DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

EBD/84/26

January 31, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Costa Rica - Exchange System

Attached for the information of the Executive Directors is a paper on recent changes in the exchange system of Costa Rica.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

COSTA RICA

Exchange System

Prepared by the Western Hemisphere and
Exchange and Trade Relations Departments

(In consultation with the Legal Department)

Approved by Eduardo Wiesner and Manuel Guitian

January 30, 1984

In the attached communication dated January 13, 1984, the Costa Rican authorities have informed the staff of the elimination of several exchange restrictions affecting export earnings and foreign payments. These measures involve: (1) the elimination with effect from December 10, 1983 of the exchange tax on export earnings, and (2) the elimination with effect from January 19, 1984 of the 1 percent stamp tax on foreign payments and its replacement with a 1 percent import duty. The export tax was introduced in December 1981 and was applied to the difference between the official exchange rate of ₡ 20 per U.S. dollar and the banking rate (currently ₡ 43.65 per U.S. dollar). The applicable tax rates were 10 percent for traditional exports and 5 percent for non-traditional exports to the Central American Common Market and Panama.

In addition, effective January 1, 1984 remittances to students for higher education abroad were transferred from the official market to the banking market.

These measures represent a simplification of the exchange system and eliminate Costa Rica's multiple currency practices. Since the banking and free exchange markets were unified in November 1983 (EBS/83/253, 11/28/83), all foreign exchange transactions are now channeled through a unified market, with the exception of 1 percent of export proceeds, which still have to be surrendered at the official exchange rate. This surrender requirement results in a mixing rate, but it does not give rise to a multiple currency practice subject to Article VIII, Section 3 because the spread it creates between the buying and the selling rates does not exceed 2 percent.

Attachment

ATTACHMENT

MR. ANTHONY ELSON
INTERFUND
WASHINGTON

JANUARY 13, 1984

I WISH TO INFORM THE FUND OF THE FOLLOWING:

1. ON JANUARY 9, 1984, THE LEGISLATIVE ASSEMBLY OF COSTA RICA ELIMINATED THE ONE PER CENT STAMP TAX ON MOST FOREIGN PAYMENTS AND REPLACED IT WITH A ONE PER CENT INCREASE IN IMPORT TARIFF TO BE PAID AT RELEASE OF GOODS FROM CUSTOMS. THE NEW LAW TAKES EFFECT UPON ITS PUBLICATION AT THE GAZETTE, WHICH SHOULD BE IN THE NEXT TWO WEEKS.

2. EXCHANGE DIFFERENTIAL TAXES, WHICH WERE IMPOSED BY LAW NO. 6696 OF DECEMBER 10, 1981 FOR ONE YEAR AND EXTENDED FOR ANOTHER YEAR, LAPSED ON DEC. 10, 1983 AND WERE NOT EXTENDED. GOVERNMENT OF COSTA RICA HAS NO INTENTION OF RE-INTRODUCING SUCH EXCHANGE TAXES.

SINCERELY
CARLOS MANUEL CASTILLO