



COSTA RICA

November 2022

THIRD REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY, REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND MONETARY POLICY CONSULTATION

In the context of the Third Review Under the Extended Arrangement Under the Extended Fund Facility, Request for an Arrangement Under the Resilience and Sustainability Facility, Request for Waiver of Nonobservance of Performance Criterion, and Monetary Policy Consultation, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 14, 2022, following discussions that ended on October 3, 2022, with the officials of Costa Rica on economic developments and policies underpinning the IMF Extended Fund Facility arrangement, and reform measures supporting the IMF Resilience and Sustainability Facility arrangement. Based on information available at the time of these discussions, the staff report was completed on October 28, 2022.
- A **Statement by the Executive Director** for Costa Rica.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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IMF Executive Board Concludes the Third Review of Costa Rica's Extended Fund Facility and Approves the Request for the Resilience and Sustainability Facility

FOR IMMEDIATE RELEASE

- The IMF Executive Board concluded today the third review under the Extended Fund Facility (EFF) for Costa Rica, allowing for an immediate disbursement equivalent to about US\$ 270 million.
- The IMF Executive Board also approved today the first arrangement under the newly established Resilience and Sustainability Facility (RSF) for about US\$ 725 million to support Costa Rica's ambitious climate change agenda and catalyze further financing.
- The Costa Rican authorities are taking important steps to strengthen their economic reform program. Monetary policy needs to continue to proactively respond to shocks. Fiscal consolidation should advance, while strengthening social protection and fostering a more equitable economy.

Washington, DC – November 14, 2022: The Executive Board of the International Monetary Fund (IMF) completed today the third review of Costa Rica's economic reform program supported by the IMF's extended arrangement under the Extended Fund Facility (EFF). Completion of this review makes available SDR 206.23 million (about US\$ 270 million), bringing total disbursements under the arrangement to SDR 618.8 million (about US\$ 810 million).

The Executive Board also approved today Costa Rica's request for an arrangement under the Resilience and Sustainability Facility (RSF) for SDR 554.1 million (about US\$ 725 million or 150 percent of quota). Costa Rica is the first country to access the RSF. The RSF duration will coincide with the period remaining under the EFF, disbursements under the RSF being contingent on the conclusion of relevant reviews under the EFF and implementation of scheduled reform measures.

Costa Rica's three-year extended arrangement under the EFF was approved on March 1, 2021, in the amount of SDR 1.23749 billion (US\$1.778 billion or 335 percent of quota in the IMF at the time of approval of the arrangement, see [Press Release No. 21/53](#)) and extended by five months on March 25, 2022 (see [Press Release No. 22/91](#)).

Following the Executive Board's discussion on Costa Rica, Mr. Kenji Okamura, Deputy Managing Director and Acting Chair of the Board, issued the following statement:

"I am pleased that today Costa Rica will become the first user of the Resilience and Sustainability Facility (RSF), a testament to the country's commitment to tackle climate change and pursue green growth."

“The Costa Rican authorities are taking important steps to strengthen their economic reform program. Nevertheless, global headwinds have started to slow economic activity amid elevated inflationary pressures, and the outlook remains subject to downside risks.

“The Central Bank of Costa Rica (BCCR) has responded proactively to the shocks facing the economy, adjusting monetary policy in line with its data-dependent and forward-looking approach. Against a difficult external environment, the BCCR is taking appropriate steps to strengthen its reserve position and deepen the FX market, while promoting exchange rate flexibility. Important legal amendments are underway to strengthen the BCCR’s governance, autonomy, and operational framework.

“Building on the strong fiscal performance to date, continued fiscal consolidation efforts is key, supported by planned reforms to increase the fairness and progressivity of taxes, improve the equity and efficiency of spending, and strengthen debt management. There is scope to re-examine the fiscal rule, while ensuring its essential role in containing spending and reducing debt is preserved.

“The authorities have appropriately provided targeted support to alleviate the impact of inflation on the most vulnerable. Advancing planned reforms to strengthen social protection alongside actions to incentivize formal employment, improve the quality of education, and boost female labor force participation will foster a more dynamic and equitable economy.

“The supervisory authorities’ continuous proactive monitoring of the financial system is important, accompanied by critical reforms to strengthen bank supervisory and regulatory powers, enhance the legal framework for bank resolution and deposit insurance and foster bank competition.

“The RSF arrangement will support Costa Rica’s ambitious agenda to build climate resilience and transition to a zero-carbon economy. The authorities’ access request under the RSF arrangement is underpinned by a strong reform package and will support ongoing initiatives to catalyze further financing from official and private partners.”

Costa Rica: Selected Economic and Financial Indicators

	2019	2020	2021	Projections					
				2022	2023	2024	2025	2026	2027
Output and Prices				(Annual percentage change)					
Real GDP	2.4	-4.1	7.8	4.3	2.9	3.0	3.2	3.3	3.2
GDP deflator	2.6	0.2	2.1	5.4	4.4	3.5	3.1	3.0	3.0
Consumer prices (period average)	2.1	0.7	1.7	8.6	6.4	3.8	3.3	3.0	3.0
Savings and Investment				(In percent of GDP)					
Gross domestic saving	14.8	14.8	16.4	15.9	15.9	16.4	16.5	16.6	16.8
Gross domestic investment	16.1	15.8	19.7	20.5	20.2	20.0	19.8	19.8	19.7
External Sector									
Current account balance	-1.3	-1.0	-3.3	-4.6	-4.3	-3.6	-3.4	-3.2	-2.9
Trade balance	-6.0	-2.7	-4.4	-7.3	-7.4	-7.2	-7.0	-7.0	-6.9
Financial account balance	-2.0	-1.9	-2.5	-4.6	-4.3	-3.6	-3.3	-3.1	-2.9
Foreign direct investment, net	-4.2	-2.6	-4.8	-5.1	-4.9	-4.9	-4.8	-4.8	-4.7
Gross international reserves (millions of U.S. dollars)	8,937	7,232	6,921	8,241	8,695	9,359	9,530	10,261	10,891
-as percent of ARA metric	132.5	105.4	94.2	98.9	100.2	102.0	100.9	103.1	104.3
External debt	47.8	50.8	51.3	54.6	55.5	56.6	56.0	56.2	55.9
Public Finances 1/									
Central government primary balance	-2.6	-3.8	-0.3	1.1	1.3	1.7	2.0	2.2	2.3
Central government overall balance	-6.7	-8.4	-5.1	-4.3	-4.0	-3.2	-2.6	-2.3	-1.9
Central government debt	56.4	67.2	68.2	67.2	66.3	65.8	64.8	63.3	61.8
Money and Credit									
Credit to the private sector (percent change)	-2.3	3.4	3.7	6.2	5.0	5.8	6.5	6.8	6.8
Monetary base 2/	7.1	8.3	7.9	7.3	7.2	7.3	7.3	7.3	7.4
Broad money	44.8	55.0	54.1	48.9	48.5	48.6	48.8	48.8	48.9
Memorandum Items									
Nominal GDP (billions of colones) 3/	37,832	36,356	39,993	43,992	47,275	50,410	53,662	57,142	60,752
Output gap (as percent of potential GDP)	0.2	-3.4	0.1	0.8	0.3	0.0	-0.1	-0.1	0.0
GDP per capita (US\$)	12,691	12,118	12,436	13,159	13,868	14,321	14,888	15,526	16,189
Unemployment rate	12.4	20.0	13.7	12.5	13.2	13.0	12.0	10.5	9.0

Sources: Central Bank of Costa Rica, and Fund staff estimates.

1/ For comparison purpose, starting from 2019, central government figures include public entities that are consolidated under the central government from 2021 onwards as required by Law 9524.

2/ We use a narrower definition of monetary base that includes only currency issued and required reserves.

3/ National account data reflect the revision of the benchmark year to 2017 for the chained volume measures, published in January 2021.



COSTA RICA

October 28, 2022

THIRD REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUEST FOR AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY, REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND MONETARY POLICY CONSULTATION

EXECUTIVE SUMMARY

Context. The new administration, which came into office in May 2022, has had to confront the aftermath of a cyberattack on several government systems as well as the impact of the commodity price shock, slowing trading partner growth, and tightening financial conditions. After a strong rebound in 2021, these global headwinds are weighing on activity. Meanwhile, as elsewhere, inflationary pressures are elevated.

Program performance. The authorities reaffirmed their commitment to the program and are pursuing reforms consistent with the program objectives. The fiscal targets were met by a comfortable margin. The terms of trade shock has pushed inflation above the Monetary Policy Consultation Clause outer band, triggering a Board consultation, and led reserves to fall below the end-June NIR target. The structural benchmarks (SBs)—on a Medium-Term Fiscal Framework, Debt Strategy, and a roadmap on enhancing climate resilience—have been met. The SB to adjust social security contributions for part-time workers was not met, but approved with a delay.

Focus of the Review. The review focused on tackling ongoing external challenges and realigning the program with the policy priorities of the new administration. Monetary policy is proactively responding to the global shocks facing the economy, supported by the ongoing fiscal consolidation. A more progressive tax system, higher social spending, lower informality, and greater female economic empowerment are all part of the authorities' plans to create a solid foundation for more inclusive growth.

Request for a Resilience and Sustainability Facility (RSF) Arrangement. The authorities are requesting international support for their ambitious agenda to build climate resilience and transition to a zero-carbon economy. Consistent with the strength of their reforms, access is proposed to be above the norm at SDR 554.1 million (150 percent of quota), which will help catalyze further official and private financing.

Approved By
Nigel Chalk (WHD)
and **Daria Zakharova (SPR)**

The team consisted of Manuela Goretti (head), Alberto Behar, Pedro Juarros, and Charlotte Lundgren (all WHD), Juan Carlos Benítez and Nicoletta Feruglio (FAD), Piyabha Kongsamut (MCM), Russell Green and Igor Zuccardi (SPR), Julia Bersch and Ivania García Cascante (Resident Representative Office), with assistance from Heidi Canelas, Rozi Lamprakaki, and Justin Lesniak (all WHD), and Orlando Carvajal (Resident Representative Office). Discussions were held remotely from Washington, DC during September 20-23, 2022 and in person in San José from September 27 to October 3, 2022. The team held meetings with Costa Rica's President Chaves Robles, Vice Presidents Brunner Neibig and Munive Angermüller, BCCR's President Madrigal-López, Minister of Finance Acosta Jaén, and other senior government and financial sector officials, members of the Legislative Assembly, academics, private sector, civil society, and union representatives as well as other development partners. Pablo Moreno and Valerie Lankester (both OED) joined some of the meetings. World Bank and Inter-American Development Bank staff also joined some of the meetings and provided inputs in the preparation of the RSF arrangement request.

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