# COSTA RICA

**The economy is projected to continue expanding at a robust pace, owing to higher external demand and increasing public investment. Rising commodity and energy prices will help inflation rise towards the central bank's target range.**

**Fiscal performance improved in 2016, thanks to better control of public spending and improved revenue collection. More expenditure containment and better revenue collection will be needed to reduce the budget deficit and stabilise the debt trajectory. To tame potential inflationary pressures, the central bank has withdrawn monetary policy accommodation.**

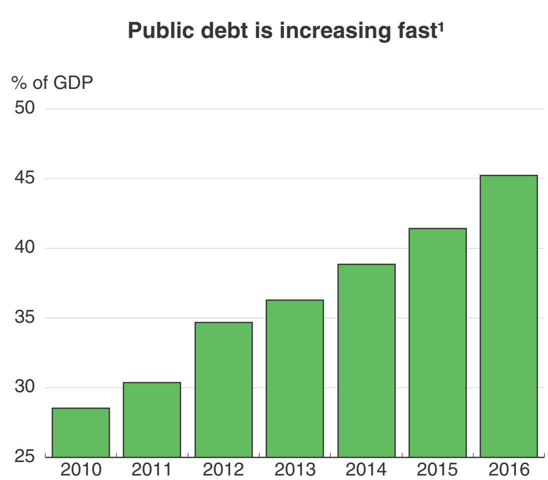
**Costa Rica has benefitted from globalisation through sustained inflows of direct investment and the creation of skilled jobs. However, people have been left behind and income inequality is high. Expanding early-childhood education and improving its quality would help women enter the labour market, raising their incomes. Stronger competition policy and reduced administrative burdens for new businesses would reduce barriers to entry, facilitate entrepreneurship, raise the economy's ability to compete on world markets, and curb pervasive informality.**

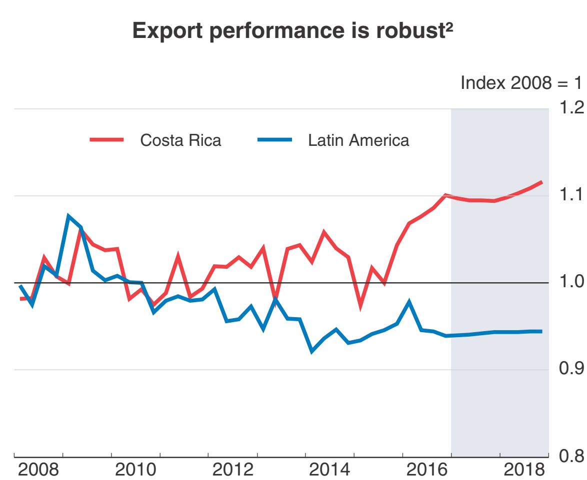
### *Growth remains robust*

Costa Rica continued to outpace most other Latin American countries in 2016. Exports have been strong, driven by high external demand, notably for food and agricultural products. Nevertheless, the unemployment rate has remained near 10% and informality is pervasive, with 45% of workers holding informal jobs.

With oil and commodity prices rising and the currency depreciating, inflation has started to pick up, prompting the central bank to increase its policy rate from 1.75% in January 2017 to 4% in May, in order to counter potential inflationary pressures and raise the attractiveness of the colón.

**Costa Rica**




1. Refers to general government debt.
2. Ratio between export volume and export market of total goods and services. Simple average of country indices for Latin American countries.

*Source:* OECD Economic Outlook 101 database; and Costa Rican Ministry of Finance.

StatLink http://dx.doi.org/10.1787/888933502959

Costa Rica: **Demand, output and prices**

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|
| | Current prices CRC trillion | Percentage changes, volume (2012 prices) | | | | |
| **GDP at market prices** | 24.9 | 3.7 | 4.7 | 4.3 | 4.1 | 4.1 |
| Private consumption | 16.5 | 4.3 | 4.8 | 4.6 | 4.1 | 4.2 |
| Government consumption | 4.4 | 2.9 | 2.2 | 2.4 | 3.2 | 2.3 |
| Gross fixed capital formation | 4.9 | 3.1 | 8.9 | -1.5 | 4.9 | 7.5 |
| Final domestic demand | 25.7 | 3.8 | 5.1 | 3.0 | 4.1 | 4.5 |
| Stockbuilding[1] | - 0.1 | -0.3 | 1.0 | 1.0 | 0.8 | 0.0 |
| Total domestic demand | 25.6 | 3.6 | 6.1 | 4.0 | 4.7 | 4.4 |
| Exports of goods and services | 7.8 | 5.2 | 0.2 | 9.5 | 5.2 | 5.1 |
| Imports of goods and services | 8.5 | 5.0 | 4.6 | 7.8 | 6.9 | 5.6 |
| Net exports[1] | - 0.7 | -0.1 | -1.6 | 0.2 | -0.8 | -0.5 |
| *Memorandum items* | | | | | | |
| GDP deflator | _ | 5.8 | 2.7 | 2.5 | 3.8 | 4.8 |
| Consumer price index | _ | 4.5 | 0.8 | 0.0 | 2.6 | 3.6 |
| Private consumption deflator | _ | 4.9 | -0.5 | 0.6 | 3.0 | 3.0 |
| Unemployment rate | _ | 9.6 | 9.6 | 9.5 | 9.3 | 9.2 |
| Current account balance[2] | _ | -4.9 | -4.3 | -3.3 | -3.3 | -3.3 |

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of GDP.
*Source:* OECD Economic Outlook 101 database.

StatLink http://dx.doi.org/10.1787/888933506360

### *Fiscal consolidation is urgent*

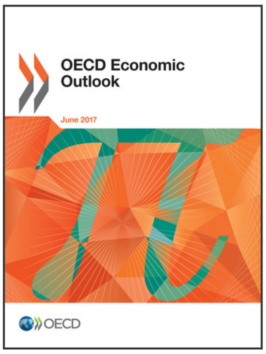
Notwithstanding better revenue collection and slower public spending increases, public debt keeps rising and reached 45.2% of GDP in December 2016. Important legislative reforms regarding VAT and income taxes under discussion are crucial to broaden the tax base and help cut the budget deficit by about 2% of GDP over the coming two years. Early and full adoption of these reforms would help stabilise the debt-to-GDP ratio. Additional policies to contain spending growth should focus on reforming the public employment system to avoid excessive automatic salary increases, thereby raising the efficiency of the public sector and reducing inequality.

The labour market remains weak, with high unemployment and rising informality. A comprehensive strategy is needed to strengthen the enforcement of labour rules aiming at reducing informality, reducing the administrative burdens on start-ups and cutting social security contributions, especially in key sectors, such as construction and agriculture where informality prevails. Coupled with business-friendly policies, such a strategy would help prevent further labour market slack, reignite entrepreneurial dynamism and propel productivity growth.

### *Growth will be increasingly broad-based*

Growth is projected to remain robust, with credit expansion and investment supporting domestic demand and the pick-up in global growth boosting exports. After several years of volatile investment growth, the authorities have announced a new wave of infrastructure investment plans for 2017-2018, targeted towards the creation and extension of waste treatment facilities, improvements in transportation and tourism infrastructure. If undertaken swiftly, these infrastructure investment programmes could strengthen further export competitiveness and lift productivity.

Sizeable fiscal deficits are the main challenge for the sustainability of Costa Rica's economic growth. In addition, potential inflationary pressures and a depreciation of the exchange rate could trigger a tightening of monetary policy, which would put downward pressure on domestic consumption. The weakening of the currency could also result in higher non-performing loans owing to the high dollarisation of the economy. On the other hand, Costa Rica's integration in international financial markets remains limited, which significantly reduces the risks stemming from monetary policy normalisation in the United States.




**From:**

## OECD Economic Outlook, Volume 2017 Issue 1

**Access the complete publication at:**

https://doi.org/10.1787/eco_outlook-v2017-1-en

**Please cite this chapter as:**

OECD (2017), “Costa Rica”, in *OECD Economic Outlook, Volume 2017 Issue 1*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/eco_outlook-v2017-1-13-en