Costa Rica

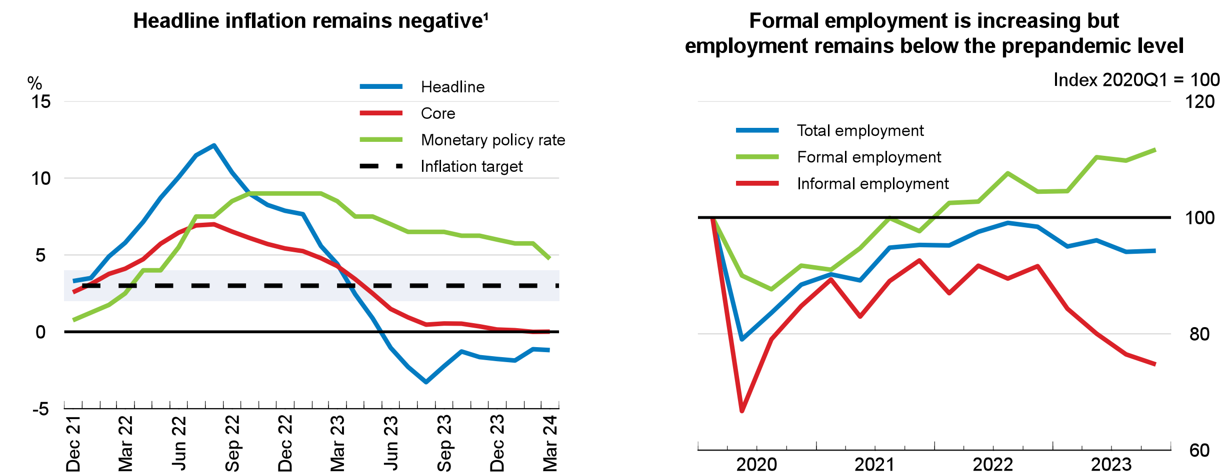
GDP will grow by 3.6% in 2024 and 3.9% in 2025. Monetary policy easing, credit supply expansion and increases in households' income will support domestic demand. Export growth is expected to moderate in 2024 and edge up in 2025 as global conditions improve. Headline inflation is expected to rise to 0.4% (year-on-year) in 2024 and 2.2% in 2025.

The fiscal stance is projected to remain restrictive as the fiscal rule constrains public expenditure growth. Monetary policy will continue to ease gradually as headline inflation remains below the target range. Boosting competition, improving education quality, expanding the coverage of early education and care for children below four years and enhancing the supply of vocational training and sciences graduates would support higher female labour participation, growth and equity.

Growth has strengthened amid negative inflation

Strong net exports and household consumption boosted GDP growth in the second half of 2023. Domestic demand was supported by robust credit growth (6.7%, year-on-year) and real wage increases (6.5%), especially in the private sectors. The average real wage remains below pre-pandemic levels. Economic activity remains solid and broad-based, with the Monthly Index of Economic Activity increasing by 3.6% (year-on-year) in February 2024 driven by both traditional (retail, construction, transport) and special regime sectors (manufacturing). Annual headline inflation turned negative in 2023, and was -1.2% in March 2024, due to the reversal of external price shocks, a strong appreciation with respect to the dollar and contained domestic inflationary pressures. Core inflation remains low, at 0% (year-on-year) in March.

Costa Rica



1. The horizontal dashed black line indicates the target inflation rate of monetary policy, and the shaded area the tolerance band around the target (2-4%). Headline and core indicate, respectively, the headline consumer price inflation rate and the core consumer price inflation rate. The core consumer price inflation rate measures consumer price inflation excluding food and energy components.
Source: Banco Central de Costa Rica.

StatLink https://stat.link/bex7sj

Costa Rica: Demand, output and prices

Costa Rica	2020 Current prices CRC trillion	2021	2022	2023	2024	2025
		Percentage changes, volume (2017 prices)				
GDP at market prices	36.5	7.9	4.6	5.1	3.6	3.9
Private consumption	22.8	8.3	3.4	5.4	3.5	3.6
Government consumption	6.5	1.7	2.4	0.1	0.2	0.5
Gross fixed capital formation	5.9	7.8	1.5	8.6	5.0	7.8
Final domestic demand	35.2	7.0	2.9	5.1	3.2	3.8
Stockbuilding[1]	0.0	1.5	-0.9	-1.8	0.5	0.0
Total domestic demand	35.2	8.6	2.0	3.2	3.4	3.7
Exports of goods and services	11.6	15.9	13.2	10.5	5.3	6.1
Imports of goods and services	10.3	19.2	6.0	5.6	5.3	6.0
Net exports[1]	1.3	-0.3	2.6	2.1	0.4	0.5
Memorandum items						
GDP deflator	_	2.4	6.3	-0.1	0.5	2.4
Consumer price index	_	1.7	8.3	0.5	0.4	2.2
Core inflation index[2]	_	0.9	4.2	1.0	0.7	2.2
Unemployment rate (% of labour force)	_	16.4	12.2	8.9	7.2	7.0
Current account balance (% of GDP)	_	-3.2	-3.2	-1.0	-1.0	-1.6

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 115 database.

StatLink https://stat.link/4x85dq

Costa Rica receives large foreign direct investments (4.5% of GDP in 2023) that are supporting a sharp increase in formal employment, although overall employment still remains below the pre-pandemic level. Due to the improved economic and fiscal outlook the main rating agencies have recently raised Costa Rica's sovereign credit rating. The country risk, measured by the Emerging Market Bond Index spread, is close to its lowest level in the last 10 years (2.2%).

Monetary policy easing will continue amid prudent fiscal policy

Monetary policy easing will continue in 2024 and 2025 as inflation remains below the 3% target. The policy rate is projected to reach 4.0% by the end of 2025. The central government primary surplus is set to remain positive (1.9% of GDP in 2024 and 2.1% in 2025), as the fiscal rule constrains current expenditure growth. The central government budget deficit is projected to reach 3.1% of GDP in 2024 and 2.5% in 2025. Debt servicing costs will remain large (5% of GDP in 2024 and 4.6% in 2025). Public debt is expected to continue falling and to reach 59.4% of GDP by the end of 2025. The fiscal costs of population aging (pensions and health) are estimated to increase by around 0.3% of GDP per year until 2030.

Growth will remain robust

Growth is projected to slow to 3.6% in 2024, due to weaker domestic demand and export growth, and edge up to 3.9% in 2025, as global and domestic economic conditions improve. Private consumption will moderate in 2024 as disposable income is expected to grow less strongly than in 2023. Private investment will remain solid, supported by large foreign direct investment inflows, but public investment will remain muted due to the lack of fiscal space. Net exports will moderate in 2024 and improve in 2025, along with economic conditions of the main trading partners. Recent growth in housing and consumption credit, especially in foreign currency (around 32.8% of the credit stock is in dollars), may increase the vulnerability of the financial sector, including to sharp fluctuations of the exchange rate. Increasing geopolitical tensions might weigh on global demand and trade. On the upside, renewed efforts to deepen trade integration might strengthen net exports.

Persevere with reforms in competition and education to boost growth and equity

Continuing to implement the fiscal rule is critical for debt sustainability. Improved public spending efficiency, based on spending reviews, may free additional resources to address social spending and infrastructure needs. Providing the national competition authority with adequate resources, reducing the stock of regulations and conducting regulatory impact assessments, and introducing online one-stop mechanisms covering all licenses and permits would help boost competition in key markets, facilitate entry and lower prices for households and costs for firms. Increasing female labour market participation by expanding the coverage of early education and care for children below four years, and improving the quality and efficiency of education by providing support to students with learning gaps, would support higher growth and equity. To achieve net carbon neutrality by 2050, Costa Rica should reduce emissions in the transport sector by strengthening the public transport network and the electrification of transport, continue to increase forest coverage, augment waste recycling and composting, and improve the sewer system.

From:

OECD Economic Outlook, Volume 2024 Issue 1

An unfolding recovery

Access the complete publication at:

https://doi.org/10.1787/69a0c310-en

Please cite this chapter as:

OECD (2024), “Costa Rica”, in *OECD Economic Outlook, Volume 2024 Issue 1: An unfolding recovery*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/225428c5-en