COSTA RICA

1. General trends

According to new official statistics, the Costa Rican economy grew by 3.7% in real terms in 2015, up from 3% in 2014, owing to the strong performance of the services sector, which eclipsed the modest growth in manufacturing and the decline in the agricultural sector. The central government deficit continued to widen and closed the year at 5.9% of GDP, compared with 5.7% of GDP in 2014. The consumer price index contracted by 0.8% year-on-year in December 2015, well below the central bank's target of 4% (+/- 1 percentage point). The reduction in the oil bill was reflected in a significant narrowing of the current account deficit (4.2% of GDP in 2015, compared with 5.2% in 2014). The average national unemployment rate was 9.6%, the same as in 2014.

According to ECLAC projections, the growth rate will rise to 4.2% in 2016, on the back of the continued strong performance of the services sector and a recovery in agricultural and manufacturing activity, once the exceptional factors acting as a drag on these sectors ease over the coming year. The central bank adjusted target inflation down by 1 percentage point for 2016, setting it at 3%, with a margin of 1 percentage point on either side. Annual average variation in consumer prices is expected to return to positive territory towards the second half of 2016 and to close the year at around 2%. If international oil prices remain low, as expected, the current account deficit will remain at a level similar to the previous year, at around 4% of GDP at year-end 2016. By the end of June 2016, little progress had been made towards adopting bills to control spending and increase fiscal revenue, so the fiscal deficit is expected to continue to widen to more than 6% of GDP. Lastly, the average national unemployment rate is expected to decrease slightly as economic activity picks up, settling at around 9%.

2. Economic policy

Costa Rican macroeconomic policy continued to focus on the worsening fiscal position and the fragile state of public finances. In 2015, the executive sent eight bills to the Legislative Assembly on tax reform concerning revenue and expenditure. Reforms to reduce spending on public pensions were adopted in late June 2016.

(a) Fiscal policy

The expansionary fiscal policy stance was maintained. The deficit of the narrowly defined global public sector was 5.6% of GDP, up by 0.3 percentage points on the previous year. This increase is due mainly to the deterioration of the central government's finances, which pushed up the deficit by 0.2 percentage points and, in turn, can be explained by higher interest payments, since the primary deficit remained at 3.1% of GDP.

Total central government spending saw real growth of 8.9% (compared with 4.6% in 2014), explained largely by a significant increase in interest payments (14%). Spending on wages and transfers continued to rise steeply (6.5% and 8.8%, respectively) in the light of various statutory wage adjustments in the public sector and statutory transfers to the Special Fund for the Financing of State Higher Education (FEES), the Fund for Social Development and Family Allowances (FODESAF) and the Costa

Rican Social Security Fund (CCSS). The striking 12.3% real-term rise in capital spending increased its share of total central government spending from 8.7% in 2014 to 9% in 2015, following major investments in road infrastructure.

Central government revenue grew by 9.2% in real terms (up from 2.8% in 2014), thus increasing at a higher rate than expenditure for the first time in five years. This was due largely to increased revenues from income taxes (13.4%) as a result of higher corporate contributions; banks' higher profits thanks to exchange rate gains; and the introduction of a 2% retention by financial institutions on debit and credit card transactions. As a result, the country's tax burden as a percentage of GDP reached 13.9%, compared with 13.4% in 2014.

At the end of 2015, total gross public debt was equivalent to 61.9% of GDP, an increase of 3.3 percentage points compared with December 2014, the highest debt ratio recorded in the last 25 years. Of this debt, 42.3 percentage points of GDP correspond to domestic debt and the remaining 19.6 percentage points to foreign debt. In 2015, the Ministry of Finance carried out the last Eurobond issuance authorized under Law No. 9070 of September 2012, in the amount of US$ 1 billion.

The tax reform proposals submitted by the executive seek to increase income tax revenue by making the tax more progressive, and to introduce a value added tax at a rate of 15%, to replace the 13% sales tax. The reforms will also rationalize exemptions and combat tax fraud. On the expenditure side, the aim is to reduce the growing pressure on current spending.

Cumulative tax revenue increased by 8.6% in real terms in the first five months of 2016 compared with the same period in 2015, as a result of higher income, capital gains and consumption tax yields. Meanwhile, cumulative spending increased by 3%, as higher current expenditure was partially offset by the fall in capital spending.

(b) Monetary and exchange-rate policy

With year-on-year inflation below the floor of the target range since April 2015 and economic growth falling short of its potential, the central bank lowered the benchmark interest rate eight times in 2015, by a total of 350 basis points over the year: from 5.25% as at 2 February to 1.75% on 30 December (the last adjustment was approved on 30 December and entered into force on 4 January 2016). An expansionary stance on monetary policy was therefore adopted.

These adjustments gradually spread to other financial system rates. The financial system's base deposit rate fell by 125 basis points in 2015 and closed the year at 5.95%. Meanwhile, the lending rate, measured by the average of the rates charged by financial intermediaries on loans in colones, fell by 148 basis points to stand at 15.46% in December. This decrease brought the rate close to the levels seen before the start of the 2008 international financial crisis (14.02%).

The period of transition from an exchange-rate band regime to a managed float, which started in 2006, officially ended on 2 February 2016. Under this arrangement, the colón will now float freely, but the central bank will intervene in the foreign-exchange market in the event of major exchange-rate fluctuations.

In nominal terms, the exchange rate appreciated by 0.8% in 2015, to end the year at 534.6 colones per United States dollar. The real effective multilateral exchange rate index, reported by the central bank, had appreciated by 3% year-on-year in December 2015. The colón has appreciated in line with an improvement in the terms of trade, thanks to falling demand for foreign currency because of the lower oil bill, and to the increase in inflows of resources from outside the financial system and the public sector, raised primarily by debt issuances.

In 2015, the central bank announced a programme to buy up to US$ 800 million in foreign currency between February 2015 and December 2016 to strengthen international reserves. As a result, the central bank increased its net international reserves by US$ 622 million to US$ 7.834 billion at the end of 2015. On 30 December 2015, the central bank's board of directors authorized a new programme to purchase up to US$ 1 billion between January 2016 and December 2017. In order to have more resources to face potential financial volatility, it also increased the national contribution to the Latin American Reserve Fund (FLAR). In October 2015, US$ 98 million were transferred to FLAR, bringing Costa Rica's contribution to US$ 328.1 million.

Lending to the private sector grew by a nominal 11.9% year-on-year (compared with 17.6% in the same period of 2014). The credit slowdown was affected by the variation in real interest rates, as the absolute drop in nominal rates was less than the fall in inflation. The sectors that saw the largest increases in lending, compared with the previous year, were transport and services. Foreign-currency loans grew faster than loans denominated in colones (14.2% and 10.3%, respectively), with the former accounting for 58% of the private sector's total loan portfolio. Loans in dollars mainly financed housing operations (55%), vehicle purchases (11%) and other consumer operations (11%). This higher borrowing in dollars makes the financial system vulnerable to the risk of movements in the exchange rate.

Monetary aggregates grew by more than nominal GDP, with M1 up by 13.4% and M2 by 14.8%. Unlike lending, there was a preference for savings in colones, thanks to higher yields in local currency, among other factors.

The monetary policy benchmark rate has remained steady over the first six months of 2016, while the nominal exchange rate depreciated in June, closing the month at 549 colones per United States dollar.

(c) Other policies

The government pursued an active agenda of trade negotiations on different continents. Negotiations began for a free trade agreement with the Republic of Korea, as part of a government strategy to diversify its trading partners, focusing in particular on Asia; the first two rounds of negotiations were carried out in 2015. In the subregion, follow-up of the agenda to modernize and strengthen economic integration in Central America was undertaken, for example by negotiating technical regulations. On 1 June, the trade agreement between Costa Rica and Jamaica came into force, as part of the agreement between Costa Rica and the Caribbean Community (CARICOM).

In July 2015, the Council of the Organization for Economic Cooperation and Development (OECD) adopted the Roadmap for the Accession of Costa Rica to the OECD Convention, which established 22 technical reviews. The accession process was launched in October.

3. The main variables

(a) The external sector

Goods exports were down by 14.9% year-on-year, as a result of the closure of Intel manufacturing operations, a decrease in pineapple and banana production caused by adverse weather events, and real appreciation of the colón. In this context, free zone exports fell by 21.7%, while exports of agricultural products declined by 7.1%. The suspension of exports of electronic microstructures led medical appliances and devices to become the leading manufacturing export sector (23% of industrial exports). The relocation of some of the operations of the Intel factory outside Costa Rica also had an impact on the geographical diversification of exports, with a drop in shipments to Asia (from 13.2% of total exports in 2014 to 4.2% in 2015). If electronic microstructures are excluded, total sales abroad were down by only 0.7% in 2015. Meanwhile, exports of services remained buoyant and grew at an annual rate of 6.6%.

Imports fell by 9.8% in the same period, dragged down by more limited purchases of intermediate goods, particularly fuels, at lower international prices, and fewer inputs for the manufacture of electronic components, due to the aforementioned closure of Intel manufacturing operations. The oil bill, which corresponds to imports of fuels and lubricants, shrank by 40.6%. The decline in international oil prices led to a 5.3% improvement in the terms of trade.

Foreign direct investment (FDI) flows totalled US$ 3.094 billion, similar to the previous year's figure (US$ 3.064 billion in 2014). By sector, around 30% of flows were invested in services and an additional 30% in manufacturing. Investment by Costa Rican companies abroad is growing in importance and totalled US$ 386 million in 2015.

During the first five months of 2016, the value of total exports was US$ 4.264 billion, an increase of 8.6% compared with the same period in 2015, pointing to a recovery in the sector. The strong performance of free zones and primary products, such as bananas, explains this upturn.

(b) Economic activity

Before analysing economic activity, it should be clarified that, in early 2016, the central bank announced a significant update of its statistics, the result of a change of base year and important methodological changes in the national accounts. Previously, the base year was 1991, but it was considered necessary to review the national accounts, using 2012 as the reference period, in the light of changes in the national production structure over the last 25 years. The new figures also include adjustments to the net contribution of the external sector, following the adoption of the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6). The adjustment in national accounts, with the subsequent reassessment of GDP growth in previous years, also led to an update of the ECLAC forecast for the Costa Rican economy for 2016.

The rate of growth in 2015, using 1991 as the base year, was only 2.8% (compared with 3.7%, when 2012 prices are used). The notable difference between the two rates of growth is explained primarily by the adjustment in the percentage share of GDP of other services, including financial institutions, real estate, tourism and trade, among others, which rose from 43.2% (at 1991 prices) to 58.2% (at 2012 prices). In recent years, annual growth in the other services sector has outpaced that of GDP as a whole.

Economic activity accelerated in the second half of the year, with average quarterly growth of 3.2%, up from 2.6% in the first six months, as adverse events had a lesser impact in the second half of the year. By components of demand, household consumption and investment boosted economic activity. Household consumption increased by 4.1%, encouraged by greater purchasing power, while gross fixed investment grew by 8.3%, fuelled by public investment in infrastructure and private investment in real estate.

By sector, the agricultural sector shrank by 3.9%, while manufacturing increased slightly, up by 0.4%. The services sector continued to give the economy a significant boost, with annual growth of 4.6%. Notable growth was also recorded for financial institutions, insurance and real estate (7.4%) and transport and communications (7.8%).

In the first four months of 2016, the monthly index of economic activity registered average growth of 4.6%, 2.3 percentage points higher than the figure for the same period in 2014. Growth accelerated this year owing to the strong performance of most sectors, particularly the agricultural and manufacturing sectors, which left behind the negative or low rates of 2015.

(c) Prices, wages and employment

For the first time since the series began in 1977, year-on-year variation in consumer prices turned negative in July and the consumer price index had fallen by 0.8% by the end of 2015. The main reasons were lower international commodity prices, particularly oil and its derivatives, and lower prices for goods and regulated services, especially water and electricity. Core inflation, which reflects medium- and long-term price trends, was around 0.7% by December. As inflation rates were above 3% during the first three months of 2015, year-on-year inflation averaged 0.8% for the whole year.

The categories with the greatest year-on-year declines (December to December) were transport (-6.7%) and rent and housing services (-4.3%). In contrast, prices for education services and for alcoholic drinks and cigarettes increased the most (by 5.5% and 4.2%, respectively).

The net labour force participation rate dipped by 2 percentage points to 60% at the end of year, as the economy was unable to generate enough jobs for those entering the labour market for the first time. The nominal minimum wage increased by 4.3%, while in real terms it was up by 3.5%. The average monthly income from primary activities rose by 0.4% (-0.4% in real terms); while from secondary activities and services it increased by 8.4% and 4.5% (7.5% and 3.7% in real terms), respectively.

Inflation has remained negative in the first five months of 2016, with a year-on-year variation of -0.4% as of May. However, as the effect of external factors is expected to dissipate gradually, it should return to positive territory in the coming months, albeit at low levels.

Table 1

COSTA RICA: MAIN ECONOMIC INDICATORS

	2007	2008	2009	2010	2011	2012	2013	2014	2015 a/
	Annual growth rates b/								
Gross domestic product	7.9	2.7	-1.0	5.0	4.5	5.2	2.0	3.0	3.7
Per capita gross domestic product	6.5	1.3	-2.3	3.6	3.2	3.9	0.9	1.9	2.6
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	5.6	-3.2	-2.8	6.7	0.6	5.0	0.2	2.6	-3.9
Mining and quarrying	-1.5	-5.6	-14.2	-7.1	-3.2	5.7	5.8	5.8	4.2
Manufacturing	7.0	-3.7	-3.9	4.0	3.8	5.7	0.0	0.4	0.4
Electricity, gas and water	2.3	-0.6	3.3	2.7	2.5	6.9	-14.0	3.7	10.9
Construction	21.3	14.6	-3.0	-4.1	-3.8	6.1	-12.0	1.6	6.1
Wholesale and retail commerce, restaurants and hotels	6.6	3.4	-6.0	4.2	4.0	4.0	6.0	3.4	3.6
Transport, storage and communications	9.8	7.6	3.0	6.9	8.3	6.2	2.7	6.2	7.8
Financial institutions, insurance, real estate and business services	9.3	8.5	5.6	6.5	7.5	6.9	5.0	3.9	5.7
Community, social and personal services	3.4	4.5	5.2	4.2	2.4	2.5	3.6	2.3	2.1
Gross domestic product, by type of expenditure									
Final consumption expenditure	6.9	3.5	2.3	4.5	4.2	3.8	2.9	3.4	4.1
Government consumption	2.3	4.4	6.7	4.7	1.4	1.0	3.5	2.9	2.3
Private consumption	7.5	3.4	1.7	4.5	4.6	4.2	2.8	3.5	4.5
Gross capital formation	-1.2	20.2	-34.7	33.4	13.0	7.7	-1.1	2.2	8.3
Exports (goods and services)	9.9	-2.0	-6.0	5.5	5.5	9.3	3.3	3.0	1.9
Imports (goods and services)	4.3	6.5	-18.9	16.5	9.1	8.7	1.7	6.1	4.6
Investment and saving c/	**Percentajes of GDP**								
Gross capital formation	23.1	25.8	15.2	19.3	20.5	20.5	18.9	19.6	19.3
National saving	17.0	16.7	13.2	16.2	14.9	15.1	13.4	14.4	15.1
External saving	6.1	9.1	2.1	3.2	5.5	5.4	5.5	5.2	4.2
Balance of payments	**Millions of dollars**								
Current account balance	-1,646	-2,787	-630	-1,179	-2,340	-2,497	-2,719	-2,580	-2,203
Goods balance	-2,985	-5,013	-2,499	-3,453	-5,027	-5,348	-5,559	-5,567	-4,874
Exports, f.o.b.	9,299	9,555	6,671	7,530	8,301	8,923	8,866	9,271	9,504
Imports, f.o.b.	12,285	14,569	9,170	10,982	13,329	14,271	14,425	14,838	14,377
Services trade balance	1,734	2,201	2,451	2,914	3,833	3,984	4,439	4,741	4,731
Income balance	-865	-417	-913	-978	-1,424	-1,456	-1,868	-2,008	-2,312
Net current transfers	470	442	330	337	278	323	269	254	252
Capital and financial balance d/	2,794	2,439	891	1,740	2,472	4,606	3,180	2,467	2,848
Net foreign direct investment	1,634	2,072	1,223	1,378	2,328	1,803	2,783	2,665	2,708
Other capital movements	1,160	367	-333	362	144	2,804	397	-198	140
Overall balance	1,148	-348	260	561	132	2,110	461	-113	645
Variation in reserve assets e/	-1,148	348	-260	-561	-132	-2,110	-461	113	-645
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	97.4	94.1	92.8	82.4	79.7	76.6	74.1	77.4	73.5
Terms of trade for goods (index: 2010=100)	104.7	100.8	104.1	100.0	96.3	95.8	96.1	96.3	101.6
Net resource transfer (millions of dollars)	1,929	2,022	-22	762	1,049	3,151	1,312	459	536
Total gross external debt (millions of dollars)	8,075	8,827	8,276	9,527	11,286	15,381	19,629	21,671	23,743
Employment g/	**Average annual rates**								
Labour force participation rate	57.0	56.7	60.4	59.1	60.7	62.5	62.2	62.6	61.2
Open unemployment rate	4.8	4.8	8.5	7.1	7.7	9.8	9.1	9.5	9.7
Visible underemployment rate	11.5	10.5	13.5	11.2	13.4	11.3	12.5	12.8	12.4

Table 1 (concluded)

	2007	2008	2009	2010	2011	2012	2013	2014	2015 a/
Prices	**Annual percentages**								
Variation in consumer prices	10.8	13.9	4.0	5.8	4.7	4.6	3.7	5.1	-0.8
(December-December)									
Variation in industrial producer prices	14.6	23.5	-1.2	4.5	7.4	3.5	1.6	4.9	-0.4
(December-December)									
Variation in nominal exchange rate	1.0	1.9	8.9	-8.3	-3.8	-0.5	-0.6	7.7	-0.6
(annual average)	1.3	-2.0	7.7	2.1	5.7	1.3	1.3	2.0	4.1
Variation in average real wage	7.1	5.4	8.6	6.1	5.3	6.5	5.0	4.7	4.4
Nominal deposit rate h/	17.3	16.7	21.6	19.8	18.1	19.7	17.4	16.6	15.9
Nominal lending rate i/									
Central government	**Percentajes of GDP**								
Total revenue	15.1	15.5	13.7	14.0	14.1	14.0	14.3	14.2	14.8
Tax revenue	14.8	15.2	13.4	13.0	13.3	13.2	13.5	13.4	13.9
Total expenditure	14.5	15.3	17.0	19.0	18.1	18.3	19.6	19.9	20.6
Current expenditure	13.3	13.2	15.2	16.8	16.7	16.9	18.0	18.2	18.8
Interest	3.0	2.1	2.1	2.1	2.1	2.0	2.5	2.6	2.8
Capital expenditure	1.3	1.7	1.7	2.3	1.4	1.4	1.6	1.7	1.9
Primary balance	3.6	2.3	-1.2	-3.0	-1.9	-2.3	-2.8	-3.1	-3.1
Overall balance	0.6	0.2	-3.3	-5.0	-4.0	-4.3	-5.4	-5.7	-5.9
Central government public debt	26.9	24.1	26.5	28.4	29.8	34.3	36.0	39.3	42.4
Domestic	18.8	17.1	20.9	22.6	25.0	28.4	28.9	30.4	32.0
External	8.1	7.0	5.6	5.8	4.8	5.9	7.1	8.9	10.5
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	43.4	46.6	47.3	44.2	46.6	45.5	50.4	54.8	59.3
To the public sector	2.6	2.5	3.8	3.6	4.4	2.7	4.4	5.6	6.9
To the private sector	43.2	49.2	47.9	44.1	46.0	47.8	50.4	55.0	58.1
Others	-2.4	-5.1	-4.5	-3.6	-3.8	-4.9	-4.4	-5.8	-5.7
Monetary base	7.4	7.1	7.0	6.9	7.0	7.5	7.8	8.0	8.2
Money (M1)	16.1	14.5	13.6	14.2	14.9	15.3	16.2	16.3	17.8
M2	35.5	33.6	32.5	31.4	31.1	33.0	35.5	36.9	37.9
Foreign-currency deposits	18.2	21.0	22.5	17.5	16.6	14.9	13.6	14.7	14.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Preliminary figures.
b/ Based on figures in local currency at constant 1991 prices.
c/ Based on values calculated in national currency and expressed in current dollars.
d/ Includes errors and omissions.
e/ A minus sign (-) indicates an increase in reserve assets.
f/ Annual average, weighted by the value of goods exports and imports.
g/ Nationwide total. New measurements have been used since 2009; the data are not comparable with the previous series.
h/ Average local-currency deposit rate in the financial system.
i/ Average local-currency lending rate in the financial system. .

Table 2
COSTA RICA: MAIN QUARTERLY INDICATORS

	2014				2015				2016	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross domestic product (variation from same quarter of preceding year) b/	3.9	3.8	3.4	3.0	2.5	2.6	3.0	3.3	4.8	...
Gross international reserves (millions of dollars)	7,106	7,658	7,292	7,182	7,640	8,342	8,197	7,880	7,794	7,830 c/
Real effective exchange rate (index: 2005=100) d/	77.4	80.0	76.9	75.3	73.4	73.7	73.6	73.3	72.9	74.6 c/
Consumer prices (12-month percentage variation)	3.3	4.6	5.2	5.1	3.0	1.6	-0.9	-0.8	-1.1	-0.4 c/
Wholesale prices (12-month percentage variation)	3.9	5.8	5.3	4.9	2.2	0.7	0.1	-0.4	-1.5	-1.7
Average nominal exchange rate (colones per dollar)	528	550	539	537	536	535	536	534	537	540
Nominal interest rates (average annualized percentages)										
Deposit rate e/	4.3	4.6	4.8	4.9	4.8	4.6	4.3	3.8	3.5	3.5
Lending rate f/	16.4	16.8	16.6	16.7	16.7	16.0	15.3	15.6	15.4	14.7
Interbank rate	4.0	5.0	5.3	5.1	4.4	3.6	3.0	2.3	1.7	1.6
Monetary policy rates	4.1	5.1	5.3	5.3	4.8	3.8	3.0	2.3	1.8	1.8
International bond issues (millions of dollars)	-	1,000	-	-	1,000	-	-	127	-	500
Stock price index (national index to end of period, 31 December 2005 = 100)	197	208	212	211	203	200	196	191	207	212
Domestic credit (variation from same quarter of preceding year)	18.7	20.6	21.5	18.7	13.0	14.5	13.3	14.3	16.0	18.6 c/
Non-performing loans as a percentage of total credit	1.7	1.6	1.7	1.6	1.6	1.7	1.7	1.7	1.7	1.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Preliminary figures.
b/ Based on figures in local currency at constant 1991 prices.
c/ Figures as of May.
d/ Quarterly average, weighted by the value of goods exports and imports.
e/ Average local-currency deposit rate in the financial system.
f/ Average local-currency lending rate in the financial system.