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Costa Rica: Recent Economic Developments

This Recent Economic Developments report on Costa Rica was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with this member country. As such, the views expressed in this document are those of the staff team and do not necessarily reflect the views of the Government of Costa Rica or the Executive Board of the IMF.

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COSTA RICA

Recent Economic Developments

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Approved by the Western Hemisphere Department

March 3, 1998

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Costa Rica—Basic Data

Social and demographic indicators	
Area	50,700 sq. km.
Population density (1997)	69.0 per sq. km.
Income distribution (1989)	
Highest quintile	50.8 percent
Lowest quintile	4.0 percent
Population (est. 1997)	3,499,260
Rate of population growth (1992-97)	2.1
Life expectancy at birth (1996)	76.8 years
Infant mortality rate (1996)	11.8 per thousand
Population per physician (1992)	1,136
Population per hospital bed (1992)	345
Population with access to safe water (1996)	96 percent
Population with access to electricity (1986)	60 percent
Calorie intake (1994)	2,819 calories per day
Adult literacy rate (1995)	94.8 percent
Primary school enrollment rate (1996)	106.0 percent
Unemployment rate (1997)	5.7 percent
GDP (1997)	**SDR 6,937 million**
	US$9,544 million
	C 2,214 billion
GDP per capita (1997)	**SDR 1,809**

	1992	**1993**	**1994**	**1995**	**1996**	**Prel. 1997**
			(In percent)			
Origin of GDP at current prices						
Agriculture	16.3	16.1	16.5	15.7	15.5	14.8
Manufacturing and mining	20.5	19.3	18.6	19.1	18.5	18.7
Housing and construction	5.6	5.7	5.6	5.1	5.0	6.3
Central government	13.1	13.5	14.3	14.9	14.5	14.3
Other services	44.5	45.4	45.0	45.3	46.5	45.9
Ratios to GDP						
Exports of goods and nonfactor services	37.9	39.1	39.4	42.8	45.6	46.8
Imports of goods and nonfactor services	-43.0	-45.9	-43.1	-43.0	-46.4	-50.6
Current account of the balance of payments (including official transfers)	-5.4	-7.8	-3.0	-1.0	-1.3	-4.4
Central government revenue	15.2	15.2	14.5	15.7	16.1	16.4
Central government expenditure	17.1	17.1	19.6	20.2	21.4	20.6
Nonfinancial public sector savings	5.2	6.3	1.3	3.0	1.9	3.2
Combined public sector surplus or deficit (-) 1/	-0.8	-0.9	-8.0	-4.0	-5.3	-3.7
External public debt	49.8	45.6	40.3	36.6	34.1	30.1
Gross national savings	23.8	18.8	21.2	20.5	16.6	18.8
Gross domestic investment	29.2	26.6	24.2	21.5	17.9	23.2
Money and quasi-money (average annual holdings)	39.5	38.6	36.9	35.2	38.4	40.2
Annual changes in selected indicators						
Real GDP	7.7	6.3	4.5	2.4	-0.6	3.2
GDP at current prices	31.3	18.0	22.1	24.2	15.5	18.3
Domestic expenditures (at current prices)	37.1	20.1	17.7	20.4	16.3	21.4
Investment 2/	38.4	32.0	4.2	20.7	10.3	25.1
Consumption	32.5	19.1	20.2	22.9	17.7	16.4
GDP deflator	21.9	10.9	16.9	21.3	16.3	14.6
Consumer prices (average)	21.8	9.8	13.5	23.2	17.6	13.3
Consumer prices (end of period)	17.0	9.0	19.9	22.6	13.9	11.2
Central government revenue	37.2	17.8	16.9	34.2	18.6	20.3
Central government expenditure	27.6	17.9	39.7	28.2	22.4	13.9

	1992	1993	1994	1995	1996	1997
Liabilities to private sector 3/	18.2	11.7	15.9	11.8	10.3	26.6
Money 4/	8.7	2.4	7.4	0.3	1.6	13.9
Quasi-money 3/ 4/	9.4	9.3	8.5	11.6	8.7	12.6
Net domestic assets of the banking system 4/	-7.9	12.8	13.4	3.9	8.7	18.0
Of which						
Credit to public sector	-6.0	-3.8	2.0	-2.2	-4.0	-7.0
Credit to private sector	14.0	12.9	6.1	2.2	7.3	9.1
Merchandise exports (in U.S. dollars)	16.0	8.3	13.3	21.2	6.7	7.7
Merchandise imports (in U.S. dollars)	30.0	18.2	4.8	7.5	7.8	16.6
			(In billions of colones)			
Central government finances						
Revenue	138	162	190	255	302	364
Expenditure	155	183	256	328	401	457
Current account surplus or deficit (-)	-2	0	-36	-42	-63	-45
Overall surplus or deficit (-)	-17	-21	-66	-73	-99	-94
			(In millions of U.S. dollars)			
Balance of payments						
Merchandise exports	1,729	1,873	2,122	2,571	2,744	2,954
Merchandise imports	-2,441	-2,886	-3,025	-3,253	-3,505	-4,088
Factor services (net)	-197	-222	-116	-209	-160	-192
Other services and transfers (net)	543	654	768	797	807	904
Balance on current account 5/	-366	-581	-251	-94	-115	-422
Public capital	3	-20	-67	-134	-133	21
Private capital, including errors and omissions	454	586	298	472	187	617
Overall balance 6/	91	-14	-21	244	-62	216
Debt rescheduling	11	117	0	29	46	0
Changes in reserves (increase -)	-88	-32	-6	-229	61	-216
Changes in arrears, n.i.e. (increase +)	-14	-71	27	-44	-45	0

IMF data (as of January 31, 1998)	
Status	Article VIII
Intervention currency and exchange rate	U.S. dollar at C 246.2
Quota	SDR 119 million
Fund holdings of local currency	SDR 110.3 million
Reserve position in Fund	SDR 8.7 million
From Fund resources	None
Credit tranche purchases (including SBA)	None
EAR purchases	None
CCFF purchases	None
From Supplementary and Enlarged Access resources	None
Total Fund holdings	92.7 percent of quota
Special Drawing Rights Department	
Cumulative SDR allocation	SDR 23.73 million
Net acquisition or utilization (-) of SDRs	SDR -23.43 million
Holdings of SDRs	SDR 0.27 million

1/ Includes central bank losses and in 1994 losses associated to the liquidation of *Banco Anglo Costarricense*.

2/ Excludes inventories.

3/ Includes stabilization bonds of the central bank.

4/ In relation to the stock of banking system liabilities to the private sector at the beginning of the period.

5/ Includes official transfers.

6/ Before debt relief.

I. Overview of Economic Developments in 1995–97

A. Macroeconomic Trends

1. Costa Rica faced a slump in economic activity in 1995–96 following a sharp deterioration in the public finances and higher inflation associated with the 1993–94 political-economic cycle.[1] To avert a balance of payments crisis in early 1995, the authorities increased interest rates, imposed temporary import surcharges[2] and raised excise taxes, while tightening expenditure and shifting some outlays to 1996. However, legislative approval of an increase in the VAT rate (from 10 percent to 15 percent) was delayed until late in the year. In all, there was a significant strengthening of the public finances in 1995 despite a large hike in interest obligations on domestic debt (to 4.8 percent of GDP, double the 1993 level). At the same time, real GDP growth decelerated sharply, inflation rose further (mainly on account of the increase in indirect taxes), while the external position strengthened significantly in part because of a continued improvement in the terms of trade and strong growth of nontraditional exports.

2. The economy went into a recession in 1996, with private investment declining for a third consecutive year. At the same time, the public finances deteriorated once again as the slowdown in economic activity caused a weakening in tax collections, and because the government relaxed the tight rein over expenditure so as not to deepen the recession, while interest obligations continued to rise. However, there was a marked deceleration in inflation as the retrenchment in private sector spending largely offset the decline in public savings. Also, the external current account widened only slightly despite a loss in the terms of trade, reflecting a continued strong performance of nontraditional exports. By contrast, there was a large loss in net international reserves in 1996 on account of large outflows of short-term private capital as interest rate differentials narrowed from the very high levels attained in the latter part of 1995.

3. On the basis of ongoing trends, the combined public sector deficit was projected to worsen further in 1997. Consequently, in early 1997 the government adopted fiscal measures equivalent to 1.5 percent of GDP and sent to the assembly a fiscal package equivalent to another 1.5 percent of GDP. However, in the run-up to the presidential elections (February 1998) the political support for the latter measures (including the maintenance of the VAT rate

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[1]Presidential and parliamentary elections are held every four years. Fiscal fragility associated with pre-election year spending has been a dominant macroeconomic shock in Costa Rica since the early 1980s. Over 1993–94, the combined public sector deficit widened from 0.9 percent of GDP to 6.2 percent (excluding losses of 1.8 percent of GDP from the closing of one of the state commercial banks), real GDP growth slowed from 6.3 percent to 4.5 percent, and inflation accelerated from 9 percent to 20 percent.

[2]A surcharge of 8 percent on all imports, which was eliminated in steps between July and September 1995.

at 15 percent instead of allowing it to decline to 13 percent in March 1997 as scheduled) did not materialize. Nevertheless, through continued efforts to contain noninterest current expenditure and strengthen tax collections, the government succeeded in preventing a recurrence of the political-economic cycle in 1997. In contrast to previous cycles, economic growth picked up strongly, inflation decelerated further, while foreign investment continued to increase. Also, notwithstanding a widening of the external current account deficit, there was a substantial accumulation of international reserves as private capital inflows more than doubled, reflecting a continuation of large foreign direct investment flows and a reversal of short-term outflows. At the same time, the external public debt to GDP ratio declined further to 30 percent in 1997 from 36.6 percent of GDP in 1995.

4. The central bank continued to adjust the nominal exchange rate daily in 1996–97, taking into account the relative rates of inflation of Costa Rica and its major trading partners and the international reserve targets, with the basis of adjustment shifted in 1996 from past to targeted inflation.[3] However, the colón appreciated by 2.5 percent in real effective terms during 1996–97 because of an appreciation of the U.S. dollar vis-à-vis other major currencies over this period (Figure 1).

B. Output, Employment, and Prices

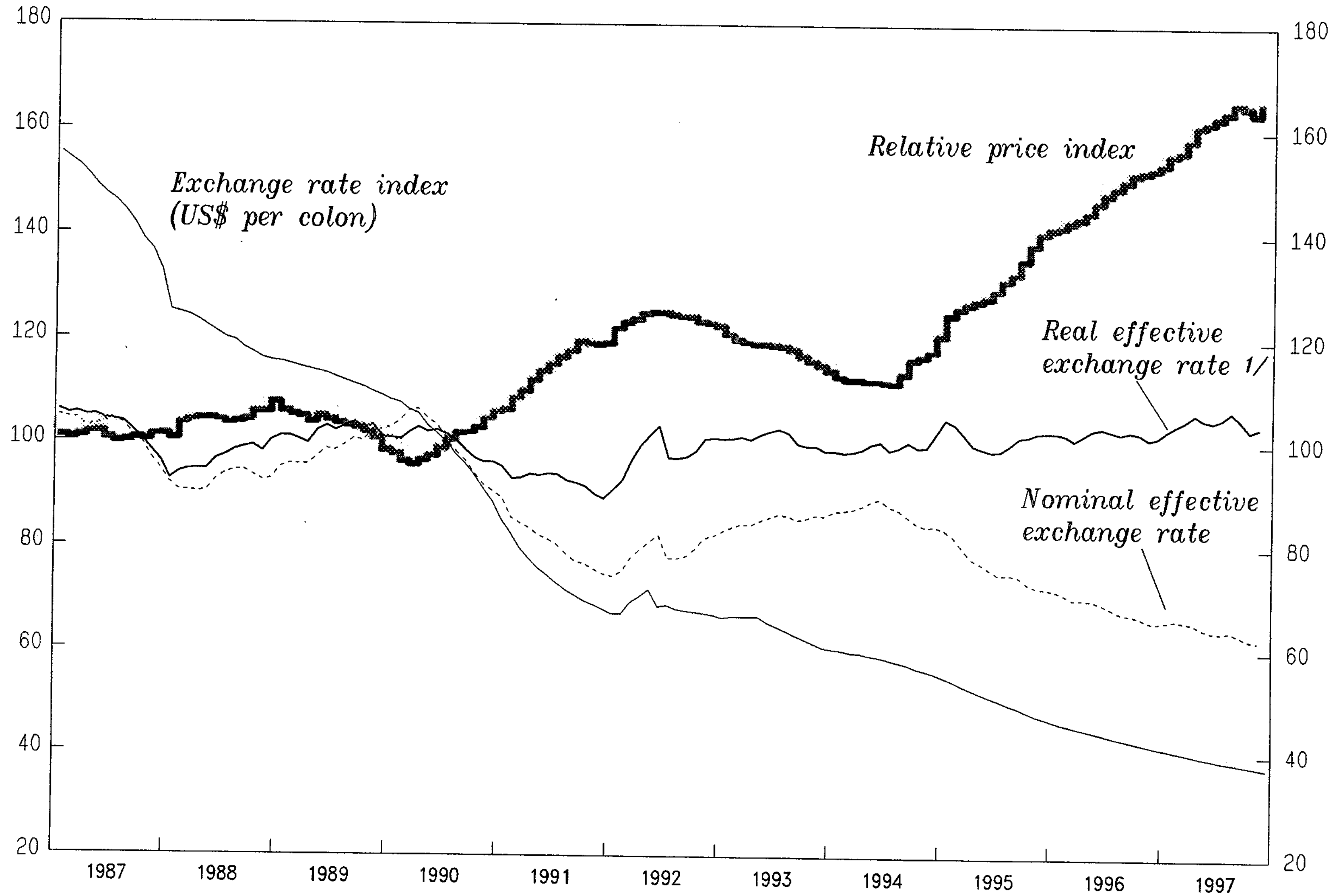
5. Real GDP growth, which had slowed from an average of 5.4 percent in 1993–94 to 2.4 percent in 1995, turned negative in 1996. Notwithstanding continued large flows of foreign investment into the Free Trade Zones and in-bond industries, private investment (including changes in inventories) declined further in 1996 mainly as a result of the hike in real interest rates, which impacted adversely highly leveraged firms, and reflecting also uncertainties regarding the sustainability of the stance of the fiscal policy (Statistical Appendix Table 1). Moreover, there was little progress in structural reforms and in steps to increase private sector participation in the economy, while a deteriorated infrastructure and the high cost of public utilities relative to the trading partners continued to affect adversely external competitiveness. Private consumption also declined in 1996 following a small increase in 1995, and there was a slowdown in the growth of public consumption and a decline in inventories. In all, domestic aggregate demand declined by over 5 percent in real terms in 1996 on top of the contraction of almost 1 percent in 1995. By contrast, exports of goods and services grew by more than 8 percent in real terms in 1996, somewhat faster than in 1995. Imports of goods and services

[3] Costa Rica has followed a real exchange rule since the mid-1980s, without adhering to any pre-announced formula. In the event, the devaluation rate has followed closely the inflation differential between Costa Rica and the United States (destination of about half of Costa Rica's exports). The central bank intervenes in the exchange market by buying or selling at the set rate. Participants in the exchange market are authorized to maintain a net position in foreign exchange of up to 100 percent of capital, with daily changes restricted to 1 percent of the previous day's position.

Figure 1. Costa Rica

Exchange Rate Developments

(1990=100)



Source: IMF Information Notice System.

1/ Trade weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices. An increase (decrease) indicates appreciation (depreciation).

increased by 2 percent in real terms in 1996, and the external current account deficit widened only slightly to 1.3 percent of GDP notwithstanding a deterioration in the terms of trade.

6. The construction sector was the hardest hit with its output declining by 10 percent in 1996, followed by a 4 percent decline in the manufacturing sector and 0.5 percent decline in the agricultural sector (Statistical Appendix Table 2). In manufacturing, output of wood and wood products and textiles fell by 15 percent and 12 percent, respectively, while in the agricultural sector, declines in output were most notable in coffee and bananas, reflecting in part the adverse effects of hurricane Caesar (Statistical Appendix Tables 3 and 6).

7. Led by a recovery in domestic private demand, including for housing, and by manufactured exports, real GDP grew by an estimated 3.2 percent in 1997. The expansion in private consumption was associated with a sharp increase in credit (Statistical Appendix Tables 24 and 25) and the impact on personal disposable income stemming from a significant decline in mortgage rates. The latter, together with a reactivation of the low income housing program by the National Housing Bank, have contributed to the rapid and strong recovery of construction activities.

8. The unemployment rate, which had remained stable at 4 percent during 1992–94 rose to 6.2 percent in 1996 but declined to 5.7 percent in 1997 (Statistical Appendix Table 13). Data through the end of 1996 indicate that since 1994 employment fell in the manufacturing and construction sectors, but remained mostly unchanged in agriculture. Although employment in the public sector fell by about 4 percent, it grew by about 2 percent in the private sector. In line with the fluctuations in economic growth, the average monthly real wage, which had jumped by 22 percent in 1993–94, stagnated in 1995 and declined by almost 5 percent in 1996 (Statistical Appendix Tables 11 and 12).

9. Following a sharp increase over 1994–95, inflation (as measured by consumer prices) fell from 22.5 percent during 1995 to 14 percent during 1996 (Statistical Appendix Table 8). The continued decline in private demand and the increase in the share of imported durable consumption goods in total supply, more than offset the adverse impact on domestic prices of increases in the international prices of oil and cereals and the weakening in the public finances (Statistical Appendix Table 10). This situation reversed in 1997, as the international prices for oil and cereals declined sharply and the public finances strengthened, while at the same time private domestic demand recovered significantly. However, part of the increased demand was channeled to imports which together with no changes in the price of housing services contributed to a further reduction of inflation in 1997 to 11.2 percent.

C. The Public Finances

10. Following a marked improvement in 1995, the combined public sector deficit widened to 5.3 percent of GDP in 1996 due largely to an increase in interest payments on domestic government debt—associated with both a higher stock of debt (from 18 percent of GDP in 1995 to 26 percent in 1996) and continued high interest rates (about 22.5 percent during

1996) (Statistical Appendix Table 14). The weakening of the public finances also reflected higher noninterest current expenditure in the central government— particularly transfers and wages, and a smaller operating surplus of the public enterprises. In addition, the operating losses of the central bank rose further on account of higher interest payments on stabilization bonds. The domestic financing requirement of the nonfinancial public sector amounted to 4.0 percent of GDP in 1996 compared with 2.7 percent in 1995.

11. Concerned about the rapidly rising fiscal deficit, which on the basis of ongoing trends was projected to widen to about 6.5 percent of GDP in 1997, the authorities announced in December 1996 an ambitious fiscal package involving measures equivalent to 3.0 percent of GDP, and plans to increase private sector participation in road construction and management of ports and airports and to privatize public assets of about 8 percent of GDP over 1998–99. In early 1997, the authorities moved swiftly to implement fiscal measures that did not require approval by the assembly. These included (a) an increase of 15 percentage points on the consumption tax on diesel and gasoline (0.6 percent of GDP); (b) doubled the number of large taxpayers subject to close monitoring (0.2 percent of GDP); (c) delayed the reduction of import duties on consumption and intermediate goods to 1998 (0.1 percent of GDP); and (d) cut net lending by the social security agency and investment by public enterprises (0.4 percent of GDP). They also submitted draft legislation to maintain the VAT rate at 15 percent instead of allowing it to decline to 13 percent in March 1997 as scheduled (0.7 percent of GDP), increase the excise tax on luxury cars (0.1 percent of GDP), cut budgeted central government expenditure in goods and services, transfers and capital outlays (0.6 percent of GDP), and cancel debt to nonconsolidated public agencies and enterprises (0.3 percent of GDP). Of the latter, only the excise tax on luxury cars was implemented. Moreover, the privatization proposals were diluted and formulated at a slower pace than planned, with pertinent legislation not submitted to the assembly until October 1997.[4]

12. In addition to the measures implemented earlier in the year, the improvement of the public finances in 1997 (the combined public sector deficit was reduced to 3.7 percent of GDP) was achieved mainly through sustained efforts to reduce central government noninterest current expenditure, and to strengthen tax administration to offset for the loss of revenue from the reduction in the VAT rate. Also, across-the-board wage increases were kept in line with targeted inflation, and central government interest obligations on domestic debt and central bank losses declined, reflecting a sharp drop in the average interest rates on government paper (to about 18 percent) which stemmed in part from changes to the auction mechanism implemented in March 1997 (see below, subsection D). In addition, there were delays in the

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[4]The government announced plans to privatize BICSA (an international bank owned by the state commercial banks), a state commercial bank (*Banco de Costa Rica*), RACSA (telecommunications), and the National Insurance Institute (40 percent), and to sell land along the coastal area under concession to hotels and tourism spots. Of these, only the privatization of BICSA and the *Banco de Costa Rica* continued to be pursued as noted above.

implementation of the investment program of the electricity and telephone company (ICE) on account of administrative red tape.

13. During 1994–96 the overall deficit of the central government has ranged from 4.5–5.3 percent of GDP, compared with deficits averaging 1.9 percent of GDP in 1992–93 (Statistical Appendix Tables 15, 16, 17, and 18). The widening in the deficit in recent years has been due almost entirely to increases in interest payments on the domestic debt which rose steadily from an average of 2.6 percent a year in 1992–93 to 5.4 percent in 1996 (see Chapter III). Over the same period, noninterest current expenditure rose from about 12 percent of GDP to 13.4 percent, with most of the increase accounted for in wages, pension payments, and transfers to the private sector. Fixed capital outlays have remained largely unchanged at less than 1 percent of GDP since 1992, with the result that the quality of the country's infrastructure has deteriorated markedly. Despite the weakening of tax collections resulting from the slowdown in economic activity, revenue performance strengthened by more than 1.5 percentage points of GDP in 1995–96 owing to the increase in the VAT rate (September 1995) and excise taxes on fuels, which more than offset for a decrease in import duties resulting from a lowering in import tariffs and a sharp deceleration of imports.

14. The overall deficit of the central government narrowed to 4.2 percent of GDP in 1997 reflecting a strengthening in tax collections (from the pickup in economic activity and a large increase in imports), reduced outlays on domestic interest payments on account of lower interest rates, and smaller current transfers. These more than offset some increase in capital outlays in infrastructure which had been kept under tight control in 1995–96.

15. Following a marked improvement in 1995, the finances of the rest of the nonfinancial public sector[5] weakened in 1996 reflecting slow growth in the operating revenues of the public enterprises, in particular the oil refinery, from the decline in economic activity, adjustments in tariffs by less than inflation, higher international oil prices, and an increase of the consumption tax on fuels and lubricants (Statistical Appendix Table 20). By contrast, the current surplus of the social security agency remained at 1.3 percent of GDP in 1996 reflecting the effect of measures adopted in 1995 to increase contributions and streamline benefits (Chapter II and Statistical Appendix Table 19).

16. The overall surplus of the public corporations improved in 1997 mainly as a result of the overall pickup in economic activity together with strengthened expenditure controls. While the operations of ICE improved, the financial situation of the water and sewage corporation deteriorated in 1997 because of higher investments as new wells had to be drilled to offset the adverse effects of "El Niño." At the same time, revenues of the water company stagnated because the regulatory authority decided not to adjust tariffs based on the improved financial

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[5]The rest of the nonfinancial public sector comprises the utilities, the oil refinery, a number of smaller enterprises and agencies, and the Social Security Agency.

outcome for the company in 1996. Also, the Institute of Agrarian Development was forced to effect a transfer to a farmers' cooperative to repay external debt.

D. The Financial Sector

17. The main objectives of the monetary policy in 1996–97 were to contain the growth of net domestic assets of the banking system to levels consistent with declining inflation rates and a stronger net international reserves position. In Costa Rica, the effectiveness of the monetary policy is constrained by the openness of the capital account and the targeted inflation-based crawling peg. The authorities attempt to control liquidity through open market operations in stabilization bonds, which began to be conducted through an auction mechanism since April 1996, short-term deposit facilities at the central bank, and an interbank market which initiated operations in 1997 (Chapter IV).

18. Shortcomings in the technical design of the auction which discriminated against small investors,[6] together with excessive discretion in determining the cutoff rates undermined the functioning of the auction in 1996, leading to persistent and significant under subscriptions, limited flexibility of interest rates, further segmentation of the financial market, and widening of interest rate differentials among participants in the market. As a result, the central bank was unable to sterilize the amounts required to achieve its monetary policy objectives in 1996, which led to a deterioration in the position of net international reserves and to a more modest deceleration of inflation than originally targeted.

19. After remaining at around 43 percent of GDP over 1992–95, private sector holdings of financial savings (including government and stabilization bonds, and private capital) increased to 49 percent of GDP in 1996 (Statistical Appendix Table 23). While holdings of money declined significantly, time deposits, government bonds, and deposits in foreign currency experienced the largest increases. The increased availability of financial savings permitted an acceleration in bank credit to the private sector that was directed to housing and consumption loans, while financing to other sectors declined (see Statistical Appendix Table 25). Reflecting these developments, also of lower legal reserve requirements—from an average of 28.3 percent in December 1995 to 16.9 percent in December 1996 (Statistical Appendix Table 26)—state commercial banks lowered the prime lending rate from 37 percent at end-1995 to 29 percent at end-1996 and rates on six-month deposits from 24.5 percent to 16.5 percent over the same period (Statistical Appendix Table 27).

20. The state commercial banks benefitted from a large increase in deposits from small investors that shifted their funds from government bonds which, together with the lower reserve requirements, increased their profitability as excess funds were placed in government

[6]The minimum bid was set at the equivalent of US$4,000 dollars, all bids had to be placed through the stock exchange, and small investors were not allowed to place noncompetitive bids.

bonds at significantly higher interest rates. At end-1996, the interest rate on six-month government bonds exceeded the rate on time deposits in the state banks by 1,000 basis points, compared with 490 basis points at end-1995 (see Chapter IV, Table 5).

21. In March 1997, the authorities introduced several changes to the design and rules of the auction mechanism aimed, inter alia, at reducing market segmentation. As a result, the direct placement of bonds through the auction increased sharply and the intermediation by the state commercial banks was reduced, resulting in a decline in interest rates on 6-month government and stabilization bonds by 730 basis points to 19.3 percent at end-1997, with the spreads relative to interest rates on deposits narrowing to 440 basis points for the state banks and to 300 basis points for the private banks.

22. In 1997, broad money increased at a faster pace than anticipated in the monetary program, in part reflecting large short-term private capital inflows toward the end of the year, which in turn allowed to exceed the net international reserves accumulation target. Private sector financial savings and credit to the private sector continued to grow strongly in 1997, expanding by 21 percent and 24 percent, respectively. Nominal interest rates continued to fall in 1997, reflecting also a further reduction in legal reserve requirements, with the prime lending rate falling 300 basis points and the deposit rates dropping by 190 basis points.

E. External Sector

23. Despite a marked deterioration in the terms of trade, the external current account deficit widened slightly to 1.3 percent of GDP in 1996 (Statistical Appendix Tables 28 and 33). The effect of the decline in the terms of trade (by 6.3 percent) was felt mainly on the rate of growth of traditional exports which fell by about 9 percent in value terms (Statistical Appendix Table 29). However, the performance of nontraditional exports (mostly manufactured food products, seafood, horticultural products, and tropical fruit and vegetables) continued to strengthen, with the rate of growth in the value of those exports accelerating to 20 percent, from an average of 16 percent in 1994–95. The growth in non-oil imports remained largely unchanged in value terms as a marked recovery in the demand for consumer goods offset a slowdown in raw material imports and a fall in capital goods, which mirrored the depressed investment climate (Statistical Appendix Table 30). The slight deterioration in the trade account was offset by an improvement in the services balance that reflected an increase in tourism receipts as well as a decline in net factor payments.

24. Notwithstanding the continued large flows of foreign direct investment (4.4 percent of GDP in 1996), there was a sharp deterioration in the capital account in 1996, as the public sector continued to repay debt and there was a large outflow of private short-term capital. This compares with a net inflow in 1995 when investors were attracted by large interest rate differentials, particularly on government and stabilization bonds, while at the same time there were expectations of a decline in nominal rates following the implementation of the fiscal adjustment program. At the end of the year, net international reserves of the central bank had fallen to 2.7 months of imports of goods and nonfactor services, from 3 months at end-1995.

25. Despite the continued strong growth of nontraditional exports and a recovery in maquila and net tourism receipts, the external current account deficit (excluding imports by INTEL)[7] widened to 4.2 percent of GDP in 1997 as imports increased at a rate that was more than double that in 1996. Also, proceeds from traditional exports (coffee, banana, sugar and meat) declined despite an increase in coffee prices of more than 50 percent, due to the impact of bad weather on production. Part of the expansion in imports was associated with increased inflows of foreign direct investment (5 percent of GDP), and the recovery in domestic private investment. Imports of capital goods, which declined by 5 percent in 1996, increased by about 24 percent in 1997, while the rate of growth of imports of consumption goods slowed from 23 percent in 1996 to 2 percent in 1997. Maquila exports experienced a strong recovery in 1997 following the resolution of the issue of textile quotas to the United States.

26. Net capital inflows were more than ten times larger in 1997 than in 1996. Despite an increase in amortization payments, public sector flows turned positive for the first time since 1990 reflecting disbursements of balance of payments support under two IDB program loans, significantly larger disbursements of project loans, and bridge financing toward the placement of bonds with foreign commercial banks originally planned for 1997. The bond placement was not effected as anticipated on account of the turmoil in the international markets following the currency crisis in Asia. Also, there was a sharp increase in private capital flows despite the convergence of domestic and external interest rates, apparently the result of more bullish expectations by foreign investors after the decision of INTEL to invest in Costa Rica. Costa Rica received a Ba1 rating from Moody's in April 1997. Net international reserves increased by US$216 million in 1997, reaching the equivalent of 2.8 months of imports of goods and nonfactor services.

27. In line with agreements under the Central American Common Market, import tariffs were reduced (a) on capital goods from 5 percent to 3 percent in January 1996, and to 2 percent in January 1998, and will be lowered to 1 percent in July 1998 and to zero in January 1999; (b) on raw materials from 5 percent to 1 percent in June 1996, and to zero in January 1998; (c) on intermediate goods from 10 and 15 percent to 9 and 14 percent, respectively, in January 1998, and to 8 and 13 percent in July 1998; and (d) on consumption goods from 20 percent to 19 percent in January 1998, and to 18 percent in July 1998.[8] Regarding incentives to nontraditional exports, income tax exemptions to nontraditional exports were eliminated in 1996, and tax exemption certificates (CATS) will be phased out by 1999.

[7] INTEL, a multinational firm that produces computer parts, is building a US$500 million plant in Costa Rica, to be completed in 1999.

[8] By January 2000, import tariffs will be reduced in steps to 5 and 10 percent on intermediate goods, and to 15 percent on consumption goods.

F. Structural Reforms

28. Regarding public sector reforms, progress was made in strengthening tax administration in 1997 by tightening control over large taxpayers and introducing a new computerized information system. Also, the government is preparing a reform of the tax structure, with technical assistance from the Fund. On public expenditure management, the focus has been on training of staff, inclusion of formerly extra-budgetary items in the budget, and effecting government payments exclusively through the banking system (see Chapter II). As regards privatization efforts, in June 1997 the government created a commission to be in charge of privatization, attached to the president's office and consisting of representatives from the ministries of finance and planning. Also, in August 1997 the government selected an investment bank for the sale of BICSA, and legislation to privatize the *Banco de Costa Rica* and to improve the legal basis for public works concessions for road construction and the management and construction of ports and airports was submitted to the assembly in October 1997.

29. The government has taken measures to strengthen the financial position of the pension system, including by raising pension contributions and the minimum period of work to qualify for pension benefits, and transferring contributors from more generous pension regimes under the government budget to that of the social security system. The objective is to make the latter the basic pillar of a restructured pension system that will be complemented by voluntary, individual capitalization accounts administered by private sector managers.

30. On financial sector reform, regulations were issued in 1996 for the functioning of an interbank market with a view that the central bank would switch gradually to this market as the main instrument for controlling liquidity, and as a complement to the open market operations conducted through the auction. The central bank also improved monetary programming and has been lowering reserve requirements since 1996, with a view to unifying them at 15 percent in March 1998, while extending reserve requirements to short-term financial instruments in November 1997. In addition, an electronic system for the clearance of checks was put in place. The Fund provided technical assistance in these areas, with four MAE missions during 1996–97.

31. Legislation to strengthen the national commission of securities and the superintendency of pensions was approved in December 1997. Also, to improve banking supervision the central bank issued regulations in November 1997 to cover offshore banking operations of financial conglomerates. The regulations require the provision of consolidated information about the operations and rules for transactions among members of the group (including the offshore affiliates), and with their nonrelated borrowers with a view to reduce risk. A minimum capital of US$3 million was established for offshore bank members of registered conglomerates, while that for local private banks was raised from US$1.2 million to US$4 million, to be complied within a two-year period starting in April 1998.

II. Progress in Reform of the Public Sector Since the 1980s[9]

A. Introduction and Summary

32. This chapter describes the origins of the structural imbalances in the public sector in Costa Rica that emerged following the economic crisis of 1980–82, and the efforts of successive governments to address them. Significant progress has been made in improving the tax system and in privatizing state enterprises. However, progress has been more limited in other key areas such as reducing the size of the civil service, relaxing rigidities in government expenditure, and permitting a larger role for the private sector in the public utilities and other state monopolies such as insurance.

33. The main reason for the slow progress has been a lack of consensus between the two major political parties on the priorities and content of structural change, which in turn, has led to delays in the approval of legislation required to implement reforms. Also, even in the presence of some consensus, reform has been delayed repeatedly because of the political-economic cycles that have affected policies in Costa Rica every four years. As a result, the essential tasks of placing the public sector finances on a sound footing, reducing the heavy domestic debt burden, generating adequate levels of saving, and permitting the much needed upgrading of infrastructure have remained unfulfilled.

B. The Pre-Reform Period 1969–79

34. During 1966–79, and particularly following the coffee boom of 1976–77, successive governments adopted policies aimed at promoting growth and improving social conditions through heavy involvement of the state in a wide range of economic activities, and industrialization based on import substitution behind high tariff barriers and exports to the Central American Common Market. Public sector investment (in roads, public utilities, health, and education) rose sharply, as did transfers to state enterprises involved in activities ranging from cement production to liquor manufacturing. Initially, this strategy resulted in a rapid acceleration in real GDP and income per capita, and one of the highest levels of social standards in Latin America.

35. Subsequently, however, real GDP growth slowed as a substantial deterioration in the terms of trade (following the decline in coffee prices in 1978 and the second oil crisis of 1979) led to a slowdown in demand and a weakening in government revenue. Faced with these difficulties, the authorities did not adjust government spending levels as warranted, and the fiscal deficit widened from about 4 percent of GDP in 1976–77 to 8 percent in 1980. The weakened fiscal position and the deterioration in the external current account resulted in a serious balance of payments crisis, at the same time as external financing from commercial banks dried up. As a result, the authorities were forced to suspend servicing of the external

[9]Prepared by Michael DaCosta.

debt in mid-1981. Also in that year, real GDP fell by 2.5 percent following 20 years of uninterrupted growth, the overall deficit of the nonfinancial public sector widened to 14 percent, inflation rose to 65 percent, and the unemployment rate doubled to 9 percent. The crisis exposed the difficulties of fiscal adjustment and the structural weaknesses in the Costa Rican economy, and made clear the need for a comprehensive reform of the size, scope, and functioning of the public sector.

C. Early Attempts at Reform 1984–93

36. By the second half of 1982 the government had initiated an adjustment program, supported by a Stand-by Arrangement from the Fund. The program aimed at containing inflation by reducing the fiscal imbalance (through temporary import surcharges, increases in the sales tax and public sector tariffs, and measures to reduce the wage bill). Subsequently, beginning in 1983 the government embarked on a program of structural reform (supported by program loans from USAID and the World Bank) aimed at containing employment in the public sector, reducing the deficit of the state enterprises,[10] easing rigidities in fiscal policy by, inter alia, limiting the practice of revenue earmarking, and privatizing most of the enterprises under the CODESA umbrella.[11]

37. The early efforts at fiscal adjustment and restoring macroeconomic stability were broadly successful. By end-1985, following a second Stand-by Arrangement, the fiscal deficit had narrowed to less than 2 percent of GDP, inflation had fallen to 12 percent, and the balance of payments strengthened. Also, the Stand-by Arrangements facilitated reschedulings of Costa Rica's external debt with official and commercial bank creditors. However, by 1990 financial imbalances, associated in part with another political cycle, had re-emerged. The combined fiscal deficit increased to 5 percent of GDP, inflation accelerated to 27 percent, the external current account deficit widened to 9 percent of GDP, and gross international reserves fell from 4.2 months of imports in 1989 to 2.6 months.

38. Progress in structural reform during this period was mixed. Most significant progress was made in privatizing the state enterprises controlled by CODESA. Despite early delays, by 1991 the sale, merger, or liquidation of about 40 companies (out of a total of 43 companies) had been completed, with the proceeds used to retire CODESA debt with the central bank. A major factor that contributed to this success was the setting up of a trust fund financed by USAID that purchased those enterprises which could not be sold in the public auctions, and

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[10]Efforts focused on reducing the losses of the state marketing agency (CNP—responsible for setting producer prices of corn and other basic grains and international trade in these grains). The overall balance of the agency swung from a small surplus in 1982 to a deficit equivalent to about 1 percent of GDP in 1984.

[11]CODESA was the holding company for most state enterprises.

later liquidated their assets within a specified time period. Also, the trust fund helped finance severance payments to former employees of the enterprises sold or liquidated.

39. Attempts to implement reforms in other areas were less successful. Initial efforts to reduce public sector employment comprised steps to freeze employment;[12] eliminate vacant positions; oblige all civil servants and state enterprise employees at age 65 and eligible to receive a pension to retire; and provide incentives for early retirement.[13] Despite these initiatives, and various attempts to set quantitative targets for employment reduction,[14] net employment in the public sector increased by about 3 percent in 1985–86, and by about 15 percent between 1987 and 1990. The difficulties in this area resulted mainly from the lack of agreement on the mechanisms for achieving the targeted reductions; difficulties in measurement, which made monitoring and attempts to enforce the freeze almost impossible; successful legal challenges in the constitutional court to mandatory employment reductions; and the lack of political support related to the political campaigns in 1986 and 1990.

40. In the area of expenditure control, key objectives in the World Bank SALs were reorganization, closure, or merger of institutions experiencing chronic financial and operational weaknesses.[15] However, little progress was made in reducing the losses of the CNP. Indeed the losses increased sharply during 1984–85 and again during 1989–91, due to the subsidies to producers and consumers of basic grains. There was little progress in containing revenue earmarking, a major source of inflexibility in expenditure, although toward end-1992, some of the inflexibility in fiscal policy had been eased through legislation which provided for the elimination of the export incentive system (CATs) by 1996; and of price subsidies to consumers of basic grains.

41. While pension reform was not explicitly included in the initial reform program, the importance of restructuring the various pension regimes funded from the budget[16] became

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[12]For example, the budgets for 1985–86 incorporated guidelines for freezing staff in all public sector agencies at the January 1984 level.

[13]These included loans from the *Banco Popular* (at subsidized interest rates) to establish companies that could supply services to the government.

[14]The most ambitious target was a reduction in public sector employment by 25,000 (19 percent of total public sector employment) over the period 1991–94. The target was not met.

[15]Institutions included under this category included the CNP, the railway company (INCOFER), the ministry of public works, and the cement and fertilizer companies which were sold.

[16]These regimes include those covering teachers, members of the assembly, and judicial

(continued...)

increasingly recognized following studies which showed that without fundamental reform, the schemes would be bankrupt in the long run due to the excessive generosity in benefits, juxtaposed with inadequate contribution rates. Beginning in 1992 steps were taken to rationalize and unify the various pension regimes in the civil service. The objectives have been to reduce the burden on the budget, encourage the transfer of contributors from those regimes to that of the social security system, and make the latter the basic pillar of a restructured pension system. In the first phase of reforms instituted under the 1992 Framework Law on Pensions, the retirement age was raised from 50 to 55 years, the maximum pension lowered, the rate of contribution by employees increased, and the minimum number of years of contribution required for eligibility for a pension increased from 25 to 30 years.

D. Reforms in 1994–97

42. The administration which took office in early 1994 shared the broad objectives of the reforms noted above, except for that related to employment reduction which they regarded as unrealistic. The government's priorities for structural reform and progress toward achieving them may be summarized as follows:

Tax reform

43. The main priority was to modernize the tax system and its administration. A major step was the approval of a new tax code (*Ley de Justicia Tributaria*) in September 1995, which was able to improve efficiency and equity in the tax system by eliminating 30 minor taxes; reducing the bias in the corporate income tax in favor of debt financing; authorizing cross-checking between tax returns and other sources of information on income and business activity; and introducing a gross assets tax. Also, the tax code classified some acts of tax evasion as criminal offenses punishable by imprisonment; and strengthened the legal framework for enforcing tax collections including by streamlining procedures for imposing fines and closing businesses. In addition, during 1992–95 exemptions and tax incentives to the tourism, manufacturing, and nontraditional export sectors were gradually phased out.

44. In 1997, the number of large taxpayers subject to close scrutiny by the ministry of finance increased from 280 (representing 60 percent of total income tax collections) to 535 (80 percent); a new computerized information system was installed; and agreement was reached with the banks on revenue collection procedures as well as information to be supplied by them. In the customs area, institutional improvements, comprising mainly seeking a more efficient organizational structure, upgrading professional skills, and automating most customs

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[16](...continued)
workers.

procedures, were supplemented in 1995 by legislation[17] which provides for stiffer penalties for customs duty evasion.

45. A Tax Reform Commission was set up in 1996 to review the tax system and propose revisions to the tax structure. Proposals for the next steps in tax reform include completing the elimination of those taxes for which the marginal yield is small relative to collection costs, and reducing the large number of exemptions. Also, they envisage continued progress in decentralizing tax collection, and setting targets and norms to enhance revenue performance.

Budget and expenditure reform

46. Various practices including the increased earmarking of revenue,[18] and legislation requiring specific budget allocations to, for example, universities and social programs, have resulted over time in limiting severely the scope for discretionary expenditure policy. Consequently, when faced with the need for adjustment, governments had often to resort to cuts in spending for infrastructure. Capital expenditure of the government has stagnated at about 2 percent of GDP since 1990 (compared with 3 percent in 1986–89), and infrastructure has deteriorated.

47. With technical assistance provided by Spain, the IDB, and the Fund, the government has developed a set of procedures to better control expenditure and improve its payments and procurement systems. The new procedures were put in place in the 1997 budget, which included for the first time extrabudgetary items such as bank commissions. Other key reforms being implemented include development of a master account system for payments and cash management, training of staff, explicit inclusion of additional extra-budgetary items in the budget, effecting government payments exclusively through the banking system, and computerization of the procurement process. Next steps will include the preparation of an annual report to the assembly on performance relative to fiscal targets, and consolidation of the entire nonfinancial public sector in the budget process.

Pension reform

48. The changes (referred to above) initiated in 1992 were followed in 1995 by actions which obliged all members of the teachers' regime under age 30 to transfer to another regime,

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[17] *Código Aduanero Uniforme Centroamericano* and *Ley General de Aduanas*.

[18] In 1994 about 25 percent of current expenditure comprised transfers (including mainly pensions, family allowances, export subsidies, support for universities) linked to earmarked revenue. Wages, pension payments, and interest accounted for about 70 percent of current expenditure.

and barred entry in the civil service schemes to new members.[19] As a result, with continued efforts to bring benefits and contributions closer in line, it is expected that by about year 2040 the civil service schemes will have been phased out. In the interim period, contribution rates may need to be raised and benefits lowered to maintain the actuarial viability of the schemes.

49. Proposals currently being discussed for further reforms of the pension system comprise:

a. Ensuring the actuarial viability of the basic pension regime administered by the social security agency;

b. Enacting legislation to complete the rationalization of the public sector pension regimes, and regulate the complementary systems; and

c. Complementing the basic pillar with voluntary, individual retirement/savings accounts administered by private sector managers, thereby fostering increased savings and easing pressure on the basic system.

Privatization

50. The process of privatization has slowed considerably since the sale or liquidation of the enterprises covered by CODESA. Since then efforts focused on privatizing the remaining three state enterprises still operating under CODESA (a cement plant, a fertilizer company, and a liquor manufacturing company). The sale of the first two was completed in early 1997, but efforts to sell the liquor manufacturing have been suspended due to lack of political support. In June 1997 the government created a commission to be in charge of privatization, attached to the president's office and consisting of representatives from the ministries of finance and planning. The government announced plans in December 1996 to privatize two banks (BICSA—an international bank owned by the state commercial banks—and the *Banco de Costa Rica*), forty percent of the National Insurance Institute, and RACSA (telecommunications). In line with these plans, the privatization of BICSA is proceeding with an investment bank selected in August 1997, and draft legislation for the privatization of the *Banco de Costa Rica* was sent to the assembly in October 1997. However, the sale of the other companies did not progress as anticipated due to lack of political support.

51. In addition to outright privatization, the authorities have considered options for increasing private sector involvement in activities previously carried out solely by the state. Mechanisms considered have included subcontracting, leasing, joint ventures, and permitting

[19]Related reforms in the pension scheme of the social security agency (CCSS) in 1995–96 raised the retirement age, and tightened eligibility requirements for disability benefits. These changes will help maintain the pension system of the CCSS in good standing until about 2015.

the private sector to build, own, operate, and transfer projects, especially in the telecommunications and electricity sectors. In 1995 legislation (the Law of Public Works Concessions and the Law of Incorporated Workers' Companies)[20] was approved, allowing private sector participation in areas, including infrastructure and operations of ports, previously reserved for the public sector. However, subsequent examination of the legislation has revealed a number of important flaws. These include the lack of definition of which areas fall under the scope of concessions, and the treatment of monopolies. Revised draft legislation was sent to the assembly in October 1997. Partly reflecting these uncertainties, to date only one concession in infrastructure (for highway repair) was granted, but this was not implemented because of questions related to the legality of the bidding process. However, the concessions to the private sector to operate the Port of Limón have been successful, and have resulted in an improvement in port facilities, and a reduction in handling charges from US$26 per ton to US$6 per ton.

Restructuring the public sector

52. The government reduced the emphasis of past administrations on cutting back employment in the public sector as an end in itself,[21] and placed more effort into restructuring and increasing efficiency in the public sector. Efforts in this area since 1993 have focused on the merger of government ministries, the closure of institutions including the national railway (INCOFER) and some specialized agencies,[22] the reform of the agricultural sector including eliminating the granting of subsidies to grains by the CNP, and reducing duplication among the various agencies of the ministry of agriculture. In addition, the government has begun to introduce better mechanisms of performance evaluation and reward in the public sector. To this end, in 1996 a national evaluation system was introduced in selected agencies on a pilot basis. It is expected that following the pilot stage, agencies which participate in the system will specify performance objectives and indicate how these would be measured. Also, a unit of administrative efficiency has been established with the objectives of defining the criteria for selecting institutions to be restructured, and determining activities inconsistent with fiscal priorities.

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[20]Under this law, former public sector workers are encouraged to establish businesses that would provide services to the public sector in areas such as law, accounting, engineering, secretarial services, transportation, and maintenance and security services.

[21]Employment remained unchanged during 1993–96.

[22]These included IFAM, CONICIT, and DINADECO.

III. Domestic Public Debt and Fiscal Sustainability Issues [23]

53. This chapter analyzes the sources of the fast increase in the central government domestic debt during 1988–97, describes the structure of the debt, and examines issues related to the sustainability of central government finances.

A. Sources of Debt Growth

54. The central government domestic debt rose from 7.5 percent of GDP in 1988 to 26 percent of GDP in 1997 mainly reflecting a weak primary balance, high real interest rates on domestic debt instruments, and greater reliance on domestic sources of financing. The contribution of each factor to the increase in the domestic debt to GDP ratio has varied over this period.

- **Primary balance**: As part of the political-economic cycles experienced over the last 15 years, the central government primary balance shifted from surpluses of 1.0–1.2 percent of GDP to deficits of about 1 percent of GDP within the four-year cycles. In addition to the pressures from the cycle, the behavior in the primary balance reflected structural weaknesses that have made it difficult to broaden the tax base, reduce expenditure because of earmarking of revenue, cut back employment, and eliminate rigidities in other current outlays.[24] Consequently, the primary surplus of the government averaged 0.4 percent of GDP a year over 1988–97 and was not sufficient to offset the adverse effect on the debt of a sharp increase in real interest rates in 1994–97.

- **Growth-adjusted interest rate**: The dynamics of the domestic debt to GDP ratio have been strongly influenced by the behavior of the growth-adjusted real interest rate, as measured by the difference between the average real interest rate on central government debt (external and domestic) and the rate of growth of real GDP. During 1988–93, the real interest rate remained below real output growth, contributing to limit the increase in the domestic debt-output ratio (Table 1). Conversely, as credit conditions tightened and economic activity slowed markedly in 1994–96, the growth-adjusted interest rate shifted from a negative 1.5 percent in 1988–93 to a positive 3.8 percent in 1994–97, resulting in a sharp increase in the domestic debt ratio (Table 2). As a result of these developments, real interest payments on central government debt rose from 1.1 percent of GDP in 1988 to 2.8 percent of GDP in 1997, while the operational deficit is estimated to have widened from 0.9 percent of GDP to 1.8 percent during the same period. The composition of central government

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[23]Prepared by Marco Rossi.

[24]See Chapter II for a discussion of the structural imbalances in the public sector during this period and actions that have been adopted to address them.

Table 1. Interest Rates on Central Government Debt

(In percent per annum)

	Nominal Interest Rate 1/		Real Interest Rate		Growth-adjusted Rate 2/			
	Domestic Debt	External Debt	Domestic Debt 3/	External Debt	Domestic Debt	External Debt	Overall Debt	Real GDP Growth
1988	23.0	18.1	2.2	4.6	-1.2	1.2	0.5	3.4
1989	20.4	9.5	3.9	3.7	-1.7	-1.9	-1.8	5.6
1990	22.4	22.2	3.4	3.3	-0.2	-0.3	-0.3	3.6
1991	24.1	29.2	-4.6	3.4	-6.9	1.1	-2.1	2.3
1992	20.8	7.3	-1.0	5.8	-8.7	-1.9	-4.8	7.7
1993	16.6	15.0	6.8	5.2	0.5	-1.1	-0.3	6.3
1994	20.5	13.5	7.0	5.0	2.5	0.5	1.6	4.5
1995	27.8	22.0	4.6	5.8	2.2	3.4	2.7	2.4
1996	24.3	18.3	6.7	4.8	7.3	5.4	6.7	-0.6
1997	22.5	16.1	8.2	5.8	5.0	2.6	4.3	3.2

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

1/ Implicit rates calculated as the ratio of interest payments to the average stock of debt, including valuation adjustments related to consumer prices and exchange rate movements.
2/ Calculated as the real interest rate deflated by real output growth.
3/ Calculated as the implicit nominal interest rate deflated by the change in the consumer price index.

Table 2. Costa Rica: Domestic Government Debt

	1991	1992	1993	1994	1995	1996	1997 1/
	(In percent of GDP, average)						
Domestic government debt	13.4	13.5	14.2	16.4	18.3	25.0	26.1
	(In percent of total debt, end of period)						
By instrument							
Domestic currency bonds	99.4	100.0	100.0	93.3	78.7	68.5	49.6
Fixed-interest rate	96.3	86.0	83.1	73.0	59.0	44.5	19.3
Variable-interest rate	3.1	14.0	16.9	20.3	19.7	24.1	29.9
Inflation-indexed bonds	0.0	0.0	0.0	6.2	10.9	17.4	30.0
Dollar-denominated bonds	0.6	0.0	0.0	0.5	10.4	14.1	20.4
By maturity							
From 8 to 30 days	6.6	7.1	3.3	2.4	1.3	2.5	0.8
From 31 to 90 days	28.6	25.5	23.0	27.6	19.3	14.0	8.4
From 91 to 180 days	29.0	35.6	28.9	21.8	29.0	31.7	26.7
From 181 to 360 days	18.5	17.9	17.2	17.7	19.1	11.5	11.6
From 361 to 1,440 days	11.8	9.7	14.1	12.0	8.4	7.2	10.1
From 1,441 days to 15 years	5.5	4.3	13.5	18.5	22.8	33.1	42.4
By holder							
Central bank	1.4	1.1	4.7	3.2	8.5	5.8	4.5
Commercial banks 2/	18.0	10.9	7.3	17.4	8.0	7.6	17.7
Nonbank financial institutions	15.1	18.0	35.2	16.7	13.6	11.4	10.9
Private sector 2/	25.6	26.8	30.9	27.8	41.7	52.8	47.5
Rest of nonfinancial public sector 3/	39.9	43.3	21.9	35.0	28.3	22.5	19.5

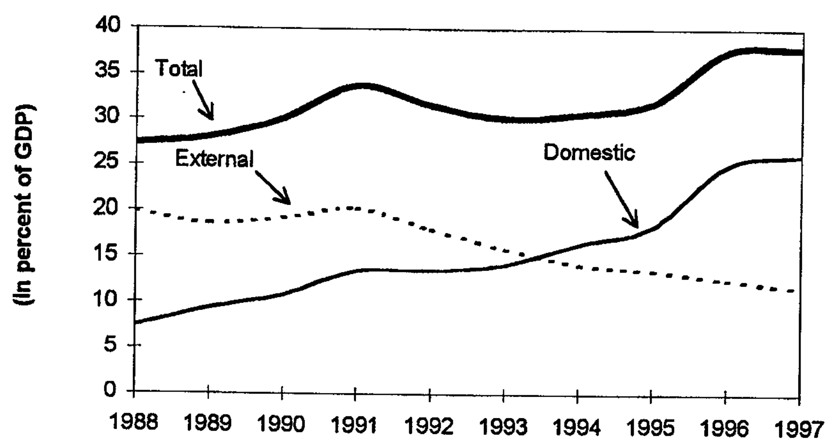
Sources: Central Bank of Costa Rica; Ministry of Finance; and Fund staff estimates.

1/ As of September for debt by instrument and November on debt by maturity.
2/ Excludes bonds issued for monetary purposes in 1996 and 1997.
3/ Includes holdings of state agencies outside the control of the budget authority.

expenditure changed significantly over 1988–97 as the share of nominal interest payments in total expenditure rose steadily from 15 percent in 1988 to 26 percent in 1997, while that of noninterest current expenditure declined by about the same magnitude during this period.[25] In terms of GDP, nominal interest payments rose from 2.8 percent to 5.3 percent during the same period, while capital expenditure was held at only 2 percent of GDP per year.[26]

- **Sources of financing**: As external disbursements slowed and amortization increased, the government shifted toward domestic financing through the placement of bonds to support its operations. As a result of the low levels of net external financing (net repayments in most years) and debt relief operations from private and official creditors, the outstanding stock of external debt of the central government declined steadily from about 20 percent of GDP in 1988–91 to 12 percent in 1997 (Figure 1). The switch to domestic bond financing was supported by private capital inflows that were prompted by high interest rates (1992–94) as well as increased liquidity abroad (1995–96).

Figure 1. Central Government Debt



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[25]When the revaluation of principal related to changes in consumer prices and the exchange rate is added to the interest paid on inflation-indexed and dollar-denominated bonds, interest payments account for one-third of total expenditure during this period.

[26]Adding principal revaluation of inflation-indexed and dollar-denominated bonds, interest payments rose from 5.4 percent of GDP in 1988 to 7.8 percent of GDP in 1997.

B. Debt Structure

55. Currently, the government satisfies most of its domestic financing needs with the issue of eight different types of bonds. The bonds are issued with several maturities (ranging from one month to 15 years), various denominations (domestic currency, inflation-indexed, and U.S. dollar-denominated), and lack adequate standardization.[27] This situation complicates the management of government debt in a way as to avoid competition among instruments, coordinate placement of government and central bank stabilization bonds, and minimize the cost of domestic debt.

56. For many years, short-term bonds (up to six months) denominated in colones with fixed interest rates had been the main instrument used by the government. With the advent of institutional investors such as the social security agency and other pension funds, the demand for long-term assets increased after 1991, making it possible to lengthen maturities and introduce variable interest rates. The bond portfolio was further diversified with the creation of a consumer price-indexed bond in 1993, which provided a safe asset against variable inflation, and a U.S. dollar-denominated bond, which was used intensively in the face of balance of payments pressures during 1995–96. These two instruments grew in importance recently with their combined share in the stock of domestic debt rising from 6.7 percent of the total at end-1994 to 50 percent by September 1997. At the same time, the pursuit of a yield structure that broadly favored longer-term maturities contributed to lengthen the maturity of domestic debt. The share of 4-year to 15-year bonds rose from 19 percent at end-1994 to 42 percent by November 1997.

57. Government bonds traditionally had been tailored to meet the needs of specific investors and placed over-the-counter (windows) with amounts determined by investor demand at interest rates set by the government. In the first half of the 1990s steps were taken to reduce the number of maturities, set minimum purchase amounts by investor, and make amounts issued a multiple of this minimum. To move to market-determined interest rates and enhance the effectiveness of monetary policy, the system of windows for placement of government and central bank bonds was replaced by an auction mechanism in April 1996, while inflation-indexed and U.S. dollar bonds have been placed through an electronic system in the stock exchange starting in June 1996 (Chapter IV).

58. With the objective of further improving debt management, a new bond with a one-year maturity and sold at discount was introduced in the auction in September 1997 as a step to standardize government bonds and develop a secondary bond market. The bond was designed to set standards at which existing debt instruments will gradually converge. As the market for the new bond develops, existing bond maturities will be further reduced, while an electronic system for operation of paperless bonds will be introduced.

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[27] Appendix I summarizes the main features of current debt instruments.

59. The nonfinancial private sector is the main holder of government bonds, with its share in the stock of domestic debt doubling to 48 percent over the period 1991–97. This development resulted from more attractive interest rates on government bonds relative to bank deposit rates and also mirrored a substantial increase in private financial savings in this period. Access of small investors to government bonds was facilitated with the proliferation of small private financial funds, which offered instruments with high liquidity and return based on the intermediation of government bonds.

60. Although the social security agency intensively used government bonds for the management of pension and other workers' contributions during this period, its share of bonds declined from 20 percent in 1996 to 11 percent in 1997 reflecting the government's decision to exchange fixed-interest bonds held by the agency with inflation indexed bonds (with one- to five-year maturities). At the same time, the share of commercial banks and nonbank financial institutions declined from 33 percent of the total in 1991 to 29 percent in 1997. The share of bonds held by the central bank had been small but rose to 9 percent in 1995 as government bonds were exchanged for central bank losses that resulted from the liquidation of a large state-owned bank in 1995. Holdings of nonresidents increased from 3 percent of the total in 1994 to 10 percent in 1997.

C. Sustainability Issues

61. Based on a standard budget constraint for the central government finances in which revenue from seignorage are excluded, the dynamics of the debt to output ratio is governed by the following equation:

$$\dot{b}_t = (r-n)\ b_t - s_t \qquad (1)$$

where $\dot{b}$ is the change of the debt to output ratio over time (t), r is the real interest rate, n is real output growth, and s is the primary surplus in terms of GDP. This equation indicates that the debt to output ratio would decline (rise) when the primary surplus exceeds (falls short) growth-adjusted real interest payments, while the debt ratio would be stable when the sustainable primary surplus (s^*) is achieved—the surplus that would fully cover growth-adjusted real interest payments, $s^* = (r-n)b$. This equation would also correspond to the definition of the operational balance of the central government if the real output growth argument was omitted.

62. As a measure of fiscal sustainability, the primary surplus gap would indicate the magnitude of the adjustment required to keep the overall debt-output ratio stable over the long term,

$$\textit{Primary surplus gap}\ s^* - s = (r-n)b - s \qquad (2)$$

63. Several adjustments to the actual stock of domestic debt outstanding are required to measure accurately the central government domestic debt. The adjustments are related to the anticipated issue of government bonds to recapitalize the central bank, settle obligations with the social security agency, and take over debts from CODESA, a state holding company.[28] The envisaged recapitalization of the central bank in 1998 is a key step in the strategy to provide greater autonomy to the bank and enhance the effectiveness of monetary policy. This operation requires the issue of government bonds in an amount equivalent to 12 percent of GDP (C 260 billion) to shift to the central government about 80 percent of the quasi-fiscal losses of the central bank, which amount to some 2 percent of GDP a year.

64. A decree promulgated in June 1997 provides for the issue of government bonds (2 percent of GDP) to the social security agency to pay overdue contributions by the government as employer and to transfer contributions made by teachers that are expected to shift from the pension regime run by the government to that of the social security agency. Also, an additional government bond issue (1 percent of GDP) to the central bank is envisaged to assume the old debts of CODESA that remained after its liquidation.

65. With these adjustments, the estimated stock of domestic debt in 1997 would amount to 41 percent of GDP and, including outstanding external debt, the overall government debt would be 53 percent of GDP. The primary surplus gap is estimated under two scenarios: (a) on the basis of the past fiscal stance (past policy scenario); and (b) on the projected fiscal stance over the medium term (projected policy scenario) presented in the staff report.[29] The past policy scenario utilizes averages of the primary surplus, real interest rate, and real output growth over the period 1993–97, while the projected policy scenario utilizes averages of the same variables for the period 1998–2002.

66. Under the past policy scenario, the sustainable primary surplus is 1.6 percent of GDP compared with an average primary surplus of only 0.6 percent of GDP a year (Box 1). Thus, the primary surplus would be insufficient to cover growth-adjusted real interest payments, resulting in increasing debt to GDP ratios to finance the fiscal gap. The pursuit of the past fiscal stance in the future would place the central government in an unsustainable path over the medium term (i.e., the overall debt ratio and real interest payments would rise without bound). To achieve fiscal sustainability, the central government would need to adopt measures to raise the primary surplus by about 1 percent of GDP.

67. Under the projected policy scenario, a strengthening of the finances of the central government is envisaged to result in a primary surplus of 1.1 percent of GDP a year. On the

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[28]CODESA was a holding company for a number of state-owned agricultural, industrial, and mining firms. A program to sell and liquidate its 43 firms started in 1985 and after the program was virtually completed, the company was shut down in 1993.

[29]See SM/98/63 (3/3/98).

Box 1. Sustainability of the Central Government Finances

(In percent of GDP, unless otherwise noted)

I. Past policy scenario 1/	
Primary surplus gap 2/	1.0
Sustainable primary surplus	1.6
Primary surplus	0.6
Growth-adjusted real interest rate 3/	3.0
Real interest rate	6.0
Real growth rate	3.0
Operational balance (deficit -) 4/	-1.6
II. Projected policy scenario 5/	
Primary surplus gap 2/	-0.9
Sustainable primary surplus	0.2
Projected primary surplus	1.1
Growth-adjusted real interest rate 3/	0.5
Real interest rate	4.3
Real growth rate	3.8
Operational balance (deficit -) 4/	-2.0
Memorandum item:	
Stock of overall debt	52.7

1/ Variables expressed in actual averages for the period 1993–97.

2/ A positive value for the primary gap indicates that the current primary surplus is not large enough to prevent the debt to GDP rate from rising.

3/ In percent per annum.

4/ Associated with the sustainable primary surplus.

5/ Variables expressed in projected averages for the period 1998–2002.

basis of stronger macroeconomic policies, the medium-term projection envisages higher output expansion and lower real interest rates than those observed in the period 1993–97. Under these assumptions, the growth-adjusted real interest rate would be 0.5 percent compared with 3 percent under the past policy scenario, which in turn implies that a primary surplus of only 0.2 percent of GDP a year would be sufficient to cover the growth-adjusted interest bill and keep the overall debt to GDP ratio stable in the medium term. Consequently, the central government primary surplus envisaged under this scenario would allow for a gradual decline in the overall debt to GDP ratio from 53 percent of GDP in 1997 to 49 percent in 2002.

68. These results are quite sensitive to the underlying assumptions. A rise of 200 basis points in the real interest rate (or a decline of similar magnitude in output growth) would raise the growth-adjusted interest payments by 1.2 percent of GDP. Sustainability of the central government finances would then require a primary surplus of 1.4 percent of GDP a year.

D. Policy Implications

69. A comprehensive strategy to reduce the burden of the central government debt should be based on a combination of various actions, including the expected increase in the primary surplus and a faster implementation of structural reforms to improve prospects for higher sustainable output growth. This strategy should also include the use of privatization proceeds to repay government debt and an improved debt management to reduce the cost of domestic debt.

70. The fiscal stance envisaged in the medium-term projection is anticipated to reduce the debt to output ratio by some 0.9 percentage point of GDP a year. The projected reduction in the debt ratio would make the central government finances less vulnerable to changes in long-term trends for interest rates and output growth. In addition to sustainability considerations, a reduction in the debt ratio would place the government in a better position to gradually change the composition of expenditure in favor of capital spending and to deal with the risk of maintaining a large portion of the domestic debt in short-term maturities.

71. Privatization plans envisage the sale of two state commercial banks with a possible value of US$400 million. The use of these proceeds to repay debt would reduce the stock of debt by about 4 percent of GDP and would result in savings on interest payments of 0.1–0.2 percent of GDP a year. Additional interest savings may arise from improvements in debt management (i.e., a 100 basis point reduction in the interest rate would reduce interest payments by 0.6 percent of GDP a year). Steps initiated in 1997 to standardize bond instruments and develop a government bond market should be intensified so as to ultimately reduce the cost of domestic debt and contribute to lengthen the average maturity of debt.

Debt Instruments of the Central Government

72. This appendix summarizes the main features of the eight types of central government bonds. An income tax rate of 8 percent is levied on the interest earnings of government bonds, with the exception of earnings on U.S. dollar bonds.

73. The **fixed-interest rate bond** has been issued for many years. The bond is issued with maturities of 28, 84, and 168 days and with a minimum value of C 250,000 (US$10,000) and in September 1997 represented 19.3 percent of the total outstanding bonds. The 28-day bond is issued at discount, while remaining maturities carry an interest coupon redeemable every 84 days.

74. The **variable-interest rate bond** was created in November 1990. It is issued with maturities of 270 days, 1, 2, 3, 4, 5, 10, and 15 years, with a minimum value of C 1 million, and six-month interest coupons, with a share of 30 percent of the total bonds outstanding in September 1997. The interest rate is the basic interest rate of the central bank (a weighted average of interest rates in the weekly auction and six-month bank deposits) plus a spread set by the government at the time of issue. The interest rate is adjusted every six-months and was in the range of 19.5 to 21.8 percent depending on maturity at end-1997. Another **variable-interest rate bond**, *TIAB*, was created in May 1990. Its share in the stock of domestic debt peaked at 8.3 percent in 1993 but has remained below 1.0 percent thereafter.

75. The **inflation-indexed bond**, *título de unidad de desarrollo,* was created in May 1993. It is issued with maturities of 1, 2, 3, 4, 5, 10, and 15 years, with a minimum value of US$10,000, and six-month interest coupons. The bond principal is expressed in a special unit of account, *unidad de desarrollo,* with its value fully indexed to the consumer price index (as calculated by the ministry of commerce and industry) and adjusted monthly by the stock exchange commission. The real interest rate is set by the government on the basis of its financing needs and was in the range of 4.5 to 6.5 percent depending on maturity during 1997. This bond is mostly held by institutional investors such as pension funds and its share in the stock of domestic debt rose from 6 percent at end-1994 to 18 percent in September 1997.

76. The **U.S. dollar-denominated bond,** *DOLEC,* was created in December 1993 but its share in the stock of domestic debt has remained very small (below 2 percent). The bond is issued with maturities of 180 and 270 days, 1, 2, 3, 5, and 15 years, with a minimum value of US$5,000, and six-month interest coupons. The bond is purchased with colones at the central bank at the buying exchange rate of the day and redeemed in colones by the central bank at the selling exchange rate of the day, and is offered with fixed or variable interest rate. The variable interest rate is the six-month LIBOR deposit rate plus a spread set by the government for each maturity at the time of issue. Other bond instrument with minor importance is the **U.S. dollar indexed bond**, *TINDEX,* which was created in July 1991 and discontinued in 1995.

77. The **U.S. dollar bond** was created in March 1995. It is issued with maturities of 90 and 180 days, 1, 2, 3, 5, and 15 years, with a minimum value of US$5,000, three-month interest coupons, and is negotiated fully in U.S. dollars. The interest rate is the six-month LIBOR rate plus a spread set by the government for each maturity. Its share in the stock of domestic debt amounted to 20 percent in September 1997.

78. A new **inflation-indexed bond**, *bono de renta real*, was created in February 1997 to provide an alternative investment instrument to the social security agency, the state insurance and electricity companies, and other public agencies under the control of the budgetary authority. The bond is issued with maturities of 28, 56, 84, 168, 252, and 336 days, with a minimum value of C 1 million, and 84-day interest coupons. The interest rate is linked to the change in the value of the *unidad de desarrollo* plus a spread to account for a real return. The real rate of return is set by the government and was in the range of 2–4 percent depending on maturity during 1997. The share of this instrument in the stock of domestic debt amounted to 11 percent in September 1997.

79. A new **fixed-interest rate bond** denominated in colones was created in September 1997 with the objective to move to standardized and paperless bond instruments that could be operated electronically. The bond is issued at discount with one-year maturity and auctioned every month.

IV. Financial Sector Developments and Issues[30]

80. During recent years, the authorities have taken measures to strengthen prudential supervision, reduce discrimination against private banks, strengthen the financial situation of the state commercial banks, and improve the regulatory framework of the financial system. However, as discussed below, Costa Rica's financial system is not well developed and retains a number of inefficiencies and distortions. The banking sector continues to be dominated by inefficient state banks protected by a number of institutional and regulatory controls, which in turn have allowed private banks to prosper shielded by these inefficiencies. The distortions in the regulatory framework have led to the development of off-balance operations and offshore or parallel operations that reduce the effectiveness of monetary policy and complicate effective banking supervision. These distortions and the lack of effective competitiveness have resulted in large interest rate spreads, which have contributed to financial disintermediation. Prompt and corrective measures are required to address the weakness in the institutional and regulatory framework.

81. This chapter describes the financial system in Costa Rica and developments regarding the regulatory and legal framework of the financial market in the context of the conduct of monetary policy. Section A describes the structure of the financial sector, while Section B reviews reforms to the regulatory and institutional framework of the financial system and recent developments. Section C analyzes the factors that affect the efficiency of the banking sector, and Section D suggests possible measures to improve the regulatory and institutional frameworks so as to increase the efficiency of the financial system.

A. Structure of the Financial Sector

82. The financial system in Costa Rica consists of two major groups: a domestic, regulated sector and an offshore sector, which is outside of the scope of the Superintendency of Financial Entities (SUGEF). The leading player in the regulated sector is the banking system, which in turn is dominated by three state-owned banks (Table 1). Legislation that discriminates against private banks, distortionary taxes, and high reserve requirements have stimulated the growth of innovative financial instruments, which constitute close substitutes for sight deposits, and of offshore transactions through affiliates of domestic banks, largely to circumvent these regulations and distortions. There is no official data on the actual size of the private offshore sector, but estimates indicate that it may be as large as the regulated one,[31] which makes it difficult to get an accurate assessment of developments in the financial sector and to formulate policy recommendations on the basis of the information prepared by the central bank and SUGEF.

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[30]Prepared by Florencia Frantischek.

[31]The state commercial banks own an offshore affiliate (BICSA).

Table 1. Costa Rica: Structure of the Regulated Financial System

(As of September 30, 1997)

	Assets			Liabilities			(Loans)/ (Deposits + Net Worth)	(Investments)/ (Deposits + Net Worth)
	Total (1)	Loans 1/ (2)	Investments (3)	Total 2/ (4)	Deposits 3/ (5)	Net Worth (6)	(2)/(5+6)	(3)/(5+6)
			(In millions of U.S. dollars)					
Commercial state banks	**3,204**	**659**	**1,714**	**2,984**	**2,571**	**220**		
Banco Nacional de Costa Rica	1,614	344	836	1,527	1,302	87		
Banco de Costa Rica	988	219	497	882	767	106		
Banco de Crédito Agrícola de Cartago	603	96	382	575	502	28		
Other public banks	**654**	**363**	**180**	**394**	**194**	**260**		
Banco Hipotecario de la Vivienda	166	50	95	115	13	50		
Banco Popular y de Desarrollo Comunal	397	254	63	273	177	124		
Caja de Ahorro y Préstamo de la ANDE	91	59	22	6	4	86		
Private banks	**1,135**	**641**	**119**	**988**	**573**	**147**		
Nonbank financial institutions	**88**	**41**	**25**	**70**	**48**	**18**		
Saving and loans associations	**214**	**128**	**35**	**148**	**122**	**66**		
Total regulated financial system	**5,296**	**1,832**	**2,074**	**4,584**	**3,508**	**711**		
			(In percent of total)				(In percent)	
Commercial state banks	**60.5**	**36.0**	**82.6**	**65.1**	**73.3**	**31.0**	**23.6**	**61.4**
Banco Nacional de Costa Rica	30.5	18.8	40.3	33.3	37.1	12.2	24.8	60.2
Banco de Costa Rica	18.7	12.0	24.0	19.2	21.9	14.9	25.1	56.9
Banco de Crédito Agrícola de Cartago	11.4	5.3	18.4	12.5	14.3	3.9	18.2	72.1
Other public banks	**12.3**	**19.8**	**8.7**	**8.6**	**5.5**	**36.6**	**79.8**	**39.7**
Banco Hipotecario de la Vivienda	3.1	2.7	4.6	2.5	0.4	7.1	78.3	149.6
Banco Popular y de Desarrollo Comunal	7.5	13.9	3.0	6.0	5.0	17.4	84.6	21.0
Caja de Ahorro y Préstamos de la ANDE	1.7	3.2	1.1	0.1	0.1	12.1	64.9	24.5
Private banks 3/	**21.4**	**35.0**	**5.8**	**21.6**	**16.3**	**20.6**	**89.0**	**16.6**
Nonbank financial institutions	**1.7**	**2.2**	**1.2**	**1.5**	**1.4**	**2.5**	**61.6**	**37.3**
Saving and loans associations	**4.0**	**7.0**	**1.7**	**3.2**	**3.5**	**9.3**	**68.3**	**18.8**
Total regulated financial system	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**43.4**	**49.2**

Source: Superintendency of Financial Entities (SUGEF), Financial Bulletin, September 1997.

1/ Net of provisions.
2/ Excludes net worth.
3/ Deposits and obligations with the nonfinancial sector.

83. The financial system under the supervision of SUGEF comprises 3 state commercial banks, 25 private banks (17 of which have a subsidiary abroad that performs offshore operations), 20 nonbank financial firms, 7 savings and loan associations, 34 credit cooperatives, 3 public banks created by special laws (*Banco Popular y de Desarrollo Comunal* funded through a mandatory 1.5 percent annual revolving deduction from salaries, the *Caja de Ahorros y Préstamos* from the association of teachers, and the National Housing Bank (BANHVI)).

84. There are other important participants in the financial sector that do not fall under the purview of SUGEF, including the state insurance company (INS), the social security agency (CCSS), self-regulated complementary pension funds operating through trust accounts and investment funds, and two stock exchanges. Significant financial intermediation also takes place in the form of off-balance sheet activities offered by banks by setting up trust accounts and services as financial agents (*fideicomisos* and *comisiones de confianza),* and through money market funds offered by brokerage firms (OPABs and CAVs) and by mutual funds (investment funds).[32]

85. The securities market is dominated by government paper and short-term deposit facilities with the central bank, with very little activity in the form of equity transactions. The dominance of government and central bank paper results from the financing of fiscal and quasi-fiscal deficits through the issue of government and stabilization bonds in the domestic financial market (see Chapter III). As of August 1997, the stock of government bonds was the equivalent of about 75 percent of 6-month deposits in the financial system.

86. The quality of the loan portfolio of the regulated banking system has improved since 1995, when it was seriously affected by a combination of high interest rates and the slump in economic activity. Overdue loans have decreased from 28 percent of the total portfolio in June 1995 to 17 percent in August 1997. The state-owned commercial banks reduced loans in arrears from 34 percent to 21 percent, while private banks lowered their loans in arrears from 14 percent to 8 percent over this period (Table 2). Historically, the quality of the loan portfolio of the state-owned commercial banks has been lower than that of the private banks.

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[32]The investor chooses the portfolio in OPABs (*Operaciones de Administración Bursátil*) and a share of a fixed portfolio in CAVs (*Cuentas de Administración de Valores*). The investment funds are similar to the CAVs but are managed by investment companies, which charge a fee for the administration of the fund.

Table 2. Costa Rica: Overdue Loan Portfolio of the Financial System
(As of August 31, 1997)

	Current Loans	Overdue Loans 1-30 days	31-60 days	61-90 days	91-180 days	More than 180 days	Judicial Collection 1/	Total	Total Loans
	(In millions of U.S. dollars)								
State commercial banks	**521.6**	**66.2**	**23.0**	**13.0**	**12.5**	**20.0**	...	**134.7**	**656.3**
Banco Nacional de Costa Rica	268.8	36.4	9.8	4.7	6.5	9.7	...	67.1	335.9
Banco de Costa Rica	186.1	13.3	5.8	5.6	3.6	3.3	...	31.7	217.8
Banco de Crédito Agrícola de Cartago	66.7	16.5	7.3	2.7	2.4	6.9	...	35.9	102.6
Other public banks	293.7	31.6	29.5	10.9	7.3	10.4	19.3	**109.1**	**402.8**
Private banks	692.3	26.2	8.8	3.4	3.9	6.0	9.1	**57.4**	**749.7**
Total regulated financial system 2/	**1,507.6**	**124.1**	**61.2**	**27.3**	**23.7**	**36.4**	**28.4**	**301.2**	**1,808.8**
	(In percent of loans per institution)								
State commercial banks	**82.1**	**10.4**	**3.6**	**2.0**	**2.0**	**3.1**	...	**21.2**	**100.0**
Banco Nacional de Costa Rica	83.0	11.2	3.0	1.4	2.0	3.0	...	20.7	100.0
Banco de Costa Rica	86.3	6.2	2.7	2.6	1.7	1.5	...	14.7	100.0
Banco de Crédito Agrícola de Cartago	69.7	17.3	7.7	2.8	2.5	7.2	...	37.5	100.0
Other public banks	**73.9**	**8.0**	**7.4**	**2.7**	**1.8**	**2.6**	**4.9**	**27.5**	**100.0**
Private banks	**93.5**	**3.5**	**1.2**	**0.5**	**0.5**	**0.8**	**1.2**	**7.8**	**100.0**
Total regulated financial system 2/	**85.0**	**7.0**	**3.5**	**1.5**	**1.3**	**2.1**	**1.6**	**17.0**	**100.0**
	(In percent of loans per category)								
State banks	**54.1**	**78.9**	**85.6**	**87.5**	**83.7**	**83.4**	...	**80.9**	**58.6**

Source: Superintendency of Financial Entities (SUGEF), Financial Bulletin, September 30, 1997.

1/ The amount under judicial collection was included in different categories of overdue loans.
2/ Excluding other nonbank financial institutions.

As of August 1997, the latest month for which data are available, 83 percent of loans overdue by more than 180 days were held by the state banks. These indicators, however, may be biased in favor of private banks since they can transfer nonperforming loans to their offshore branches.

87. The overall structure of the financial system has been strengthened over the past two years through injections of capital, mergers, and acquisitions of private domestic banks by foreign banks. In addition, the elimination of the monopoly by state banks on sight deposits widened and lowered the cost of the resource base of private banks. In part reflecting these developments, the share of bank loans from the state banks has decreased from 40 percent to 36 percent over the past two years.

88. The distribution of credit by economic activity has changed in the 1990s. Despite little change in the participation of agriculture and manufacturing in GDP, their share in credit has declined steadily since 1990 (Statistical Appendix Table 25). By contrast, credit to the tourism, trade, and service sectors has expanded significantly. However, the most marked growth has taken place in credit for consumption and housing, reflecting in part the expansion in retail finance activities by the domestic banking system.

B. Reforms to the Institutional Framework in the Financial Sector

89. There have been several changes in the legislation and regulations of the financial sector in Costa Rica in recent years. Among the most important was the legislation approved in November 1995, which aimed at enhancing competition and efficiency in the financial system and strengthening prudential supervision. The new legislation:

- Eliminated the monopoly held by the state banks on sight deposits, this by allowing private commercial banks to accept sight deposits subject to certain restrictions. These restrictions are for private banks to (a) maintain a minimum balance with state banks equivalent to 17 percent (after deduction for legal reserve requirements) of deposits with a maturity of 30 days or less, at an interest rate equivalent to 50 percent of the central bank basic deposit rate—a weighted average of interest rates in the weekly auctions and six-month bank deposits—or the one-month LIBOR rate (for dollar deposits); or, alternatively, (b) open four agencies or branches in certain regions of the country, and allocate at least 10 percent (after deduction for legal reserve requirements) of deposits with a maturity of 30 days or less for loans to activities determined by the government, at an interest rate not to exceed the basic deposit rate or the one-month LIBOR rate for loans in foreign currency.

- Opened access to central bank rediscounts and emergency credits to all the financial institutions to be supervised by SUGEF.[33] However, private intermediaries have to comply with additional conditions that are (a) meeting the same conditions established to open sight deposits as described above; or, alternatively, (b) maintaining (for three months prior to having access to the rediscount facility) a minimum balance with state banks equivalent to 12 percent (after deduction for legal reserve requirements) of deposits with a maturity of 30 days or less, at an interest rate equivalent to 50 percent of the basic deposit rate or the one-month LIBOR rate (for dollar deposits). Moreover, the central bank can extend at its discretion the amount of deposits to be maintained at the state banks.

- Broadened the scope of supervision of SUGEF to include cooperatives, savings and loan associations, the *Banco Popular* and BANHVI, and entities authorized to participate in the exchange market. However, offshore subsidiaries were left outside the scope of SUGEF.

- Increased the scope for greater autonomy of the central bank by extending the terms of five of its seven directors from four years to seven years, and rotating directors such that a new director would take office and another leave every eighteen months. The remaining two directors are the president of the central bank and the minister of finance.

- Increased the autonomy of SUGEF by creating its own board of directors with five members: two from the central bank, two from outside the central bank (named by the board of the central bank), and the superintendent general, who chairs the sessions.

- Established a ceiling of 15 percent for legal reserve requirements, to be applied to all deposits regardless of maturity or currency. However, in exceptional cases and if economic conditions warrant, the central bank may temporarily raise reserve requirements to 25 percent, but remunerating reserves in excess of 15 percent. In addition, the central bank was allowed to extend reserve requirements to all financial institutions supervised by SUGEF. In March 1996, the central bank initiated the process aimed at unifying, extending the coverage, and establishing a timetable to reduce reserve requirements in steps (to a uniform rate of 15 percent by March 1998) for all financial intermediaries subject to these requirements (Table 3).[34] Reserve requirements for savings and loan associations, previously not subject to reserve requirements, will be

[33]Prior to this change, only state commercial banks had access to these facilities.

[34]Except for time deposits above 180 days, for which the reserve requirements will be raised from 10 to 15 percent. Another exception is reserve requirements for foreign currency deposits above 30 days, which in July 1996 was reduced to 5 percent.

Table 3. Costa Rica: Legal Reserve Requirements
(In percent)

	December					March
	1993	1994	1995	1996	1997	1998
Local currency deposits						
Demand deposits	36	43	43	25	18	15
Time deposits						
Less than 180 days	17	30	30	17	15	15
180 days and above	10	10	10	10	15	15
Foreign currency deposits						
Less than 30 days	36	36	36	25	18	15
Between 30 and 180 days	17	17	17	5	5	5
180 days and above	10	10	10	5	5	5
On behalf of the central bank	100	100	100	...	...	...

Source: Central Bank of Costa Rica.

increased in steps to reach 15 percent by May 1999. Also, in November 1997, the central bank extended reserve requirements to deposits in cooperatives and credit unions (with assets above C 200 millions), *comisiones de confianza, fideicomisos, OPABs, and CAVs.* For these financial instruments, reserve requirements will be raised in steps to 15 percent by November 1999.

90. **Other key developments affecting the financial sector have been:**

- In October 1995, the government and the central bank agreed with the three state banks on a set of guidelines and targets to improve their financial performance. To attain these targets, the state banks established action plans to be completed by June 30, 1998, with intermediary targets for every six months. SUGEF was entrusted with the responsibility of monitoring the banks' progress under the action plans. The guidelines included targets on operating costs, intermediation spreads, and overdue loans. They also dealt with actions to reduce the red tape in the processing of loan applications. Progress under these action plans has been satisfactory to date.

- To enhance the conduct of **monetary policy**, develop the market for securities, and move to market-determined interest rates, the authorities introduced in April 1996 an auction mechanism for the placement of government and stabilization bonds. However, shortcomings in the initial design of the auction resulted in limited participation by small investors and a persistent and significant under subscription, little flexibility of interest rates, further segmentation of the financial market, and widening of interest rate differentials among participants in the market. To reduce these shortcomings, the authorities strengthened the auction mechanism in March 1997, by reducing the minimum size of the bids (from C 1 million to C 250,000), allowing private investors to participate with noncompetitive bids through brokerage houses, and reducing the frequency of the auctions to once a week and the maturities to 4, 12, and 24 weeks. However, the switch to discretionary amounts and the elimination of the pre-established rule to determine outliers also adopted at this time, weakened the input of market participants in the determination of the interest rates.

- In September 1996, the assembly approved legislation allowing private sector participation in the marketing of **insurance** policies. In this regard, the IDB is supporting a more comprehensive reform of the insurance sector, including the elimination of the public monopoly in the industry.

- Modifications to the legal instrument of Administration by **Judicial Intervention** for borrowers in financial distress (a local version of Chapter 11 in the United States) were introduced in October 1996, including stricter eligibility requirements and the accrual of interest on outstanding obligations.[35] Before the changes, the Administration by Judicial Intervention had serious repercussions on the quality of the loan portfolio of the banks because the intervention process could linger up to six years, including the period that the court would take to grant it. Following the changes, use of this legal instrument has all but stopped.

- In November 1996, regulations were issued for the functioning of an **interbank market** with a view that the central bank would switch gradually to this market as the main instrument for controlling of liquidity and as a complement to the open market operations conducted through the weekly auction of stabilization bonds. The interbank market operates through the *Bolsa Nacional de Valores* (one of the two stock exchanges) through securities held at the central securities depository (CEVAL).

- In April 1997, the central bank introduced regulations to improve the efficiency of the **payments system** and introduced an electronic check clearing system. The regulations established that daily settlements in the central bank books for net positions of the participants for large value transactions will take place at 8:30 p.m. on the same day and for small transactions at 2:30 p.m. on the following day. However, there is still a need to improve clearing procedures for checks drawn on bank offices outside the capital area.

- In April 1997, the 27-day **deposit facility** at the central bank was replaced by a 7-day facility, while the 1-day facility was retained. These facilities are open to all market participants and not just to banks. The 27-day deposit rate (which competed with the 28-day government and stabilization bonds) potentially provided a conflicting signal in contrast with the amount offered in the auction.

- To improve the management of the domestic public debt, in September 1997 the treasury started placing through monthly auctions a fully standardized one-year bond in denominations of C 1 million (US$4,000). The objectives are to create a deeper market in this bond, promote its trading in the secondary market, lengthen debt maturities (presently concentrated at below 360 days), reduce liquidity premia, and achieve more efficient pricing in the securities market, while providing the market with a reference yield curve. These bond issues will serve also as the base for repos in the interbank market.

- To continue to improve **bank supervision**, the central bank issued regulations in November 1997 to cover offshore banking operations of financial conglomerates, including the provision of consolidated information about the operations and rules for transactions among members of the group (including the offshore affiliates) and with

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[35]Previously, enterprises protected by this legal procedure were allowed to stop paying their debts, and creditors did not accrue interest.

their nonrelated borrowers with a view to reduce risk. A minimum capital of US$3 million was established for offshore bank members of registered conglomerates, while that for local private banks was raised from US$1.2 million to US$4 million, to be observed within a two-year period starting by April 1998.

- In December 1997, legislation was enacted to strengthen the national commission of securities and the superintendency of pensions with a view to providing the necessary framework for the development of the capital market.

91. Notwithstanding the marked strengthening in the structure and health of the domestic banking system since mid-1995, further improvement is required, including by reducing market segmentation. There is a need to remove distortions and further competition and efficiency in the sector. Large spreads between lending and borrowing interest rates, large differences in interest rates between public and private financial intermediaries, and the prevailing offshore banking activities are evidence of the need for advancing in regulatory reforms and redefining the role of the public financial intermediaries.

C. Efficiency of the Financial System

92. The efficiency of a financial system in mobilizing and allocating resources is inversely related to the size of the intermediation costs. Traditionally, intermediation costs have been measured by the spreads between borrowing and lending rates prevailing in the financial system. Bank spreads have been historically high in Costa Rica and the spreads of the state banks have been almost double the size of that of the private banks, which is a clear sign of market segmentation.

93. In a comprehensive study, Camacho and Mesalles estimated **bank spreads** in Costa Rica in the 1987–92 period and examined the main factors behind the high costs of bank intermediation.[36] They analyzed the following factors that explain the size of the spreads:[37] operating expenses, legal reserve requirements, explicit taxes, implicit costs of holdings low-earning assets, net revenue for other services rendered, and profits (Table 4). They found that operating costs constituted the most important factor in determining the spreads for both the state and private banks. However, the importance of this factor was more significant for the state banks, which could be explained by a higher degree of rigidity in administrative decisions and a larger network of branches. For public banks, the second most important factor in the

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[36]Camacho, E. and Mesalles, L., 1994, *"Margen de Intermediación y Eficiencia en la Banca,"* in *Regulación, Competencia y Eficiencia en la Banca Costarricense,* ed. *Academia Centroamericana.*

[37]Spreads measured as the difference between the average cost of funds relative to the average lending rates.

Table 4. Commercial Banks Spreads 1/
(In percent)

	State Banks					Private Banks				
	Average 1987–92	June 1993	June 1995	June 1996	March 1997	Average 1987–92	June 1993	June 1995	June 1996	March 1997
1. Average return on loans	28.4	25.5	28.7	27.7	25.1	32.1	25.7	38.0	30.9	28.4
2. Average costs of funds	10.0	7.4	13.5	12.4	12.8	22.6	18.8	30.2	25.9	22.1
3. Spread (1–2)	18.4	18.1	15.2	15.3	12.3	9.5	6.9	7.9	5.0	6.4
4. Costs of reserve requirements	4.5	5.3	6.0	6.6	3.7	1.6	2.3	3.7	2.9	2.7
5. Operating costs	9.0	9.5	8.9	9.6	8.0	7.8	7.4	8.6	10.9	10.7
6. Costs of holding securities	1.9	4.1	1.0	-0.1	-1.0	3.0	1.5	2.6	0.6	0.9
7. Costs related to other net assets	5.6	2.5	1.8	0.6	1.2	-3.9	-4.4	-8.9	-7.2	-6.0
8. Other items	-2.6	-3.3	-2.5	-1.3	0.3	0.9	0.1	1.9	-2.1	-2.0
8.1. Taxes	0.6	0.4	0.5	0.6	0.6	1.2	1.1	1.6	1.3	1.0
8.2. Cost of arrears	1.6	1.3	1.0	1.7	0.4	0.5	0.5	0.7	0.9	0.6
8.3. Profits/losses	-0.1	0.5	0.7	1.8	3.6	4.9	3.1	4.3	2.9	2.9
8.4. Revenue for services	-2.5	-2.8	-3.4	-3.8	-2.6	-4.2	-3.6	-4.4	-4.6	-5.8
8.5. Other revenues	-2.3	-2.8	-1.3	-1.5	-1.7	-1.4	-1.0	-0.3	-2.6	-0.6

Source: Central Bank of Costa Rica.

1/ Average for 1987–92 data from Camacho and Mesalles (1994). For 1993–97, the central bank staff used the same methodology developed by Camacho and Mesalles.

determination of spreads (but not for private banks) was the cost of other net assets (defined as nonearning assets minus noninterest bearing liabilities and net worth), indicating that state banks were using a larger proportion of liabilities for purposes other than lending. For private banks, the second most important factor determining spreads was profit. By contrast, this factor was not significant for state banks, which would indicate that the lack of competitive pressures was not used by state banks to increase profits but to operate more inefficiently. The third most important factor determining spreads for state banks were legal reserve requirements, which is explained by the monopoly to attract deposits with shorter maturities held by these banks until November 1996, which have higher legal reserve requirements.

94. After 1992, Costa Rican commercial banks continued to show high but declining spreads,[38] with spreads in state banks still double the size of the spreads in private banks. Operating costs continue to be the major factor behind the spreads for state and private banks, with its importance increasing for private banks. Costs associated with legal reserve requirements have become the second major factor explaining spreads for state banks, instead of costs associated to other net assets as previously. For private banks, the costs associated with legal reserve requirements have become a more important factor than before, but the second most important factor in explaining spreads continues to be profits.

95. These developments point to two important conclusions: (a) the reduction in the spreads in the state banks appears to have prompted a concurrent reduction in private banks' spreads, supporting the argument that public banks' inefficiencies have allowed higher profits for private banks than would have been the case in a more competitive market; and (b) a major factor explaining the reduction in state banks' spread has been the large reduction in the opportunity cost of holding securities and other net assets. This factor does not reflect an increase in the state banks' efficiency regarding their intermediation function, but a reduction in intermediation activities relative to investment in securities as a share in their portfolio (see Table 1). As of September 1997, the ratio of loans to deposits and net worth was 24 percent in the state commercial banks compared with a ratio of investment in securities to deposits and net worth of 61 percent; the same ratios for the private banks were 90 and 17 percent, respectively.

96. The marked increase in holdings of securities by the state banks was, in part, prompted by a reduction in the legal reserve requirements, which freed previously noninterest earning assets. Furthermore, the opportunity cost of investing in securities relative to extending loans has been reduced for the state banks because of the attractive interest rates offered by government bonds. State banks, in contrast to private banks, can benefit from those rates because they can attract deposits at significantly lower rates due to the explicit and implicit government guarantee on their deposits. State banks have persistently offered lower interest rates on deposits with equivalent maturities of the government bonds, with the costs to attract those

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[38]Reduction in state banks' intermediation spreads was one of the targets to be achieved in the agreement signed between the government and the state commercial banks.

deposits representing an upper limit as state banks mobilize sight deposits at even lower rates (Table 5).

D. Conclusions

97. Prompt and corrective measures are required to address the remaining weakness in the institutional and regulatory framework of the financial sector. Reforms should be designed with a view to level the playing field for private financial intermediaries, increase competition in the financial system, and enhance the scope of financial supervision. It would be necessary to:

- Enforce regulations requiring the supervision by SUGEF of financial groups on a consolidated basis, including offshore activities.

- Continue to strengthen the finances of the private banks through mergers, consolidation, and increased participation by foreign banks by, inter alia, allowing these banks to establish branches in Costa Rica.

- Eliminate the government explicit guarantee on 100 percent of the state banks deposits as established in the constitution. Moreover, correct the distorted incentive structure derived from the perception of an implicit government guarantee on state banks' deposits by introducing a limited, mandatory deposit insurance scheme, funded by premiums levied on all commercial banks, private and state-owned.

- Remove the conditions imposed on private banks to attract sight deposits and for using the central bank rediscount facilities and emergency windows as they limit their capacity to compete with the state banks.

- Design a comprehensive strategy to define the role of the state and public banks in the context of the privatization of BICSA and of the *Banco de Costa Rica* (one of the two major state banks). Actions to level the playing field for the private sector without serious reforms to the structure of the state-owned banking system could result in a rapid deterioration of the finances of these banks and could be a source of quasi-fiscal losses.

- Allow market forces to play a greater role in the determination of interest rates on central bank and government paper by further improving the auction mechanism and developing the interbank market. This would permit moving faster toward financial deepening, correcting market segmentation, and eliminating unwarranted interest rate differentials.

Table 5. Costa Rica: Interest Rates

(In percent, annual basis)

	Inflation rate	Govt. bonds	State Banks: Six-month Deposits 1/	State Banks: Spreads 2/	Private Banks: Min. six-month Deposits 3/	Private Banks: Spreads 2/	Private Banks: Max. six-month Deposits 4/	Private Banks: Spreads 2/
1991								
March	29.2	33.5	30.4	-3.1	33.7	0.2	39.7	6.2
June	30.2	30.5	29.5	-1.0	29.4	-1.1	33.7	3.2
September	29.9	31.5	29.5	-2.0	31.5	0.0	31.6	0.1
December	25.5	29.8	28.3	-1.5	30.7	0.9	35.5	5.7
1992								
March	26.1	20.0	18.3	-1.7	19.6	-0.4	27.7	7.7
June	23.0	13.0	10.5	-2.5	12.5	-0.5	16.9	3.9
September	18.7	16.3	15.6	-0.7	19.0	2.7	21.0	4.7
December	17.0	19.0	18.0	-1.0	20.4	1.4	23.9	4.9
1993								
March	10.2	15.7	15.9	0.2	16.0	0.3	19.0	3.3
June	9.3	18.0	16.7	-1.3	16.0	-2.0	21.5	3.5
September	8.9	27.2	23.0	-4.2	23.0	-4.2	30.0	2.8
December	9.0	26.1	21.6	-4.5	23.0	-3.1	30.4	4.3
1994								
March	11.3	24.2	20.0	-4.2	21.0	-3.2	25.5	1.3
June	12.0	24.2	20.0	-4.2	21.2	-3.0	26.4	2.2
September	16.3	26.7	20.7	-6.0	22.8	-3.9	27.3	0.6
December	19.9	28.9	22.7	-6.2	27.2	-1.7	31.8	2.9
1995								
March	25.6	34.0	27.4	-6.6	33.2	-0.8	36.4	2.4
June	23.3	34.0	27.8	-6.2	32.0	-2.0	36.7	2.7
September	22.0	32.1	27.0	-5.1	28.9	-3.2	36.7	4.6
December	22.6	29.4	24.5	-4.9	26.1	-3.3	32.1	2.7
1996								
March	18.3	25.0	21.2	-3.8	21.2	-3.8	25.8	0.8
June	19.3	23.1	17.0	-6.1	20.0	-3.1	24.5	1.4
September	17.4	24.6	16.8	-7.8	20.1	-4.5	26.6	2.0
December	13.9	26.6	16.7	-9.9	21.0	-5.6	26.6	0.0
1997								
March	14.9	22.7	16.5	-6.2	20.9	-1.8	26.1	3.4
June	13.6	21.7	15.7	-6.0	20.3	-1.4	23.1	1.4
September	12.0	19.8	15.4	-4.4	16.3	-3.5	20.7	0.9
December	11.2	18.0	14.9	-3.1	16.3	-1.7	20.7	2.7

Source: Central Bank of Costa Rica.

1/ Average interest rate on six-month deposits.
2/ Differences between interest rate on deposits and gross interest on six-month government bonds.
3/ Minimum interest rates reported.
4/ Minimum interest rates reported.

Table 1. Costa Rica: National Income Accounts

	1992	1993	1994	1995	1996	Est. 1997
	(In billions of colones)					
Consumption	**689**	**827**	**1,003**	**1,243**	**1,461**	**1,701**
Private sector	545	648	779	958	1,128	1,313
Public sector	144	178	224	285	333	388
Gross domestic investment	**265**	**318**	**345**	**380**	**427**	**594**
Fixed capital formation	188	249	259	313	345	432
Private sector	151	196	195	230	253	315
Public sector	37	52	63	83	92	117
Change in inventories	76	70	86	68	82	163
Gross domestic expenditure	**954**	**1,145**	**1,348**	**1,623**	**1,889**	**2,295**
Resource gap	**-47**	**-76**	**-42**	**-2**	**-16**	**-81**
Exports of goods and nonfactor services	343	412	518	693	853	1,042
Imports of goods and nonfactor services	-390	-488	-561	-695	-870	-1,123
GDP at market prices	**906**	**1,069**	**1,306**	**1,622**	**1,872**	**2,214**
	(In millions of 1966 colones)					
Consumption	**9,362**	**9,963**	**10,321**	**10,457**	**10,350**	**10,536**
Private sector	7,974	8,491	8,831	8,943	8,813	8,992
Public sector	1,388	1,472	1,489	1,514	1,537	1,544
Gross domestic investment	**3,551**	**3,994**	**3,767**	**3,511**	**2,922**	**3,901**
Fixed capital formation	3,156	3,875	3,560	3,517	3,387	3,862
Private sector	2,532	3,073	2,706	2,626	2,519	2,900
Public sector	625	803	854	891	869	962
Change in inventories	395	119	207	-6	-465	39
Gross domestic expenditure	**12,913**	**13,957**	**14,088**	**13,968**	**13,272**	**14,437**
Resource gap	**575**	**387**	**899**	**1,376**	**1,973**	**1,293**
Exports of goods and nonfactor services	7,681	8,544	9,216	9,893	10,791	11,246
Imports of goods and nonfactor services	-7,106	-8,157	-8,317	-8,517	-8,818	-9,953
GDP at market prices	**13,488**	**14,344**	**14,987**	**15,344**	**15,245**	**15,730**

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

Table 2. Costa Rica: Gross Domestic Product by Sector

	1992	1993	1994	1995	1996	Est. 1997
	(In billions of current colones)					
Gross domestic product	**906**	**1,069**	**1,306**	**1,622**	**1,872**	**2,214**
Agriculture	148	172	216	254	291	328
Industry and mining	186	207	243	310	346	415
Utilities	32	40	47	55	66	78
Construction	23	29	35	38	41	57
Commercial services	193	222	264	325	382	455
Transport and communication	48	58	69	85	102	123
Financial services	69	90	115	145	172	204
Housing	27	32	38	44	53	61
Public administration	119	145	187	241	271	317
Other services	60	75	92	124	149	176
	(In millions of 1966 colones)					
Gross domestic product	**13,491**	**14,344**	**14,987**	**15,344**	**15,245**	**15,730**
Agriculture	2,614	2,676	2,757	2,867	2,856	2,835
Industry and mining	2,961	3,151	3,261	3,378	3,240	3,386
Utilities	421	445	478	492	503	521
Construction	478	556	591	542	489	569
Commercial services	2,319	2,493	2,617	2,661	2,675	2,781
Transport and communication	1,245	1,378	1,484	1,573	1,613	1,677
Financial services	963	1,082	1,158	1,141	1,152	1,194
Housing	836	854	875	890	903	925
Public administration	1,081	1,102	1,130	1,154	1,159	1,165
Other services	573	607	637	648	654	677

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

Table 3. Costa Rica: Volume of Agricultural Production

(In thousands of metric tons)

	1992	1993	1994	1995	1996	Est. 1997
Coffee	161.3	152.3	148.8	152.3	144.1	138.9
Bananas	1,920.0	2,110.9	2,170.7	2,340.1	2,225.4	2,120.6
Sugarcane	3,157.4	3,304.5	3,302.8	3,557.0	3,769.0	3,482.5
Cocoa	2.1	1.8	1.4	1.4	0.7	1.2
Rice	173.3	147.3	175.6	157.5	201.7	197.7
Corn	41.4	37.5	30.5	25.9	29.1	41.3
Beans	36.6	30.8	35.9	34.9	20.1	16.0
Plantains	99.6	108.9	138.3	159.5	170.0	202.9

Source: Central Bank of Costa Rica.

Table 4. Costa Rica: Output and Prices of Major Agricultural Products

(Annual percentage changes)

	1992	1993	1994	1995	1996	Est. 1997
Major exports						
Coffee						
Output	-0.3	-5.6	-2.3	2.4	-5.4	-3.6
Export price 1/	-17.7	9.4	82.9	59.9	-9.6	52.5
Bananas						
Output	12.0	9.9	2.8	7.8	-4.9	-4.7
Export price 1/	22.8	2.8	10.7	19.8	19.3	-2.8
Sugar						
Output (sugarcane)	7.2	4.7	-0.1	7.7	6.0	-7.6
Export price 1/	10.0	15.0	-6.3	47.3	43.6	10.2
Basic grains						
Rice						
Output	-5.1	-15.2	19.2	-10.3	28.1	-2.0
Consumer price	19.5	4.8	-0.3	18.7	32.7	67.7
Corn						
Output	-26.9	-9.5	-18.7	-15.1	12.4	41.9
Support price 2/	4.2	6.3	...	...	...	...
Consumer price	...	1.0	5.2	9.2	...	...
Beans						
Output	-1.5	-16.0	16.6	-3.9	-41.7	-20.4
Support price 2/	...	12.8	...	...	...	...
Consumer price	16.2	-0.7	14.7	4.8	51.3	43.3

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

1/ Changes based on export unit values converted at the average annual buying exchange rate.
2/ The CNP ceased to support prices of basic grains in the second half of 1995.

Table 5. Costa Rica: Average Prices of Basic Grains

(In colones per kilo)

	1992	1993	1994	1995	1996	Est. 1997
Rice						
Wholesalers	70.1	73.5	78.2	88.0	...	...
Retailers	72.2	75.7	80.5	90.6	...	...
Consumers	79.4	83.2	83.0	98.5	130.7	219.2
Corn						
Support price 1/	24.9	26.5	31.6	30.7	...	...
Wholesalers	33.5	33.9	35.4	34.4	...	37.5
Industrial	34.0	34.3	35.8	...	...	...
Retailers	34.9	35.3	37.2	40.6	...	...
Consumers	39.5	39.9	42.0	45.8	...	66.0
Beans						
Support price 1/	70.3	79.3	93.6	91.2	...	...
Wholesalers	87.3	88.3	...	...	147.8	203.3
Retailers	89.0	88.3	107.1	105.9	...	...
Consumers	100.5	99.8	114.4	119.9	181.5	260.2

Sources: National Production Council (CNP); and Fund staff estimates.

1/ The CNP ceased to support prices of basic grains in the second half of 1995.

Table 6. Costa Rica: Industrial Production

(Index 1991=100)

	1992	1993	1994	1995	1996	1997 1/
Total	**108.1**	**115.9**	**119.7**	**124.3**	**119.3**	**124.4**
Foodstuffs, beverages, and tobacco	101.8	110.4	110.1	118.3	115.8	118.2
Textiles, clothing, and leather	112.3	115.2	107.2	105.5	92.6	96.7
Wood and wood products	99.3	88.0	92.1	84.7	73.0	72.6
Paper and paper products	97.4	106.4	102.5	101.8	102.0	109.4
Chemical and petroleum products	123.8	131.1	152.5	161.3	153.1	158.3
Nonmetallic minerals	105.3	111.6	108.6	108.1	100.0	115.3
Metals	103.4	120.9	130.4	138.2	169.5	164.6
Other	139.4	119.3	138.3	111.8	105.2	111.9

Source: Central Bank of Costa Rica.

1/ Refers to the period January-September.

Table 7. Costa Rica: Comparative Social Indicators

	Costa Rica			Latin America		
	1975	1985	1996	1975	1985	1996
GNP per capita (in U.S. dollars)	950	1,382	2,640	1,192	1,836	3,710
Primary enrollment 1/	107	97	106	99	107	110
Male	108	98	107	100	...	...
Female	106	96	105	98	...	...
Secondary enrollment 1/	42	40	...	35	48	...
Illiteracy 2/	12	8	5	26	18	13
Infant mortality 3/	38	19	13	78	56	37
Life expectancy (years)	68	74	77	61	65	69
Child malnutrition 4/	...	6	2	...	...	...

Sources: International Economics Department, World Bank; and Central Bank of Costa Rica.

1/ In percent of school age population.
2/ In percent of population above 15 years of age.
3/ Per thousand live births.
4/ In percent of age group under five.

Table 8. Costa Rica: Price Indicators

	Weights	Indices					
		1992	1993	1994	1995	1996	1997
		(1991 = 100)					
Producer prices (average)	**100.0**	**118.4**	**124.5**	**140.8**	**174.5**	**202.4**	**225.8**
Food, beverages and tobacco	49.5	123.2	128.7	150.0	183.6	216.5	245.4
Textiles and leather	6.9	116.9	123.0	134.9	157.6	179.9	200.9
Wood products	3.0	128.2	158.5	189.3	225.6	273.0	312.1
Paper and printing	8.2	117.5	124.6	141.4	194.9	206.4	222.1
Chemicals and petroleum product	19.8	112.9	118.8	128.3	161.2	189.6	209.6
Nonmetallic mineral products	4.2	116.9	128.4	143.7	173.7	201.0	215.8
Basic metalic products	3.4	107.5	106.7	112.6	150.0	170.7	174.7
Machinery	4.7	109.9	111.5	122.0	143.4	160.7	184.3
Producer prices (end of period)		**121.2**	**128.8**	**154.4**	**188.2**	**213.1**	**234.8**
Food, beverages and tobacco		126.9	134.1	166.9	195.6	230.7	255.9
Textiles and leather		120.6	123.1	140.6	172.3	189.8	207.1
Wood products		138.6	176.6	197.2	246.9	280.9	332.7
Paper and printing		119.8	128.2	161.0	213.8	202.3	231.4
Chemicals and petroleum products		115.3	121.2	140.4	173.5	205.5	214.5
Non metallic mineral products		120.9	132.6	152.4	185.8	207.5	221.4
Basic metalic products		105.5	109.9	119.5	170.1	167.1	187.1
Machinery		106.6	116.1	127.6	152.7	165.5	193.1
		(1966 = 100)					
Implicit GDP deflator		**6,720**	**7,455**	**8,713**	**10,568**	**12,282**	**14,076**
		(1975 = 100) 1/					
Consumer prices (average)	**100.0**	**2,252.3**	**2,472.6**	**2,807.3**	**3,458.2**	**4,066.9**	**4,607.9**
Food	45.9	2,506.9	2,784.5	3,158.3	3,804.8	4,523.2	5,197.0
Clothing	4.0	930.9	997.6	1,075.3	1,214.6	1,354.6	1,463.0
Housing	19.1	1,538.1	1,737.5	1,911.9	2,311.7	2,590.7	2,728.0
Other	31.0	3,259.6	3,470.2	4,044.8	4,991.9	5,061.9	5,582.5
Consumer prices (end of period)		**2,364.0**	**2,577.9**	**3,089.7**	**3,787.0**	**4,313.0**	**4,796.0**
Food		2,613.5	2,784.5	3,481.9	4,238.5	4,870.4	5,480.8
Clothing		966.7	1,014.5	1,121.6	1,304.7	1,414.3	1,507.3
Housing		1,652.7	1,805.4	2,055.6	2,425.4	2,689.6	2,688.3
Other		3,412.0	3,470.2	4,527.6	5,153.2	5,409.7	5,668.5

Source: Central Bank of Costa Rica.

1/ In January 1995, Costa Rica adopted a new CPI index based on a larger number of goods and on a geographically wider sampling area. For comparison purposes, the 1995 indices reported in this table have been converted into the old basis.

Table 9. Costa Rica: Producer Price Index Components

(1991 = 100)

	General Index	By Degree of Price Control	
		Controlled	Noncontrolled
1992			
March	116.8	118.9	116.4
June	118.3	119.8	118.0
September	119.6	120.5	119.4
December	121.2	123.5	120.8
1993			
March	121.9	125.3	121.3
June	123.7	129.7	122.7
September	126.2	128.0	125.9
December	128.8	127.9	128.9
1994			
March	132.8	126.5	134.1
June	138.7	131.1	140.2
September	146.5	136.7	148.4
December	154.4	143.5	156.6
1995			
March	165.2	151.3	168.0
June	173.5	152.3	177.3
September	180.3	157.6	184.3
December	188.2	170.7	191.5
1996			
March	196.2	179.4	199.4
June	200.5	185.1	203.6
September	207.2	196.6	209.6
December	213.1	207.0	215.0
1997			
March	219.8	213.9	221.7
June	225.2	212.9	228.0
September	230.2	217.6	233.0
December	234.8	...	...
Memorandum item:			
Shares in index	100.0	12.0	88.0

Source: Central Bank of Costa Rica.

Table 10. Costa Rica: Energy Prices

(End of period)

	1992	1993	1994	1995	1996	1997
			(In colones per liter)			
Petroleum prices						
Gasoline	50.2	48.2	56.9	72.8	102.7	105.0
Diesel	41.7	40.1	47.3	51.5	71.6	74.6
Kerosene	42.0	40.7	48.5	51.4	72.0	68.5
			(In colones per kwh)			
Electricity rates						
Residential	8.1	9.3	11.3	14.7	15.5	13.8
Industrial	11.0	12.8	15.8	21.1	21.2	20.2
Commercial	16.4	19.1	23.1	30.7	31.4	31.5
			(Annual percentage change)			
Petroleum prices						
Gasoline	-4.9	-4.0	18.1	27.9	41.1	2.2
Diesel	0.7	-3.8	18.0	8.9	39.0	4.2
Kerosene	1.2	-3.1	19.2	6.0	40.1	4.9
Electricity rates						
Residential	13.7	14.9	21.6	30.7	5.2	-11.0
Industrial	12.3	16.4	23.7	33.4	0.6	-4.7
Commercial	10.7	16.0	21.4	32.5	2.5	0.3

Source: Central Bank of Costa Rica.

Table 11. Costa Rica: Average Monthly Wages 1/

	1992	1993	1994	1995	1996
	(In current colones)				
Total	**37,461**	**45,627**	**55,953**	**68,426**	**78,562**
By sector					
Agriculture	26,902	31,945	37,470	45,868	45,227
Mining	25,791	35,714	38,744	47,410	65,190
Manufacturing	31,099	38,540	45,857	55,395	67,688
Public utilities	60,877	73,877	102,382	120,108	126,217
Construction	26,246	31,271	38,032	46,488	54,283
Commerce	30,383	36,784	43,898	51,752	61,000
Transport, storage, and communication	34,006	40,624	49,791	58,678	65,890
Finance	59,318	69,652	86,153	105,717	111,013
Other services	48,026	59,754	73,953	91,500	93,107
By employer					
Private enterprises	30,161	36,947	43,762	52,986	63,380
Central government	51,135	64,114	81,119	99,121	111,385
Autonomous entities	59,590	73,526	95,496	121,603	132,187
	(In 1975 colones) 2/				
Total	**1,654**	**1,844**	**2,018**	**2,018**	**1,920**
By sector					
Agriculture	1,188	1,291	1,351	1,353	1,105
Mining	1,139	1,443	1,397	1,398	1,593
Manufacturing	1,373	1,557	1,654	1,634	1,654
Public utilities	2,689	2,985	3,693	3,542	3,084
Construction	1,159	1,264	1,372	1,371	1,326
Commerce	1,342	1,486	1,583	1,526	1,490
Transportation, storage, and communication	1,502	1,641	1,796	1,730	1,610
Finance	2,620	2,814	3,107	3,118	2,172
Other services	2,121	2,414	2,667	2,698	2,275
By employer					
Private sector	1,332	1,493	1,578	1,563	1,549
Central government	2,258	2,591	2,926	2,923	2,721
Autonomous entities	2,632	2,971	3,444	3,586	3,230
Memorandum item:					
CPI for June of each year	2,264	2,475	2,773	3,391	4,093

Sources: Social Security Agency; and Central Bank of Costa Rica.

1/ Data for June of each year.
2/ Nominal wages deflated by the consumer price index.

Table 12. Costa Rica: Minimum Wage Index

(1984=100)

	1992	1993	1994	1995	1996	1997
Average nominal minimum wage index	**392.7**	**448.9**	**523.0**	**630.5**	**755.4**	**887.7**
By sector						
Agriculture	420.9	479.7	563.8	691.5	824.4	971.6
Mining	388.4	442.9	512.8	611.9	723.8	850.3
Manufacturing	425.3	484.7	561.1	670.2	794.3	932.6
Construction	353.3	402.8	466.5	556.6	658.4	773.4
Utilities	389.9	444.7	515.1	614.7	727.1	854.1
Commerce	406.2	463.9	538.3	643.9	765.4	898.7
Transport, storage, and communication	381.6	434.8	503.3	602.5	718.7	845.8
Services	373.1	425.6	492.7	589.7	715.9	840.0
Professional technicians	289.0	338.5	391.8	...	...	...
Office workers and suppliers	378.2	431.0	498.9	...	...	...
Other	414.8	472.9	547.5	579.4	702.8	824.1
Average real minimum wage index 1/	**99.4**	**103.5**	**106.3**	**104.0**	**106.0**	**110.0**
By sector						
Agriculture	106.6	110.6	114.5	114.1	115.6	120.1
Mining	98.3	102.1	104.2	100.9	101.5	105.1
Manufacturing	107.7	111.8	114.0	110.6	111.4	115.3
Construction	89.5	92.9	94.8	91.8	92.4	95.6
Utilities	98.7	102.6	104.6	101.4	102.0	105.6
Commerce	102.8	107.0	109.4	106.2	107.4	111.1
Transport, storage, and communication	96.6	100.3	102.2	99.4	100.8	104.6
Services	94.5	98.2	100.1	97.3	100.4	103.8
Professional technicians	73.2	78.1	79.6	...	...	...
Office workers and suppliers	95.8	99.4	101.3	...	...	...
Other	105.0	109.1	111.2	95.6	98.6	101.9

Sources: Ministry of Labor; and Central Bank of Costa Rica.

1/ Nominal minimum wages deflated by the consumer price index. Minimum wages are increased twice a year in January and July.

Table 13. Costa Rica: Employment 1/

	1992	1993	1994	1995	1996	1997
	(In thousands)					
Total employment	**1,043**	**1,097**	**1,138**	**1,168**	**1,145**	**...**
By sector						
Agriculture	251.1	247.9	243.6	252.4	247.9	...
Manufacturing and mining	198.7	198.4	205.6	195.5	191.0	...
Construction	61.3	67.4	74.6	73.3	64.1	...
Commerce and finance	210.4	241.1	260.3	275.6	275.4	...
Basic services and transportation 2/	61.7	67.8	75.2	74.6	70.3	...
Personal and other services	259.8	273.9	278.3	296.7	296.3	...
By employer						
Private sector	869.6	917.5	961.3	993.5	975.4	...
Public sector	169.4	176.5	173.5	171.8	167.4	...
Other 3/	4.0	2.5	2.8	2.7	2.2	...
	(In percent)					
Total employment	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**...**
By sector						
Agriculture	24.1	22.6	21.4	21.6	21.7	...
Manufacturing and mining	19.1	18.1	18.1	16.7	16.7	...
Construction	5.9	6.1	6.5	6.3	5.6	...
Commerce and finance	20.2	22.0	22.9	23.6	24.0	...
Basic services and transportation 2/	5.9	6.2	6.6	6.4	6.1	...
Personal and other services	24.9	25.0	24.5	25.4	25.9	...
By employer						
Private sector	83.4	83.7	84.5	85.1	85.2	...
Public sector	16.2	16.1	15.3	14.7	14.6	...
Other 3/	0.4	0.2	0.2	0.2	0.2	...
Memorandum items:						
Participation rate	37.0	38.1	38.7	39.3	38.1	...
Open unemployment rate	4.1	4.1	4.2	5.2	6.2	5.7

Sources: "Multiple Purpose Household Survey, Employment Module," General Directorate of Statistics and Census; Ministry of Economy, Industry and Commerce.

1/ Data from a survey conducted every year in July.
2/ Basic services include water and gas.
3/ Includes international organizations.

Table 14. Costa Rica: Summary Public Sector Operations

	1992	1993	1994 1/	1995	1996	Est. 1997
	(In billions of colones)					
Central government balance	**-17.4**	**-20.7**	**-66.0**	**-73.1**	**-99.4**	**-93.7**
Revenue	137.8	162.4	189.8	254.8	302.1	363.5
Expenditure	155.2	183.1	255.8	328.0	401.5	457.2
Public enterprises balance	**16.2**	**16.5**	**-6.6**	**21.5**	**21.2**	**27.5**
Major public enterprises	11.8	14.5	-17.8	14.2	18.4	24.4
Oil refinery, RECOPE	6.5	6.9	-4.2	2.2	2.9	2.5
Telephone and electricity company, ICE	4.2	7.0	-12.2	9.6	13.9	21.9
Agricultural marketing agency, CNP	0.5	-0.6	-2.2	0.2	0.2	0.3
Water company, ICAA	0.6	1.2	0.8	2.2	1.4	-0.2
Other public enterprises	4.4	2.0	11.2	7.3	2.8	3.0
Social security balance	**8.7**	**10.9**	**11.0**	**17.0**	**18.1**	**21.1**
Nonfinancial public sector balance	7.4	**6.6**	**-61.5**	**-34.6**	**-60.0**	**-45.1**
Financing (net)	**-6.0**	**-6.0**	**58.0**	**36.0**	**70.8**	**70.8**
External	5.2	-0.2	5.8	-7.5	-4.8	-4.8
Disbursements 2/	22.0	25.3	33.4	31.8	23.9	23.9
Amortizations	-22.9	-20.1	-34.2	-36.6	-38.7	-38.7
Change in arrears	6.1	-5.4	6.6	-7.8	-11.0	-11.0
Other	0.0	0.0	0.0	5.1	21.0	21.0
Domestic	-11.2	-5.8	52.2	43.5	75.6	75.6
Central bank	-6.7	-8.7	14.7	-41.7	7.9	7.9
Rest of the banking system	-15.9	-6.5	-12.4	3.5	28.3	28.3
Bonds	15.1	17.8	40.0	87.4	61.2	61.2
Float and other	-3.7	-8.4	9.9	-5.7	-21.9	-21.9
Statistical discrepancy	**-1.4**	**-0.6**	**3.5**	**-1.4**	**-10.8**	**-25.7**
Memorandum items:						
Central bank balance (losses -)	-15.9	-15.9	-18.8	-30.5	-38.9	-36.6
Combined public sector balance (deficit -)	-8.4	-9.3	-80.3	-65.1	-98.9	-130.2
Combined public sector savings 3/	32.7	51.9	0.5	23.3	5.5	-81.7
	(In percent of GDP)					
Central government balance	**-1.9**	**-1.9**	**-5.1**	**-4.5**	**-5.3**	**-4.2**
Revenue	15.2	15.2	14.5	15.7	16.1	16.4
Expenditure	17.1	17.1	19.6	20.2	21.4	20.6
Public enterprises balance	**1.8**	**1.5**	**-0.5**	**1.3**	**1.1**	**1.2**
Major public enterprises	1.3	1.4	-1.4	0.9	1.0	1.1
Other public enterprises	0.5	0.2	0.9	0.5	0.1	0.1
Social security balance	**1.0**	**1.0**	**0.8**	**1.1**	**1.0**	**1.0**
Nonfinancial public sector balance	**0.8**	**0.6**	**-4.7**	**-2.1**	**-3.2**	**-2.0**
Financing (net)	**-0.7**	**-0.6**	**4.4**	**2.2**	**3.8**	**3.2**
External	0.6	0.0	0.4	-0.5	-0.3	-0.2
Domestic	-1.2	-0.5	4.0	2.7	4.0	3.4
Statistical discrepancy	**-0.2**	**-0.1**	**0.3**	**-0.1**	**-0.6**	**-1.2**
Memorandum items:						
Central bank balance (losses -)	-1.8	-1.5	-1.4	-1.9	-2.1	-1.7
Combined public sector balance (deficit -)	-0.9	-0.9	-6.2	-4.0	-5.3	-3.7
Combined public sector savings 3/	3.6	4.9	0.0	1.4	0.3	2.1

Sources: Ministry of Finance; and Fund staff estimates.

1/ Excludes transfers to cover the losses of *Banco Anglo Costarricense*, a state commercial bank closed in December 1994.

2/ Includes rescheduling.

3/ Includes central bank losses.

Table 15. Costa Rica: Summary Central Government Operations

	1992	1993	1994	1995	1996	Est. 1997
	(In billions of colones)					
Total revenue	**137.8**	**162.4**	**189.8**	**254.8**	**302.1**	**363.5**
Tax revenue	133.9	159.2	185.1	250.1	296.4	358.1
Direct taxes	20.5	28.9	36.6	49.4	56.0	65.3
Indirect taxes	113.4	130.3	148.4	200.7	240.4	292.8
Nontax revenue 1/	3.9	3.2	4.7	4.7	5.7	5.4
Total expenditure	**155.2**	**183.1**	**255.8**	**328.0**	**401.5**	**457.2**
Current expenditure	139.4	162.0	225.7	296.9	365.1	408.7
Wages and salaries	45.9	57.8	74.7	91.8	108.5	127.9
Social security	4.3	3.6	6.1	11.1	14.0	16.1
Goods and services	6.5	7.8	10.9	12.6	15.1	17.6
Interest	33.0	33.3	53.5	90.9	113.8	116.9
Domestic	25.5	25.3	43.8	78.4	100.7	101.5
External	7.5	8.0	9.7	12.5	13.1	15.4
Transfers	49.7	59.5	80.5	90.3	113.7	130.1
Public sector	25.1	32.7	37.7	37.0	50.1	54.5
Private sector	24.4	26.4	42.3	52.9	63.0	75.0
External sector	0.2	0.5	0.5	0.4	0.6	0.6
Capital expenditure	15.9	21.1	30.1	31.1	36.4	48.5
Fixed investment	5.7	6.6	9.7	13.5	12.6	19.4
Transfers	9.9	14.0	19.4	16.5	22.6	28.3
Other	0.3	0.4	1.1	1.1	1.1	0.9
Overall balance (deficit -)	**-17.4**	**-20.7**	**-66.0**	**-73.1**	**-99.4**	**-93.7**
Financing	**20.1**	**25.5**	**74.9**	**72.2**	**106.8**	**89.6**
External	-1.5	6.2	-8.5	-6.1	-14.2	32.0
Net borrowing	-4.5	11.1	-16.4	1.7	-3.2	32.0
Change in arrears	3.0	-4.9	7.9	-7.8	-11.0	0.0
Domestic	21.6	19.3	83.4	78.3	121.0	57.5
Central bank	1.5	-1.8	-1.8	-35.9	2.1	-29.8
Commercial banks	-7.4	1.0	22.6	14.3	63.2	7.8
Bonds	27.5	20.0	62.6	99.9	55.8	79.5
Other	0	0	0	0	0	0
Statistical discrepancy	**-2.7**	**-4.7**	**-8.9**	**0.9**	**-7.4**	**4.1**
	(In percent of GDP)					
Total revenue	**15.2**	**15.2**	**14.5**	**15.7**	**16.1**	**16.4**
Of which						
Tax revenue	14.8	14.9	14.2	15.4	15.8	16.2
Total expenditure	**17.1**	**17.1**	**19.6**	**20.2**	**21.4**	**20.6**
Current expenditure	15.4	15.2	17.3	18.3	19.5	18.5
Of which						
Noninterest expenditure	11.7	12.0	13.2	12.7	13.4	13.2
Capital expenditure	1.8	2.0	2.3	1.9	1.9	2.2
Overall balance (deficit -)	**-1.9**	**-1.9**	**-5.1**	**-4.5**	**-5.3**	**-4.2**
Financing	**2.2**	**2.4**	**5.7**	**4.5**	**5.7**	**4.0**
External	-0.2	0.6	-0.7	-0.4	-0.8	1.4
Domestic	2.4	1.8	6.4	4.8	6.5	2.6
Statistical discrepancy	**-0.3**	**-0.4**	**-0.7**	**0.1**	**-0.4**	**0.2**

Sources: Ministry of Finance; and Fund staff estimates.

1/ Includes capital revenue.

Table 16. Costa Rica: Operations of the Central Government

	1992	1993	1994	1995	1996	Est. 1997
	(In billions of colones)					
Current revenue	**137.5**	**162.2**	**189.7**	**254.8**	**302.0**	**363.5**
Tax revenue	133.9	159.2	185.1	250.1	296.4	358.1
Direct taxes 1/	20.5	28.9	36.6	49.4	56.0	65.3
Indirect taxes	113.4	130.3	148.4	200.7	240.4	292.8
Transfers	1.6	1.6	3.3	2.9	3.5	3.4
Other	2.1	1.5	1.3	1.8	2.2	2.0
Current expenditure	**139.4**	**162.0**	**225.7**	**296.9**	**365.1**	**408.7**
Wages and salaries	45.9	57.8	74.7	91.8	108.5	127.9
Social security	4.3	3.6	6.1	11.1	14.0	16.1
Goods and services	6.5	7.8	10.9	12.6	15.1	17.6
Interest payments	33.0	33.3	53.5	90.9	113.8	116.9
Transfers	49.7	59.5	80.5	90.3	113.7	130.1
Public sector	25.1	32.7	37.7	37.0	50.1	54.5
Private sector	24.4	26.4	42.3	52.9	63.0	75.0
External	0.2	0.5	0.5	0.4	0.6	0.6
Current account surplus (deficit -)	**-1.8**	**0.2**	**-36.0**	**-42.1**	**-63.0**	**-45.1**
Capital revenue	**0.3**	**0.1**	**0.2**	**0.1**	**0.1**	**0.0**
Capital expenditure	**15.9**	**21.1**	**30.1**	**31.1**	**36.4**	**48.5**
Fixed investment	5.7	6.6	9.7	13.5	12.6	19.4
Transfers	9.9	14.0	19.4	16.5	22.6	28.3
Other	0.3	0.4	1.1	1.1	1.1	0.9
Overall surplus (deficit -)	**-17.4**	**-20.7**	**-66.0**	**-73.1**	**-99.4**	**-93.7**
	(In percent of GDP)					
Current revenue	**15.2**	**15.2**	**14.5**	**15.7**	**16.1**	**16.4**
Tax revenue	14.8	14.9	14.2	15.4	15.8	16.2
Direct taxes 1/	2.3	2.7	2.8	3.0	3.0	3.0
Indirect taxes	12.5	12.2	11.4	12.4	12.8	13.2
Transfers	0.2	0.1	0.3	0.2	0.2	0.2
Other	0.2	0.1	0.1	0.1	0.1	0.1
Current expenditure	**15.4**	**15.2**	**17.3**	**18.3**	**19.5**	**18.5**
Wages and salaries	5.1	5.4	5.7	5.7	5.8	5.8
Social security	0.5	0.3	0.5	0.7	0.7	0.7
Goods and services	0.7	0.7	0.8	0.8	0.8	0.8
Interest payments	3.6	3.1	4.1	5.6	6.1	5.3
Transfers	5.5	5.6	6.2	5.6	6.1	5.9
Public sector	2.8	3.1	2.9	2.3	2.7	2.5
Private sector	2.7	2.5	3.2	3.3	3.4	3.4
Current account surplus (deficit -)	**-0.2**	**0.0**	**-2.8**	**-2.6**	**-3.4**	**-2.0**
Capital expenditure	**1.8**	**2.0**	**2.3**	**1.9**	**1.9**	**2.2**
Fixed investment	0.6	0.6	0.7	0.8	0.7	0.9
Transfers	1.1	1.3	1.5	1.0	1.2	1.3
Other	0.0	0.0	0.1	0.1	0.1	0.0
Overall surplus (deficit -)	**-1.9**	**-1.9**	**-5.1**	**-4.5**	**-5.3**	**-4.2**

Sources: Ministry of Finance; and Fund staff estimates.

1/ Pension contributions of government employees are excluded from both revenue and expenditure.

Table 17. Costa Rica: Central Government Revenue

	1992	1993	1994	1995	1996	Est. 1997
	(In billions of colones)					
Total revenue	**137.8**	**162.4**	**189.8**	**254.8**	**302.1**	**363.5**
Tax revenue	**133.9**	**159.2**	**185.1**	**250.1**	**296.4**	**358.1**
Direct taxes	20.5	28.9	36.6	49.4	56.0	65.3
Income and profit tax	19.0	26.9	34.8	47.2	53.4	63.0
Payroll tax (netted out) 1/	3.1	5.1	7.2	9.7	12.4	18.4
Property tax	1.5	1.9	1.8	2.2	2.6	2.3
Indirect taxes	113.4	130.3	148.4	200.7	240.4	292.8
General sales tax	51.5	58.9	66.0	87.6	133.8	158.5
Selective taxes on goods and services	27.6	33.1	39.5	51.3	66.3	86.4
Taxes on international trade	34.4	38.3	43.0	61.8	40.3	47.9
On imports	27.6	33.2	37.4	49.4	33.9	42.1
Import duties	23.2	29.7	33.5	45.2	31.4	39.0
Import surcharges	1.7	0.1	0.0	0.0	0.0	0.0
Other	2.7	3.5	3.9	4.1	2.5	3.1
On exports	6.0	4.3	4.4	11.2	5.0	4.4
Ad valorem export tax	1.1	0.8	1.5	6.5	1.9	1.7
Banana export tax	4.5	3.2	2.9	4.5	3.1	2.7
Other on exports	0.4	0.3	0.1	0.0	0.0	0.0
Others	0.8	0.8	1.1	1.3	1.4	1.4
Nontax revenue	**3.9**	**3.2**	**4.7**	**4.7**	**5.7**	**5.4**
Sales of goods and services	0.7	0.4	0.5	0.4	0.5	0.5
Property income	0.3	0.1	0.2	0.1	0.1	0.0
Public enterprises	0.2	0.1	0.0	0.0	0.0	0.0
Public financial institutions	0.1	0.1	0.2	0.0	0.0	0.0
Transfers	1.6	1.6	3.3	2.9	3.5	3.4
Rest of general government	0.6	0.3	0.4	0.9	1.0	1.0
Public enterprises	0.3	0.4	2.1	0.6	0.7	0.7
Public financial institutions	0.7	0.8	0.8	1.5	1.7	1.7
Other	1.4	1.0	0.8	1.3	1.7	1.5
	(In percent of GDP)					
Total revenue	**15.2**	**15.2**	**14.5**	**15.7**	**16.1**	**16.4**
Tax revenue	**14.8**	**14.9**	**14.2**	**15.4**	**15.8**	**16.2**
Direct taxes	2.3	2.7	2.8	3.0	3.0	3.0
Income and profit tax	2.1	2.5	2.7	2.9	2.9	2.8
Payroll tax (netted out) 1/	0.3	0.5	0.5	0.6	0.7	0.8
Property tax	0.2	0.2	0.1	0.1	0.1	0.1
Indirect taxes	12.5	12.2	11.4	12.4	12.8	13.2
General sales tax	5.7	5.5	5.1	5.4	7.1	7.2
Selective taxes on goods and services	3.0	3.1	3.0	3.2	3.5	3.9
Taxes on international trade	3.8	3.6	3.3	3.8	2.2	2.2
On imports	3.0	3.1	2.9	3.0	1.8	1.9
Import duties	2.6	2.8	2.6	2.8	1.7	1.8
Import surcharges	0.2	0.0	0.0	0.0	0.0	0.0
Other	0.3	0.3	0.3	0.3	0.1	0.1
On exports	0.7	0.4	0.3	0.7	0.3	0.2
Ad valorem export tax	0.1	0.1	0.1	0.4	0.1	0.1
Banana export tax	0.5	0.3	0.2	0.3	0.2	0.1
Others	0.1	0.1	0.1	0.1	0.1	0.1
Nontax revenue	**0.4**	**0.3**	**0.4**	**0.3**	**0.3**	**0.2**
Sales of goods and services	0.1	0.0	0.0	0.0	0.0	0.0
Transfers	0.2	0.1	0.3	0.2	0.2	0.2
Rest of general government	0.1	0.0	0.0	0.1	0.1	0.0
Public enterprises	0.0	0.0	0.2	0.0	0.0	0.0
Public financial institutions	0.1	0.1	0.1	0.1	0.1	0.1
Other	0.2	0.1	0.1	0.1	0.1	0.1

Sources: Ministry of Finance; and Fund staff estimates.

1/ Pension contributions of government employees are excluded from both revenue and expenditure.

Table 18. Costa Rica: Central Government Expenditure

	1992	1993	1994	1995	1996	Est. 1997
	(In billions of colones)					
Total expenditure	**155.2**	**183.1**	**255.8**	**328.0**	**401.5**	**457.2**
Current expenditure	**139.4**	**162.0**	**225.7**	**296.9**	**365.1**	**408.7**
Wages and salaries	45.9	57.8	74.7	91.8	108.5	127.9
Social security	4.3	3.6	6.1	11.1	14.0	16.1
Goods and services	6.5	7.8	10.9	12.6	15.1	17.6
Interest	33.0	33.3	53.5	90.9	113.8	116.9
Domestic	25.5	25.3	43.8	78.4	100.7	101.5
External 1/	7.5	8.0	9.7	12.5	13.1	15.4
Transfers to	49.7	59.5	80.5	90.3	113.7	130.1
Rest of general government	7.9	10.8	11.5	6.7	15.2	12.5
Public enterprises	0.8	1.2	1.3	1.3	0.2	0.8
Other 2/ 3/	41.1	47.5	67.7	82.3	98.3	116.8
Capital expenditure	**15.9**	**21.1**	**30.1**	**31.1**	**36.4**	**48.5**
Fixed capital formation	5.7	6.6	9.7	13.5	12.6	19.4
Transfers to	9.9	14.0	19.4	16.5	22.6	28.3
Rest of general government	1.0	1.6	1.3	1.8	1.6	2.0
Public enterprises	0.2	0.2	0.9	4.0	5.3	6.6
Other 2/	8.7	12.2	17.1	10.7	15.7	19.6
Other	0.3	0.4	1.1	1.1	1.1	0.9
	(In percent of GDP)					
Total expenditure	**17.1**	**17.1**	**19.6**	**20.2**	**21.4**	**20.6**
Current expenditure	**15.4**	**15.2**	**17.3**	**18.3**	**19.5**	**18.5**
Wages and salaries	5.1	5.4	5.7	5.7	5.8	5.8
Social security	0.5	0.3	0.5	0.7	0.7	0.7
Goods and services	0.7	0.7	0.8	0.8	0.8	0.8
Interest	3.6	3.1	4.1	5.6	6.1	5.3
Domestic	2.8	2.4	3.4	4.8	5.4	4.6
External 1/	0.8	0.7	0.7	0.8	0.7	0.7
Transfers to	5.5	5.6	6.2	5.6	6.1	5.9
Rest of general government	0.9	1.0	0.9	0.4	0.8	0.6
Public enterprises	0.1	0.1	0.1	0.1	0.0	0.0
Other 2/ 3/	4.5	4.4	5.2	5.1	5.3	5.3
Capital expenditure	**1.8**	**2.0**	**2.3**	**1.9**	**1.9**	**2.2**
Fixed capital formation	0.6	0.6	0.7	0.8	0.7	0.9
Transfers to	1.1	1.3	1.5	1.0	1.2	1.3
Rest of general government	0.1	0.2	0.1	0.1	0.1	0.1
Public enterprises	0.0	0.0	0.1	0.2	0.3	0.3
Other 2/	1.0	1.1	1.3	0.7	0.8	0.9
Other	0.0	0.0	0.1	0.1	0.1	0.0

Sources: Ministry of Finance; and Fund staff estimates.

1/ Includes unpaid interest.
2/ Includes transfers to nonconsolidated public sector and private sector.
3/ Pension contributions of government employees are excluded from both revenue and expenditure.

Table 19. Costa Rica: Summary Operations of the Social Security Agency

	1992	1993	1994	1995	1996	Est. 1997
	(In billions of colones)					
Current revenue	**68.5**	**83.5**	**104.5**	**131.6**	**157.2**	**184.0**
Contributions	54.8	67.1	86.3	104.8	128.8	158.3
Other revenue	12.7	14.3	15.2	24.5	21.9	20.0
Transfers	1.0	2.1	2.9	2.4	6.5	5.7
Total expenditure	**59.7**	**72.6**	**93.6**	**114.8**	**140.4**	**163.8**
Current expenditure	58.1	70.7	90.7	110.5	133.6	157.5
Wages and salaries	24.0	29.9	39.9	50.4	59.7	72.5
Goods and services	14.8	17.4	22.6	25.1	31.6	35.2
Interest	0.0	0.0	0.1	0.1	0.0	0.1
Current transfers	19.2	23.3	28.0	34.8	42.3	49.7
Capital and net lending	1.7	1.9	2.9	4.4	6.8	6.4
Capital expenditure	1.7	2.1	2.2	2.3	5.1	5.7
Net lending	0.0	-0.2	0.7	2.1	1.7	0.7
Current surplus	**10.4**	**12.8**	**13.8**	**21.1**	**23.6**	**26.6**
Overall surplus	**8.7**	**10.9**	**11.0**	**17.0**	**18.1**	**21.1**
	(In percent of GDP)					
Current revenue	**7.6**	**7.8**	**8.0**	**8.1**	**8.4**	**8.3**
Contributions	6.0	6.3	6.6	6.5	6.9	7.2
Other revenue	1.4	1.3	1.2	1.5	1.2	0.9
Transfers	0.1	0.2	0.2	0.1	0.3	0.3
Total expenditure	**6.6**	**6.8**	**7.2**	**7.1**	**7.5**	**7.4**
Current expenditure	6.4	6.6	6.9	6.8	7.1	7.1
Wages and salaries	2.7	2.8	3.1	3.1	3.2	3.3
Goods and services	1.6	1.6	1.7	1.5	1.7	1.6
Transfers	2.1	2.2	2.1	2.1	2.3	2.2
Capital and net lending	0.2	0.2	0.2	0.3	0.4	0.3
Capital expenditure	0.2	0.2	0.2	0.1	0.3	0.3
Net lending	0.0	0.0	0.1	0.1	0.1	0.0
Current surplus	**1.1**	**1.2**	**1.1**	**1.3**	**1.3**	**1.2**
Overall surplus	**1.0**	**1.0**	**0.8**	**1.1**	**1.0**	**1.0**

Sources: Ministry of Finance; Budgetary Office; and Fund staff estimates.

Table 20. Costa Rica: Summary Operations of Selected Nonfinancial Public Enterprises and Other Public Institutions 1/ 2/

	1992	1993	1994	1995	1996	Est. 1997
	(In billions of colones)					
Current revenue	**168.1**	**202.0**	**223.5**	**264.1**	**292.6**	**322.2**
Of which						
Oil refinery, RECOPE	47.3	52.0	59.8	74.4	80.1	85.0
Telephone and electricity company, ICE	51.6	61.6	70.1	100.2	112.2	128.0
Water company, ICAA	4.8	6.9	8.0	9.8	12.1	12.5
Agricultural marketing agency, CNP	9.2	10.0	10.8	5.4	3.9	4.5
Current expenditure	**129.1**	**148.0**	**185.5**	**194.9**	**218.2**	**231.4**
Of which						
Oil refinery, RECOPE	38.6	42.6	61.4	68.7	73.2	78.0
Telephone and electricity company, ICE	27.3	33.1	47.1	56.7	63.6	57.0
Water company, ICAA	3.8	5.1	6.5	7.6	8.5	9.7
Agricultural marketing agency, CNP	8.6	10.6	12.9	5.2	4.0	4.4
Capital expenditure 3/	**23.6**	**38.2**	**47.8**	**53.0**	**61.3**	**75.3**
Of which						
Oil refinery, RECOPE	2.1	2.5	2.6	3.5	3.9	4.5
Telephone and electricity company, ICE	20.5	21.8	35.3	34.3	35.3	49.3
Water company, ICAA	1.0	1.2	2.2	3.2	4.9	6.3
Agricultural marketing agency, CNP	0.1	0.0	0.1	0.1	0.0	0.0
Current account balance	**38.9**	**53.9**	**38.1**	**69.2**	**74.3**	**90.8**
Of which						
Oil refinery, RECOPE	8.6	9.4	-1.6	5.7	6.9	7.0
Telephone and electricity company, ICE	24.3	28.5	22.9	43.6	48.6	71.0
Water company, ICAA	1.0	1.7	1.4	2.2	3.6	2.8
Agricultural marketing agency, CNP	0.6	-0.6	-2.1	0.3	-0.1	0.1
Capital revenue	**0.8**	**0.7**	**3.2**	**5.3**	**8.1**	**12.0**
Overall deficit (-)	**16.2**	**16.5**	**-6.6**	**21.5**	**21.2**	**27.5**
Of which						
Oil refinery, RECOPE	6.5	6.9	-4.2	2.2	2.9	2.5
Telephone and electricity company, ICE	4.2	7.0	-12.2	9.6	13.9	21.9
Water company, ICAA	0.6	1.2	0.8	2.2	1.4	-0.2
Agricultural marketing agency, CNP	0.5	-0.6	-2.2	0.2	0.2	0.3

Table 20. Costa Rica: Summary Operations of Selected Nonfinancial Public Enterprises and Other Public Institutions 1/ 2/

	1992	1993	1994	1995	1996	Est. 1997
	(In percent of GDP)					
Current revenue	**18.5**	**18.9**	**17.1**	**16.3**	**15.6**	**14.6**
Of which						
Oil refinery, RECOPE	5.2	4.9	4.6	4.6	4.3	3.8
Telephone and electricity company, ICE	5.7	5.8	5.4	6.2	6.0	5.8
Water company, ICAA	0.5	0.6	0.6	0.6	0.6	0.6
Agricultural marketing agency, CNP	1.0	0.9	0.8	0.3	0.2	0.2
Current expenditure	**14.2**	**13.8**	**14.2**	**12.0**	**11.7**	**10.5**
Of which						
Oil refinery, RECOPE	4.3	4.0	4.7	4.2	3.9	3.5
Telephone and electricity company, ICE	3.0	3.1	3.6	3.5	3.4	2.6
Water company, ICAA	0.4	0.5	0.5	0.5	0.5	0.4
Agricultural marketing agency, CNP	1.0	1.0	1.0	0.3	0.2	0.2
Capital expenditure 3/	**2.6**	**3.6**	**3.7**	**3.3**	**3.3**	**3.4**
Of which						
Oil refinery, RECOPE	0.2	0.2	0.2	0.2	0.2	0.2
Telephone and electricity company, ICE	2.3	2.0	2.7	2.1	1.9	2.2
Water company, ICAA	0.1	0.1	0.2	0.2	0.3	0.3
Agricultural marketing agency, CNP	0.0	0.0	0.0	0.0	0.0	0.0
Current account balance	**4.3**	**5.0**	**2.9**	**4.3**	**4.0**	**4.1**
Of which						
Oil refinery, RECOPE	1.0	0.9	-0.1	0.4	0.4	0.3
Telephone and electricity company, ICE	2.7	2.7	1.8	2.7	2.6	3.2
Water company, ICAA	0.1	0.2	0.1	0.1	0.2	0.1
Agricultural marketing agency, CNP	0.1	-0.1	-0.2	0.0	0.0	0.0
Capital revenue	**0.1**	**0.1**	**0.2**	**0.3**	**0.4**	**0.5**
Overall deficit (-)	**1.8**	**1.5**	**-0.5**	**1.3**	**1.1**	**1.2**
Of which						
Oil refinery, RECOPE	0.7	0.6	-0.3	0.1	0.2	0.1
Telephone and electricity company, ICE	0.5	0.7	-0.9	0.6	0.7	1.0
Water company, ICAA	0.1	0.1	0.1	0.1	0.1	0.0
Agricultural marketing agency, CNP	0.1	-0.1	-0.2	0.0	0.0	0.0

Sources: Ministry of Finance; Budgetary Office; and Fund staff estimates.

1/ Includes: RECOPE, ICE, ICAA, CNP, Railway Co. (INCOFER), Public Services of Heredia (ESPH), Social Protection Council (JPSSJ), Liquor Co. (FANAL), Pacific Port Administration (INCOP), Council of Medical and Social Assistance (CTAMS), Fertilizers Co. (FERTICA), Social Fund of Family Allowances (FODESAF), Coffee Institute (ICAFE), Costa Rican Tourism Institute (ICT), National Trainning Institute (INA), Institute of Agrarian Development (IDA), and Institute of International Health Cooperation (OCIS).

2/ From 1995 excludes FERTICA privatized in 1994, and from 1996 excludes INCOFER closed in June 1995.

3/ Includes net lending.

Table 21. Costa Rica: Central Bank Quasi-Fiscal Operations

	1992	1993	1994	1995	1996	Est. 1997
	(In billions of colones)					
Revenue	**17.4**	**15.6**	**19.8**	**31.8**	**33.1**	**39.3**
Interest on claims	13.7	11.6	16.9	28.6	28.9	29.7
Commissions	0.8	0.9	1.1	1.4	1.4	1.4
Other	3.0	3.1	1.9	1.8	2.8	8.2
Expenditure	**33.3**	**31.5**	**38.6**	**62.3**	**72.0**	**75.8**
Interest on domestic liabilities	11.1	11.2	15.4	31.5	38.2	36.3
Stabilization bonds and SICP 1/	10.8	10.4	14.6	30.2	37.5	36.2
Other	0.3	0.8	0.7	1.3	0.7	0.0
Interest on foreign liabilities	18.2	15.8	17.6	25.4	26.2	30.4
Deposits	6.3	4.4	4.9	9.4	11.2	13.8
External debt	11.8	11.4	12.8	16.0	15.0	16.6
Other expenditure	4.0	4.5	5.6	5.3	7.7	9.1
Quasi-fiscal balance (losses -)	**-15.9**	**-15.9**	**-18.8**	**-30.5**	**-38.9**	**-36.5**
	(In percent of total expenditure)					
Revenue	**52.4**	**49.6**	**51.4**	**51.0**	**46.0**	**51.9**
Interest	41.1	37.0	43.7	45.9	40.1	39.2
Commissions	2.3	2.9	2.8	2.3	1.9	1.9
Other	9.0	9.7	4.9	2.8	3.9	10.8
Expenditure	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Interest on domestic liabilities	33.4	35.7	39.8	50.6	53.0	47.9
Stabilization bonds and SICP 1/	32.5	33.1	37.9	48.6	52.1	47.8
Other	0.9	2.6	1.9	2.0	0.9	0.0
Interest on foreign liabilities	54.6	50.2	45.7	40.8	36.4	40.1
Deposits	19.0	13.9	12.6	15.1	15.6	18.2
External debt	35.5	36.3	33.1	25.7	20.8	21.9
Other expenditure	12.0	14.1	14.5	8.6	10.6	12.0
Quasi-fiscal balance (losses -)	**-47.6**	**-50.4**	**-48.6**	**-49.0**	**-54.0**	**-48.1**
Memorandum items:						
Quasi-fiscal balance						
(in percent of GDP, losses -)	-1.8	-1.5	-1.4	-1.9	-2.1	-1.7
Stabilization bonds						
Stock at end of period						
(in billions of colones) 2/	37.5	42.6	75.8	124.8	130.0	158.8
Interest rate (in percent, end of period)	19.2	21.2	25.6	32.1	23.7	20.1

Source: Central Bank of Costa Rica.

1/ 1-day and 27-day deposit facilities at the central bank.

2/ In 1996 includes government bonds used for sterilization purposes.

Table 22. Costa Rica: Detailed Accounts of the Banking System 1/

(End of period stocks; in billions of colones)

	C$144.4=US$1		C$157.0=US$1		C$179.4=US$1		C$207.7=US$1		C$232.0=US$1	
	1992	1993	1993	1994	1994	1995	1995	1996	1996	1997 2/
					I. Central Bank					
Net international reserves	**110.1**	**118.7**	**129.1**	**104.7**	**119.7**	**169.3**	**195.4**	**192.1**	**214.5**	**264.6**
Gross reserves	121.3	124.5	135.4	118.9	135.9	176.9	204.8	192.1	214.5	264.6
Arrears	-11.2	-5.8	-6.3	-14.2	-16.2	-7.6	-9.4	0.0	0.0	0.0
Net domestic assets	**380.1**	**375.2**	**390.3**	**470.1**	**500.6**	**504.3**	**536.6**	**570.4**	**598.8**	**694.2**
Credit to the public sector (net)	71.3	63.6	68.3	78.5	85.9	70.7	74.4	82.2	82.1	52.1
Credit to the central government	35.6	35.3	38.2	56.0	61.4	52.6	54.1	56.2	54.3	42.7
Of which										
Rescheduling	34.0	35.5	38.6	40.6	46.4	49.5	57.3	14.4	16.1	16.2
Credit to rest of public sector (net)	29.2	22.2	23.4	16.2	17.4	11.5	12.6	18.4	19.3	0.9
Of which										
Rescheduling	20.8	13.9	15.2	8.1	9.2	6.5	7.5	7.2	8.1	1.0
Credit to public sector for buy-back	6.6	6.1	6.7	6.3	7.2	6.6	7.7	7.5	8.4	8.5
Credit to commercial banks	18.7	16.9	17.1	44.9	45.3	12.3	12.7	9.2	9.4	7.4
Of which										
Rescheduling	1.5	1.1	1.2	0.8	0.9	0.4	0.4	0.4	0.5	0.4
Credit to banking system for buy-back	3.2	3.2	3.4	3.4	3.9	3.9	4.5	4.5	4.9	5.2
Credit to nonbank intermediaries	2.1	1.8	1.9	1.5	1.6	1.0	1.0	1.0	1.0	0.7
Subscriptions to international agencies (net)	-1.7	-1.4	-1.8	-4.1	-5.1	0.7	0.4	6.8	6.7	8.8
Official capital and reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Counterpart arrears	11.2	5.8	6.3	14.2	16.2	7.6	9.4	0.0	0.0	0.0
Operational losses (accrual basis)	209.8	225.6	225.6	244.4	244.4	274.5	274.5	313.4	313.4	349.9
Unclassified assets (net)	-101.5	-100.4	-98.9	-86.2	-82.6	-63.0	-51.8	27.2	55.1	53.4
Valuation adjustments	167.0	160.1	168.4	173.4	190.9	196.5	211.5	203.2	203.2	216.8
Counterpart unrequited foreign exchange	**4.7**	**4.7**	**5.1**	**5.4**	**6.2**	**6.3**	**7.3**	**7.1**	**7.9**	**7.4**
Government trust funds	**25.9**	**19.7**	**19.7**	**18.4**	**18.4**	**18.5**	**18.5**	**15.0**	**15.0**	**13.9**
Medium- and long-term foreign liabilities	**211.4**	**205.9**	**222.9**	**199.8**	**228.3**	**215.3**	**249.3**	**227.9**	**254.6**	**226.3**
Liabilities to banks	**149.8**	**153.2**	**160.7**	**198.0**	**213.2**	**253.8**	**280.7**	**378.0**	**400.4**	**441.2**
Currency held by banks	9.1	9.3	9.3	11.2	11.2	14.2	18.3	24.0	24.0	36.9
Bank deposits	134.4	136.3	143.9	170.9	186.0	191.3	213.7	236.4	258.9	282.3
In local currency	41.8	50.0	50.0	64.6	64.6	49.4	49.4	44.3	44.3	49.2
In foreign currency	92.6	86.4	93.9	106.2	121.4	141.9	164.3	192.1	214.5	233.1
Stabilization bonds	2.6	1.5	1.5	7.7	7.7	36.1	36.5	93.5	93.5	95.5
SICP-commercial banks 3/	3.8	6.0	6.0	8.3	8.3	12.3	12.3	24.0	24.0	26.5
Liabilities to nonbank intermediaries	**0.9**	**0.6**	**0.6**	**5.5**	**5.5**	**3.2**	**3.2**	**1.3**	**1.3**	**30.1**
Liabilities to private sector	**97.5**	**109.9**	**110.4**	**147.7**	**148.6**	**176.5**	**173.1**	**133.2**	**134.1**	**239.8**
Currency in circulation	47.9	54.7	54.7	74.9	74.9	84.8	80.7	91.7	91.7	110.0
Demand deposits	0.4	0.3	0.3	0.3	0.3	0.1	0.1	0.7	0.7	4.0
Foreign currency deposits	2.2	2.8	3.0	3.0	3.4	3.4	3.9	3.8	4.3	4.2
Stabilization bonds	34.4	40.5	40.5	61.7	61.7	81.1	80.7	25.3	25.3	111.0
Other	12.6	11.6	11.9	7.8	8.3	7.1	7.7	11.7	12.2	10.6

Table 22. Costa Rica: Detailed Accounts of the Banking System 1/

(End of period stocks; in billions of colones)

	C$144.4=US$1		C$157.0=US$1		C$179.4=US$1		C$207.7=US$1		C$232.0=US$1	
	1992	1993	1993	1994	1994	1995	1995	1996	1996	1997 2/
	II. Commercial Banks									
Net international reserves	**25.2**	**13.8**	**15.0**	**24.5**	**28.0**	**23.6**	**27.4**	**30.5**	**34.2**	**21.1**
Assets	29.1	22.0	24.0	31.4	35.8	36.0	41.7	51.5	57.5	45.7
Liabilities	-3.9	-8.2	-8.9	-6.9	-7.9	-12.4	-14.3	-21.0	-23.3	-24.6
Claims on central bank	**149.6**	**153.5**	**160.9**	**198.9**	**214.0**	**256.6**	**282.9**	**372.4**	**394.2**	**440.3**
Net domestic assets	**146.7**	**187.2**	**189.6**	**212.6**	**216.0**	**185.2**	**242.5**	**255.8**	**262.3**	**327.4**
Credit to the public sector (net)	-14.0	-21.0	-21.0	-22.1	-22.2	-17.4	0.4	-34.4	-34.7	-59.6
Credit to central government (net)	6.8	7.4	7.4	9.5	9.5	25.1	34.8	34.8	34.8	42.6
Credit to rest of public sector (net)	-20.8	-28.3	-28.3	-31.6	-31.7	-42.4	-34.3	-69.2	-69.5	-102.2
Credit to private sector	143.9	194.3	196.3	224.1	229.8	218.4	275.6	325.8	333.9	405.7
Credit to the rest of the banking system	2.8	2.9	2.9	2.6	2.6	0.1	0.1	0.0	0.0	0.0
Credit to nonbank intermediaries	0.1	0.2	0.2	0.1	0.1	0.3	0.6	0.3	0.3	0.6
Official capital and reserves	-25.2	-28.2	-28.2	-9.5	-9.5	-37.1	-59.4	-64.2	-64.2	-77.2
Private capital	-10.4	-15.0	-15.0	-19.9	-19.9	-26.6	-26.6	-31.3	-31.3	-33.1
Unclassified assets (net)	40.6	44.9	47.0	30.0	31.4	44.0	53.1	60.8	62.5	95.2
Valuation adjustments	9.0	9.0	7.3	7.3	3.6	3.6	-1.2	-1.2	-4.2	-4.2
Medium- and long-term foreign liabilities	**3.3**	**4.9**	**5.2**	**10.0**	**11.1**	**18.1**	**19.9**	**20.2**	**22.9**	**20.3**
Liabilities to the central bank	**20.1**	**18.5**	**18.9**	**47.9**	**48.6**	**14.1**	**14.9**	**11.6**	**12.0**	**10.0**
Liabilities to the rest of the banking system	**2.2**	**2.3**	**2.3**	**2.3**	**2.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Liabilities to nonbank intermediaries	**3.2**	**2.7**	**2.7**	**5.5**	**5.8**	**7.2**	**7.3**	**5.7**	**5.8**	**4.9**
Liabilities to private sector	**292.8**	**326.2**	**336.5**	**370.2**	**390.2**	**426.0**	**510.7**	**621.3**	**650.7**	**753.6**
Demand deposits	61.3	63.9	63.9	76.6	76.6	68.4	69.1	68.6	68.6	156.4
Savings deposits	17.0	19.1	19.1	22.8	22.8	23.9	32.3	43.8	43.8	55.1
Time deposits	88.5	120.6	120.6	119.6	119.6	138.7	184.1	238.2	238.2	190.9
Foreign currency deposits	122.4	118.4	128.7	139.8	159.7	183.6	212.6	251.6	281.0	335.6
Other obligations	3.6	4.1	4.1	11.3	11.3	11.4	12.6	19.1	19.1	15.6
	III. Consolidated Banking System									
Net international reserves	**135.3**	**132.6**	**144.1**	**129.2**	**147.6**	**192.8**	**222.8**	**222.6**	**248.7**	**285.7**
Assets	150.5	146.6	159.4	150.3	171.8	212.9	246.5	243.6	272.1	310.3
Liabilities	-15.2	-14.0	-15.2	-21.1	-24.1	-20.1	-23.7	-21.0	-23.3	-24.6
Net domestic assets	**504.3**	**542.0**	**559.0**	**633.4**	**666.5**	**678.2**	**766.5**	**809.1**	**842.9**	**1,010.6**
Credit to the public sector (net)	57.4	42.7	47.3	56.4	63.7	53.4	74.8	47.8	47.3	-7.5
Credit to central government (net)	42.4	42.6	45.5	65.4	70.9	77.6	88.9	91.0	89.1	85.3
Credit to the rest of the public sector (net)	8.4	-6.1	-4.9	-15.4	-14.3	-30.9	-21.8	-50.7	-50.2	-101.3
Credit to the public sector for buy-back	6.6	6.1	6.7	6.3	7.2	6.6	7.7	7.5	8.4	8.5
Central government sterilization deposits	...	...	...	...	...	...	...	-77.1	-77.1	...
Credit to nonbank intermediaries	2.2	2.0	2.1	1.6	1.7	1.3	1.6	1.3	1.3	1.3
Credit to the private sector	143.9	194.3	196.3	224.1	229.8	218.4	275.6	325.8	333.9	405.7

Table 22. Costa Rica: Detailed Accounts of the Banking System 1/

(End of period stocks; in billions of colones)

	C$144.4=US$1		C$157.0=US$1		C$179.4=US$1		C$207.7=US$1		C$232.0=US$1	
	1992	1993	1993	1994	1994	1995	1995	1996	1996	1997 2/
Subscriptions to international agencies (net)	-1.7	-1.4	-1.8	-4.1	-5.1	0.7	0.4	6.8	6.7	8.8
Official capital and reserves	-25.2	-28.2	-28.2	-9.5	-9.5	-37.1	-59.4	-64.2	-64.2	-77.2
Private capital	-10.4	-15.0	-15.0	-19.9	-19.9	-26.6	-26.6	-31.3	-31.3	-33.1
Counterpart arrears	11.2	5.8	6.3	14.2	16.2	7.6	9.4	0.0	0.0	0.0
Operational losses (accrual basis)	209.8	225.6	225.6	244.4	244.4	274.5	274.5	313.4	313.4	349.9
Unclassified assets (net)	-57.1	-51.7	-47.9	-52.4	-47.0	-15.0	5.9	92.5	122.7	153.8
Interbank float	-1.7	-1.3	-1.6	-2.1	-2.4	0.9	0.1	-8.0	-8.8	-3.5
Valuation adjustments	176.0	169.1	175.7	180.7	194.5	200.1	210.3	202.0	199.0	212.5
Counterpart unrequited foreign exchange	**4.7**	**4.7**	**5.1**	**5.4**	**6.2**	**6.3**	**7.3**	**7.1**	**7.9**	**7.4**
Government trust funds	**25.9**	**19.7**	**19.7**	**18.4**	**18.4**	**18.5**	**18.5**	**15.0**	**15.0**	**13.9**
Medium- and long-term foreign liabilities	**214.7**	**210.8**	**228.1**	**209.8**	**239.4**	**233.4**	**269.3**	**248.1**	**276.9**	**246.6**
Liabilities to nonbank intermediaries	**4.0**	**3.3**	**3.3**	**11.0**	**11.3**	**10.4**	**10.5**	**7.1**	**7.1**	**35.0**
Liabilities to the private sector	**390.3**	**436.0**	**446.9**	**517.9**	**538.7**	**602.4**	**683.8**	**754.5**	**784.8**	**993.4**
Currency	47.9	54.7	54.7	74.9	74.9	84.8	80.7	91.7	91.7	110.0
Demand deposits	61.7	64.2	64.2	76.9	76.9	68.4	69.1	69.2	69.2	160.4
Savings deposits	17.0	19.1	19.1	22.8	22.8	23.9	32.3	43.8	43.8	55.1
Time deposits	88.5	120.6	120.6	119.6	119.6	138.7	184.1	238.2	238.2	190.9
Foreign currency deposits	124.6	121.2	131.7	142.8	163.1	187.0	216.5	255.5	285.3	339.8
Stabilization bonds	34.4	40.5	40.5	61.7	61.7	81.1	80.7	25.3	25.3	111.0
Other	16.2	15.7	16.0	19.1	19.6	18.5	20.2	30.9	31.3	26.2

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

1/ Since 1995 stocks (valued at C$207.7=US$1) include *Banco Popular* as part of the banking system.
2/ Preliminary data.
3/ Short-term deposit facilities (1-day and 27-day) at the central bank.

Table 23. Costa Rica: Private Sector Financial Assets 1/

	1992	1993	1994	1995	1996	Est. 1997
	(In billions of colones; end of period stocks)					
Total	**429.6**	**500.3**	**611.1**	**771.3**	**1,019.9**	**1,235.6**
By instrument						
Money	109.7	118.9	151.9	153.2	161.3	270.5
Currency	47.9	54.7	74.9	84.8	91.7	110.0
Demand deposits	61.8	64.3	77.0	68.5	69.5	160.5
Quasi-money	293.5	350.5	420.0	572.6	796.2	905.6
In domestic currency	174.9	223.4	269.7	369.2	525.5	547.8
Savings deposits	17.0	19.1	22.8	23.9	43.8	55.1
Time deposits	88.5	120.6	119.6	138.7	238.2	190.9
Bonds 2/	69.4	83.7	127.3	206.6	243.6	301.8
In foreign currency	118.6	127.1	150.3	203.4	270.7	357.8
Private capital and other	26.4	30.9	39.2	45.4	62.4	59.5
By issuing entity	**429.6**	**500.3**	**611.1**	**771.3**	**1,019.9**	**1,235.6**
Banking system	394.6	457.2	545.5	645.8	787.7	1,030.9
Central bank	97.3	110.2	148.1	177.1	120.1	226.4
Commercial banks	297.3	346.9	397.5	468.7	667.6	804.5
Central government	35.0	43.1	65.5	125.4	232.2	204.7
	(Annual percentage change)					
Total	**18.2**	**16.4**	**22.1**	**26.2**	**24.1**	**21.1**
Money	35.4	8.4	27.7	0.9	7.6	67.7
Currency	38.1	14.2	36.9	13.2	13.7	19.9
Demand deposits	33.5	3.9	19.8	-11.1	0.4	130.8
Quasi-money	22.1	19.4	19.8	36.3	27.3	13.7
In domestic currency	43.7	27.7	20.7	36.9	24.5	4.2
Savings deposits	56.6	12.5	19.1	4.7	35.5	25.8
Time deposits	45.8	36.3	-0.8	15.9	29.4	-19.8
Bonds 2/	38.3	20.6	52.1	62.3	18.4	23.9
In foreign currency	0.0	7.2	18.3	35.4	33.1	32.2
Private capital and other	-37.1	16.7	27.0	15.9	33.8	-4.6
	(In percent of GDP)					
Total	**43.2**	**43.5**	**42.5**	**42.6**	**49.2**	**50.9**
Money	10.6	10.7	10.4	9.4	8.3	9.7
Currency	4.6	4.8	5.0	4.9	4.6	4.6
Demand deposits	6.0	5.9	5.4	4.5	3.7	5.2
Quasi-money	29.0	30.1	29.5	30.6	38.0	38.4
In domestic currency	16.4	18.6	18.9	19.7	25.3	24.2
Savings deposits	1.6	1.7	1.6	1.4	2.0	2.2
Time deposits	8.2	9.8	9.2	8.0	11.3	9.7
Bonds	6.6	7.2	8.1	10.3	12.0	12.3
In foreign currency	12.6	11.5	10.6	10.9	12.7	14.2
Private capital and other	3.6	2.7	2.7	2.6	2.9	2.8

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

1/ All instruments denominated in foreign currency are valued at end-of-period exchange rates.
2/ Includes private sector holdings of bonds issued by the central government.

Table 24. Costa Rica: Changes in Banking System Domestic Credit by Origin, Destination, and Financing

(In billions of colones; end of period)

	1992	1993	1994	1995	1996	Est. 1997
Origin	**33.7**	**37.6**	**74.4**	**11.7**	**42.6**	**167.7**
Central bank	15.7	-3.1	52.0	36.8	-25.6	97.4
Commercial banks	18.9	40.3	23.0	-28.4	76.5	65.0
Interbank float (net)	-1.0	0.4	-0.6	3.4	-8.2	5.3
Destination	**33.7**	**37.6**	**74.4**	**11.7**	**42.6**	**167.7**
Public sector (net)	-19.6	-14.7	9.1	-10.3	-27.0	-54.9
Central Government Sterilization Deposits	0.0	0.0	0.0	0.0	-77.1	0.0
Private sector	46.6	50.4	27.7	-11.5	50.2	71.8
Nonbank intermediaries	-0.6	-0.2	-0.4	-0.4	-0.3	0.0
Counterpart arrears	2.2	-5.4	7.9	-8.6	-9.4	0.0
Other	6.1	7.2	30.7	39.2	114.3	145.5
Interbank float (net)	-1.0	0.4	-0.6	3.4	-8.0	5.3
Financing	**33.7**	**37.6**	**74.4**	**11.7**	**42.6**	**167.7**
Net international reserves 1/	-25.4	2.7	14.9	-45.2	0.2	-36.9
Medium- and long-term foreign liabilities 2/	1.5	-10.1	-19.2	-5.9	-24.9	-31.9
Private sector liabilities	57.5	45.0	78.7	62.8	67.3	236.6
Money (M-1)	28.6	9.3	32.9	1.4	11.2	109.4
Other	28.9	35.7	45.8	61.4	56.1	127.1

Source: Central Bank of Costa Rica.

1/ After payments arrears.

2/ Includes counterpart USAID grants and counterpart unrequited foreign exchange.

Table 25. Costa Rica: Classification of Loans by Economic Activity

	1992	1993	1994	1995	1996	1997 1/
	(In billions of colones; end of period stocks)					
Total	**171.1**	**228.0**	**266.7**	**295.9**	**350.7**	**415.8**
Agriculture	27.7	33.9	38.2	39.2	42.4	37.4
Livestock	9.4	10.7	11.9	11.1	12.8	11.1
Fisheries	0.3	0.3	0.4	0.5	0.5	0.6
Manufacturing	43.1	47.6	53.1	61.7	65.9	57.6
Housing	8.2	10.6	12.2	13.7	20.4	48.6
Construction	3.0	3.9	5.9	7.0	8.4	8.2
Tourism	4.7	8.0	10.3	10.9	9.8	9.5
Trade	25.3	40.1	48.7	53.5	64.5	63.3
Services	15.2	24.1	32.3	39.3	40.0	45.7
Personal credit	22.1	35.4	46.1	50.6	70.6	120.3
Other	12.2	13.4	7.4	8.5	15.4	13.4
	(In percent of total credit)					
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Agriculture	16.2	14.9	14.3	13.2	12.1	9.0
Livestock	5.5	4.7	4.5	3.8	3.7	2.7
Fisheries	0.2	0.2	0.2	0.2	0.2	0.2
Manufacturing	25.2	20.9	19.9	20.9	18.8	13.9
Housing	4.8	4.6	4.6	4.6	5.8	11.7
Construction	1.7	1.7	2.2	2.4	2.4	2.0
Tourism	2.7	3.5	3.9	3.7	2.8	2.3
Trade	14.8	17.6	18.2	18.1	18.4	15.2
Services	8.9	10.6	12.1	13.3	11.4	11.0
Personal credit	12.9	15.5	17.3	17.1	20.1	28.9
Other	7.1	5.9	2.8	2.9	4.4	3.2
	(Annual percentage change) 2/					
Total	**44.8**	**33.3**	**17.0**	**11.0**	**18.5**	**18.5**
Agriculture	34.1	22.5	12.8	2.5	8.1	-11.7
Livestock	27.0	14.1	11.7	-7.0	15.5	-13.8
Fisheries	19.3	-1.1	28.5	19.7	1.0	21.1
Manufacturing	21.6	10.4	11.7	16.2	6.8	-12.6
Housing	22.7	29.2	14.9	12.2	49.6	137.5
Construction	72.8	32.1	51.4	18.5	20.4	-2.7
Tourism	125.5	71.1	28.7	5.9	-10.4	-3.1
Trade	57.8	58.4	21.4	9.8	20.6	-1.8
Services	91.5	59.3	33.9	21.6	1.7	14.4
Personal credit	126.1	59.9	30.4	9.6	39.6	70.4
Other	19.9	10.0	-44.4	13.6	81.8	-12.6

Source: Central Bank of Costa Rica.

1/ As of October 1997.

2/ For 1997, annual percentage change corresponds to October 1997-December 1996.

Table 26. Costa Rica: Legal Reserve Position of the Commercial Banks

	1992	1993	1994	1995	1996	1997 1/
	(In billions of colones; end of period stocks)					
Liabilities subject to requirements	**306.1**	**354.2**	**432.5**	**483.7**	**611.0**	**700.5**
Local currency	190.8	232.7	273.3	288.2	362.2	384.5
Foreign currency	115.2	121.5	159.1	195.5	248.7	316.1
Required reserves 2/	**128.7**	**141.1**	**188.0**	**212.9**	**86.5**	**94.4**
Local currency	42.9	52.8	65.1	59.4	61.2	66.3
Foreign currency	85.9	88.3	122.9	153.5	25.4	28.1
Actual reserves 2/	**141.8**	**144.7**	**192.6**	**217.3**	**92.0**	**99.2**
Local currency	45.3	54.4	67.4	62.3	64.9	69.0
Foreign currency	96.5	90.3	125.2	155.0	27.1	30.2
Net excess or deficiency (-)	**13.1**	**3.6**	**4.6**	**4.4**	**5.5**	**4.8**
Local currency	2.5	1.5	2.3	2.9	3.7	2.7
Foreign currency	10.6	2.1	2.3	1.5	1.8	2.1
	(In percent of liabilities subject to reserve requirements)					
Required reserves	**42.1**	**39.8**	**43.5**	**44.0**	**14.2**	**13.5**
Local currency	22.5	22.7	23.8	20.6	16.9	17.2
Foreign currency	74.5	72.7	77.2	78.5	10.2	8.9
Actual reserves	**46.3**	**40.9**	**44.5**	**44.9**	**15.1**	**14.2**
Local currency	23.7	23.4	24.6	21.6	17.9	17.9
Foreign currency	83.7	74.4	78.7	79.3	10.9	9.6
Net excess or deficiency (-)	**4.2**	**1.1**	**1.0**	**0.9**	**0.9**	**0.7**
Local currency	1.3	0.7	0.8	1.0	1.0	0.7
Foreign currency	9.2	1.7	1.5	0.8	0.7	0.7

Source: Superintendency of Financial Entities.

1/ As of November 1997.

2/ Excludes remunerated reserves constituted in government and stabilization bonds in 1994 and 1995.

Table 27. Costa Rica: Six-Month Interest Rates

(In percent, annual basis)

	Nominal Rate			Real Rate 1/	Premium 2/	
	Stabilization Bonds 4/	BNCR 3/ Base Lending	BNCR Deposit Rate	Stabilization Bonds	Stabilization Bonds	BNCR Spread 5/
1992						
March	20.0	33.0	20.0	-4.8	-0.5	13.0
June	16.0	25.0	11.0	-5.7	2.1	14.0
September	17.3	28.0	16.5	-1.2	9.6	11.5
December	18.9	29.5	18.5	1.6	13.8	11.0
1993						
March	16.0	29.5	16.0	5.2	8.6	13.5
June	17.9	29.5	16.8	7.9	9.7	12.8
September	27.2	38.0	22.5	16.8	16.3	16.0
December	26.1	37.0	21.0	15.6	12.0	16.0
1994						
March	24.2	34.0	20.0	11.6	8.0	14.0
June	24.2	34.0	20.0	10.9	7.4	14.0
September	26.7	34.0	20.0	9.0	10.5	14.0
December	28.7	37.0	22.0	7.4	12.0	15.0
1995						
March	34.0	41.0	28.0	8.5	15.0	13.0
June	34.0	42.0	28.0	9.6	12.4	14.0
September	32.1	41.0	26.0	8.2	8.4	15.0
December	27.0	37.0	24.0	5.5	4.7	13.0
1996						
March	24.2	32.0	21.0	5.0	0.9	11.0
June	21.2	28.0	16.5	1.6	-1.1	11.5
September	23.6	28.0	16.0	5.3	2.7	12.0
December	24.5	28.0	16.0	9.3	5.2	12.0
1997						
March	21.0	26.5	15.0	5.3	2.2	10.5
June	20.1	26.5	15.0	5.7	1.2	11.5
September	18.3	24.5	14.5	5.7	0.2	10.0
December	17.9	24.5	14.0	6.0	0.2	10.5

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

1/ Nominal interest rate at time of issue adjusted by the change in the consumer price index.

2/ Ex-post differential rate of return on colón bonds vis-à-vis the LIBOR interest rate plus devaluation of the exchange rate.

3/ *Banco Nacional de Costa Rica* (BNCR), the largest state-owned commercial bank.

4/ From June 1996 through March 1997, interest rates correspond to government bonds.

5/ Base lending rate minus deposit rate offered by the BNCR.

Table 28. Costa Rica: Summary of Balance of Payments

	1992	1993	1994	1995	1996	Est. 1997
	(In millions of U.S. dollars)					
Current account (including official transfers)	**-366.4**	**-580.5**	**-251.2**	**-94.1**	**-115.2**	**-422.0**
Trade account	**-712.0**	**-1012.8**	**-903.1**	**-682.1**	**-761.5**	**-1134.4**
Exports, f.o.b.	1728.8	1872.9	2122.0	2570.7	2743.6	2953.8
Of which						
Bananas	522.1	560.1	561.0	683.8	611.3	566.4
Coffee	201.6	201.5	307.6	417.3	385.5	408.1
Nontraditional exports	934.9	1025.5	1178.6	1384.7	1660.2	1914.5
Imports, c.i.f.	-2440.8	-2885.7	-3025.1	-3252.8	-3505.1	-4088.2
Of which						
INTEL 1/	0.0	0.0	0.0	0.0	0.0	-24.0
Services	**172.2**	**289.2**	**486.2**	**454.1**	**496.8**	**576.8**
Factor payments	-197.1	-221.6	-115.8	-208.6	-160.3	-191.8
Public sector interest obligations	-196.6	-191.8	-173.3	-195.5	-178.9	-173.2
Other	-0.5	-29.8	57.5	-13.1	18.6	-18.6
Nonfactor services	369.3	510.8	602.0	662.7	657.1	768.6
Of which						
Tourism receipts	428.6	573.7	624.1	657.5	687.1	731.2
Net maquila exports	119.3	129.9	209.3	268.1	270.2	321.5
Official transfers	**173.4**	**143.1**	**165.7**	**133.9**	**149.5**	**135.6**
Capital account	**457.0**	**566.1**	**230.3**	**338.0**	**53.5**	**637.7**
Public capital	**3.1**	**-19.8**	**-67.3**	**-133.6**	**-133.3**	**21.1**
Disbursements	330.8	401.4	252.7	214.8	138.4	346.6
BOP support	128.4	14.7	0.0	64.0	0.0	88.5
Other	202.4	386.7	252.7	150.8	138.4	258.0
Amortization	-327.7	-421.2	-429.0	-367.3	-356.3	-462.1
Other	0.0	0.0	109.0	18.9	84.6	136.7
Private capital	**453.9**	**585.9**	**297.6**	**471.7**	**186.8**	**616.6**
Direct and other long-term	210.2	222.7	214.7	364.0	396.7	466.2
Short-term 2/	243.7	363.2	82.9	107.7	-209.9	150.4
Overall balance	**90.6**	**-14.4**	**-20.9**	**243.9**	**-61.7**	**215.7**
Financing	**-90.6**	**14.4**	**20.9**	**-243.9**	**61.7**	**-215.7**
Net international reserves 3/ (- increase)	-88.2	-32.0	-5.6	-228.5	61.4	-215.7
Rescheduling	11.4	117.2	0.0	29.0	45.5	0.0
Total arrears 4/	-13.8	-70.8	26.5	-44.4	-45.2	0.0
Memorandum items:						
Trade balance (in percent of GDP)	-10.6	-13.7	-10.9	-7.6	-8.4	-11.9
Coffee and banana exports (in percent of GDP)	10.7	10.3	10.4	12.2	11.1	10.2
Tourism receipts (in percent of GDP)	6.4	7.7	7.5	7.3	7.6	7.7
Current account (including transfers; in percent of GDP)	-5.4	-7.8	-3.0	-1.0	-1.3	-4.4
Current account (excluding INTEL imports;						
in percent of GDP)	-5.4	-7.8	-3.0	-1.0	-1.3	-4.2
Net international reserves 3/ (in months of	720.0	752.0	757.6	986.1	924.7	1,140.4
imports of goods and nonfactor services)	3.0	2.7	2.5	3.0	2.7	2.8
Adjusted net international reserves 5/ (in months	311.6	387.2	314.3	428.4	235.1	371.0
of imports of goods and nonfactor services)	1.3	1.4	1.1	1.3	0.7	0.9
Stock of nonrefinanceable external arrears (end of period)	77.9	40.2	90.5	42.5	0.0	0.0

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

1/ Imports by INTEL associated with the building and furbishing of a US$500 million plant to be completed in 1999.
2/ Includes errors and omissions.
3/ Excludes changes in commercial banks' dollar deposits at the Central Bank and swaps.
4/ Includes overdue obligations to multilateral institutions within grace period.
5/ Considering commercial banks' dollar deposits at the Central Bank as a reserve liability.

Table 29. Costa Rica: Merchandise Exports

(In millions of U.S. dollars)

	1992	1993	1994	1995	1996	Prel. 1997
Total exports, f.o.b.	**1,729**	**1,874**	**2,094**	**2,571**	**2,744**	**2,954**
Agricultural and marine goods	**1,085**	**1,242**	**1,323**	**1,654**	**1,670**	**1,736**
Traditional	797	852	941	1,193	1,083	1,045
Coffee	202	202	300	417	386	408
Bananas	522	560	561	684	611	566
Sugar	30	28	29	46	44	42
Meat	44	63	51	46	42	28
Other	287	390	382	461	587	692
Seafood	75	91	98	108	167	230
Plants and flowers	77	90	96	113	132	125
Tropical fruit	74	87	94	102	149	167
Vegetables and roots	34	36	49	59	71	72
Other	28	85	45	62	69	98
Industrial goods	**644**	**632**	**770**	**917**	**1,074**	**1,218**
Foodstuffs and tobacco	152	167	173	230	234	283
Textiles 1/	109	112	63	50	70	53
Wood and paper products	39	35	44	48	51	81
Chemical/petroleum products	131	143	115	139	114	116
Machinery/metal products	79	101	112	113	177	181
Medicine	38	45	49	52	50	78
Other	96	29	214	258	378	426
Memorandum items:						
In-bond industries (maquila) exports 2/	119	130	210	270	270	322
Traditional exports 3/	797	852	941	1,191	1,083	1,045
Nontraditional exports 4/	931	1,022	1,153	1,380	1,655	1,915

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

1/ Includes leather products and shoes, excludes in-bond industries (maquila).
2/ Included under services in the balance of payments.
3/ Coffee, bananas, meat and sugar.
4/ All exports other than coffee, bananas, meat and sugar.

Table 30. Costa Rica: Merchandise Imports

	1992	1993	1994	1995	1996	Est. 1997
	(In millions of U.S. dollars)					
Imports, c.i.f.	**2,441**	**2,886**	**3,025**	**3,253**	**3,505**	**4,088**
Consumer goods	**638**	**823**	**897**	**850**	**1,046**	**1,070**
Nondurables	382	493	567	598	501	439
Durables	256	330	330	252	545	632
Raw materials	**1,065**	**1,152**	**1,296**	**1,542**	**1,592**	**2,022**
Agriculture	116	117	52	71	71	191
Manufacturing and mining	861	942	1,126	1,361	1,412	1,708
Construction	88	93	118	110	109	123
Petroleum and petroleum products	**163**	**174**	**203**	**201**	**239**	**222**
Capital goods	**556**	**722**	**621**	**656**	**623**	**772**
Manufacturing and mining	394	513	435	480	472	568
Agriculture	13	16	28	26	30	49
Transport	150	194	158	150	121	154
Other	**18**	**15**	**8**	**5**	**6**	**2**
	(In percent of total)					
Imports, c.i.f.	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Consumer goods	26.0	28.0	30.0	26.0	29.8	26.2
Raw materials	41.0	39.0	42.0	45.0	45.4	49.5
Petroleum and petroleum products	9.0	7.0	8.0	8.0	6.8	5.4
Capital goods	23.0	25.0	21.0	20.0	17.8	18.9
Other	1.0	1.0	0.0	0.0	0.2	0.1
	(Annual percentage change)					
Imports, c.i.f.	**30.2**	**18.9**	**4.1**	**7.5**	**7.8**	**16.6**
Consumer goods	45.9	28.4	9.1	-5.3	23.1	2.3
Raw materials	19.2	12.2	11.6	17.0	3.2	27.1
Petroleum and petroleum products	15.7	-0.8	10.2	12.1	18.9	-7.0
Capital goods	40.9	29.9	-14.0	5.6	-5.0	23.8
Other	135.6	-29.8	-47.7	-45.5	22.2	-61.8

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

Table 31. Costa Rica: Petroleum Imports

	1992	1993	1994	1995	1996	Est. 1997
	(In millions of U.S. dollars)					
Total imports, c.i.f.	**216**	**214**	**236**	**264**	**298**	**277**
Partially refined oil	80	71	64	93	94	86
Diesel	77	65	91	83	89	72
Gasoline	41	51	54	59	77	82
Aviation fuel	2	2	2	1	2	1
Asphalt	2	2	2	0	0	0
Bunker C	0	0	0	0	0	0
Other products	13	24	23	28	36	37
	(In thousands of barrels)					
Total imports, c.i.f.	**9,910**	**10,745**	**12,206**	**13,148**	**12,117**	**12,159**
Partially refined oil	4,195	4,121	4,015	5,297	4,532	4,572
Diesel	3,232	2,738	4,456	3,962	3,291	2,983
Gasoline	1,681	2,239	2,614	2,705	2,894	3,129
Aviation fuel	65	37	42	28	38	12
Asphalt	137	141	88	22	0	0
Bunker C	0	0	0	0	0	0
Other products	600	1,469	992	1,133	1,362	1,463
	(In U.S. dollars per barrel)					
Average price	**21.8**	**19.9**	**19.3**	**20.1**	**24.6**	**22.8**
Partially refined oil	19.0	17.3	16.0	17.5	20.7	18.7
Diesel	24.0	23.7	20.4	20.9	27.0	24.1
Gasoline	24.4	22.7	20.8	21.9	26.5	26.2

Source: Central Bank of Costa Rica.

Table 32. Costa Rica: Direction of Trade

	Exports						Imports					
	1992	1993	1994	1995	1996	Est. 1997	1992	1993	1994	1995	1996	Est. 1997
	(In millions of U.S. dollars)											
Total	**1,729**	**1,874**	**2,094**	**2,571**	**2,744**	**2,954**	**2,455**	**2,919**	**3,040**	**3,253**	**3,505**	**4,088**
United States 1/	705	818	737	752	799	1,065	1,077	1,253	1,337	1,478	1,559	1,719
United Kingdom	24	37	64	101	90	108	28	30	31	26	33	47
Belgium/Luxembourg	88	126	149	146	127	109	18	21	15	28	29	30
Canada	30	37	27	33	53	66	25	35	42	42	49	68
Japan	14	12	20	28	36	31	160	222	167	125	147	235
Germany	192	175	198	169	205	175	83	104	100	102	93	113
Italy	95	86	104	128	149	122	36	50	50	63	64	76
Netherlands	35	42	60	88	110	113	25	27	28	40	35	37
Central America	248	268	293	350	385	422	181	207	231	233	249	294
Guatemala	75	85	103	117	122	139	96	105	109	111	116	133
El Salvador	56	63	74	91	95	104	61	69	76	84	93	109
Honduras	43	52	45	55	65	68	8	11	23	22	25	26
Nicaragua	75	68	71	87	104	111	16	22	23	17	15	26
Panama	59	67	67	78	85	97	39	61	65	91	79	82
Mexico	18	28	24	17	53	63	122	116	137	181	255	290
Venezuela	8	12	9	15	11	19	114	144	165	215	238	277
Other 2/	215	166	343	668	640	563	548	649	672	630	675	822
	(In percent of total)											
United States	40.8	43.6	35.2	29.3	29.2	36.1	43.9	42.9	44.0	45.4	44.8	42.1
Other industrial	27.5	27.5	29.7	26.9	28.1	27.8	15.2	16.8	1 4.3	13.1	12.9	14.8
Central America	14.4	14.3	14.0	13.6	14.1	14.3	7.4	7.1	7.6	7.2	7.2	7.2
Mexico	1.0	1.5	1.1	0.6	1.9	2.1	5.0	4.0	4.5	5.6	7.3	7.1
Other												
	16.3	13.1	20.0	29.6	26.7	19.1	28.6	29.2	29.7	28.8	27.8	20.1

Sources: Central Bank of Costa Rica.

1/ Excludes maquila exports.
2/ Includes adjustment for consistency with balance of payments data.

Table 33. Costa Rica: Terms of Trade Indices 1/

(1991=100)

	1992	1993	1994	1995	1996	Est. 1997
Terms of trade	**122.3**	**121.0**	**129.1**	**139.4**	**130.6**	**138.9**
Value						
Exports	116.0	125.7	142.4	172.5	184.1	198.2
Imports	129.4	153.0	160.4	172.5	185.8	216.7
Volume						
Exports	93.2	100.2	104.8	114.8	126.2	127.7
Imports	127.1	147.7	152.3	160.0	166.3	191.3
Unit value						
Exports	124.5	125.4	135.9	150.2	145.9	155.2
Imports	101.8	103.6	105.3	107.8	111.7	113.3
		(Annual percentage change)				
Terms of trade	**2.0**	**-1.0**	**6.6**	**8.0**	**-6.3**	**4.9**
Value						
Exports	16.0	8.3	13.3	21.1	6.7	7.7
Imports	29.4	18.2	4.8	7.5	7.8	16.6
Volume						
Exports	11.7	7.6	4.5	9.6	9.9	1.2
Imports	27.1	16.2	3.1	5.0	4.0	15.0
Unit value						
Exports	3.9	0.7	8.4	10.6	-2.9	6.4
Imports	1.8	1.7	1.6	2.4	3.7	1.4

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

1/ Paasche index.

Table 34. Costa Rica: Tourism Indicators

	1992	1993	1994	1995	1996	Est. 1997
	(In thousands of visitors)					
Total arrivals	**610.6**	**684.0**	**761.4**	**792.3**	**781.1**	**805.3**
By: Air	443.5	511.3	559.4	578.6	560.0	568.0
Other	167.1	172.7	202.0	213.7	221.1	237.3
By source markets:						
United States	217.7	242.5	263.6	287.4	271.3	...
Europe	88.3	113.9	129.6	140.3	129.5	...
Canada	42.0	44.2	49.1	53.8	36.3	...
Central America	187.8	193.5	221.4	73.4	234.3	...
South America	42.7	52.9	54.0	73.2	58.9	...
Other	32.1	37.0	43.7	57.8	50.8	...
Length of stay (days)	9.1	10.4	9.7	10.6	10.4	...
Spending per night (in U.S. dollars)	77.7	85.7	84.0	87.0	86.3	...
Total tourism receipts						
(In millions of U.S. dollars)	428.6	573.7	624.1	664.4	688.5	731.2
(In percent of exports)	24.8	30.6	29.8	26.8	25.1	24.7
(Annual percentage change)	30.4	33.9	8.8	6.5	3.6	6.2
Travel abroad by Costa Ricans						
Departures (in thousands)	239.3	259.6	269.0	274.1	283.4	275.5
Expenditure (in millions of U.S. dollars)	222.9	266.0	299.3	332.2	334.9	332.0

Source: Costa Rican Tourism Institute.

Table 35. Costa Rica: External Public Debt by Creditor

	1992	1993	1994	1995	1996	Est. 1997
	(In millions of U.S. dollars; end of period)					
Total 1/	**3,389**	**3,375**	**3,314**	**3,272**	**2,860**	**2,880**
Medium- and long-term debt	**3,272**	**3,292**	**3,256**	**3,258**	**2,860**	**2,880**
Multilaterals	1,341	1,345	1,375	1,495	1,341	1,417
Bilaterals	1,353	1,387	1,278	1,162	941	806
Commercial banks	23	18	13	38	38	65
Bonds 2/	542	534	583	558	537	508
Suppliers	13	9	7	5	4	84
Short-term debt 3/	**118**	**83**	**58**	**14**	**0**	**0**
	(In percent of medium- and long-term debt)					
Multilaterals	41.0	40.8	41.5	45.7	46.9	49.2
Bilaterals	41.4	42.1	38.6	35.5	32.9	28.0
Commercial banks	0.7	0.5	0.4	1.2	1.3	2.3
Bonds 2/	16.6	16.2	17.6	17.0	18.8	17.6
Suppliers	0.4	0.3	0.2	0.2	0.1	2.9
Memorandum item:						
Total in percent of GDP	49.8	45.6	40.3	36.6	34.1	30.1

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

1/ Includes principal in arrears, as well as rescheduled principal and capitalized interest; excludes interest arrears.

2/ Includes the bonds resulting from the commercial bank debt restructuring in 1989.

3/ Short-term liabilities of the central bank.

Table 36. Costa Rica: External Public Debt by Debtor

	1992	1993	1994	1995	1996	Est. 1997
	(In millions of U.S. dollars; end of period)					
Total 1/	**3,389**	**3,375**	**3,314**	**3,272**	**2,860**	**2,880**
Medium- and long-term debt	**3,272**	**3,292**	**3,256**	**3,258**	**2,860**	**2,880**
Central government	1,191	1,194	1,185	1,247	1,030	1,151
Central bank	1,525	1,536	1,383	1,260	1,108	992
Public enterprises	537	545	675	741	704	698
Other public sector	18	17	13	10	19	39
Short-term debt 2/	**118**	**83**	**58**	**14**	**0**	**0**
	(In percent of medium- and long-term debt)					
Central government	35.1	35.4	35.8	38.1	36.0	40.0
Central bank	45.0	45.5	41.7	38.5	38.7	34.4
Public enterprises	15.8	16.1	20.4	22.6	24.6	24.2
Other public sector	0.5	0.5	0.4	0.3	0.6	1.4
Memorandum items:						
Private sector debt	767	852	879	928	1,037	...
In percent of GDP	11.4	11.5	10.6	10.1	10.9	...
Medium- and long-term debt						
In percent of GDP	48.1	44.3	39.4	36.1	33.9	30.1

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

1/ Includes principal in arrears, as well as rescheduled principal and capitalized interest; excludes interest in arrears.
2/ Short-term liabilities of the central bank.

Table 37. Costa Rica: External Debt Payments Arrears

(In millions of U.S. dollars)

	December 31, 1992			December 31, 1993			December 31, 1994			December 31, 1995			December 31, 1996			Est. December 31, 1997		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
Nonreschedule	**58.0**	**19.9**	**77.9**	**24.7**	**15.5**	**40.2**	**65.0**	**25.5**	**90.5**	**38.8**	**3.7**	**42.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Medium- and long-term	56.5	19.0	75.5	22.9	14.8	37.7	64.8	25.3	90.1	38.5	3.6	42.1	0.0	0.0	0.0	0.0	0.0	0.0
Banks	0.2	0.4	0.6	0.7	0.4	1.1	0.9	0.4	1.3	0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Multinationals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bilaterals	56.3	18.6	74.9	22.2	14.4	36.6	63.9	24.9	88.8	38.3	3.6	41.9	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Suppliers	1.5	0.9	2.4	1.8	0.7	2.5	0.2	0.2	0.4	0.3	0.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Imports	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reschedulable 1/	**62.6**	**33.7**	**96.3**	**25.8**	**37.4**	**63.2**	**7.8**	**3.6**	**11.4**	**8.4**	**6.5**	**14.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Total	**120.6**	**53.6**	**174.2**	**50.5**	**52.9**	**103.4**	**72.8**	**29.1**	**101.9**	**47.2**	**10.2**	**57.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

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

1/ Arrears to multilaterals within grace period or rescheduled on regular basis.

Table 38. Costa Rica: Effective Exchange Rates

(Indices: 1990=100)

	Real Effective Exchange Rate 1/	Nominal Effective Exchange Rate 1/	Relative Consumer Prices (Local Currencies)	Exchange Rate in Terms of U.S. Dollars 1/	Consumer Price Index (Seasonally Adjusted)
1992					
I	93.5	75.8	123.1	67.0	148.4
II	101.4	80.9	125.1	70.1	155.5
III	97.2	77.9	124.4	67.6	159.7
IV	100.1	81.2	123.1	66.7	163.4
1993					
I	101.0	83.8	120.2	66.1	165.3
II	101.6	85.1	119.2	65.8	170.0
III	101.6	86.0	118.0	63.8	174.9
IV	99.3	86.1	115.2	61.3	178.1
1994					
I	98.5	87.3	112.7	59.7	182.3
II	99.8	88.8	112.1	58.9	190.0
III	99.5	87.3	113.8	57.7	199.4
IV	100.3	84.4	118.6	56.1	210.0
1995					
I	103.6	82.1	126.1	54.1	225.5
II	99.3	77.1	128.5	51.9	233.2
III	100.1	75.0	133.3	49.8	244.4
IV	102.1	72.7	140.2	47.7	259.5
1996					
I	101.8	71.2	142.7	45.9	267.7
II	102.7	70.1	146.3	44.6	278.0
III	102.6	68.0	150.7	43.3	289.0
IV	101.8	66.4	153.1	42.0	296.7
1997					
I	104.1	66.2	156.9	40.9	306.9
II	105.3	64.9	161.9	39.7	318.4
III	105.7	64.0	164.8	38.7	326.4
IV (prel.)	103.9	62.8	165.2	37.8	329.8
1997					
January	103.1	66.1	155.8	41.3	304.2
February	104.0	66.4	156.4	40.8	306.1
March	105.0	66.1	158.5	40.5	310.4
April	106.2	65.8	161.2	40.1	316.4
May	105.0	64.8	161.7	39.7	318.0
June	104.7	64.2	162.7	39.4	320.7
July	105.2	64.2	163.8	39.0	323.6
August	106.7	64.4	165.5	38.7	327.9
September	105.0	63.6	165.0	38.4	327.7
October	103.0	62.8	163.7	38.1	326.0
November	103.7	62.5	165.7	37.8	330.7
December (prel.)	104.9	63.0	166.3	37.5	332.6

Source: IMF Information Notice System.

1/ Increase denotes appreciation.