enterprises are inefficient and poorly managed and, as a result, the Government has agreed with the National Assembly on a program to divest CODESA of some of its holdings. The Government has initiated, with the help of foreign consultants, a proposal to sell all or part of CODESA's shares in ALUNASA, an aluminum ingot processing plant. One possibility under consideration is the sale of shares in ALUNASA to an aluminum company owned by the Government of Venezuela, which is now a supplier to ALUNASA.

Looking beyond 1984, the authorities said that they would press forward with certain reforms of the public finances that would have the effect of translating some of the temporary measures established in the fiscal program for 1984 into more permanent ones. Since the middle of last year, a special commission of former Ministers of Finance has been reviewing issues related to public sector reform, involving changes in budgetary procedures and institutional arrangements, as well as legal revisions to the complex system of revenue earmarking and compulsory spending which has evolved in Costa Rica over many years.

2. Wage and price policies

The authorities believe that the most serious weakness in the implementation of the 1983 program was in the area of wage policy. Because of the political pressure from public sector unions, the authorities agreed last year to a series of wage increases which had the effect of virtually offsetting in one year the decline in public sector real wage levels experienced over the previous three years. As a result of these adjustments, it appears that wages in the public sector significantly exceed those in the private sector for lower to

1/ The volume of production which would benefit from the support price also was reduced.

middle level positions, although the opposite is true for employees in higher level categories. The authorities indicated that the Government does not intend to grant any further wage increases for public sector employees in 1984, except in the case of those few categories affected by the minimum wage. Beyond 1984, the authorities reaffirmed their intention to adjust public sector salaries and minimum wages in absolute amounts on the basis of the changing cost of a basic basket of goods and services, consisting mainly of food products, transportation, water, and electricity. It is estimated that this mechanism of wage adjustments will result in salary increases below the expected rate of inflation. The authorities recognized that, over the medium term, real salary levels in the economy could only increase on the basis of gains in productivity.

With respect to price controls, the authorities said that market forces should be the main determinant of prices and noted that administrative controls were limited to a relatively small number of basic consumer goods and imports. The Costa Rican representatives indicated that the number of items under control had been reduced during 1983 and that the controls were being applied flexibly, permitting the prompt adjustment of prices whenever there was justification for change. It was also pointed out that in the majority of cases it was the profit margins that were being controlled and that only a small number of products were subject to price ceilings.

3. Monetary policy

Costa Rica's economic program for 1984 envisages a marked deceleration in the rate of domestic bank credit expansion, and the authorities have introduced measures to that end. In March 1984, the Executive Board of the Central Bank stipulated that public sector deposits in the commercial banks be invested in stabilization bonds of the Central Bank. This measure will have the effect of reducing excess reserves of the commercial banks in the Central Bank and of increasing nonliquid claims of the public sector on the Central Bank. The authorities also indicated that they were considering an increase in legal reserve requirements to reinforce their control over bank liquidity.

In view of the need for stricter credit control, the authorities believe it is important to maintain domestic interest rates at levels which are significantly positive in real terms. This posture is dictated, in part, by conditions in the international financial markets in relation to which they feel Costa Rica must maintain a certain premium for financial instruments denominated in colones. The authorities indicated in this regard that they would continue to maintain a flexible interest rate policy in which the basic indicator rate for six-month deposits, to which most other rates in the banking system are linked, would be adjusted from time to time in the light of foreign and domestic market conditions and domestic price trends. The authorities also reported that they were planning to simplify the structure of bank lending rates and to limit subsidized credit operations.

The authorities noted that the conduct of monetary policy in 1984 would be improved as a result of efforts to reduce the losses of the Central Bank, which were an important source of credit expansion last year. The losses of the Central Bank had mounted sharply in 1983 because many of the direct interest costs and exchange losses associated with last year's rescheduling agreement with foreign commercial banks were absorbed by the Central Bank. The payment in 1983 by the Central Bank of all principal and interest on the external debt of the public sector for which no local currency deposit was received has now been registered as counterpart claims against the public entities in question, and all past and future costs associated with the service of these foreign loans are to be recovered by the Central Bank.

The monetary program of the Central Bank has been designed to bring about an improvement in the net foreign reserves of the Central Bank of around US$20 million in 1984. The program also assumes that private sector claims on the banking system will increase about in line with the growth of nominal GDP, which would imply that the income velocity of money would remain at about the same level as in 1983. The loanable resources of the banking system are to be supplemented by significant inflows of medium- and long-term foreign loans to the Central Bank from the U.S. Government under the Caribbean Basin Initiative in the amount of US$105 million.

4. External sector policies

The main objectives of the authorities in the external sector are to reduce the current account deficit of the balance of payments and to maintain service payments on external debt on a current basis. In addition to the pursuit of cautious monetary and fiscal policies, the authorities indicated their intention to pursue a flexible exchange rate policy to help bring about these objectives. They were pleased with the achievement of exchange rate unification under last year's program and expressed their firm intention to maintain a unified exchange rate in the future. In addition to the creation of a unified exchange market in mid-November 1983, all exchange taxes on exports and imports were eliminated by early January 1984. Accordingly, Costa Rica's exchange system is now free of restrictions on payments and transfers for current international transactions,1/ except for certain restrictions on external debt, as described below.

1/ Legally, an official market exists in which the value of the colon is pegged at ₡ 20 per U.S. dollar, compared with ₡ 44 in the unified market. No transactions are handled through this market except for 1 percent of export surrender. At the present time the authorities do not consider it feasible to eliminate this market, as it would involve a complex legal process.

For the future, the authorities indicated that the value of the colon in the unified exchange market would be adjusted from time to time according to developments in the current account of the balance of payments, the differential between the inflation rate in Costa Rica and its major trading partners, and the need to preserve the competitiveness of exports. At the time of the consultation discussions (i.e., March 1984), the authorities believed that the indicators of the real effective exchange rate did not suggest a significant undervaluation or overvaluation of the colon. After a sharp real depreciation during 1981 and a significant appreciation during 1982, the real effective value of the colon in local currency terms depreciated slightly during 1983 to a level well above that prevailing at the end of 1980 when the value of the colon began to depreciate (see Chart in Appendix VI). In line with the policy outlined to the staff earlier in the year, the authorities depreciated the colon in the unified market by 0.8 percent on May 30, 1984, or from ₡ 43.65 per U.S. dollar (selling) to ₡ 44 per U.S. dollar (selling).

Most of the growth in exports forecast for 1984 (7 1/2 percent in U.S. dollar terms) is related to either an improvement in the prospects for certain traditional commodities (bananas, sugar and cocoa) or to a further recovery in exports to the Central American Common Market. A slowdown in the growth of imports is expected, arising from tighter demand management policies, and a shift in the structure of imports away from consumer goods in response to recent increases in selective consumption duties.

About one third of the current account deficit is expected to be financed by private sector inflows, and the remainder is to be financed by net official inflows associated with the public investment effort and disbursements of concessional aid under the U.S. Government's Caribbean Basin Initiative. During the first half of 1984, there have been significant delays in disbursements from the latter source, and partly for this reason, Costa Rica has incurred arrears on external obligations, including repurchase obligations and charges with the Fund. The balance of payments projection also takes into account further debt relief arising from Tranche II of the commercial bank rescheduling agreement approved in September 1983; this relief would amount to US$135 million, corresponding to repayments of principal falling due in 1984.1/ In connection with the banks, the projection assumes that additional assistance would be forthcoming through an increase in the revolving trade credit facility which was established in the context of last year's rescheduling agreement. In addition, it has been assumed that Costa Rica will qualify for another Paris Club agreement in 1984, similar to that approved in January 1983, in which payments of principal

1/ The terms of this agreement were summarized in Appendix I of SM/83/150.

and interest to official bilateral creditors estimated at US$90 million will be renegotiated. During the first half of 1984, such payments have been suspended in anticipation of an agreement with the Paris Club during the second half of the year.1/

IV. Medium-Term Outlook

The medium-term outlook for Costa Rica is dominated by its external debt problem. At the end of 1983, Costa Rica's external public debt was equivalent to around 117 percent of GDP and its debt service payments (after rescheduling) amounted to approximately 37 percent of exports of goods and services (Table 5). Interest payments on external public debt alone represented about one third of exports of goods and nonfactor services (12 percent of GDP) last year.

As a result of the rescheduling agreements with the Paris Club and the foreign commercial banks last year, Costa Rica was able to secure a rescheduling of most of its arrears and some relief of contractual obligations falling due in 1983 and 1984. However, the contractual debt service obligations are projected to rise to 57 1/2 percent of projected exports of goods and services in 1986, and then to decline to 38 percent by 1989. In these conditions, it is clear that Costa Rica will need further rescheduling arrangements for its large commercial debt obligations through the rest of the decade. On the assumption that roughly one half of its principal repayments falling due over the next several years can be rescheduled, Costa Rica's debt service ratio would remain at around 40 percent through 1986 and then decline to 28 percent by 1989. Its outstanding public external debt would decline gradually from around 117 percent of GDP to 97 percent by the end of the decade.

These projections are based on the assumptions that over the remainder of the decade there is a gradual recovery in the growth in real GDP to rates close to those prevailing in the second half of the 1970s and that the peak level of exports recorded in 1980 is regained by 1987. Such an assumption would imply that the growth of exports in U.S. dollar terms would accelerate from 7 1/2 percent in 1984-85 to 12 percent by 1989. It is also assumed that the effective interest rate on external public debt would decline gradually from 10 percent in 1984 to 8 percent in 1989, as a result of both a decline in interest rates in international financial markets and a change in the structure of Costa Rica's external indebtedness toward the increased use of concessional credits.

1/ In addition to these arrears, there is a restriction arising from a claim with respect to a bank loan of US$738,000 and accrued interest, which was involved in the rescheduling negotiations that led to the September 1983 agreement with all members of a bank syndicate but one. The Costa Rican authorities have offered to this bank the same terms as have been accepted by the other members of the syndicate, but the bank has not accepted the offer and the matter has been in litigation.

Table 5. Costa Rica: Medium-Term Outlook

	Est. 1983	Proj. 1984	1985	1986	1987	1988	1989
	(In millions of U.S. dollars)						
Current account	-342	-275	-235	-215	-195	-210	-230
Trade balance	-132	-88	-66	-37	-6	11	50
Exports, f.o.b.	(862)	(927)	(995)	(1,080)	(1,175)	(1,286)	(1,440)
Imports, c.i.f.	(-994)	(1,015)	(-1,061)	(-1,117)	(-1,181)	(-1,275)	(-1,390)
Net factor payments	-367	-354	-352	-350	-356	-361	-369
Interest (official)	(-356)	(-337)	(-334)	(-330)	(-334)	(-336)	(-329)
Other	(-11)	(-17)	(-18)	(-20)	(-22)	(-25)	(-40)
Other services and transfers	157	167	183	172	167	140	89
Capital account	416	297	270	265	265	290	315
Private	168	87	102	107	111	122	132
Public	248	210	168	158	154	168	183
Nonfinancial	(54)	(65)	(67)	(53)	(40)	(42)	(45)
Financial	(154)	(105)	(101)	(105)	(114)	(126)	(138)
Debt relief-interest	(40)	(40)	(...)	(...)	(...)	(...)	(...)
Overall balance	74	22	35	50	70	80	85
Memorandum items							
External public debt outstanding 1/	3,546	3,749	3,913	4,040	4,142	4,273	4,442
Net utilization 2/	208	170	153	143	144	158	178
Disbursements	(302)	(319)	(344)	(381)	(389)	(387)	(376)
Amortization	(94)	(149)	(191)	(238)	(245)	(229)	(198)
Debt service 3/	608	670	739	829	871	827	736
Interest	(356)	(337)	(334)	(330)	(334)	(336)	(329)
Amortization	(252)	(333)	(405)	(499)	(537)	(491)	(407)
Debt service to the IMF	25	37	35	42	62	47	25
	(As a percent of GDP)						
Current account	-11.3	-8.6	-7.0	-6.0	-5.0	-5.0	-5.0
Trade balance	-4.3	-2.7	-2.0	-1.0	-0.2	0.3	1.1
Net factor payments	-12.1	-11.1	-10.5	-9.9	-9.3	-8.6	-8.1
Other	5.2	5.2	5.5	5.0	4.5	3.3	2.0
Capital account	13.7	9.3	8.0	7.5	7.0	7.0	7.0
Private	5.5	2.7	3.0	3.0	3.0	3.0	3.0
Public	8.2	6.6	5.0	4.5	4.0	4.0	4.0
Overall balance	2.4	0.7	1.0	1.5	2.0	2.0	2.0
External public debt	116.6	117.2	116.7	114.9	107.9	101.9	97.0
	(As a percent of exports of goods and services)						
Debt service							
Including IMF	52.9	54.1	55.6	57.5	55.5	48.2	38.3
Excluding IMF	50.7	51.2	53.0	54.5	57.6	45.4	37.0
Debt service after debt relief							
Including IMF	36.7	39.2	40.4	40.2	38.4	33.9	27.7
Excluding IMF	34.5	36.2	37.8	37.3	34.5	31.2	26.4

Sources: Costa Rican authorities; and Fund staff estimates.

1/ Includes short-term indebtedness and reserve-related liabilities of the Central Bank.
2/ Excludes IMF net purchases.
3/ Includes repurchase and interest payments to IMF.

Indeed, in the light of Costa Rica's external debt situation, it is essential that its use of external credit be largely, if not exclusively, in terms of concessional credits. At the same time, it is necessary that Costa Rica continue to generate an overall surplus in its balance of payments in order to be in a position to meet the large repurchase obligations to the Fund falling due over the next several years. Given the availability of concessional financing and the need for an improvement in the net international reserve position of the Central Bank, a sustainable current account deficit over the medium term cannot exceed some 5 percent of GDP, which has important implications for fiscal policy. In this context, it is evident that the adjustment effort initiated in 1982-83 will have to be maintained for several years during which the Fund might play an important catalytic role vis-a-vis other creditors.

The authorities have emphasized the importance of structural changes in the economy to facilitate the adjustment that will need to be carried out over time. In the external sector, such an effort would require an export promotion strategy that would involve at some time in the future a revision of the protectionist policy established in the Central American Common Market. The authorities indicated that discussions have been focused within the Common Market on the need for a reduction in the level of the regional Common External Tariff to encourage more efficiency in the region's industrial sectors, which is a necessary condition for Costa Rican, as well as other regional producers, to be able to compete in world markets. At the same time, domestic reforms are needed to improve the efficiency of the domestic financial system, as well as the centralized control of the public sector, to enhance the effectiveness of financial policies over the medium term. The authorities confirmed that many of the issues relevant to these reforms are being taken up in the context of negotiations with the World Bank on a sequence of structural adjustment loans, the first of which they hoped would be approved before the end of 1984.

V. Staff Appraisal

During the last two years, Costa Rica has recovered rapidly from the severe economic and financial crisis experienced in the period 1979-82. A series of external shocks, together with expansionary domestic financial policies, led to large deficits in the fiscal and external accounts, a rapid depreciation of the colon, and the suspension of foreign debt service payments. In 1981-82 the rate of inflation rose very high and real GDP declined sharply.

A series of adjustment measures and an exchange reform, initiated by a new administration in mid-1982, were supported by a one-year stand-by arrangement by the Fund in December 1982. The program called for a sizeable reduction in the overall public sector deficit, the gradual unification of the exchange markets and the elimination of external debt arrears, together with the resumption of normal debt service payments.

The major objectives of the program for 1983 were achieved and performance under the stand-by arrangement was satisfactory. The rate of inflation decelerated at a much faster pace than projected in the program, and the improvement in the targets for the overall balance of payments and the public finances were more pronounced than had been planned. By the end of 1983 virtually all external debt arrears were eliminated, mainly as a result of rescheduling agreements reached with the Paris Club and foreign commercial banks. In addition, exchange rate unification was achieved and all restrictions on payments and transfers for current international transactions were eliminated, except for a relatively small amount of external debt arrears. The major area of slippage in the program was the Government's wage policy. Wage increases granted in the public sector were well in excess of the agreed guidelines and led to a weakening in the central government finances.

In an effort to build upon the progress achieved in last year's program, the Costa Rican authorities have framed a successor program for 1984. This program calls for a further compression in the overall fiscal deficit and a slowdown in the growth rate of total bank credit, to be consistent with the attainment of low inflation and an overall payments surplus.

In the fiscal area, the authorities intend to limit the overall deficit of the nonfinancial public sector to no more than 2 percent of GDP, most of which would be financed with long-term external credits. To achieve this goal, new tax measures have been introduced in the Central Administration and the tariffs of several state enterprises have been increased. Some of the required tax action, however, is yet to be implemented. The large increase in central government revenues that is planned for this year has been made necessary to an important extent by decisions taken last year to raise wages. The staff has some reservations about the burden of these revenue increases on equity and allocative grounds, and therefore believes that strong efforts are needed to contain the growth of government expenditure. In particular, it is imperative that the Government not grant additional wage increases in 1984 and that it carry through fully the measures intended to reduce the public sector wage bill through cuts in the labor force.

The prospects for financial stability for 1984 and beyond depend importantly upon the Government's intention to implement key structural and institutional reforms in the public sector. In the staff's view, the most critical need in this area is to dismantle the complex system of revenue earmarking and compulsory spending which is a major obstacle to the implementation of sound fiscal policy in Costa Rica. Also, it is essential that the Government act as quickly as possible to divest CODESA of some of its enterprise holdings as authorized by the National Assembly earlier this year. Only in this way will CODESA be able to reduce its large indebtedness with the Central Bank.

In the monetary sphere, the program calls for a reduction in the rate of growth of total banking system credit. In order to achieve this target, the authorities intend to sterilize a portion of the excess reserves of the banking system and to maintain interest rates at levels which are significantly positive in real terms. The staff welcomes this intention and notes that a realistic interest rate policy is necessary not only for purposes of domestic monetary control but also as a means of strengthening the balance of payments.

The staff welcomes the intention of the authorities to pursue a flexible exchange rate policy and notes the importance of such a policy in fostering the improvement in export performance required to service the external debt in the coming years. The staff notes with concern, however, that Costa Rica has accumulated payments arrears, including overdue obligations to the Fund. The staff urges the authorities to eliminate these arrears as quickly as possible and to take measures to ensure that this problem will be avoided in the future. In the absence of assurances that an economic program is in place which would allow for the elimination of these restrictions, no approval is proposed at this time.

Finally, it is recommended that consultations with Costa Rica be maintained on a regular 12-month cycle.

Costa Rica - Fund Relations
(As of May 31, 1984)

(Amounts in millions of SDRs, unless otherwise indicated)

I. Membership Status

(a) Date of membership: January 8, 1946
(b) Status: Article VIII

(A) Financial Relations

II. General Department

(a) Quota: SDR 84.1 million.

	Millions of SDRs	Percent of Quota
(b) Total Fund holdings of colones:	264.2	314.1
(c) Fund credit: Total	180.2	214.3
Of which: Credit Tranche	(62.7)	(74.6)
CFF	(56.4)	(67.0)
EAR	(61.0)	(72.5)
(d) Reserve tranche position:	--	--
(e) Current operation budget:	--	--
(f) Lending to the Fund:	--	--

III. Current Stand-by Arrangement and Special Facilities

(a) Current stand-by arrangement: None

(b) Previous stand-by and extended arrangements:

Type of Arrangement	Amount: SDR Million	Amount: Percent of Quota	Duration	Amount Drawn (SDR million)	Status
SBA	92.25	150.0	Dec. 1982- Dec. 1983	92.25	Expired
EFF	276.75	450.0	June 1981- May 1984	22.5	Cancelled December 1982
SBA	60.50	147.6	Mar. 1980- Feb. 1982	15.4	Cancelled June 1981
SBA	11.60	36.2	July 1976- July 1977	--	Expired

(c) Special facilities--
Compensatory financing:

Date of Approval	Amount Drawn: SDR Million	Amount Drawn: Percent of Quota
Sept. 1983	18.60	30.2
June 1981	30.10	48.9

IV. SDR Department

	Millions of SDRs	Percent of Allocation
(a) Net cumulative allocation:	23.7	100.0
(b) Holdings:	--	--
(c) Current designation plan:	--	--

V. Administered Accounts — None.

VI. Overdue Obligations to the Fund (as of June 25, 1984)

	SDR Amount Due	Date Due
General Department: Repurchases	2,562,500	April 30, 1984
Quarterly charges	1,933,549	May 7, 1984
Quarterly charges	462	May 9, 1984
	4,496,511	

(B) Nonfinancial Relations

VII. Exchange rate arrangement: The representative exchange rate for the Costa Rican colon is the unified banking rate which is presently quoted at ₡ 44 (selling) per U.S. dollar. All transactions take place at this rate with the exception of the equivalent of 1 percent of export proceeds which are surrendered at the official rate of ₡ 20.00 per U.S. dollar, but this does not give rise to a multiple currency practice under Article VIII, Section 3.

VIII. Last Article IV consultation: April-May 1983, completed by the Executive Board on July 18, 1983 (EBM/83/104), after a cycle in excess of three years.

IX. Technical Assistance:

(a) CBD	None
(b) Fiscal	A FAD panel expert was assigned to the Ministry of Finance between August 1980 and December 1983, providing assistance principally in the area of budgetary procedures.
(c) Other	None

X. Resident Representative/Advisor: Mr. Ignacio Tampe assumed the post of Resident Representative in March 1984.

Costa Rica--Basic Data

Area and population	
Area	50,900 sq. kilometers
Population (1983)	2.4 million
Annual rate of population increase (1979-83)	2.5 percent
Unemployment rate (1983)	9.0 percent
GDP (1983)	SDR 2,845 million
	US$3,040 million
	₡ 125,711 million
GDP per capita (1983)	SDR 1,185

Origin of GDP	1980	1981	1982	Prel. 1983
		(percent)		
Agriculture and fishing	18	23	25	23
Manufacturing	19	19	20	20
Construction	6	5	4	3
Utilities	2	2	3	4
Commerce	20	18	20	19
Other	35	33	28	31
Ratios to GDP				
Exports of goods and nonfactor services	27	44	47	37
Imports of goods and nonfactor services	37	50	44	38
Current account of the balance of payments	-15	-16	-10	-11
Central government revenues	12	13	14	17
Central government expenditures	20	18	17	21
Central government savings	-3	-2	-1	1
Central government overall surplus or deficit (-)	-8	-5	-3	-3
External public and government-guaranteed debt (end of year)1/	66	104	117	117
Gross national savings	12	7	5	9
Gross domestic investment	27	22	15	21
Money and quasi-money (end of year)2/	37	38	35	38
Annual changes in selected economic indicators				
Real GDP per capita	-1.7	-4.8	-11.6	-1.7
Real GDP	0.8	-2.3	-9.1	0.8
GDP at current prices	19.7	37.9	69.9	29.6
Domestic expenditures (at current prices)	19.2	31.6	57.0	35.6
Investment	(25.7)	(16.2)	(11.2)	(84.0)
Consumption	(17.2)	(36.5)	(69.4)	(27.0)
GDP deflator	18.8	41.1	86.8	28.6
Consumer prices (annual averages)	18.1	37.1	90.1	32.7
Central government revenues	17.6	47.2	81.6	62.3
Central government expenditures	24.9	24.8	60.4	55.2
Money and quasi-money	15.1	27.3	50.1	29.2
Money	(16.8)	(46.7)	(59.9)	(32.5)
Quasi-money	(13.8)	(14.6)	(43.9)	(27.0)
Net domestic assets 3/	51.5	62.9	106.6	36.5
Credit to public sector (net)3/	(16.7)	(9.1)	(8.5)	(0.2)
Credit to private sector 3/	(10.0)	(6.4)	(17.8)	(21.9)
Merchandise exports (f.o.b., in U.S. dollars)	6.2	0.2	-13.6	-0.4
Merchandise imports (c.i.f., in U.S. dollars)	9.3	-20.6	-26.4	11.3

Central government finances	1980	1981	1982	Prel. 1983
	(millions of colones)			
Revenue	4,982	7,333	13,317	21,612
Expenditure	8,282	10,332	16,575	25,727
Current account surplus or deficit (-)	-1,370	-893	-1,046	979
Overall deficit (-)	-3,300	-2,999	-3,258	-4,115
External financing (net)4/	678	1,487	2,269	2,091
Internal financing (net)	2,622	1,512	989	2,024
Balance of payments	(millions of U.S. dollars)			
Merchandise exports, f.o.b.	1,001	1,003	866	862
Merchandise imports, c.i.f.	-1,527	-1,213	-893	-994
Investment income (net)4/	-216	-319	-341	-367
Other services and transfers (net)	79	104	135	157
Balance on current and transfer accounts	-664	-426	-234	-342
Official capital (net)4/	367	20	-89	248
Private capital and errors and omissions (net)	-165	-69	9	168
SDR allocations	6	5	--	--
Overall deficit (-)	-456	-470	-314	74
Change in net official international reserves (increase -)	173	111	-139	56
Arrears, net (accumulation +)	283	359	453	-130 6/

International reserve position	Dec. 31 1980	1981	1982	1983
	(millions of SDRs)			
Central Bank (gross)	179	126	221	303
Central Bank (net)5/	-329	-761	-1,097	-187 7/
Rest of banking system (net)	--	10	12	-1

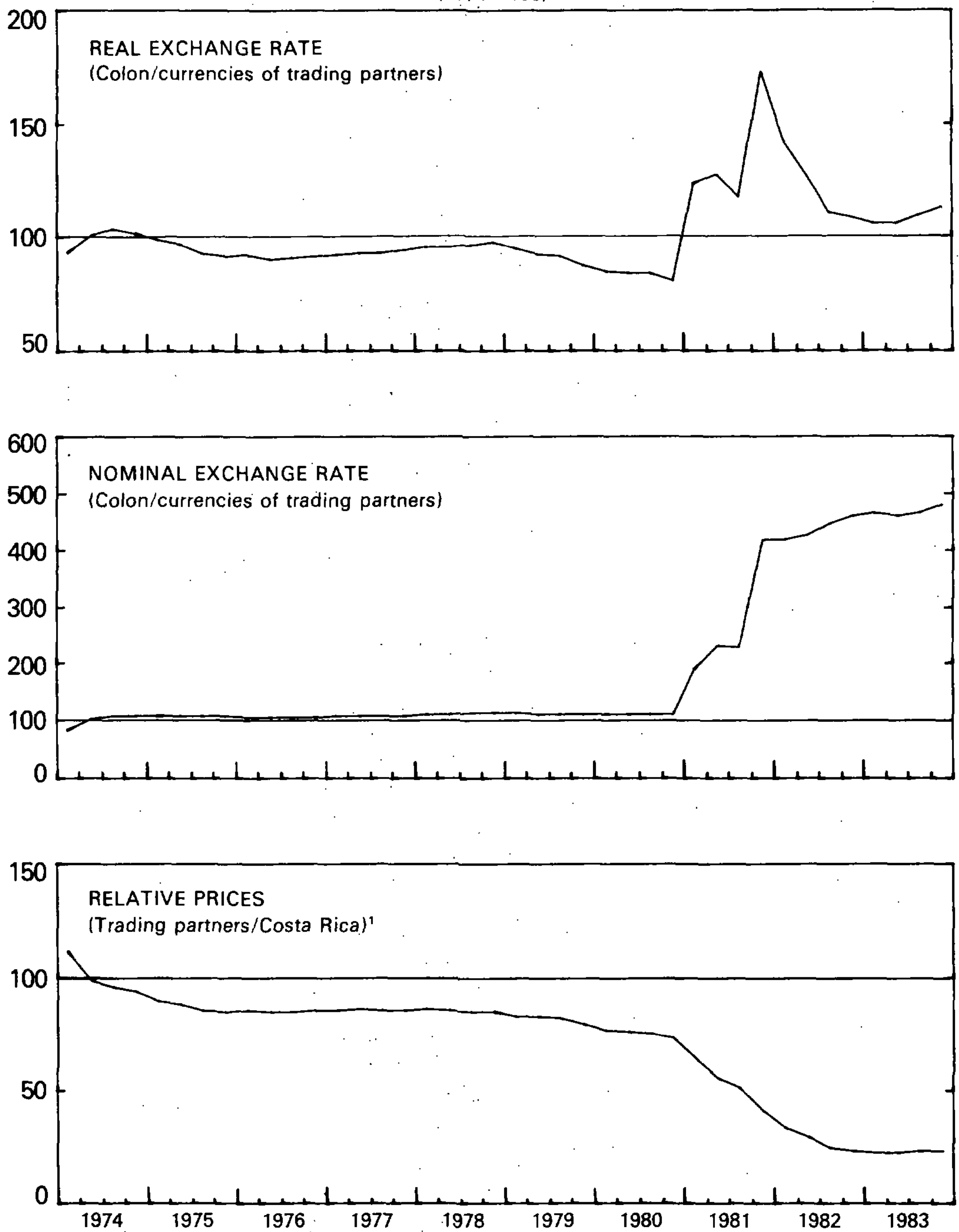
1/ Includes IMF, short-term debt and capitalization of interest in arrears.
2/ Ratio of two-year average of liabilities to the private sector, including liabilities to nonbank financial intermediaries, to GDP.
3/ Measured in terms of the liabilities to the private sector at the beginning of the period.
4/ Includes accumulation of interest and/or principal in arrears.
5/ Includes payments arrears of SDR 221 (1980), SDR 551 (1981), SDR 993 (1982), and SDR 31 (1983), respectively.
6/ Reduction in arrears, net of rescheduling.
7/ Excludes rescheduled arrears.

CHART 1

COSTA RICA

EFFECTIVE EXCHANGE RATE

(1974 = 100)



Sources: IMF, *International Financial Statistics;* and Fund staff estimates.
[1]Wholesale price index for Costa Rica and consumer price index for trading partners.

Costa Rica: Statistical Issues

1. Coverage, Currentness and Reporting Frequency

		Latest Date in April 1984 IFS
Real Sector	- Real G.D.P.	1981
	- Prices	Dec. 1983
	- Production	n.a.
	- Employment	n.a.
Government Finance	- Deficit/Surplus	Oct. 1983
	- Financing	Oct. 1983
	- Debt	Apr. 1983
Monetary Accounts	- Central Bank	Nov. 1981
	- Deposit Money Banks	Nov. 1981
	- Other Financial Institutions	Nov. 1981
External Sector	- Merchandise Trade: Values	Nov. 1983
	- Merchandise Trade: Prices	Nov. 1983
	- Balance of Payments	1982
	- International Reserves	Feb. 1984
	- Exchange Rates	Nov. 1983

During the past year, the reporting record of the IFS correspondent has been excellent for international reserves and general economic data; however, no report forms were received at all for data on the financial system or national accounts.

2. Outstanding Statistical Issues

Monetary Accounts: The monetary accounts shown in IFS have not been updated because of problems associated with the recording of foreign currency denominated accounts and exchange subsidies and losses. These problems have arisen during a period of time in which the value of the colon experienced a significant depreciation.

Government Finance: The analytical usefulness of government finance data would be enhanced through improvements in the coverage of data. In particular, there is a need for timely and accurate data on extrabudgetary operations. With respect to the central government sector, there is a need for developing consistent data on the composition of government financing and external government debt.

3. Technical Assistance in Statistics

a. A mission in May 1981 discussed problems related to the provision of data for the GFS yearbook.

b. A mission to Costa Rica is expected to take place within the next few months to resolve problems relating to the updating of money and banking data for IFS.