

## Costa Rica

AAA The Costa Rican economy grew by 5% in 2012, and the central government deficit was equal to 4.5% of GDP (0.4 percentage points higher than in 2011). At 5.3% of GDP, the current account deficit was similar to the prior-year figure. Total external debt of the overall public sector<sup>1</sup> stood at 45.6% of GDP in July 2012, an increase of 3.8 percentage points over the balance 12 months earlier. The consumer price index saw a year-on-year increase of 4.7% to October 2012. The unemployment rate stood at 7.8%.

A number of macroeconomic policies were implemented in 2012. On the fiscal front, these included a law enabling the Ministry of Finance to issue securities on the international market for up to US\$ 4 billion, a law establishing an annual tax of US\$ 200 on all trading companies, and a law creating a special tax on tobacco. In terms of monetary policy, as a precautionary measure the central bank decided to implement an international reserve accumulation programme running from February 2012 to December 2013, with a limit of US\$ 1.5 billion.

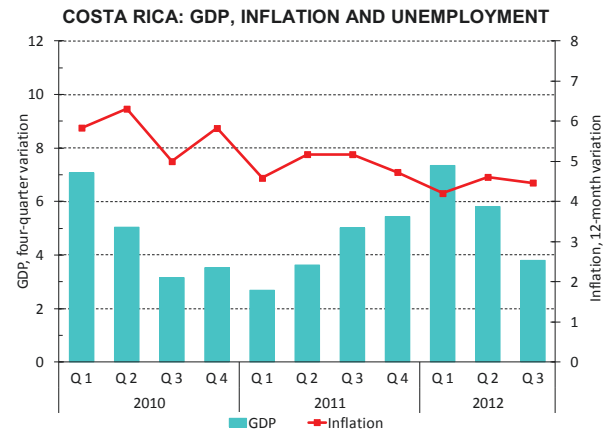
Central government tax revenue was up by 10.2% in nominal terms to September 2012 compared with the year-earlier period, and represented 9.6% of GDP. This increase was largely attributable to a 15.1% rise in direct tax revenue as the economic upturn drove income tax receipts up and a series of administrative and technological advances improved tax collection. For instance, since late 2011 it has been possible to file income tax returns and make payments online. Indirect tax revenue grew at a more moderate pace, increasing by 7.9% year-on-year to September 2012.

Central government current expenditure rose 9.6% to September 2012 compared with 12 months earlier (12.5% of GDP), owing to a 16.2% increase in public-sector transfers and a 9% rise in wages. Despite the holdover of measures rolled out in 2011 to curb spending, as well as the progress made in enhancing customs and tax administration and reducing tax

evasion, the central government deficit widened to 4.5% of GDP in 2012 (0.4 percentage points higher than in 2011). Increased funding needs were reflected in more borrowing and higher domestic interest rates. Total external debt of the overall public sector stood at 45.6% of GDP in July 2012 (35.3% of GDP for domestic debt and 10.3% for external debt), which is 3.8 percentage points higher than the previous year.

September 2012 saw enactment of Law No. 9070, which allows the Ministry of Finance to issue up to US\$ 4 billion (up to US\$ 1 billion annually) in securities on the international market over the next 10 years, with the aim of converting domestic bonded debt into external debt or repaying external debt.

The private foreign-exchange market maintained a dollar surplus throughout 2012. This increased supply



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

<sup>1</sup> Includes unconsolidated debt corresponding to the central government, central bank and some public-sector institutions.

of foreign currency was due in part to multinational company requirements for covering costs such as wages, income taxes and administrative payments. The substantial spread between dollar and colón interest rates likely led firms to place some of their funds in the domestic currency. As a result, the colón appreciated and the exchange rate remained very close to the floor of the band (500 colones per dollar) for most of the year. In January 2012 the board of directors of the central bank launched an international reserve accumulation programme for February 2012 to December 2013, with a limit of US\$ 1.5 billion, as a precaution against the uncertain financial climate and volatile international liquidity. As of 27 November 2012, the central bank had purchased US\$ 818.1 million under the programme and in fulfilment of its commitment to protect the floor of the exchange-rate band.

Private-sector lending grew by 12.8% in nominal terms to August 2012. Most of this growth was seen in industry (21.7%), consumption (18.5%), agriculture (13.3%), commerce (13.1%) and services (12.5%).

Aggregate demand expanded by 4.7%, fuelled by a 10% jump in gross domestic investment in machinery and equipment, and, to a lesser degree, a 4.9% increase in private consumption. General government consumption edged up by 1.8%. Private investment surged 8.8%, far outstripping the 2.2% rise in public investment. Net external demand added 0.5 percentage points to GDP growth, since exports (up by 5.4%) outperformed imports (down by 4.5%).

The most buoyant sectors in 2012 were transport, storage and telecommunications (7.7%, spurred by demand for mobile telephony and Internet services); financial intermediation services, insurance and real estate (7.0%, driven by loan placement and deposit-taking; and manufacturing (4.7%). Manufacturing growth was particularly strong among companies operating under special regimes, such as producers of integrated circuits and semiconductors. The Costa Rican economy is forecast to grow by 3.5% in 2013.

Year-on-year inflation, measured using the consumer price index, stood at 4.7% to October 2012 and was within the target range of 4% to 6%. Between January and September inflation was chiefly driven by rent and housing services, transport and education. Together, these accounted for 73% of the cumulative variation in the consumer price index during 2012. The unemployment rate held virtually steady (increasing from 7.7% in 2011 to 7.8% in 2012) alongside a slight dip in the employment rate. Formal employment (wage

## COSTA RICA: MAIN ECONOMIC INDICATORS

	2010	2011	2012 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	4.7	4.2	5.0
Per capita gross domestic product	3.1	2.7	3.6
Consumer prices	5.8	4.7	4.7 <sup>b</sup>
Real average wage <sup>c</sup>	2.1	5.7	1.5
Money (M1)	9.4	19.4	9.1 <sup>d</sup>
Real effective exchange rate <sup>e</sup>	-11.1	-2.6	-3.5 <sup>f</sup>
Terms of trade	-3.9	-3.7	-0.5
<b>Annual average percentages</b>			
Open urban unemployment rate	7.1	7.7	7.8
Central government overall balance / GDP	-5.2	-4.1	-4.5
Monetary police rate	8.1	5.6	5.0 <sup>g</sup>
Nominal lending rate <sup>h</sup>	19.4	17.6	18.9 <sup>g</sup>
<b>Millions of dollars</b>			
Exports of goods and services	13 836	15 374	16 683
Imports of goods and services	14 739	17 315	18 371
Current account balance	-1 281	-2 185	-2 383
Capital and financial balance <sup>i</sup>	1 842	2 318	2 793
Overall balance	561	132	410

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

<sup>a</sup> Estimates.

<sup>b</sup> Twelve-month variation to October 2012.

<sup>c</sup> Average wage declared by workers covered by social security.

<sup>d</sup> Year-on-year average variation, January to September.

<sup>e</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>f</sup> Year-on-year average variation, January to October.

<sup>g</sup> January-October average.

<sup>h</sup> Average lending rate.

<sup>i</sup> Includes errors and omissions.

earners contributing to the Costa Rican social security fund) continued to rise at a pace in excess of 3%; average real wages inched up by 1.5%.

The current account recorded a deficit of US\$ 2.383 billion in 2012, equivalent to 5.3% of GDP, a similar figure to the previous year. This result is attributable to a US\$ 322 million increase in the goods balance deficit and an increase of US\$ 451 million in the income balance deficit. Although both imports and exports expanded by a similar percentage over the previous year (6.1% in both cases), the balance of goods deficit widened because import volume to December 2012 (US\$ 18.371 billion) far exceeded export volume (US\$ 16.683 billion). The increase in the income balance deficit is primarily due to higher capital outflows for distribution of profits and dividends, which are likely to total US\$ 954 million to December 2012 (up US\$ 470 million over the previous year). The growing deficit relating to these two items was partially offset by a US\$ 576 million increase in the services balance. Foreign direct investment totalled US\$ 2.2 billion in 2012; this figure is somewhat higher than the previous year and contributed a good deal to enabling the country to continue funding its current account deficit.