INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/359

COSTA RICA

POST-FINANCING ASSESSMENT—PRESS RELEASE AND STAFF REPORT

December 2024

In the context of the Post-Financing Assessment, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on November 5, 2024, with the officials of Costa Rica on economic development and policies. Based on information available at the time of these discussions, the staff report was completed on December 3, 2024.

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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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR24/492

IMF Executive Board Concludes Post Financing Assessment Discussions with Costa Rica

FOR IMMEDIATE RELEASE

Washington, DC – December 23, 2024: The Executive Board of the International Monetary Fund (IMF) concluded the Post Financing Assessment (PFA),[1] and endorsed the Staff Appraisal on a lapse-of-time basis without a formal meeting on December 18, 2024. Costa Rica's capacity to repay the Fund is assessed as adequate.

Having received IMF support through the Rapid Financing Instrument in 2020, Costa Rica successfully completed its Extended Fund Facility (EFF) and Resilience and Sustainability (RSF) arrangements in June 2024. Under these arrangements, it has built a track record of economic reforms that have strengthened economic fundamentals and institutional frameworks.

Growth has exceeded 4 percent so far in 2024 and is expected to moderate to 3½ percent in 2025. Inflation, which has been around zero since mid-2024 following a year-long bout of deflation, is expected to return to the lower end (2 percent) of the BCCR's tolerance band in the second half of 2025. Temporary factors this year have contributed to a lower primary surplus than in 2023; it is expected to be 1.3 percent of GDP in 2024 and rise to a notable 1.6 percent in 2025. Public debt is expected to fall to 55 percent of GDP by 2029. The current account deficit is projected to widen to about 2 percent of GDP this year and next, financed in large part by FDI, and growing gross international reserves are at ample levels.

Weaker external demand from global growth surprises, rising protectionism from deepening geopolitical fragmentation, and/or opposition to reforms in a fragmented political environment could reduce growth. A potential softening of expectations could weigh on inflation while fiscal risks include a disputed claim from the social security fund.

Executive Board Assessment[2]

Costa Rica's economic fundamentals and policy frameworks continue to strengthen. Growth remains robust and is expected to continue at potential next year, although risks are tilted to the downside. Inflation is expected to converge to the central bank's target from below. A strong labor market has contributed to significant reductions in poverty and inequality. International reserves buffers are ample. One-off effects on both revenues and expenditures have contributed to a reduced primary surplus for 2024 but fiscal consolidation is expected to resume in 2025. Contingent liabilities create fiscal risks, but Costa Rica is at a low risk of sovereign debt distress.

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[1] After completing an IMF lending program, a country may be subject to a Post Financing Assessment (PFA). It aims to identify risks to a country's medium-term viability and provide early warnings on risks to the IMF's balance sheets. For more details click here.

[2] The Executive Board takes decisions under its lapse-of-time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.

Costa Rica's capacity to repay the Fund is adequate. This assessment is informed by both the baseline and a severe stress scenario. Additional assurances are provided by the strength of the authorities' reform track record, policy plans, and institutions.

Fiscal consolidation should continue to be guided by the medium-term fiscal framework and the fiscal rule. Reducing non-priority spending and fortifying revenues will make it feasible to increase social and capital spending while decreasing debt. Completing the pending legislative changes will help improve debt management and lower fiscal financing costs.

The BCCR has appropriately eased its monetary policy but should limit its activity in the FX market to responding to disorderly market conditions. The central bank should be prepared to further lower the policy rate as part of its data-dependent and forward-looking approach. BCCR participation in the FX market should be limited to responding to disorderly market conditions. Legal proposals to institutionalize BCCR autonomy and improvements in governance should be approved without delay.

Ongoing efforts to strengthen supervision and the resolution framework further are welcome. The recent intervention and resolution of two small nonbank financial institutions was appropriately executed and ensured minimal spillover effects. However, it demonstrated the importance of passing pending legal amendments to strengthen the bank resolution and deposit insurance framework.

There is scope to raise potential growth and increase resilience to climate change. Priorities include further improving the business environment, promoting green investment, and sustaining the momentum behind a range of RSF-supported climate reforms.

Costa Rica: Selected Economic and Financial Indicators

	2020	2021	2022	2023	Projections 2024	2025	2026	2027	2028	2029
Output and Prices										
Real GDP	-4.3	7.9	4.6	5.1	4.0	3.5	3.5	3.5	3.5	3.5
GDP deflator	0.8	2.4	6.3	-0.1	0.3	2.7	3.2	3.2	3.2	3.2
Consumer prices (period average)	0.7	1.7	8.3	0.5	-0.4	1.6	3.0	3.0	3.0	3.0
Savings and Investment										
Gross domestic saving	15.2	15.4	14.4	13.8	14.3	14.8	15.4	16.1	16.5	17.0
Gross domestic investment	16.2	18.6	17.7	15.3	16.2	16.7	17.1	17.7	18.0	18.4
External Sector										
Current account balance	-1.0	-3.2	-3.3	-1.4	-1.9	-1.9	-1.7	-1.6	-1.5	-1.4
Trade balance	-3.2	-4.4	-6.7	-3.7	-3.9	-4.0	-3.9	-4.0	-4.0	-4.0
Financial account balance	-0.4	-1.9	-2.5	-0.5	-1.8	-1.8	-1.7	-1.6	-1.5	-1.4
Foreign direct investment, net	-2.6	-4.8	-4.4	-4.3	-4.3	-4.3	-4.3	-4.3	-4.2	-4.2
Gross international reserves (millions of U.S. dollars)	7,232	6,921	8,724	13,261	14,441	15,174	15,905	16,478	17,165	17,853
-as percent of ARA metric	107.2	99.7	106.4	146.3	146.7	147.4	145.2	142.3	140.4	138.8
External debt	49.6	48.6	50.7	43.3	41.9	41.1	41.1	40.7	40.0	39.3
Public Finances 1/										
Central government primary balance	-3.7	-0.3	2.1	1.6	1.3	1.6	1.8	1.9	1.9	1.9
Central government overall balance	-8.4	-5.1	-2.8	-3.2	-3.7	-3.2	-2.7	-2.3	-2.0	-1.8
Central government debt	66.9	67.6	63.0	61.1	61.1	60.8	59.8	58.4	56.8	55.1
Money and Credit										
Credit to the private sector (percent change)	3.4	3.7	3.3	1.9	6.5	6.7	6.9	7.0	7.1	7.2
Monetary base 2/	8.3	7.8	8.0	7.9	8.0	8.0	8.0	8.0	8.0	8.0
Broad money	54.9	54.0	47.5	47.4	49.4	50.1	50.5	51.2	51.9	52.8
Memorandum Items										
Nominal GDP (billions of colones) 3/	36,495	40,327	44,810	47,059	49,083	52,177	55,725	59,513	63,554	67,847
Output gap (as percent of potential GDP)	-3.6	0.1	-0.3	1.0	0.7	0.2	0.0	0.0	0.0	0.0
GDP per capita (US$)	12,164	12,539	13,240	16,390	17,866	18,916	19,894	20,894	21,948	23,020
Unemployment rate	20.0	13.7	11.7	7.3	7.0	7.3	9.0	9.0	9.0	9.0

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

1/ As of January 2021, the Central Government definition has been expanded to include 51 public entities as per Law 9524. Data are adjusted back to 2019 for comparability.

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.

INTERNATIONAL MONETARY FUND

COSTA RICA

POST-FINANCING ASSESSMENT

December 3, 2024

EXECUTIVE SUMMARY

Context. Costa Rica successfully completed its Extended Fund Facility (EFF) and Resilience and Sustainability (RSF) arrangements in June. Growth remains robust, inflation continues to converge to the central bank's target from below, and international reserves are ample. While one-off revenue shortfalls and expenditures have reduced the primary surplus for 2024, policies remain consistent with the fiscal rule and fiscal consolidation is expected to resume next year. The authorities remain committed to a broad range of reforms, including those aimed at institutionalizing the progress they have achieved under the EFF and RSF programs.

Capacity to repay the Fund. Based on indicators under the baseline and a severe stress scenario, as well as the authorities' reform track record and policy plans, Costa Rica's capacity to repay the Fund is assessed as adequate.

Policy. Discussions centered on further enhancing economic and climate resilience, capitalizing on Costa Rica's economic fundamentals and institutions, and sustaining the policy track record that has been demonstrated over the past several years. Fiscal consolidation should be anchored on reducing spending in non-priority areas and bolstering revenues while allowing for some increase in social spending. The fiscal stance should be centered on adhering to the fiscal rule and medium-term fiscal framework. Debt management reforms would help lessen the interest bill. The central bank should be prepared to cut the policy rate further and limit its FX intervention to responding to disorderly market conditions. The recent intervention and resolution of two small, nonbank financial institutions underscores the importance of the authorities' plans to strengthen the frameworks for bank resolution and deposit insurance. Progress in a range of supply side areas will be important to raise potential growth and mitigate the effects of climate change.

Approved By
Nigel Chalk (WHD) and Fabián Valencia (SPR)

The team comprised Ding Ding (head), Alberto Behar, Agnese Carella, and Chao He (WHD); Igor Zuccardi (SPR); and Santiago Acosta-Ormaechea, Orlando Carvajal, and Ivania García (Resident Representative office), with assistance from Heidi Canelas and Alfredo Alvarado (WHD). Discussions were held remotely and in San José during October 31 to November 5, 2024. The team met Costa Rica's BCCR President Madrigal López, Minister of Finance Acosta Jaén, other senior government and financial sector officials, members of the Legislative Assembly, the private sector, and other development partners. Oscar Monterroso (OED) joined some meetings.

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ANNEXES

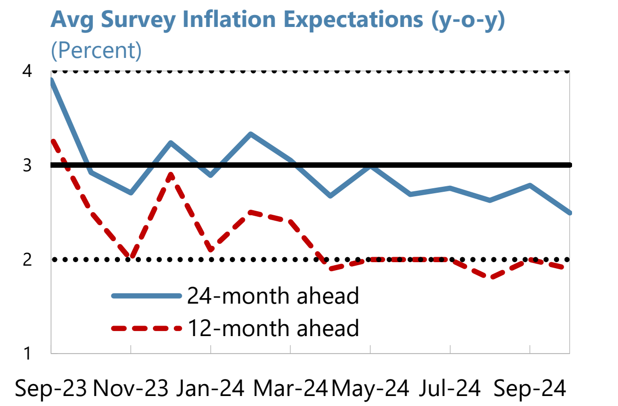
CONTEXT

1. **Since 2020, Costa Rica has been supported by three different Fund arrangements.** As the pandemic unfolded in 2020, Costa Rica sought Fund support through the Rapid Financing Instrument (100 percent of quota). An EFF arrangement was approved in 2021 (335 percent of quota). This Fund-supported reform program was subsequently supplemented with an RSF arrangement in 2022 (150 percent of quota). Under these arrangements, successive administrations have built a track record of economic reforms that have strengthened economic fundamentals and institutional frameworks. Costa Rica's credit outstanding is at levels that would typically trigger a Post Financing Assessment (PFA).

RECENT DEVELOPMENTS

2. **Growth momentum remains strong.** Real GDP increased by 4.2 percent y-o-y in the first three quarters of 2024, a moderation from 5.1 percent in 2023 but still above the average growth of 3.8 percent between 2010 and 2019. A pick up in gross capital formation offset a moderation in private consumption. Unemployment decreased to historical lows of 6.6 percent in September.

3. **Inflation has been around zero since mid-2024, following a year-long bout of deflation.** Falling global goods prices and a strengthening exchange rate all contributed to low headline inflation. Core inflation increased from zero in May to 0.4 percent in October. Two-year ahead inflation expectations are now slightly below the BCCR's target of 3 percent while one-year ahead expectations are at the bottom of the 2-4 percent range.



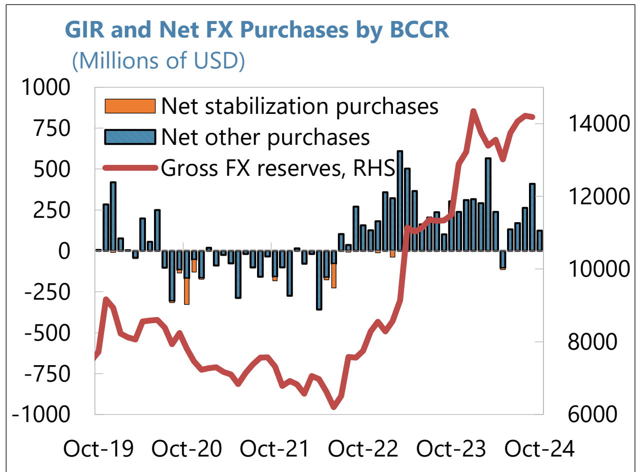
Source: Haver Analytics and national authorities

4. **Credit growth remains strong despite still-high bank lending rates.** Despite a cumulative 500-basis points cut of the BCCR's policy rate since March 2023, and a corresponding decline in deposit rates, bank lending rates have been slow to fall. Despite this, private sector credit grew by 7.8 percent in July as a result of strong demand for corporate credit. The asset quality of financial cooperatives has weakened but the NPL ratio for banks remains low. Capital adequacy is well above the regulatory minimum.

5. **Two small nonbank financial institutions were recently found to be insolvent.** The failures of *Coopeservidores* and *Desyfin* (combined assets of 2 percent of GDP) were a result of serious financial mismanagement (including accounting irregularities and the misreporting of nonperforming loans). The authorities intervened swiftly in both cases, in accordance with the existing bank resolution framework. Recapitalization was deemed infeasible and regulators initiated resolution processes for both institutions. For *Coopeservidores*, some assets, deposits and senior

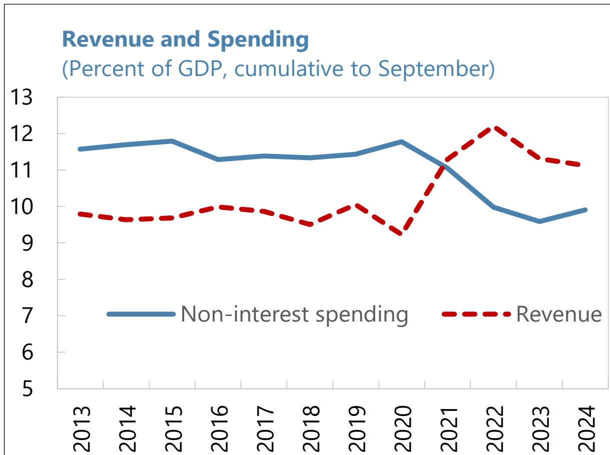
debt were acquired by other financial entities (through a market-based bidding process). The process to liquidate the remaining assets has been initiated and the existing shareholders and large uninsured depositors are expected to bear any remaining losses.[1] The resolution process is underway to transfer *Desyfin*'s performing assets to a "good" bank along with the guaranteed deposits. No public funds are expected to be used in either of these cases.

6. **Despite strong domestic demand, buoyant exports have kept the current account deficit around 1 percent of GDP in 2024H1**. FDI remains solid—especially to free trade zones, manufacturing, and tourism—which is more-than-financing the current account deficit. As a result, gross reserves rose to US$14.2 billion at the end of October 2024. Since mid-2022, the colon has appreciated by about 25 percent against the dollar and is now about 6 percent above its pre-pandemic average in real effective terms.



Source: BCCR and IMF staff estimates.

7. **The cumulative primary surplus fell from 1.7 percent of GDP in the first 9 months of 2023 to 1.2 percent of GDP in the same period of 2024**. Revenue growth has been affected by weaker corporate profitability and some overpayment of corporate income taxes in 2023. Retroactive payments of wages and a legal obligation to transfer additional funds to the Social Development and Family Allowances Fund (to finance social programs) have increased outlays.



Sources: Ministry of Finance and IMF staff estimates.

OUTLOOK AND RISKS

8. **The economy is projected to grow by 4 percent this year and 3.5 percent over the medium term (consistent with potential growth).** The balance of risks is tilted to the downside. Weaker external demand from global growth surprises, rising protectionism from deepening geopolitical fragmentation, and/or opposition to reform efforts in a context of a fragmented political environment could all weigh on growth (Annex 1).

[1] The large depositors, which include employee savings funds, represent 3 percent of the depositors but 51 percent of total deposits. The threshold of guaranteed deposits is set at CRC 6 million (about US$11,650).

9. Inflation is expected to converge to 3 percent by 2026. Headline inflation is now projected to return to the lower end of the BCCR's tolerance band by 2025Q3. The downside risk, mainly due to the potential softening of inflation expectations following an extended period of low inflation, outweighs upside risks from commodity prices and supply side disruptions associated with La Niña.

10. Fiscal consolidation is expected to resume in 2025. The primary balance is expected to fall to 1.3 percent of GDP this year. In 2025, the unwinding of one-off factors should lower spending and raise the primary surplus to 1.6 percent of GDP. The authorities' draft 2025 budget and updated Medium-term Fiscal Framework (MTFF) foresees an increase in the primary surplus over the medium term as spending rotates from personnel expenses (facilitated by a wage freeze) to capital projects. The budget (and staff forecasts) assume no substantive tax policy changes, no gains from ongoing tax administration efforts, and no new expenditure obligations arising from legal rulings.

Fiscal Indicators, 2023-2024

(Percent of GDP)

	2023	2024 Projection	
		Previous[1]	Latest
Revenue	**15.3**	**15.1**	**15.0**
Income Tax	**5.3**	5.3	**4.9**
Primary Expenditure:	**13.7**	**13.3**	**13.8**
Wage bill	5.6	5.5	5.7
Current transfers	6.1	5.6	6.0
o.w. Social assistance	1.7	1.7	1.8
Primary balance	**1.6**	**1.9**	**1.3**
Interest Bill	**4.7**	**4.9**	**5.0**
Debt	**61.1**	**60.3**	**61.1**

[1] Staff Report for 6th EFF Review and 3rd RSF Review.

Source: IMF staff estimates.

11. The debt is sustainable and the risk of sovereign debt distress is low. Debt is expected to fall to 55 percent of GDP by 2029 and gross financing needs are expected to be 8-9 percent of GDP until 2026 and fall thereafter. Overall, debt-related risks are assessed to be low in the short, medium, and long term (Annex 2). The interest burden is expected to decline as a result of lower local currency interest rates and sovereign risk premia and improvements in debt management. Fiscal risks include contingent claims on the central government of 10 percent of GDP (largely from a disputed claim from the social security fund) and slower fiscal consolidation owing to eroded revenues or unexpected expenditures. A severe stress scenario would increase gross financing needs to 15 percent of GDP in 2029.

12. The current account deficit is projected to widen to 1.9 percent of GDP this year and next. A rising demand for capital goods will boost imports while goods exports are expected to slow, in line with trading partner demand. Tourism, outsourced business processes, and technical support centers are, however expected to boost services exports. Net FDI inflows are expected to be buoyed by investments in free trade zones and reinvested profits.

Authorities' Views

13. The authorities broadly concurred with staff's assessment of the economic outlook and risks. The projection of this year's growth was aligned though the authorities were slightly more optimistic on next year's growth (0.4 percentage point higher). They also assessed that a weakening of inflation expectations could be the most important downside risk to inflation. They agreed that the macro-fiscal outlook was favorable despite the weaker than expected primary balance this year.

CAPACITY TO REPAY

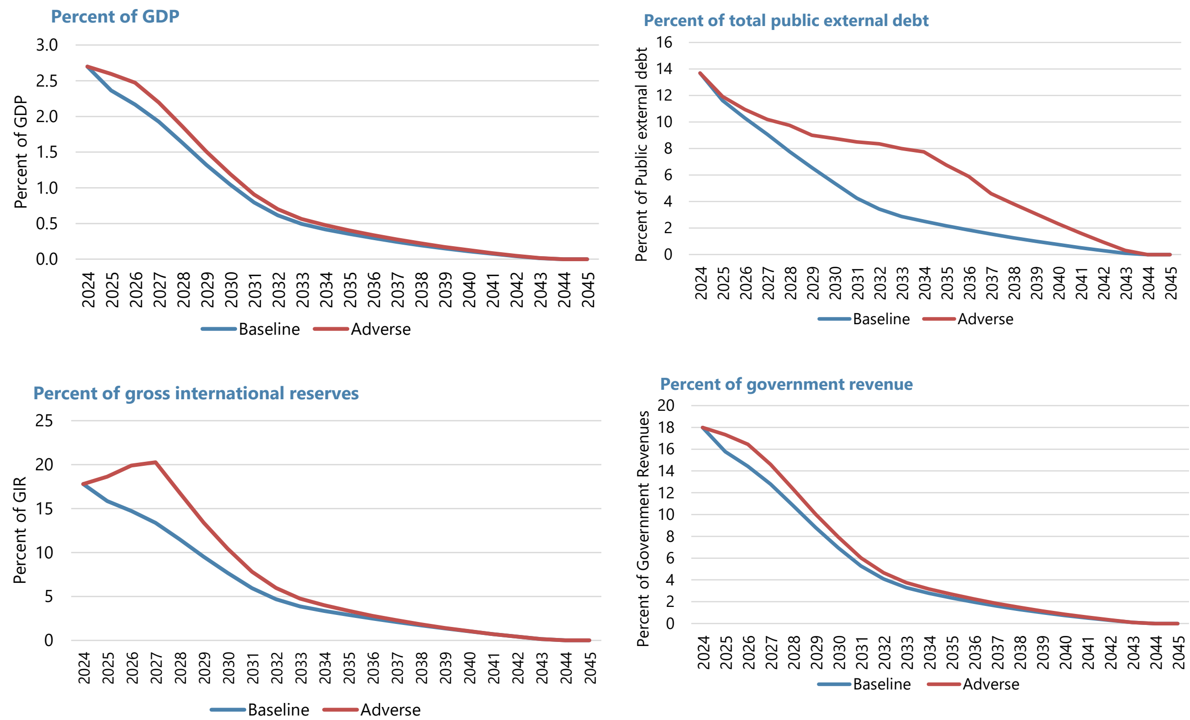
14. Costa Rica's obligations to the Fund peak in 2024 and remain relatively high in 2028-29. Outstanding credit reached its highest point in 2024 following the last disbursement under the EFF and RSF. RFI repurchases cause obligations to peak in 2024-25 and then again in 2029, as EFF repurchases come due. The RSF's long grace period results in only a brief overlap of EFF and RSF repurchases in 2034, and its long maturity and low interest cost help keep annual obligations manageable over the long run. This structure allows the RSF to sustain FX buffers and creates space for investments aimed at mitigating the effects of climate change.

15. Costa Rica's capacity to repay the Fund is adequate in the baseline. Outstanding Fund credit is about 2½ percent of GDP in 2024-5, around half of the average of peak IMF credit-to-GDP outstanding in recent normal access EFF arrangements. In 2025, total credit represents 6.1 percent of exports, 15.8 percent of gross international reserves, 15.8 percent of government revenues, and 11.6 percent of total public external debt. Indicators of debt service to the Fund are also comfortable. At its peak, debt service to the Fund is 0.3 percent of GDP, 0.8 percent of exports, 2 percent of government revenues, 2 percent of reserves, and 9.1 percent of public external debt service.

16. In an adverse scenario, Costa Rica may see its external financing needs frontloaded, significantly reducing its FX buffers. In a severe stress scenario (Annex 3), a tightening of financial conditions, a sudden stop in capital inflows, and a sharp rise in interest costs are assumed. This leads to substantially weaker growth and a smaller primary surplus. Gross international reserves fall by one-third in comparison to the baseline but gradually recover over the longer-term. External public debt service rises to 5.8 percent of GDP in 2030 (due to higher interest payments and a shortening of maturities) but then falls below the baseline level in the long term.

17. Costa Rica's capacity to repay remains adequate in the adverse scenario. Outstanding Fund credit in an adverse scenario would peak at 20.3 percent of international reserves in 2027, but not exceed 2024 levels as a share of public external debt, revenues, or GDP. Compared to the baseline, in the adverse scenario, debt service to the Fund would rise to 2.2 percent of revenues and 8.3 percent of external debt service in 2025, and 2.8 percent of reserves in 2029, but these obligations would still be below those in 2024 despite the long-lasting effects of the scenario. Despite the severity of this downside scenario, outstanding credit and obligations remain comfortable.

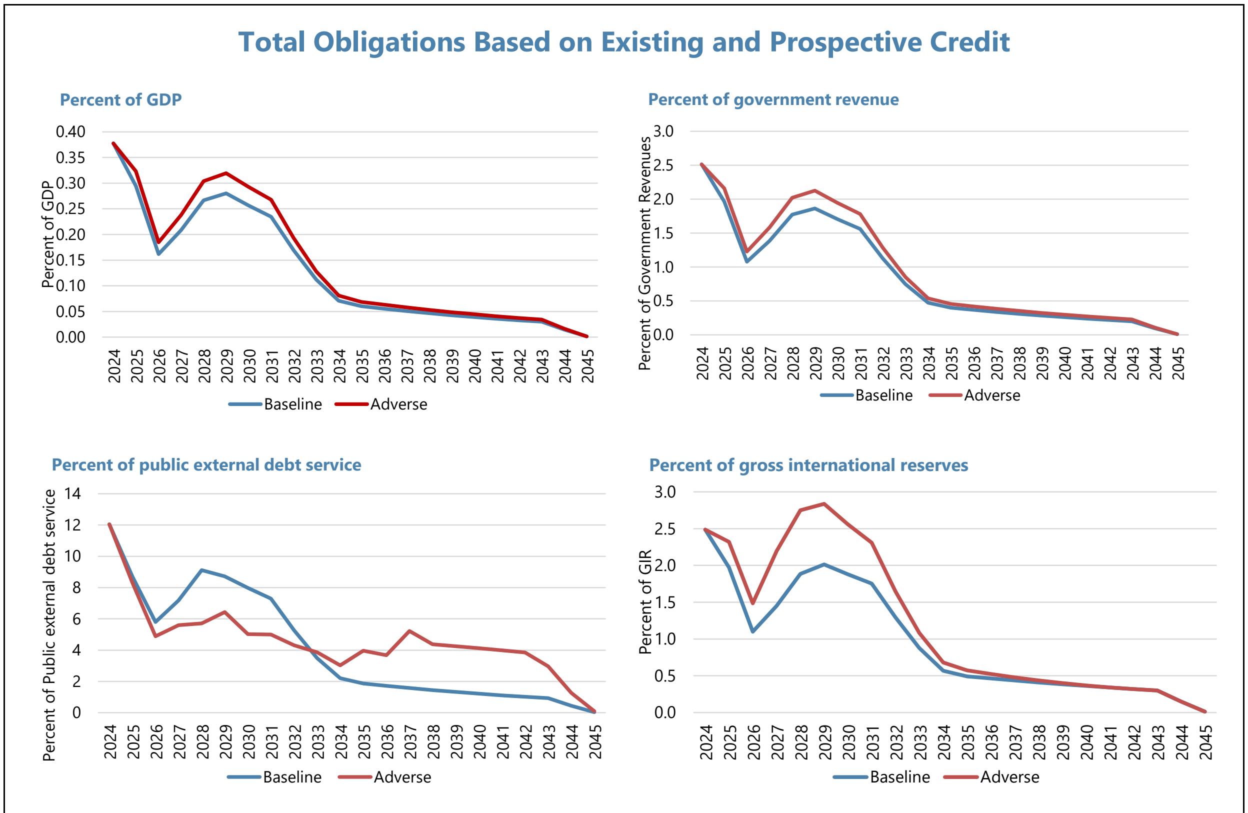
Outstanding IMF Credit Based on Existing and Prospective Drawings



Source: IMF staff estimates.

18. Materialization of other risks modelled in the SRDSA could increase the burden of outstanding Fund credit and obligations to the Fund. A large natural disaster would likely reduce exports, reserves, GDP, and government revenues. Although the modeled effects based on historical experience are much more modest than assumed above under the stress scenario, the frequency and severity of such disasters could rise due to climate change, although the authorities RSF-supported reforms are helping to increase resilience to such disasters.[2] Materialization of contingent liabilities would raise financing needs and could generate negative confidence effects that raise financing costs, reduce reserves and lower growth.

[2] Shocks for natural disasters have historically been more modest than the severe macroeconomic shock modeled in the adverse scenario. The worst year for natural disasters was 1996, with total damages of 2.1 percent of GDP caused by hurricanes Cesar and Douglas (information from EM-DAT), compared to the 3.1 percent initial fall of GDP considered in the adverse scenario. More recently, Costa Rica faced Tropical storm Nate (2007), Hurricane Eta (2020), and *Temporal Vertiente del Caribe* (2022) with average costs of 0.7 percent of GDP. For more details of Costa Rica's historical and future exposure to climate and weather risks, please see IMF CR 22/345, Annex III.



Source: IMF staff estimates.

Authorities' Views

19. Authorities agreed with staff's assessment that the capacity to repay the Fund is adequate. They recognized and agreed that the characteristics depicted by the SRDSA-based scenario were those of a severe shock. The authorities also highlighted that most private investment inflows to Costa Rica are currently from FDI, which implies that the country might have a more stable source of external private financing even with a severe adverse shock. The authorities committed to timely repayment of their obligations to the Fund.

POLICY DISCUSSIONS

A. Fiscal Policy

20. The government's planned increase in the primary balance to 2 percent of GDP over the medium term should lower debt below 50 percent of GDP within ten years while allowing for a gradual increase in social and capital spending. To achieve the planned consolidation, further exclusions from the fiscal rule should be avoided and new spending initiatives should be offset by spending reductions elsewhere. It will also be essential to avoid legislative changes to tax policy that reduce revenues. Indeed, legislation should focus on bolstering revenues, improving the equity and efficiency of the tax system,[3] and ensuring consistency with the OECD/G20 Pillar 2 minimum global tax. Consideration should also be given to eliminating the tax exemption for public employees' bonuses.[4] Ongoing efforts to improve tax compliance should help bolster the tax base and reprioritizing spending should allow for an increase in capital investment and social spending even with the larger primary surplus.

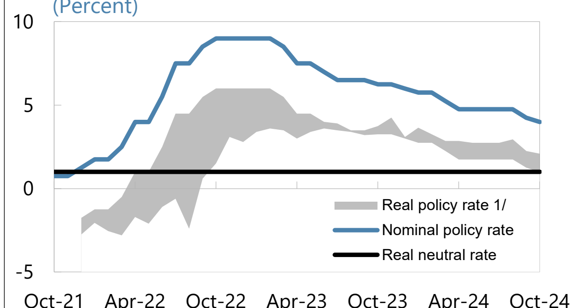
21. Institutional reforms have the potential to increase spending efficiency. Full implementation by all institutions covered by the 2022 public employment law would improve public-sector performance incentives and support fiscal consolidation. Recently approved laws governing public investment and procurement can also strengthen resource allocation decisions and improve public investment execution. Establishing a formal macro-fiscal unit in the Ministry of Finance and activating the fiscal council would facilitate further advances in budget preparation, allowing the MTFF to have an increasingly important role in defining policy trade-offs.

22. Improving debt management should help lessen fiscal financing costs. Recent public debt operations have reduced rollover needs and, together with a reduction in cash buffers, have reduced interest costs. A recent law requiring decentralized and autonomous entities to transfer their balances to the Treasury Single Account will also help improve cash management. Similarly, the recently approved law to unify debt management functions will help strengthen debt management. The authorities have launched a market makers program for local sovereign bonds which should improve domestic market liquidity. Finally, the administration has proposed a constitutional amendment to provide the executive with the authority to issue external debt without requiring prior congressional approval (with total indebtedness constrained by the annual budget process). If passed, the reform will usefully provide the debt management office with greater flexibility to adapt borrowing decisions in response to market conditions.[5]

B. Monetary and Financial Sector Policy

23. The BCCR should be prepared to cut rates further to ensure inflation expectations remain firmly anchored. The ex-ante real policy rate remains moderately restrictive even as the balance of risks to inflation is firmly to the

Nominal and Real Rates
(Percent)



Source: Haver Analytics and IMF staff estimates.
1/ Range calculated using survey-based 12-month inflation expectations (average) and BCCR's inflation target (3 percent).

[3] The related legislative proposals are bill 23.760 on income tax and 23.763 to remove certain VAT exemptions. See staff report for the 6th EFF and 3rd RSF review, CR/24/166.

[4] Staff report for 2023 Article IV Consultation and for the 5th EFF and 2nd RSF Review, CR/23/442. Staff report for the 2021 Article IV Consultation and for the EFF Request, CR/21/48.

[5] A bill revising authorization for Eurobond issuances, which is at an advanced stage of discussion in the Legislative Assembly, should be approved promptly to make this financing source available.

downside.[6] This creates a material risk that inflation expectations soften. In this environment, the BCCR should be prepared to continue to lower rates in the coming meetings, consistent with its forward-looking, data-dependent approach.

24. The exchange rate should be allowed to adjust flexibly to market conditions. The BCCR has been purchasing FX to build reserves and meet the FX needs of the Non-Financial Public Sector (NFPS). While the IMF's Integrated Policy Framework provides support for FXI in response to large shocks given well-identified frictions, frequent FXI can hinder the development of the FX market and create incentives for dollarization. Given ample reserves (146 percent of the IMF's ARA metric), the central bank's participation in the FX market should be limited to responding to disorderly market conditions. Central bank FX purchases on behalf of the NFPS should be aligned with the sale of FX to these entities to minimize their market impact. Going forward, the NFPS should enhance its ability to manage currency risks and reduce its reliance on the BCCR as an intermediary for FX transactions (undertaking more of these transactions directly in the FX market).

25. There is scope to strengthen central bank autonomy and governance in line with recommendations of the 2020 Safeguards Assessment. A bill to improve the BCCR's transparency and accountability, and to institutionalize its *de facto* autonomy is advancing through the legislative process. A separate constitutional amendment to grant autonomy to the BCCR, which would also allow the BCCR to implement governance reforms through internal regulations, was submitted to the legislature in August 2024.

26. There are ongoing efforts to strengthen financial supervision. Shortcomings identified in the 2022 FSAP are being actively addressed through key legislative and regulatory reforms. Full implementation of risk-based bank supervision is expected to start in early 2025, following a successful rollout of regulations and the strengthening of institutional and IT capabilities. Consolidated supervision has been partially applied since January 2023 and is expected to be institutionalized once risk-based supervision is fully in place. Amendments to enhance the legal powers and protection of supervisors and resolution authorities were submitted to the Legislative Assembly in April 2024.

27. The recent failure of the two nonbank financial institutions underscores the need to strengthen the bank resolution and deposit insurance framework. A key drawback in the existing framework is the reliance on bank reserves to cover guaranteed deposits (since the recently-established deposit guarantee fund does not yet have sufficient capital). Amendments to the bank resolution and deposit insurance law, which would establish a public resolution funding mechanism (with robust safeguards) to ensure that bank reserves are not needed for resolution purposes, is working its way through the Legislative Assembly. In addition, legislative changes are being considered to empower supervisors and the resolution agency with the legal authority to more quickly intervene and resolve failing financial institutions. The oversight and external auditing

[6] Staff estimates the real neutral rate to be about 1 percent. See Selected Issues Paper CR/23/443.

requirements for nonbank entities could be improved, which would help in assessing the financial soundness and governance of these entities.

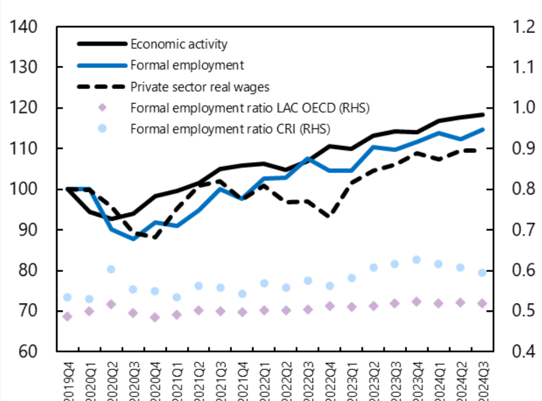
C. Sustainable Long-Run Growth

28. Further improvements in the business environment could enhance potential growth. Costa Rica's new strategy to attract FDI, particularly in the semiconductor industry, requires higher quality education and better-aligning the curricula with workforce needs. Efforts are also needed to reduce permits processing times, make institutional systems interoperable, and support migrant workers in obtaining legal residency and integrating into the formal workforce. Ongoing upgrades to digital infrastructure and the increase in the efficiency of the electricity sector could further support long run growth.

29. Rising real wages and increased formal sector employment are improving social outcomes. Labor formality is well above pre-pandemic levels and a range of labor market indicators continues to improve, helping poverty and inequality reach historically low levels. Policies to strengthen the social safety net and labor formalization—including a single window to request, target and administer social benefits more effectively, and the reduction of the minimum contribution base for part-time workers—are also helping to improve social outcomes.

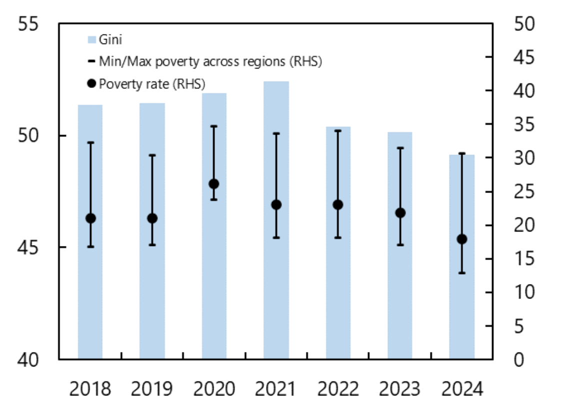
Labor Market and Poverty Indicators

Labor market indicators
(Index: 2019Q4=100; formal/total ratio)



Sources: Haver Analytics; national authorities; and IMF staff calculations.
Note: LAC OECD = Chile, Colombia and Mexico.

Inequality and poverty
(Percent)



Sources: INEC and staff estimates.
Note: Min=Central region (2018-24). Max= Brunca (2018-19, 2021-22, 2024), Pacífico Central (2020) and Huetar Caribe (2023) regions.

30. Ongoing efforts to strengthen the PPP legal framework and to develop a pipeline of bankable projects should help boost private climate financing. A bill is being drafted to address key weaknesses in the existing PPP legal framework (insufficient coordination across governmental agencies, lack of oversight for effective PPP management and limited capacity to assess and execute PPPs). The revised bill would create a specialized PPP agency, which will facilitate the establishment of a new facility to prioritize, select, and structure PPP projects. Establishing this facility was agreed during the climate finance roundtable organized by the Fund and the authorities in 2023 to identify options to accelerate climate investments in Costa Rica. One public bank recently issued a "blue bond" to finance blue economy projects. The authorities are developing their framework for green bond issuances (with support from the UNDP), potentially incorporating sustainability-linked bonds. A more enabling environment for ESG financing, as well as the ongoing incorporation of climate considerations in stress testing of banks' credit risk, should help attract green finance and support the authorities' ambitious climate agenda.

31. Continued progress on RSF-supported reforms can further enhance economic resilience to climate related shocks. Climate tagging guidelines have been implemented for the 2025 budget, though further training is needed to ensure more consistent tracking of climate-related spending by all ministries. The BCCR data repository on climate risks has facilitated innovative research on banking exposure to hydrometeorological events. The implementation of new climate criteria in project appraisal and selection and in urban planning will help make infrastructure more climate resilient, generating long-run output and fiscal gains.[7] On appraisal and selection, MIDEPLAN is already using the method in all proposals received but further improvement is needed in incorporation of such considerations by those proposing the projects. A revised feebate bill, which will incentivize lower-pollution vehicles if approved, is among the government's legislative priorities. Although the implementation by the BCCR of a new climate stress methodology applied to the banking sector is still awaiting legal decisions on data sharing, some banks have expressed interest in using this methodology with their own data. Removing identified tax exemptions with a negative environmental impact would support decarbonization efforts and boost revenues.

Authorities' Views

32. The authorities committed to continuing reforms in accordance with staff's advice. The authorities are committed to continue with their fiscal consolidation by improving spending efficiency and debt management while resisting proposals that reduce revenues. They are mobilizing support for legal reforms to strengthen the autonomy of the BCCR and financial supervision. The BCCR stated that they will keep adjusting monetary policy as needed to align with the inflation target. The authorities will continue with their efforts to boost their ongoing inclusive and green growth agenda, including by improving the social safety net and by creating an enabling environment to attract private resources to develop sustainable and efficient infrastructure projects.

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33. Costa Rica's economic fundamentals and policy frameworks continue to strengthen. Growth remains robust and is expected to continue at potential next year, although risks are tilted to the downside. Inflation is expected to converge to the central bank's target from below. A strong labor market has contributed to significant reductions in poverty and inequality. International reserves buffers are ample. One-off effects on both revenues and expenditures have contributed to

[7] Annex III. *Costa Rica's Climate Change Challenge*. CR/22/345.

a reduced primary surplus for 2024 but fiscal consolidation is expected to resume in 2025. Contingent liabilities create fiscal risks, but Costa Rica is at a low risk of sovereign debt distress.

34. Costa Rica's capacity to repay the Fund is adequate. This assessment is informed by both the baseline and a severe stress scenario. Additional assurances are provided by the strength of the authorities' reform track record, policy plans, and institutions.

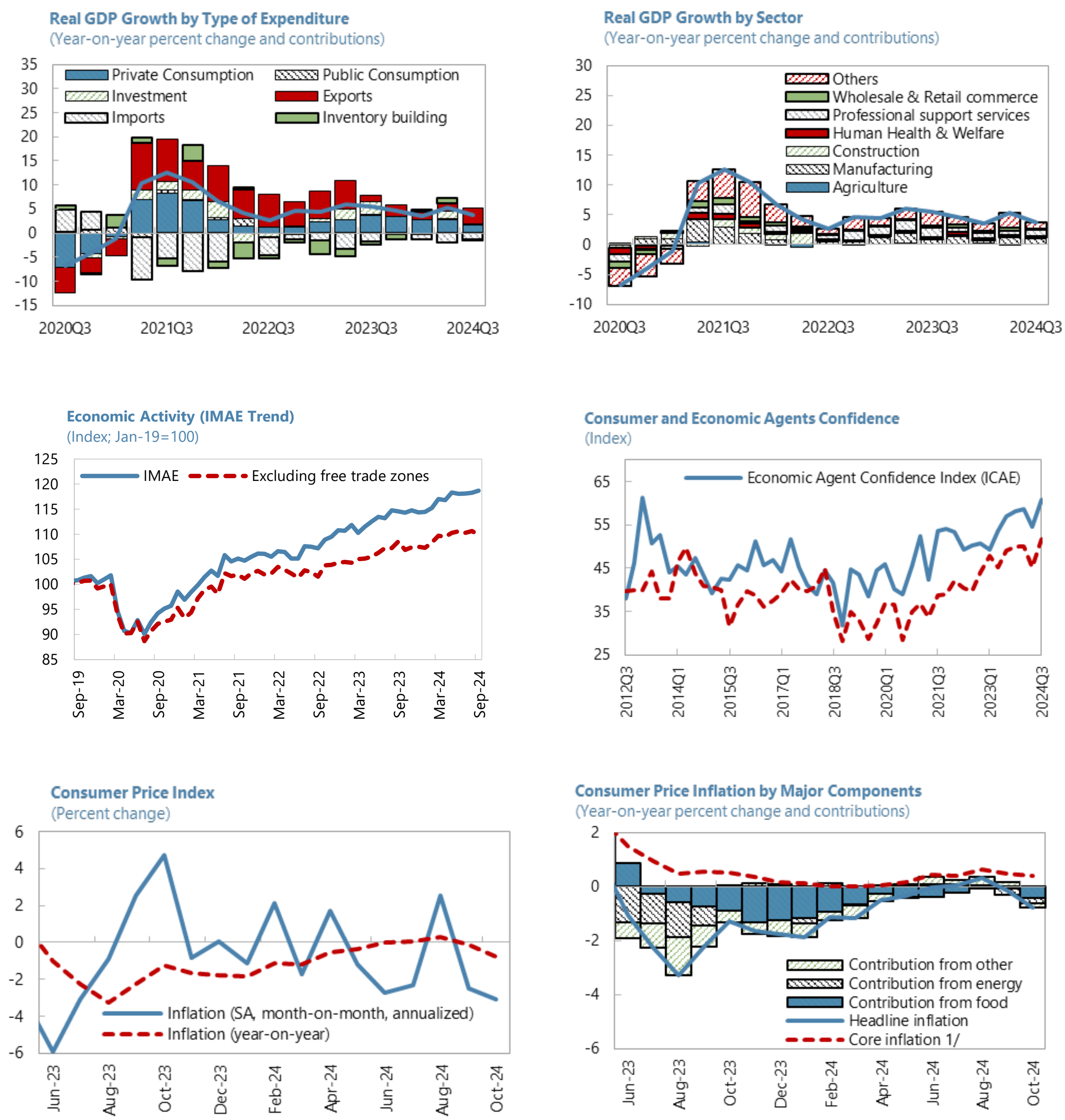
35. Fiscal consolidation should continue to be guided by the medium-term fiscal framework and the fiscal rule. Reducing non-priority spending and fortifying revenues will make it feasible to increase social and capital spending while decreasing debt. Completing the pending legislative changes will help improve debt management and lower fiscal financing costs.

36. The BCCR has appropriately eased its monetary policy but should limit its activity in the FX market to responding to disorderly market conditions. The central bank should be prepared to further lower the policy rate as part of its data-dependent and forward-looking approach. BCCR participation in the FX market should be limited to responding to disorderly market conditions. Legal proposals to institutionalize BCCR autonomy and improvements in governance should be approved without delay.

37. Ongoing efforts to strengthen supervision and the resolution framework further are welcome. The recent intervention and resolution of two small nonbank financial institutions was appropriately executed and ensured minimal spillover effects. However, it demonstrated the importance of passing pending legal amendments to strengthen the bank resolution and deposit insurance framework.

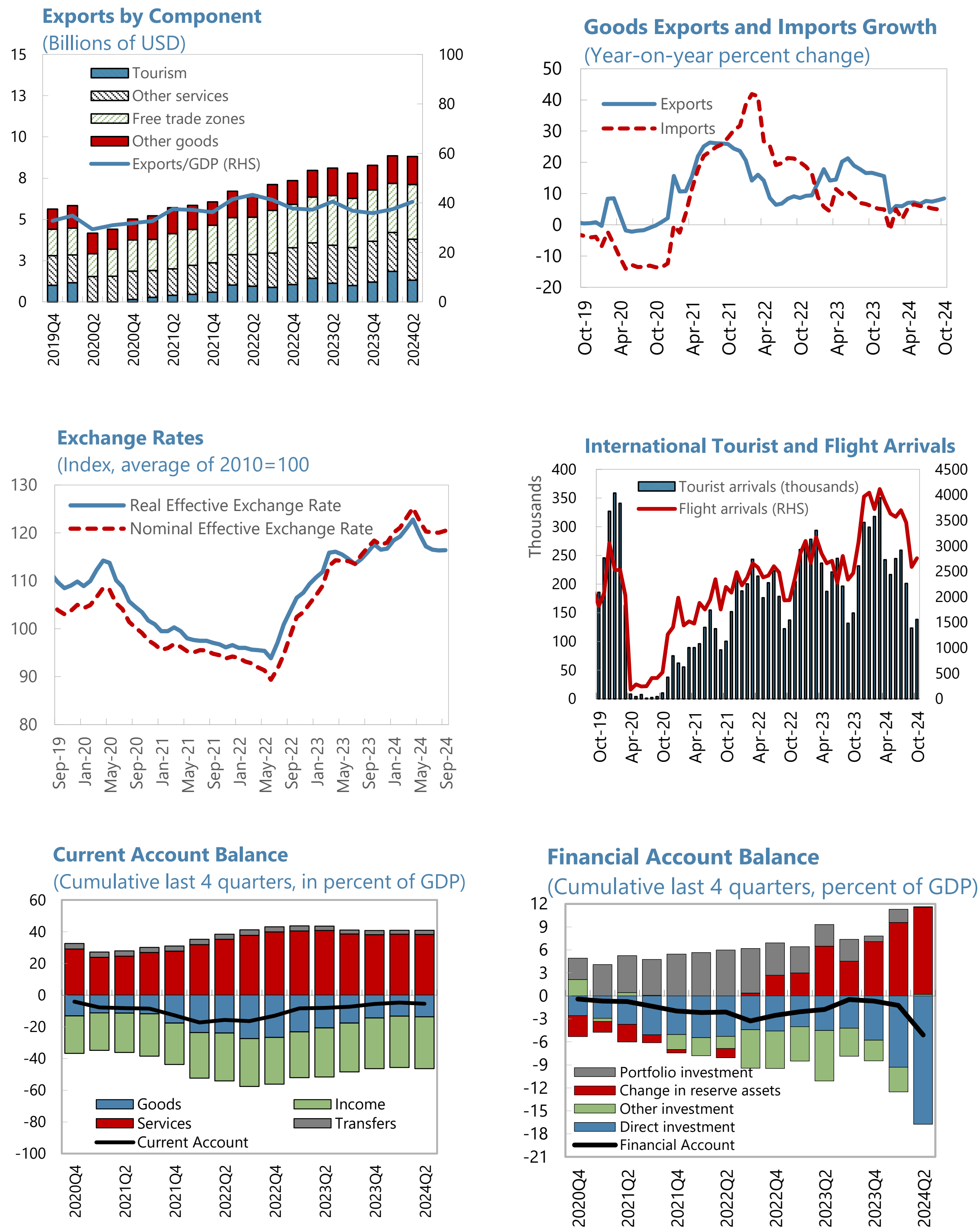
38. There is scope to raise potential growth and increase resilience to climate change. Priorities include further improving the business environment, promoting green investment, and sustaining the momentum behind a range of RSF-supported climate reforms.

Figure 1. Costa Rica: Real Sector Developments



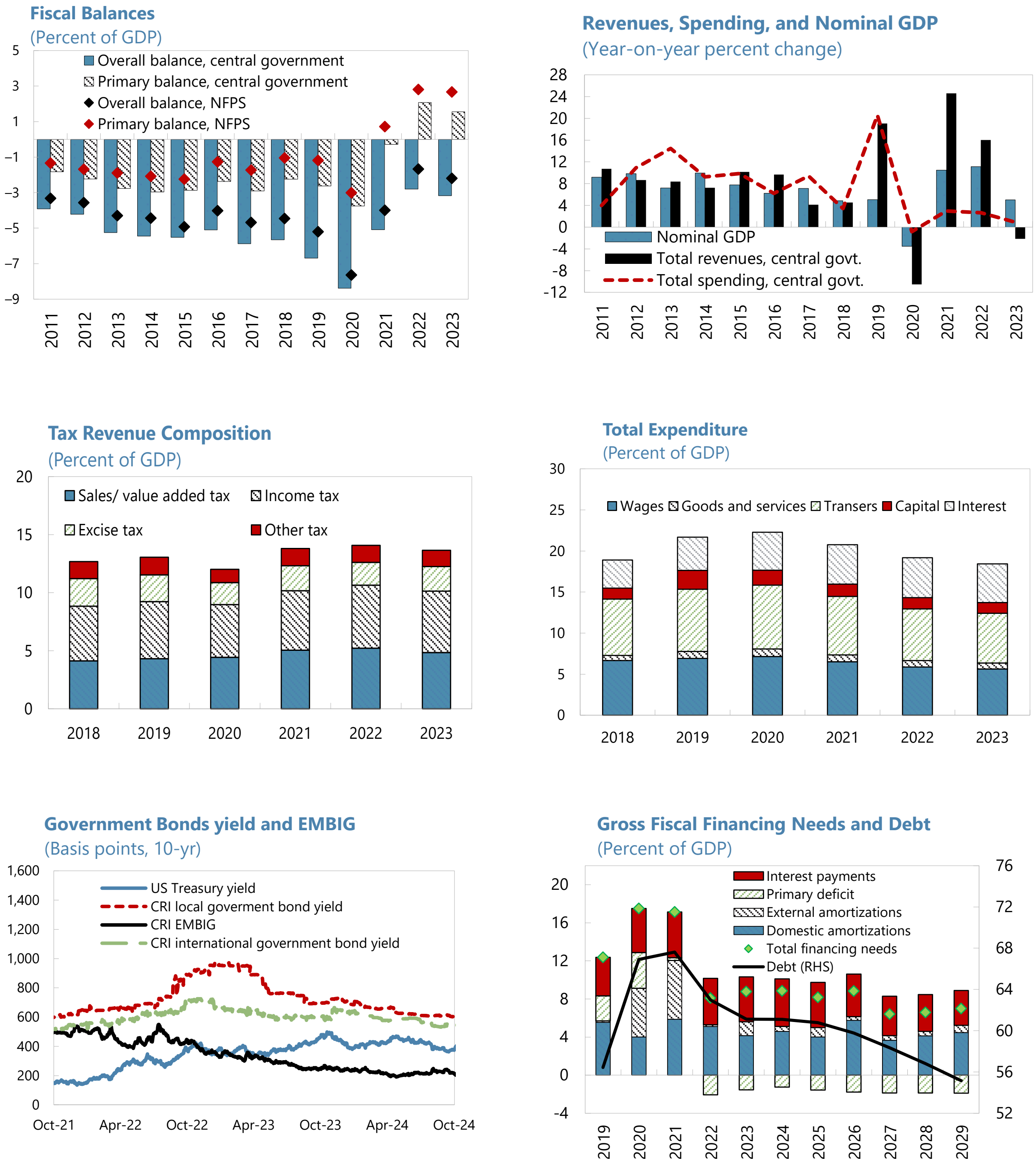
Sources: National authorities and IMF staff estimates.
Note: Average of the five indicators calcualted by the authorities to eliminate the effect of having temporary or extreme variations, usually associated with whether, seasonal or institutional factors.

Figure 2. Costa Rica: External Sector Developments



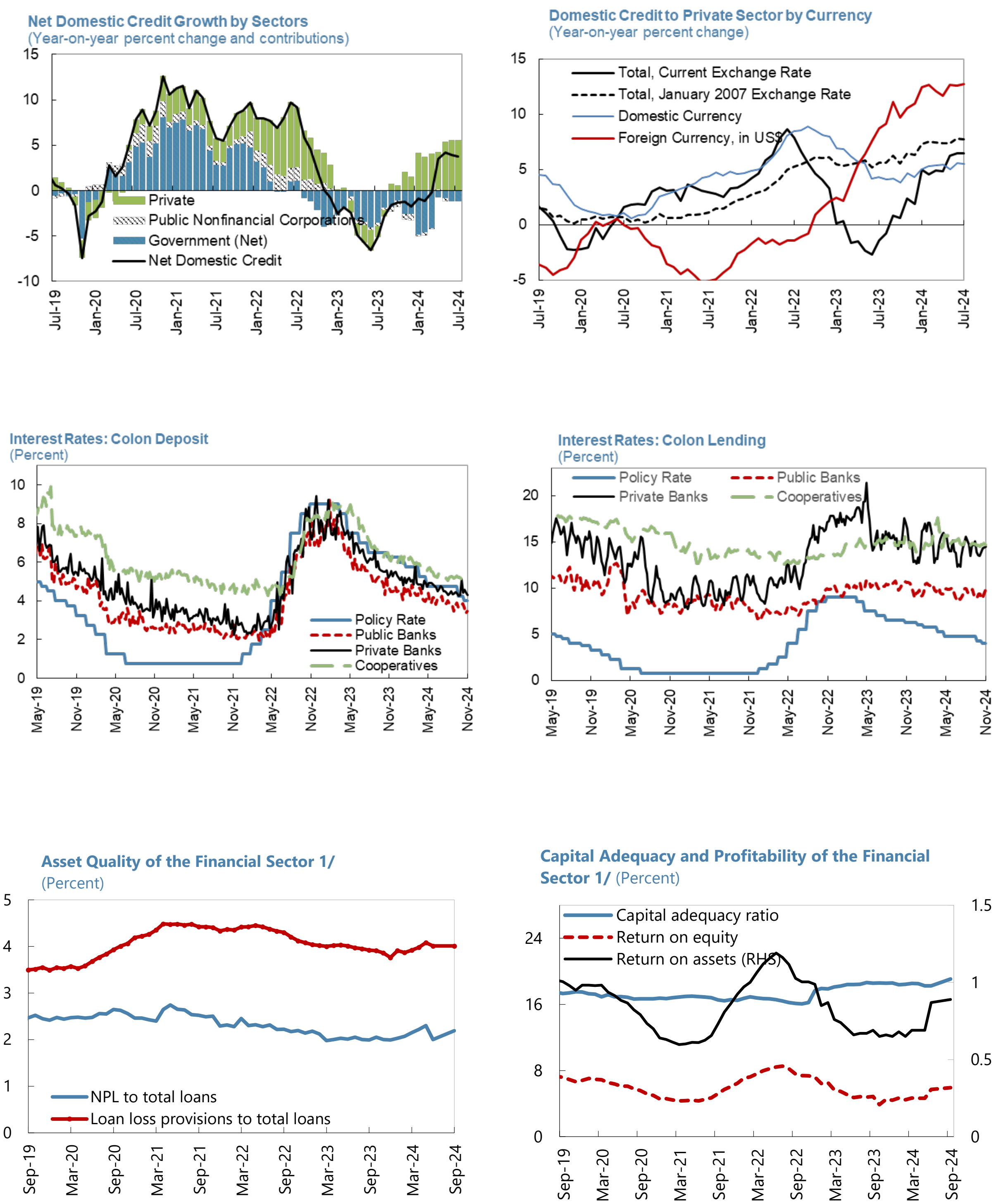
Sources: National authorities, Flight Radar, and IMF staff calculations.

Figure 3. Costa Rica: Fiscal Sector Developments



Sources: National authorities, Bloomberg, and IMF staff calculations.

Figure 4. Costa Rica: Monetary and Financial Sector Developments



Sources: National authorities and IMF staff calculations.

1/ Financial sector includes banks, cooperatives, and other non-bank and other financial entities. June and September data excluded the Coopeservidores.

Table 1. Costa Rica: Selected Economic and Financial Indicators

	2020	2021	2022	2023	2024 CR/ 24/166	2024	2025 CR/ 24/166	2025	2026	2027	2028	2029
					Projections							
National Income					(Annual percentage change)							
Real GDP	-4.3	7.9	4.6	5.1	4.0	4.0	3.5	3.5	3.5	3.5	3.5	3.5
Domestic demand	-4.8	8.6	0.8	3.1	4.2	4.4	3.6	3.5	3.5	3.6	3.6	3.5
Consumption	-5.3	6.9	2.5	4.1	2.9	3.1	2.9	3.0	3.0	3.0	3.2	3.2
Private	-6.9	8.3	2.6	5.0	3.4	3.4	3.3	3.3	3.3	3.3	3.3	3.3
Public	0.8	1.7	2.4	0.1	1.1	2.1	1.2	1.7	1.8	1.9	2.5	2.7
Gross fixed capital formation	-3.4	7.8	1.5	8.6	7.8	4.3	6.5	5.8	5.7	5.7	5.2	4.9
Exports of goods and nonfactor services	-10.6	15.9	18.5	10.0	6.9	5.0	6.7	5.8	5.5	5.2	4.9	4.6
Imports of goods and nonfactor services	-12.9	19.2	8.1	5.2	8.1	6.5	7.6	6.3	6.0	5.7	5.5	5.0
					(Contributions to real GDP growth)							
Domestic demand	-4.6	8.3	0.7	2.9	3.9	4.0	3.3	3.2	3.2	3.3	3.3	3.2
Consumption	-4.3	5.5	2.0	3.1	2.2	2.4	2.2	2.3	2.3	2.3	2.4	2.4
Gross domestic investment	-0.3	2.8	-1.3	-0.2	1.7	1.7	1.1	0.9	0.9	1.0	0.9	0.9
of which : Inventory changes	0.2	1.5	-1.5	-1.6	0.4	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Net exports	0.4	-0.3	3.8	2.2	0.1	0.0	0.2	0.3	0.3	0.2	0.2	0.2
Prices					(Annual percentage change)							
GDP deflator	0.8	2.4	6.3	-0.1	1.3	0.3	3.2	2.7	3.2	3.2	3.2	3.2
Consumer prices (period average)	0.7	1.7	8.3	0.5	0.3	-0.4	2.9	1.6	3.0	3.0	3.0	3.0
Consumer prices (end of period)	0.9	3.3	7.9	-1.8	2.0	0.4	3.0	2.4	3.0	3.0	3.0	3.0
Savings and Investment					(In percent of GDP, unless otherwise indicated)							
Savings	16.2	18.6	17.7	15.3	16.4	16.2	16.9	16.7	17.1	17.7	18.0	18.4
Domestic savings	15.2	15.4	14.4	13.8	14.4	14.3	14.9	14.8	15.4	16.1	16.5	17.0
Private sector	20.9	17.2	14.2	14.3	13.1	15.4	13.3	15.1	15.2	15.4	15.5	15.9
Public sector	-5.8	-1.8	0.2	-0.4	1.2	-1.1	1.6	-0.3	0.2	0.6	0.9	1.1
External savings	1.0	3.2	3.3	1.4	2.0	1.9	2.1	1.9	1.7	1.6	1.5	1.4
Gross domestic investment	16.2	18.6	17.7	15.3	16.4	16.2	16.9	16.7	17.1	17.7	18.0	18.4
Private sector	14.1	16.3	15.8	13.5	14.3	14.4	14.7	14.8	15.0	15.5	15.7	15.9
Public sector	2.1	2.2	1.9	1.8	2.1	1.8	2.2	1.9	2.0	2.2	2.3	2.5
External Sector												
Current account balance	-1.0	-3.2	-3.3	-1.4	-2.0	-1.9	-2.1	-1.9	-1.7	-1.6	-1.5	-1.4
Trade balance	-3.2	-4.4	-6.7	-3.7	-4.6	-3.9	-4.6	-4.0	-3.9	-4.0	-4.0	-4.0
Services	7.2	7.0	10.1	9.7	9.8	9.6	9.8	9.6	9.7	9.7	9.9	9.9
Capital account balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance	-0.4	-1.9	-2.5	-0.5	-2.0	-1.8	-2.0	-1.8	-1.7	-1.6	-1.5	-1.4
Foreign direct investment, net	-2.6	-4.8	-4.4	-4.3	-4.5	-4.3	-4.5	-4.3	-4.3	-4.3	-4.2	-4.2
Gross international reserves (millions of U.S. dollars)	7,232	6,921	8,724	13,261	14,229	14,441	14,915	15,174	15,905	16,478	17,165	17,853
-as percent of ARA metric	107.2	99.7	106.4	146.3	141.7	146.7	142.5	147.4	145.2	142.3	140.4	138.8
-in months of next year's imports	4.0	3.1	3.7	5.1	4.9	5.2	4.8	5.1	5.0	4.9	4.8	4.7
External debt	49.6	48.6	50.7	43.3	42.2	41.9	41.4	41.1	41.1	40.7	40.0	39.3
Real effective exchange rate, avg. (percent change)	1.0	-9.2	1.8	15.2	…	…	…	…	…	…	…	…
Public Finances 1/												
Central government primary balance	-3.7	-0.3	2.1	1.6	1.9	1.3	2.0	1.6	1.8	1.9	1.9	1.9
Central government overall balance	-8.4	-5.1	-2.8	-3.2	-3.0	-3.7	-2.7	-3.2	-2.7	-2.3	-2.0	-1.8
Central government debt	66.9	67.6	63.0	61.1	60.3	61.1	59.3	60.8	59.8	58.4	56.8	55.1
Money and Credit												
Credit to the private sector (percent change)	3.4	3.7	3.3	1.9	5.7	6.5	6.1	6.7	6.9	7.0	7.1	7.2
Credit to the private sector (adjusted by exchange rate changes)	1.0	2.4	6.1	6.3	7.2	7.5	5.7	6.6	6.6	6.8	6.8	6.9
Monetary base 2/	8.3	7.8	8.0	7.9	7.8	8.0	7.7	8.0	8.0	8.0	8.0	8.0
Broad money	54.9	54.0	47.5	47.4	46.7	49.4	46.4	50.1	50.5	51.2	51.9	52.8
Memorandum Items												
Nominal GDP (billions of colones) 3/	36,495	40,327	44,810	47,059	49,553	49,083	52,923	52,177	55,725	59,513	63,554	67,847
Output gap (as percent of potential GDP)	-3.6	0.1	-0.3	1.0	0.7	0.7	0.2	0.2	0.0	0.0	0.0	0.0
Unemployment rate (percent)	20.0	13.7	11.7	7.3	8.3	7.0	9.3	7.3	9.0	9.0	9.0	9.0

Sources: Central Bank of Costa Rica and IMF staff estimates.

1/ As of January 2021, the CG definition has been expanded to include 51 public entities as per Law 9524. Data are adjusted back to 2019 for comparability.

2/ Includes 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.

Table 2. Costa Rica: Central Government Balance[1/]

					Projections							
	2020	2021	2022	2023	2024 CR/ 24/166	2024	2025 CR/ 24/166	2025	2026	2027	2028	2029
					(In billions of colones)							
Revenue	**5,077**	**6,326**	**7,341**	**7,182**	**7,499**	**7,367**	**8,023**	**7,814**	**8,378**	**8,949**	**9,557**	**10,199**
Tax revenue	4,385	5,566	6,312	6,423	6,747	6,535	7,220	6,976	7,483	7,993	8,537	9,111
Nontax revenue[2/]	693	760	1,029	759	752	831	803	837	894	955	1,020	1,089
Expenditure	**8,136**	**8,377**	**8,598**	**8,676**	**8,991**	**9,200**	**9,428**	**9,464**	**9,874**	**10,293**	**10,830**	**11,397**
Current noninterest	5,781	5,839	5,803	5,844	5,866	6,068	6,169	6,210	6,479	6,783	7,147	7,554
Wages	2,612	2,624	2,627	2,653	2,707	2,794	2,783	2,764	2,818	2,877	2,971	3,067
Goods and services	337	342	356	335	379	342	412	384	424	464	505	557
Transfers	2,832	2,874	2,820	2,855	2,780	2,932	2,974	3,062	3,238	3,442	3,672	3,930
Interest[3/]	1,690	1,939	2,184	2,224	2,411	2,451	2,463	2,468	2,486	2,459	2,467	2,478
Capital	665	599	611	609	714	682	796	785	908	1,051	1,215	1,364
Primary balance	**-1,368**	**-112**	**927**	**730**	**919**	**617**	**1,058**	**818**	**990**	**1,115**	**1,194**	**1,281**
Overall Balance	**-3,058**	**-2,051**	**-1,257**	**-1,494**	**-1,493**	**-1,834**	**-1,405**	**-1,650**	**-1,496**	**-1,344**	**-1,273**	**-1,197**
Total Financing	3,377	2,158	1,207	1,433	1,493	1,834	1,405	1,650	1,496	1,344	1,273	1,197
External (net)	724	645	1,051	1,180	1,359	532	704	867	964	739	578	209
of which RSF disbursement	0	0	0	0	374	380	0	0	0	0	0	0
Domestic (net)	2,654	1,513	156	314	134	1,302	701	783	532	605	695	988
Central government debt	**24,420**	**27,272**	**28,224**	**28,762**	**29,856**	**29,988**	**31,398**	**31,713**	**33,313**	**34,731**	**36,110**	**37,414**
External	5,898	6,779	7,210	7,539	8,596	7,891	9,395	8,795	9,841	10,642	11,312	11,616
Domestic	18,522	20,493	21,014	21,224	21,260	22,097	22,003	22,918	23,472	24,089	24,799	25,799
					(In percent of GDP)							
Revenue	**13.9**	**15.7**	**16.4**	**15.3**	**15.1**	**15.0**	**15.2**	**15.0**	**15.0**	**15.0**	**15.0**	**15.0**
Tax revenue	12.0	13.8	14.1	13.6	13.6	13.3	13.6	13.4	13.4	13.4	13.4	13.4
Nontax revenue[2/]	1.9	1.9	2.3	1.6	1.5	1.7	1.5	1.6	1.6	1.6	1.6	1.6
Expenditure	**22.3**	**20.8**	**19.2**	**18.4**	**18.1**	**18.7**	**17.8**	**18.1**	**17.7**	**17.3**	**17.0**	**16.8**
Current noninterest	15.8	14.5	12.9	12.4	11.8	12.4	11.7	11.9	11.6	11.4	11.2	11.1
Wages	7.2	6.5	5.9	5.6	5.5	5.7	5.3	5.3	5.1	4.8	4.7	4.5
Goods and services	0.9	0.8	0.8	0.7	0.8	0.7	0.8	0.7	0.8	0.8	0.8	0.8
Transfers	7.8	7.1	6.3	6.1	5.6	6.0	5.6	5.9	5.8	5.8	5.8	5.8
Interest[3/]	4.6	4.8	4.9	4.7	4.9	5.0	4.7	4.7	4.5	4.1	3.9	3.7
Capital	1.8	1.5	1.4	1.3	1.4	1.4	1.5	1.5	1.6	1.8	1.9	2.0
Primary balance	**-3.7**	**-0.3**	**2.1**	**1.6**	**1.9**	**1.3**	**2.0**	**1.6**	**1.8**	**1.9**	**1.9**	**1.9**
Overall Balance	**-8.4**	**-5.1**	**-2.8**	**-3.2**	**-3.0**	**-3.7**	**-2.7**	**-3.2**	**-2.7**	**-2.3**	**-2.0**	**-1.8**
Total Financing	**9.3**	**5.4**	**2.7**	**3.0**	**3.0**	**3.7**	**2.7**	**3.2**	**2.7**	**2.3**	**2.0**	**1.8**
External (net)	2.0	1.6	2.3	2.5	2.7	1.1	1.3	1.7	1.7	1.2	0.9	0.3
of which RSF disbursement	0.0	0.0	0.0	0.0	0.8	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	7.3	3.8	0.3	0.7	0.3	2.7	1.3	1.5	1.0	1.0	1.1	1.5
Central government debt	**66.9**	**67.6**	**63.0**	**61.1**	**60.3**	**61.1**	**59.3**	**60.8**	**59.8**	**58.4**	**56.8**	**55.1**
External	16.2	16.8	16.1	16.0	17.3	16.1	17.8	16.9	17.7	17.9	17.8	17.1
Domestic	50.8	50.8	46.9	45.1	42.9	45.0	41.6	43.9	42.1	40.5	39.0	38.0
Memorandum items:												
Non-interest expenditure growth (percent)												
in nominal terms	-3.4	-0.1	-0.4	0.6	2.0	4.6	5.8	3.6	5.6	6.0	6.8	6.6
in real terms	-4.1	-1.8	-8.0	0.1	1.7	5.0	2.8	2.1	2.5	2.9	3.6	3.5
Domestic financing without RSF (net)	2,654	1,513	156	314	508	1,681	701	783	532	605	695	988
Nominal GDP (billions of colones)	36,495	40,327	44,810	47,059	49,553	49,083	52,923	52,177	55,725	59,513	63,554	67,847

Sources: Ministry of Finance and IMF staff estimates.

1/ As of January 2021, the CG definition has been expanded to include 51 public entities as per Law 9524. Data are adjusted back to 2019 for comparability.

2/ In 2022, includes a one-off transfer of surpluses from public entities accumulated before their CG consolidation and not used in 2021 and revenues that could not be identified due to the cyberattack.

3/ The inflation adjustment of the principal of TUDES (inflation indexed bonds) was recorded as interest expenditure.

Table 3. Costa Rica: Balance of Payments

	2020	2021	2022	2023	2024 CR/ 24/166	2024	2025 CR/ 24/166	2025	2026	2027	2028	2029
					Projections							
					(In millions of U.S. dollars)							
Current Account	**-632**	**-2,063**	**-2,272**	**-1,239**	**-1,973**	**-1,776**	**-2,146**	**-1,892**	**-1,835**	**-1,845**	**-1,872**	**-1,828**
Goods and services balance	2,477	1,670	2,297	5,270	5,054	5,401	5,433	5,773	6,287	6,615	7,155	7,574
Trade balance	-2,018	-2,845	-4,666	-3,158	-4,475	-3,728	-4,820	-4,025	-4,174	-4,537	-4,802	-5,086
Export of goods (f.o.b.)	12,067	14,826	16,647	18,886	20,729	20,302	22,439	21,870	23,584	25,086	26,803	28,501
Import of goods (f.o.b.)	14,085	17,671	21,313	22,045	25,204	24,029	27,259	25,895	27,758	29,623	31,605	33,588
Services balance	4,495	4,515	6,964	8,429	9,529	9,129	10,253	9,798	10,461	11,152	11,957	12,660
Primary Income	-3,634	-4,254	-5,135	-7,073	-7,596	-7,764	-8,168	-8,277	-8,765	-9,136	-9,738	-10,149
Secondary Income	526	521	566	564	569	587	588	612	643	676	710	747
Capital Account	**18**	**19**	**20**	**22**	**21**	**24**	**24**	**27**	**30**	**33**	**36**	**39**
Financial Account	**-272**	**-1,239**	**-1,716**	**-439**	**-1,952**	**-1,751**	**-2,123**	**-1,865**	**-1,805**	**-1,812**	**-1,836**	**-1,789**
Public sector	425	-266	-1,770	-2,551	-2,418	-1,084	-877	-1,533	-1,654	-1,155	-802	-105
Private sector	1,058	-710	-1,748	-2,425	-501	-1,848	-1,932	-1,065	-882	-1,230	-1,722	-2,372
Foreign direct investment, net	-1,644	-3,146	-3,060	-3,701	-4,370	-4,124	-4,662	-4,371	-4,640	-4,918	-5,125	-5,334
Other private sector flows	2,702	2,436	1,312	1,275	3,869	2,276	2,730	3,305	3,758	3,689	3,402	2,962
Change in International Reserves (increase +)	-1,755	-263	1,803	4,538	968	1,180	686	733	731	573	688	688
Errors and Omissions	**342**	**805**	**536**	**778**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
					(In percent of GDP)							
Current Account	**-1.0**	**-3.2**	**-3.3**	**-1.4**	**-2.0**	**-1.9**	**-2.1**	**-1.9**	**-1.7**	**-1.6**	**-1.5**	**-1.4**
Goods and services balance	4.0	2.6	3.3	6.1	5.2	5.7	5.2	5.7	5.8	5.8	5.9	5.9
Trade balance	-3.2	-4.4	-6.7	-3.7	-4.6	-3.9	-4.6	-4.0	-3.9	-4.0	-4.0	-4.0
Export of goods (f.o.b.)	19.3	22.8	24.0	21.8	21.3	21.3	21.5	21.5	21.8	21.9	22.1	22.2
Import of goods (f.o.b.)	22.6	27.2	30.8	25.5	25.8	25.2	26.1	25.5	25.7	25.9	26.0	26.1
Services balance	7.2	7.0	10.1	9.7	9.8	9.6	9.8	9.6	9.7	9.7	9.9	9.9
Of which: Travel balance	1.7	1.8	3.9	3.6	3.8	3.8	3.9	3.9	3.9	3.9	3.9	3.9
Exports of services	12.7	13.5	18.4	17.1	17.2	17.0	17.3	17.1	17.2	17.2	17.3	17.3
Imports of services	5.5	6.6	8.4	7.4	7.4	7.4	7.4	7.5	7.5	7.5	7.5	7.5
Primary Income	-5.8	-6.5	-7.4	-8.2	-7.8	-8.2	-7.8	-8.1	-8.1	-8.0	-8.0	-7.9
Secondary Income	0.8	0.8	0.8	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Capital Account	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financial Account	**-0.4**	**-1.9**	**-2.5**	**-0.5**	**-2.0**	**-1.8**	**-2.0**	**-1.8**	**-1.7**	**-1.6**	**-1.5**	**-1.4**
Public sector	0.7	-0.4	-2.6	-2.9	-2.5	-1.1	-0.8	-1.5	-1.5	-1.0	-0.7	-0.1
Private sector	1.7	-1.1	-2.5	-2.8	-0.5	-1.9	-1.8	-1.0	-0.8	-1.1	-1.4	-1.8
Foreign direct investment, net	-2.6	-4.8	-4.4	-4.3	-4.5	-4.3	-4.5	-4.3	-4.3	-4.3	-4.2	-4.2
Other private sector flows	4.3	3.8	1.9	1.5	4.0	2.4	2.6	3.2	3.5	3.2	2.8	2.3
Change in International Reserves (increase +)	-2.8	-0.4	2.6	5.2	1.0	1.2	0.7	0.7	0.7	0.5	0.6	0.5
Errors and Omissions	**0.5**	**1.2**	**0.8**	**0.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum Items:												
Non-oil current account (percent of GDP)	0.3	-0.8	0.3	1.4	0.4	0.6	0.2	0.3	0.4	0.5	0.5	0.7
Terms of trade (annual percentage change)	5.1	-2.8	-1.7	2.7	0.9	0.1	0.7	1.1	0.7	0.6	0.5	0.5
Gross international reserves (with RSF, millions of U.S. dollars)	7,232	6,921	8,724	13,261	14,229	14,441	14,915	15,174	15,905	16,478	17,165	17,853
Gross international reserves (without RSF, millions of U.S. dollars)	7,232	6,921	8,724	13,261	13,493	13,705	14,178	14,438	15,169	15,741	16,429	17,116
Net international reserves, program definition (millions of U.S. dollars)[1/]	3,712	2,884	3,871	8,266	7,903	7,954	8,740	9,089	9,668	10,132	10,796	11,492
External debt (percent of GDP)[2/]	49.6	48.6	50.7	43.3	42.2	41.9	41.4	41.1	41.1	40.7	40.0	39.3

Sources: Central Bank of Costa Rica and IMF staff estimates.

1/ For the completed EFF arrangement, the program definition of NIR excludes FX deposits of residents other than the central government.

2/ Includes public and private sector debt.

Table 4. Costa Rica: Gross External Financing Needs and Sources

	2020	2021	2022	2023	2024 CR/24/166	2024	2025 CR/24/166	2025	2026	2027	2028	2029
					Projections							
	(In millions of U.S. dollars)											
Gross external financing needs	**-9,932**	**-9,336**	**-11,984**	**-8,937**	**-14,177**	**-12,493**	**-13,980**	**-13,519**	**-13,963**	**-14,267**	**-14,120**	**-15,036**
Current account balance	-632	-2,063	-2,272	-1,239	-1,973	-1,776	-2,146	-1,892	-1,835	-1,845	-1,872	-1,828
Amortization	-4,886	-5,120	-4,681	-7,438	-6,994	-7,105	-7,726	-7,841	-7,397	-7,535	-7,669	-8,259
Public sector, of which	-1,145	-1,254	-358	-1,428	-526	-525	-1,086	-1,084	-628	-605	-512	-858
Central government	-372	-134	-150	-1,252	-50	-49	-335	-333	-358	-416	-321	-710
Central bank 1/	0	-2	-2	-139	-962	-962	0	0	0	0	0	0
Private sector	-3,741	-3,866	-4,324	-6,010	-6,468	-6,580	-6,640	-6,756	-6,768	-6,931	-7,158	-7,401
of which: short-term	-2,709	-2,782	-3,137	-4,757	-5,321	-5,321	-5,463	-5,572	-5,570	-5,699	-5,887	-6,068
Other net capital inflows 2/	-4,414	-2,153	-5,031	-260	-5,210	-3,612	-4,107	-3,786	-4,732	-4,887	-4,578	-4,949
Gross external financing sources	**8,552**	**8,182**	**10,409**	**8,514**	**12,419**	**11,242**	**12,876**	**12,073**	**12,811**	**13,490**	**13,740**	**14,951**
Capital transfers	18	19	20	22	21	24	24	27	30	33	36	39
Direct investment, net	1,644	3,146	3,060	3,701	4,370	4,124	4,662	4,371	4,640	4,918	5,125	5,334
Borrowing	5,136	4,754	9,131	9,329	8,995	8,274	8,876	8,408	8,872	9,111	9,267	10,266
Public sector, of which	478	457	904	3,381	1,991	844	1,665	1,657	1,616	1,468	1,420	1,365
Central government	231	-12	151	3,144	1,166	31	1,122	1,079	1,072	1,059	1,044	1,022
of which: Eurobonds	0	0	0	2,921	1,000	0	1,000	1,000	1,000	1,000	1,000	1,000
Central bank 3/	0	502	1,100	0	0	0	0	0	0	0	0	0
Private sector	4,658	4,298	8,228	5,949	7,004	7,430	7,212	6,751	7,257	7,643	7,847	8,901
Change in International reserves (increase -)	1,755	263	-1,803	-4,538	-968	-1,180	-686	-733	-731	-573	-688	-688
Use of IMF credit	**522**	**294**	**554**	**275**	**1,039**	**1,038**	**-184**	**-186**	**-69**	**-139**	**-232**	**-278**
Purchases/disbursements	522	294	554	275	1,284	1,284	0	0	0	0	0	0
RFI	522	0	0	0	0	0	0	0	0	0	0	0
EFF	0	294	554	275	548	548	0	0	0	0	0	0
RSF	0	0	0	0	736	736	0	0	0	0	0	0
Repurchases/repayments	0	0	0	0	-245	-246	-184	-186	-69	-139	-232	-278
Other gross multilateral financing	**858**	**861**	**1,021**	**147**	**719**	**212**	**1,288**	**1,631**	**1,222**	**916**	**611**	**363**
World Bank	105	313	307	4	88	12	…	…	…	…	…	…
Inter-American Development Bank (IDB)	282	404	385	104	395	83	…	…	…	…	…	…
CAF	448	0	0	0	0	0	…	…	…	…	…	…
Central American Bank for Economic Integration (CABEI)	23	144	329	40	237	117	…	…	…	…	…	…
Debt rescheduling or refinancing	0	0	0	0	0	0	0	0	0	0	0	0
Other exceptional financing	0	0	0	0	0	0	0	0	0	0	0	0
Unidentified financing	0	0	0	0	0	0	0	0	0	0	0	-1
Memorandum items:												
Gross multilateral support	1,380	1,154	1,575	422	2,004	1,497	1,288	1,631	1,222	916	611	363
In percent of GDP	2.2	1.8	2.3	0.5	2.1	1.6	1.2	1.6	1.1	0.8	0.5	0.3
Of which, committed	1,380	1,154	1,575	422	2,004	1,497	1,288	1,631	1,222	916	611	363
Of which, disbursed	1,380	1,154	0	0	0	0	0	0	0	0	0	0
IMF share of total gross multilateral financing (percent)												
Purchases and disbursements, flow basis	38	25	35	65	64	86	…	…	…	…	…	…
Purchases and disbursements, cumulative basis	38	32	33	36	45	49	…	…	…	…	…	…
Current account balance (percent of GDP)	-1.0	-3.2	-3.3	-1.4	-2.0	-1.9	-2.1	-1.9	-1.7	-1.6	-1.5	-1.4
Gross international reserves	7,232	6,921	8,724	13,261	14,229	14,441	14,915	15,174	15,905	16,478	17,165	17,853
In percent of the ARA metric	107	100	106	146	142	147	143	147	145	142	140	139
In percent of ST debt (remaining maturity)	141	148	117	180	178	178	196	201	205	206	199	198
In percent of gross external financing requirement	126	103	90	154	143	146	153	160	166	167	163	164
In months of next year's imports of G&S	4.0	3.1	3.7	5.1	4.9	5.2	4.8	5.1	5.0	4.9	4.8	4.7

Sources: Central Bank of Costa Rica and IMF staff estimates.

1/ Includes total amortization of FLAR credit line in 2024.

2/ Also reflects the 2021 SDR allocation and changes in banks', corporates', and households' gross foreign assets.

3/ Includes FLAR credit line in 2022.

Table 5. Costa Rica: Monetary Survey

	2020	2021	2022	2023	Projections 2024	2024	2025	2025	2026
					CR/ 24/166		CR/ 24/166		
	(In billions of colones, unless otherwise indicated)								
Central Bank									
Net foreign assets	4,474	4,007	3,800	5,739	6,516	6,716	6,991	7,175	7,679
Of which : Gross international reserves									
(In millions of U.S. dollars)	7,232	6,921	8,724	13,251	14,219	14,431	14,905	15,164	15,895
Net domestic assets	-1,441	-852	-195	-2,006	-2,656	-2,770	-2,894	-2,987	-3,220
Net domestic credit	-1,900	-1,601	-1,756	-2,036	-2,107	-1,834	-2,838	-2,631	-2,768
Credit to nonfinancial public sector (net)	-41	-315	-615	-1,010	-995	-647	-1,010	-672	-672
Credit to other depository corporations (net)	-1,832	-1,204	-1,114	-997	-1,083	-1,157	-1,798	-1,929	-2,066
Credit to other financial corporations (net)	-26	-82	-26	-29	-29	-29	-29	-29	-29
Credit to the private sector (net)	0	0	0	0	0	0	0	0	0
Monetary stabilization instruments (-)	-1,564	-1,364	-1,282	-2,073	-2,605	-2,775	-2,605	-2,775	-2,775
Other items (net)	-220	-103	426	-610	-658	-875	-165	-295	-392
Capital account (-)	2,243	2,216	2,416	2,714	2,714	2,714	2,714	2,714	2,714
Monetary base 1/	3,033	3,155	3,605	3,733	3,859	3,945	4,097	4,189	4,458
Currency	1,498	1,529	1,495	1,539	1,632	1,585	1,734	1,685	1,792
Required reserves	1,535	1,626	2,110	2,194	2,228	2,360	2,362	2,503	2,667
Other Depository Institutions									
Net foreign assets	-720	-63	693	734	1,041	1,031	1,323	1,304	1,672
Net domestic assets	27,100	29,012	28,383	28,979	30,051	30,555	31,860	32,858	35,251
Net domestic credit	30,630	33,228	33,317	34,298	35,734	36,037	38,008	38,754	41,074
Credit to nonfinancial public sector (net)	3,900	5,841	5,185	4,660	4,249	4,114	4,013	4,093	4,113
Credit to nonfinancial private sector	21,601	22,405	23,146	23,576	24,920	25,098	26,434	26,788	28,635
In national currency	13,583	14,212	15,343	15,999	17,165	16,901	18,524	17,970	19,162
In foreign currency	8,019	8,193	7,804	7,577	7,755	8,197	7,910	8,818	9,473
Credit to financial corporations (net)	5,129	4,982	4,986	6,061	6,565	6,824	7,561	7,873	8,327
Other items (net)	1,602	1,322	677	738	694	834	662	887	1,421
Capital account	-5,131	-5,538	-5,611	-6,056	-6,377	-6,316	-6,810	-6,783	-7,244
Liabilities to nonfinancial private sector	26,380	28,949	29,077	29,714	31,092	31,586	33,183	34,163	36,923
In national currency	16,593	17,469	17,859	19,530	20,409	20,761	21,838	22,547	24,599
In foreign currency	9,787	11,480	11,218	10,183	10,682	10,825	11,345	11,616	12,324
Of which: Deposits (including CDs)	26,201	28,743	28,849	29,457	30,738	31,301	32,844	33,854	36,586
Consolidated Financial System									
Net foreign assets	3,753	3,944	4,494	6,473	7,556	7,746	8,314	8,480	9,350
Net domestic assets	23,953	25,828	25,625	24,012	24,546	24,922	25,837	26,731	28,574
Net domestic credit	25,460	27,931	27,716	27,226	28,173	28,565	29,436	30,208	32,075
Other items (net)	1,381	1,219	1,104	127	36	-41	497	592	1,029
Capital account	-2,888	-3,322	-3,195	-3,342	-3,663	-3,602	-4,097	-4,069	-4,530
Broad money	20,023	21,779	21,266	22,324	23,163	24,263	24,554	26,147	28,161
Memorandum Items	(Annual percentage change)								
Monetary base 1/	13.7	4.0	14.3	3.6	3.4	5.7	6.2	6.2	6.4
Broad money	17.8	8.8	-2.4	5.0	4.1	8.7	6.0	7.8	7.7
Credit to the private sector	3.4	3.7	3.3	1.9	5.7	6.5	6.1	6.7	6.9
In national currency	2.5	4.6	8.0	4.3	7.3	5.6	7.9	6.3	6.6
In foreign currency	4.9	2.2	-4.7	-2.9	2.3	8.2	2.0	7.6	7.4
Credit to the private sector (adjusted by exchange rate changes)	1.0	2.4	6.1	6.3	7.2	7.5	5.7	6.6	6.6
	(In percent of GDP)								
Monetary base 1/	8.3	7.8	8.0	7.9	7.8	8.0	7.7	8.0	8.0
Broad money	54.9	54.0	47.5	47.4	46.7	49.4	46.4	50.1	50.5
Of which: Deposits denominated in foreign currency	18.5	20.4	18.7	15.6	15.2	15.9	14.9	16.2	16.2
Credit to the private sector	59.2	55.6	51.7	50.1	50.3	51.1	49.9	51.3	51.4
Of which: In foreign currency	22.0	20.3	17.4	16.1	15.7	16.7	14.9	16.9	17.0
Central bank balance	0.3	0.1	-0.4	-0.6	0.0	0.0	0.0	0.0	0.0

Sources: Central Bank of Costa Rica and IMF staff estimates.

1/ Includes currency issued and required reserves.

Table 6. Costa Rica: Financial Soundness Indicators

	2018 Dec	2019 Dec	2020 Dec	2021 Dec	2022 Dec	2023 Dec	2024 July
	(In percent)						
Capitalization							
Risk-adjusted capital ratio	16.7	17.5	16.8	16.5	17.7	18.6	18.2
Capital-to-assets ratio	14.2	15.2	14.4	14.4	14.4	15.5	15.5
Asset quality							
Nonperforming loans to total loans	2.1	2.4	2.5	2.3	2.1	2.0	2.4
Non-income generating assets to total assets	16.3	15.8	18.3	17.1	18.5	17.5	17.2
Foreclosed assets to total assets	1.0	1.1	1.1	1.0	1.0	0.9	0.6
Loan loss provisions to total loans	3.3	3.5	4.2	4.3	4.1	3.8	4.4
Credit in foreign currency to total credit	39.1	36.6	37.1	36.6	33.7	32.1	
Management							
Administrative expenses to total assets	3.1	3.2	3.0	2.9	3.1	3.3	3.3
Noninterest expenses to gross income	77.6	83.1	82.0	79.1	88.4	88.7	89.4
Total expenses to total revenues	95.6	96.7	97.2	94.6	96.9	98.4	98.5
Profitability							
Return on assets (ROA)	0.9	1.0	0.6	0.9	1.0	0.7	0.6
Return on equity (ROE)	6.8	6.8	4.6	6.5	7.2	4.4	4.1
Interest margin to gross income	21.3	16.4	18.9	26.9	13.8	10.4	10.7
Liquidity							
Liquid assets to total short-term liabilities	98.6	96.8	93.9	89.9	89.9	87.4	85.0
Liquid assets to total assets	28.0	29.8	33.0	35.7	33.8	33.0	33.0
Loans to deposits[1/]	113.1	105.6	99.0	95.6	94.8	93.8	92.5
Liquid assets to deposits	43.7	44.6	50.0	52.4	48.6	46.7	45.5
Sensitivity to market risk							
Net open FX position to capital	21.1	23.5	25.1	25.6	24.4	20.2	19.9
Other							
Financial margin[2/]	7.1	7.1	6.7	7.0	7.0	5.7	5.8

Source: Superintendency of Banks (SUGEF).
1/ Loans (including contingent credits) divided by deposits held by the public.
2/ Difference between implicit loan and deposit rates.

Table 7. Costa Rica: Indicators of Fund Credit: Baseline Scenario

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045
Fund obligations based on existing credit (millions of SDRs)																						
Principal	184.7	138.5	51.6	103.1	171.9	206.2	206.2	206.2	154.7	103.1	62.1	55.4	55.4	55.4	55.4	55.4	55.4	55.4	55.4	55.4	27.7	0.0
GRA	184.7	138.5	51.6	103.1	171.9	206.2	206.2	206.2	154.7	103.1	34.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	27.7	55.4	55.4	55.4	55.4	55.4	55.4	55.4	55.4	55.4	27.7	0.0
Charges and interest 1/	85.1	84.7	78.3	74.2	68.0	60.3	52.0	43.8	36.2	30.7	27.3	24.7	22.3	19.8	17.4	15.0	12.6	10.2	7.8	5.3	3.2	2.7
Fund obligations based on existing and prospective credit (millions of SDRs)																						
Principal	184.7	138.5	51.6	103.1	171.9	206.2	206.2	206.2	154.7	103.1	62.1	55.4	55.4	55.4	55.4	55.4	55.4	55.4	55.4	55.4	27.7	0.0
GRA	184.7	138.5	51.6	103.1	171.9	206.2	206.2	206.2	154.7	103.1	34.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	27.7	55.4	55.4	55.4	55.4	55.4	55.4	55.4	55.4	55.4	27.7	0.0
Charges and interest 1/2/	85.1	84.7	78.3	74.2	68.0	60.3	52.0	43.8	36.2	30.7	27.3	24.7	22.3	19.8	17.4	15.0	12.6	10.2	7.8	5.3	3.2	2.7
Total obligations based on existing and prospective credit																						
Millions of SDRs	269.8	223.2	129.9	177.3	239.9	266.6	258.3	250.0	190.9	133.8	89.4	80.1	77.7	75.3	72.8	70.4	68.0	65.6	63.2	60.7	30.9	2.7
Percent of exports of goods and services	1.0	0.8	0.4	0.5	0.7	0.7	0.6	0.6	0.4	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Percent of gross international reserves	2.5	2.0	1.1	1.4	1.9	2.0	1.9	1.8	1.3	0.9	0.6	0.5	0.5	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.1	0.0
Percent of government revenue	2.5	2.0	1.1	1.4	1.8	1.9	1.7	1.6	1.1	0.7	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.1	0.0
Percent of public external debt service	12.0	8.7	5.8	7.2	9.1	8.7	8.0	7.3	5.3	3.5	2.2	1.9	1.7	1.6	1.4	1.3	1.2	1.1	1.0	0.9	0.4	0.0
Percent of GDP	0.4	0.3	0.2	0.2	0.3	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Percent of quota	73.0	60.4	35.2	48.0	64.9	72.2	69.9	67.7	51.7	36.2	24.2	21.7	21.0	20.4	19.7	19.1	18.4	17.8	17.1	16.4	8.4	0.7
Principal	50.0	37.5	14.0	27.9	46.5	55.8	55.8	55.8	41.9	27.9	16.8	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	7.5	0.0
GRA	50.0	37.5	14.0	27.9	46.5	55.8	55.8	55.8	41.9	27.9	9.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.5	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	7.5	0.0
Outstanding IMF credit based on existing and prospective drawings																						
Millions of SDRs	1,930.1	1,791.6	1,740.0	1,636.9	1,465.0	1,258.8	1,052.5	846.3	691.6	588.5	526.4	471.0	415.6	360.2	304.8	249.3	193.9	138.5	83.1	27.7	0.0	0.0
GRA	1,376.0	1,237.5	1,185.9	1,082.8	910.9	704.7	498.4	292.2	137.5	34.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	554.1	554.1	554.1	554.1	554.1	554.1	554.1	554.1	554.1	554.1	526.4	471.0	415.6	360.2	304.8	249.3	193.9	138.5	83.1	27.7	0.0	0.0
Percent of exports of goods and services	7.0	6.1	5.6	4.9	4.1	3.3	2.6	2.0	1.6	1.2	1.1	0.9	0.7	0.6	0.5	0.4	0.3	0.2	0.1	0.0	0.0	0.0
Percent of gross international reserves	17.8	15.8	14.7	13.4	11.5	9.5	7.7	5.9	4.7	3.9	3.3	2.9	2.5	2.1	1.7	1.4	1.0	0.7	0.4	0.1	0.0	0.0
Percent of government revenue	18.0	15.8	14.4	12.8	10.8	8.8	6.9	5.3	4.1	3.3	2.8	2.4	2.0	1.6	1.3	1.0	0.7	0.5	0.3	0.1	0.0	0.0
Percent of total public external debt	13.7	11.6	10.3	9.1	7.8	6.5	5.4	4.3	3.4	2.9	2.5	2.2	1.8	1.5	1.3	1.0	0.7	0.5	0.3	0.1	0.0	0.0
Percent of GDP	2.7	2.4	2.2	1.9	1.6	1.3	1.0	0.8	0.6	0.5	0.4	0.4	0.3	0.2	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0
Percent of quota	522.5	485.0	471.0	443.1	396.6	340.8	284.9	229.1	187.2	159.3	142.5	127.5	112.5	97.5	82.5	67.5	52.5	37.5	22.5	7.5	0.0	0.0
GRA	372.5	335.0	321.0	293.1	246.6	190.8	134.9	79.1	37.2	9.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	142.5	127.5	112.5	97.5	82.5	67.5	52.5	37.5	22.5	7.5	0.0	0.0
Net use of IMF credit (millions of SDRs)	1,930.1	-138.5	-51.6	-103.1	-171.9	-206.2	-206.2	-206.2	-154.7	-103.1	-62.1	-55.4	-55.4	-55.4	-55.4	-55.4	-55.4	-55.4	-55.4	-55.4	-27.7	0.0
Disbursements	2,114.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	184.7	138.5	51.6	103.1	171.9	206.2	206.2	206.2	154.7	103.1	62.1	55.4	55.4	55.4	55.4	55.4	55.4	55.4	55.4	55.4	27.7	0.0
Memorandum items:																						
Exports of goods and services (millions of U.S. dollars)	36,486	39,264	42,108	44,786	47,823	50,756	53,718	56,833	60,108	63,551	67,167	70,965	74,950	79,125	83,497	88,067	92,841	97,823	103,018	108,433	114,074	119,948
Gross international reserves (millions of U.S. dollars)	14,441	15,174	15,905	16,478	17,165	17,853	18,540	19,228	19,915	20,603	21,290	21,978	22,665	23,353	24,040	24,728	25,415	26,103	26,790	27,478	28,165	28,853
Quota (millions of SDRs)	369.4	369.4	369.4	369.4	369.4	369.4	369.4	369.4	369.4	369.4	369.4	369.4	369.4	369.4	369.4	369.4	369.4	369.4	369.4	369.4	369.4	369.4

Source: IMF staff estimates and projections. Projections made on the basis of the recent reform of the Charges and Surcharges Policy (effective as of November 1, 2024).
1/ Based on the GRA rate of charge of 4.018 percent as of November 14, 2024.
2/ Costa Rica belongs to the RST Interest Group C. Based on the RST rate of interest of 4.368 percent as of November 14, 2024.

Table 8. Costa Rica: Indicators of Fund Credit: Downside Scenario

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045
Fund obligations based on existing credit																						
(millions of SDRs)																						
Principal	184.7	138.5	51.6	103.1	171.9	206.2	206.2	206.2	154.7	103.1	62.1	55.4	55.4	55.4	55.4	55.4	55.4	55.4	55.4	55.4	27.7	0.0
GRA	184.7	138.5	51.6	103.1	171.9	206.2	206.2	206.2	154.7	103.1	34.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	27.7	55.4	55.4	55.4	55.4	55.4	55.4	55.4	55.4	55.4	27.7	0.0
Charges and interest 1/	85.1	84.7	78.3	74.2	68.0	60.3	52.0	43.8	36.2	30.7	27.3	24.7	22.3	19.8	17.4	15.0	12.6	10.2	7.8	5.3	3.2	2.7
Fund obligations based on existing and prospective																						
credit (millions of SDRs)																						
Principal	184.7	138.5	51.6	103.1	171.9	206.2	206.2	206.2	154.7	103.1	62.1	55.4	55.4	55.4	55.4	55.4	55.4	55.4	55.4	55.4	27.7	0.0
GRA	184.7	138.5	51.6	103.1	171.9	206.2	206.2	206.2	154.7	103.1	34.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	27.7	55.4	55.4	55.4	55.4	55.4	55.4	55.4	55.4	55.4	27.7	0.0
Charges and interest 1/2/	85.1	84.7	78.3	74.2	68.0	60.3	52.0	43.8	36.2	30.7	27.3	24.7	22.3	19.8	17.4	15.0	12.6	10.2	7.8	5.3	3.2	2.7
Total obligations based on existing and prospective credit																						
Millions of SDRs	269.8	223.2	129.9	177.3	239.9	266.6	258.3	250.0	190.9	133.8	89.4	80.1	77.7	75.3	72.8	70.4	68.0	65.6	63.2	60.7	30.9	2.7
Percent of exports of goods and services	1.0	0.8	0.4	0.5	0.7	0.7	0.6	0.6	0.4	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Percent of gross international reserves	2.5	2.3	1.5	2.2	2.8	2.8	2.6	2.3	1.6	1.1	0.7	0.6	0.5	0.5	0.4	0.4	0.4	0.3	0.3	0.3	0.1	0.0
Percent of government revenue	2.5	2.2	1.2	1.6	2.0	2.1	1.9	1.8	1.3	0.9	0.5	0.5	0.4	0.4	0.4	0.3	0.3	0.3	0.2	0.2	0.1	0.0
Percent of public external debt service	12.0	8.3	4.9	5.6	5.7	6.4	5.0	5.0	4.3	3.9	3.0	4.0	3.7	5.2	4.4	4.3	4.1	4.0	3.9	3.0	1.3	0.1
Percent of GDP	0.4	0.3	0.2	0.2	0.3	0.3	0.3	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Percent of quota	73.0	60.4	35.2	48.0	64.9	72.2	69.9	67.7	51.7	36.2	24.2	21.7	21.0	20.4	19.7	19.1	18.4	17.8	17.1	16.4	8.4	0.7
Principal	50.0	37.5	14.0	27.9	46.5	55.8	55.8	55.8	41.9	27.9	16.8	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	7.5	0.0
GRA	50.0	37.5	14.0	27.9	46.5	55.8	55.8	55.8	41.9	27.9	9.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.5	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	7.5	0.0
Outstanding IMF credit based on existing and prospective drawings																						
Millions of SDRs	1,930.1	1,791.6	1,740.0	1,636.9	1,465.0	1,258.8	1,052.5	846.3	691.6	588.5	526.4	471.0	415.6	360.2	304.8	249.3	193.9	138.5	83.1	27.7	0.0	0.0
GRA	1,376.0	1,237.5	1,185.9	1,082.8	910.9	704.7	498.4	292.2	137.5	34.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	554.1	554.1	554.1	554.1	554.1	554.1	554.1	554.1	554.1	554.1	526.4	471.0	415.6	360.2	304.8	249.3	193.9	138.5	83.1	27.7	0.0	0.0
Percent of exports of goods and services	7.0	6.1	5.6	4.9	4.1	3.3	2.6	2.0	1.6	1.2	1.1	0.9	0.7	0.6	0.5	0.4	0.3	0.2	0.1	0.0	0.0	0.0
Percent of gross international reserves	17.8	18.6	19.9	20.3	16.8	13.4	10.4	7.8	6.0	4.8	4.0	3.4	2.8	2.3	1.8	1.4	1.0	0.7	0.4	0.1	0.0	0.0
Percent of government revenue	18.0	17.3	16.5	14.6	12.4	10.0	7.9	6.0	4.7	3.7	3.2	2.7	2.2	1.8	1.5	1.1	0.8	0.6	0.3	0.1	0.0	0.0
Percent of total public external debt	13.7	11.9	10.9	10.2	9.7	9.0	8.8	8.5	8.4	8.0	7.7	6.8	5.9	4.6	3.8	3.1	2.3	1.6	0.9	0.3	0.0	0.0
Percent of GDP	2.7	2.6	2.5	2.2	1.9	1.5	1.2	0.9	0.7	0.6	0.5	0.4	0.3	0.3	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0
Percent of quota	522.5	485.0	471.0	443.1	396.6	340.8	284.9	229.1	187.2	159.3	142.5	127.5	112.5	97.5	82.5	67.5	52.5	37.5	22.5	7.5	0.0	0.0
GRA	372.5	335.0	321.0	293.1	246.6	190.8	134.9	79.1	37.2	9.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	150.0	142.5	127.5	112.5	97.5	82.5	67.5	52.5	37.5	22.5	7.5	0.0	0.0
Net use of IMF credit (millions of SDRs)	1,930.1	-138.5	-51.6	-103.1	-171.9	-206.2	-206.2	-206.2	-154.7	-103.1	-62.1	-55.4	-55.4	-55.4	-55.4	-55.4	-55.4	-55.4	-55.4	-55.4	-27.7	0.0
Disbursements	2,114.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	184.7	138.5	51.6	103.1	171.9	206.2	206.2	206.2	154.7	103.1	62.1	55.4	55.4	55.4	55.4	55.4	55.4	55.4	55.4	55.4	27.7	0.0
Memorandum items:																						
Exports of goods and services (millions of U.S. dollars)	36,486	39,264	42,108	44,786	47,823	50,756	53,718	56,833	60,108	63,551	67,167	70,965	74,950	79,125	83,497	88,067	92,841	97,823	103,018	108,433	114,074	119,948
Gross international reserves (millions of U.S. dollars)	14,441	12,898	11,770	10,875	11,758	12,675	13,627	14,613	15,633	16,688	17,777	18,901	20,059	21,251	22,477	23,738	25,034	26,103	26,790	27,478	28,165	28,853
Quota (millions of SDRs)	369.4	369.4	369.4	369.4	369.4	369.4	369.4	369.4	369.4	369.4	369.4	369.4	369.4	369.4	369.4	369.4	369.4	369.4	369.4	369.4	369.4	369.4

Source: IMF staff estimates and projections. Projections made on the basis of the recent reform of the Charges and Surcharges Policy (effective as of November 1, 2024).

1/ Based on the GRA rate of charge of 4.018 percent as of November 14, 2024.

2/ Costa Rica belongs to the RST Interest Group C. Based on the RST rate of interest of 4.368 percent as of November 14, 2024.

Annex I. Risk Assessment Matrix[1]

Risks		Policy Response
	External	
Intensification of regional conflicts. Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	**High Likelihood** **Medium Impact**	Maintain adequate level of international reserve buffers to respond to adverse changes in international food and energy. Maintain exchange rate flexibility to help absorb external shocks. Safeguard revenues and continue spending-based consolidation to maintain fiscal space for protection of social goals while securing debt sustainability.
Global growth surprises: • **Slowdown.** Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction, with adverse spillovers through trade and financial channels, triggering sudden stops in some EMDEs.	**Medium Likelihood** **High Impact**	Maintain flexibility of the exchange rate as absorber of external shocks. Use monetary and fiscal policy mix to mitigate impacts on growth and inflation based on Costa Rica's cyclical position. Maintain adequate level of international reserve buffers to respond to potential capital outflows. Preserve financial sector's capital adequacy buffers to cushion the impact of sudden stops in international financial flows.
Commodity price volatility. Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures and food insecurity in EMDEs, cross-border spillovers, and social and economic instability.	**High Likelihood** **Medium Impact**	Maintain a monetary policy stance that limits the impact on domestic inflation while maintaining exchange rate flexibility to absorb international price shocks. Maintain adequate level of international reserve buffers to respond to increments of the commodity import bill. Maintain priority of social spending in fiscal policy.
Sovereign debt distress. Domino effects from high global interest rates, deteriorating debt sustainability in some AEs, unfunded fiscal spending, and/or disorderly debt events in some EMDEs spillover to other countries, amplified by sovereign-bank feedback, resulting in capital outflows, rising risk premia, loss of market access, and contraction of growth and social spending.	**Medium Likelihood** **High Impact**	Maintain adequate levels of international reserve buffers to respond to capital outflows. Preserve fiscal consolidation to contain financing needs and maintain fiscal space to offset spillover impacts from tighter international financial conditions. Preserve financial sector's capital and liquidity buffers to cushion the impact of capital outflows as well as to mitigate potential sovereign-bank feedback effects.
Deepening geoeconomic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions,	**High Likelihood** **Medium**	Maintain adequate levels of international reserves to respond to changes in capital flows. Maintain conditions and policies for good business environment as well as for productivity improvements to attract FDI flows including

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Risks		Policy Response
protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	**Impact**	from reshoring. Strengthen and diversify trade and financial linkages via implementation of Free Trade and Investment Agreements.
Climate change. Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability.	**Medium Likelihood** **Medium Impact**	Build on reforms supported by the RSF arrangement and other measures supporting the implementation of public investment in adaptation and mitigation (e.g., resilient infrastructure, renewable energy, ecosystems conservation). Create enabling environment for private-sector climate financing, including the introduction of climate-related financing instruments to channel capital flows to climate-related investments.
	Domestic	
Political fragmentation and reform fatigue leading to inability to pass key government reform measures or adverse initiatives (including to reduce taxes). Costa Rica's government has shown capacity to build coalitions in the Legislative Assembly to approve key legislation, including several complex reforms during the program. However, its ability to submit new reform proposals has significantly weakened more recently.	**Medium Likelihood** **Medium Impact**	Continue to build coalitions across party lines in the Legislative Assembly and assess the macrocriticality of the ongoing proposals supported by the executive branch to elaborate strategies to get agreement in the legislative process. Prioritize proposals to discuss in Legislative Assembly. Communicate negative consequences of adverse initiatives.
Sudden surge of migration flows. Higher-than-expected migration flows crossing Costa Rica's territory due to political and economic instability in neighboring countries, which might generate unanticipated fiscal outlays and additional challenges in migrants' integration processes.	**High Likelihood** **Medium Impact**	Increase priority social spending while safeguarding the fiscal consolidation process to ensure that public debt firmly remains on a downward trend. Close coordination with key stakeholders and additional support from development partners could help Costa Rica cope with rising migration flows.
Loss of confidence in non-bank financial institutions following the intervention and subsequent resolution of *Coopeservidores* and *Desyfin* due to financial misreporting and weak governance.	**Low Likelihood** **Medium Impact**	To safeguard the financial system and mitigate vulnerabilities in other institutions, (i) maintain adequate levels of capital and liquidity buffers; (ii) strengthen risk-based supervisory tools and processes for data quality and validation.

Annex II. Sovereign Risk and Debt Sustainability Assessment

Table 1. Costa Rica: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	**Low**	The overall risk reflects a relatively consistent level of vulnerability over the short, medium and long term as well as the sustainability assessment.
Near term 1/	...	...	
Medium term	**Low**	**Low**	The mechanical signal is low for a second year albeit sensitive to changes in the assumptions. The final assessment is informed by the signals as well as the scenarios, which postpone debt reduction and generate higher financing needs, which could be comfortably met from domestic sources and regional partners.
Fanchart	**Moderate**	...	
GFN	**Moderate**	...	
Stress test	Cont. Liabty. Nat. Disast.	...	
Long term	...	**Low**	Climate-related long-term debt risks are limited. Debt risks from aging include an alternative baseline of slower GDP growth as well as scenarios illustrating pension and healthcare pressures in the absence of further reforms.
Sustainability assessment 2/	Not required for surveillance countries	Sustainable	Based on the authorities' track record and Medium-term Fiscal Framework, debt and financing needs are expected to decline.
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: Under the baseline, Costa Rica's public debt is assessed to remain sustainable. Public debt is projected to decline to about 60 percent of GDP in the short run and to 50 percent of GDP within 10 years. Gross financing needs are estimated at about 8-9 percent of GDP in the short run and expected to decline over the medium term. Financing is expected to come from official external sources, domestic debt, and Eurobonds. Important risks to the outlook are mitigated by available financing, a fiscal rule that responds to the debt ratio, and the authorities' track record in taking corrective action. Broader coverage beyond the central government would aid a more comprehensive assessment.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Table 2. Costa Rica: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					No	Unconsolidated debt < 0.5 percent of GDP.
2. Subsectors included in the chosen coverage in (1) above:						

Sector		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
CPS / NFPS / GG: expected / CG	2	Extra budgetary funds (EBFs)	No	Not applicable
CPS / NFPS / GG: expected / CG	3	Social security funds (SSFs)	No	
CPS / NFPS / GG: expected	4	State governments	No	
CPS / NFPS / GG: expected	5	Local governments	No	
CPS / NFPS	6	Public nonfinancial corporations	No	
CPS	7	Central bank	No	
CPS	8	Other public financial corporations	No	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:	Consolidated	Non-consolidated

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-Government Debt Holdings

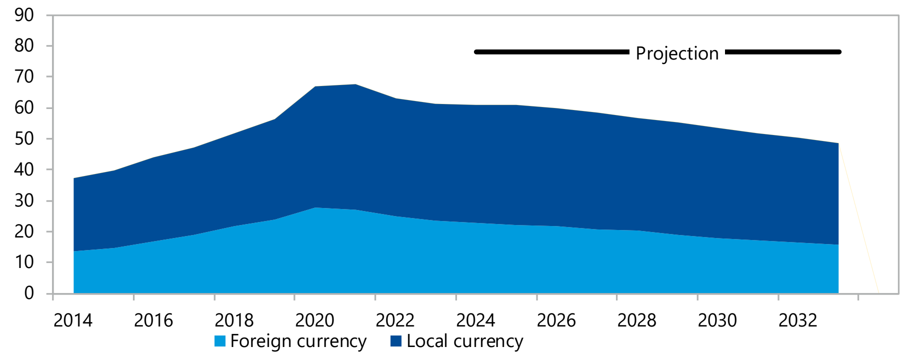
Sector		Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS / NFPS / GG: expected / CG	1	Budget. central govt									0
CPS / NFPS / GG: expected / CG	2	Extra-budget. funds									0
CPS / NFPS / GG: expected / CG	3	Social security funds									0
CPS / NFPS / GG: expected	4	State govt.									0
CPS / NFPS / GG: expected	5	Local govt.									0
CPS / NFPS	6	Nonfin pub. corp.									0
CPS	7	Central bank									0
CPS	8	Oth. pub. fin. corp									0
		Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: Coverage is of the central government due to data timeliness and quality concerns for the broader public sector. Consolidated debt is lower than for the central government alone partly due to social security fund holdings of government securities. The authorities are improving data timeliness, quality, and coverage including by adopting GFSM2014 standards and accrual methods to the general government.

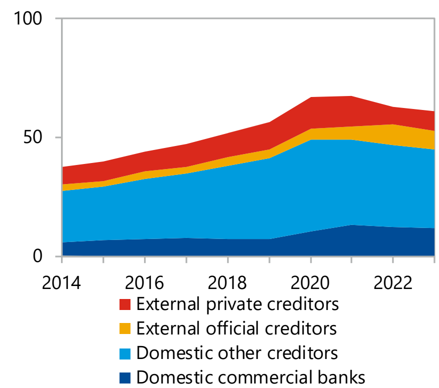
Table 3. Costa Rica: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



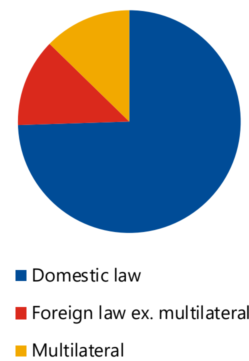
Note: The perimeter shown is central government.

Public Debt by Holder (Percent of GDP)



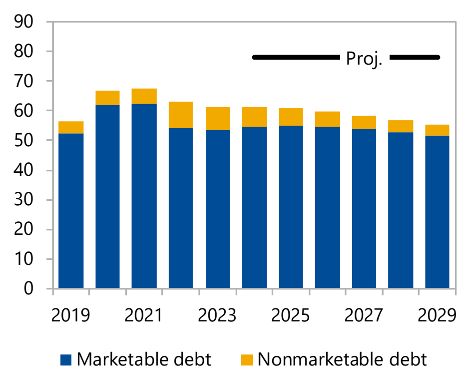
Note: The perimeter shown is central government.

Public Debt by Governing Law, 2023 (percent)



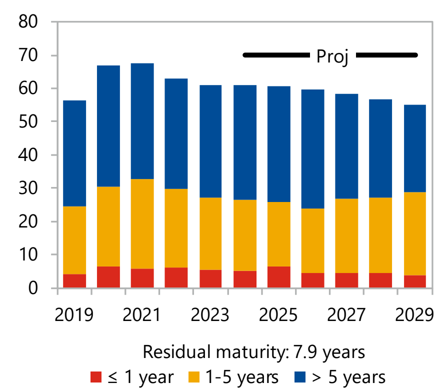
Note: The perimeter shown is central government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is central government.

Public Debt by Maturity (Percent of GDP)



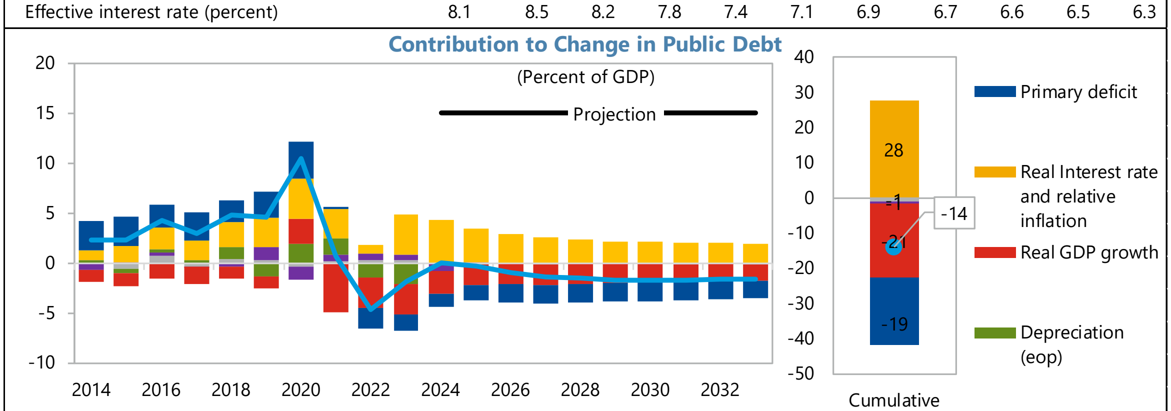
Note: The perimeter shown is central government.

Commentary: Consistent with the Medium-term Debt Strategy, the authorities are expected to continue to benefit from multilateral funding in the short term. The authorities returned to the Eurobond market in 2023 and have conditional legislative approval for further issuance.

Table 4. Costa Rica: Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	61.1	61.1	60.8	59.8	58.4	56.8	55.1	53.5	51.8	50.2	48.6
Change in public debt	-1.9	0.0	-0.3	-1.0	-1.4	-1.5	-1.7	-1.7	-1.7	-1.6	-1.6
Contribution of identified flows	-2.9	0.0	-0.2	-0.9	-1.3	-1.5	-1.6	-1.6	-1.6	-1.5	-1.5
Primary deficit	-1.6	-1.26	-1.6	-1.8	-1.9	-1.9	-1.9	-1.9	-1.9	-1.8	-1.8
Noninterest revenues	15.3	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Noninterest expenditures	13.7	13.8	13.4	13.3	13.2	13.2	13.1	13.1	13.1	13.2	13.2
Automatic debt dynamics	-2.0	2.0	1.3	0.9	0.6	0.4	0.3	0.3	0.3	0.3	0.3
Real interest rate and relative inflation	4.0	4.4	3.4	2.9	2.6	2.4	2.2	2.1	2.1	2.0	1.9
Real interest rate	4.9	4.8	3.2	2.6	2.3	2.1	2.0	1.9	1.8	1.8	1.7
Relative inflation	-0.9	-0.5	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Real growth rate	-3.1	-2.4	-2.1	-2.1	-2.0	-2.0	-1.9	-1.8	-1.8	-1.7	-1.6
Real exchange rate (end of period)	-2.1	...	...	...	...	...	...	...	...	...	...
Other identified flows	0.6	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.6	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	0.3	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Gross financing needs	8.9	8.9	8.2	8.8	6.4	6.6	7.0	6.3	5.5	8.0	6.5
of which: debt service	10.4	10.1	9.7	10.6	8.3	8.5	8.9	8.2	7.4	9.8	8.3
Local currency	6.7	7.0	6.1	7.7	5.4	6.5	5.9	6.0	5.6	7.9	6.3
Foreign currency	3.7	3.2	3.6	2.9	2.9	2.0	2.9	2.2	1.9	1.9	2.0
Memo:											
Real GDP growth (percent)	5.1	4.0	3.5	3.5	3.5	3.5	3.5	3.4	3.4	3.3	3.3
Inflation (GDP deflator; percent)	-0.1	0.3	2.7	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Nominal GDP growth (percent)	5.0	4.3	6.3	6.8	6.8	6.8	6.8	6.7	6.7	6.6	6.6
Effective interest rate (percent)	8.1	8.5	8.2	7.8	7.4	7.1	6.9	6.7	6.6	6.5	6.3

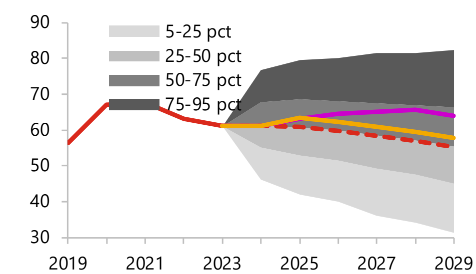


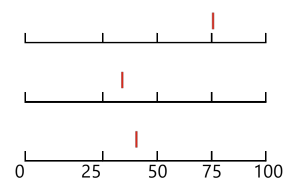
Commentary: Fiscal consolidation, a stronger currency, and strong GDP growth have significantly reduced debt since 2021. Less favorable automatic dynamics, lower revenues, and one-off expenditures are expected to have temporarily halted debt reduction in 2024. Over the medium term, a reducton in debt is expected to be supported by lower interest rates and a primary balance of almost 2 percent of GDP.

Table 5. Costa Rica: Medium-Term Risk Assessment

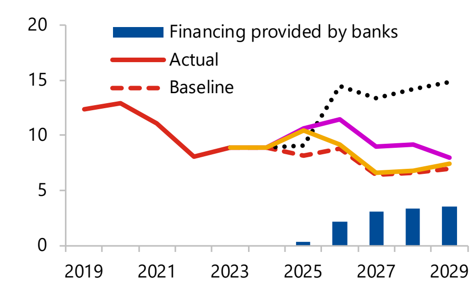
	Value	Contrib 1/	Percentile in peer group 2/
Debt fanchart module			
Fanchart width *(percent of GDP)*	51.2	0.7	
Probability of debt non-stabilizaiton *(percent)*	8.7	0.1	
Terminal debt-to-GDP x institutions index	28.4	0.6	
Debt fanchart index (DFI)		1.4	
Risk signal: 3/		**Moderate**	
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	7.6	2.6	
Initial Banks' claims on the gen. govt *(pct bank assets)*	9.9	3.2	
Chg. In banks' claims in stress *(pct banks' assets)*	8.4	2.8	
GFN financeability index (GFI)		8.6	
Risk signal: 4/		**Moderate**	

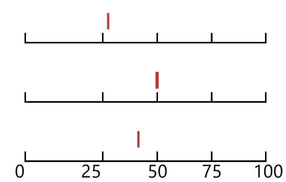
Final Fanchart (Percent of GDP)





Gross Financing Needs (Percent of GDP)

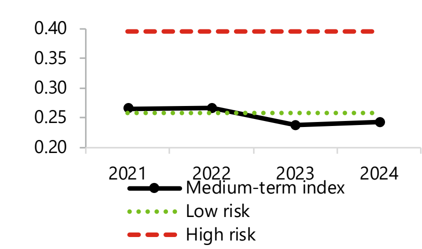




Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index (Index Number)



Medium-term risk analysis

	Value	Value (normalized)	Weight	Contribution
Debt fanchart index	1.4	0.32	0.5	0.2
GFN finaceability index	8.6	0.17	0.5	0.1
Medium-term index		0.24		
Risk signal: 5/		**Low**		
Final assessment:		**Low**		

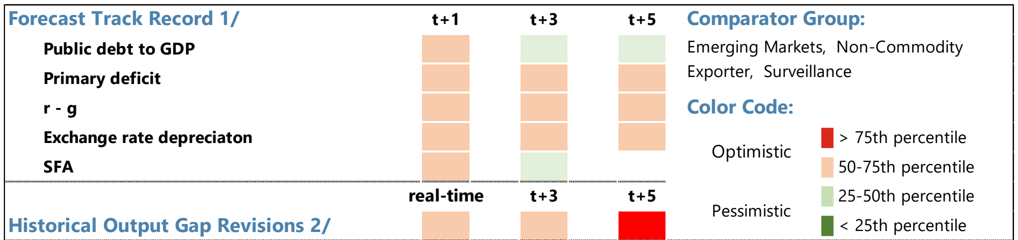
Prob. of missed crisis, 2024-2029, if stress not predicted: 9.1 pct.
Prob. of false alarms, 2024-2029, if stress predicted: 43.2 pct.

Commentary: The MTI remains slightly below the low-risk threshold. The fanchart estimates risks, including those from forecast uncertainty, to be moderate. The GFN module indicates lower risks than for comparators. The contingent liability test includes all contigent claims on the central government (10 percent of GDP) paid over 4 years. Contingent liabilities include 8 percent of GDP that is the subject of a disputed claim by the CCSS (which is within general government) on the central government. The shock would postpone further debt reduction but not increase GFNs as much as the default stress scenario (Annex 3). The natural disaster shock is customized to a fiscal cost of 2.3 percent of GDP and a 0.7 percent GDP reduction.

Source: IMF staff estimates and projections.

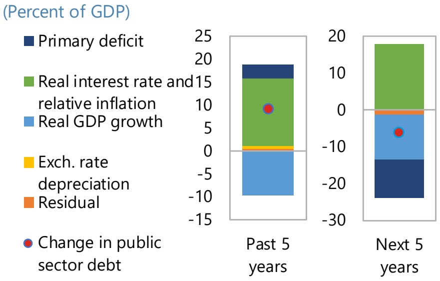
1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is emerging markets, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Table 6. Costa Rica: Realism of Baseline Assumptions



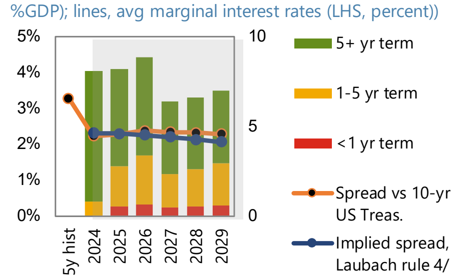
Public Debt Creating Flows

(Percent of GDP)



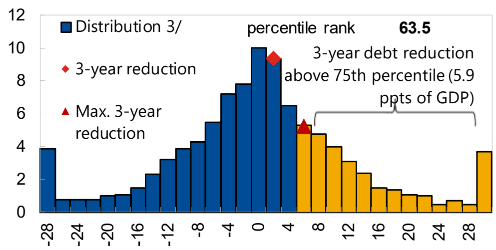
Bond Issuances

(Bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))



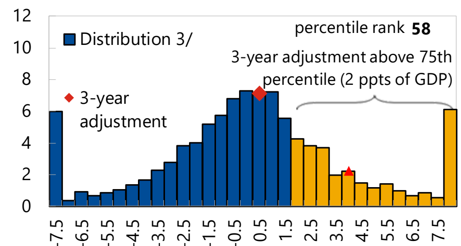
3-Year Debt Reduction

(Percent of GDP)



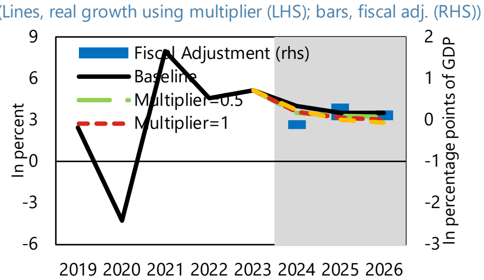
3-Year Adjustment in Cyclically-Adjusted Primary Balance

(Percent of GDP)



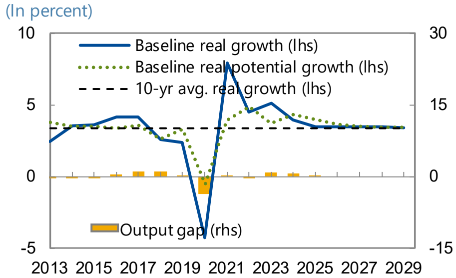
Fiscal Adjustment and Possible Growth Paths

(Lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS))



Real GDP Growth

(In percent)



Commentary: Realism analysis does not trigger major concerns. The structural improvement in the primary balance is underpinned by the implementation track record and the MTFF. The spread is expected to be lower than before due to large use of more favorable multilateral financing sources and less pressure on local markets. GDP growth projections are in line with recent averages, implied fiscal multipliers, and potential growth estimates.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Table 7. Costa Rica: Triggered Modules

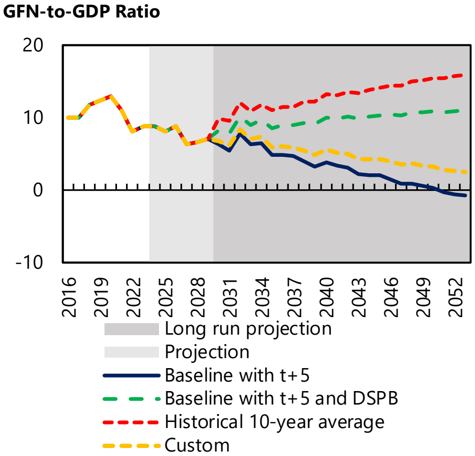
Large amortizations	Pensions	Climate change: Adaptation	Natural Resources
	Health	Climate change: Mitigation	

Costa Rica: Long-Term Risk Assessment: Large Amortization Incl. Custom Scenario

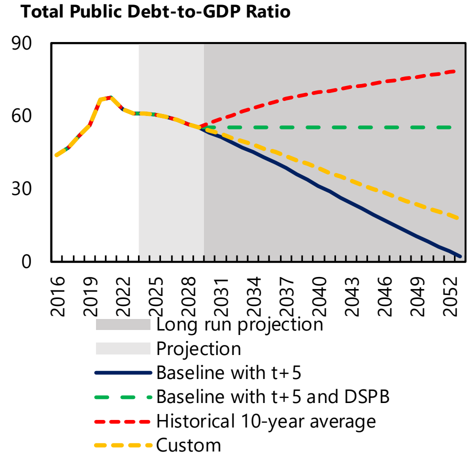
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Historical average assumptions	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Overall Risk Indication		

Variable	2029	2033 to 2037 average	Custom Scenario
Real GDP growth	3.5%	3.3%	3.2%
Primary Balance-to-GDP ratio	1.9%	1.8%	1.3%
Real depreciation	-2.3%	-2.3%	-2.3%
Inflation (GDP deflator)	3.2%	3.2%	3.2%

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio

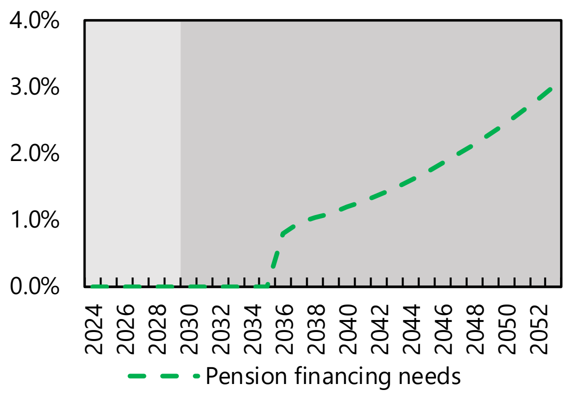


Commentary: This module indicates (in red) when the relevant variable exceeds the historical average by more than one standard deviation according to 10-year historical average assumptions (for example a primary deficit of 1.6% of GDP) or assuming a debt stabilizing primary balance (a small and growing deficit). The medium-term extrapolation is closer to staff's baseline and recent fiscal performance. Staff's baseline is shown by the custom scenario. It has a primary balance averaging 1.3 percent of GDP over the long term (consistent with more fiscal space for higher spending as debt falls) and GDP growth slowing, mainly due to a declining labor force, to about 2.5 percent in 2050. The declining debt and GFN paths as well as the overall risk indication are consistent with a low overall long-term risk.

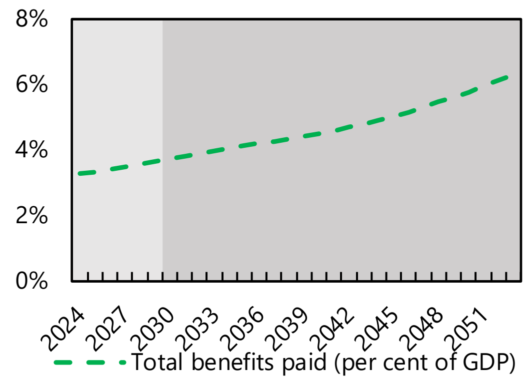
Table 8. Costa Rica: Demographics: Pensions

Permanent adjustment needed in the pension system to keep pension assets positive for:	30 years	50 years	Until 2100
(pp of GDP per year)	1.1%	2.7%	4.3%

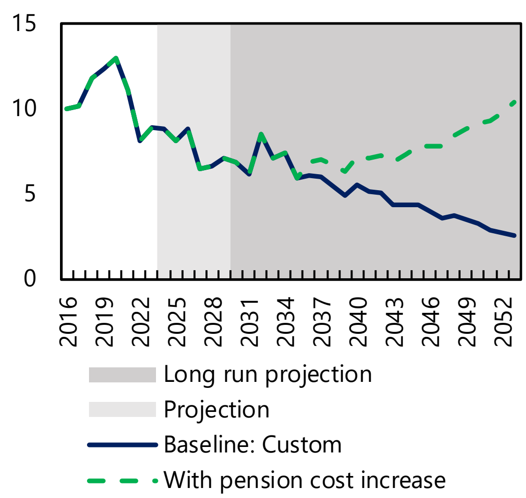
Pension Financing Needs



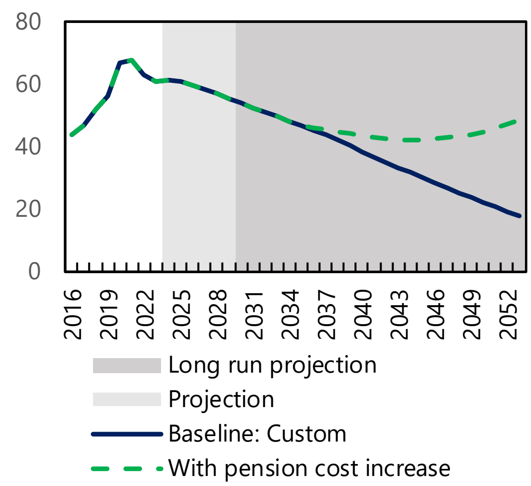
Total Benefits Paid



GFN-to-GDP Ratio



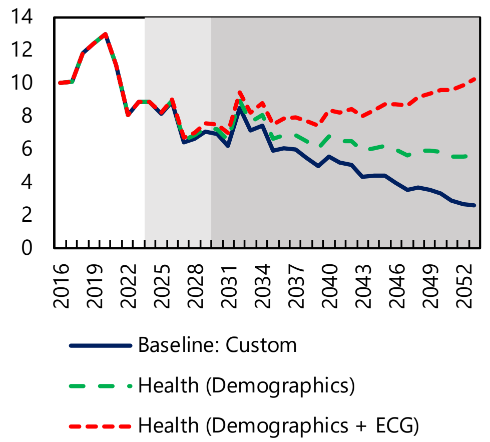
Total Public Debt-to-GDP Ratio



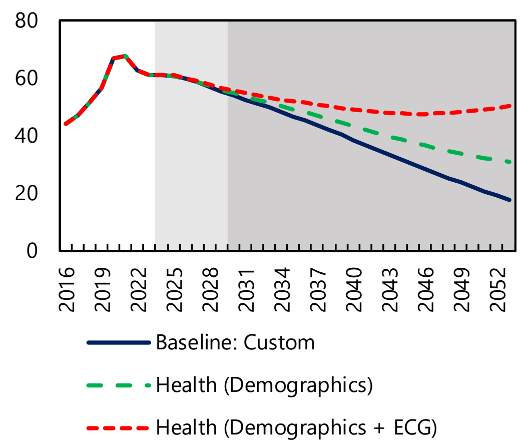
Commentary: The pensions module considers how aging could increase budgetary pressures, focusing on the old age, death, and disability pension. Modelled demographic pressures run down assets by 2036 (in line with the MTFF but sooner than a new actuarial study), generating fiscal pressures and debt risks. Results are not forecasts but illustrate the need for parametric changes. Indexation to inflation instead of wages and linking retirement age to life expectancy could reduce costs by 2 percent of GDP by 2050.

Table 9. Costa Rica: Demographics: Health

GFN-to-GDP Ratio



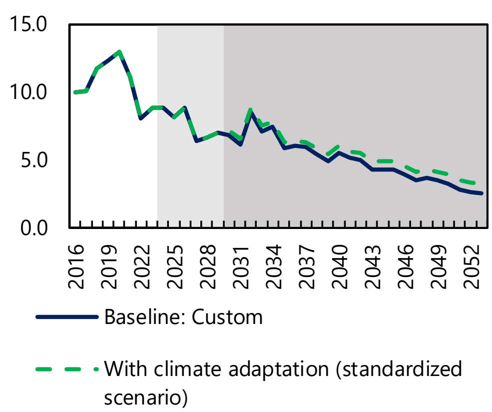
Total Public Debt-to-GDP Ratio



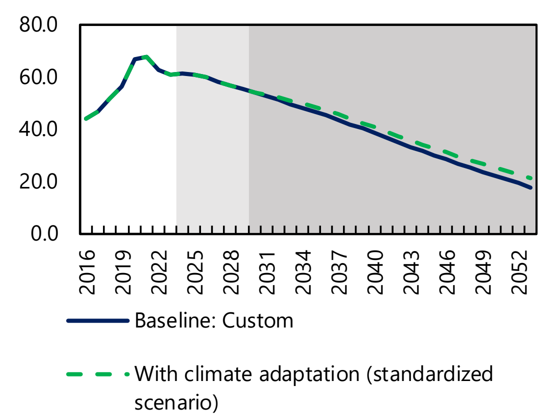
Commentary: The healthcare modules estimate how aging can increase fiscal pressures using data on spending by the CCSS. A scenario of higher spending per capita by 0.6 percent per year suggests contingent fiscal pressures that could prevent sustained declines in debt.

Table 10. Costa Rica: Climate Change: Adaptation

GFN-to-GDP Ratio



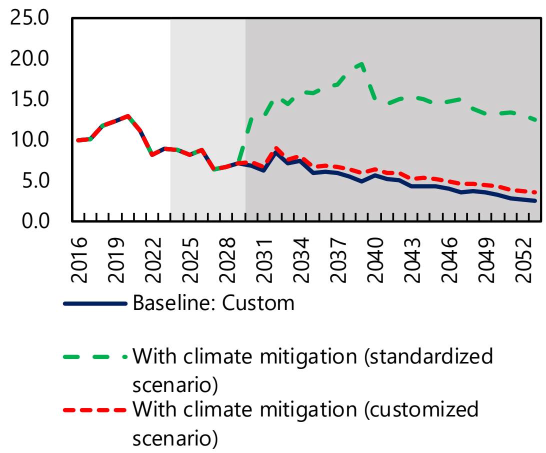
Total Public Debt-to-GDP Ratio



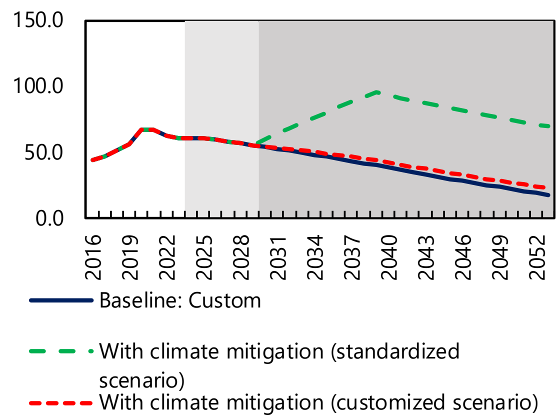
Commentary: The standardized climate change adaptation module adds costs of associated investments of 0.3 percent of GDP in 2030-2034 and 0.1 percent of GDP in the long term. These have a small effect on debt and financing needs.

Table 11. Costa Rica: Climate Change: Mitigation

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Commentary: Costa Rica's characteristics, such as near complete use of renewable sources for electricity generation, make the default scenario for EMs less applicable. A customized scenario based on costing of the National Decarbonization Plan (0.3 percent of GDP per year for a decade) and fuel revenue losses consistent with the authorities' analysis of transition risks (a permanent 0.1 percent of GDP per year) has a small effect.

Annex III. Stress Scenario

1. A severe stress scenario included in Costa Rica's Sovereign Risk and Debt Sustainability Analysis (SRDSA) is used to analyze Costa Rica's capacity to repay the Fund. The quantification is consistent with materialization of global risks leading to tighter global financial conditions (such as sovereign debt distress in some other countries) combined with adverse domestic developments (such as a loss of reform momentum) resulting in rising risk premia and capital outflows. Although other risks may be more likely, this scenario is chosen for its severity to rigorously assess capacity to repay, as it covers macro-fiscal and debt holder shocks. The sudden stop in capital flows, possibly amplified by outflows of local pension funds, has immediate and significant effects on international reserves and the exchange rate, which in turn has a knock-on impact on the real economy. Higher interest rates and lower confidence, especially due to the still-high levels of dollarization, further reduce domestic demand and therefore GDP, with negative effects for government revenues. Lower demand and lagged effects of the depreciation help improve the current account through import compression. As the effects of the shock wane, capital flows begin to recover. Nonetheless, the negative effects on key variables last into the long run.

2. The SRDSA scenario has a shock starting in 2025 with the following features for Costa Rica:

- GDP growth: falls 3.1 percentage points to 0.4 percent in 2025 and 2026.
- Marginal effective interest rates: reach 9 percent (local currency) and 8 percent (foreign currency) in 2025 and return to the baseline in 2029.
- GDP deflator inflation: rises 1.2 percentage points from the baseline to 3.9 percent in 2025, and declines 0.8 percentage points from the baseline to 2.4 percent in 2026.
- The currency: depreciates 7.7 percentage points in 2025. The depreciation is permanent.
- The primary surplus: decreases by 0.8 percent of GDP to 1 percent of GDP in 2026 and is the same as a share of GDP in later years.
- Maturity shortening: In 2025, debt issuance splits 50 percent between short-term and long-term, and the share of long-term financing rises gradually over a 5-year interval.
- Debt holder: (i) Rollover rate: foreign private creditors rollover rate is 67 percent for 2025 and 2026, thereafter 100 percent. (ii) New financing: foreign private creditors provide no new financing other than for existing debt rollover. Creditor groups other than domestic commercial banks provide additional financing proportionate to their shares in the baseline and claims reach a manageable 33 percent of GDP in 2029. Commercial banks are the residual source of financing and claims reach a manageable 19 percent of GDP.

3. To complement the default SRDSA assumptions, the scenario adds the following external sector developments:

- Current account balance: The current account balance as a share of GDP responds to the path of the real exchange rate (adjustment via imports reduction), with a two-year lag using a current account-REER elasticity of -0.29 (consistent with the external sector assessment).[1] Over the long term, the current account gradually returns to the baseline, which is more consistent with fundamentals and desirable policies.

- Private Financial Flows: In the short run, net private-sector flows are substantially weaker than under the baseline due to diminished confidence. Thereafter, flows recover on still-high yields, an attractive exchange rate, and returning confidence. Private flows cumulatively match those under the baseline over the medium and long run.

4. Key macroeconomic impacts are the following:

- GDP: Nominal GDP growth in dollars falls about 9.6 and 4 percentage points relative to the baseline in 2025 and 2026. After 2026, nominal GDP growth in dollars is the same as in the baseline so the nominal GDP loss is permanent.

- External sector: The REER depreciates 5.2 and 0.03 percentage points in 2025 and 2026, respectively. The current account deficit falls by 2 percentage points of GDP in 2027 relative to the baseline. The current account reaches a surplus of 0.8 percent of GDP in 2031 and returns to the baseline in the long run.

- Government revenues: Government revenues in dollars are 12.4 percent lower than under the baseline by 2026 and the loss is permanent.

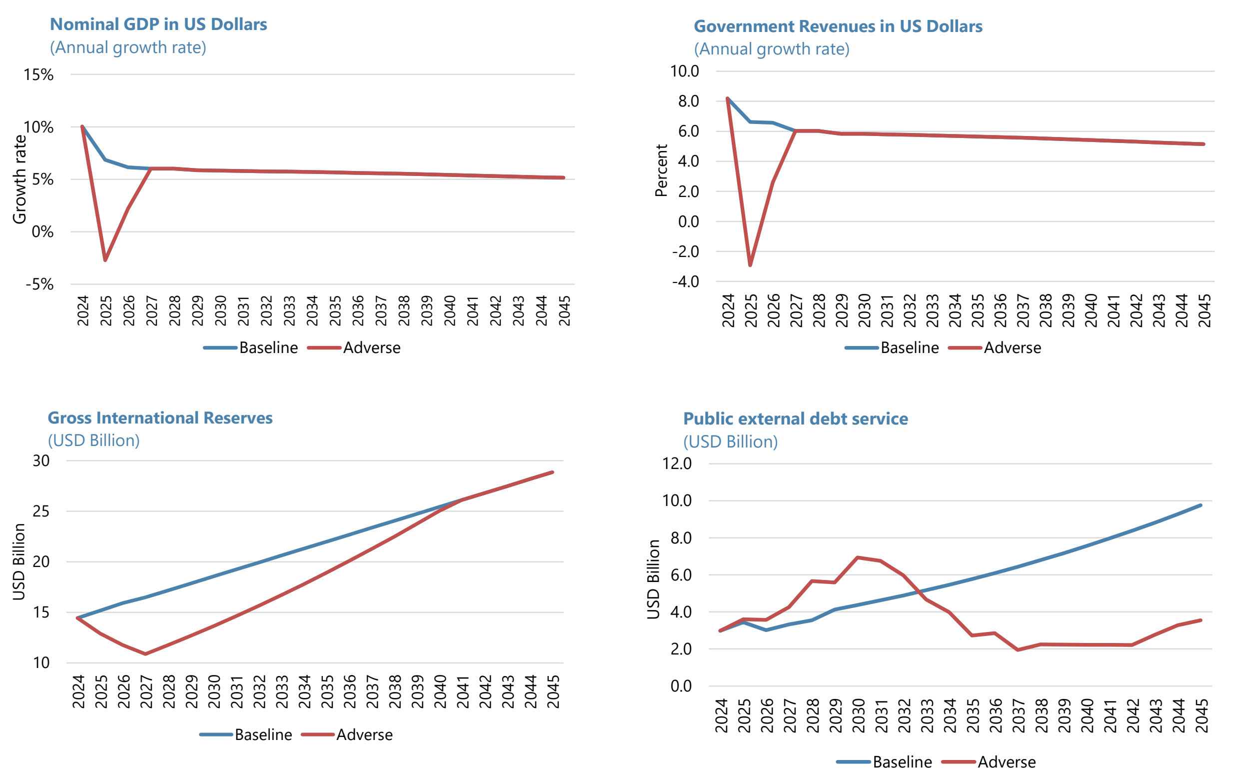
- External public debt service: External public debt service peaks at US$ 6.9 billion (5.8 percent of GDP) in 2030 compared to a baseline of US$ 4.4 billion in that year due to higher interest payments and maturity shortening, which also contributes to lower longer-term debt service.

- Gross international reserves: The cumulative effects of the above shock reduce reserves by one-third relative to baseline to U$ 11 billion in 2027, equivalent to a reduction by about one quarter between 2024 and 2027. (This decline is consistent with the historical fall in reserves observed between January 2020 and June 2022, associated with the impacts of the pandemic, the war in Ukraine, and Costa Rica's negative terms of trade shock.) Thereafter, improving flows allow reserves to gradually return to baseline levels in the long run.

[1] In the first two years of the shock, the current account deficit falls only in nominal terms (commensurate with imports falling alongside domestic demand) and not as a share of GDP. This is because the absence of significant balance sheet effects permits some consumption smoothing and because there may be rigidities. Thereafter, the REER effects are allowed to operate. The scenario is conservative in that it assumes no increase in exports.

5. Indicators of Capacity to Repay. Given the fall in nominal GDP associated with shocks in real GDP growth and nominal devaluation, the outstanding IMF credit increases 0.2 and 0.3 percentage points of GDP with respect to the baseline in 2025 and 2026, respectively (years of the shock), and 0.2 percentage points of GDP on average between 2027 and 2030. After 2030, the increase is less than 0.1 percentage points on average. Total obligations increase by less than 0.1 percentage points of GDP (see Tables 7 and 8).

Macroeconomic Impacts of the Adverse Scenario



Source: IMF staff estimates.