

FOR
AGENDA

SM/85/223
Correction 1

CONTAINS CONFIDENTIAL
INFORMATION

September 9, 1985

To: Members of the Executive Board
From: The Secretary
Subject: Costa Rica - Staff Report for the 1985 Article IV Consultation

The following correction has been made in SM/85/223 (8/7/85):

Page 7, footnote 1, line 2: for "Table 5" read "Table 3."

A corrected page is attached.

Att: (1)

Other Distribution:
Department Heads

2. The 1985 program

The Government's economic program for 1985 was based on a continuation of the policies which were implemented during the second half of 1984 with a view to containing inflationary pressures and improving domestic savings in order to lay the basis for continued economic growth and a viable external position over the medium term. Accordingly, the program called for a reduction in the combined fiscal deficit and the net losses of the Central Bank to no more than 5.8 percent of GDP in 1985 and a curtailment in the growth of overall bank credit (measured in relation to private sector liabilities outstanding at the beginning of the year) from 19 percent in 1984 to 7 percent in 1985.

Fiscal and monetary restraint were to be complemented by a wage policy which limited semiannual adjustments in private sector minimum wages and public sector wages to no more than the semiannual changes in the cost of a basic basket of essential goods and services. Also, domestic interest rates were to be significantly positive in real terms and the exchange rate was to be adjusted periodically to bring about a modest depreciation of the colon in real effective terms during 1985. On the basis of these policies, the external current account deficit was projected to be limited to no more than 9 percent of GDP in 1985, while the overall balance of payments was to be in surplus and external payments arrears were to be eliminated through a combination of rescheduling and cash payments.^{1/}

The financing of the program depended on the coordinated support of several donors and lenders, contributing gross resources (including debt relief) on the order of US\$700 million in 1985. The Fund arrangement closely paralleled complementary programs of U.S. AID (US\$190 million) and the World Bank (the latter in the form of a structural adjustment loan of US\$80 million). At the same time, debt relief from official creditors (Paris Club) and foreign commercial banks was expected, as well as a new money facility from the banks in an amount of US\$75 million.

At the end of June 1985, Costa Rica was in compliance with all the quantitative performance criteria of the stand-by arrangement, with the exception of the limit on external debt arrears (Table 4). As described below, Costa Rica's failure to meet the arrears target for the second quarter of 1985 was related, in part, to delays in the disbursement of the banks' new money facility which is treated as a reserve liability of the Central Bank under the program.

^{1/} The reduction in arrears projected for 1985 differs from the program target in Table 3 because of downward revisions to the stock of arrears outstanding as of December 1984.

Table 4. Costa Rica: Performance Under Stand-By Arrangement

	March 31, 1985	June 28, 1985
(In millions of colones)		
<u>Net domestic assets of Central Bank</u>		
Ceiling	18,300	18,500
Actual	16,196 ^{1/}	15,879
Margin or excess (-)	2,104	2,621
<u>Net credit to public sector from the banking system</u>		
Ceiling	17,300	17,300
Actual	16,168	15,429
Margin or excess (-)	1,132	1,871
(In millions of U.S. dollars)		
<u>Net international reserve position (including arrears)</u>		
Target	-175	-165
Actual	-120 ^{2/}	-120 ^{3/}
Margin or excess (-)	55	45
<u>Stock of external payment arrears</u>		
Limit		
Actual	100	50
Margin or excess (-)	99	106 ^{3/}
	1	-56
<u>Foreign indebtedness of the public sector</u>		
<u>Short-term debt outstanding (excluding trade credits)</u>		
Ceiling	3	3
Actual	3	3
Margin or excess (-)	--	--
New commitments with maturities 1-5 years		
Ceiling	25	25
Actual	--	--
Margin or excess (-)	25	25
New commitments with maturities 1-12 years		
Ceiling	50	50
Actual	--	--
Margin or excess (-)	50	50
(In millions of colones)		
<u>Cumulative central government expenditure commitments ^{4/}</u>		
Limit	7,640	17,710
Actual	7,790	16,991 ^{5/}
Margin or excess (-)	-150	791

Source: Central Bank of Costa Rica.

^{1/} Reported figures were adjusted upwards by ₡ 2,096 million to reflect a float with respect to the payment of arrears at the end of the month.

^{2/} Reported figures were adjusted downwards by US\$42.5 million to reflect a float with respect to the payment of arrears at the end of the month.

^{3/} Reported arrears figures were adjusted upwards by US\$22.2 million to neutralize the effect of revisions to the stock of arrears outstanding in December 1984.

^{4/} Not a performance criterion.

^{5/} Preliminary.