Costa Rica

The pace of economic activity in Costa Rica slowed sharply in 2019, with ECLAC estimating growth at 1.8% (compared to the previous year's 2.6%), adversely affected by a combination of external and domestic factors. The former include the slowdown in the global economy and world trade, and the fall in the international prices of agricultural products that are crucial for the country. The key domestic factors were the effects of adverse weather shocks on agricultural production and fragile consumer and investor confidence.

In a context of weak domestic demand, year-on-year inflation to December is likely to be around 2.0%, similar to the 2.02% recorded in 2018 and within the central bank's target range of 3% ± 1 percentage point). The fiscal deficit should end the year at 6.2% of GDP, 0.2 points higher than in 2018, in a context of rising interest payments. The current account deficit is expected to be around 2.4% of GDP (compared to 3.1% in 2018), thanks to a sharp slowdown in imports in the regular regime. The open unemployment rate climbed to an average of 11.6% in the first three quarters of 2019, compared to 10.3% in the year-earlier period, in keeping with the activity slowdown.

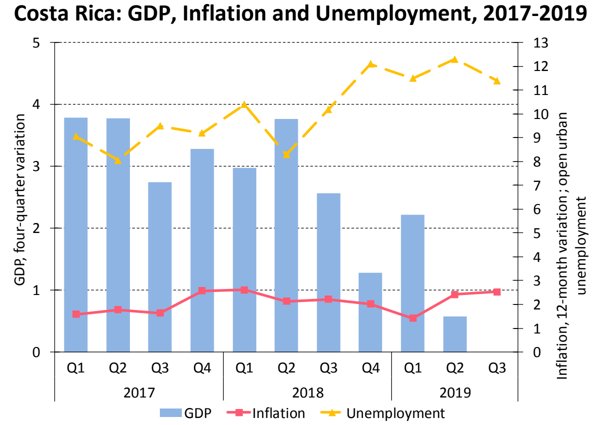
Total central government revenues posted real year-on-year growth of 9.5% as of October 2019 (compared to -0.3% a year earlier), thanks to the tax amnesty that generated additional revenue in the first few months of the year and the initial effects of the introduction of value added tax (VAT) and the tax on overall income, central elements of the Law on the Strengthening of Public Finances, which came into force on 1 July 2019. Central government tax revenue is expected to end 2019 at around 13.6% of GDP.

In January–October 2019 total central government expenditures were up by 10.0% in real terms year-on-year, following a 3.5% increase in the year-earlier period. Interest payments rose steeply by 23.2% in real terms, owing mainly to the high rates at which the debt was contracted in the pre-tax reform period. Remunerations increased slightly by 1.4% (compared to 2.2% in the same period in 2018). Interest payments absorbed for 30.6% of total central government income.

The primary deficit, which excludes interest payments on the debt, is set to narrow to 2.1% in 2019 from the previous year's 2.4%. Central government debt continued to expand and in September represented 55.3% of GDP, 1.7 percentage points more than in December 2018. The Legislative Assembly authorized a US$ 1.5 billion eurobond issue.

The central bank pursued an expansionary policy in 2019 in the face of faltering economic activity, a high unemployment rate and subdued inflationary pressures. Accordingly, the benchmark interest rate (monetary policy rate) was lowered six times in the first 11 months of the year, from 5.25% to 3.25%. In addition, the central bank reduced the minimum legal reserve requirement for deposits and bonds in national currency by three percentage points to 12% in May.

Costa Rica: GDP, Inflation and Unemployment, 2017-2019



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

The average interest rate on consumer loans (negotiated in colones) stood at 19.1% in September 2019 (equivalent to 16.6% in real terms), compared to 19.7% (17.1% real) in the same month of 2018. The basic interest rate on deposits was 5.70% in September 2019 (a real rate of 3.5%), compared to 5.9% in the same month in 2018 (3.6% real).

Notwithstanding the lowering of interest rates, domestic credit grew by 2.1% year-on-year as of October 2019 (compared to a 7.8% expansion in the year-earlier period), owing to weaker demand for credit for consumption and investment, lack of confidence among economic agents and high levels of household debt.

The MONEX exchange rate was 563 colones to the dollar at end-November 2019, representing a nominal appreciation of 7.6% since the end of the previous year. At the same date, international reserves totalled US$ 7.705 billion, compared to US$ 7.495 billion at end-2018.

The free trade agreement with the Republic of Korea entered into force on 1 November 2019 and is expected to facilitate mainly agricultural exports, investment and cooperation. In terms of Central American integration, Costa Rica continued to work on trade facilitation initiatives. The process of accession to the Organization for Economic Cooperation and Development (OECD) continued, and 16 of the 22 necessary OECD review committees had given their approval by November. The Ministry of Foreign Trade expects the process to be successfully concluded in 2020.

Costa Rica: main economic indicators, 2017-2019

	2017	2018	2019 [a]
	Annual growth rate		
Gross domestic product	3,4	2,7	1,8
Per capita gross domestic product	2,4	1,8	0,9
Consumer prices	2,6	2,0	2,1 [b]
Real average wage [c]	1,2	2,1	1,1 [d]
Money (M1)	1,7	4,4	5,6 [e]
Real effective exchange rate [f]	5,1	1,7	1,1 [d]
Terms of trade [g]	-2,1	-2,6	1,4
	Annual average percentage		
Open urban unemployment rate	9,1	10,3	11,5 [h]
Central government			
Overall balance / GDP	-6,1	-5,9	-6,4
Nominal deposit rate [i]	6,2	6,9	7,3 [b]
Nominal lending rate [j]	14,5	15,6	13,4 [b]
	Millions of dollars		
Exports of goods and services	19 526	20 596	21 533
Imports of goods and services	18 856	19 664	19 688
Current account balance	-1 717	-1 866	-1 160
Capital and financial balance [k]	1 298	2 256	1 432
Overall balance	-419	390	272

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/ Figures as of August.
f/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.
g/ Economic Development Division, calculations for Preliminary Overview 2019.
h/ The figure correspond to the average from the first to the third quarter.
i/ Average passive interest rate of Other Local Currency Deposit Companies
j/ Average lending rate in local currency.
k/ Includes errors and omissions.

In the first 10 months of 2019, firms operating under special regimes performed very differently from firms subject to a regular regime in terms of foreign trade. Foreign sales by companies registered under special regimes increased by 7.2%, while the rest contracted by 5.4%. As a result, total goods exports expanded by just 1.1% (compared to 6.6% growth in the same period in 2018). Total goods imports fell by 2.5% (having grown by 5.7% in the year-earlier period), with a sharp fall in regular regime imports (-7.2%), which was partially offset by the expansion of imports in special regimes (up 22.2%). The terms of trade are set to improve slightly in 2019 (0.4%), in view of the fall in international oil prices.

Exports of services increased by 2.8% in the first half of 2019 (compared to 5.6% growth in the same period of the previous year), bringing the surplus in services trade to US$ 2.753 billion (US$ 2.756 billion in the first half of 2018). Foreign direct investment (FDI) totalled US$ 1.135 billion in January–June 2019, up from US$ 919 million in the same period a year earlier.

Economic activity posted year-on-year growth of 2.2% in the first quarter of 2019, followed by a sharp slowdown in the second quarter (-0.6%). The monthly economic activity index (IMAE) reported an average annual increase of 1.4% in the first three quarters of 2019, compared to 3.4% in the same period of 2018.

On the demand side, consumption expanded by 1.6% in the first half of 2019, while gross domestic investment contracted by 2.8%, reflecting a lack of confidence in the economic situation. By sector, crop farming and livestock activity shrank by 3.4% in the wake of adverse weather conditions; and construction contracted by 7.5% owing to less new commercial and residential building. Manufacturing expanded by 1.7%, driven by free-zone activities. The service sector continued to grow, but more slowly than in previous years. Trade contracted for the first time since the 2008–2009 international financial crisis (-0.6%), while information and communications (up 5.5%) and financial (4.6%) activities both performed well.

The entry into force of VAT triggered a slight uptick in inflation in July year-on-year, to 2.89%. However, the lack of momentum in household consumption helped to reduce inflation in the later months of the year; and in October the rate had fallen to 2.1%.

Open unemployment remained at high levels owing to a slower pace of economic growth and a higher net participation rate (62.4% in the first three quarters of 2019, compared to 59.9% in the year-earlier period). The nominal minimum wage index rose by 2.98% year-on-year in October 2019 (up 0.89% in real terms).

For 2020, ECLAC expects real GDP to grow by 1.9%, driven by the recovery of agricultural production and more buoyant domestic demand (both consumption and investment), albeit in a less favourable external environment. Inflation is set to remain within the central bank’s target range, assuming the absence of domestic pressures and stable oil prices. The current account deficit is poised to widen on the back of increased imports resulting from stronger economic growth, in conjunction with weak export growth owing to the international situation. Estimates by the Ministry of Finance see the fiscal deficit narrowing to 5.3% of GDP following the implementation of the tax reform.