COSTA RICA

1. General trends

Costa Rica's GDP growth slowed from 5.1% in 2012 to 3.5% in 2013, affected by a weaker performance from domestic demand, particularly private consumption, and net exports. The average annual variation in inflation stood at 5.2% (3.7% year-on-year in December), within the target range of 4%-6% set by the central bank for 2013. The central government fiscal deficit came to 5.4% of GDP, considerably higher than the 4.4% recorded in 2012. The total debt of the overall public sector rose from 50.9% of GDP in 2012 to 55.1% in 2013, in line with the deterioration of public finances.

The balance-of-payments current account deficit edged down to 5.1% of GDP, from 5.2% in 2012. Goods exports in value terms reported a marked slowdown, up by just 1.2% (compared with 10.1% in 2012), while goods imports gained 2.4% (8.5% in 2012). Nevertheless, the goods and services trade deficit narrowed from 4.2% to 3.5% of GDP, thanks to a larger surplus on the services account.

Economic activity, measured by the trend cycle series of the monthly index of economic activity (IMAE) was up 3.3% year-on-year in the first quarter of 2014 (2.2% in first-quarter 2013). For 2014, ECLAC estimates economic growth of 4.0%, on the basis of the levels and stability of interest and exchange rates, trade performance and an expected recovery in external demand. Year-on-year inflation to April 2014 dropped to 3.7% and remains within the central bank's new tolerance range (3% to 5%), set in January 2014. Inflation over the whole year is expected to remain within the target range, but perhaps closer to 5%. A central government fiscal deficit of 6% of GDP is projected for 2014, which is a major challenge for the new administration that entered office in early May.

In the external sector, a slowdown in exports is forecast for 2014. The announced closure of some sizeable international operations, such as the Intel microprocessor factory, could have a strong impact on exports at the end of the year and especially in 2015. This is particularly the case with exports of products by companies operating under special regimes. Import growth too, is expected to slow. The central bank envisions that the current account deficit will remain virtually unchanged, at 5% of GDP, at year-end 2014.

2. Economic policy

(a) Fiscal policy

Considering the widening deficit and mounting debt, fiscal policy could be considered expansionary; however, the Ministry of Finance maintained its policy of pursuing specific initiatives designed to enhance the tax administration and combat fraud, smuggling and tax evasion.

At year-end 2013, the cumulative financial deficit of the narrowly defined global public sector [1] stood at 6.2% of GDP. This result reflected the financial deterioration of all public sector components, especially those of the central government, which returned a deficit of 5.4% of GDP. In real terms, total central government income rose by 2.7% and tax revenues by 3.3% in 2013. The tax burden was 13.5% of GDP, similar to the 2012 level, while total central government spending jumped 8.3% in real terms. Difficulties in containing expenditure were posed by the automatic salary adjustments that are applied in the Costa Rican public sector, and by the statutory transfers to education and the Costa Rican Social Security Fund (CCSS). Moreover, income and expenditure patterns (excluding interest payments) resulted in a primary deficit of 2.9% of GDP in 2013, up 0.6 percentage points on that of the previous year.

In the first two months of 2014, the narrowly defined global public sector ran a deficit of 1.3% of GDP (against 1.2% in the year-earlier period). Growth in total income (5.4%) was outpaced by that of expenditure (6.7%) during these two months, resulting in a central government primary deficit (1% of GDP) that was higher than in 2013 (0.9% of GDP). It is expected that public finances will come under continued pressure in 2014, with the fiscal deficit set to widen to 6% of GDP for the central government, and 6.4% for the narrowly defined global public sector.

In line with the worsening public finances, the total public debt recorded an annual increase of 4.2 percentage points of GDP, reaching 13.7 billion colones (55.1% of GDP) in 2013. The central government's debt-to-GDP ratio was 36.0% (35.3% in 2012) and financing relied less on net issuance of domestic debt securities than in 2012, given the use of funds from bond placements on the international market. By virtue of Law No. 9070 (enacted in 2012), in 2013 the government had resources totalling US$ 2.0 billion at its disposal as a result of the international bond issues of November 2012 and April 2013. In April 2014 the government launched another international bond issue for US$ 1.0 billion, and is expected to do so again in 2015, as permitted by law.

(b) Monetary policy

In 2013, the central bank's monetary policy actions were directed at absorbing excess liquidity as a result of the external capital inflows that occurred mainly in late 2012 and early 2013. The inflation target from the previous three years, of 5% with a tolerance band of one percentage point, was maintained in 2013.

Considering the prevailing conditions in the money market and the slowdown in growth outside of special trade regimes, the board of directors of the central bank reduced the benchmark interest rate twice in 2013: from 5.0% to 4.0% on 20 June, and to 3.75% on 19 December. These decisions were also prompted by the expectation of stable inflation within the target range, and the need to boost growth. However, in its March 2014 meeting, the board decided to raise the monetary policy rate to 4.75%, in response to exchange-rate volatility in the early part of the year, and inflationary pressures. In May, the board again agreed to increase the benchmark interest rate, this time by 50 basis points, to 5.25%.

Liquid monetary and credit aggregates saw slower growth than in 2012, in line with the inflation target and the increase in economic activity in real terms. M1 expanded by 8.4%, M2 by 11.9% and M3 by 10.1%. Total lending to the private sector showed modest growth of 11.8% in 2013, down from 12.6% the previous year. Concerns over financial system stability and a boom in foreign-currency lending led the central bank to place a temporary cap (of 9%) on growth in dollar-denominated lending to the non-financial private sector. With the sterilization of monetary surpluses proceeding at a satisfactory rate

[1] The narrowly defined global public sector includes the central government, the central bank and the non-financial public sector.

during the first half of 2013, the central bank lifted the cap on credit growth in July, and not October as envisioned, as it sought to revive economic activity. Total lending to the non-financial private sector was up by 20.0% year-on-year in May 2014 (compared with 10.7% in the same period in 2013).

In late March 2014, the Legislative Assembly adopted Law No. 9227, intended to provide the executive branch with the tools to discourage foreign capital inflows other than direct investments in the country.

Between December 2012 and December 2013, the base deposit rate fell from 9.20% to 6.50%, the financial system's weighted average rate for local-currency lending dropped from 20.5% to 16.1%, and the equivalent rate for foreign-currency loans fell from 11.1% to 10.5%. As of 15 May 2014, the base rate for deposits stood at 6.75% and for loans at 16.73%.

(c) Exchange-rate policy

In 2013, the central bank fulfilled its commitment to maintain the exchange-rate band parameters, with the lower limit set at 500 colones to the dollar and the upper limit having a crawling rate of 0.20 colones per business day. The average exchange rate remained at levels close to the floor of the band, and stood at 499.8 colones to the dollar for the year, 0.6% lower than the 2012 figure. Consequently, the national currency recorded nominal appreciation of 1.1% (0.9% in 2012). Even though the exchange rate was close to the lower limit of the band, the central bank was rarely required to defend this floor, and interventions totalled US$ 910.1 million over the year (US$ 1.369 billion in 2012).

The currency market came under pressure between the final week of February 2014 and the end of May, leading the central bank to intervene to prevent dramatic daily fluctuations in the exchange rate. In late May, the nominal exchange rate was 545.1 colones to the dollar, a negative year-on-year variation of 10.5%. Exchange-rate fluctuations could be attributable to uncertainty in the international financial system in view of the announced stimulus withdrawal in the United States, as well as to the impact of elections and the change of administration on the domestic market.

In December 2013, net international reserves amounted to US$ 7.331 billion, or 14.8% of GDP, equivalent to 6.3 months of goods imports by companies operating outside of special regimes and 1.8 times the monetary base. At the end of March 2014, net international reserves had fallen to US$ 6.786 billion as a result of central bank interventions. Net international reserves are expected to be about 14.2% of GDP in 2014.

At the end of March 2014, the Legislative Assembly enacted Law No. 9232, adopting the free trade agreement between the member States of EFTA and the Central American States (Costa Rica and Panama) with the goal of promoting Costa Rican exports and attracting more foreign direct investment.[2]

3. The main variables

(a) The external sector

In 2013, the balance-of-payments current account deficit equalled 5.1% of GDP (against 5.2% the previous year) as a result of a larger shortfall in goods trade and income accounts, which were partially

[2] The member countries of the European Free Trade Association (EFTA) are Iceland, Liechtenstein, Norway and Switzerland.

offset by the services surplus. The wider deficit on the goods trade account was largely the result of increased imports of raw materials and capital goods by companies operating under special regimes, while the income deficit expanded primarily because of the increase in profit remittances by direct investment enterprises.

Goods trade was sluggish in 2013, and exports ticked up by just 1.2%, the smallest increase since the 2009 financial crisis. Traditional exports slid 6.0%, especially those of coffee (down 26.8%), although sugar exports gained 4.3%. Non-traditional exports edged up 2.1%, mainly thanks to the increase in agricultural and marine products such as pineapples, shrimp and fish. Exports from free zones climbed 4.9%, notably exports of parts for circuit assemblies (up 5.9%, albeit well below the 18.6% recorded in 2012). The main destination markets for Costa Rican exports were the United States (37.2%), Central America (19.3%), Europe (18.4%) and Asia (14.4%). The fastest-growing destination market was Asia (mainly owing to sales of microprocessors). Services exports rose by 4.1% during 2013, especially those related to information and communications technologies, call centres and, to a lesser degree, goods transport and tourism.

Goods imports continued to slow, growing by 2.4% in 2013 (8.4% in 2012). Capital goods (especially those for the power industry, telecommunications and transport equipment) and non-durable consumer goods (pharmaceutical, cosmetic and food products) were the most dynamic components, with growth of 16.1% and 4.5%, respectively. The terms of trade improved by 1.7% during the year thanks to an improvement in the services component.

Goods trade continued to perform poorly in early 2014. Cumulative figures to April showed that exports slipped by 0.7%, while imports dropped by 0.2% during the same period. The cost of electricity, exchange-rate variations and raw materials prices are among the causes of the downturn in exports. In its macroeconomic programme for 2014-2015, [3] the central bank forecast real annual growth of 3.5% in exports and 3.6% in imports. However, the expected closure of the Intel factory in November 2014 could weigh down exports under special regimes in 2014, and may have an even greater impact in 2015.

In 2013, income from family remittances rose by 6.5% to US$ 561.1 million. Most remittances (71%) came from the United States, reflecting the labour-market improvement in that country. Foreign direct investment totalled US$ 2.682 billion and was largely channelled into real estate (43.3%), services (29.6%) and industry (13.4%). The announcement by United States corporation Intel that it will close its Costa Rican microprocessor plant by the end of the year could have major economic repercussions, not just for exports (microprocessors contribute around 20% of exports), but for GDP growth at the end of the year and in 2015.

(b) Economic activity

Costa Rica recorded real GDP growth of 3.5% in 2013, down by 1.6 percentage points on 2012 as domestic demand and external trade slackened. Growth was nevertheless half a percentage point higher than was estimated by the central bank in its July review of the macroeconomic programme for 2013-2014. Real GDP gained 3.0% in the first half of 2013, quickening to 3.9% in the second half of the year.

With regard to the components of expenditure in 2013, domestic demand provided the main impetus, despite weakening to 3.7% (4.5% in 2012) amid lower growth in private consumption (3.1%).

[3] See [online] http://www.bccr.fi.cr/publicaciones/politica_monetaria_inflacion/Programa_Macroeconomico_2014_2015.pdf.

The consumption of non-durable and semi-durable imported goods picked up, supported by the rise in real disposable income and credit expansion. General government final consumption expenditure increased by 3.9% in real terms (1.1% in 2012), mostly as a result of job creation in education, security, public works and transport.

Growth faltered across all main activity sectors. Manufacturing expanded by 4.1% in 2013, while transport, storage and communications added 4.9% on the strength of greater demand for mobile telephony and Internet services. Trade posted 3.1% growth amid weaker domestic demand, while financial services output jumped by 5.6%. Agricultural activity edged down 0.1% (compared with a 5.7% increase in 2012). Coffee output plummeted 36.4% as leaf fungus affected about 60% of plantations, while the banana industry also contracted, by 4.5%, as a result of adverse weather conditions. These outcomes were slightly offset by the gains in pineapple and milk production.

In March 2014, economic activity, measured by the IMAE trend cycle, increased by 3.3% (compared with 2.2% the previous year). This growth was driven mainly by the vigorous performance of financial intermediation services, transport, storage and communications, hotels and construction.

(c) Prices, wages and employment

During 2013, inflation measured as year-on-year variation in the consumer price index (CPI) averaged 5.2% and remained within the target range. Inflation eased in the second half of the year and the year-on-year variation in the CPI was 3.7% in December (4.5% in 2012).

In the first quarter of 2014, headline inflation remained within the target range set for the year (between 3% and 5%) and in April reached 3.7%. A hefty increase was noted in the cost of communications, education and food and beverages consumed outside the household. Since the exchange rate has remained relatively stable since mid-March, the central bank expects inflation to end the year within the target range, albeit probably closer to the 5% ceiling.

In 2013, the Continuous Employment Survey found a rise in the employment rate and a fall in unemployment, which stood at 8.3% in the fourth quarter (9.8% in the fourth quarter of 2012). The net labour force participation rate edged up to 62.8% (62.1% in 2012), reflecting an increase in the working-age population in or seeking employment, as well as in previously inactive persons joining the labour force. The real minimum wage index (ISMR) recorded year-on-year variation of 2.4% in December 2013. The closures of the Intel factory and the Bank of America customer service centre, announced in April 2014, could have an impact on employment in Costa Rica, with around 1,500 job losses in each case.

Table 1

COSTA RICA: MAIN ECONOMIC INDICATORS

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
	Annual growth rates b/								
Gross domestic product	5.9	8.8	7.9	2.7	-1.0	5.0	4.5	5.1	3.5
Per capita gross domestic product	4.1	7.0	6.2	1.2	-2.5	3.5	3.1	3.7	2.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fish	4.3	12.7	5.6	-3.2	-2.8	6.7	0.6	5.7	-0.1
Mining and quarrying	7.6	25.7	-1.5	-5.6	-14.2	-7.1	-3.2	5.6	3.3
Manufacturing	10.8	10.8	7.0	-3.7	-3.9	4.0	3.8	5.7	4.1
Electricity, gas and water	5.9	6.1	2.3	-0.6	3.3	2.7	2.5	8.0	1.4
Construction	-0.2	18.2	21.3	14.6	-3.0	-4.1	-3.8	5.6	2.4
Wholesale and retail commerce, restaurants and hotels	4.0	4.8	6.6	3.4	-6.0	4.2	4.0	4.0	3.1
Transport, storage and communications	9.6	10.5	9.8	7.6	3.0	6.9	8.3	5.9	4.9
Financial institutions, insurance, real estate and business services	5.4	11.1	9.3	8.5	5.6	6.5	7.5	7.0	5.6
Community, social and personal services	3.3	2.3	3.4	4.5	5.2	4.2	2.4	2.5	3.6
Gross domestic product, by type of expenditure									
Final consumption expenditure	3.9	5.4	6.9	3.5	2.3	4.5	4.1	3.9	3.2
Government consumption	0.2	2.9	2.3	4.4	6.7	4.7	1.6	1.1	3.9
Private consumption	4.4	5.7	7.5	3.4	1.7	4.5	4.4	4.3	3.1
Gross capital formation	11.3	13.9	-1.2	20.2	-34.7	33.4	12.8	6.2	5.4
Exports (goods and services)	12.8	10.3	9.9	-2.0	-6.0	5.5	5.4	9.5	3.6
Imports (goods and services)	12.4	8.1	4.3	6.5	-18.9	16.5	8.8	8.4	4.1
Investment and saving c/	**Percentajes of GDP**								
Gross capital formation	24.3	26.4	24.7	27.6	16.3	20.6	21.9	21.7	21.3
National saving	19.4	21.9	18.4	18.2	14.3	17.1	16.5	16.5	16.2
External saving	4.9	4.5	6.3	9.3	2.0	3.5	5.3	5.2	5.1
Balance of payments	**Millions of dollars**								
Current account balance	-981	-1,023	-1,646	-2,787	-576	-1,281	-2,187	-2,382	-2,529
Goods balance	-2,159	-2,727	-2,985	-5,013	-2,039	-3,440	-5,128	-5,341	-5,622
Exports, f.o.b.	7,099	8,102	9,299	9,555	8,838	9,516	10,414	11,460	11,526
Imports, f.o.b.	9,258	10,829	12,285	14,569	10,877	12,956	15,542	16,801	17,149
Services trade balance	1,116	1,351	1,734	2,201	2,188	2,537	3,208	3,455	3,880
Income balance	-209	4	-865	-417	-1,084	-745	-589	-829	-1,095
Net current transfers	270	349	470	442	359	366	323	333	309
Capital and financial balance d/	1,374	2,053	2,794	2,439	836	1,842	2,319	4,492	2,990
Net foreign direct investment	904	1,371	1,634	2,072	1,339	1,441	2,118	1,904	2,409
Other capital movements	470	682	1,160	367	-503	401	201	2,588	581
Overall balance	393	1,031	1,148	-348	260	561	132	2,110	461
Variation in reserve assets e/	-393	-1,031	-1,148	348	-260	-561	-132	-2,110	-461
Other external-sector indicators									
Real effective exchange rate (index: 2005=100)	100.0	99.6	97.4	93.9	92.8	82.5	79.5	76.7	73.7
Terms of trade for goods (index: 2005=100)	100.0	97.1	96.1	92.5	95.6	91.8	88.4	87.9	88.2
Net resource transfer (millions of dollars)	1,166	2,058	1,929	2,022	-247	1,097	1,730	3,662	1,895
Total gross external debt (millions of dollars)	6,763	7,191	8,444	9,105	8,238	9,135	10,919	14,509	17,158
Employment g/	**Average annual rates**								
Labour force participation rate	56.8	56.6	57.0	56.7	60.4	59.1	60.7	60.1	59.8
Open unemployment rate	6.9	6.0	4.8	4.8	8.5	7.1	7.7	7.8	8.2
Visible underemployment rate	14.6	13.5	11.5	10.5	13.5	11.2	13.4	11.3	12.9

Table 1 (concluded)

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
Prices	**Annual percentages**								
Variation in consumer prices (December-December)	14.1	9.4	10.8	13.9	4.0	5.8	4.7	4.5	3.7
Variation in industrial producer prices (December-December)	12.1	13.7	14.6	23.5	-1.2	4.5	7.4	3.5	1.6
Variation in nominal exchange rate (annual average)	9.1	7.0	1.0	1.9	8.9	-8.3	-3.8	-0.5	-0.6
Variation in average real wage	-1.9	1.6	1.4	-2.0	7.7	2.1	5.7	1.3	1.3
Nominal deposit rate h/	12.1	11.4	7.1	5.4	8.6	6.1	5.3	6.5	5.0
Nominal lending rate i/	24.0	22.7	17.3	16.7	21.6	19.8	18.1	19.7	17.4
Central government	**Percentajes of GDP**								
Total revenue	13.9	14.2	15.5	15.9	14.0	14.3	14.5	14.3	14.2
Tax revenue	13.6	14.0	15.2	15.6	13.8	13.3	13.6	13.5	13.5
Total expenditure	16.0	15.3	14.9	15.7	17.4	19.5	18.6	18.7	19.6
Current expenditure	14.9	14.3	13.6	13.5	15.6	17.2	17.1	17.3	18.0
Interest	4.1	3.8	3.1	2.2	2.1	2.1	2.2	2.1	2.5
Capital expenditure	1.1	0.9	1.3	2.2	1.8	2.4	1.5	1.5	1.6
Primary balance	2.0	2.7	3.7	2.4	-1.3	-3.1	-1.9	-2.3	-2.9
Overall balance	-2.1	-1.1	0.6	0.2	-3.4	-5.2	-4.1	-4.4	-5.4
Central government public debt	37.5	33.3	27.6	24.8	27.4	28.8	30.3	35.1	32.3
Domestic	25.1	22.8	19.2	17.5	21.6	22.9	25.4	29.1	28.9
External	12.3	10.4	8.3	7.2	5.8	5.9	4.9	6.0	7.1
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	43.3	42.9	44.5	47.8	48.5	45.3	47.8	46.6	50.4
To the public sector	7.4	5.1	2.7	2.6	3.9	3.7	4.5	2.7	4.4
To the private sector	35.6	37.9	44.3	50.5	49.2	45.3	47.2	48.9	50.4
Others	0.3	0.0	-2.4	-5.2	-4.6	-3.6	-3.9	-5.0	-4.4
Monetary base	6.4	6.7	7.6	7.3	7.2	7.0	7.2	7.7	7.8
Money (M1)	13.0	14.7	16.5	14.9	13.9	14.6	15.3	15.7	16.2
M2	30.2	32.5	36.5	34.5	33.4	32.2	31.9	33.8	35.5
Foreign-currency deposits	22.9	21.5	18.7	21.6	23.1	18.0	17.0	15.3	13.6

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

Table 2

COSTA RICA: MAIN QUARTERLY INDICATORS

	2012				2013				2014	
	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/	7.1	5.3	4.1	4.1	1.2	3.4	5.2	4.2	4.3	...
Gross international reserves (millions of dollars)	4,700	4,831	4,983	6,251	6,834	7,908	7,687	7,390	7,106	7,682 c/
Real effective exchange rate (index: 2005=100) d/	78.9	76.7	75.7	75.5	74.3	73.4	73.2	73.9	76.9	53.0 c/
Consumer prices (12-month percentage variation)	4.2	4.8	4.2	4.8	6.2	5.6	5.5	3.7	3.3	4.2 c/
Wholesale prices (12-month percentage variation)	5.3	3.2	3.5	3.5	3.5	2.9	2.3	1.4	2.5	4.6 c/
Average nominal exchange rate (colones per dollar)	510	504	499	499	501	500	500	500	528	550
Nominal interest rates (annualized percentages)										
Deposit rate e/	6.0	6.5	6.8	6.7	5.8	5.0	4.7	4.5	4.3	4.5 c/
Lending rate f/	18.4	19.4	20.1	20.8	19.6	17.4	16.2	16.1	16.4	16.8 c/
Interbank rate	4.6	5.2	5.2	4.7	4.8	4.8	3.9	4.0	4.0	4.7
Monetary policy rates	5.0	5.0	5.0	5.0	5.0	5.0	4.0	4.0	4.1	5.1
International bond issues (millions of dollars)	-	250	-	1,000	-	1,500	500	1,000	-	c/
Stock price index (national index to end of period, 31 December 2005 = 100)	123	123	127	129	154	172	183	190	197	208
Domestic credit (variation from same quarter of preceding year)	13.4	13.4	12.7	7.6	8.6	5.6	7.8	14.7	18.7	19.7
Non-performing loans as a percentage of total credit	1.9	1.9	1.9	1.8	1.9	2.0	1.9	1.8	1.7	... c/

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.

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