

## Costa Rica

The Economic Commission for Latin America and the Caribbean (ECLAC) estimates that Costa Rica's real GDP will grow by 4.9% in 2023, up from 4.6% in 2022. This significant upward revision of the projections announced at the beginning of 2023 comes in response to the surprising dynamism of exports of goods and services — despite the slowdown in the global economy and in international trade— along with a larger-than-expected expansion of private consumption and investment. The central government's financial deficit is expected to come to 3.4% of GDP for 2023, with a primary surplus of around 1.6% of GDP. The fact that this fiscal outturn is less favourable than the results for 2022, when the financial deficit amounted to 2.5% of GDP and the primary surplus was equivalent to 2.1% of GDP, is attributable to higher interest payments in 2023 and the absence of the windfall income seen in 2022.

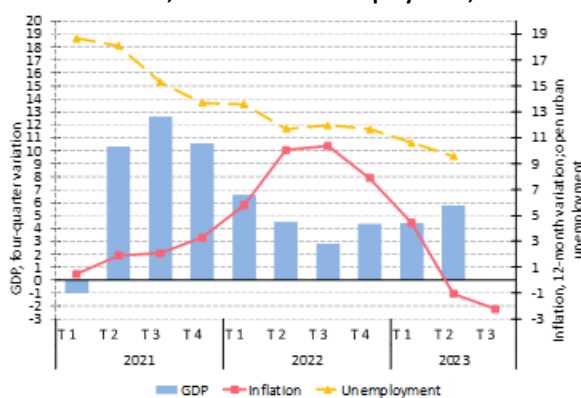
The current account deficit is projected to be around 2.0% of GDP in 2023, down from 3.6% in 2022, on the back of improved terms of trade and a marked expansion of exports. The year-on-year inflation rate was in negative territory (deflation) between June and November 2023, mainly owing to lower international commodity prices, the effects of tight monetary policies and the appreciation of the colón. The marked decline in open unemployment reflected the buoyancy of economic activity combined with a lower labour participation rate. The jobless rate averaged 8.1% in the third quarter of 2023 and had fallen to around 8.0% by the end of the year, compared with 11.7% in December 2022.

The cumulative year-on-year drop in total central government revenues for the first three quarters of 2023 came to 2.7% (-3.9% in real terms), as against the year-on-year growth rate of 20.0% (10.9% in real terms) recorded for 2022, mainly because of the above-mentioned absence of the windfall revenues received the year before. Tax revenues were up by 3.4% (2.1% in real terms), while non-tax revenues fell by 48.3% (49.0% in real terms).

Cumulative total expenditure, meanwhile, increased by 2.1% (0.9% in real terms) in the first nine months of 2023, compared with the growth rate of 3.0% (a 4.8% decline in real terms) reported for the same period of 2022. The wage bill expanded by 1.7% (0.4% in real terms) and transfers declined by 0.6% (-1.8% in real terms), while interest expenditure increased by 5.2% (3.9% in real terms). Interest payments as a percentage of GDP are estimated at 4.9% of GDP for 2023, up slightly from the figure reported in 2022 (4.6%).

The total public debt as of end-2023 is estimated at around 62% of GDP, which is 1 percentage point below its December 2022 level. A total of US\$ 2.92 billion in bonds were issued on international markets in 2023 under the debt securities programme authorized by Law No. 10332.

**Costa Rica: GDP, Inflation and Unemployment, 2021-2023**



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

In the first 11 months of 2023, the authorities adjusted the monetary policy rate downward five times (for a cumulative total reduction of 275 basis points), bringing it down to 6.25% by the end of November, in response to a clear slowdown in inflation (which actually moved into negative territory), buoyant economic activity and lower unemployment.

The reduction in the benchmark rate passed through only slightly to the rest of the financial system. The basic interest rate on deposits stood at 5.58% (8.0% in real terms) at the close of the third quarter of 2023, whereas it had been at 5.85% (-4.1% in real terms) at the same point in time in 2022. The nominal negotiated interest rate on public bank loans (weighted average in colones) stood at 9.97% in September 2023 (12.4% in real terms), as compared to 8.41% (-1.8% in real terms) in September 2022. The private sector's credit balance in August 2023 reflected a year-on-year contraction of 2.5% in nominal terms (-0.9% in real terms).

The currency appreciated considerably in the first nine months of 2023, with the exchange rate falling to 536.3 colones to the dollar at the end of November, which was 10.2% below the parity registered at the close of 2022. In September 2023, net international reserves amounted to US\$ 11.333 billion (US\$ 2.783 billion more than in December 2022), which was equivalent to around 6.1 months' worth of goods imports.

The country continued to pursue both bilateral and multilateral trade negotiations in 2023. At the bilateral level, talks between Costa Rica and the United Arab Emirates were held concerning the conclusion of a comprehensive economic partnership agreement that would cover both trade and investment, while, in the multilateral sphere, it continued to take part in talks with Fiji, Iceland, Norway, New Zealand and Switzerland focusing on the signature of the Agreement on Climate Change, Trade and Sustainability (ACCTS).

The deficit on current account shrank during the first three quarters of 2023 thanks to an improvement in the terms of trade and the strong performance turned in by the export sector. Exports of goods totalled US\$ 13.546 billion in the first nine months of 2023 (a year-on-year increase of 16.4%). There was a sharp difference to be seen between the two different trade regimes, as exports under the definitive regime rose by 4.5% during that period, whereas special-regime exports, driven by exports of medical equipment and devices, jumped by 24.0%. Service exports exhibited a year-on-year growth rate for the first half of 2023 of 23.7%, with tourism revenues climbing by 36.0%.

Cumulative goods exports as of the third quarter amounted to US\$ 16.75 billion, for a year-on-year growth rate of 6.9%. Imports under the special regime were up by 18.9%, while imports under the definitive regime rose by 3.8%. Fuel imports were down by 6.2% during the same period, thanks to

#### Costa Rica: main economic indicators, 2021-2023

	2021	2022	2023 <sup>a</sup>
	<b>Annual growth rate</b>		
Gross domestic product	7.9	4.6	4.9
Consumer prices	3.3	7.9	-2.2 <sup>b</sup>
Real average wage <sup>c</sup>	-0.1	-4.4	5.3 <sup>b</sup>
Money (M1)	14.6	-3.6	0.4 <sup>d</sup>
Real effective exchange rate <sup>e</sup>	8.6	4.0	-14.2 <sup>b</sup>
Terms of trade	-3.9	-11.8	2.0
	<b>Annual average percentage</b>		
Open urban unemployment rate	16.4	12.2	9.6 <sup>f</sup>
Central government			
Overall balance / GDP	-5.0	-2.5	...
Nominal deposit rate <sup>g</sup>	3.7	6.0	10.3 <sup>b</sup>
Nominal lending rate <sup>h</sup>	9.5	10.9	12.9 <sup>b</sup>
	<b>Millions of dollars</b>		
Exports of goods and services	24 036	28 692	16 331 <sup>i</sup>
Imports of goods and services	21 940	26 602	13 727 <sup>i</sup>
Current account balance	-1 605	-2 469	-297 <sup>i</sup>
Capital and financial balance <sup>i</sup>	1 342	4 272	2 877 <sup>i</sup>
Overall balance	-263	1 803	2 580 <sup>i</sup>

**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 August.

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

f/ Figures as of June

g/ Average passive interest rate of Other Local Currency Deposit Companies.

h/ Average lending rate in local currency.

g/ Data for 2023 correspond to the sum of the first and second quarters.

i/ Includes errors and omissions.

lower international prices. In the first half of 2023, foreign direct investment (FDI) flows totalled US\$ 2.009 billion, up slightly from the US\$ 1.919 billion total recorded for the corresponding period of 2022.

In the first three quarters of 2023, Costa Rica's GDP expanded at an average year-on-year rate of 5.3%. The construction industry turned in an outstanding performance, growing by 19.8%, while manufacturing (up by 8.7%) and professional, scientific and technical activities (up by 12.4%) also did well. Demand was driven chiefly by exports of goods and services (with year-on-year growth of 12.7%) and gross fixed investment (10.6%).

The year-on-year inflation rate slowed markedly during the first five months of 2023, from a year-on-year rate of 7.65% in January to one of just 0.88% in May before turning negative between July and November. The rate for November was -1.65%.

In addition to the robust growth of economic activity, the above-mentioned decline in the unemployment rate also reflected a decrease in the labour force participation rate from 60.5% in September 2022 to 54.3% in September 2023. There was a 1.5 percentage point differential between the jobless rates for women (9.0%) and men (7.5%).

In 2024, Costa Rica's GDP is projected to grow by 3.8% in real terms, which is lower than the expected rate for 2023, owing to the weakness of the world economy and world trade. The central government's financial deficit is expected to come in at around 3.0%, while its primary surplus—in line with the government's continuing efforts to strengthen public finances—is forecast to be in the order of 1.8% of GDP. Inflation is predicted to return to a rate situated within the central bank's target range (3.0% with a margin of one percentage point on either side) in the first half of the year, while the deficit on current account is expected to remain at much the same level as in 2023 (around 2.0% of GDP). Projections put the average open unemployment rate for 2024 at around 9.0%.