

AN

AN 3048

19 AUG 1948

Registry
Number

AN 3048/441/32

FROM

The Sullivan

No.

San José

Dated

40. (30/1/3)

Received
in Registry

10 August 1948

19 Aug.

Answer in 'LA PRENSA LIBRE' of 9th August to
enquiry by Managing Board of National
Bank of Costa Rica regarding Chamber of
Commerce allegation to that increase in note
issue would cause inflation.

Ref San José despatch 38(AN3040/470/
32) copied with E.A.D.

Last Paper.

✓

References.

See also Ans. 3048 below.

Copy Bot. (Int.)

Tsy. (Jordan/loss)

B/E. (Crick)

ECGD (Workman)

with copies of dep.
ans. 3048.

[Signature] 20/8.

(Print.)

(How disposed of.)

2) The Hunt Tsy BOT
The Jordan/loss Tsy
The Crick B/E England
The Workman ECGD
(with AN3040) Ans 2

(Action
completed.)

(Index.)

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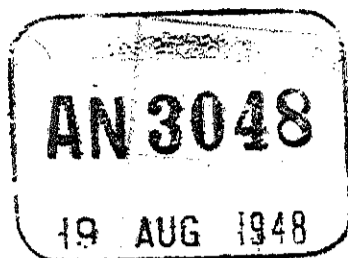
Next Paper.

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AN 3335

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No. 40.
Ref: 34/1/3



BRITISH LEGATION

San José, Costa Rica.

10th August, 1948.

Sir,

In continuation of my despatch No. 38 of the 9th instant relative to the increase in capital of the National Bank of Costa Rica and with particular reference to the attitude of the Chamber of Commerce as set out in the enclosure to that despatch, I have the honour to report that the evening newspaper "La Prensa Libre" published last night an answer to an enquiry made to the Managing Board of the Bank regarding the allegation of the Chamber of Commerce that an increase in the issue of notes would cause inflation.

2. The Board are reported as having stated that the present scarcity of foreign exchange and the unfavourable position in the balance of payments shewed that Costa Rica was importing too much and producing very little, or both. Economic resources had been too much in the hands of importing houses. Banks had been far more ready to lend money to importers, owing to the quickness in turnover, than to agriculture or to industry. Loans for agriculture and industry had been very restricted even by the National Bank and had been virtually non-existent by private banks. The new policy of the National Bank was to reduce loans for commercial purposes and to direct them towards those activities which would increase the wealth of the nation, that is to say, to industry and to agriculture, but there would be no violent changes to the prejudice of those commercial people whose business was connected with production.

3. As to whether the issue of an additional 10,000,000 colones in notes would result in inflation, that depended on the rhythm and the manner in which this capital was employed. The loans which would be made from these funds would be strictly controlled by the Bank and would be destined solely and exclusively towards an increase in national production. If that course were followed there would be no inflation.

4. This Legation has observed that since the new régime came into power there has been considerable uncertainty prevailing in business circles regarding the economic stability of the country and some fear as to what new tax, restriction or regulation might be imposed. However, by a new decree an economic council to advise the government has recently been established and this council, though not freely elected by the people at least comprises persons knowledgeable in the economy of the country and will, it is thought, in some measure fill the gap caused by the non-existence of a Congress, obviate ill-considered and too speedy decisions and tend to restore confidence.

5. The restriction regarding the extension of credit can hardly fail to have an adverse effect on the sale of articles of foreign manufacture, but it is to be remarked that in the past there has been considerable importation of luxury and unnecessary goods. It is to be assumed that the market for such articles will from now on be less.

A copy of this despatch has been sent to H.M. Ambassador at Washington and to the Export Promotion Department of the Board of Trade.

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

I have the honour to be,
with the highest respect,
Sir,

Your most obedient, humble Servant,

B. Sullivan
(B.P. Sullivan)