



# COSTA RICA

## **Political Outlook:**

The current Costa Rican government, led by Carlos Alvarado of the ruling center-left Partido Acción Ciudadana (PAC), will enter its third year of administration, challenged to combat the COVID-19 spread and to limit the effect of more negative shocks on the economy. Despite the implementation of a recent tax reform, which came into force during the second half of 2019, fiscal and debt fragilities have remained, pressuring the government to implement structural reforms to reduce spending as well as to reactivate the economy. Additionally, the Costa Rican Government reached an agreement with the IMF (US\$ 504 million) strictly to address urgent needs stemming from COVID-19 affections.

On the brighter side, Costa Rica has now officially joined the Organisation for Economic Co-operation and Development (OECD) after passing the last required evaluation process. Separately, the Costa Rican Government has also been recognized for its prompt and adequate attention to the COVID-19 pandemic -with one of the lowest mortality rates in Latin America-, but also for the information it openly shares.

## **Economic Outlook:**

GDP is expected to decrease by 3.6% due to the COVID-19 pandemic but the economy is expected to recover by 2.3% in 2021. The government has implemented income and expenditure policies to ensure that the primary deficit will not be greater than -3.4% of GDP and the fiscal deficit is not greater than -8.6%.

The crisis will hit all branches of economic activity, but the most significant impact will be absorbed by the hotels and restaurants sector (-27.6%), as forecasted by the Central Bank. A drop in exports (-5.3%) and in household consumption (-0.9%) is also estimated.

The unemployment rate is also critical, estimated over 12% before the pandemic, and expected to reach over 20% as a result of the coronavirus crisis.



### **Investment Trends:**

Open trade and foreign direct investment continue to be an integral part of Costa Rica's successful growth model. Political stability, the rule of law, economic openness and a skilled workforce, supported by a stable FDI regime, remain essential comparative advantages for Costa Rica to attract foreign investments in the services, life sciences (medical devices) and advanced manufacturing sectors. Companies have continued to invest in Costa Rica in the middle of the pandemic. Some operations of countries most affected by COVID-19 have been transferred to Costa Rica, resulting in expansions of services and production facilities.

Costa Rican exports of goods reported a 10% growth during Q1 in 2020, led by medical devices and agricultural products, and exported services grew by 5% by the end of 2019. The country's main trading partners will see their economies decrease by 5.5% before partially recovering in 2021. Exports represent 34% of the GDP, challenging the exporters to diversify products and destinations to mitigate the current impacts of the pandemic.