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AN

NORTH AMERICAN DEPARTMENT

PANAMA, COSTA

AN

3610

1948

Registry Number **AN3610/441/32**

FROM Mr. Sullivan,
San José,
No. 49 (34/1/3)

Dated 5th October, 1948.
Received in Registry 13th October.

Discusses the Financial situation in Costa Rica.

Copied Washington.

Last Paper. ✓

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References.

(Minutes.)

See minute on **AN 3611.**

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Next Paper. ✓

AN 3611

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NORTH AND CENTRAL AMERICA

October 13, 1948

Section 1

AN 3610/441/32

ARCHIVES

Copy No. 3

FINANCIAL SITUATION IN COSTA RICA

(1)

Mr. Sullivan to Mr. Bevin. (Received 13th October)

(No. 49)

San José,

5th October, 1948.

Sir,
The financial situation in Costa Rica under the new Government is confused and confusing. There is a lack of confidence in the country and merchants and agents importing goods from abroad are hampered by the shortage of foreign exchange. Withdrawals from the banks are heavy and those who can buy foreign money on the black market or keep large sums in their own safes. The present Government is short of money both for current purposes and for the carrying out of those schemes of productive development which it desires to introduce.

2. The actual revenue and expenditure of the two former Governments, which are accused of extravagance, were, in the years shown, as follows:—

Year	Revenue Colones	Expenditure Colones
1946 ...	62,922,712·26	78,726,614·61
1945 ...	60,549,228·76	74,438,760·47
1940 ...	41,702,891·52	45,609,976·54

and both Dr. Calderon Guardia and Lic. Teodoro Picado, who occupied the presidency during the previous eight years, are charged, in their absence, with fraudulent handling of public funds, before the Probity Court specially installed to investigate the activities of the previous Administrations.

3. But the estimates for 1948, June to December inclusive, show:—

	Colones
Revenue ...	82,310,424·35
Expenditure ...	81,787,359·00

with a superavit of 523,065·35 colones, nearly all of which is the balance in hand from the first five months of the year under the former Government. Included in the estimated revenue, however, is an item of 32,002,299·93 colones under the heading

of "Tax on Capital." This item is presumably chargeable to that portion of the 10 per cent. levy on capital, payable over a period of ten years, which the Government expect to cash in during the June-December period of 1948. But it has been specifically stated that contributions to this special levy are to be separated from the ordinary administrative expenditure and dedicated to extraordinary productive investments in agricultural, industrial and other nationally-productive enterprises. How then, it is asked in the press, can this item be embodied in the ordinary estimates of Government administration?

4. The "junta" which now governs Costa Rica, and will govern it until May 1950 when the President-Elect, Otilio Ulate, assumes power, has—

- (a) Nationalised private banks, that is to say the shareholders are being bought out by the Government.
- (b) Levied a 10 per cent. tax on capital, payable over a period of ten years.
- (c) Issued 30 million colones in bonds at 6 per cent., the capital of which is to be repayable on 31st December, 1958.
- (d) Authorised a loan of 1 million colones to the Pacific Electric Railway.
- (e) Increased by 10 million colones the capital of the National Bank and regulated the grant of bank credits to the advantage of agriculture and industry and to the disadvantage of merchants (see enclosure hereto).⁽¹⁾
- (f) Sought to obtain loans abroad.

5. A commission of the World Reconstruction Bank has recently been in Costa Rica for several days visiting the various sections of the country and contacting not only Government circles but prominent citizens in general with a view to the compilation of a realistic report on the resources and potentialities of the nation and consideration of a loan. According to

⁽¹⁾ Not printed.

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the local press, the commission agreed on principle to AN 3611/441/32

- (1) The expenditure of 1 million colones immediately on renovating the equipment of the Pacific Electric Railway;
- (2) Importation of agricultural machinery to modernise farming;
- (3) Installation of a plant for pasteurising milk;
- (4) Financing a meat industry; and
- (5) Complete reorganisation and improvement of the fishing industry.

(2)

Mr. Sullivan to Mr. Bevin

(No. 50)
Sir,

San José,

5th October, 1948.

In continuation of my despatch No. 49 of to-day's date regarding financial conditions in Costa Rica, I have the honour to inform you that during the recent visit to Costa Rica of representatives of the World Bank I had some conversations with Mr. Josef Rucinsky, one of the representatives, regarding his impressions of conditions here and of personalities in the Government. Mr. Rucinsky, in a short space of time, formed a remarkably clear picture in his mind. He was constantly in consultation with Señor Figueres and also with Señor Marten, the Minister of Finance, besides attending meetings of the junta as a whole, he visited both the Pacific and Atlantic coasts, the banana and abacá plantations, and coffee estates in the central plateau; he consulted both the United States Ambassador and me and he took pains to have private conversations with local businessmen.

but, obviously, could make no promises of money.

6. Some criticism is aroused in Costa Rican circles not only of the 10 per cent. levy and the nationalisation of banks, but by what many persons regard as extravagance and by the failure of the Government to improve conditions in the country. Of the ten Ministers who have to steer the country through a critical period, four are now away. The Finance Minister, shortly after a visit to Ecuador and Colombia, has left for Buenos Aires and wishes then to proceed to the United States. The Minister of Justice and Foreign Minister is in Paris attending, with five others, the United Nations Assembly, and the titular Foreign Minister is in Cuba attending the installation of the new President. The Minister of Public Security is also abroad. The increased expenditure on the armed forces is noted with distaste. In the whole year 1946 the actual expenditure on the Ministry of the Interior and Police was 6,115,670 colones and the Ministry of Public Security 6,556,491 colones, and the estimates for the seven months June-December 1948 are:—

	Colones
Ministry of Interior and Police ...	5,940,125
Ministry of Public Security ...	5,419,995
Ministry of Public Security (extraordinary) ...	5,066,585
Installation of the army ...	125,000
National liberation campaign ...	6,000,000

In my immediately following despatch I am adding information received privately.

A copy of this despatch is being sent to His Majesty's Ambassador in Washington.

I have, &c.

B. P. SULLIVAN.

2. It had been announced in the press that the Costa Rican Government was seeking a loan of 20 million dollars, but Mr. Rucinsky informed me that no fixed sum had been mentioned to him and, most remarkably, that the junta had prepared no schedule of their needs nor even of priorities. He ascertained, however, that Señor Figueres entertained the idea of an ambitious hydro-electric scheme on the lines of the Tennessee Valley, which would cost initially about 18 million dollars, a figure which was not known to the Minister of Finance, and that he personally gave this first priority. Señor Figueres seemed to prefer not to discuss this project in the presence of his Finance Minister. Other projects were the creation of a cement factory and those mentioned in paragraph 5 of my immediately preceding despatch.

3. Mr. Rucinsky told me in the strictest confidence that he did not propose to recommend to the World Bank that a loan should be given at the present time. He thought the Government too unstable, the political future too unsure, the projects of development too ambitious, and the capacity of the members of the junta too limited. While he thought, as I do, that Señor Figueres and the members of his Government are honest men sincerely concerned with the improvement of conditions in the country,

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he thought the tasks confronting them were too big for their abilities. Mr. Rucinsky was impressed with Señor Figueres, whom he thought able, but he had a poor opinion of the Minister of Finance, whom he described as a theorist with brains but lacking in all practical experience and ability. He thought the World Bank would certainly not grant money for the ambitious hydro-electric scheme, but that money for the agricultural and fishing industries might be forthcoming at some later date after the establishment of a constitutional form of government.

4. In his conversations with Señor Figueres, Mr. Rucinsky tells me that he said that he thought that before any loans were granted the Costa Rican Government should honour their foreign loans. Señor Figueres asked if this was a first condition, to which Mr. Rucinsky replied negatively, but added that the Government must obviously in the first place re-establish its credit in the eyes of the world. Mr. Rucinsky also advised a curtailment of luxury imports, and that, I understand, will be the policy of the Government.

5. From conversations and observations Mr. Rucinsky concludes that when Señor Ulate becomes President the services of the present members of the Government will be dispensed with, except probably those of Señor Figueres, Señor Orlich, Minister of

Public Works, and possibly Señor Valverde, Minister of the Interior, whose brother was "murdered" while giving Señor Ulate asylum.

6. It is rather remarkable that Señor Figueres gave Mr. Rucinsky no facilities to meet Señor Ulate until just before he left Costa Rica on his return to the United States. At that interview Señor Ulate deplored the high expenditure on armed forces, for which provision is made in the budget. Mr. Rucinsky gained little information about relations with other Central American republics, but he did not think that Señor Figueres wished to be embroiled in armed conflicts, though he admitted that there was always the danger of his being carried away by events or possibly by the influence of such a man as Señor Cardona, the Minister of National Security—though he agreed that he was not a very forcible personality.

7. Mr. Rucinsky discouraged the Minister of Finance from visiting the United States, and he has now gone to the Argentine to endeavour to arrange a barter exchange of sugar and wheat and to obtain a loan of 5 million dollars.

8. I am sending a copy of this despatch to His Majesty's Ambassador at Washington.

I have, &c.

B. P. SULLIVAN.

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No. 49.

Ref: 34/1/3

BRITISH LEGATION

San José, Costa Rica.

5th October, 1948.

3610

Sir,

The financial situation in Costa Rica, under the new Government, is confused and confusing. There is a lack of confidence in the country and merchants and agents importing goods from abroad are hampered by the shortage of foreign exchange. Withdrawals from the banks are heavy and those who can buy foreign money on the black market or keep large sums in their own safes. The present Government is short of money both for current purposes and for the carrying out of those schemes of productive development which it desires to introduce.

2. The actual revenue and expenditure of the two former Governments, which are accused of extravagance, were in the years shewn, as follows:-

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and both Dr. Calderon Guardia and Lic. Teodoro Picado, who occupied the Presidency during the previous eight years are charged, in their absence, with fraudulent handling of public funds, before the Probity Court specially installed to investigate the activities of the previous administrations.

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- nationalised private banks, that is to say the shareholders are being bought out by the Government.
- levied a 10% tax on capital, payable over a period of ten years,

/c) issued

H.M. Principal Secretary of State
for Foreign Affairs,
Foreign Office,
London, S.W. 1.

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- c) issued 30,000,000 colones in bonds at 6% the capital of which is to be repayable on December 31st, 1958.
- d) authorised a loan of 1,000,000 colones to the Pacific Electric railway;
- e) increased by 10,000,000 colones the capital of the National Bank and regulated the grant of bank credits to the advantage of agriculture and industry and to the disadvantage of merchants (See enclosure hereto).
- f) sought to obtain loans abroad.

5. A commission of the World Reconstruction Bank has recently been in Costa Rica for several days visiting the various sections of the country and contacting not only Government circles but prominent citizens in general with a view to the compilation of a realistic report on the resources and potentialities of the nation and consideration of a loan. According to the local press, the commission agreed on principle to:

- 1) the expenditure of \$1,000,000 immediately on renovating the equipment of the Pacific Electric railway;
- 2) importation of agricultural machinery to modernise farming;
- 3) installation of a plant for pasteurising milk;
- 4) financing a meat industry, and
- 5) complete reorganisation and improvement of the fishing industry

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/in.....

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in Washington.

I have the honour to be,

with the highest respect,

Sir,

Your most obedient, humble Servant,

B. Sullivan

(B.P. Sullivan)

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Enclosure in San José despatch
No.49 of 5th October, 1948.

TRANSLATION

Rules have now been published regarding grants of industrial and agricultural credits by the National Bank of Costa Rica.

The new criterion by which requests for loans for industrial purposes will be considered will be removed from that which is strictly financial in which the preponderating consideration consists in full security by means of real guarantees. Creative capacity and knowledge or technical ability on the part of the person seeking the loan together with his honorability will be the main considerations in deciding whether or not the loan should be given. On the other hand, even if adequate guarantees were offered but if there were doubts about the industrial capacity or real ability of the applicant the loan would not be granted. Furthermore, it will be necessary to shew to the satisfaction of the bank that the industry which it is desired to establish or to expand is productive for the country and offers satisfactory commercial possibilities.

Industrial loans will be divided into four headings, as follows: construction of industrial buildings, raw materials, machinery and implements, etc., manufactured articles.

The four kinds of loans will be subject to the following rules:

1. Credits will be given to the owners of farms or industries.
2. Requests will not be accepted for loans for enterprises of which the advantage or industrial and technical capacity of the applicant are not perfectly clear.
3. Applications for loans will be made on special forms provided by the credit department of the bank which will study and classify them and pass to the management in order that they may be submitted to the board of directors.
4. Applications must contain a detailed plan of the manner in which the loan would be used. That plan, after approval or modification, will form part of the contract and may not be modified by the debtor without the approval of the board of directors.
5. Husband and wife will be considered as one person for the concession of loans and in respect of their full amount.