

## COSTA RICA

### 1. General trends

In 2022, Costa Rica's gross domestic product (GDP) grew by 4.3% in real terms, compared to 7.8% in 2021. This abrupt slowdown is explained by the dissipation of the statistical base effect that was in play in 2021, and by a smaller expansion of external demand, in a context of heightened uncertainty caused by the conflict in Ukraine. Adverse effects on household disposable income resulting from the uptick in inflation and interest rate hikes also played a role. Despite the slowdown, economic growth in 2022 surpassed the average real GDP growth rate of 3.8% recorded between 2010 and 2019.

Ongoing efforts to strengthen public finances in 2022 enabled the central government to post the first financial surplus in 13 years, equivalent to 2.1% of GDP, following a deficit of 0.3% of GDP in 2021. The central government's financial deficit came in at 2.5% of GDP, significantly lower than the 5.0% recorded in the previous year. An increase in imports, coupled with higher commodity prices, undermined the strong performance of exports of goods and services, and the balance-of-payments current account deficit ended 2022 at 3.9% of GDP (1.5 percentage points higher than in 2021). Year-on-year (December to December) inflation was 7.9% (3.3% in 2021), above the central bank's target range of  $3\% \pm 1\%$ , owing mainly to external inflationary pressures. The open unemployment rate averaged 11.7% in the fourth quarter of 2022, compared to 13.7% in the year-earlier period, bringing it below the pre-pandemic level (12.4% in the fourth quarter of 2019).

The Economic Commission for Latin America and the Caribbean (ECLAC) estimates that Costa Rica's GDP will grow by 3.8% in real terms in 2023, driven by external and domestic demand, which have been more buoyant than had been expected at the start of the year. The central government deficit is projected to be 3.5% of GDP in 2023, based on a positive primary balance of around 1.5% of GDP. These fiscal out-turns would be inferior to those achieved in 2022, owing to higher interest payments and the absence of the extraordinary revenues received in 2022. In 2024, the Costa Rican economy is expected to expand by 3.4%.

The current account deficit is forecast to be around 3.0% in 2023, given the strong performance of special-regime exports and a reduction in imports in the wake of lower international commodity prices. The inflation rate has retreated sharply in 2023 and is expected to be below the central bank's target range by the end of the year. The open unemployment rate is predicted to be around 10.0% in the last quarter of 2023.

### 2. Economic policy

The measures adopted by the Government of Costa Rica to strengthen public finances, on both the expenditure and the income sides, generated a substantial improvement in the fiscal indicators in 2022. Nonetheless, significant challenges remain, particularly in terms of reducing interest payments. In the case of monetary policy, the measures adopted in 2022, in a more favourable international context, produced a significant easing of inflation in the first half of 2023.

**(a) Fiscal policy**

In 2022, the narrowly defined public sector reported a financial deficit equivalent to 1.8% of GDP. This was 2.7 percentage points lower than in 2021, owing mainly to a smaller central government financial deficit.

The central government's total income and tax revenue increased in real terms by 7.2% and 4.5%, respectively, in 2022, boosted by the results of implementing the Public Finances Reinforcement Act (No. 9635). This also reflects the one-time exceptional income from current transfers from decentralized bodies to the central government. The lower real growth rate of such income in 2022 (compared to increases of 30.2% and 34.2%, respectively, in 2021) is explained mainly by the dissipation of the base effect, together with higher inflation and positive accounting changes in 2021.

Income tax revenue grew by 8.8% in real terms, on the back of stronger economic activity. Value added tax (VAT) revenues expanded by 4.5% in real terms, driven by higher aggregate demand and the effects of Act No. 9635. These results also benefited from ongoing efforts to combat tax evasion and avoidance, and to improve the management of tax collection procedures. Tax revenues accounted for 14.3% of GDP.

Total central government expenditures decreased by 6.3% in real terms in 2022, following the previous year's increase of 6.7%. Remunerations decreased by 7.5% in real terms, as a result of the containment of wage incentives and the freezing of new posts in the civil service. Transfers declined by 7.6% in real terms, owing particularly to an increase in resources allocated to the public sector. Interest payments fell by 0.7% in real terms, in contrast to their 11.2% increase in 2021. Interest accounted for 4.9% of GDP in 2022, compared to 5.0% in 2021. Capital expenditures decreased by 5.7% in real terms, representing 1.4% of GDP.

The stronger fiscal performance made it possible to reduce total central government debt to 63.8% of GDP in late 2022, compared to 68.0% 12 months earlier. Domestic debt represented 74.5% of the total, with external debt accounting for the remainder. In order to finance the deficit under better financial conditions, the central government adopted several measures, including the negotiation of a multilateral budget support loan. In November 2022, Costa Rica became the first country to be authorized by the International Monetary Fund (IMF) to access the Resilience and Sustainability Facility, which involved a loan of US\$ 725 million.

In the first six months of 2023, government finances continued their positive trend, posting a central government primary surplus equivalent to 1.4% of GDP, compared to 1.3% in the same period of 2022. The financial deficit stood at 0.9% at the end of June 2023, compared to 1.0% a year earlier. Total central government income grew by 4.8% (0.6% in real terms) year-on-year between January and May 2023. Total expenditure, by contrast, increased by 2.3% (-1.8% in real terms) over the same period. The containment of wage growth and the reduction in transfers were offset by higher interest payments.

In the first six months of 2023, the central government financed itself mainly by issuing domestic bonds in the private sector. At the end of June, the total debt represented 61.3% of GDP. On 27 March 2023, a US\$ 1.5 billion bond issue was placed on international markets as part of the issuance programme authorized by Act No. 10332, with a 10-year maturity and a yield of 6.55%.

**(b) Monetary policy and exchange-rate policy**

Inflationary pressures forced the central bank to hike the monetary policy interest rate eight times between December 2021 and October 2022, to reach a level of 9%. In addition, the monetary authority announced an increase in the minimum legal reserve requirement in the financial system for deposits and liabilities in local currency to 12% and 15%, respectively, starting in the second half of July 2022.

The increases in the policy rate were passed through gradually to the nominal rates in the financial system, but real rates fell sharply in the wake of the significant increase in inflation. The basic interest rate on deposits ended 2022 at 6.35% (-1.4% in real terms), compared to 2.9% (-0.4% in real terms) in December 2021. The public banks' negotiated lending rate (weighted average in colones) stood at 9.15% at end-2022 (1.15% in real terms), compared to 6.67% in December 2021 (3.26% in real terms).

The balance of credit to the private sector in December 2022 showed nominal year-on-year growth of 3.1%, 1.8 percentage points less than 12 months earlier. In real terms, the credit balance was 4.4% lower at end-2022.

The foreign-exchange market faced upward pressure in the first half of 2022, owing to high commodity prices and increased demand for foreign exchange from pension operators. The average exchange rate of the foreign exchange market (MONEX) ended June 2022 at 691.75 colones per dollar, compared to 642.6 at the close of 2021 —a nominal depreciation of 7.6%. By contrast, in the second half of the year, the supply of foreign currency was more abundant, and the MONEX exchange rate averaged 598.8 colones per dollar in December, indicating a nominal appreciation of 13.4% since the end of the first half of the year.

Under the managed floating regime, the central bank intervened to moderate abrupt exchange rate movements. In 2022, it sold a total of US\$ 192.4 million, mainly in June. By contrast, the greater abundance of foreign exchange in the second half of the year led the central bank to buy US\$ 2.435 billion.

Net international reserves totalled US\$ 8.554 billion at end-2022 (US\$ 1.802 billion more than at the end of 2021), equivalent to 3.9 months of total imports. The increase is due to the aforementioned purchase of foreign currency through the managed floating system, and the entry of a US\$ 1.1 billion loan from the Latin American Reserve Fund (FLAR).

In the first seven months of 2023, in the context of a clear slowdown in inflation, the monetary policy rate was lowered on four occasions, by a cumulative total of 250 basis points, to reach 6.5%. The basic deposit interest rate was 6.03% (8.51% in real terms) at the end of July 2023; and the public banks' negotiated lending rate (weighted average in colones) stood at 10.33% in May 2023 (12.92% in real terms). The balance of banking system credit to the private sector in May 2023 showed a nominal year-on-year contraction of 4.3% (-5.3%) in real terms.

The exchange rate appreciated significantly to reach 547.5 colones per dollar (MONEX average) at the end of July, 8.6% below the parity recorded at the end of 2022. In late July 2023, the balance of net international reserves stood at US\$ 11.306 billion, US\$ 2.752 billion more than in December 2022.

**(c) Other policies**

In terms of trade negotiations, the launch of talks for the signing of a trade agreement between Costa Rica and Ecuador was officially announced in June 2022. Costa Rica announced that it would

include issues relating to good regulatory practices, gender, and micro, small and medium-sized enterprises, for the first time in a trade agreement.

In 2022, negotiations continued for the signing of the Agreement on Climate Change, Trade and Sustainability (ACCTS), which seeks to contribute to the goals of decarbonization of the economy and global sustainability by negotiating international trade agreements. In addition to Costa Rica, the agreement encompasses Fiji, Iceland, New Zealand, Norway and Switzerland.

### **3. The main variables**

#### **(a) The external sector**

In 2022, the merchandise trade deficit widened by 2.7 percentage points of GDP, because import growth for the year (+13.8%) outpaced that of exports (+9.6%). Imports grew mainly on the back of higher commodity prices, including the oil bill.

Special regime exports increased by 14.2% in 2022, driven by medical and dental instruments and supplies, which grew by 13.1% and accounted for 56.4% of total special regime exports. Exports under the definitive regime increased by 1.9%, with reductions in two of the main products: bananas (-5.1%) and pineapples (-0.4%). The main destination for Costa Rican exports continued to be the United States, which absorbed 42.5% its total merchandise exports. The terms of trade deteriorated by 4.8%.

Services exports grew by 28.7%, thanks mainly to the recovery of tourism revenues, but also owing to the expansion of business services. Foreign direct investment (FDI) flows totalled US\$ 3.561 billion in 2022, very similar to the amount received in 2021 (US\$ 3.593 billion). Almost 80% of this investment was channelled into manufacturing.

In the first six months of 2023, the goods trade balance accumulated a deficit equivalent to 2.6% of GDP, compared to 4.0% in the same period a year earlier. Goods exports grew at a year-on-year rate of 21.3%, led by special regime exports (+29.9%), owing partly to the relocation of manufacturing processes. The medical equipment and devices sector continued to display the greatest momentum.

Goods imports increased by 10.9% year-on-year in the first half of 2023, compared to 19.1% in the same period of 2022. The moderation of the growth rate is explained largely by the reduction in the international prices of raw materials, particularly fuels.

#### **(b) Economic activity**

In the first two quarters of 2022, GDP recorded an average year-on-year expansion of 5.5%, before slowing to an average of 3.2% in the last two quarters. Exports of goods and services were the main drivers of growth, contributing 3.3 percentage points to the GDP growth rate.

Domestic demand expanded by 1.1% (7.8% in 2021), boosted by higher consumption by households (3.3%, compared to 7.0% in 2021) and by government (1.9%, compared to 1.7% in 2021). The slowdown in private consumption chiefly reflected the rebound in prices and interest rates. By contrast, gross domestic investment contracted by 6.8% (following a 17.6% expansion in the previous year), owing to less private investment in new construction and the fall in public spending on infrastructure works.

On the supply side, the sectors that reported the highest growth rates in 2022 were hotels and restaurants (14.9%), information and communications (13.4%), transportation (8.2%) and business services (7.5%). Activity in hotels and restaurants and transportation was driven by the reactivation of tourism, while information and communications and business services were boosted by increased exports of these services.

Manufacturing reported a sharp slowdown (growth of 3.1% in 2022 following a rate of 14.5% in 2021), as the greater buoyancy among firms under special regimes was partially offset by the activities of those under the definitive regime. Agriculture declined by 4.1% (following an expansion of 3.1% in 2021), affected by higher input prices and the occurrence of adverse weather events.

In the first and second quarters of 2023, GDP expanded at year-on-year rates of 4.4% and 4.7%, respectively. Growth was led by construction and by manufacturing and business services. On the demand side, the momentum came mainly from exports of goods and services, household consumption and gross fixed capital formation.

### **(c) Prices, wages and employment**

The year-on-year variation in the consumer price index gathered pace significantly in the first eight months of 2022, rising from 3.5% in January to 12.1% in August. The reduction in international commodity prices and the impact of monetary policy measures caused the index to ease as from September, and it ended the year at 7.9%. The food and beverage price index saw a year-on-year increase of 19.1% at end-2022.

The pace of inflation slowed sharply in the first five months of 2023, dropping from a year-on-year rate of 7.65% in January to 0.88% in May. In June and July, year-on-year inflation was even negative (rates of -1.04% and -2.3%, respectively). Once the statistical base effect has dissipated, it should be in positive territory by the end of 2023, but still below the central bank's target range.

The unemployment rate for men remains significantly lower than that of women (8.4% and 14.1%, respectively). The net participation rate fell slightly from 59.9% to 59.7% between December 2021 and December 2022. The nominal minimum wage recorded an annual increase of 3.9% in 2022, while decreasing by 3.4% in real terms.

The unemployment rate continued to trend down, to reach 9.6% in June 2023, compared to 11.7% in December 2022. Underemployment decreased from 9.7% to 6.5% in the same period.

Table 1  
COSTA RICA: MAIN ECONOMIC INDICATORS

	2014	2015	2016	2017	2018	2019	2020	2021	2022 a/
	<b>Annual growth rates b/</b>								
Gross domestic product	3.5	3.7	4.2	4.2	2.6	2.4	-4.3	7.8	4.3
Per capita gross domestic product	2.4	2.6	3.2	3.1	1.7	1.5	-5.0	7.1	3.8
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	2.2	-2.5	5.3	3.7	4.0	-1.5	-1.4	3.1	-4.1
Mining and quarrying	1.6	7.4	4.7	-4.8	13.4	-12.7	2.1	9.5	-1.5
Manufacturing	0.2	-4.1	4.3	4.0	4.2	3.0	2.1	14.5	3.1
Electricity, gas and water	3.6	11.0	5.3	4.8	-0.9	1.5	6.7	3.9	3.5
Construction	1.5	8.6	-1.5	-4.2	0.0	-8.9	-0.9	4.8	-5.9
Wholesale and retail commerce, restaurants and hotels	4.8	4.5	4.1	5.7	2.0	1.3	-15.6	12.4	5.8
Transport, storage and communications	6.1	8.0	3.6	11.5	2.8	1.2	-7.5	13.3	10.9
Financial institutions, insurance, real estate and business services	7.9	7.4	5.0	7.3	5.5	6.3	-1.9	6.2	8.1
Community, social and personal services	10.1	8.3	6.4	5.3	5.9	6.4	-2.6	1.2	0.0
Gross domestic product, by type of expenditure									
Final consumption expenditure	4.4	4.2	3.5	4.8	1.7	2.5	-5.3	5.8	3.0
Government consumption	2.9	2.4	2.3	2.0	0.6	5.9	0.8	1.7	1.9
Private consumption	4.8	4.7	3.8	5.6	1.9	1.7	-6.9	7.0	3.3
Gross capital formation	3.9	3.5	6.0	0.1	1.6	-8.2	-3.4	11.0	0.8
Exports (goods and services)	5.0	2.9	9.4	7.0	4.9	4.3	-10.6	15.9	12.2
Imports (goods and services)	5.0	4.5	8.9	5.0	2.9	-2.3	-12.9	16.9	3.5
Investment and saving c/	<b>Percentages of GDP</b>								
Gross capital formation	19.2	18.9	18.9	18.1	18.4	16.1	16.2	19.6	18.6
National saving	14.5	15.4	16.8	14.4	15.4	14.8	15.2	17.1	14.7
External saving	4.7	3.4	2.1	3.6	3.0	1.3	1.0	2.5	3.9
Balance of payments	<b>Millions of dollars</b>								
Current account balance	-2 453	-1 921	-1 257	-2 189	-1 867	-825	-632	-1 605	-2 706
Goods balance	-5 329	-4 607	-4 426	-4 367	-4 620	-3 868	-2 018	-2 798	-3 803
Exports, f.o.b.	9 456	9 452	10 100	10 811	11 730	11 831	12 067	14 873	16 302
Imports, f.o.b.	14 784	14 059	14 526	15 178	16 350	15 700	14 085	17 671	20 105
Services trade balance	4 539	4 609	5 110	4 760	5 539	6 292	4 495	4 895	6 291
Income balance	-2 114	-2 380	-2 452	-3 161	-3 344	-3 830	-3 634	-4 251	-5 763
Net current transfers	450	457	510	579	558	581	526	550	569
Capital and financial balance d/	2 340	2 565	1 022	1 770	2 257	2 218	-1 123	1 342	4 509
Net foreign direct investment	2 818	2 541	2 127	2 652	2 434	2 695	1 644	3 146	2 941
Other capital movements	-478	24	-1 105	-882	-177	-477	-2 767	-1 804	1 568
Overall balance	-113	644	-235	-419	390	1 393	-1 755	-263	1 803
Variation in reserve assets e/	113	-644	235	419	-390	-1 393	1 755	263	-1 803
Other external-sector indicators									
Real effective exchange rate (index: 2015=100) c/	101.9	100.0	101.9	106.7	107.4	108.6	107.1	116.4	120.8
Terms of trade for goods (index: 2018=100)	94.1	101.2	104.6	101.9	100.0	99.9	104.3	97.8	92.7
Net resource transfer (millions of dollars)	226	185	-1 429	-1 391	-1 087	-1 612	-4 757	-2 909	-1 254
Total gross external debt (millions of dollars)	21 628	23 576	25 565	26 920	29 135	30 795	30 926	32 293	35 797
Employment g/	<b>Average annual rates</b>								
Labour force participation rate	62.5	61.2	58.4	58.8	60.7	62.5	60.2	60.3	59.8
Unemployment rate	9.6	9.6	9.5	9.1	10.3	11.8	19.6	16.4	12.2
Visible underemployment rate	12.8	12.4	9.0	8.1	8.7	10.4	19.9	14.6	10.1

Table 1 (concluded)

	2014	2015	2016	2017	2018	2019	2020	2021	2022 a/
<b>Prices</b>	<b>Annual percentages</b>								
Variation in consumer prices (December-December)	5.1	-0.8	0.8	2.6	2.0	1.5	0.9	3.3	7.9
Variation in industrial producer prices (December-December)	4.9	-0.4	0.3	3.1	4.3	-0.3	2.7	13.9	8.1
Variation in nominal exchange rate (annual average)	7.7	-0.6	1.9	4.2	1.7	1.7	-0.4	6.2	4.1
Variation in average real wage	2.0	4.1	2.6	1.2	1.7	3.7	-3.8		
Nominal deposit rate h/	5.0	4.7	4.4	3.6	6.6	6.3	3.9	3.7	6.0
Nominal lending rate i/	17.4	16.6	15.9	14.7	14.3	13.0	10.9	9.5	10.9
<b>Central government</b>	<b>Percentages of GDP</b>								
Total revenue	13.6	13.9	14.2	13.8	13.8	14.2	13.1	15.8	16.6
Tax revenue	12.8	13.0	13.5	13.0	12.9	13.1	12.1	15.0	15.4
Total expenditure	19.0	19.4	19.3	19.7	19.4	20.8	21.0	20.8	19.1
Current expenditure	17.4	17.6	17.5	17.8	18.1	18.8	19.8	19.3	17.7
Interest	2.5	2.7	2.7	3.0	3.4	4.0	4.6	4.7	4.6
Capital expenditure	1.7	1.7	1.8	1.9	1.3	1.9	1.2	1.5	1.4
Primary balance	-3.0	-2.9	-2.4	-2.9	-2.2	-2.7	-3.4	-0.3	2.1
Overall balance	-5.5	-5.5	-5.1	-5.9	-5.7	-6.7	-8.0	-5.0	-2.5
Central government public debt	37.5	39.8	43.6	48.4	51.7	56.5	67.6	68.4	63.8
Domestic	29.0	30.0	33.6	38.2	41.2	44.1	51.3	51.3	47.5
External	8.5	9.8	10.0	10.2	10.5	12.4	16.3	17.0	16.3
<b>Money and credit</b>	<b>Percentages of GDP, end-of-year stocks</b>								
Domestic credit	71.9	75.8	79.0	80.6	81.2	76.2	88.0	87.0	77.5
To the public sector	15.7	17.3	18.4	19.5	19.7	22.4	30.0	33.3	27.8
To the private sector	53.1	55.1	58.6	59.7	60.3	56.2	60.1	56.9	53.3
Others	3.1	3.4	2.0	1.4	1.2	-2.4	-2.2	-3.2	-3.6
Monetary base	7.6	7.7	7.7	8.0	7.8	7.1	8.3	7.9	8.1
Money (M1)	16.9	18.2	18.8	17.5	17.7	18.8	25.1	26.2	21.4
M2	36.5	35.9	34.5	31.9	30.3	30.7	36.4	33.8	29.1
Foreign-currency deposits	16.0	14.7	14.6	14.7	15.1	14.2	18.5	20.5	19.0

**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.

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**

	2021				2022				2023	
	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/	-0.8	10.4	12.6	9.7	6.6	4.4	2.5	3.8	4.0	...
Gross international reserves (millions of dollars)	7 249	7 027	7 507	7 007	6 821	6 599	7 222.119	8 197.365	8 662.785	11 140 c/
Real effective exchange rate (index: 2005=100) d/	113.0	115.2	117.3	119.9	121.8	126.3	121.9	114.0	106.5	...
Unemployment rate	18.7	18.1	15.3	13.7	13.6	11.7	12.0	11.7	10.6	...
Employment rate	49.4	48.7	51.6	51.7	51.5	52.6	53.3	52.8	50.7	...
Consumer prices (12-month percentage variation)	0.5	1.9	2.1	3.3	5.8	10.1	10.4	7.9	4.4	-1.0
Wholesale prices (12-month percentage variation)	5.3	9.4	11.0	13.9	15.0	17.6	14.1	8.1	2.1	-4.8
Average nominal exchange rate (colones per dollar)	612.0	616.3	622.1	635.9	644.4	674.0	660.6	609.7	562.6	540.4
Nominal interest rates (average annualized percentages)										
Deposit rate e/	3.9	3.9	3.6	3.4	3.5	4.2	7.2	9.2	9.6	8.6 c/
Lending rate f/	9.9	9.4	9.8	8.9	9.5	9.7	11.5	12.8	13.3	12.9
Interbank rate	0.8	0.8	0.8	0.9	1.8	3.9	7.2	8.8	8.9	8.1 c/
Monetary policy rates	0.8	0.8	0.8	0.9	2.0	4.5	7.8	9.0	8.8	7.3
Sovereign bond spread, Embi + (basis points to end of period) g/	495	462	495	504	427	478	443	327	329	289
International bond issues (millions of dollars)	-	-	300	-	-	-	-	-	1 900	-
Domestic credit (variation from same quarter of preceding year)	10.7	8.9	6.7	8.6	6.7	6.9	4.5	-0.9	-1.9	...

**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 April.

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.

g/ Measured by J.P.Morgan.