Costa Rica

The Economic Commission for Latin America and the Caribbean (ECLAC) estimates the growth of the Costa Rican economy at 2.7% for 2015, compared to 3.5% the previous year. Household consumption and investment were the main drivers, with the slowdown reflecting the fall in agricultural and manufacturing production, owing to adverse weather events and the closure of manufacturing operations in the Intel plant. These two factors have also hurt goods exports. The fiscal deficit (of the narrowly defined financial public sector) trended clearly upwards and ended the year around 6% of GDP (4.8% in 2014). Lower international commodity prices and the economic slowdown kept annual inflation just under 0% at end-2015, well below the central bank's target range (4% +/- 1 percentage point). The current account deficit of around 4% of GDP will be smaller than at the end of the previous year (4.8%), owing to the reduction in the oil bill. The average national unemployment rate was around 9.5% in 2015, similar to the previous year's figure.

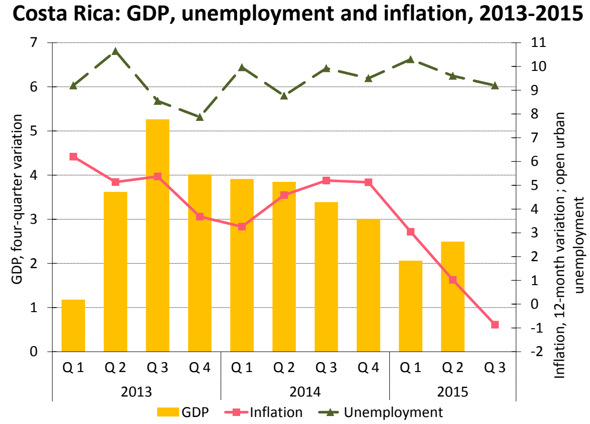
The widening fiscal deficit remains the main focus of attention within the Costa Rican macroeconomy. Commitments on public sector pay and current transfers are outpacing revenues in real terms. In the first nine months of 2015, central government current expenditure grew by 8.3% in real terms year-on-year, mainly owing to the growth of remunerations (6.1%) and current transfers to the public sector (8.3%). Central government total income was up by 7.0% in real terms year-on-year in the same period, boosted by higher income tax revenue (13.7%). The total public debt stood at 58.7% of GDP in September, representing a 2.3-percentage-point increase on its level a year earlier.

The government has sent eight bills to the Legislative Assembly, with the aim of curbing fiscal expenditure and expanding income. The proposal seeks to increase revenue from income taxes by making them more progressive, and by introducing a value added tax at a rate of 15%, to replace the 13% sales tax. A further aim is to rationalize exemptions and combat tax fraud. On the expenditure side, the goal is to reduce the growing pressure on current expenditures.

Given the slowdown in the economy, which is growing below potential, and as the year-on-year inflation rate has been below the floor of the central bank's target range since April, the monetary policy interest rate was cut seven times during the year. As a result, the rate dropped from 5.25% at the start of 2015 to 2.25% in October.

The reduction in the policy rate has had only a minor impact on interest rates in the rest of the financial system, owing mainly to the system's shallowness and expectations that the fall will prove temporary, in a domestic context of widening fiscal deficit and an international environment that augurs higher rates. The base rate for deposits fell only slightly from 7.2% at the start of the year to 6.0% in late November. The lending rate, measured by the average of rates charged by financial intermediaries on loans in colones, dropped from 17.01% to 15.31% in the same period. In the first 10 months of the year, lending to the private sector grew by a nominal 8.7% year-on-year, compared to 10.8% in the same period of 2014).

Costa Rica: GDP, unemployment and inflation, 2013-2015



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

The period of transition from an exchange-rate band regime, which started in 2006, officially ended on 2 February and a managed float was established. Under this arrangement, the colón will now float freely, but the central bank will intervene on the foreign-exchange market in the event of major exchange-rate fluctuations. The central bank is maintaining the foreign-exchange purchase programme, of up to US$ 800 million between February 2015 and December 2016, to strengthen international reserves. In this context, net international reserves at the central bank grew by US$ 685 million in the first 11 months of the year, to reach US$ 7.897 billion.

The nominal exchange rate was broadly stable throughout 2015, at around 535 colones per dollar, despite the heavy pressure on other Latin American currencies, thanks to an improvement in the terms of trade (up by 5.2% in the first eight months of the year). The real bilateral exchange rate against the United States dollar rose by 1% in the first 10 months of the year.

Costa Rica: main economic indicators, 2013-2015

	2013	2014	2015 [a]
		Annual growth rate	
Gross domestic product	3.4	3.5	2.7
Per capita gross domestic product	2.3	2.4	1.6
Consumer prices	3.7	5.1	-0.9 [b]
Real average wage [c]	1.3	2.0	4.0
Money (M1)	11.9	13.0	7.7 [d]
Real effective exchange rate [e]	-3.6	4.5	-4.5 [b]
Terms of trade	0.3	0.9	2.9
		Annual average percentage	
Open urban unemployment rate	9.1	9.5	9.6
Central government			
Overall balance / GDP	-5.4	-5.6	-6.7
Nominal deposit rate [f]	5.0	4.7	4.4 [g]
Nominal lending rate [h]	17.4	16.6	15.9 [g]
		Millions of dollars	
Exports of goods and services	15,216	15,946	14,512
Imports of goods and services	16,494	17,014	15,470
Current account balance	-2,505	-2,162	-2,390
Capital and financial balance [i]	2,966	2,048	3,088
Overall balance	461	-113	699

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 A negative rate indicates an appreciation of the currency in real terms. Refers to the extraregional real effective exchange rate.
f Average deposit rates in local currency.
g Figures as of November.
h Average lending rate in local currency.
i Includes errors and omissions.

In April, the Organization for Economic Cooperation and Development (OECD) formally invited Costa Rica to embark on the process of accession. On trade policy, negotiations for a free trade agreement with the Republic of Korea were launched, as part of a government strategy to diversify its trading partners, particularly targeting Asia.

In the first 10 months of the year, goods exports were down by 17.0% year-on-year, affected by the closure of Intel manufacturing operations, as noted above, and a decrease in pineapple and banana production. As a result, medical devices have become Costa Rica's main export product. Imports were down by 11.9% over the same period, reflecting more limited purchases of intermediate goods, particularly fuels and inputs for the manufacture of electronic components, while imports of consumer and capital goods increased.

Exports of services grew by 3.3% in the first half of 2015 — weaker growth than in recent years owing to reduced sales of transport services. On the financial account, foreign direct investment (FDI) amounted to US$1.022 billion in the first half of the year, compared to US$1.047 billion in the prior-year period.

Economic activity was driven by domestic demand, particularly private consumption, which is expected to report annual growth of around 4.5% thanks to higher real wages and a credit expansion, and also by gross fixed capital formation for which annual growth of above 7% is projected. By sector, agricultural activity is estimated to be down by 3%, owing to the adverse weather events noted above. Manufacturing posted a modest upturn of around 0.5%, in which the expansion of activity in the definitive regime offset the contraction in tax-free zones.

Year-on-year variation in consumer prices has been negative since July, for the first time since the series began in 1977 (in October the rate was -0.86%). Low international commodity prices, particularly for fuels, and the cut in the rates charged for regulated public services explain this behaviour.

The average employment rate was 55.8% in the first three quarters (compared to 56.6% in the same period of 2014). The real minimum wage rose by 3.1% in the first nine months of the year, thanks to negative inflation.

For 2016, ECLAC projects real GDP growth of 3.3%, on the back of a recovery in agricultural and manufacturing activity, since the exceptional factors acting as a drag on these will ease over the coming year. Inflation is expected to be close to the floor of the central bank’s target range. The current account deficit will be around 4.0% of GDP and, if the present income and expenditure dynamic continues, the fiscal deficit will be around 6.5% of GDP.