
Country Report

Costa Rica

Generated on March 6th 2018

Economist Intelligence Unit
20 Cabot Square
London E14 4QW
United Kingdom

The Economist Intelligence Unit

The Economist Intelligence Unit is a specialist publisher serving companies establishing and managing operations across national borders. For 60 years it has been a source of information on business developments, economic and political trends, government regulations and corporate practice worldwide. The Economist Intelligence Unit delivers its information in four ways: through its digital portfolio, where the latest analysis is updated daily; through printed subscription products ranging from newsletters to annual reference works; through research reports; and by organising seminars and presentations. The firm is a member of The Economist Group.

London

The Economist Intelligence Unit
20 Cabot Square
London
E14 4QW
United Kingdom
Tel: +44 (0) 20 7576 8181
Fax: +44 (0) 20 7576 8476
E-mail: eiucustomerservices@eiu.com

New York

The Economist Intelligence Unit
The Economist Group
750 Third Avenue
5th Floor
New York, NY 10017, US
Tel: +1 212 541 0500
Fax: +1 212 586 0248
E-mail: eiucustomerservices@eiu.com

Hong Kong

The Economist Intelligence Unit
1301 Cityplaza Four
12 Taikoo Wan Road
Taikoo Shing
Hong Kong
Tel: +852 2585 3888
Fax: +852 2802 7638
E-mail: eiucustomerservices@eiu.com

Geneva

The Economist Intelligence Unit
Rue de l'Athénée 32
1206 Geneva
Switzerland
Tel: +41 22 566 24 70
Fax: +41 22 346 93 47
E-mail: eiucustomerservices@eiu.com

This report can be accessed electronically as soon as it is published by visiting store.eiu.com or by contacting a local sales representative.

The whole report may be viewed in PDF format, or can be navigated section-by-section by using the HTML links. In addition, the full archive of previous reports can be accessed in HTML or PDF format, and our search engine can be used to find content of interest quickly. Our automatic alerting service will send a notification via e-mail when new reports become available.

Copyright

© 2018 The Economist Intelligence Unit Limited. All rights reserved. Neither this publication nor any part of it may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of The Economist Intelligence Unit Limited.

All information in this report is verified to the best of the author's and the publisher's ability. However, the Economist Intelligence Unit does not accept responsibility for any loss arising from reliance on it.

ISSN 2047-4563

Symbols for tables

"0 or 0.0" means nil or negligible; "n/a" means not available; "-" means not applicable

Costa Rica

Summary

2 [Briefing sheet](#)

Outlook for 2018-22

4 [Political stability](#)
5 [Election watch](#)
5 [International relations](#)
6 [Policy trends](#)
6 [Fiscal policy](#)
7 [Monetary policy](#)
7 [International assumptions](#)
8 [Economic growth](#)
8 [Inflation](#)
9 [Exchange rates](#)
9 [External sector](#)
9 [Forecast summary](#)

Data and charts

10 [Annual data and forecast](#)
11 [Quarterly data](#)
11 [Monthly data](#)
13 [Annual trends charts](#)
14 [Monthly trends charts](#)
15 [Comparative economic indicators](#)

Summary

15 [Basic data](#)
17 [Political structure](#)

Recent analysis

Politics

19 [Forecast updates](#)

Economy

20 [Forecast updates](#)

Briefing sheet

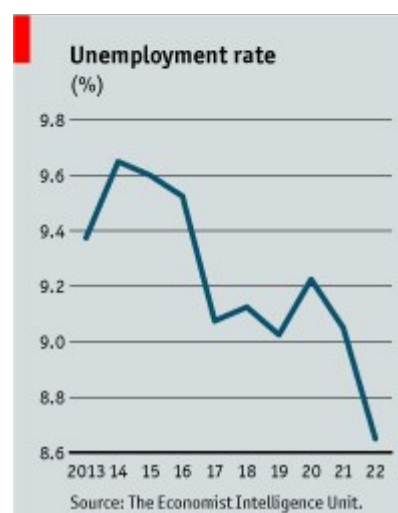
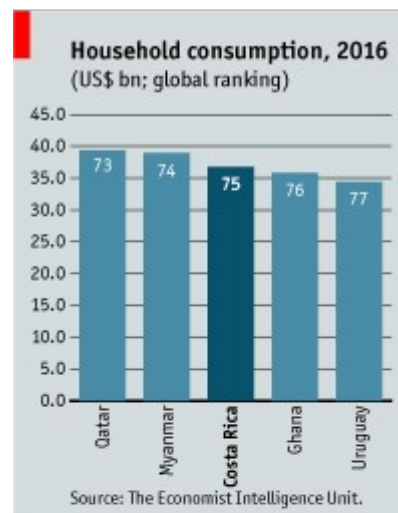
Editor: **Giancarlo Morelli**

Forecast Closing Date: **February 8, 2018**

Political and economic outlook

- The president, Luis Guillermo Solís of the Partido Acción Ciudadana (PAC), will maintain generally pro-business policies, but there will be no new reforms during the remainder of his term, which ends in May 2018.
- The second round of the presidential election will be held on April 1st. The Economist Intelligence Unit expects the ruling PAC to defeat the evangelical Restauración Nacional (RN) and pursue broad policy continuity after resuming office.
- Following estimated real GDP growth of 3.4% in 2017, we expect annual average growth of 4% in 2018-22, supported by fairly firm internal demand and favourable external conditions—except in 2020, when US economic growth will slow.
- The next government will make some progress on fiscal tightening by approving value-added tax (VAT), yet fiscal consolidation efforts will be hampered by high rigidity in public expenditure. The debt/GDP ratio will reach 79.1% in 2022.
- We expect consumer price inflation to rise to 3.2% at end-2018, after the effects of lower energy prices ease off. Demand-side pressures and currency depreciation will push inflation up further in 2019, but it will subside thereafter.
- **Although renewed bouts of volatility such as that experienced in mid-2017 are possible, we expect the colón to depreciate gradually, to C629.9:US\$1 by end of 2022.**
- After widening to an estimated 3.1% of GDP in 2017, the current-account deficit will rise modestly in 2018-20 as imports of goods rise more sharply than exports. It will then narrow to 3.2% of GDP by 2022 on the back of stronger services exports.

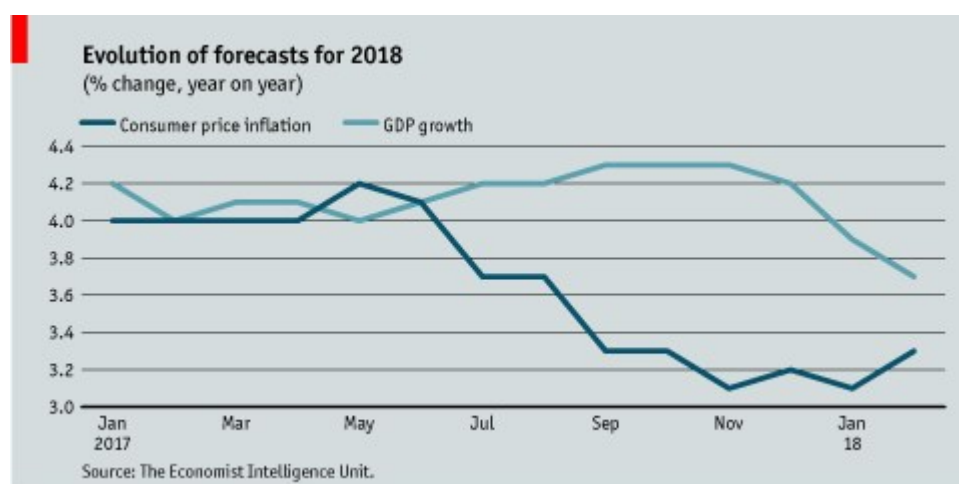
Market opportunities



Key indicators

	2017 ^a	2018 ^b	2019 ^b	2020 ^b	2021 ^b	2022 ^b
Real GDP growth (%)	3.4 ^c	3.7	4.0	3.4	4.3	4.5
Consumer price inflation (av; %)	1.6	3.3	3.9	2.7	2.8	3.2
Government balance (% of GDP)	-6.2 ^c	-7.1	-6.2	-6.1	-5.9	-5.6
Current-account balance (% of GDP)	-3.1 ^c	-3.3	-3.2	-3.5	-3.3	-3.2
Money market rate (av; %)	4.8	5.1	5.4	4.8	4.3	4.4
Unemployment rate (%)	9.1	9.1	9.0	9.2	9.1	8.7
Exchange rate C:US\$ (av)	567.5	588.5	607.6	612.3	621.0	628.2

^a Actual. ^b Economist Intelligence Unit forecasts. ^c Economist Intelligence Unit estimates.



Key changes since December 30th

- Owing to the surprising result of the first-round presidential election, in which the candidates of RN and the PAC qualified for the April run-off, we now expect Carlos Alvarado Quesada of the PAC to win the presidency.
- Following disappointing data from the finance ministry and the central bank regarding the public finances, together with the result of the February elections, we now forecast a much wider budget deficit and larger-than-expected public debt in 2018-22.
- Owing to the negative effect that greater concerns over the sustainability of Costa Rica's public finances will have on consumer and investor confidence, we have revised down our forecasts for private consumption and investment.

The month ahead

- **February 21st—South Korea-Central America free-trade agreement (FTA):** Central American countries are expected to sign an FTA with South Korea. This will eliminate taxes on 95% of Korean exports, while benefitting local coffee and cane exporters.
- **March 7th—February inflation data published:** The month-on-month increase in consumer prices in February is expected to be significantly larger than in January (0.4% month-on-month) owing to cyclical factors and recovering oil prices.
- **TBC—Formation of cross-party alliances:** In the run-up to the second round of the presidential election, both RN and the PAC will seek to strike agreements with other parties in order to obtain the support of their voters.

Major risks to our forecast

Scenarios, Q4 2017	Probability	Impact	Intensity
Fiscal consolidation efforts fail	High	Very High	20
Electricity costs rise, affecting profits and competitiveness	Moderate	High	12
The government fails to overcome lack of co-operation and obstructionism in a more fractured legislature	Moderate	High	12
Revenue shortfalls lead to higher tax rates and/or new taxes	Low	Very High	10
Bureaucratic delays hamper private-sector activity	Moderate	Moderate	9

Note: Scenarios and scores are taken from our Risk Briefing product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.

Source: The Economist Intelligence Unit.

Outlook for 2018-22

Political stability

The president, Luis Guillermo Solís of the centre-left Partido Acción Ciudadana (PAC), will finish his four-year term in May 2018. The next government, which The Economist Intelligence Unit currently expects to be led by the PAC, will face the same political landscape that Mr Solís has had to contend with, characterised by a fragmented legislature and growing public dissatisfaction with the political class as a whole. Amid campaigning for the second round of the country's presidential election on April 1st, and with only 12 of the 57 seats in the Legislative Assembly, Mr Solís is unlikely to secure any further progress on his reform agenda during the remainder of his term.

Legislative gridlock has been a constant feature of Mr Solís's administration, reflecting challenges posed by Costa Rica's multiparty system, in which, since the 2002 elections, no party has been able to secure an overall majority in Congress. Looking ahead to the next administration, legislative gridlock will continue to hamper governability and efforts to pass legislation in 2018-22, regardless of which party wins the upcoming run-off, although we believe that political alliances could lead to cross-party agreements in specific policy areas. No party achieved a majority in the Legislative Assembly in the February vote. The centrist Partido Liberación Nacional (PLN) will have the largest block (17 seats), followed by the nascent evangelical Restauración Nacional (RN), with 14 seats, and the PAC, with only 10 seats in the 57-seat Assembly. Although our baseline forecast is for a PAC victory in the presidential run-off, were RN to win, it could potentially have an easier time building congressional alliances, given that it will be able to secure a simple majority with the support of the PLN alone; by contrast, the PAC will need cross-party support to pass legislation.

The strength of Costa Rica's political institutions, combined with a long democratic tradition, social stability and low (albeit rising) crime levels, will remain fundamental assets. However, significant disagreements in policy areas such as the public finances, particularly regarding fiscal reform, are the largest challenge for governability facing the next government, even though there is general consensus among the main parties on the socio-economic and security fronts.

Election watch

The presidential and legislative elections on February 5th were highly polarised by a ruling in favour of same-sex marriage by the Inter-American Court of Human Rights (IACHR) in early January. The two candidates with the most divergent views towards the court ruling will now face each other in a presidential run-off on April 1st. Fabricio Alvarado Muñoz, a former TV broadcaster turned Christian singer, of the small evangelical RN, skyrocketed in popularity after he made strong comments repudiating the IACHR's decision. Mr Alvarado Muñoz obtained 24.9% of the national vote. Carlos Alvarado Quesada, a former labour minister representing the PAC (which was the only major party to openly welcome the ruling), received the support of many young voters and the backing of 21.7% of the electorate.

The run-off on April 1st will be close. Ahead of the vote, both RN and the PAC will seek to strike cross-party alliances in order to attract voters from other parties (and bolster their support in Congress after the elections). In order to attract voters from other parties, both parties will need to polish their economic credentials. RN has so far presented only shallow economic policy proposals, as its priority is to put forth its Christian conservative views. The PAC's current economic proposals are simply a continuation of those of the current government, which has a mixed economic record. As with previous governments, the Solís administration has failed to approve fiscal reforms to ensure debt sustainability and avoid macroeconomic instability.

We believe that the PAC is likely to make important economic concessions in exchange for the formal support of other traditional parties in the run off, which will boost its popularity among the 53.4% of the electorate that did not vote for the PAC or RN. On this basis, we currently believe that Mr Alvarado Quesada is best placed to win the presidency. However, there are significant risks to this forecast, particularly in light of anti-PAC sentiment among some PLN members, which could see PLN voters tilt towards RN in the run-off.

International relations

Costa Rica is in the process of obtaining OECD membership. In February the OECD approved Costa Rica's insurance and pensions policies. The country is making significant progress in the accession process, and we expect that it will become a formal member in 2020, although the eventual inability to implement fiscal reforms weighs on this forecast. Talks to join the Pacific Alliance, a trade pact comprising Mexico, Peru, Chile and Colombia, have stalled and are expected to progress only slowly during the next government's term. In addition to the Dominican Republic-Central America Free-Trade Agreement (DR-CAFTA), implemented in 2009, a free-trade agreement (FTA) between the Central American Integration System (to which Costa Rica belongs) and the EU has been in place since October 2013. Relations with the US will remain strong and we do not expect major disruption from the administration of Donald Trump, which has not targeted DR-CAFTA in its anti-trade rhetoric.

Strained relations with Nicaragua owing to recurrent border disputes are expected to ease somewhat over the coming months, given a ruling from the International Court of Justice (ICJ) ordering Nicaragua to pay US\$379,000 in reparations for invading Costa Rican territory. The ICJ also delimited maritime borders between the two countries.

Costa Rica intends to sign an FTA with Japan and is seeking closer ties with the Association of South-East Asian Nations (ASEAN), an intergovernmental organisation comprising ten Asian countries, in order to expand its FTA network in Asia, where Costa Rica has agreements with only China, Singapore and South Korea. It is likely that more FTAs will be sought, regardless of which party wins the next elections.

Policy trends

Based on our assumption that the PAC will remain in government, there will be broad policy continuity in 2018-22, and Costa Rica will continue to benefit from policy predictability, strong institutions, a fairly well-educated workforce and a favourable stance towards private investment, all of which will underpin an attractive business environment. A PAC government would retain an open stance towards foreign investment in tourism, infrastructure, services and high technology manufacturing. The next government will continue to be wary of further FTAs, and will focus on tax reform to solve the country's fiscal woes. Fiscal pressures have hampered the government's capacity to stimulate public investment and participate in infrastructure-enhancing projects, but the next administration is expected to take some steps to cut red tape and promote public-private partnerships in order to implement infrastructure projects. The next government will encourage investment in the information technology (IT) sector, in which Costa Rica enjoys competitive advantages relative to other Central American countries. Fiscal pressures will curtail the room for social spending. In an eventual RN government, uncertainty surrounding RN's shallow policy proposals would hinder consumption and investment in the short-term.

Fiscal policy

Deteriorating fiscal and debt dynamics will force the next government to make ground on fiscal consolidation. The Solís government has been able to secure approval of a number of piecemeal fiscal reforms, and managed to increase revenue from 13.9% of GDP in 2014 to 14.6% in 2017. However, incremental increases in fiscal revenue during Mr Solís's tenure have been offset by sharp increases (particularly in 2017 and in the proposed 2018 budget) in expenditure, from 19.6% of GDP in 2014 to 20.8% of GDP in 2017 and a forecast 21.9% of GDP in 2018. A growing component of expenditure is debt interest payments, which are forecast to reach 3.9% of GDP in 2018. Expenditure is expected to remain elevated, owing to highly rigid legal budgetary constraints, meaning that the fiscal deficit will continue to widen, reaching a forecast 7.1% of GDP in 2018.

The fiscal policy of the next government (assuming that Mr Alvarado Quesada wins) is likely to be centred mainly on tax reform. This would include the transition from the existing sales tax to value-added tax (VAT), which would broaden the tax base and tax services that are currently untaxed. A new PAC government would also reform the current rent tax and would be likely to propose light austerity measures, such as hiring freezes, in key public institutions. Nevertheless, given the small size of the PAC's block in the Legislative Assembly and the current government's record, we believe that only the transition to VAT will be approved and that there will be no significant reforms to public expenditure (to reduce rigidity and enable greater consolidation), thus exacerbating concerns about the sustainability of Costa Rica's public finances over our forecast period. Although fiscal consolidation efforts will manage to narrow the primary deficit to 1.1% of GDP by 2022, we expect the fiscal deficit to narrow only marginally by 2022, to 5.6% of GDP, owing to rapidly expanding interest debt payments.

Large deficits registered ever since a recession in 2009 have lifted the central government debt/GDP ratio. We forecast that it will reach 70.7% of GDP at end 2018, before rising further, to 79.1% in 2022. This will increase risks to debt sustainability significantly during a period of rising external financing costs. There are currently no plans to undertake further large, sovereign Eurobond placements after US\$4bn in issues in 2012-15, obliging the government to resort to domestic and multilateral borrowing. Nonetheless, some renewed external issuance is likely during the next government, given that the central government is already suffering from liquidity problems, and local debt markets are saturated, resulting in large interest-rate premiums.

Monetary policy

The Banco Central de Costa Rica (BCCR, the central bank) operates an inflation targeting framework with a range of 2-4%. Owing to pressures on the exchange rate that could have translated into higher inflation expectations, policymakers lifted the monetary policy rate from 1.75% in March 2017 to 5% in February, over the course of seven rate rises, of which five happened in mid-2017. We expect moderate interest-rate tightening in the medium term, particularly as the Federal Reserve (the US central bank) raises interest rates in 2018-19, taking the monetary policy rate to 5.75% by end-2018. Costa Rica's highly dollarised financial system (more than 40% of credit and deposits are denominated in US dollars) remains a source of vulnerability, but ample international reserve levels—equivalent to over four months of imports—will help to mitigate shocks.

International assumptions

	2017	2018	2019	2020	2021	2022
Economic growth (%)						
US GDP	2.2	2.3	2.4	0.9	2.1	2.0
OECD GDP	2.3	2.1	2.1	1.3	2.0	1.9
World GDP	3.0	2.9	2.9	2.4	2.8	2.8
World trade	4.6	4.3	4.0	2.8	3.8	3.7
Inflation indicators (% unless otherwise indicated)						
US CPI	2.1	2.2	2.3	1.3	1.8	1.9
OECD CPI	2.1	2.1	2.1	1.7	1.9	1.9
Manufactures (measured in US\$)	3.5	4.2	4.0	3.1	3.8	3.3
Oil (Brent; US\$/b)	54.4	63.0	60.0	57.8	60.6	63.3
Non-oil commodities (measured in US\$)	7.6	2.0	1.3	-3.1	2.1	1.4
Financial variables						
US\$ 3-month commercial paper rate (av; %)	1.1	1.7	2.5	2.3	1.5	1.8
Exchange rate C:US\$ (av)	567.51	588.48	607.61	612.27	621.03	628.20
Exchange rate US\$:€ (av)	1.13	1.19	1.18	1.21	1.21	1.24

Economic growth

Our forecasts are based on the assumption that the PAC retains power in the presidential runoff election in April, and on policy continuity thereafter. After estimated real GDP growth of 3.4% in 2017, we expect a pick-up in 2018, to 3.7%. Performance will be supported in the short term by resilient domestic consumption, itself boosted by steady energy prices, and by increased external demand from key trade partners. However, fixed investment will remain subdued, owing to the government's spending constraints and low investor confidence given the lack of fiscal reform. These two effects would be aggravated by a RN victory in the presidential run-off. Positive medium-term factors will include accession to the OECD and firm growth in key sectors such as tourism and construction. However, subpar employment growth and low productivity in domestically oriented firms will hinder medium-term annual economic growth. Real GDP will grow by 4% in 2019, supported by strong export growth and recovering private investment. It will then slow in 2020, to 3.4%, following a forecast cyclical slowdown in the US, but will pick up to an average of 4.4% in 2021-22.

Although it will be resilient, private consumption growth will be constrained by social problems, including high unemployment (9.3% in the fourth quarter of 2017), rising criminality and income inequality. Government spending growth will grow steadily, owing to the rigidity of central government expenditure, while uncertainties surrounding the next government's fiscal consolidation plans and the US slowdown in 2020 will cause fixed investment to fluctuate. This will, nonetheless, grow by an average of 4.7% in 2019-22, owing to an attractive business climate and the prospect of increasing investment in infrastructure. Real exports will grow at an average of 5.1% over the forecast period; export growth will tend to mirror fluctuations in demand from the US, Costa Rica's main trading partner.

On the supply side, growth will be driven by professional services and high-tech manufacturing. Although productivity is low in some domestic services subsectors, the telecommunications sector is growing rapidly, as are business services linked to the high-tech and export sectors. Tourism will remain strongly tied to US demand, but the country's infrastructural lag will undermine the sector's potential in the medium term. Construction activity is expected to recover gradually over the coming months, while agricultural output will grow steadily in 2018-22.

Economic growth

%	2017 ^a	2018 ^b	2019 ^b	2020 ^b	2021 ^b	2022 ^b
GDP	3.4	3.7	4.0	3.4	4.3	4.5
Private consumption	3.4	3.5	3.3	3.6	4.3	4.5
Government consumption	2.6	2.6	2.4	2.3	3.0	2.8
Gross fixed investment	-2.5	1.2	4.6	4.1	4.9	5.2
Exports of goods & services	6.0	5.8	5.1	3.5	5.4	5.6
Imports of goods & services	2.9	3.7	3.5	3.6	5.2	5.3
Domestic demand	2.1	3.0	3.4	3.5	4.2	4.4
Agriculture	3.8	2.8	4.0	3.5	3.9	4.1
Industry	3.4	4.5	4.5	4.3	4.8	4.9
Services	3.4	3.6	3.9	3.3	4.2	4.4

^a Economist Intelligence Unit estimates. ^b Economist Intelligence Unit forecasts.

Inflation

Inflation will mostly remain within the BCCR's 2-4% target range in the forecast period. Nonetheless, we expect inflation to pick up in 2018 and peak in 2019, based on our assumptions that the next government will implement tax reforms that will impact consumer prices in the short term. In 2018 the effect of lower energy and utility prices will dissipate and, together with rising import prices, will push inflation to 3.2% at the end of the year, near the mid-point of the target range set by the BCCR. We also expect inflation to average 3.2% in 2018-22. Firm domestic demand and higher import costs (the result of local currency depreciation), will have a knock-on effect on consumer prices, and will prevent a more notable reduction in inflation. Further sharp currency depreciation represents a risk to our forecast, together with the possibility of weather-related supply disruptions, such as Tropical Storm Nate, which hit in September.

Exchange rates

Market concerns over the election result in February led to a renewed bout of rapid currency depreciation, taking the exchange rate to C574.1:US\$1, and leading monetary authorities to intervene in currency markets. This came after a sharp depreciation of the colón in mid-2017, which had stemmed from a growing differential between local and US interest rates. The BCCR reacted then by raising interest rates significantly, and the currency regained most of its lost value in subsequent months. Looking ahead, fiscal concerns will continue to put pressure on the colón, and the BCCR will continue to intervene in the currency markets when needed. Nevertheless, we expect depreciation to be relatively modest in 2018-22, taking the colón to C629.9:US\$1 by end-2022. In real terms, the colón will remain considerably weaker in 2018-22 than in the previous decade, thus supporting competitiveness.

External sector

After widening in 2017 to an estimated 3.1% of GDP, the current-account deficit is forecast to widen again in 2018, reflecting higher import prices owing to growing oil prices, and firm import demand. Heavy dependence on imports of consumer goods will cause the trade deficit to widen in 2018-20, pushing the current-account deficit to peak at 3.5% of GDP in 2020. Nevertheless, the services surplus will also expand, owing to better performance in tourism and IT services; this will cause the current-account deficit to narrow to an average of 3.3% of GDP in 2021-22.

Our forecast assumes that the current-account deficit will be covered entirely by foreign direct investment (FDI) inflows during the forecast period. After reaching an estimated US\$3bn in 2017, equivalent to 5.2% of GDP, FDI will gradually increase throughout the forecast period—notably in the high-tech manufacturing, tourism and real-estate sectors. Therefore the country should find little difficulty in meeting its external financing requirement.

Forecast summary

Forecast summary

(% unless otherwise indicated)

	2017 ^a	2018 ^b	2019 ^b	2020 ^b	2021 ^b	2022 ^b
Real GDP growth	3.4	3.7	4.0	3.4	4.3	4.5
Industrial production growth	3.4	4.5	4.5	4.3	4.8	4.9
Gross agricultural production growth	3.8	2.8	4.0	3.5	3.9	4.1
Unemployment rate (av)	9.1 ^c	9.1	9.0	9.2	9.1	8.7
Consumer price inflation (av)	1.6 ^c	3.3	3.9	2.7	2.8	3.2
Consumer price inflation (end-period)	2.6 ^c	3.2	3.7	2.4	3.2	3.0
Commercial bank prime lending rate	11.2 ^c	11.9	12.2	12.0	12.8	13.0
Central government balance (% of GDP)	-6.2	-7.1	-6.2	-6.1	-5.9	-5.6
Exports of goods fob (US\$ bn)	10.9	11.7	12.5	13.2	14.4	15.9
Imports of goods fob (US\$ bn)	15.7	17.1	18.4	19.5	21.1	22.9
Current-account balance (US\$ bn)	-1.8	-1.9	-2.0	-2.2	-2.3	-2.3
Current-account balance (% of GDP)	-3.1	-3.3	-3.2	-3.5	-3.3	-3.2
External debt (end-period; US\$ bn)	26.1	27.0	28.4	30.2	31.7	34.4
Exchange rate C:US\$ (av)	567.5 ^c	588.5	607.6	612.3	621.0	628.2
Exchange rate C:US\$ (end-period)	569.5 ^c	589.8	608.6	615.0	626.2	629.9
Exchange rate C:¥100 (av)	521.8 ^c	526.7	550.1	593.0	619.9	628.2
Exchange rate C:€ (end-period)	600.3 ^c	666.4	690.7	710.3	735.7	746.5

^a Economist Intelligence Unit estimates. ^b Economist Intelligence Unit forecasts. ^c Actual.

Data and charts

Annual data and forecast

	2013 ^a	2014 ^a	2015 ^a	2016 ^a	2017 ^b	2018 ^c	2019 ^c
GDP							
Nominal GDP (US\$ m)	49,745	50,577	54,743	57,141	57,186	58,454	60,933
Nominal GDP (C bn)	24,861	27,227	29,264	31,127	32,454	34,399	37,024
Real GDP growth (%)	2.3	3.5	3.6	4.5	3.4	3.7	4.0
Expenditure on GDP (% real change)							
Private consumption	2.9	4.2	4.6	4.5	3.4	3.5	3.3
Government consumption	3.2	2.9	2.4	2.9	2.6	2.6	2.4
Gross fixed investment	-0.3	3.3	3.0	0.2	-2.5	1.2	4.6
Exports of goods & services	3.3	5.0	2.5	9.8	6.0	5.8	5.1
Imports of goods & services	1.7	5.0	4.5	8.5	2.9	3.7	3.5
Origin of GDP (% real change)							
Agriculture	0.1	1.5	-2.7	4.1	3.8	2.8	4.0
Industry	-4.0	1.4	0.3	2.6	3.4	4.5	4.5
Services	4.6	4.4	4.9	5.1	3.4	3.6	3.9
Population and income							
Population (m)	4.7	4.8	4.8	4.9	4.9	5.0	5.0
GDP per head (US\$ at PPP)	14,525	15,140	15,685	16,432	17,124	17,987	18,807
Recorded unemployment (av; %)	9.4	9.7	9.6	9.5	9.1 ^a	9.1	9.0
Fiscal indicators (% of GDP)							
Public-sector balance	-5.4	-5.6	-5.7	-5.2	-6.2	-7.1	-6.2
Public-sector debt interest payments	2.5	2.6	2.7	2.8	3.2	3.9	4.1
Public-sector primary balance	-2.8	-3.1	-3.0	-2.4	-3.1	-3.2	-2.1
Net public debt	54.6	55.6	57.9	63.0	65.6	70.7	73.5
Prices and financial indicators							
Exchange rate C:US\$ (end-period)	501.4	539.4	538.4	554.6	569.5 ^a	589.8	608.6
Consumer prices (end-period; %)	3.7	5.1	-0.8	0.8	2.6 ^a	3.2	3.7
Stock of money M1 (% change)	8.1	8.6	13.4	8.2	-1.7 ^a	10.6	13.5
Stock of money M2 (% change)	11.9	11.5	13.9	7.3	9.3 ^a	12.8	9.3
Lending interest rate (av; %)	15.2	14.9	14.2	11.6	11.2 ^a	11.9	12.2
Current account (US\$ m)							
Trade balance	-5,559	-5,329	-4,628	-4,335	-4,784	-5,476	-5,938
Goods: exports fob	8,866	9,456	9,432	10,243	10,922	11,660	12,455
Goods: imports fob	-14,425	-14,784	-14,060	-14,578	-15,706	-17,136	-18,393
Services balance	4,564	4,539	4,578	5,237	5,609	6,290	6,794
Primary income balance	-1,828	-2,114	-2,380	-2,865	-3,098	-3,260	-3,370
Secondary income balance	392	450	457	473	513	525	547
Current-account balance	-2,431	-2,453	-1,972	-1,490	-1,760	-1,922	-1,967
External debt (US\$ m)							
Debt stock	17,135	19,722	23,589	25,567	26,139	26,951	28,367
Debt service paid	3,287	3,464	2,767	2,829	3,881	4,463	3,839
Principal repayments	2,490	2,409	1,687	1,721	2,785	3,256	2,476
Interest	797	1,056	1,080	1,109	1,096	1,207	1,363
Debt service due	3,287	3,464	2,767	2,829	3,881	4,463	3,839
International reserves (US\$ m)							
Total international reserves	7,331	7,211	7,834	7,574	7,150 ^a	7,955	7,957

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts.

Source: IMF, International Financial Statistics.

Quarterly data

	2016				2017			
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
Central government finance (C bn)								
Revenue	1,076.8	1,078.5	1,046.0	1,363.6	1,196.0	1,117.5	n/a	n/a
Expenditure	1,466.5	1,370.7	1,424.4	1,937.7	1,604.3	1,512.4	n/a	n/a
Balance	-389.7	-292.2	-378.4	-574.1	-408.3	-394.9	n/a	n/a
Output								
Real GDP at 1991 prices (C bn)	6,667.3	6,557.9	6,590.3	6,964.3	6,901.9	6,802.9	6,786.8	n/a
Real GDP (% change, year on year)	4.8	4.3	3.9	4.9	3.5	3.7	3.0	n/a
Nominal GDP (C bn)	7,805.2	7,587.9	7,572.1	8,161.6	8,246.3	7,991.3	8,023.4	n/a
Nominal GDP (% change, year on year)	7.1	6.7	5.6	6.1	5.7	5.3	6.0	n/a
Employment, wages and prices								
Average gross monthly wages (C)	4,857	4,908	4,890	4,942	4,940	4,988	4,948	4,998
Consumer prices (June 2015=100; seasonally adjusted)	99.5	99.1	99.9	99.6	100.6	100.8	101.1	102.1
Consumer prices (% change, year on year)	-0.4	-0.7	0.5	0.6	1.1	1.7	1.2	2.5
Producer prices (2012=100; seasonally adjusted)	107.3	106.9	107.4	107.6	108.3	109.3	110.5	111.0
Producer prices (% change, year on year)	-1.3	-1.9	-1.0	0.0	0.9	2.3	2.9	3.2
Financial indicators								
Exchange rate C:US\$ (av)	536.2	539.0	550.4	553.4	558.4	568.9	574.2	568.5
Exchange rate C:US\$ (end-period)	535.9	547.9	552.6	554.6	560.9	573.5	571.2	569.5
Deposit rate (av; %)	1.4	1.1	1.2	1.1	1.2	2.1	4.0	n/a
Discount rate (end-period; %)	1.8	1.8	1.8	1.8	1.8	4.5	4.5	n/a
Lending rate (av; %)	12.9	11.8	11.0	10.9	10.7	11.2	11.8	n/a
M1 (end-period; C bn)	2,865.9	2,698.9	2,754.4	3,070.6	2,755.2	2,592.3	n/a	n/a
M1 (% change, year on year)	30.7	17.4	16.3	8.2	-3.9	-3.9	n/a	n/a
M2 (end-period; C bn)	11,453.0	11,521.4	11,835.0	12,119.5	12,254.5	12,409.0	n/a	n/a
M2 (% change, year on year)	18.3	13.8	13.3	8.7	7.0	7.7	n/a	n/a
Foreign trade (US\$ m)								
Exports fob	2,387.1	2,675.5	2,371.9	2,479.8	2,544.3	2,852.6	2,614.7	2,597.8
Imports cif	-3,504.9	-3,949.9	-3,796.6	-4,025.3	-3,895.8	-3,918.2	-3,857.4	-4,247.5
Trade balance	-1,117.8	-1,274.4	-1,424.7	-1,545.5	-1,351.5	-1,065.6	-1,242.7	-1,649.7
Foreign reserves (US\$ m)								
Reserves excl gold (end-period)	7,812	7,787	7,699	7,574	7,274	6,813	6,898	7,150

Sources: IMF, International Financial Statistics; Banco Central de Costa Rica.

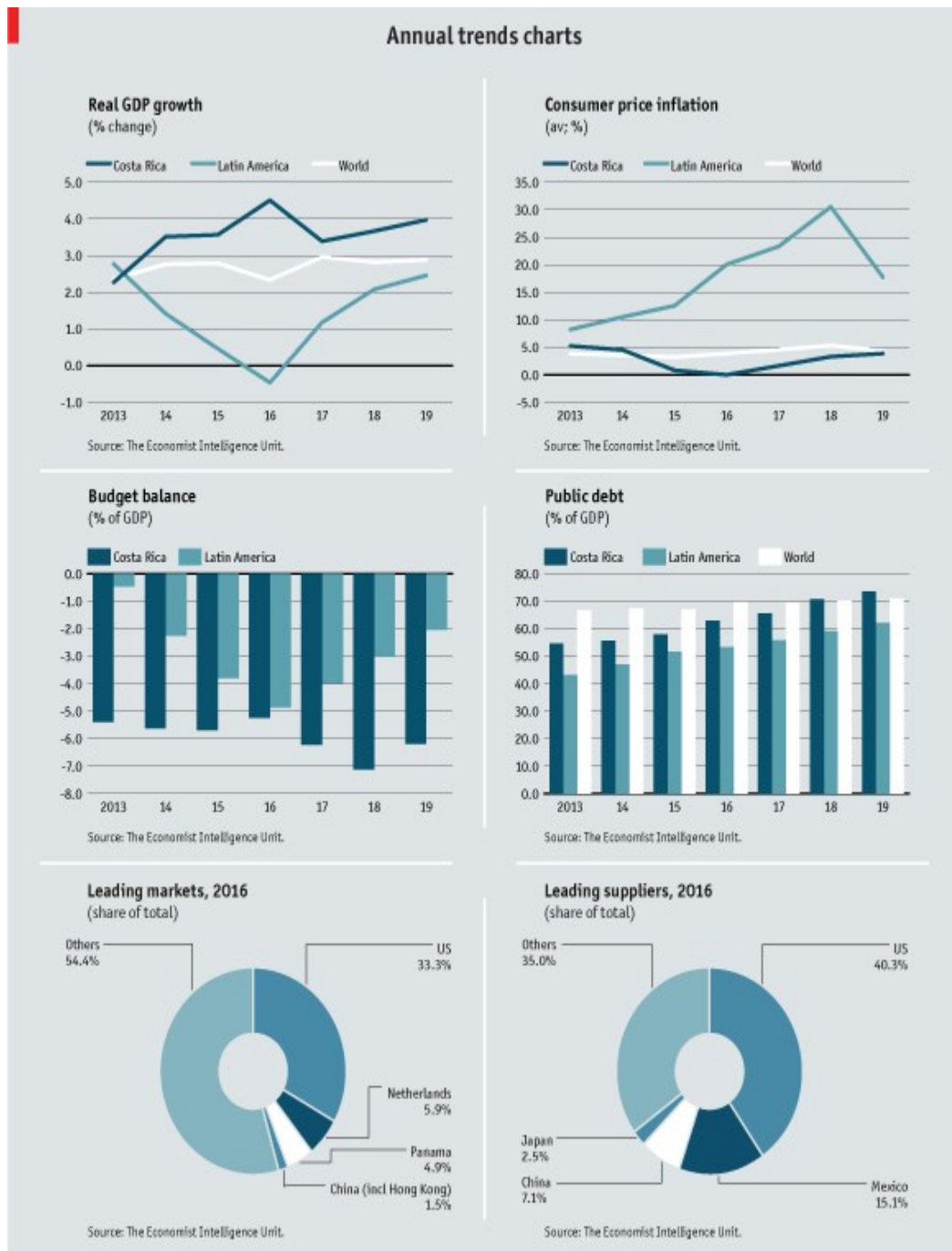
Monthly data

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate C:US\$ (av)												
2016	536.4	536.7	535.4	536.1	537.5	543.4	548.2	550.6	552.2	553.4	554.4	552.5
2017	554.8	560.4	559.9	562.1	574.2	570.5	572.0	574.7	575.8	571.3	567.7	566.6
2018	569.1	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Exchange rate C:US\$ (end-period)												
2016	538.2	535.9	535.9	537.8	538.3	547.9	549.7	552.3	552.6	553.8	552.1	554.6
2017	555.1	561.7	560.9	564.3	573.7	573.5	572.0	574.7	571.2	569.4	565.9	569.5
2018	569.3	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Real effective exchange rate (1997=100; CPI-basis)												
2016	76.92	77.39	78.68	79.47	79.53	80.28	80.08	80.74	81.33	81.38	80.65	79.53
2017	79.82	81.01	81.69	82.39	84.25	84.11	84.59	85.95	86.53	84.81	84.11	83.88
2018	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
M1 (end-period; % change, year on year)												
2016	17.2	28.8	30.7	21.4	21.0	17.4	19.1	15.9	16.3	16.5	7.9	8.2
2017	11.5	8.3	-3.9	3.3	-2.0	-3.9	n/a	n/a	n/a	n/a	n/a	n/a
2018	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

M2 (end-period; % change, year on year)												
2016	14.5	16.9	18.3	16.2	16.4	13.8	13.9	13.4	13.3	12.1	10.1	8.7
2017	9.2	8.7	7.0	9.3	7.3	7.7	n/a	n/a	n/a	n/a	n/a	n/a
2018	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Deposit rate (av; %)												
2016	1.6	1.5	1.1	1.1	1.1	1.2	1.2	1.2	1.2	1.1	1.1	1.1
2017	1.2	1.2	1.2	1.2	1.6	3.3	4.0	4.0	4.0	n/a	n/a	n/a
2018	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lending rate (av; %)												
2016	13.0	12.8	12.9	12.8	11.3	11.3	11.1	11.1	10.9	11.0	11.0	10.7
2017	10.7	10.7	10.6	10.8	10.9	11.8	11.8	11.8	11.8	n/a	n/a	n/a
2018	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Consumer prices (av; % change, year on year)												
2016	-0.2	0.0	-1.1	-0.9	-0.4	-0.9	0.5	0.6	0.4	0.6	0.6	0.8
2017	0.7	1.1	1.6	1.6	1.7	1.8	1.2	0.9	1.6	2.3	2.5	2.6
2018	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Producer prices (av; % change, year on year)												
2016	-1.0	-1.4	-1.5	-1.9	-2.0	-1.7	-1.2	-1.2	-0.7	-0.6	0.1	0.3
2017	0.6	1.0	1.1	1.8	2.6	2.5	2.8	2.8	3.1	3.3	3.1	3.1
2018	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Average real wages (% change, year on year)												
2016	1.9	1.7	2.7	2.5	2.0	2.4	0.8	0.7	0.9	0.7	0.6	0.4
2017	1.1	0.6	0.1	0.0	0.0	-0.1	0.0	0.3	-0.5	-1.1	-1.3	-1.4
2018	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total exports fob (US\$ m)												
2016	706.9	837.7	842.5	889.9	945.6	840.0	777.5	765.7	828.7	813.1	857.8	808.9
2017	758.5	833.6	952.2	894.7	996.9	961.0	862.5	860.5	891.7	887.5	915.6	794.7
2018	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total imports cif (US\$ m)												
2016	1,161.9	1,143.1	1,199.9	1,317.2	1,312.0	1,320.7	1,209.6	1,320.1	1,266.9	1,266.9	1,432.8	1,325.6
2017	1,280.8	1,205.9	1,409.1	1,142.6	1,432.8	1,342.8	1,167.9	1,370.9	1,318.6	1,377.3	1,543.4	1,326.8
2018	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Trade balance fob-cif (US\$ m)												
2016	-455.0	-305.4	-357.4	-427.3	-366.4	-480.7	-432.1	-554.4	-438.2	-453.8	-575.0	-516.7
2017	-522.3	-372.3	-456.9	-247.9	-435.9	-381.8	-305.4	-510.4	-426.9	-489.8	-627.8	-532.1
2018	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total exports fob (% change, year on year)												
2016	0.7	12.5	-0.6	14.0	11.7	3.2	2.3	6.9	17.4	4.6	10.3	11.6
2017	7.3	-0.5	13.0	0.5	5.4	14.4	10.9	12.4	7.6	9.2	6.7	-1.8
2018	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total imports cif (% change, year on year)												
2016	1.7	0.5	-2.6	5.8	9.7	12.4	-11.5	7.1	7.1	-3.0	8.7	9.4
2017	10.2	5.5	17.4	-13.3	9.2	1.7	-3.4	3.8	4.1	8.7	7.7	0.1
2018	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Foreign-exchange reserves excl gold (US\$ m)												
2016	7,786.8	7,784.1	7,812.0	7,898.8	7,760.5	7,787.4	7,960.5	8,007.6	7,699.2	7,715.3	7,583.0	7,573.8
2017	7,523.8	7,454.2	7,273.9	7,300.6	6,832.9	6,812.6	6,865.4	6,868.5	6,898.2	6,847.5	6,837.1	7,149.8
2018	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Sources: IMF, International Financial Statistics; Haver Analytics.

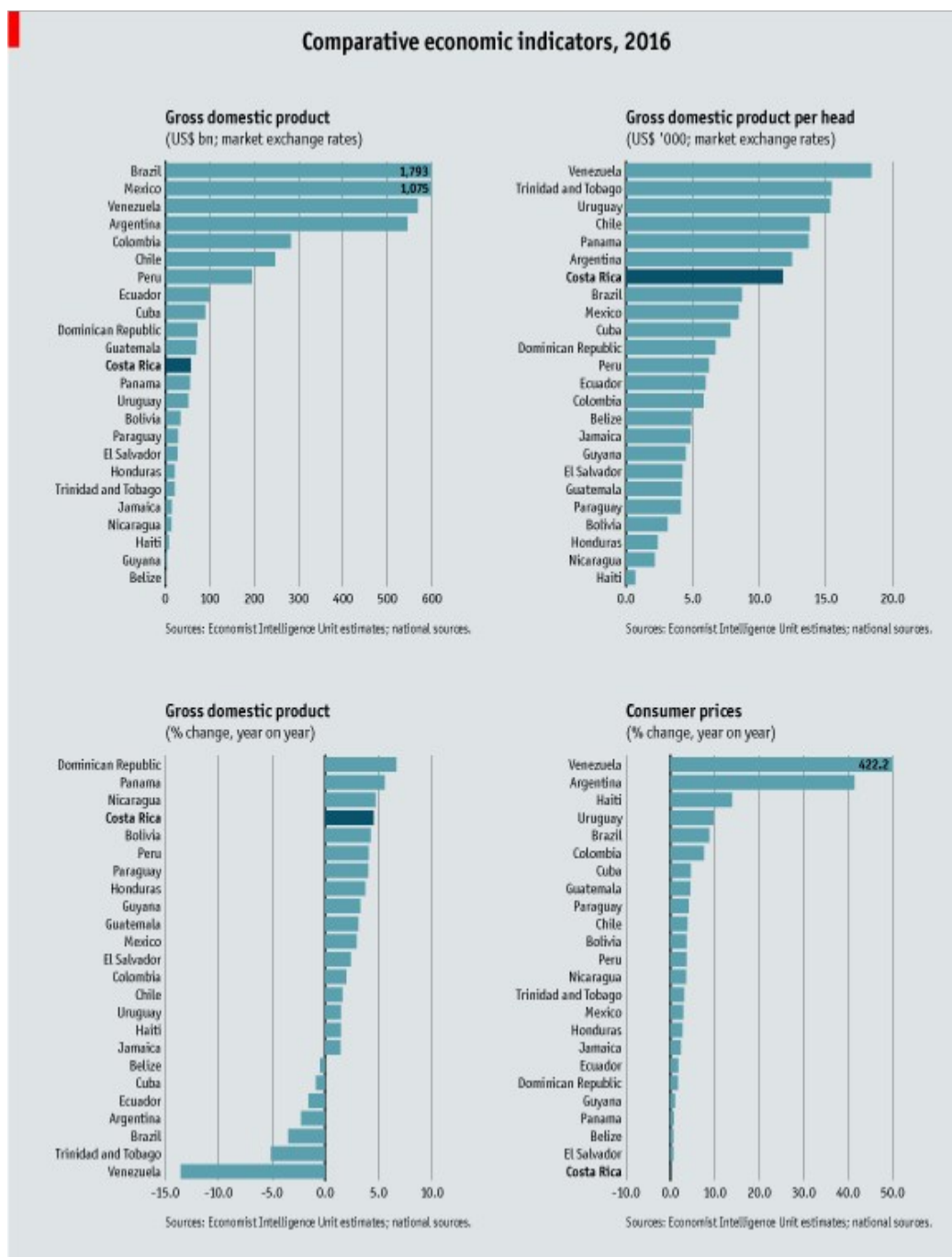
Annual trends charts



Monthly trends charts



Comparative economic indicators



Basic data

Land area

51,100 sq km; three major mountain ranges, central highland plateau and highland valleys, with lowlands along Pacific and Atlantic coasts

Population

4.9m (2017, estimate)

Main towns

Population by canton in '000 (based on 2017 estimates)

San José (capital): 340

Alajuela: 302

Cartago: 160

Heredia: 138

Puntarenas: 134

Limón: 99

Climate

Tropical in lowlands, warm temperate on highland plateau and valleys

Weather in San José (altitude 1,172 metres)

Dry season, December-May; wet season, June-November. Hottest month, June (average daily temperature 24-29°C); coldest months, December-January (21-27°C); driest month, February (5 mm average rainfall); wettest month, September (305 mm average rainfall)

Languages

Spanish

Measures

Metric system

Currency

1 colón (C) = 100 céntimos. Average exchange rates in 2016: C544.7:US\$1; C602.8:€1

Time

Six hours behind GMT

Public holidays

January 1st (New Year's Day); March 29th-30th (Easter); April 11th (Battle of Rivas); May 1st (1856 Campaign and Labour Day); July 25th (Annexation of Guanacaste); August 15th (Assumption Day and Mother's Day); September 15th (Independence Day); December 25th (Christmas Day). There are two unpaid, optional holidays: August 2nd (Virgin Mary Queen of Angels, Patron of Costa Rica) and October 12th (Spanish discovery of the New World, called Día de las Culturas), both of which may be moved to the following Monday



Political structure

Official name

Republic of Costa Rica

Form of state

Presidential democracy with a Legislative Assembly

The executive

The president is head of state, elected for four years by universal adult suffrage; he or she appoints a cabinet, as well as the heads of public agencies and the Banco Central de Costa Rica (the Central Bank). Luis Guillermo Solís of the Partido Acción Ciudadana (PAC) took office in May 2014; his term finishes in May 2018

National legislature

The Legislative Assembly, a 57-member single chamber, is directly elected for a four-year term by universal adult suffrage. Its directorate is elected on May 1st of each year and is in charge of leading the debate during each annual legislative period

Legal system

Supreme Court at the apex of a subordinate court system; magistrates are elected by the Legislative Assembly for eight-year terms

Elections

Next elections: February 2018 (presidential and legislative)

Main political organisations

Government: Partido Acción Ciudadana (PAC)

Opposition: Partido Liberación Nacional (PLN); Frente Amplio (FA); Partido Unidad Social Cristiana (PUSC); Movimiento Libertario (ML); Partido Renovación Costarricense (PRC); Partido Accesibilidad Sin Exclusión (PASE); Partido Restauración Nacional (RN); Alianza Democrática Cristiana (ADC)

Key ministers

President: Luis Guillermo Solís

First vice-president: Helio Fallas Venegas

Second vice-president: Ana Helena Chacón Echeverría

Agriculture: Luis Felipe Arauz Cavallini

Culture: Sylvie Durán Salvatierra

Economics, industry & trade: Geanina Dinarte Romero

Education: Sonia Marta Mora Escalante

Environment & energy: Édgar Gutiérrez Espeleta

Finance: Helio Fallas Venegas

Foreign relations: Manuel González Sanz

Foreign trade: Alexander Mora Delgado

Health: Karen Mayorga Quirós

Housing: Rosendo Pujol Mesalles

Justice: María Cecilia Sánchez Romero

Labour & social security: Alfredo Hasbun Camacho

Planning & economic policy: Olga Marta Sánchez Oviedo

Presidency: Sergio Alfaro Salas

Public security: Gustavo Mata Vega

Public works & transport: Germán Valverde González

Science, technology & telecommunications: Marcelo Jenkins Corona

Sports: Carolina Mauri Carabaguíaz

Tourism: Mauricio Ventura Aragón

Women's issues: Alejandra Mora Mora

Central bank president

Olivier Castro Pérez

Recent analysis

Generated on March 6th 2018

The following articles have been written in response to events occurring since our most recent forecast was released, and indicate how we expect these events to affect our next forecast.

Politics

Forecast updates

Lima group criticises Venezuelan elections

February 15, 2018: International relations

Event

On February 13th the group of [12 countries that signed the Lima Declaration](#) in August 2017 (the Lima group), along with Guyana and St Lucia, reconvened in the Peruvian capital, Lima, to take a stand on the Venezuelan government's decision to move forward presidential elections to April 22nd.

Analysis

The foreign ministers and representatives of the Lima group of countries, along with those from Guyana and St Lucia, strongly rejected the decision by the National Electoral Council of Venezuela to hold presidential elections in the absence of an agreement between the government and the opposition. They stated that the Venezuelan elections "will lack all legitimacy and credibility", given the government's engagement in rampant voter suppression, imprisonment of political opponents and disbarment of opposition parties.

The delegation also highlighted the human rights abuses being carried out by the Venezuelan government, as evidenced by a report put forth by the Inter-American Commission on Human Rights (IACHR) on February 12th. The IACHR report revealed that the ongoing socio-economic crisis in Venezuela was being aggravated by the erosion of democratic institutions and political rights. The Lima group also noted the decision of the general prosecutor of the International Criminal Court to open preliminary probes into the use of excessive force by security forces in Venezuela to subdue [protests that took place in early 2017](#).

The Peruvian foreign affairs minister, Cayetana Aljovín, also announced that the Peruvian government would rescind its initial invitation to Venezuelan president, Nicolás Maduro, for the upcoming Summit of the Americas in mid-April. Although this was already a likely outcome, given [mounting pressure by the Peruvian legislature](#) to do the same, the endorsement of the Lima group allowed Ms Aljovín to present this as a collective decision.

Impact on the forecast

Irrespective of the Lima group's denunciation, we expect the Venezuelan government to press ahead with its plans to hold elections in April. Our forecasts remain unchanged: the main external threat to the survival of the regime is possible US sanctions.

Economy

Forecast updates

Central bank foresees sharp rise in fiscal deficits

February 15, 2018: Fiscal policy outlook

Event

The Banco Central de Costa Rica (BCCR, the central bank) has published its macroeconomic programme for 2018–19. It foresees a pick up in growth but a much wider fiscal deficit.

Analysis

The programme shows a generally optimistic outlook for Costa Rica's main macroeconomic variables, notwithstanding the generally mixed results seen in 2017. Following estimated growth of 3.2% in 2017, the BCCR expects GDP to expand by 3.6% in 2018 and 3.9% in 2019, which is roughly consistent with the forecasts for this period contained in our February country report (3.7% for 2018 and 4% for 2019). This largely owes to positive prospects among Costa Rica's main export partners, namely the US and the EU.

On the monetary side, the BCCR has highlighted the trend of low inflation seen since 2015, with inflation remaining inside the 2–4% target range; inflation was 2.6% at end-2017. We expect inflation to rise over 2018–19 owing to rising commodity prices and a higher tax burden; however, it will remain within the BCCR's range. The current-account deficit rose slightly in 2017, to 3.1% of GDP. This resulted in a US\$419m erosion of international reserves, which amounted to US\$7.1bn at end-2017. At US\$2.9bn, foreign direct investment was consistent with previous years.

The main challenge remains on the fiscal front. The central government deficit soared by nearly 1 percentage point in 2017, to 6.2% of GDP, a result of a consistent failure to enact a comprehensive fiscal reform, which will now have to wait until the next government takes power on May 1st. The pressure of continuous deficits has been reflected in a rise in interest rates across the board, with the BCCR raising its main monetary policy rate to 5% in February (compared with 1.75% a year earlier).

The BCCR sees no short-term relief on the fiscal front, estimating a central government deficits of 7.1% of GDP in 2018 and 7.9% of GDP in 2019. Based on our assumption that the next government will approve the transition from the current sales tax to value-added tax (VAT), in our upcoming February report we forecast that the fiscal deficit will narrow to 6.2% of GDP in 2019, after peaking at 7.1% of GDP in 2018.

Impact on the forecast

The BCCR's latest macroeconomic programme is in line with our forecast, which remains unchanged. Costa Rica will continue to see a combination of generally positive macroeconomic performance, albeit with the looming necessity of fiscal consolidation.

Slow economic activity points to concerns over fiscal woes

February 26, 2018: Economic growth

Event

Monthly economic activity increased by 4.2% year-on-year in December, down from 5.2% in December 2016, according to data from the Banco Central de Costa Rica (the central bank).

Analysis

Three sectors were the primary growth drivers in December. Financial intermediation and insurance was the fastest growing sector in annual terms (up by 8.6%) owing to increasing credit growth, particularly through credit cards. This remains one of the most important sectors for economic growth, although its activity slowed down somewhat in the third quarter of 2017. The information and communications sector rose by 6.8%, continuing the buoyant performance of recent quarters on the back of a rapidly growing IT sector. Manufacturing grew by 6.4% year on year in December. For this sector, which is volatile by nature, activity has been trending upward over recent months owing mainly to strong external demand and ebbing concerns about US protectionism in Costa Rica.

After a poor performance over the second and third quarters of 2017, construction returned to growth in December (3.4% in annual terms). Significant public construction activity, particularly surrounding works related to the Moín port in the Caribbean province of Limón, is behind the current recovery in the construction sector, which is expected to continue over the coming months.

However, economic activity is expected to underperform in the first two quarters of 2018, owing to subdued consumer and investor sentiment. Costa Rica's fiscal position (the budget deficit is forecast to reach 7.1% of GDP in 2018) is already taking a toll on the economy by hampering consumer and investor sentiment, and there are growing concerns over the country's ability to implement fiscal consolidation measures. In addition, uncertainty (and unease) over which party will win the presidential run-off in April and the new government's economic policies will hamper economic growth in the first half of the year. Growth seems likely to pick up thereafter as the composition of the next government becomes clearer.

Impact on the forecast

The monthly activity index reading for December suggests a lukewarm last quarter of 2017, which is in line with our estimate for GDP growth in 2017 of 3.4%. The release prompts no immediate change to our 2018 Q2 growth forecast.

South Korea signs FTA with five Central American nations

February 26, 2018: External sector

Event

On February 21st South Korea signed a free-trade agreement (FTA) with five Central American countries: Costa Rica, El Salvador, Honduras, Nicaragua and Panama.

Analysis

The FTA, which has been under negotiation since 2015, will require ratification by the legislatures of all the signatory countries and is likely to come into force at different times for each. The FTA comprises five bilateral pacts that will gradually eliminate 95% of tariffs on traded goods and services. According to data from the South Korean Ministry of Trade, Industry and Energy, exports to the five Central American republics totalled US\$2.2bn in 2017, consisting mainly of automobiles, steel and a wide range of electronics. Imports from the five countries equalled US\$333m and comprised mainly tropical fruits, fish products, coffee and sugar.

From the South Korean perspective the agreement represents an opportunity to gain a competitive edge over rival Asian exporters such as China and Japan in a consumer market of over 30m inhabitants. To date, China only has one trade agreement in Central America, with Costa Rica, although it is now negotiating a deal with Panama.

From the perspective of the Central American signatories, increased access to the South Korean market (the world's ninth largest importer) is important. They will also hope that low labour costs can help to convince South Korean manufacturing and electronics companies to set up local assembly operations to improve access to the US market. Indeed, the deal comes against the backdrop of mounting concerns over US protectionism as [South Korea's FTA with the US comes under rising pressure](#).

Central America has much to gain through investment flows and financing from South Korea. South Korea has put forward a request to join the Central American Bank for Economic Integration (CABEI), a regional development bank. It hopes to enter with subscribed capital of US\$450m, so as to acquire a 7.5% stake in the bank—the second largest share held by a non-regional member, after the 11.6% held by Taiwan. South Korea has presented its proposition as a means of deepening ties with Central America by providing financial assistance as well as development expertise for infrastructure projects in the region. We expect the process of entry into the CABEI to be completed later this year.

Impact on the forecast

Although trade flows will increase in nominal terms, they represent a small portion of the overall trade for any given signatory. As such, our external sector forecasts remain unchanged.