

DOCUMENT OF INTERNATIONAL MONETARY FUND
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**IMMEDIATE
ATTENTION**

EBS/83/191

CONFIDENTIAL

September 1, 1983

To: Members of the Executive Board

From: The Acting Secretary

Subject: Costa Rica - Notification of Change in Exchange System and
Request for Waiver Under Stand-By Arrangement

It is not proposed to bring the attached memorandum to the agenda of the Executive Board for discussion unless an Executive Director so requests by noon on Wednesday, September 7, 1983. In the absence of such a request, the draft decisions will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

If Executive Directors have technical or factual questions relating to this paper, they should contact Mr. Cha (73811).

Att: (1)

INTERNATIONAL MONETARY FUND

COSTA RICA

Notification of Change in Exchange System and Request for
Waiver Under Stand-By Arrangement

Prepared by the Western Hemisphere and the Exchange and Trade
Relations Departments

(In consultation with the Legal Department)

Approved by Eduardo Wiesner and W.A. Beveridge

August 31, 1983

In a communication dated August 19, 1983 the Costa Rican authorities have informed the staff of the introduction of tax measures (Law No. 6879) that have a bearing on the understandings concerning the multiple currency practices approved within the context of the stand-by arrangement approved by the Fund on December 20, 1982 (EBS/82/214). The tax measures, which became effective on August 19, 1983, involve: (1) the elimination of the 4 percent ad valorem tax and the 1 percent exchange differential tax on nontraditional exports outside the Central American Common Market (CACM); and (2) the introduction of a 1 percent stamp tax on most foreign payments. In the latter case, exemptions are granted for payments to service the external public debt; payments by state universities, cooperatives and trade unions; student expenditures abroad; and imports used in the production of nontraditional exports. The proceeds of the new exchange tax are earmarked for educational expenditures; the tax was introduced, therefore, for fiscal and not balance of payments objectives.

The elimination of the 1 percent exchange differential tax, which is a tax applied on the difference between the official exchange rate and the rate at which export proceeds are surrendered, represents a simplification of the existing multiple currency practices and is consistent with the authorities' stated aim under the existing stand-by arrangement of achieving unification of the exchange markets and exchange liberalization by the end of 1983. The new stamp tax on foreign payments, however, is subject to Article VIII, Section 3 and constitutes a modification of the existing multiple currency practices in a manner inconsistent with paragraph 4(d)(ii) of the stand-by arrangement, as amended (Decision No. 7469-(83/104) July 18, 1983).

In view of these considerations, the authorities have expressed their intention to remove the new tax on foreign payments as speedily as possible and to replace it with an increase in the import tariff.

In view of the elimination of other exchange taxes and the expected temporary nature of the new exchange tax the staff recommends approval of the exchange measure until October 15, 1983 and a corresponding waiver under the existing stand-by arrangement.

Attachment

Proposed Decisions

The following draft decisions are proposed for adoption by the Executive Board:

I. Exchange System

1. The Government of Costa Rica has informed the Fund of the introduction of a 1 percent stamp tax on most foreign payments, which constitutes a modification of the existing multiple currency practices approved by the Fund (Decision No. 7469-(83/104)).

2. In view of the expected temporary nature of this exchange tax and authorities' intention to replace it with an increase in import duty, the Fund grants approval until October 15, 1983 for the modification of Costa Rica's multiple currency practices resulting from this exchange tax.

II. Stand-by Arrangement

1. The Fund and Costa Rica have consulted pursuant to paragraphs 4 and 11 of the stand-by arrangement (EBS/82/214, Supplement 1) with respect to the modification of Costa Rica's multiple currency practices referred to in I(1) above.

2. The Fund finds that no further understanding are necessary with respect to the modification until October 15, 1983.

ATTN. MR. ANTHONY ELSON
DIVISION CHIEF, INTERFUND

1. THIS IS TO INFORM THE FUND THAT LAW NO. 6879, WHICH WAS PUBLISHED IN THE OFFICIAL GAZETTE ON AUGUST 19, 1983, ELIMINATES ALL EXPORT TAXES (INCLUDING FOUR PER CENT AD VALOREM TAX AND ONE PER CENT DIFFERENTIAL EXCHANGE RATE TAX) ON NONTRADITIONAL EXPORTS TO THIRD MARKETS, REPLACING THEM WITH A ONE PER CENT STAMP TAX ON MOST FOREIGN PAYMENTS.
2. THE GOVERNMENT HAS REQUESTED THE LEGISLATIVE ASSEMBLY TO AMEND THIS NEW LAW SO AS TO REPLACE THE ONE PER CENT STAMP TAX WITH A ONE PERCENT INCREASE IN THE IMPORT TARIFF TO BE PAID AT THE RELEASE OF THE GOODS AND CUSTOMS. ACCORDING TO ARRANGEMENTS ESTABLISHED WITH THE ASSEMBLY'S AUTHORITIES, THE AMENDMENT WILL BE PROCESSED BEGINNING ON MONDAY AUGUST 22. WE HOPE THE NEW MEASURE WILL BE APPROVED AND IT WILL BE PUBLISHED IN THE OFFICIAL GAZETTE WITHIN A FEW WEEKS.

SINCERELY

CARLOS MANUEL CASTILLO
PRESIDENTE
CENTRAL BANK OF COSTA RICA