Costa Rica

The Economic Commission for Latin America and the Caribbean (ECLAC) expects the Costa Rican economy to post real annual GDP growth of 4.4% in 2022, compared to the previous year's 7.8% expansion. This lower growth rate is explained by the dissipation of the base effect seen in 2021, the slackening of external demand in a context of heightened uncertainty generated by the armed conflict in Eastern Europe, and the erosion of household disposable income caused by the uptick in inflation and the deterioration of the terms of trade. Nonetheless, the growth estimate for 2022 has been revised upwards, after the first three quarters of the year produced a better performance than initially expected, mainly thanks to the momentum of export manufacturing and tourism-related activities.

Continued commitment to strengthening the public finances, on both the expenditure and income sides, will make it possible to reduce the central government's financial deficit to 3.5% of GDP in 2022 (from 5.0% in the previous year) and achieve a primary surplus of around 1.2%, following a deficit of 0.3% in 2021. Higher commodity prices will generate a larger current account deficit, which is forecast to represent about 4.6% of GDP at the end of 2022, compared to 3.4% a year earlier. Year-on-year inflation is forecast to be close to 8.5% by the end of the year (3.3% in 2021), mainly fuelled by external pressures. The open unemployment rate, meanwhile, continued to decline gradually in the first half of the year, before settling at around 12%.

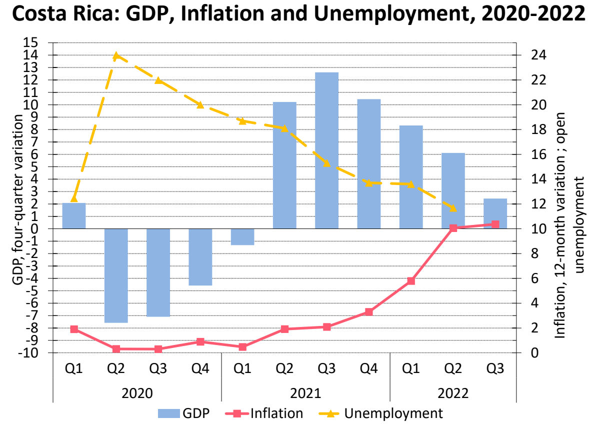
The positive trend in public finances continued in the first nine months of 2022. The cumulative financial deficit from January to September represented 1.9% of GDP, 2.2 percentage points less than in the year-earlier period; and the primary surplus grew to 2.5% of GDP, compared to 0.3% in the first nine months of 2021.

The growth of total central government income slowed in the first three quarters of 2022, posting a nominal year-on-year expansion of 20.1%, compared to 35.2% in the same period of the previous year. This is mainly due to the exceptional income recorded in 2021 as a result of administrative and accounting changes. The slowdown was more marked in real terms (10.4% in the first nine months of 2022, compared to the year-earlier rate of 33.5%), owing to the uptick in inflation. Growth between January and September 2022 was driven mainly by higher receipts from taxes on income and profits and on domestic sales.

Total central government expenditure increased by a nominal 2.9% in the first three quarters of 2022 (equivalent to a real decrease of 4.9%). Primary spending increased by 0.2% in nominal terms in the same period (and declined by 7.4% in real terms); but interest payments on debt were 10.6% higher in nominal terms (up by 2.2% in real terms).

In the first nine months of 2022, 85% of financing came from borrowing on the domestic market. In November 2022, Costa Rica became the first country in the world to be authorized by the

Costa Rica: GDP, Inflation and Unemployment, 2020-2022



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

International Monetary Fund (IMF) to access the Resilience and Sustainability Facility, through which it will receive a loan of US$ 725 million. As of September 2022, the central government's total debt represented 64.9% of GDP.

After maintaining an expansionary stance in 2021, with the monetary policy interest rate held at a historically low level of 0.75%, inflationary pressures forced the central bank to raise this benchmark rate eight times between December 2021 and October 2022, to 9%. In addition, the monetary authority raised the minimum legal reserve ratio on deposits and other liabilities in local currency in the financial system from 12% to 15% as from the second fortnight in July.

The basic interest rate on deposits rose in nominal terms —to 5.85% at the end of September 2022, compared to 2.9% a year earlier— but it fell sharply in real terms, owing to the higher inflation. In September 2022, it stood at 1.6%, compared to -2.2% in the same month of 2021. The nominal interest rate on loans negotiated by public banks (weighted average in colones) stood at 8.41% in September 2022, the same as a year earlier, but the real rate fell steeply from 7.0% to 0.2%.

Costa Rica: main economic indicators, 2020-2022

	2020	2021	2022 [a]
	Annual growth rate		
Gross domestic product	-4.3	7.8	4.4
Per capita gross domestic product	-5.1	6.8	3.5
Consumer prices	0.9	3.3	9.0 [b]
Real average wage [c]	-1.7	1.5	... [b]
Money (M1)	33.9	14.3	0.0 [d]
Real effective exchange rate [e]	-1.5	8.6	5.3 [b]
Terms of trade	4.5	-6.3	-5.2
	Annual average percentage		
Open urban unemployment rate	19.6	16.4	11.7 [b]
Central government			
Overall balance / GDP	-8.0	-5.0	...
Nominal deposit rate [g]	3.9	3.7	5.4 [b]
Nominal lending rate [h]	10.9	9.5	10.5 [b]
	Millions of dollars		
Exports of goods and services	31 986	38 584	44 678
Imports of goods and services	31 401	39 969	48 337
Current account balance	-9 347	-17 621	-17 433
Capital and financial balance [i]	13 675	18 275	...
Overall balance	4 328	654	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Estimates.
b/ Figures as of October.
c/ Figures as of September.
d/ A negative rate indicates an appreciation of the currency in real terms. Refers to the extraregional real effective exchange rate.
e/ Deposit rates in local currency for 30 to 61 days.
f/ Business credit, 30-367 days.
g/ Includes errors and omissionsFuente: Comisión Económica para América Latina y el Caribe
(CEPAL), sobre la base de cifras oficiales.

The exchange rate came under pressure in the first half of 2022 and ended June at 691.82 colones per dollar. However, between July and October there was less demand for dollars, owing to the fall in international commodity prices and the reduced needs of the public sector. This lowered the exchange rate to 603.58 colones per dollar in late October (an appreciation of 12.8% relative to its end-June level). As of October 28, international reserves totalled US$ 7.755 billion, US$ 837 million more than at the close of 2021, equivalent to five months of total imports.

Total lending in colones to the non-financial private sector continued to expand, growing by 8.9% year-on-year in the first nine months of the year, while foreign currency credit increased by 0.1%, thereby further reducing the dollarization of this type of credit.

In the first three quarters of 2022, the current account recorded a deficit equivalent to 0.9% of GDP, compared to 1.2% in the same period of the previous year. As of October 2022, goods exports were up by 10.2% year-on-year, driven mainly by sales of manufactured goods. Goods imports were 23.0% higher year-on-year, owing to increased fuel expenses. Foreign direct investment (FDI) inflows totalled US$ 1.764 billion in the first half of 2022, compared to US$ 1.713 billion in the year-earlier period.

In the first three quarters of 2022, the Costa Rican economy grew by an average of 5.6% year-on-year. The manufacturing, trade, and accommodation and food sectors posted the strongest growth figures. On the demand side, private consumption and exports remained very buoyant.

The year-on-year inflation rate continued to surge in the first eight months of 2022, reaching 12.13% in August, driven mainly by external pressures, which have been aggravated by the war in Eastern Europe. However, in September and October, the momentum of price rises slackened (to 10.37% and 8.99%, respectively), suggesting that inflationary pressures may be easing.

In September 2022, the national unemployment rate stood at 12.0% (on a rolling quarter basis), below that recorded in February 2020 (12.2%), before measures were adopted to address the coronavirus disease (COVID-19) pandemic. Nominal wages grew by 5.2% in the first eight months of 2022, representing a real reduction of 3.9%.

Projections by ECLAC see the Costa Rican economy expanding by 2.6% in 2023. Exports of goods and services are likely to lose momentum compared to 2022, owing to weaker growth among the country’s main trading partners. Domestic demand is also set to slacken in the wake of the sharp rise in interest rates. According to Ministry of Finance estimates, the central government deficit will continue its downward trend to reach 3.5% of GDP in 2023, thanks to further revenue growth combined with expenditure restraint in the framework of the fiscal rule. The primary balance is forecast to be 1.5% of GDP, which would further reduce the public debt-to-GDP ratio.

The current account deficit is forecast to be around 4.5% by the end of 2023, with both imports and exports growing more slowly. Inflation is expected to ease as external pressures moderate, but will remain above the central bank’s target range of 3% ± 1 percentage point. The unemployment rate will likely continue to display downward rigidity, owing to the structural challenges facing the Costa Rican economy.