

Costa Rica

Following a 4.1% contraction in 2020, the Economic Commission for Latin America and the Caribbean (ECLAC) estimates that the Costa Rican economy will grow by 5.5% in 2021, bringing real GDP back above its level prior to the coronavirus disease (COVID-19) pandemic. This result, which is better than expected at the start of the year, has been founded on a vigorous expansion of external demand. The various measures adopted to strengthen the public finances, together with the recovery of economic activity, will make it possible to reduce the central government financial deficit to the equivalent of 6.0% of GDP (from 8.0% in 2020). The current account deficit of the balance of payments is expected to widen substantially to 4.0%, compared to the previous year's 2.2%, owing to a revival of imports and higher international fuel prices. Year-on-year inflation will be above 3.0% at the end of the year —higher than in 2020 (0.7%), but still inside the central bank's target range of 3.0% \pm 1 percentage point. The unemployment rate has dropped sharply to reach 15.0% in October 2021, compared to 21.9% a year earlier, although it remains above the pre-pandemic level.

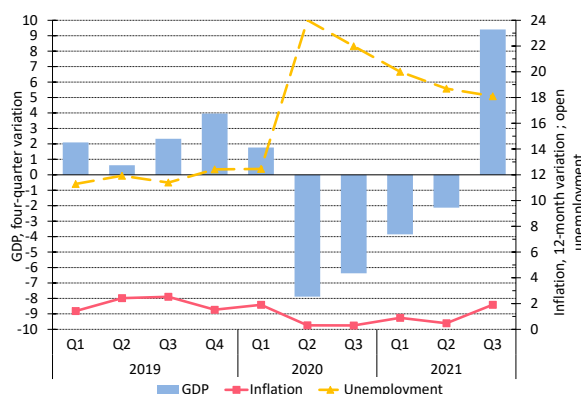
The Government of Costa Rica has adopted several measures to strengthen the public finances in terms of expenditure, revenue and debt management. Total central government income in the first nine months of 2021 grew by 33.5% in real terms, with tax receipts up by 38.3%. The main factors driving this pronounced expansion include the following: (i) the fact that, as from 2021, the central government's decentralized agencies bodies have been reporting their budgets as part of the national budget; (ii) the increase in income tax revenue following the approval of the Public Finances Reinforcement Act in late 2018; (iii) the entry into force of administrative changes to align the fiscal year with the calendar year, which meant that, on a once-only basis in the first few months of 2021, tax payments were recorded covering 15 months instead of 12; and (iv) the recovery of economic activity. If this trend continues, the tax burden at the end of 2021 will be around 14%.

Total central government expenditure was up by 4.7% year-on-year in real terms in the first nine months of 2021. Remunerations rose by 3.7%, owing to expenditure containment measures, while interest payments increased by 11.9%. In this context, the central government's primary deficit is expected to come in around 1.0% of GDP, compared to 3.4% in 2020.

In July 2021, the Legislative Assembly approved a US\$ 1.778 billion loan from the International Monetary Fund (IMF), under the latter's Extended Fund Facility which entails various fiscal conditionalities. Total central government debt will be close to 70.0% of GDP by the end of 2021, up from 67.5% a year earlier. Bond issues on the domestic market have provided the main funding source.

In the first eleven months of the year, the monetary policy (benchmark) interest rate was kept unchanged at the all-time low level of 0.75%. In December, however, the rate was increased by

Costa Rica: GDP, Inflation and Unemployment, 2019-2021



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

50 basis points in response to an uptick in inflation. The central bank continued to deploy measures to support liquidity in the financial markets, including the special temporary credit facility for financial intermediaries, implemented since September 2020. It also kept the minimum legal reserve requirement for operations in colones at 12% (having reduced it from 15% in June 2019).

These measures led to lower rates in the rest of the financial system. The basic interest rate on deposits was 2.80% in October 2021 (a real rate of 0.29%), compared to 3.35% a year earlier (2.88% in real terms). The public banks' negotiated lending rate (weighted average in colones) stood at 7.17% in October 2021 (4.60% in real terms), compared to 8.11% in December 2020 (7.60% in real terms).

Bank lending to the private sector in colones was up by 3.9% year-on-year in the first ten months of 2021. In contrast, foreign currency credit declined by 3.5% year-on-year in the same period, thereby reducing credit dollarization. Total lending expanded by 1.2% between January and October 2021, having shrunk by 0.3% in the equivalent period a year earlier.

The average exchange rate on the foreign exchange market (MONEX) ended November at 631.23 colones to the dollar, compared to the 615.43 colones recorded at the end of 2020; that is, a nominal depreciation of 2.6%. In recent weeks, the foreign exchange market has come under pressure from non-bank public sector financing requirements, among other factors. As a result, net international reserves stood at US\$ 6.78 billion in November 2021 —US\$ 443.9 million less than at the end of 2020 and equivalent to 4.5 months of imports.

Goods exports accumulated a 26.4% year-on-year increase in the first nine months of 2021; exports under special regimes increased by 33.9% and those under the definitive regime grew by 17.3%. Among the most buoyant export items, precision and medical equipment recorded cumulative year-on-year growth of 39.4% in the first eight months of the year. In contrast, exports of services contracted by 14.2% in the first half of 2021 relative to the year-earlier period, owing to the impact of reduction in tourist arrivals.

On the import side, foreign good purchases posted a cumulative year-on-year expansion of 25.9% in the first three quarters of 2021, fuelled by the recovery in domestic demand, particularly consumption, and a significant increase in the oil bill (67.0%). The rebound in goods imports, in conjunction with weak service exports, generated a larger current account deficit for the first half of 2021. Foreign direct investment flows totalled US\$ 1.639 billion, 80.5% more than in the year-earlier period.

In the first half of 2021, economic activity grew by 3.3% year-on-year. Aggregate demand was powered mainly by exports of goods and services (+10% year-on-year), while gross fixed investment

Costa Rica: main economic indicators, 2019-2021

	2019	2020	2021 ^a
	Annual growth rate		
Gross domestic product	2.3	-4.1	5.5
Per capita gross domestic product	1.3	-4.9	4.6
Consumer prices	1.5	0.9	2.1 ^b
Real average wage ^c	1.5	0.1	3.3 ^b
Money (M1)	6.2	33.9	20.3 ^d
Real effective exchange rate ^e	-0.6	-0.9	11.0 ^b
Terms of trade	0.7	3.6	-1.8
	Annual average percentage		
Open urban unemployment rate	11.8	19.6	17.4 ^b
Central government			
Overall balance / GDP	-6.7	-8.1	...
Nominal deposit rate ^f	6.3	3.9	3.2 ^b
Nominal lending rate ^g	13.0	10.9	9.7 ^b
	Millions of dollars		
Exports of goods and services	22 245	19 780	23 070
Imports of goods and services	20 385	18 198	21 431
Current account balance	-1 376	-1 349	-1 828
Capital and financial balance ^h	2 768	-405	...
Overall balance	1 393	-1 754	...

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

a/ Estimates.

b/ Figures as of September.

c/ Average wage declared by workers covered by social security.

d/ Figures as of May.

e/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.

f/ Average passive interest rate of Other Local Currency Deposit Companies

g/ Average lending rate in local currency.

h/ Includes errors and omissions.

expanded by 3.8%, and total consumption was up by 0.3%. On the supply side, manufacturing industry and transport and storage activities grew by 16.2% and 8.8%, respectively, boosted by the upturn in foreign trade. In contrast, construction declined by 4.4% and accommodation and food services contracted by 13.5%, owing to the effects of the economic crisis triggered by the pandemic.

The year-on-year variation in the consumer price index remained below 2.0% in the first eight months of 2021. However, in September, October and November, the index posted increases of 2.09%, 2.5% and 3.35%, respectively (within the central bank's target range for the first time since November 2019), on the back of higher international commodity prices and the bounce-back in economic activity.

In the first ten months of the year, the labour market staged a partial recovery from the massive shock suffered during the pandemic. In October, the unemployment rate stood at 15.0% (compared to 21.9% in the same month of 2020), while the underemployment rate was 12.2% (down from 23.8% a year earlier). The nominal minimum wage index reported a 0.43% year-on-year rise as of October 2021, equivalent to a reduction of 2.03% in real terms.

Estimates by ECLAC envisage real GDP growth of 3.7% in 2022, with stronger external demand remaining the main driver of economic activity. The current account deficit is expected to narrow to around 3.0% of GDP, on the back of a recovery of service exports, particularly in the travel sector. The central government's financial deficit is expected to be around 4.5%, thanks to the various measures adopted to strengthen the fiscal accounts. Inflation is projected to be 2.0%, again within the central bank's target range.