

EBS/88/133
Correction 1

CONFIDENTIAL

August 4, 1988

To: Members of the Executive Board
From: The Acting Secretary
Subject: Costa Rica - Review Under Stand-By Arrangement

The following corrections have been made in EBS/88/133
(7/11/88):

Page 3, column 5, line 37: for "-165"
read "-157"

line 40: for "255 9/"
read "260 9/"

column 6, line 31: for "14.3"
read "14.9"

line 32: for "-3.3"
read "3.1"

line 33: for "-4.9"
read "5.3"

line 35: for "51.0"
read "52.5"

line 36: for "18.1"
read "19.5"

line 37: for "330"
read "322"

A corrected page is attached.

Att: (1)

Table 2. Costa Rica: Selected Economic Indicators

	1983	1984	1985	1986	Prel. 1987	Proj. 1988
(Annual percent change, unless otherwise specified)						
<u>National income and prices</u>						
GDP at constant prices	2.9	8.0	0.7	5.5	3.9	2.4
Nominal GDP	32.6	26.1	21.4	25.2	14.2	13.8
Consumer prices (end of period)	10.7	17.3	10.9	15.4	16.4	10.0
(average)	32.6	12.0	15.0	11.8	16.8	14.8
<u>External sector (on the basis of U.S. dollars)</u>						
Total exports, f.o.b.	-2.0	17.0	-5.9	15.6	2.6	5.7
Total imports, c.i.f.	11.1	11.0	0.8	4.7	19.1	-5.4
Non-oil imports, c.i.f.	14.8	16.0	0.6	12.3	19.2	-6.0
Export volume	2.1	14.4	-7.3	-6.3	13.4	-0.7
Import volume	19.1	12.8	7.4	7.7	13.0	-10.1
Terms of trade (deterioration -)	2.9	4.0	8.2	26.9	-14.2	1.2
Real effective exchange rate (end of period; depreciation -)	-3.3	4.2	-9.4	-3.8	-17.4	-6.0
<u>Central administration</u>						
Revenue and grants	52.7	26.1	18.5	18.8	17.0	16.3
Total expenditure	50.7	22.8	12.4	28.7	8.8	14.7
<u>Banking system</u>						
Net domestic assets ^{1/2/}	31.6	8.6	10.4	16.2	23.3	8.7
Of which: public sector ^{1/3/}	0.9	-1.7	0.8	-1.6	-1.0	-3.0
private sector	51.7	17.9	16.1	17.4	23.7	9.3
Central Bank losses (cash basis) ^{1/}	...	6.8	24.0	6.6	2.1	23.7
Liabilities to private sector	30.3	10.5	12.9	22.2	18.4	12.9
Interest rate (annual rate for six-month deposits, end of period)	22.0	20.0	22.5	21.5	23.0	...
(In percent of GDP)						
Combined public sector deficit	-8.0	-6.2	-7.0	-5.4	-3.2	-3.0
Nonfinancial public sector deficit	-3.1	-1.9	-1.8	-1.7	-0.2	0.8
Changes in floating debt and interest arrears	-5.3	1.5	-1.3	1.1	-0.7	-1.0
Domestic financing	11.1	-0.8	-0.3	-0.8	0.5	-0.7
External financing	-2.7	1.2	3.4	1.4	0.4	0.9
Central Bank losses (commitment basis)	-4.9	-4.3	-5.2	-3.7	-3.0	-3.8
Nonfinancial public sector savings	3.1	4.3	3.9	4.4	4.9	7.2
Central administration	0.4	0.3	1.0	0.5	0.3	1.0
Rest of public sector	2.7	4.0	2.9	3.9	4.6	6.2
Central administration deficit	-3.6	-3.0	-1.9	-3.3	-2.1	-2.0
Gross domestic investment	22.5	21.1	20.6	21.7	20.3	20.2
Gross national savings	11.4	13.4	12.2	17.6	11.1	14.9
Trade balance ^{4/}	-4.9	-3.2	-5.0	-2.1	-7.1	3.1
Current account balance (excluding official transfers for balance of payments support) ^{4/}	-11.1	-7.7	-8.4	-4.1	-9.2	5.3
External debt (including use of Fund credit) ^{4/}	118.0	109.0	107.1	102.9	102.5	99.4 ^{5/}
(In percent of exports of goods and nonfactor services)						
Debt service ratio ^{6/}	55.2	53.6	53.8	49.2	54.0	52.5
Interest payments ^{7/}	28.6	24.5	22.9	19.9	19.5	19.5
(In millions of U.S. dollars)						
Overall balance of payments	-800	-128	194	-81	-157	322
Gross official reserves	307	441	513	553	501	...
Gross official reserves (months of imports) ^{8/}	3.7	4.8	5.5	5.7	4.3	...
External debt payments arrears outstanding	40	215	46	180 ^{9/}	260 ^{9/}	...

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

^{1/} In relation to the stock of liabilities to the private sector at the beginning of the period.^{2/} Excludes counterpart of external payments arrears included in net international reserves of the Central Bank.^{3/} Excludes increases in credit arising from the assumption by the Central Bank of part of the external debt of the public sector.^{4/} GDP in colones has been converted into U.S. dollars using a constant real exchange rate between the colon and the U.S. dollar at the 1988 level.^{5/} Includes expected exceptional financing.^{6/} Before rescheduling. Includes Fund charges and repurchases, interest on short-term debt, unpaid interest and amortization, and interest on resources to cover the financing gap in 1987 and 1988.^{7/} Before rescheduling. Includes Fund charges, interest on short term debt, unpaid interest, and interest on resources to cover the financing gap in 1987 and 1988.^{8/} A substantial portion consists of nonliquid reserve assets, mainly claims against other Central American central banks.^{9/} Excludes revolving credit facility in arrears, which is treated as a renewable credit line in the net official reserves of the Central Bank. Also excludes arrears accumulated in 1987 that are refinancable.

deficit of no more than 3 percent of GDP; and (4) reduction in net domestic assets of the Central Bank by 9 1/2 percent. Achievement of the fiscal objective was predicated on the revenue generated by the tax package passed in November 1987, adjustments of public sector prices and prices of energy products, and the reduction or removal of subsidies for major food crops.

The Costa Rican authorities also were undertaking a series of measures to address the structural problems constraining economic growth. Thus, the levels and dispersion of import tariffs were to be reduced and the incentive scheme for exports to third markets was to be improved. The financial system was being strengthened and made more efficient by measures aimed at increasing competition and improving the regulatory and supervisory framework. Support prices for producers of basic grains were being reduced toward international levels and consumer subsidies on these items were being removed. These structural reforms were expected to be supported by a second structural adjustment loan from the World Bank.

Information relevant to the program performance in 1987 and the revision of the program for 1988 was included in the Staff Report for the 1987 Article IV Consultation and first review under the stand-by arrangement (EBS/88/60). Accordingly, this report reviews the 1988 performance to date, discusses policies for the remainder of the program period, and describes the latest developments on financing arrangements with external creditors.

II. Review of the Program

The end-March 1988 performance criteria for net international reserves, the stock of payment arrears, and net domestic assets of the Central Bank were met, but the limits on central government expenditure and banking system credit to the public sector were exceeded, albeit by moderate amounts. The first quarter performance is summarized in Table 3.

In other developments, the rate of inflation in the first quarter of 1988 was quite rapid. Producer prices rose by 8 percent and the index of consumer prices by 7 1/2 percent during the first three months of the year, largely reflecting adjustments to administered prices for public services, major food crops (as a number of subsidies were removed or reduced) and refined petroleum products. Wholesale prices decelerated sharply in April and May, as did consumer prices in May. Both price indexes have increased 10 percent during the first five months of 1988.