Costa Rica

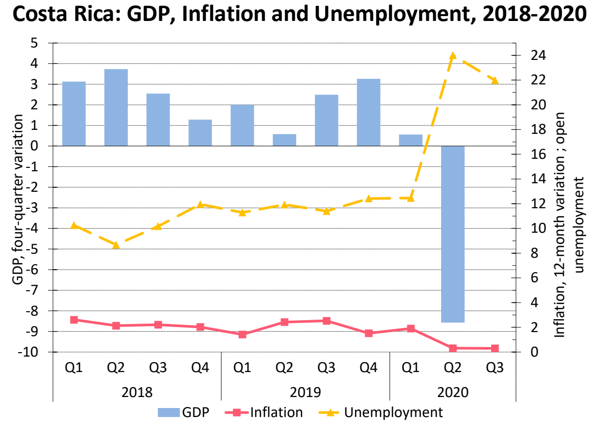
According to projections by ECLAC, Costa Rica's economy will shrink by 4.8% in 2020 owing to the social distancing measures and mobility restrictions introduced in response to the coronavirus disease (COVID-19) pandemic and the slump in international trade in goods and services. The central government deficit is expected to come to about 9.5% of GDP at the close of 2020 (compared to 6.9% in 2019) as a consequence of lower tax receipts and the higher spending levels occasioned by the measures implemented to cope with the difficult health, economic and social situations. The deficit on current account is set to rise to around 3.0% of GDP (versus 2.3% in 2019), primarily as a result of the steep drop in tourism income. As of the close of 2020, the year-on-year inflation rate was around 0.5% (compared to 1.5% in 2019), which was significantly below the target band set by the central bank (1 percentage point on either side of a rate of 3.0%) against a backdrop of weak demand, high unemployment and lower international fuel prices. Open unemployment was up sharply as a result of COVID-19-related restrictions, reaching 22.0% in September 2020 compared to an average of 11.8% in 2019.

The Government of Costa Rica declared a national state of emergency in March 2020 and introduced a range of measures aimed at lowering the COVID-19 contagion rate by barring foreigners from entering the country, suspending classes at all of the nation's educational establishments and temporarily closing national parks, bars, beaches and places of worship. These restrictions were slowly phased out, but as of end-November the COVID-19 case rate was still high in some cantons of the country.

The government has used a variety of measures to deal with the crisis. On the fiscal front, passage of the COVID 19 Fiscal Relief Act has ushered in a temporary moratorium on tax payments and a temporary 75% reduction in the contribution floor for health insurance and pensions. The "Plan Proteger", unveiled in March 2020, provides relief payments to people who have lost their jobs or whose workdays have been shortened and to independent or informal workers who have seen a drop in income.

Current and capital expenditures have been cut to counterbalance the loss of revenues. The Ministry of Finance has borrowed from international lenders to cover the country's budgetary requirements; it has taken out a US$ 521.7 million loan under the Rapid Credit Facility of the International Monetary Fund (IMF), a US$ 434 million credit from the Inter-American Development Bank (IDB) and a US$ 538 million loan from the Andean Development Corporation (CAF), among others.

Costa Rica: GDP, Inflation and Unemployment, 2018-2020



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

In the first nine months of 2020, total central government revenues fell by 12.1% in real terms. The drop was especially steep in the case of tax revenues as a consequence of the tax holiday and the slump in economic activity. Total cumulative central government spending between

January and September 2020 showed a real year-on-year increase of 2.6%, with a sizeable rise in interest payments (17.3% in real terms) and a strong contraction in capital spending (31.0%). In September 2020, central government debt was equivalent to 67.3% of GDP, which was 11.0 percentage points higher than in the same month in 2019.

Costa Rica: main economic indicators, 2018-2020

	2018	2019	2020 [a]
	Annual growth rate		
Gross domestic product	2.7	2.1	-4.8
Per capita gross domestic product	1.6	1.1	-5.7
Consumer prices	2.0	1.5	0.3 [b]
Real average wage [c]	1.7	1.2	-3.3 [b]
Money (M1)	4.4	6.2	31.9 [d]
Real effective exchange rate [e]	1.7	-0.6	-3.4 [b]
Terms of trade	-3.4	1.3	4.3
	Porcentaje promedio anual		
Open urban unemployment rate	10.3	11.8	19.5 [b]
Central government			
Overall balance / GDP	-5.8	-7.0	...
Nominal deposit rate [f]	6.9	7.1	4.7 [g]
Nominal lending rate [h]	15.6	13.0	11.2 [g]
	Millones de dólares		
Exports of goods and services	20 564	21 204	9 763 [i]
Imports of goods and services	19 764	19 534	8 613 [i]
Current account balance	-1 999	-1 415	-251 [i]
Capital and financial balance [j]	2 388	2 808	-163 [i]
Overall balance	390	1 393	-414 [i]

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 August.
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/ Figures as of October.
h/ Average lending rate in local currency.
i/ Cumulative figures to the second quarter of 2020.
j/ Includes errors and omissions.

In the first half of 2020, as part of a package of countercyclical measures, the central bank lowered the monetary policy rate on three occasions, for a total cumulative reduction of 200 basis points, to an annual rate of 0.75%. In addition, the central bank's board of directors authorized the acquisition of up to ₡ 250 billion in colon-denominated finance ministry securities (US$ 433 million, approximately) on the secondary market in the event of systemic liquidity problems. The central bank has also been working with the authorities responsible for financial system oversight to facilitate the readjustment of loans and improvements in borrowing conditions. In September, the central bank announced the introduction of a credit facility of up to 700 billion colones (equivalent to approximately US$ 1.16 billion) to enable financial intermediaries to transfer these resources to the private sector on favourable financial terms.

The foreign exchange market has come under pressure during the second half of 2020. The foreign exchange market index (MONEX) stood at 606.5 colones to the dollar at end-November, for a nominal depreciation of 5.8% relative to its level at the close of 2019. Net international reserves totalled US$ 7.458 billion at the end of October (the equivalent of 6.3 months of imports), compared to US$ 8.912 billion at the end of 2019.

Bank credit to the private sector showed a year-on-year variation of -0.4% up to October 2020 as the result of a 0.7% increase in local-currency operations and a 2.4% downturn in foreign-exchange transactions. The policy interest rate on deposits was 3.35% in October 2020 (2.9% in real terms), versus 5.65% in October 2019 (3.5% in real terms). The negotiated interest rate on loans in the public banking system (weighted average in colones) came to 7.82% in October 2020 (7.3% in real terms) versus 9.98% in October 2019 (7.75% in real terms).

On 15 May 2020, Costa Rica was formally admitted to membership in the Organization for Economic Cooperation and Development (OECD) after having received the approval in March of the last of the 22 committees that had to do so.

In the first nine months of 2020, the year-on-year contraction of exports of goods came to 1.3%. Exports subject to special regimes were up slightly (by 1.0%), but final exports were down by 4.0%. Despite the adverse external environment, banana exports rose by 7.1% and exports of green coffee jumped by 16.4%. External sales of medical and dental instruments and supplies rose by 1.7%. Total imports of goods fell at a year-on-year rate of 11.2% during this same period.

In the first half of 2020, service exports showed a year-on-year downswing of 17.1%, with travel-related (tourism) revenues plummeting by 43.2%. During this same period, foreign direct investment (FDI) inflows totalled US$ 780 million, compared to US$ 1.022 billion in the first six months of 2019.

The estimated 4.8% contraction in GDP that is projected for 2020 will be the second largest decrease in economic activity since 1950, which was the first year for which national accounts statistics were compiled, being surpassed only by the 7.3% drop seen in 1982. In the first half of 2020, GDP shrank by 4.0%. The sharpest declines were seen in the categories of hotels and restaurants (32.0%) and transport and storage (17.5%). Manufacturing was down by 1.4% and agriculture by 0.1%, but business services expanded by 1.3%.

In the second quarter of 2020, private consumption slumped by 8.3%, while gross fixed capital formation contracted by 3.8%. According to seasonally adjusted figures for the monthly index of economic activity (IMAE), the average year-on-year downturn came to 8.2% in the second quarter and was followed by another of 7.5% in the third quarter. In August and September, however, the IMAE climbed (by 1.2% and 1.4%, respectively).

From January to October 2020, year-on-year inflation rates were below the central bank's target range, with the October rate standing at 0.5%. This was mainly attributable to the feebleness of aggregate demand and high unemployment.

In the labour market, in addition to the sharp increase in unemployment, the underemployment rate rose steeply, climbing from 11.1% in December 2019 to 25.8% in September 2020.

In 2021, ECLAC expects GDP growth of 3.0% as economic activity gradually recovers. This projection is accompanied by the implicit risks posed by any major repeat outbreak of COVID-19 in the country or its main trading partners. The central bank estimates the current account deficit on the balance of payments for 2021 at 3.3% of GDP. Public finances are likely to continue to be under significant pressure, and the Ministry of Finance therefore estimates that the central government will run a deficit of around 8% of GDP. As demand gradually strengthens, inflation could approach the lower limit of the central bank's target range.