

COSTA RICA

1. General trends

Costa Rica's GDP grew by 5.1% in real terms in 2023, up from 4.6% in 2022, thanks to rising exports of goods and services and the momentum of household consumption and investment. The central government's financial deficit stood at 3.3% of GDP in 2023, with a positive primary balance of 1.6% of GDP. These fiscal results were slightly down from those achieved in 2022 (a financial deficit of 2.5% of GDP and a primary surplus of 2.1% of GDP) because in 2023 the country had to cover higher public debt interest payments and did not have the extraordinary revenues received in 2022.

The current account deficit at the end of 2023 was equivalent to 1.0% of GDP, compared to 3.2% in 2022, as a result of the significant expansion in goods and services exports. The year-on-year inflation rate stood at -1.8% in December 2023, after posting negative values over the last seven months of the year, mainly on account of falling international commodity prices, the effects of the restrictive monetary policy and the appreciation of the colón. That negative figure was in sharp contrast to the 7.9% recorded at the close of 2022. The open unemployment rate stood at 7.3% in the fourth quarter of 2023, significantly down from the 11.7% recorded in the fourth quarter of 2022, mainly on account of a lower labour participation rate, particularly among women.

The Economic Commission for Latin America and the Caribbean (ECLAC) estimates that GDP in Costa Rica will grow by 4.0% in real terms in 2024. This slowdown is on account of reduced growth in external demand for both goods and services, and in domestic demand, especially consumption, the result of lower disposable income increase expectations. The central government's financial deficit will be around 3.0% of GDP, while the primary surplus will be equivalent to 1.8% of GDP, in line with the ongoing efforts to strengthen public finances. Inflation is expected to return to positive territory in the second half of the year, but to close 2024 at around 1.5%, still below the lower limit of the central bank's target range (3.0% plus or minus one percentage point). The current account deficit is expected to widen in 2024 to around 1.5% of GDP, owing to a slower rate of export growth. The unemployment rate will continue to perform favourably in 2024, averaging around 7.5%. ECLAC estimates that Costa Rica's GDP will grow by 4.0% in 2025.

2. Economic policy

(a) Fiscal policy

Total central government revenues fell by 2.2% in 2023 (by 2.7% in real terms), compared to the 16.0% year-on-year growth (7.2% in real terms) seen in 2022. This was mainly due to the absence of the extraordinary revenues registered in 2022, when the central government received a boost from the extraordinary and one-time income from current transfers from decentralized agencies. In compliance with Act No. 9524 on strengthening budgetary control of the decentralized bodies of the central government, the budgets of the decentralized agencies were incorporated into the national budget; the funds were assigned to the ministries as programmes or subprogrammes, as a result of which an extraordinary increase in revenue was reported in 2022.

Tax revenues increased by 1.8% (1.3% in real terms) in 2023, with a sharp rise in revenue from export taxes (11.5% nominal and 10.9% real) and consumption taxes (26.3% nominal and 25.6% real).

Conversely, non-tax revenues fell by 41.1% (41.4% in real terms) owing to the absence of the extraordinary revenues described above. Tax revenues accounted for 14.8% of GDP in 2023, compared to 15.2% in 2022.

Total central government spending rose by 3.0% in 2023 (2.5% in real terms), compared to the 1.4% growth reported in 2022 (a real-term drop of 6.4%). Spending on wages rose by 1.0% (0.5% in real terms) and transfers increased by 1.3% (0.7% in real terms), while spending on interest payments increased by 10.6% (10.1% in real terms). Interest payments amounted to 4.8% of GDP at the end of 2023, slightly up from the figure reported in 2022 (4.6%).

Total central government public debt totalled 61.1% of GDP at the end of 2023, 1.9 percentage points below the December 2022 level. The domestic market continues to be the main source of financing. In addition, bonds worth US\$ 3 billion were issued on international markets in 2023, as part of the issuance programme approved under Act No. 10332 on authorization to issue securities in the international market.

According to Ministry of Finance estimates, the positive primary results in 2024 and 2025 will bring public debt down to below 60% in the latter year, thus evading important restrictions on public spending imposed by the fiscal rule mechanism.

In the first three months of 2024, the central government recorded a financial deficit equivalent to 0.7% of GDP (compared to a deficit of 0.5% in the first quarter of 2023). Cumulative central government revenue in March 2024 reflected a year-on-year decline of 3.6% (2.2% in real terms), in contrast to the increase of 4.0% (a 1.8% decrease in real terms) in the same period of 2023. The largest decreases were in taxes on incomes and earnings and on overland exports. Central government spending, in contrast, recorded a year-on-year increase of 1.0% (2.5% in real terms), compared to a decrease of 0.1% (-5.6% in real terms) over the same period in 2023. Spending on wages rose, while interest payments recorded a year-on-year drop because of lower maturities.

(b) Monetary and exchange-rate policy

The monetary policy rate was adjusted downward six times in 2023 for a cumulative total of 300 basis points, and it ended the year at 6.0% amid a clear slowdown in inflation, with the inflation rate at times even moving into negative territory.

The drop in the benchmark rate gradually trickled down into the rest of the financial system. The nominal basic deposit rate stood at 5.36% at the end of 2023 (7.29% in real terms), compared to 6.35% in December 2022 (-1.44% in real terms). The significant change in the real-term rate was on account of the slowdown in inflation, with the inflation rate recording negative values in the final months of 2023. The lending rate negotiated by public banks (weighted average in colones) was 9.58% in December 2023 (11.59% in real terms), compared to 9.15% (1.16% in real terms) in December 2022.

At the end of the fourth quarter of 2023, the private sector credit balance reported a year-on-year increase of 6.7%; this was particularly on account of foreign currency loans (11%), which accounted for 32.8% of the total portfolio. This growth was driven by higher consumer credit and service loans.

The exchange rate appreciated gradually throughout 2023 and stood at 523.5 colones to the dollar at the end of December (average exchange rate of the MONEX foreign exchange market), compared to 597.4 colones to the dollar at the end of 2022: a nominal appreciation of 12.4%. The adjusted real exchange rate index, as estimated by the central bank, posted a 13% appreciation. The 2023 foreign exchange market

was characterized by an abundant availability of dollars, owing to the expansion of goods exports, foreign tourist arrivals and incoming foreign investment flows.

The high availability of dollars meant that the central bank was a net purchaser in the foreign exchange market. In 2023, it made net purchases amounting to US\$ 6.801 billion, as a result of which net international reserves rose significantly to US\$ 13.225 billion at year-end, US\$ 4.671 billion more than the balance in December 2022. The reserve balance was equal to 7.2 months of imports.

In the first six months of 2024, the benchmark interest rate was cut three times, by a total of 125 basis points, bringing it to 4.75%. The nominal basic deposit rate fell from 6.68% in April 2023 to 4.82% in April 2024 (an increase from 4.18% to 5.35% in real terms). The negotiated public bank lending rate (weighted average in colones) fell from 10.79% in April 2023 to 9.62% in April 2024, but rose from 8.19% to 10.17% in real terms. At the close of the first quarter of 2024, credit to the private sector recorded year-on-year growth of 7.6% and continued to be driven by foreign currency operations.

The exchange rate continued to appreciate in the first four months of 2024, reaching 501.90 colones to the dollar in mid-April before gradually depreciating to 528.30 colones at the end of June.

(c) Other policies

In the trade policy arena, Costa Rica continued with its bilateral and multilateral trade negotiations in 2023 and the first months of 2024. The bilateral negotiations included the Comprehensive Economic Partnership Agreement on Trade and Investment between Costa Rica and the United Arab Emirates, which was signed in April and is the first trade agreement between Costa Rica and a Middle Eastern country. Among the multilateral negotiations, talks continued towards the signing of the Agreement on Climate Change, Trade and Sustainability which, in addition to Costa Rica, includes Fiji, Iceland, Norway, New Zealand and Switzerland.

In the context of the Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act of 2022 and with the creation of the International Technology Security and Innovation (ITSI) Fund, in the first half of 2023 the Government of the United States announced a partnership with the Government of Costa Rica intended to identify opportunities for diversifying and growing the global semiconductor ecosystem and thereby forging a more transparent, secure, reliable and sustainable global value chain for those products. Costa Rica is designing a semiconductor road map to set the conditions required to expand existing investments and attract more participants to the country.

3. The main variables

(a) The external sector

The current account deficit dropped sharply in 2023, as a result of an improvement in the terms of trade (8.9%) and the solid performance of goods and services exports. Goods exports totalled US\$ 18.154 billion in 2023, for an annual increase of 15.5%. Exports under the definitive regime increased by 4.9%, while special regime exports rose by 22.1%. Notable among the former was the annual growth in overseas shipments of crops such as bananas (18.8%), pineapples (14.6%) and root vegetables and tubers (44.2%). In contrast, the increase in special regime exports was driven by exports of medical equipment and devices, which grew at an annual rate of 27.4% for a total volume of US\$ 6.972 billion; the sector accounted for 38.4% of total goods exports. The United States continued to be the main destination country, accounting

for 45.3% of Costa Rican exports, followed by the Kingdom of the Netherlands (8.3%) and Guatemala (4.9%).

Goods imports amounted to US\$ 22.460 billion in 2023, reflecting annual growth of 5.0%, compared to 16.4% in 2022. This sharp slowdown was mainly because of a fall in intermediate imports (0.8%), the result of a lower oil bill and purchases of intermediate primary goods, in the context of falling international prices. The main country of origin of imports was the United States (38.1%), followed by China (15.8%) and Mexico (6.4%).

Exports of services recorded annual growth of 16.3%, with a notable increase in revenues from tourism (21.9%) and from the other services category (14.5%), within which business services were particularly notable. As in previous years, the surplus in services (US\$ 8.503 billion) more than offset the deficit in the goods account (US\$ 3.245 billion).

Foreign direct investment (FDI) flows totalled US\$ 4.346 billion in 2023, 18.3% more than in 2022. The country's free trade zones accounted for 61.6% of FDI. The United States remained the chief country of origin of investment (66.7%), followed by Belgium (11.1%) and Switzerland (4.1%).

In the first six months of 2024, cumulative goods exports reported year-on-year growth of 6.7%, a marked slowdown compared to the 21.3% recorded in the same period of 2023, mainly on account of slower growth in special regime exports. Imports reflected year-on-year growth of 6.1% between January and June 2024, a slowdown compared to the increase recorded in the corresponding period of 2023 (10.6%). Imports under the definitive regime rose by 11.3%, while those under the special regime fell by 11.2%.

(b) Economic activity

In 2023, Costa Rica's economy enjoyed significantly stronger growth than had been projected at the start of the year. This was because of surprising momentum in goods and services exports, despite the slowdown in the global economy and trade, and because private consumption and investment expanded more than had initially been forecast. In the first quarter of 2023, Costa Rica's GDP increased at a year-on-year rate of 4.2% and then, over the following three quarters, grew at rates of 5.0% or more.

Construction reported spectacular growth of 13.5%, driven by private residential and non-residential construction. Manufacturing expanded by 8.4%, thanks to the activity of the medical devices and equipment sector, which is included in the special regime. Agriculture and livestock recorded an annual increase of 3.5%, thanks to the momentum of the output of goods intended for the export market, such as bananas, pineapples, root vegetables, tubers and other vegetable crops.

In the services sector, professional, scientific and technical activities reported notable annual growth of 10.9%, the result of higher demand experienced by special regime companies. Hotel and restaurant services grew by 8.3%, bolstered by the momentum of tourism.

On the demand side, momentum in 2023 came mainly from growth in goods and services exports (10.5%, against 13.2% in 2022) and gross fixed investment (8.6%, against 1.5% in 2022). The notable acceleration in investment was driven especially by the recovery of private construction in housing, industrial buildings and commercial premises. Household final consumption increased at an annual rate of 5.4% (compared to 3.4% in 2022), in line with lower inflation, the recovery of wages and accelerating credit.

In the first half of 2024, Costa Rica's economic activity expanded at a year-on-year rate of 4.6%, a slowdown compared to earlier quarters, owing in particular to reduced growth in investment and external demand. During this period, there were notable increases in mining and quarrying, restaurants and hotels, and professional activities.

(c) Prices, wages and employment

Year-on-year inflation decelerated sharply in the first five months of 2023—from 7.65% in January to 0.88% in May— then posted negative rates of change between July and December. At the close of 2023, the largest year-on-year declines were reported in transport (6.4%), food and non-alcoholic beverages (5.1%) and alcoholic beverages and tobacco (4.0%).

The labour participation rate was 53.8% in the fourth quarter of 2023, down 5.9 percentage points from the end of 2022. The labour participation rate for men fell from 71.2% to 67.1% over the same period, while that of women fell more sharply, from 48.2% to 40.5%. Significant gender gaps also exist in unemployment: in the fourth quarter of 2023, the unemployment rate for men was 6.8%, compared to 8.2% for women. In 2023, the minimum wage recorded a nominal increase of 7.4% (6.2% in real terms).

In the first six months of 2024, inflation remained in negative territory. In June, the year-on-year change in the consumer price index was -0.03%. In the second quarter of 2024, the open unemployment rate was 8.5%, down 1.1 percentage points from the second quarter of 2023. The gap between male and female unemployment (7.6% and 9.9%, respectively) was 2.3 percentage points.

Table 1
COSTA RICA: MAIN ECONOMIC INDICATORS

	2015	2016	2017	2018	2019	2020	2021	2022	2023 a/
	Annual growth rates b/								
Gross domestic product	3.7	4.2	4.2	2.6	2.4	-4.3	7.9	4.6	5.1
Per capita gross domestic product	2.6	3.2	3.1	1.7	1.5	-5.0	7.3	4.0	4.5
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-2.5	5.3	3.7	4.0	-1.5	-1.4	2.2	-2.3	3.5
Mining and quarrying	7.4	4.7	-4.8	13.4	-12.7	2.1	-0.7	-0.5	7.2
Manufacturing	-4.1	4.3	4.0	4.2	3.0	2.1	18.0	3.4	8.4
Electricity, gas and water	11.0	5.3	4.8	-0.9	1.5	6.7	1.1	6.0	0.6
Construction	8.6	-1.5	-4.2	0.0	-8.9	-0.9	3.1	-4.9	13.5
Wholesale and retail commerce, restaurants and hotels	4.5	4.1	5.7	2.0	1.3	-15.6	10.2	5.4	4.5
Transport, storage and communications	8.0	3.6	11.5	2.8	1.2	-7.5	9.3	11.4	4.8
Financial institutions, insurance, real estate and business services	6.5	5.5	5.4	3.7	5.9	-1.0	4.7	5.0	6.3
Community, social and personal services	1.6	3.2	1.9	2.3	3.4	-4.2	4.5	4.1	1.1
Gross domestic product, by type of expenditure									
Final consumption expenditure	4.2	3.5	4.8	1.7	2.5	-5.3	6.9	3.2	4.3
Government consumption	2.4	2.3	2.0	0.6	5.9	0.8	1.7	2.4	0.1
Private consumption	4.7	3.8	5.6	1.9	1.7	-6.9	8.3	3.4	5.4
Gross capital formation	3.5	6.0	0.1	1.6	-8.2	-3.4	7.8	1.5	8.6
Exports (goods and services)	2.9	9.4	7.0	4.9	4.3	-10.6	15.9	13.2	10.5
Imports (goods and services)	4.5	8.9	5.0	2.9	-2.3	-12.9	19.2	6.0	5.6
Investment and saving c/	Percentages of GDP								
Gross capital formation	18.9	18.9	18.1	18.4	16.1	16.2	18.6	18.3	15.4
National saving	15.4	16.8	14.4	15.4	14.8	15.2	15.4	15.1	14.4
External saving	3.4	2.1	3.6	3.0	1.3	1.0	3.2	3.2	1.0
Balance of payments	Millions of dollars								
Current account balance	-1 921	-1 257	-2 189	-1 867	-825	-632	-2 061	-2 235	-845
Goods balance	-4 607	-4 426	-4 367	-4 620	-3 868	-2 018	-2 844	-4 658	-3 245
Exports, f.o.b.	9 452	10 100	10 811	11 730	11 831	12 067	14 826	16 645	18 857
Imports, f.o.b.	14 059	14 526	15 178	16 350	15 700	14 085	17 671	21 303	22 102
Services trade balance	4 609	5 110	4 760	5 539	6 292	4 495	4 514	6 992	8 503
Income balance	-2 380	-2 452	-3 161	-3 344	-3 830	-3 634	-4 251	-5 135	-6 663
Net current transfers	457	510	579	558	581	526	521	566	560
Capital and financial balance d/	2 565	1 022	1 770	2 257	2 218	-1 123	1 798	4 038	5 382
Net foreign direct investment	2 541	2 127	2 652	2 434	2 695	1 644	3 146	3 060	3 834
Other capital movements	24	-1 105	-882	-177	-477	-2 767	-1 348	978	1 548
Overall balance	644	-235	-419	390	1 393	-1 755	-263	1 803	4 537
Variation in reserve assets e/	-644	235	419	-390	-1 393	1 755	263	-1 803	-4 537
Other external-sector indicators									
Real effective exchange rate (index: 2015=100) c/	100.0	101.9	106.7	107.4	108.6	107.2	116.4	120.7	104.5
Terms of trade for goods f.o.b./f.o.b. (Annual growth rates)	7.6	3.3	-2.6	-1.8	-0.1	2.3	-3.6	-9.8	2.2
Net resource transfer (millions of dollars)	185	-1 429	-1 391	-1 087	-1 612	-4 757	-2 453	-1 097	-1 281
Total gross external debt (millions of dollars)	23 576	25 565	26 920	29 135	30 795	30 926	31 640	35 127	37 586
Employment g/	Average annual rates								
Labour force participation rate	61.2	58.4	58.8	60.7	62.5	60.2	60.3	59.8	55.4
Unemployment rate	9.6	9.5	9.1	10.3	11.8	19.6	16.4	12.2	8.9
Visible underemployment rate	12.4	9.0	8.1	8.7	10.4	19.9	14.6	10.1	5.7

Table 1 (concluded)

So	2015	2016	2017	2018	2019	2020	2021	2022	2023 a/
Prices	Annual percentages								
Variation in consumer prices (December-December)	-0.8	0.8	2.6	2.0	1.5	0.9	3.3	7.9	-1.8
Variation in industrial producer prices (December-December)	-0.4	0.3	3.1	4.3	-0.3	2.7	13.9	8.1	-5.7
Variation in nominal exchange rate (annual average)	-0.6	1.9	4.2	1.7	1.7	-0.4	6.2	4.1	-16.0
Variation in average real wage	...	10.2	-1.2	-0.4	3.7	2.2	-0.1	-4.4	4.1
Nominal deposit rate h/	4.7	4.4	3.6	6.6	6.3	3.9	3.7	6.0	7.6
Nominal lending rate i/	16.6	15.9	14.7	14.3	13.0	10.9	9.5	10.9	12.9
Central government	Percentages of GDP								
Total revenue	13.9	14.2	13.8	13.8	14.2	13.1	15.7	16.4	15.3
Tax revenue	13.0	13.5	13.0	12.9	13.1	12.1	15.0	15.2	14.8
Total expenditure	19.4	19.3	19.7	19.4	20.8	21.0	20.7	18.9	18.5
Current expenditure	17.6	17.5	17.8	18.1	18.8	19.8	19.2	17.5	17.2
Interest	2.7	2.7	3.0	3.4	4.0	4.6	4.7	4.6	4.8
Capital expenditure	1.7	1.8	1.9	1.3	1.9	1.2	1.5	1.4	1.3
Primary balance	-2.9	-2.4	-2.9	-2.2	-2.7	-3.4	-0.3	2.1	1.6
Overall balance	-5.5	-5.1	-5.9	-5.7	-6.7	-8.0	-5.0	-2.5	-3.3
Central government public debt	39.8	43.6	48.4	51.7	56.5	67.6	68.4	63.0	61.1
Domestic	30.0	33.6	38.2	41.2	44.1	51.3	51.3	46.9	45.1
External	9.8	10.0	10.2	10.5	12.4	16.3	17.0	16.1	16.0
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	75.8	79.0	80.6	81.2	76.2	88.0	86.6	76.6	72.2
To the public sector	17.3	18.4	19.5	19.7	22.4	30.0	33.1	27.4	25.9
To the private sector	55.1	58.6	59.7	60.3	56.2	60.1	56.6	52.7	51.1
Others	3.4	2.0	1.4	1.2	-2.4	-2.2	-3.2	-3.5	-4.8
Monetary base	7.7	7.7	8.0	7.8	7.1	8.3	7.8	8.0	7.9
Money (M1)	18.2	18.8	17.5	17.7	18.8	25.1	26.0	21.1	22.7
M2	35.9	34.5	31.9	30.3	30.7	36.4	33.6	28.7	32.0
Foreign-currency deposits	14.7	14.6	14.7	15.1	14.2	18.5	20.4	18.7	15.6

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 2012 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 2012; 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

	2022				2023				2024	
	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/	6.7	4.4	2.7	4.5	4.2	5.8	5.5	5.0	3.7	...
Gross international reserves (millions of dollars)	3 423	2 653	4 080	4 718	5 325	6 847	7 503.313	c/
Real effective exchange rate (index: 2005=100) d/	121.7	126.1	121.5	113.5	106.2	103.9	104.7	103.2	100.7	99.6 e/
Unemployment rate	13.6	11.7	12.0	11.7	10.6	9.6	8.1	7.3	7.8	...
Employment rate	51.5	52.6	53.3	52.8	50.7	51.2	50.0	49.9	51.5	...
Consumer prices (12-month percentage variation)	5.8	10.1	10.4	7.9	4.4	-1.0	-2.2	-1.8	-1.2	0.0
Wholesale prices (12-month percentage variation)	15.0	17.6	14.1	8.1	2.1	-4.8	-4.9	-5.7	-4.2	-3.8 e/
Average nominal exchange rate (colones per dollar)	644.4	674.0	660.6	609.7	562.6	540.4	540.0	531.3	514.1	503.6 e/
Nominal interest rates (average annualized percentages)										
Deposit rate f/	3.5	4.2	7.2	9.2	9.6	8.0	6.8	6.0	5.9	...
Lending rate g/	9.5	9.7	11.5	12.8	13.3	12.9	12.9	12.4	13.1	...
Interbank rate	1.8	3.9	7.2	8.8	8.9	7.6	6.6	6.3	5.7	...
Monetary policy rates	2.0	4.5	7.8	9.0	8.8	7.3	6.5	6.1	5.6	...
Sovereign bond spread, Embi + (basis points to end of period) h/	427	478	443	327	329	289	247	235	217	...
International bond issues (millions of dollars)	-	-	-	-	1 900	-	-	1 500	-	-
Domestic credit (variation from same quarter of preceding year)	6.7	6.9	4.5	-0.9	-2.1	-4.7	-2.9	-0.4	-1.4	...

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 2017 prices.

c/ Figures as of August.

d/ Quarterly average, weighted by the value of goods exports and imports.

e/ Figures as of April.

f/ Average local-currency deposit rate in the financial system.

g/ Average local-currency lending rate in the financial system.

h/ Measured by J.P.Morgan.