

SM/86/241  
Correction 1

CONTAINS CONFIDENTIAL  
INFORMATION

October 30, 1986

To: Members of the Executive Board  
From: The Secretary  
Subject: Costa Rica - Staff Report for the 1986 Article IV Consultation

The following correction has been made in SM/86/241 (9/15/86):

Page 19, Section VII, lines 7 and 8: for "exchange rate does not give  
rise"  
read "exchange rate gives rise"

A corrected page is attached.

Att: (1)

Other Distribution:  
Department Heads

IV.	<u>SDR Department</u>	Millions of SDRs	Percent of Allocation
(a)	Net cumulative allocation:	23.7	100.0
(b)	Holdings:	0.5	2.1
(c)	Current designation plan:	--	--

V. Administered Accounts: None.

VI. Overdue Obligations to the Fund: None.

(B) Nonfinancial Relations

VII. Exchange rate arrangement: The representative exchange rate for the Costa Rican colon is the unified banking rate which was quoted at ¢ 56.45 (selling) per U.S. dollar at end July 1986. All transactions take place at this rate except for remittances to students which registered with the Central Bank prior to 1981, to whom foreign exchange is sold at the official rate of ¢ 20.00 per U.S. dollar; however, this special exchange rate gives rise to a multiple currency practice under Article VIII, Section 3.

VIII. Last Article IV consultation: June-July 1985, completed by the Executive Board on September 10, 1985 (EBM/85/136), after a 12-month cycle. At present, Costa Rica's exchange restriction in the form of payments arrears is not approved by the Fund.

IX. Technical assistance:

(a) CBD: A CBD mission reviewed the central bank and financial sector legislation in February 1986. In April 1986 two Advisors were assigned to the Central Bank in the areas of Organization and Methods and Accounting Procedures. An additional CBD member is expected to assume his duties as advisor to the Central Bank on external debt in September 1986.

(b) Fiscal: An FAD panel expert was assigned to the Ministry of Finance from August 1980 to December 1983, providing assistance principally in the area of budgetary procedures.

(c) Bureau of Statistics: Technical assistance missions to improve the reporting of monetary data were fielded in December 1984 and May 1985. In January 1985 a technical assistance mission on balance of payments accounting visited Costa Rica. In May 1986 a STAT economist assisted the authorities in the implementation of procedures to improve the classification and monitoring of the Central Bank's net unclassified assets. A government finance statistics mission visited the country in July 1986.

X. Resident Representative/Advisor: Mr. Ignacio Tampe who had been the Fund's resident representative in San José since March 1984 was replaced by Mr. Hector Avila in July 1986.

Relations with the World Bank Group

Costa Rica has received to date 30 Bank loans, 1 IDA credit, and financing through IFC of 5 investment projects, totaling about \$500 million (see table below). Of this amount, only US\$25 million remains to be disbursed.

World Bank Group lending to Costa Rica has been quite diversified. Prior to 1981, Bank lending strategy concentrated primarily on developing basic infrastructure, mainly power, telecommunications and highways, with limited assistance also being made available for agriculture, industry, water supply, and technical assistance for petroleum exploration. With the growing financial and economic deterioration in Costa Rica after that time, the Bank's strategy was redesigned to encourage long-term structural changes needed to restore dynamism to the economy, while also assisting the more directly productive sectors. In this context, the Bank's approach supports three key goals: (a) the implementation of major structural adjustments and policy changes required to reallocate resources away from the public sector to the private sector and to promote new production and exports particularly to markets outside the Central American region; (b) the promotion of private sector activities in the productive sectors with project lending, particularly for manufacturing and agriculture, which have the potential for making significant contributions to export growth; and (c) the strengthening of Costa Rica's creditworthiness vis-a-vis foreign commercial lenders.

As a first phase of this effort, an Export Development Loan was approved in May 1983, which was fully disbursed by mid-1985. This operation was followed by a Structural Adjustment Loan (SAL) of US\$80 million, that was approved in April 1985. The first tranche of US\$40 million was disbursed in September 1985. The disbursement of the second tranche also was expected to be made in 1985, but was postponed until June 1986 because of Costa Rica's delay in satisfying certain release criteria in the areas of customs tariff reform, state enterprise operations, and public sector employment.

The SAL aimed at supporting the Government's structural adjustment program, with the objective of promoting renewed export-led growth, with particular emphasis on expanding nontraditional exports to markets outside Central America. The main areas covered by the first phase of the Government's medium-term program included: (a) trade reform geared to a lowering of effective protection; and (b) fiscal reform directed to a reduction of the size of the public sector and improvement in the efficiency of public sector institutions and programs.