

bananas and sugar) and diversification into new commodities (beef, vegetables and tropical fruits). However, from 1979 to 1982, a combination of declining foreign exchange earnings and rising import costs for oil, industrial machinery and raw materials, along with increasingly costly social welfare programs, brought the country to the brink of bankruptcy.

The government of the day took a number of initiatives to place the economy back on the road to recovery. An austerity program designed to reduce the budget deficit was introduced, and increases in foreign aid were secured. In 1985, Costa Rica reached an agreement with the International Monetary Fund (IMF) on terms for additional support from the latter body; and, in the same year, Costa Rica negotiated a structural adjustment loan of US\$80 million from the World Bank.

The Arias administration has continued on the path of austerity. As a result, the public sector deficit has been reduced to three percent of GDP (compared to 14 percent in 1982). President Arias' success in reducing government expenditure and re-allocating national investment to productive sectors has contributed to a partial economic recovery. However, significant continued short-term stresses remain, including a troublesome inflation rate (up from 16 percent in 1987 to 23 percent at the end of 1988), increases in the regulated prices of certain basic foods and public services, and a consequent 1987-88 decline of 2.5 percent in the real value of the national minimum wage. Moreover, Costa Rica's external debt - amounting to US\$4.7 billion at the beginning of 1989 - remains a major obstacle to long-term economic progress. It has led the Arias government to seek further restructuring of the Costa Rican economy, including liberalizing the banking system, as a means of stimulating productivity and qualifying for additional assistance from the international community. In this latter connection, some forward movement occurred in December 1988 when the World Bank approved a new structural adjustment loan of US\$100 million. Additional negotiations with the International Monetary Fund and private creditors will still be required in order to reach an overall formula for scaling down the debt burden. An associated challenge for the government will be to sustain public support of austerity and restructuring policies during the presidential elections scheduled for February 1990.

### Canada-Costa Rica Relations

Canada enjoys closer relations with Costa Rica than with any other Central American country, due to our shared democratic institutions. The governments of the two countries maintain a continual and detailed dialogue on all facets of the