

Costa Rica

The Costa Rican economy is expected to grow by 3.0% in 2013, as against 5.1% in 2012. Slower growth reflects weakening private consumption combined with a decline in net exports. Growth of 4.0% is projected for 2014, while the central government deficit was expected to widen to 5.0% of GDP at the end of 2013, 0.6 percentage points higher than in 2012. The current account deficit will also stand at 5.0% of GDP, compared with 5.26% the previous year. The total external debt of the overall public sector¹ reached 52.5% of GDP in the first half of 2013, an increase of 7.6 percentage points over the first half of 2012. The consumer price index (CPI) recorded a year-on-year increase of 4.1% to October 2013, while the unemployment rate was 10.4% in June 2013.

Despite efforts to curb public spending, the central government fiscal deficit continued to expand, reaching 3.8% of GDP in September 2013, 0.6 percentage points higher than the year-earlier figure.

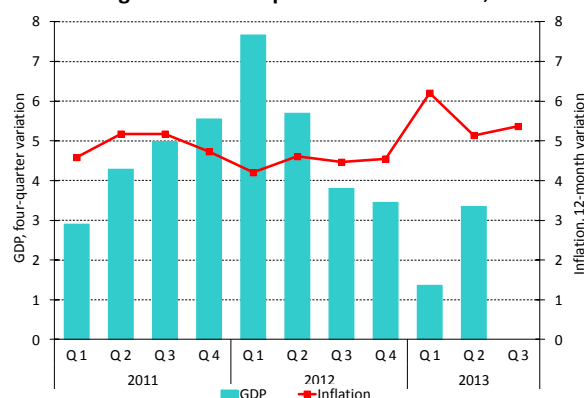
Central government tax revenues from January to September 2013 were up 8.5% in nominal terms compared with the same period in 2012, resulting in an estimated tax burden of 13.1% of GDP. This trend was prompted by a 13.7% nominal increase in direct tax revenues, largely on the back of higher income tax receipts. Indirect tax revenues rose at a more modest year-on-year rate of 5.5% to September 2013, owing to slower growth in sales tax receipts (3.2%) consistent with falling economic activity.

Between January and September 2013, central government current expenditure jumped 13.4% compared with the same period the previous year. This trend reflected mounting interest payments (up 25.4%) and higher wages (10.3%), as well as increased transfers to the public sector (14.3%). Difficulties in containing expenditure were posed by the automatic salary adjustments that are applied in the Costa Rican public sector, and by the statutory transfers to education and the Costa Rican Social Security Fund (CCSS).

Greater borrowing requirements led to a significant rise in debt levels. Overall public sector debt amounted to 52.5% of GDP at the end of the first half of 2013, a 7.6 percentage point increase on the year-earlier period, to which domestic debt contributed 4.1 points and external debt 3.5 points.

In April 2013, the Ministry of Finance issued US\$ 1.0 billion in securities on the international market, including US\$ 500 million maturing in 12 years, and the remaining US\$ 500 million in 30 years.

Costa Rica: gross domestic product and inflation, 2011-2013



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

¹ Includes the non-consolidated debt of the central government, the central bank and other public-sector institutions.

Lending to the non-financial private sector showed continued preference for foreign currency operations and posted 11.2% nominal year-on-year growth in August 2013, mainly on the back of an 18.5% increase in dollar lending. As a result of this trend, the balance of foreign currency loans to the private sector was higher than that of dollar liquidity, and the gap widened between the financial system's external dollar debt and its financial asset holdings.

The decline in liquid resources since the second half of 2013, along with forecasts that inflation would remain within the target range over the following months, led the central bank to lower the monetary policy rate by 100 basis points to 4% from June 2013. The central bank also lifted the limit on non-financial private-sector credit growth, which had been put in place in January 2013.

The balance-of-payments current account deficit is expected to close 2013 at 5.0% of GDP, down 0.25 percentage points on year-end 2012, an improvement attributable to an expected fall of 0.5 percentage points of GDP in the goods balance deficit. The latter will be partially offset by a 0.25 percentage point increase in the income account deficit. The expected US\$ 210 million increase in the income account is mainly due to larger capital outflows through profit sharing and dividend distribution. Total foreign direct investment of about US\$ 2.46 billion (5.0% of GDP) is estimated for 2013, compared with 5.1% of GDP in 2012, again helping to fund the current account deficit.

In November 2013, the Legislative Assembly's Special Standing Committee on International Relations and Foreign Trade issued a unanimous opinion in favour of the free trade agreement between the member States of the European Free Trade Association (EFTA) on the one hand, and Costa Rica and Panama on the other. Subsequent approval of the agreement rests with the plenary session of the Legislative Assembly. The free trade agreement between Costa Rica and Peru went into effect on 1 June 2013.

Aggregate demand is expected to increase by 2.3%, led by rising gross fixed investment (up 4.9%) and, to a lesser extent, growth in total consumption (2.6%). Goods and services exports will gain 1.0% in 2013, well below the 2012 figure of 8.5%. In this context, the economy is predicted to grow by 3.0% in 2013, primarily driven by private consumption (up 1.7 percentage points) and investments (up 1.0 percentage point). Net external demand is projected to add just 0.1 percentage points to GDP growth, since the positive contribution of export growth (0.6 percentage points) will only slightly outweigh the negative effect of imports (-0.5 percentage points).

Slower growth in 2013 affected all economic sectors to a greater or lesser extent. The sectors that reported the sharpest slowdowns were manufacturing (predicted growth of 2.1%, compared with 6.3% in 2012), construction (3.0% in 2013, as against 5.6% in 2012), transport, storage and communications (4.1% compared with 5.9%) and financial institutions and insurance (5.1% versus 7.2%); agriculture is likely to contract by 0.5% in 2013, having posted 3.5% growth the previous year.

Costa Rica: main economic indicators, 2011-2013

	2011	2012	2013 ^a
Annual growth rate			
Gross domestic product	4.4	5.1	3.2
Per capita gross domestic product	3.0	3.7	1.9
Consumer prices	4.7	4.5	4.1 ^b
Real average wage ^c	5.7	1.4	0.9
Money (M1)	19.2	9.4	11.1 ^d
Real effective exchange rate ^e	-3.6	-3.6	-4.3 ^b
Terms of trade	-3.7	-0.5	0.2
Annual average percentage			
Open urban unemployment rate	7.7	7.8	8.3
Central government			
Overall balance / GDP	-4.1	-4.4	-5.0
Monetary policy rate	5.6	5.0	4.6 ^b
Nominal lending rate ^f	18.1	19.7	17.6 ^b
Millions of dollars			
Exports of goods and services	15 371	16 939	17 495
Imports of goods and services	17 323	18 814	19 301
Current account balance	-2 195	-2 374	-2 284
Capital and financial balance ^g	2 328	4 484	2 825
Overall balance	132	2 110	541

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Estimates.

^b Figures as of October.

^c Average wage declared by workers covered by social security.

^d Figures as of August.

^e A negative rate indicates an appreciation of the currency in real terms.

^f Average lending rate.

^g Includes errors and omissions.

Year-on-year inflation, measured by the variation in the CPI, stood at 4.1% in October 2013, within the target range of 4% to 6%. The goods and services that saw the biggest price rises were regulated services, which recorded a year-on-year increase of 5.2% in October 2013, while non-regulated goods and services prices were up by 3.8%. The increased cost of regulated services reflected costlier water and electricity services, partially offset by a drop in fuel prices.

The national unemployment rate stood at 8.5%, a year-on-year increase of 0.7 percentage points compared with 2012. This was caused by a fall in the employment rate, consistent with the cooling economy.