

INTERNATIONAL MONETARY FUND

PRESS RELEASE NO. 82/70

FOR IMMEDIATE RELEASE
December 21, 1982

The International Monetary Fund has approved a stand-by arrangement for the Government of Costa Rica, authorizing purchases up to the equivalent of SDR 92.3 million over the next 12 months in support of the Government's economic and financial program. Purchases under this arrangement will be financed in part from the Fund's ordinary resources (SDR 46.4 million) and in part from borrowed resources (SDR 45.9 million).

Costa Rica's economic and financial situation deteriorated in recent years, reflecting adverse terms of trade following the coffee boom of 1976-77 and the pursuit of expansionary domestic policies. After averaging more than 6 per cent during the previous four-year period, the annual rate of growth of real gross domestic product (GDP) declined to less than one per cent in 1980 and turned negative in 1981 by 5 per cent. This performance was accompanied by a substantial weakening of the country's financial situation, with the public sector deficit rising to 15 per cent of GDP and the balance of payments deficit on current account to 11-1/2 per cent of GDP. Net international reserves declined by US\$465 million during 1981, including a substantial accumulation of payments arrears.

The new Costa Rican administration, which took office in May 1982, immediately began to adopt fiscal and other measures aimed at improving the country's overall financial situation. While some reduction in the public sector and current external deficits is estimated to have been achieved in 1982, economic activity declined by an additional 6 per cent, consumer prices rose by over 90 per cent and the country's net international reserve position weakened further as payments arrears continued to accumulate.

The 1983 economic adjustment program, which the stand-by arrangement supports, is designed to contain inflationary pressures, to promote an orderly development of the exchange market, and to allow for the resumption of foreign debt service payments. The centerpiece of the adjustment is a substantial strengthening of the public finances which would reduce the overall public sector deficit by about one half to 4-1/2 per cent of GDP in 1983. Adherence to the fiscal targets is expected to facilitate the pursuance of monetary and exchange rate policies consistent with a substantial reduction in the rate of domestic price increase and overall balance of payments equilibrium.

Costa Rica's quota in the Fund is SDR 61.5 million, and its outstanding financial obligations to the Fund resulting from past operations and transactions currently total the equivalent of SDR 84.2 million.