Costa Rica

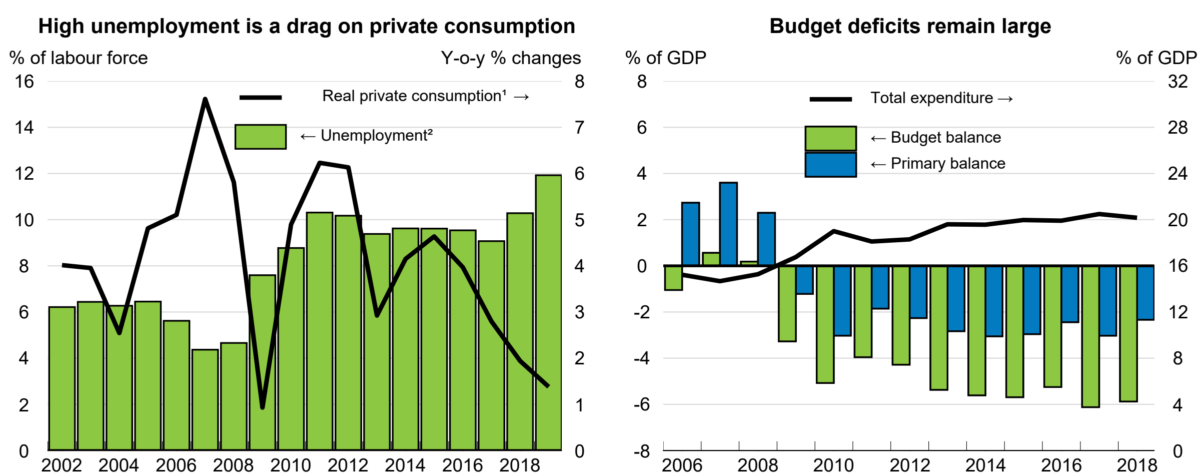
Economic growth is projected to be around 2¼ per cent in 2020-21, underpinned by gradually improving domestic demand, tourism and exports of business services. Declining inflation will gradually support consumption. Investment has been weak, but will benefit from lower interest rates. Informality and inequality remain high, hampering productivity.

Fiscal policy continues to be characterised by high budget deficits and rising public debt, although recent tax and spending reforms, if fully implemented, will help to restore medium-term sustainability. Monetary policy should remain accommodative, given increasing economic slack. Improving access to, and quality of, early childhood education is key to increased female labour market participation.

Economic activity has slowed down

The global trade slowdown, regional political instability, lower prices of main export goods and adverse weather effects have reduced growth. The very high unemployment rate, at 12%, is eroding consumer confidence. Credit growth and business confidence are also subdued, and investment remains weak. The recently introduced VAT induced a transitory pick-up in inflation.

Costa Rica



1. 2019 is defined as the year-on-year growth of 2019Q2 with respect to 2018Q2.
2. 2019 refers to 2019Q2.
Source: OECD Economic Outlook 106 database; and Ministerio de Hacienda.

StatLink https://doi.org/10.1787/888934045221

Costa Rica: Demand, output and prices

Costa Rica	2016	2017	2018	2019	2020	2021
	Current prices CRC trillion	Percentage changes, volume (2012 prices)				
GDP at market prices	31.2	3.4	2.6	2.0	2.2	2.3
Private consumption	20.0	2.8	1.9	1.9	2.1	2.0
Government consumption	5.4	3.3	0.4	2.9	0.0	0.7
Gross fixed capital formation	5.7	-3.0	3.2	-3.8	2.0	3.7
Final domestic demand	31.0	1.8	1.9	1.1	1.7	2.1
Stockbuilding[1]	0.1	1.1	-0.7	0.3	0.0	0.0
Total domestic demand	31.1	2.8	1.2	1.2	1.6	2.1
Exports of goods and services	10.0	5.0	4.1	3.0	3.1	2.4
Imports of goods and services	9.9	3.2	0.0	0.9	1.3	1.9
Net exports[1]	0.1	0.5	1.4	0.7	0.6	0.2
Memorandum items						
GDP deflator	_	2.6	2.4	2.6	2.2	2.4
Consumer price index	_	1.6	2.2	2.3	2.5	2.4
Core inflation index[2]	_	1.2	2.1	2.5	2.4	2.4
Unemployment rate (% of labour force)	_	9.1	10.3	11.9	12.4	12.3
Current account balance (% of GDP)	_	-2.9	-3.1	-2.4	-2.5	-2.6

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 106 database.

StatLink https://doi.org/10.1787/888934046285

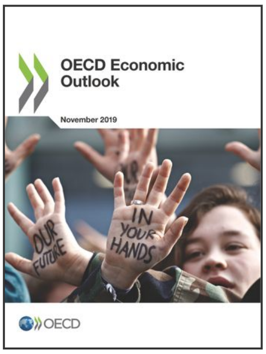
Full implementation of the fiscal reform is key to rebuild confidence

Government deficits remain large despite the recent approval of a historic tax reform, as well as restraints on non-interest current spending and a temporary tax amnesty that raised additional revenue. Rising public debt and high interest rates imply growing debt-servicing costs for the public budget. The government projects that the deficit will continue to rise to 6.5% and 6.9% of GDP in 2020 and 2021, respectively. Consequently, full implementation of the fiscal reform is necessary to restore fiscal sustainability in the medium term. Reforms to streamline the organisation of the public sector would generate additional savings, improve public services delivery and help decrease inequality. Monetary policy has appropriately become more accommodative, with multiple interest rate cuts. The central bank is expected to continue to provide support to growth, given the limited room for a fiscal stimulus and widening slack.

The financial system is considered by the authorities to be sound, but nonetheless faces a number of vulnerabilities. State-owned banks are heavily exposed to sovereign debt and to state-owned enterprises, which creates risks of adverse feedback loops. Heavy dollarisation also poses challenges linked to currency mismatches. Publishing stress test results for individual banks would boost the effectiveness of the exercise and increase transparency. Continuing to improve corporate governance in the large state-owned enterprise sector and simplifying the current regulatory framework would help boost public sector efficiency, increase competition and reduce prices. Enacting a deposit insurance scheme, covering public and private banks, is key to buttress financial stability, protect all depositors and encourage more competition in the banking sector. Announcing the calendar of monetary policy meetings in advance would further enhance central bank communication and monetary policy effectiveness. Recent reductions in social security contributions for small companies will help curb informality, but further simplification of the still complex minimum wage structure is needed to facilitate compliance and job creation.

Growth is projected to remain modest

Growth is expected to remain subdued but gradually rise in 2020-21. Lower interest rates should stimulate private investment, particularly in export-related sectors. Inflation is set to remain within the official target range as the economy stays weak. Risks to the downside originate from a failure or a delay in fully implementing the fiscal reform, which would curb investor confidence and put pressure on financial stability. Weaker-than-expected global trade is also a downside risk to the export outlook. On the upside, the positive effects of the already implemented structural reforms on investment and growth might turn out to be larger than anticipated.



From:
OECD Economic Outlook, Volume 2019 Issue 2

Access the complete publication at:
https://doi.org/10.1787/9b89401b-en

Please cite this chapter as:

OECD (2019), “Costa Rica”, in *OECD Economic Outlook, Volume 2019 Issue 2*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/2f11826f-en