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**IMMEDIATE  
ATTENTION**

MASTER FILE

EBS/83/253

CONFIDENTIAL

November 28, 1983

To: Members of the Executive Board  
From: The 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 the close of business on Thursday, December 1, 1983. In the absence of such a request, the draft decisions will be deemed approved by the Executive Board and they 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. Elson, ext. (5)8500.

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 Manuel Guitian

November 28, 1983

In the attached communication dated November 14, 1983 the Costa Rican authorities have informed the staff that with effect from November 11, 1983 the banking and free exchange markets have been unified. Henceforth, virtually all foreign exchange transactions will take place in the newly established unified market. Transactions channeled through the official market will continue to represent less than 1 percent of all external transactions.<sup>1/</sup> The new exchange rate has been set initially at ₡ 43.65 per U.S. dollar (selling), representing a depreciation of 4.4 percent for the banking rate (4.6 percent in local currency terms) which was previously ₡ 41.75 per U.S. dollar (selling). The authorities have indicated that the value of the colon in the newly unified market will be adjusted from time to time to reflect the fundamental trends of market forces and to maintain competitiveness. The unification of the two markets represents a simplification and liberalization of the exchange system and is consistent with the understandings set forth in the current stand-by arrangement (EBS/82/214).

The Costa Rican authorities also have informed the staff that they remain committed to the elimination of the 1 percent stamp tax on foreign payments before the expiration of the current stand-by arrangement. This tax, which was put into effect on August 19, 1983, is subject to Article VIII, Section 3 and constituted a modification of Costa Rica's multiple currency practice in a manner inconsistent with paragraph 4(d)(ii) of the stand-by arrangement, as amended (Decision No. 7469-(83/104) July 18, 1983). The Fund granted temporary approval for the retention of this measure until October 15, 1983 (EBS/83/191, September 1, 1983), and a waiver under the stand-by arrangement, based on the expressed intention of the Costa Rican authorities to replace

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<sup>1/</sup> These transactions include 1 percent of export proceeds and 50 percent of remittances to students for higher education abroad. The elimination of this market requires a complex legislative process which is not considered feasible at the present time by the Costa Rican authorities.

the tax shortly with a 1 percent increase in import duties. Last September the Government submitted a bill to the Legislative Assembly specifically for this purpose but, because of other pending business, the Assembly has not yet acted on it. The Assembly is, however, expected to do so in an extraordinary session beginning December 1, 1983.

Costa Rica's performance under the current stand-by arrangement continues to be generally satisfactory. Moreover, the recent unification of the exchange markets is fully in line with the objectives of Costa Rica's stand-by arrangement. In view of these considerations and the expected temporary nature of the exchange tax, the staff recommends the extension of approval for the exchange tax measure until December 19, 1983, which is the date of expiration of the stand-by arrangement for Costa Rica, and a corresponding waiver under the arrangement.

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 unification of the banking and free exchange markets and of the temporary continuation of the 1 percent stamp tax on most foreign payments.

2. The Fund welcomes the progress made by Costa Rica toward the elimination of its multiple currency practices, and in view of the expected temporary nature of the stamp tax and the authorities' intention to replace it with an increase in import duties, the Fund grants approval until December 19, 1983 for the retention of this multiple currency practice.

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 understandings are necessary.

MR. ANTHONY ELSON  
CHIEF, CENTRAL AMERICAN DIVISION  
INTERNATIONAL MONETARY FUND  
WASHINGTON, D.C.

NOVEMBER 14, 1983

THIS IS TO INFORM THE IMF OF THE FOLLOWING

1. EFFECTIVE NOVEMBER 11, 1983, THE GOVERNMENT OF COSTA RICA HAS UNIFIED THE BANKING AND FREE EXCHANGE MARKETS AT THE RATE OF COLONES 43.65 PER U.S. DOLLAR (SELLING). THIS REPRESENTS A DEPRECIATION OF 4.6 PERCENT WITH RESPECT TO THE PREVIOUS BANKING EXCHANGE RATE (SELLING) OF COLONES 41.75 PER U.S. DOLLAR. THIS ACTION IS FULLY CONSISTENT WITH THE UNDERSTANDING ESTABLISHED UNDER THE CURRENT STAND-BY ARRANGEMENT WHICH CALLED FOR EXCHANGE MARKET UNIFICATION BEFORE THE END OF THE PROGRAM PERIOD. WITHIN THE NEWLY UNIFIED MARKET THE GOVERNMENT OF COSTA RICA REMAINS COMMITTED TO A FLEXIBLE EXCHANGE RATE POLICY ACCORDING TO WHICH THE VALUE OF THE COLON WILL BE ADJUSTED AS REQUIRED BY THE FUNDAMENTAL TRENDS OF MARKET FORCES BY DEVELOPMENTS IN THE BALANCE OF PAYMENTS AND BY THE COMPETITIVE POSITION OF THE COUNTRY'S EXPORTS.
2. THE GOVERNMENT OF COSTA RICA ALSO REMAINS COMMITTED TO SEEK BEFORE THE EXPIRATION OF THE CURRENT ARRANGEMENT THE ELIMINATION OF THE 1 PERCENT STAMP TAX ON MOST FOREIGN PAYMENTS WHICH WAS INTRODUCED ON AUGUST 19, 1983. THE GOVERNMENT HAS SUBMITTED A BILL TO THE LEGISLATIVE ASSEMBLY, WHICH WOULD REPLACE THE 1 PERCENT STAMP TAX ON MOST FOREIGN PAYMENTS WITH A 1 PERCENT INCREASE IN THE IMPORT TARIFF TO BE PAID AT THE RELEASE OF THE GOODS FROM CUSTOMS. THE BILL HAS BEEN ALREADY APPROVED BY THE PERTINENT COMMITTEE OF THE ASSEMBLY AND HAS BEEN TABLED FOR PLENARY DISCUSSIONS. HOWEVER, BECAUSE OF OTHER PENDING BUSINESS INCLUDING THE PROPOSED BUDGET FOR 1984 WHICH MUST BE APPROVED BEFORE THE END OF NOVEMBER 1983, ALL OF WHICH HAD ALREADY BEEN TABLED FOR PLENARY DISCUSSION AHEAD OF THE BILL ON THE 1 PERCENT STAMP TAX, THE ASSEMBLY HAS NOT YET BEEN ABLE TO CONSIDER THE GOVERNMENT'S BILL ON THE STAMP TAX BUT IS EXPECTED TO DO SO AT THE EARLIEST POSSIBLE TIME, WHICH WOULD BE DURING AN EXTRAORDINARY SESSION BEGINNING DECEMBER 1, 1983.

SINCERELY

CARLOS ML. CASTILLO  
PRESIDENT OF CENTRAL BANK OF COSTA RICA  
AND GOVERNOR FOR THE IMF