

### Costa Rica

The Costa Rican economy is expected to expand by 3.6% in 2014, a 0.1-percentage-point increase on the 2013 growth rate. The current account deficit is forecast to reach 5.3% of GDP, up 0.2 percentage points on the 2013 figure, while overall public sector debt amounted to 56.1% of GDP in August 2014, 3.5 percentage points higher than in August 2013. Year-on-year variation in the consumer price index stood at 5.7% in October 2014, while the average open unemployment rate remained at 9.6% for the first three quarters of the year. The economy is projected to grow by 3.2% in 2015.

The central government fiscal deficit widened to 4.4% of GDP in October 2014, up 0.3 percentage points on the same period the previous year.

Central government tax revenues posted 7.3% nominal year-on-year growth in October 2014, as income rose in the main components. General sales tax receipts were up by 8.9% on the strength of higher revenues from customs duties (up 14.4%) and, to a lesser extent, domestic goods and services (4.3%). Tax proceeds from the consumption of imported goods and services jumped 10.1% and corporate and personal income tax revenues also rose by 6.3%.

Central government current expenditure climbed by 9.4% in nominal terms in the period to October 2014 (against 13.1% in October 2013), a more modest increase that reflected slower growth in spending on wages (up 7.9%) and transfers to the public and private sectors (9.8%) compared with the October 2013 figures (10.3% and 11.9%, respectively). A further factor was that spending on debt servicing also increased at a slower rate (up by 11.5% in October 2014, compared with 26.6% in the year-earlier period). Capital expenditure surged by 24.3% in October 2014 (10.2% in October 2013), owing primarily to a rise in capital transfers to the public sector.

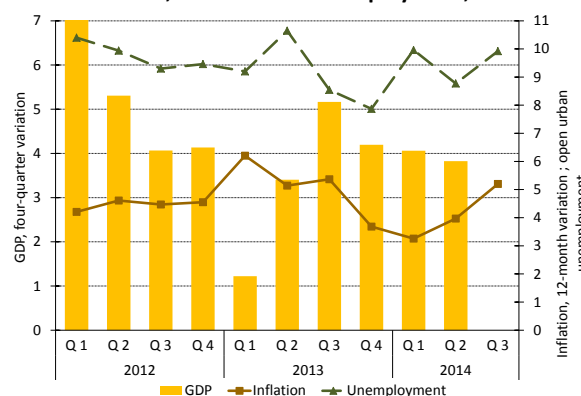
Greater borrowing requirements pushed up debt levels, with total overall public sector debt reaching 56.1% of GDP in August 2014, up 3.5 percentage points on the August 2013 figure. External debt contributed 4.0 points to this increase, partially offset by a 0.5 point drop in domestic debt.

In April 2014 the Ministry of Finance issued US\$ 1 billion in 30-year bonds on the international market, with an interest rate of 7%. This was the third sovereign bond issue carried out under Act No. 9070, which authorizes the executive to issue US\$ 1 billion per year, up to a total of US\$ 4 billion.

In September 2014, the credit rating agency Moody's announced that it had downgraded Costa Rica's government bond rating from Baa3 (negative outlook) to Ba1 (stable outlook), with the consequent loss of investment grade status. The downgrade was prompted by the deterioration of the central government's financial position, which has accelerated in the last six years.

In January 2014, the exchange rate began to rise following the announcements by the United States Federal Reserve that it would gradually withdraw monetary stimulus and the statement by the corporation Intel that it would close its manufacturing plant in Costa Rica. The rise in the exchange rate, which was at its steepest in the first

Costa Rica: GDP, Inflation and unemployment, 2012-2014



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

quarter of 2014, led to greater exchange-rate and inflation fluctuations and strengthened the preference of economic stakeholders for foreign-currency savings instruments and local-currency credit, although this pattern became less pronounced during the second and third quarters. In this context, lending to the private sector posted nominal year-on-year growth of 8.3% in September 2014 (10.4% in September 2013).

Year-on-year inflation, measured as variation in the consumer price index, stood at 5.7% in October 2014, overshooting the upper limit of the target range (between 3% and 5%). From March, this indicator came under upward pressure caused by a 10.2% increase in the nominal exchange rate during the first half of the year and a 16% rise in the prices of some regulated goods and services. Inflation expectations and exchange-rate movements during the first quarter twice led the board of directors of the central bank to raise the monetary policy rate: from 3.75% to 4.75% in March, and to 5.25% in May. Interest rates in the financial system have gradually reflected this adjustment. The base deposit rate reached 7.2% in November 2014, 70 basis points higher than at the start of the year.

The balance-of-payments current account deficit is forecast to stand at 5.3% of GDP at the end of 2014 (compared with 5.1% at year-end 2013). This worsening position reflects an expected widening of the goods balance deficit by 0.6 percentage points of GDP and of the income account deficit by 0.5 points, partly offset by a 0.9-percentage-point improvement in the services balance. Meanwhile, foreign direct investment is forecast to reach US\$ 2.2 billion at the end of 2014 (4.4% of GDP, compared with 5.5% of GDP in 2013).

Aggregate demand is projected to post slower growth of 1.1% at year-end 2014 (compared with 3.1% in 2013), owing to the weaker expansion of domestic demand (3.1% at year-end 2014, compared with 3.7% in 2013) and falling exports of goods and services (down 2.3% in 2014, compared with 3.6% growth in 2013). The domestic demand trend in turn reflects slower growth in gross fixed investment (5.1% in 2014, compared with 11.8% in 2013), partially counterbalanced by faster growth in consumption (3.6% in 2014, against 3.2% the previous year).

The sectors projected to maintain the strongest growth in 2014 include financial and insurance services (6.0%), transport, storage and communications (5.6%), agriculture and fisheries (4.0%) and commerce (3.8%). Robust activity in the financial and insurance services sector reflected brisk lending and deposit-taking, and an increase in foreign-exchange commissions. Transport, storage and communications posted steady growth on the strength of mobile telephony and Internet services and cargo and passenger transport. The strong performance of the agriculture sector was driven by an improvement in pineapple, banana, melon and watermelon crops, while commercial activity was mainly fuelled by retail sales of electrical and household appliances, mobile telephones and televisions.

#### Costa Rica: main economic indicators, 2012-2014

	2012	2013	2014 <sup>a</sup>
	<b>Annual growth rate</b>		
Gross domestic product	5.1	3.5	3.6
Per capita gross domestic product	3.7	2.2	2.3
Consumer prices	4.5	3.7	5.7 <sup>b</sup>
Real average wage <sup>c</sup>	1.3	1.3	1.8 <sup>d</sup>
Money (M1)	9.4	11.9	14.4 <sup>e</sup>
Real effective exchange rate <sup>f</sup>	-3.8	-4.1	5.2 <sup>b</sup>
Terms of trade	-0.5	0.3	0.3
	<b>Annual average percentage</b>		
Open urban unemployment rate	7.8	8.2	8.5 <sup>b</sup>
Central government			
Overall balance / GDP	-4.4	-5.4	-6.1
Nominal deposit rate	6.5	5.0	4.6 <sup>g</sup>
Nominal lending rate <sup>h</sup>	19.7	17.4	16.6 <sup>g</sup>
	<b>Millions of dollars</b>		
Exports of goods and services	16,919	17,602	17,863
Imports of goods and services	18,873	19,196	18,834
Current account balance	-2,422	-2,452	-1,823
Capital and financial balance <sup>i</sup>	4,532	2,913	1,519
Overall balance	2,110	461	-304

**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 September.

e/ Figures as of August.

f/ A negative rate indicates an appreciation of the currency in real terms.

g/ Figures as of November.

h/ Average lending rate.

i/ Includes errors and omissions.

The national open unemployment rate averaged 9.6% for the first three quarters of 2014, unchanged on the same period in 2013.