IMF Country Report No. 25/108

COSTA RICA

May 2025

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR COSTA RICA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with Costa Rica, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its May 12, 2025 consideration of the staff report that concluded the Article IV consultation with Costa Rica.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 12, 2025, following discussions that ended on February 28, 2025 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 April 21, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Costa Rica.

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

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2025 Article IV Consultation with Costa Rica

FOR IMMEDIATE RELEASE

Washington, DC – May 13, 2025: The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for Costa Rica on May 12, 2025.[1]

Costa Rica has achieved remarkable economic progress due to its very strong fundamentals, policies, and policy frameworks. GDP growth has averaged above 5 percent per year since 2021, inflation is rising toward the Banco Central de Costa Rica's (BCCR) target of 3 percent, public debt has fallen steadily to below 60 percent of GDP, international reserves are at comfortable levels, and systemic financial stability risks are contained.

Such factors are expected to support robust growth going forward notwithstanding external headwinds. This year, growth is expected to moderate to around potential (3½ percent) and the current account deficit is expected to increase slightly to 1.8 percent of GDP, while the primary surplus is expected to rise to 1¼ percent of GDP as fiscal consolidation continues. Inflation is expected to return to the BCCR's target in 2026.

Risks to the growth outlook have tilted to the downside while those for inflation are balanced. Weaker external demand, tighter global financial conditions, and increased policy uncertainty could reduce Costa Rica's exports, foreign direct investment (FDI) inflows, and economic activity, but the country's strategic location, high-value exports and economic diversification could drive continued strong growth momentum. Upside risks to inflation include strong credit growth and supply-side disruptions, but there are also downside risks, especially if inflation expectations soften.

Executive Board Assessment[2]

Executive Directors commended Costa Rica's remarkable economic progress based on its very strong fundamentals, policies, and policy frameworks. Directors welcomed the authorities' very strong implementation of macroeconomic policies, wide-ranging reforms in the process of becoming an OECD member, the successful completion of IMF-supported programs, and a strategic focus on exports and economic diversification. They praised the authorities'

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

commitment to continued prudent policies and structural reforms to maintain resilience amid heightened external uncertainty.

Directors welcomed the sustained decline of public debt. They stressed that the medium-term fiscal consolidation is appropriately paced but will require spending to be kept below the ceiling permitted by the fiscal rule. Directors concurred that tax reforms should aim to increase equity, efficiency, and the revenue-to-GDP ratio. They stressed the importance of full implementation of the public employment law by all public institutions without delay. The disputed claim by the social security system should also be resolved comprehensively, including by clarifying the central government budget's responsibility, coupled with improvements in the registries of beneficiaries and the system's governance and accountability. Directors also supported reforms to debt management to increase flexibility in issuing external debt.

Directors commended BCCR's forward-looking data-dependent approach to monetary policy, which has proven effective. They concurred that there is scope to cut the policy rate if the convergence of inflation to the BCCR's target weakens in the coming months. They also underscored the importance of passing legislation to further improve the BCCR's governance, transparency, and accountability, and to institutionalize its *de facto* autonomy. Directors recommended that the exchange rate should be allowed to flexibly adjust to market conditions, limiting foreign exchange intervention to addressing market volatility.

Directors stressed that indicators of financial soundness remain comfortable, yet the resolution of small non-bank financial institutions last year highlights the importance of a very strong supervisory and crisis management framework. They underscored the importance of passing the proposed amendments to the bank resolution and deposit insurance law. Directors also called for close monitoring of risks related to the rise in FX lending.

Directors welcomed the authorities' efforts to advance supply-side reforms to help sustain Costa Rica's impressive economic performance. Reducing skills mismatches, enhancing infrastructure quality, and implementing legislation on public-private partnerships would further strengthen potential growth. Better integrating climate considerations into public investment decisions will make infrastructure more resilient against natural disasters.

Costa Rica: Selected Economic Indicators

	2022	2023	2024	Projections 2025	2026	2027	2028
Output and Prices			(Annual percentage change)				
Real GDP	4.6	5.1	4.3	3.4	3.4	3.5	3.5
GDP deflator	6.3	-0.1	0.0	3.0	3.2	3.2	3.2
Consumer prices (period average)	8.3	0.5	-0.4	2.2	3.0	3.0	3.0
Savings and Investment			(In percent of GDP, unless otherwise indicated)				
Gross domestic saving	14.4	13.8	14.3	13.8	13.5	14.1	14.4
Gross domestic investment	17.7	15.3	15.7	15.6	15.4	15.7	16.0
External Sector							
Current account balance	-3.3	-1.4	-1.4	-1.8	-1.9	-1.6	-1.5
Trade balance	-6.7	-3.7	-2.6	-3.4	-4.0	-3.7	-3.9
Financial account balance	-1.9	-0.7	-0.8	-1.8	-1.9	-1.6	-1.5
Foreign direct investment, net	-4.4	-4.3	-4.5	-4.1	-4.0	-4.1	-4.3
Gross international reserves (millions of U.S. dollars)	8,724	13,261	14,181	14,932	15,792	16,485	17,301
External debt	50.7	43.3	42.0	42.1	43.3	44.0	44.4
Public Finances							
Central government primary balance	2.1	1.6	1.1	1.3	1.5	1.6	1.6
Central government overall balance	-2.8	-3.3	-3.8	-3.2	-2.8	-2.5	-2.3
Central government debt	63.0	61.1	59.8	59.7	59.0	57.9	56.7
Money and Credit							
Credit to the private sector (percent change)	3.3	1.9	6.2	6.4	6.5	6.6	6.6
Monetary base [1]	8.0	7.9	8.3	8.3	8.3	8.2	8.2
Broad money	47.5	47.4	51.3	50.5	50.9	51.5	52.3
Memorandum Items							
Nominal GDP (billions of colones)	44,810	47,059	49,116	52,307	55,830	59,647	63,720
Output gap (as percent of potential GDP)	-0.3	1.0	0.6	0.4	0.2	0.1	0.0
GDP per capita (US$)	13,240	16,390	17,909	19,095	20,036	21,057	22,138
Unemployment rate	11.7	7.3	6.9	7.5	8.0	8.5	8.5

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

[1] Includes currency issued and required domestic reserves.

INTERNATIONAL MONETARY FUND

COSTA RICA

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

April 21, 2025

KEY ISSUES

Context. Costa Rica has achieved remarkable economic progress through private sector-led growth and the sustained implementation of institutional and supply side reforms. The economic outlook is expected to remain favorable in the near term. Further institutionalizing the progress made under the IMF-supported reform programs will help sustain long-run growth and raise living standards.

Policy Discussions. Discussions centered on the near-term policy mix and how to sustain the very strong policy frameworks, institutions, and track record that have been demonstrated over the past several years.

The authorities' fiscal consolidation plans are appropriately paced, with spending in the medium-term fiscal framework below the fiscal rule's ceiling supporting a consistent decline in debt. Tax reforms should aim to improve equity and efficiency while raising the revenue-to-GDP ratio. Higher revenues would increase the fiscal space for investments in human capital and infrastructure. The disputed claim by the social security system, which is an important and growing fiscal contingency, should be resolved. Improvements to the registry of recipients and the governance of the social security system would prevent a recurrence of such claims.

The *Banco Central de Costa Rica's* (BCCR's) forward-looking, data-dependent approach to monetary policy has effectively anchored inflation and inflation expectations. There is scope to further cut the policy rate if inflation outturns run below the expected steady convergence to the BCCR's 3 percent target. FX intervention should be limited to addressing disorderly market conditions. The framework for financial oversight has been strengthened and passing of the proposed amendments to the Bank Resolution and Deposit Insurance Law would institutionalize these gains.

Supply-side reforms will help sustain Costa Rica's impressive economic performance and address bottlenecks to growth. Narrowing skill mismatches, reducing labor market informality, and strengthening social assistance are priorities. Building on progress made under the Resilience and Sustainability Facility, efforts are underway to further advance climate-resilience and to catalyze climate finance.

Approved By
Nigel Chalk (WHD) and Koshy Mathai (SPR)

The team comprised Ding Ding (head), Alberto Behar and Agnese Carella (WHD); Moustapha Mbohou (SPR); Eurydice Fotopoulou (STA); and Santiago Acosta-Ormaechea, Orlando Carvajal, and Ivania García (Resident Representative office), with assistance from Alfredo Alvarado and Heidi Canelas (WHD). Discussions were held remotely and in San José during February 18-28, 2025. The team met Costa Rica's President Chaves Robles, Vice President Brunner Neibig, BCCR President Madrigal López, Minister of Finance Acosta Jaén, Minister of Planning Esquivel Rodríguez, and other senior government and financial sector officials, members of the Legislative Assembly, the private sector, and other development partners. Xiana Méndez Bertolo and Valerie Lankester (OED) joined some meetings.

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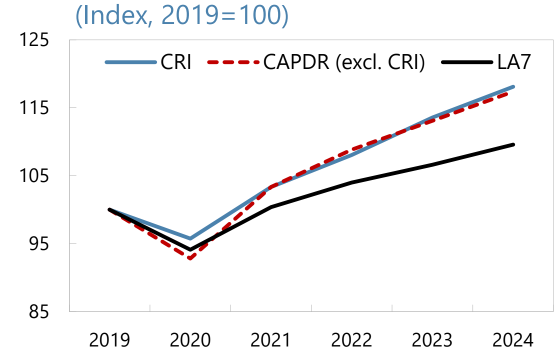
ANNEXES

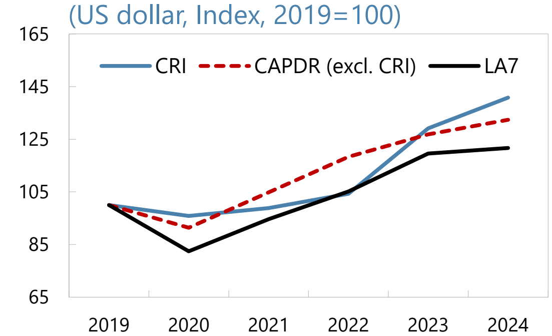
CONTEXT AND RECENT DEVELOPMENTS

1. **Costa Rica is one of the fastest-growing economies in the Western Hemisphere, achieving notable economic success in recent years.** Growth has averaged over 5 percent since 2021, outpacing regional peers and contributing to improvements in social indicators. Costa Rica has strategically focused on exports and economic diversification allowing exports to grow steadily as a share of GDP. This has been particularly true for advanced manufacturing (notably medical devices) and business services, which now exceed the more traditional agricultural and tourism exports.[1] In the context of OECD accession and IMF-supported reform programs (the Extended Fund Facility (EFF) and Resilience and Sustainability (RSF) arrangements were successfully completed in June 2024) the authorities have built an enviable track record of very strong policies (Annex I). Entrenched macroeconomic stability, very strong institutional frameworks, and Costa Rica's strategic location continue to make it an attractive destination for FDI. This foreign investment, in turn, has driven economic diversification and job creation.

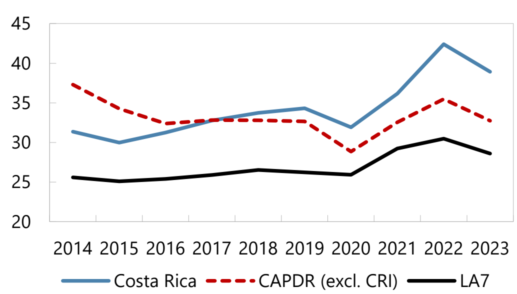
Real GDP
(Index, 2019=100)



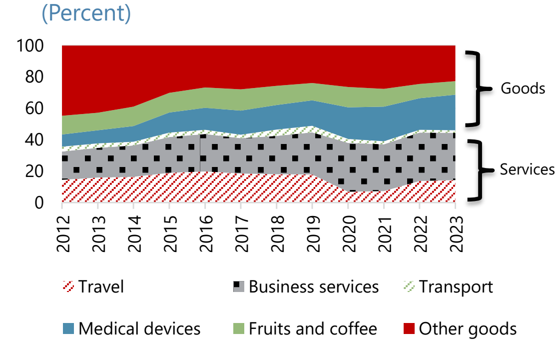
Nominal GDP Per Capita
(US dollar, Index, 2019=100)



Exports
(% of GDP)



Goods and Service Exports by Type of Product
(Percent)

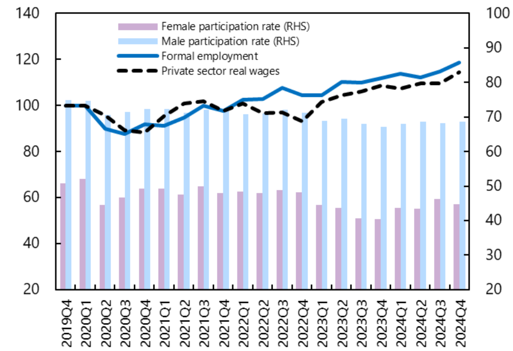


Source: WEO, Comtrade, BaTiS dataset and IMF staff calculations. Weighted average of LA7 and CAPDR computed using PPP GDP as weights. LA7 comprises Brazil, Chile, Colombia, Mexico, Peru, Paraguay, and Uruguay. CAPDR (excl. CRI) comprises the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

[1] OECD Economic Surveys: Costa Rica 2025

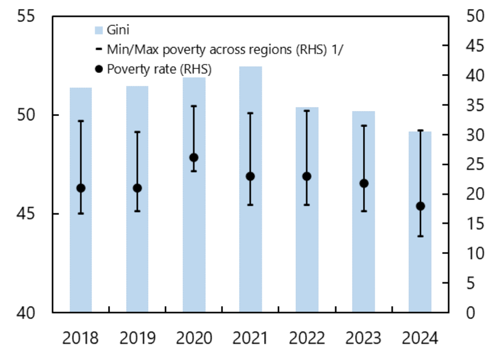
2. **Real GDP increased by 4.3 percent in 2024 driven by exports, inward FDI, and buoyant private consumption.** Rising real wages and expanding formal sector employment are leading to improved social indicators, with poverty and inequality now at historically low levels.

Labor Market Indicators
(Index: 2019Q4=100; formal/total ratio)



Sources: INEC and IMF staff calculations.

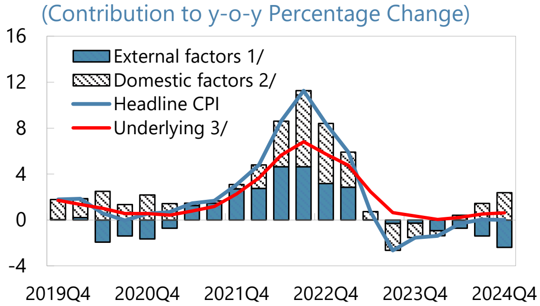
Inequality and Poverty
(Percent)



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

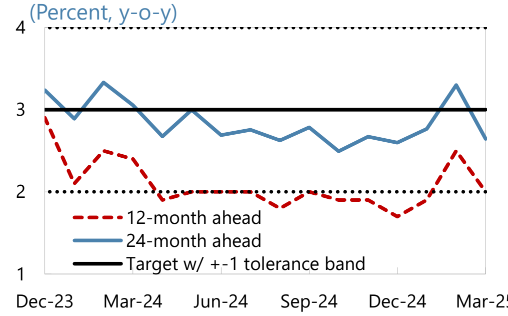
3. **Headline inflation had fallen to around zero since mid-2024 but is now rising toward the BCCR's 3 percent target.** The low inflation reflected largely external factors including falling energy and food prices and a stronger exchange rate, while strengthening domestic demand following the BCCR's decisive easing of the policy rate led to the rebound of headline inflation in recent quarters. Core inflation also rose to 0.85 percent in March 2025, driven by rising prices for services. According to surveys, the one-year ahead expected inflation has returned to the BCCR's tolerance range (of 2-4 percent), and the two-year ahead expected inflation remains well anchored.

Decomposition of Headline CPI Inflation
(Contribution to y-o-y Percentage Change)



1/ Average of five core inflation measures
Source: Haver Analystics and IMF calculations.

Avg Survey Inflation Expectations
(Percent, y-o-y)



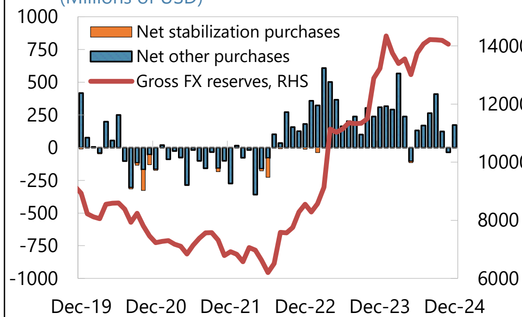
Source: Haver Analytics and national authorities

1/ External factors are derived through principal component analysis of inflation data from key trading partners, capturing global conditions such as exchange rate movements and global price changes.
2/ Domestic factors are calculated by subtracting external contributions from headline inflation and include local demand, wage growth, import prices and fiscal policies among others.
3/ Average of five core inflation measures.

4. Credit growth remains strong. The BCCR has implemented a cumulative 500-basis-point cut to its policy rate between March 2023 and October 2024. However, bank lending rates have been slow to adjust. Despite this, private sector credit grew by 5.4 percent as of December with strong demand for corporate credit and FX loans. The NPL ratio for banks remains low and capital adequacy is well above the regulatory minimum (although the overall asset quality of financial cooperatives has weakened following the 2024 resolution of two small nonbank financial institutions). Regulatory stress tests suggest limited financial stability risks.[2]

5. The external position is assessed to be stronger than medium-term fundamentals and desirable policies (Annex II). The cyclically adjusted current account was -0.4 percent of GDP in 2024 compared to a norm of -3.3 percent of GDP. Between mid-2022 and end-2024, the *colon* appreciated by about 25 percent against the dollar. Nevertheless, the REER is judged to be undervalued. FDI inflows have been solid—especially investments in free trade zones, manufacturing, and tourism—which has fully financed the current account deficit. Gross reserves are judged to be comfortable at US$14.2 billion at end-2024. Capacity to repay the Fund is adequate.

GIR and Net FX Purchases by BCCR
(Millions of USD)



Source: BCCR and IMF staff estimates.

6. The primary surplus fell to 1.1 percent of GDP in 2024. Revenue growth has been temporarily constrained by weaker corporate profitability (especially in the financial sector owing to the exchange rate appreciation), some overpayment of corporate income taxes in 2023, and the delayed (until January 2025) receipt of fuel and vehicle property taxes. The retroactive payment of wages and transfers to the Social Development and Family Allowances Fund (to finance social programs) and higher capital spending increased outlays in 2024. High interest costs (4.8 percent of GDP) led to an overall deficit of 3.8 percent of GDP. Nonetheless, the consistent adherence to the fiscal rule, combined with yields from a 2018 tax reform, have resulted in an 8 percent of GDP decline in public debt between 2021 and 2024 (with public debt now below 60 percent of GDP).[3] Public debt is assessed to be sustainable with high probability and the risk of sovereign debt distress is low (Annex III).

OUTLOOK AND BALANCE OF RISKS

7. Growth is projected to slow to 3.4 percent in 2025 and remain broadly around its potential over the medium term. This projection reflects an estimated impact of 0.5 percentage

[2] The authorities' stress tests, published in January 2025, showed that the 15 largest financial institutions, accounting for 89 percent of the financial sector assets, were able to maintain a capital adequacy ratio above 10 percent even in a severely stressed scenario.

[3] Debt declined in 2024 due to the primary surplus, a drawdown of cash balances, and the transfer by autonomous/decentralized institutions of cash holdings to the Treasury Single Account to comply with a recent legal reform.

points on 2025 growth resulting from the U.S. tariffs of 10 percent on goods imports from Costa Rica, announced on April 2, and through global tariffs' impact on external demand. Risks to activity and employment are on the downside. Major downside risks include weaker external demand, shocks to inward investment and tighter financial conditions (Annex IV).[4] Political fragmentation and upcoming elections could stymie reforms, although the government has shown capacity to build coalitions in the Legislative Assembly, including to approve several complex reforms in recent years. On the other hand, a continuation of the strong growth momentum seen in late 2024 could drive stronger activity.

8. Inflation is expected to return to the lower end of the BCCR's tolerance band in mid-2025 and reach the target rate of 3 percent in 2026. There are downside risks to inflation especially if inflation expectations soften. Upside risks are posed by credit growth and the potential for commodity price increases or supply-side disruptions, including from tariffs.

9. The current account deficit is projected to rise to 1.8 percent of GDP in 2025, further deteriorating to 1.9 percent of GDP in 2026, reflecting the impact of US tariff announcements on April 2 and the resulting lower external demand. Costa Rica is among the countries experiencing the smallest increase in effective US tariff rates. However, as US imports of goods from Costa Rica account for half of the country's total goods exports, the 10 percent increase in US tariffs, combined with a lower global external demand, will negatively affect Costa Rica exports. Net FDI inflows are expected to be weaker than previously projected, as new investments could be hindered by the increased uncertainty surrounding trade. Downside risks to the external position include adverse terms of trade shocks (e.g. from higher world commodity prices), tighter global financial conditions, and sustained high uncertainty, which can lower net exports, FDI, and other capital inflows.

Authorities' Views

10. The authorities broadly concurred with staff's assessment of the economic outlook and risks, though with a slightly more optimistic view on near-term growth. Their projections for 2025-2026 were slightly higher during the Article IV discussions in February 2025, at 4 percent on average due to stronger internal demand and faster capital accumulation. They also assessed that the risk of low inflation expectations becoming entrenched below the target has recently diminished, and that geopolitical tensions, rising protectionism, and commodity price increases could be the most significant upside risks to inflation. They broadly share staff's assessment of the external position. Exports are projected to remain strong, but with growth moderating as the free-trade zone matures after exceptionally high growth in previous years. Imports, particularly services, are expected to stabilize over the near term. The authorities also attribute the declining poverty rate and income inequality to a robust labor market and improved targeting of social benefits.

[4] Half of Costa Rica's exports of goods and services are destined for the United States, which is also the source of about two-thirds of Costa Rica's FDI.

POLICY DISCUSSIONS

A. Fiscal Policy

11. Fiscal consolidation is expected to resume in 2025. The unwinding of one-off factors should raise the primary surplus to 1.3 percent of GDP in 2025 and a further rise is expected over the medium term. The overall deficit is expected to fall to 3.2 percent of GDP in 2025 and keep declining. Debt is expected to fall below 55 percent of GDP by 2030 and gross financing needs are expected to fall from 7½ percent of GDP in 2025-26 to 6.7 percent of GDP in 2030 (mainly from 1 percent of GDP lower interest expenses). Spending restraint through a wage freeze[5] is expected to be the primary means of adjustment. However, spending priorities are likely to shift toward social assistance and capital projects. In this regard, the recently-approved public investment law, which became effective in March, should help improve public investment prioritization and execution. Higher tax receipts from increased imports are expected to be broadly offset by a reduction in fuel tax receipts (in part as more fuel-efficient vehicles are adopted). Gains from ongoing tax administration efforts could allow for a higher primary balance but expenditure obligations potentially arising from legal rulings represent an offsetting risk to the fiscal position.

12. The expected fiscal consolidation is appropriately paced and reducing the debt further will increase the country's ability to respond to a negative shock. Fiscal space was reduced by the reduction in the vehicle property tax and corporate tax base in 2023 and other proposals in the legislative assembly risk further eroding revenues. Fiscal consolidation is almost fully reliant on reductions in spending, which will require keeping spending well below the ceilings established by the fiscal rule.

13. Full implementation of the public employment law will help in restraining spending and making it more efficient. Most institutions including the central government have fully implemented the law, which will help free budget resources for other spending priorities and strengthen performance incentives in the public sector. To safeguard and extend these benefits, it is important for remaining institutions to fully implement the law. In this regard, legal challenges to the law and proposals to amend it remain a concern.

14. A broader, revenue-increasing tax reform would further increase fiscal space and improve the equity and efficiency of the tax system. Costa Rica's tax collection is below the OECD average (especially when social security contributions are excluded) and there are extensive income tax exemptions. The dual income tax bill proposed by the government would raise tax thresholds for the self-employed and reduce thresholds for salaried workers. This would increase horizontal equity and efficiency by establishing a single threshold for labor income. It would, however, need to be combined with a higher top marginal rate (or possibly other revenue increasing

[5] Because debt fell below 60 percent of GDP in 2024, the cost-of-living freezes mandated by the fiscal rule are expected to end in 2026. However, as per the public employment law, wage increases in the coming years are expected to apply only to workers whose wages are below the single wage spine.

measures) to prevent a reduction in revenues. It would be beneficial to present this tax reform as part of a comprehensive medium-term revenue strategy. Such a package could include measures proposed over the last five years (see text table) that merit reconsideration by the legislative assembly. In addition, the OECD/G20 Pillar 2 minimum global tax provides an incentive to scale back corporate tax exemptions for operations in free trade zones (so as to avoid other countries levying a top-up tax on Costa Rican entities that are viewed as under-taxed). Additional fiscal space generated from such a tax reform could increase capital spending and social assistance. Legislation to lower revenues should be avoided.

Current and Recent Tax Policy Legislative Proposals

Measure	Yield (% GDP)	Horizontal equity/efficiency	Vertical equity	Environmental benefits
Implement dual personal income tax such that incomes from self-employment, salaries, and pensions is under a single threshold. Introduce a higher top marginal rate.	-0.1 (depends on thresholds and top rate)	Yes	Yes	
Remove income tax exemption for 14th salary (*salario escolar*) paid to public sector workers.[1]	0.1	Yes	Yes	
Remove exemption for lottery winnings	Up to 0.1	Yes		
Make tax on immovable property more progressive with a higher top rate.[2]	Up to 0.1	Yes	Yes	
Reduce VAT exemptions on car rentals, airfares, medical equipment, and wood/forestry products.[3]	0.1	Yes	Yes	Yes
Feebate scheme based on vehicle emissions.	0 (but fuel tax receipts could decline)			Yes
Tax dividends distributed by firms in free zones and passive income earned abroad by residents.	Positive	Yes	Yes	
Increase withholding on non-residents' incomes (*remesas*).	Up to 0.1	Yes	Yes	
Move to a single tax rate for corporate income and introduce simplified regime for smaller taxpayers.	0-0.1 (depending on migration to simplified regime)	Yes		

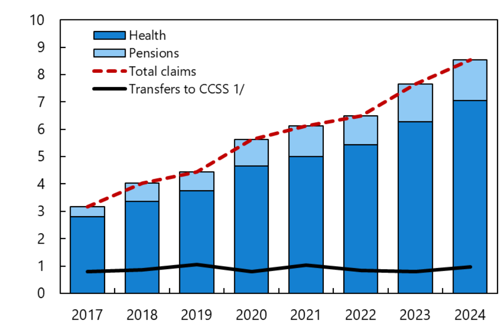
Sources: Ministry of Finance, OECD, and IMF staff estimates.

1/ Removal of the exemption for public sector Christmas bonuses should be considered once the pay freeze ceases.
2/ More consistent valuation methods across jurisdictions could increase horizontal equity and identify revenue gaps. Partially reversing the reduction in vehicle tax could yield 0.1% of GDP and increase progressivity.
3/ Other preferential VAT treatments include private health and education spending; inputs used by the agriculture, forestry, and fishing industries; and basic goods (the SINIRUBE system could be leveraged to target refunds on VAT payments to the needy). There would also be revenue yields and climate mitigation benefits from eliminating airlines' fuel tax exemption and raising diesel and bunker fuel taxes to those for gasoline.

15. Legal and technological changes should improve compliance. Tax arrears declined due to additional efforts to recover 0.2 percent of GDP in 2024. The tax administration's additional enforcement powers and streamlined procedures could bear fruit as soon as this year. Establishing around-the-clock operations in more customs posts and fully adopting the Ministry of Finance's large scale digitalization initiative *Hacienda Digital* should improve tax collection and lower compliance costs.

16. The ongoing dispute between *Caja Costarricense de Seguro Social* (CCSS) and the MoF over social security payments requires a comprehensive solution (Annex V). The budget has made annual transfers to CCSS of around 1 percent of GDP. However, according to CCSS, this does not cover the central government's total healthcare and pension obligations. The purported rise in government obligations is due to both an expansion of beneficiaries and CCSS's unilateral decisions to raise the government's contributions. The MoF considers there to be significant flaws in the registry of beneficiaries and invoices. This claim represents a large contingent liability of the central government (8.5 percent of GDP). As such, there is an urgent need to improve the registry systems to accurately track outlays and beneficiaries. At the same time, CCSS and the MoF, together with the legislature, should clarify: (i) the scope of healthcare services and pension benefits that are covered by the budget; and (ii) additional funding sources that will be needed to ensure that the healthcare and pension systems are actuarially sound. Any future changes to the social security system should be preceded by a thorough assessment of the fiscal and labor market implications of such changes. To align better with international best practice, there is scope to enhance the accountability and governance of the CCSS, the transparency of its operations, and the simplicity of the system. These reforms will be critical to safeguard the long-run sustainability of the social security system as the population ages.

Goverment Transfers to CCSS and Social Security Claims in Health and Pensions
(Percent of GDP)



Sources: CCSS, CGR, MH and staff estimates.
1/ Budget transfers to the CCSS exclude non-contributory pensions and the contributions of the goverment as employer of public sector employees.

17. Ongoing debt management reforms can help reduce borrowing costs. The unification of debt management functions in one agency, improving sovereign asset and liability management, and centralizing cash holdings in the Treasury Single Account will lessen budget financing costs. A new market makers program, which had debut auctions in November 2024, should increase liquidity in the sovereign debt market. A successor to the 2022-2026 medium-term debt strategy should be conducted to revisit tradeoffs between lower interest costs and other desirable characteristics of the debt structure (such as maturity and currency composition). A proposed constitutional amendment to grant the executive branch authority to issue external debt (within the overall borrowing limit approved during the budget process) would allow debt managers to reduce borrowing costs by adjusting the timing of external borrowing to market conditions. As an interim measure, the bill seeking authorization to issue Eurobonds should be approved without further delay. Establishing a formal macro-fiscal unit within the Ministry of Finance and activating the fiscal council would support improvements in budget preparation and allow the medium-term fiscal framework (MTFF) to play a more important role in identifying policy trade-offs including by institutionalizing the macroeconomic projection and analysis tools used by the Ministry.

18. Enhancing the quality of government finance statistics will help improve fiscal policy decision making (Annex VI). The authorities are continuing their multi-year effort to upgrade the quality and scope of fiscal data with support from IMF capacity development. This is centered around a transition from GFSM 1986 to GFSM 2014. Published data suggest the reclassifications are likely to have minor effects on the headline fiscal figures. The authorities are reviewing data that incorporates accrued interest and measures debt at nominal value. The modernization of this methodology is expected to be incorporated into the 2027 budget, the MTFF, and the fiscal rule, and then extended to the non-financial public sector. Price statistics coverage is an area for further improvement although the data provided to the Fund is assessed to be adequate for surveillance (Annex VII).

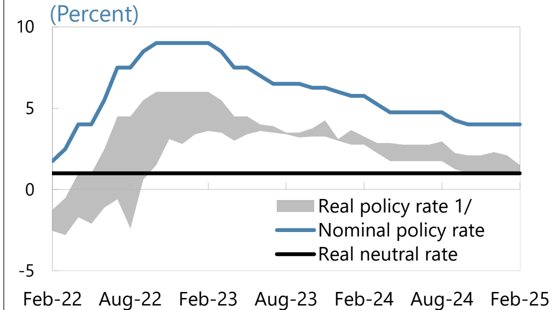
Authorities' Views

19. The authorities emphasized their commitment to continuing the task of debt reduction. Persisting with their fiscal consolidation strategy, the authorities continue improving spending efficiency and debt management. They will keep current spending growth below that permitted by the fiscal rule, including by limiting growth in public sector salaries. There is agreement between MoF and CCSS about the urgency of finding a comprehensive and durable solution to the dispute over social security payments. The authorities are also using legislative tools and pursuing a clear communication strategy to resist bills that could reduce revenues and erode the public employment law and the fiscal rule.

B. Monetary and Exchange Rate Policy

20. The BCCR's forward-looking data-dependent approach to monetary policy has proved effective and should continue to manage two-sided risks. Following decisive rate cuts, the ex-ante real policy rate is now close to neutral.[6] However, if the convergence of inflation to the target weakens in the coming months, there is room for further cuts to ensure inflation expectations remain anchored. Once inflation returns firmly to the target, the BCCR needs to remain vigilant and ready to act forcefully to manage both upside and downside risks to price stability. Despite the recent strong growth of private sector credit (especially FX loans driven in

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).

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

part by the appreciation of the *colon*), the estimated credit gap remains negative and small. There could, though, be scope to deploy macroprudential measures to mitigate potential risks to financial stability from the rise in FX lending.

21. The exchange rate should be allowed to flexibly adjust to market conditions. The IMF's Integrated Policy Framework[7] provides support for the use of occasional Foreign Exchange Intervention (FXI) in response to large shocks. However, frequent FXI can hinder the development of the FX market, incentivize dollarization, and weaken monetary policy transmission. The BCCR is legally required to undertake FX purchases on behalf of the non-financial public sector (NFPS). However, NFPS institutions should be increasingly required to manage their FX needs independently and reduce their reliance on the BCCR. Reserves are adequate based on multiple indicators and a further accumulation of international reserves is unnecessary (Annex VIII).

22. The regulatory limits on foreign investments by local pension funds should be updated alongside the planned reform to restructure existing funds into generational funds. Overseas investment provides diversification benefits, especially given the relatively underdeveloped domestic capital markets. Furthermore, the planned reform to move the *Régimen Obligatorio de Pensiones*[8] to generational funds based on investors' age groups would imply a greater demand for diversification into equity and other investments. The current regulatory limits on foreign investments, which appear to be more restrictive than the average of OECD peers, should be updated to meet the diversification needs of the new generational funds. Adjustments to foreign investment limits should phased in over time, but only if supported by measures to deepen the FX market and improve the liquidity and availability of FX hedging instruments.

23. Significant progress has been made in implementing recommendations of the 2020 Safeguards Assessment, and legal proposals to further enhance central bank autonomy and governance are under consideration. Most recommendations—particularly those related to external audit and financial reporting—have been addressed. Legislation aimed at improving the BCCR's transparency and accountability as well as institutionalizing the BCCR's *de facto* independence (particularly in its Board's decision-making) is being actively considered by the Legislative Assembly. A separate constitutional amendment to grant autonomy to the BCCR and allow the BCCR to implement governance reforms through internal regulations has been submitted to the legislature (although constitutional amendments move slowly through the legislature).

Authorities' Views

24. The authorities broadly concurred with staff's assessment. During the Article IV discussions in February 2025, the BCCR expected headline and core inflation to return steadily to the

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[7] See *Foreign Exchange Intervention in Costa Rica through the Lens of the Integrated Policy Framework* in CR/23/442.

[8] *Régimen Obligatorio de Pensiones* are mandatory defined contribution pension funds with total assets under management around 20 percent of GDP. Under existing regulation, pension funds can invest a maximum of 50 percent of their assets abroad contingent upon demonstrating that the real returns exceed those of domestic investments. Additionally, funds must hedge foreign-currency denominated assets above the 50 percent threshold.

tolerance range in the third quarter of 2025 in their baseline scenario, with downside risks including weaker global growth and slower than expected domestic monetary transmission, and upside risks including supply-side disruptions and major climate events. Cognizant of the elevated uncertainty, the BCCR reaffirmed its intention to adjust monetary policy in a forward-looking and data-dependent manner with clear communication of its policy moves. Regarding international reserves, the BCCR agreed that coverage was comfortable and noted that the current level of reserves is consistent with what the BCCR considers as adequate for the economy. The authorities also reiterated their strong commitment to further strengthen *de jure* central bank autonomy through legal reforms.

C. Financial Oversight

25. Recent financial episodes have been managed effectively and systemic risks are contained. The resolution of two non-bank financial institutions last year was well managed, with both institutions being quickly intervened and resolved. However, this recent episode underscores the importance of a well-functioning resolution and deposit insurance framework. Amendments have been proposed to the bank resolution and deposit insurance law that would (i) expand supervisors' legal authority to intervene and resolve failing financial institutions, (ii) clarify the ability of the government to use resolution proceeds, (iii) increase deposit insurance premia, and (iv) provide a fiscal backstop to the deposit insurance system (i.e., initially through extraordinary central bank financing that would be subsequently reimbursed by the budget). In addition to these amendments, the blanket deposit guarantee for state-owned banks should be eliminated to promote a level playing field with private banks.

26. Efforts are underway to further strengthen bank supervision (Annex IX). Shortcomings identified in the 2022 FSAP[9] are being actively addressed through legislative and regulatory changes. Full implementation of risk-based bank supervision is expected to begin in early 2025 with improved focus on individual risks (including secondary risks), and a strengthening of institutional and IT capabilities. Consolidated supervision has been partially applied since January 2023 and is expected to be completed by 2028 (once risk-based supervision is fully in place). There is scope to improve oversight and external auditing requirements for nonbank entities including by fully implementing risk-based and consolidated supervision.

Authorities' Views

27. The authorities agreed with the need to further strengthen financial supervision framework. They noted that the FSAP recommendations have been fully integrated into the superintendency's institutional strategic plan and a roadmap for implementation will be developed by June 2025. They are keen to refine their analytical tools to enhance risk-based assessments, strengthen consolidated supervision and improve governance and coordination among key agencies for intervention and resolution processes, and have requested technical assistance from

[9] A World Bank Financial Sector Assessment Program (FSAP) was conducted in 2022.

the Fund in these areas.

Amendments to the Bank Resolution and Deposit Insurance Law[1]

Objectives — **Improve the bank resolution and deposit insurance framework**

- Make the closure and exit of non-viable institutions feasible, prioritizing orderly resolution (rather than recapitalization) and preventing disruptions to the financial system and the real economy
- Secure adequate resolution funding, limiting reliance on bank reserves and minimizing the strain on public resources

Expected Outcome — **Supervisory and resolution powers are strenghtened**

- Legal protection of supervisors is strengthened by ensuring personal complaints are inadmissible unless based on negligence
- Resolvability is made easier by granting supervisors the power to replace senior management and board members, and to restrict profit distribution when solvency is at risk
- Intensive supervision is enhanced by granting supervisor powers to increase prudential requirements, including liquidity, for individual banks based on their risk profile and systemic importance
- The powers of the resolution authority are reinforced to order the resolution of non-viable supervised entities and the transfer of assets, liabilities, and shares
- A recovery and resolution planning framework is introduced, requiring supervised entities to prepare recovery plans and empowering the supervisor to activate them if financial or governance issues arise

Expected Outcome — **Crisis management framework is enhanced**

- The independence and autonomy of the Deposit Guarantee Fund (DGF) are strengthened, with increased annual contributions from financial institutions (subject to safeguards), and enhanced accountability and expertise requirements for the Director
- The DGF is allowed to finance the resolution with a public backstop for systemic risk, while the central bank provides liquidity via newly issued government bonds
- Repayments are defined as to ensure financial stability and fiscal costs are covered by resolution proceeds and additional contributions from the banking sector if needed
- The distortions between state-owned and private banks are to some exten addressed by gradually eliminating the state-owned bank guarantee

[1] A draft bill to amend the bank resolution and deposit insurance law was submitted to the Legislative Assembly in April 2024 and is awaiting approval.

D. Climate and Supply Side Policies

28. Costa Rica continues to advance climate-related reforms, including those implemented under the RSF. These various reforms will integrate climate risks into fiscal planning, public investment and financial sector oversight.

- Climate tagging guidelines have been implemented in the 2025 budget formulation (with training and quality control already implemented to improve consistency of application) and expenditure tracking.

- Climate transition risks are now incorporated into the MTFF and negative environmental effects are included in tax expenditure reports. These innovations, together with intentions to tag such tax expenditures in the budget (as is done for spending), will inform future policy trade-offs discussions regarding climate-related risks.

- To further improve the management of fiscal risks, the authorities have published a natural disaster implementation plan that considers building up deposits in the National Emergency Fund and expanding the use of catastrophe bonds, commercial climate-related insurance, and loans with deferred drawdown options.

- Agencies are applying new climate criteria to prioritize public infrastructure projects and for urban planning, embedding climate considerations in project decision-making.

- The BCCR's climate risk data repository has published innovative research on bank exposure to hydrometeorological events and the repository is being expanded to identify climate hazards more precisely. Its key design features are informing the creation of similar data repositories in other countries. However, the implementation of the BCCR's climate bank stress testing methodology is temporarily on hold, pending a court decision on data access. In parallel, a data repository on economic activities by geographical location has been developed for bottom-up climate stress testing.

29. Efforts are underway to develop solar, wind, and geothermal energy including through private participation. This would help reduce the country's reliance on hydroelectric power (which can be affected by shifts in rainfall) and support achieving zero net-emissions by 2050, the goal set by the National Decarbonization Plan.

30. To catalyze private climate financing, the government is working to expand the use of public-private partnership (PPP), develop bankable climate projects, and issue green bonds. A bill aimed at strengthening the PPP legal framework is advancing in the Legislative Assembly. If approved, it would allow the creation of a specialized PPP agency to prioritize, select, and structure PPP projects, with the aim of attracting private investments in areas such as resilient infrastructure and renewable energy. RSF-supported reforms that strengthened fiscal planning along with financial sector oversight and taxonomies will help ensure that PPP projects align with climate objectives. Banco Nacional, a major commercial bank, plans to establish a US$200 million trust fund to help bus operators transition to electric vehicles. With the support of UNDP, the government has developed a framework for green bonds and is exploring the issuance of sustainability-linked bonds. Efforts are underway to introduce a new green taxonomy, which will streamline the identification of green assets and expand the green finance market.

Box 1. Costa Rica: Follow Up of RSF Reform Measures

PRIORITY	REFORM MEASURE (RM) AND COMPLETION DATE	ANALYSIS AND DEVELOPMENT AGENCIES INVOLVED	FOLLOW-UP	OUTCOME/IMPACT
Integrating climate change risks into fiscal planning	RM1. Ministry of Finance to develop and publish guidelines for climate budget tagging (January 2023).	*Agence Française de Développement* (AFD) and IDB TA.	The 2025 budget was formulated using climate tagging. New climate-related sub-categories are being integrated into GFSM2014 functional classifiers.	Improved transparency of public finances to better align fiscal policy with priorities established in Costa Rica's NDCs.
	RM5. Ministry of Finance to publish a quantitative analysis of climate transition fiscal risks (November 2023).	IMF CD supporting the development of a methodology to quantify the fiscal risks from climate transition and IDB TA.	Fiscal effects of decarbonization efforts have been integrated into fiscal planning, including in the MTFF since 2024.	Fiscal planning has been strengthened through the quantification of long-term transition costs in the MTFF.
Strengthening Public Investment and Infrastructure Resilience	RM6. MIDEPLAN to develop and publish guidelines to expand the project appraisal process to assess the impact of the project on climate change through the social cost of carbon (September 2023).	IMF PIMA and C-PIMA, World Bank TA.	Guidelines have been used to assess the impact of projects on climate change since 2023. The authorities started training public sector planning units to apply the guidelines seamlessly in the appraisal process.	MIDEPLAN has been developing capacity to expand the appraisal of climate-resilient public infrastructure projects by considering the social cost of carbon emissions.[1]
	RM9. MIDEPLAN to publish guidelines on project selection criteria including a range of climate change criteria for SNIP entities (December 2023).	IMF PIMA and C-PIMA, World Bank TA (e.g., PEFA) and IDB TA.	Guidelines have been used in project selection to build a more climate resilient infrastructure.	MIDEPLAN has been developing capacity for SNIP entities to select and appraise climate-resilient public infrastructure projects.[1]
	RM10. MIVAH, in collaboration with MINAE, to develop and publish guidelines for including climate change analysis in Regulatory Plans (March 2024).	IMF PIMA and C-PIMA, World Bank and AFD TA.	The authorities are developing an updated training module to ease implementation of these guidelines in future regulatory plans and urban development planning. INVU has also included these climate-related guidelines in several regulatory plans covered with MIDEPLAN's pre-investment fund.	INVU has presented the regulatory plans guidelines to 32 local governments. Territorial planning at the local government level (cantons) was strengthened through the issuance of new regulatory plans with climate considerations.
Supporting Decarbonization	RM2. Government to approve implementing regulation to simplify the administrative procedures for private participation in power generation from renewable sources for self-consumption (February 2023).	IDB diagnostics.	Regulations are expected to be updated during 2025. ARESEP (the Price Regulatory Authority) has defined a methodology for setting tariffs from renewable sources.	The energy production matrix is being diversified by including private participation in electricity generation to reduce reliance on hydroelectric power (which can be affected by shifts in rainfall). More than 250 new operators have joined the electricity generation sector by end-2024, relative to end-2022 (before the regulation was issued).

Box 1. Costa Rica: Follow Up of RSF Reform Measures (concluded)

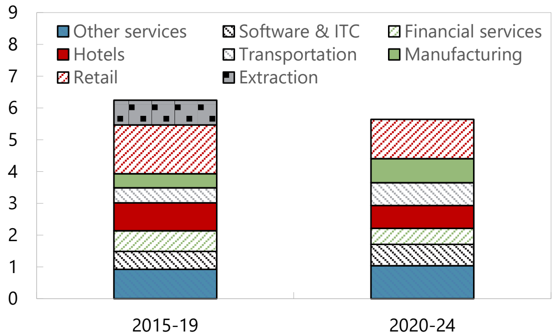
PRIORITY	REFORM MEASURE (RM) AND COMPLETION DATE	ANALYSIS AND DEVELOPMENT AGENCIES INVOLVED	FOLLOW-UP	OUTCOME/IMPACT
Supporting Decarbonization	RM7. Government to submit to the Legislative Assembly a bill to introduce feebate scheme to strengthen incentives for low-pollution private vehicles (November 2023).	IMF CD on feebate design, using the Climate Policy Assessment Tool.	Submitted bill and draft modifications are being discussed in Legislative Assembly (Environmental Commission).	If approved, the proposed legislation would incentivize the transition to low-emission vehicles, supporting Costa Rica's NDCs.
	RM11. Government to appraise and publish a review of existing tax incentives with a negative effect on the environment to support decarbonization efforts (April 2024).	GIZ technical support to develop a methodology to assess tax expenditures through a climate lens.	A detailed analysis of 2023 tax expenditures with negative environmental effects will be included in the annual tax expenditure report to be published in April 2025.	The review has built capacity for the authorities to propose legislation to eliminate exemptions with negative environmental effects and new alternatives to finance legislators' spending proposals.
Greening Reserves and Strengthening Financial Sector Resilience	RM4. BCCR to publish indicators of the "greenness" of its reserve holdings in its 2022 Annual Report (March 2023).	Priority identified in BCCR climate change roadmap, guided by recommendations of the NGFS.	The best-in-class strategy is actively applied to reserve management. There is pending approval from the BCCR's legal department for investments in green bond funds.	The BCCR has better aligned monetary policy objectives with green financial strategies.
	RM3. BCCR to create a repository with data on climate hazards; industrial and geographical vulnerability to climate events; banks' lending exposure to vulnerable industries and regions (February 2023).	Critical intermediate step to achieve RM12 developed with inputs from IMF staff.	The BCCR data repository on climate risks has facilitated innovative research on banking exposure to hydrometeorological events.	The BCCR published innovative research to assess credit risk and exposures to hydrometeorological events.[2] Other countries have indicated interest in developing similar data repositories building on Costa Rica's work.
	RM8. CONASSIF to approve regulation on management of socioenvironmental risks and climate change risks in the credit portfolio (October 2023).	Priority identified by the authorities.	Several financial institutions have been working to implement this regulation. The authorities also launched a joint green taxonomy to classify accurately green projects to better address climate risks and are working to make implementation mandatory starting in 2027.	Financial institutions are improving their assessment of socioenvironmental and climate change risk in their portfolios.
	RM12. BCCR to develop a methodology to incorporate climate effects on the banking sector in its top-down stress testing, based on data aggregated from granular information, and capturing those new risks on credit risk parameters (April 2024).	Priorities identified in the BCCR's climate change roadmap. Methodology guided by recommendations of the NGFS.	Although a new climate stress methodology applied to the banking sector by the BCCR is still awaiting legal decisions on data sharing, some banks have expressed interest in learning how it can be applied to their own data.	The BCCR has developed a methodology and built the capacity to implement top-down stress testing to estimate impacts of hydrometeorological events on banks' loan portfolios.

[1] Potential outcome indicators for RM6 and RM9 may include the proportion of project spending that adheres to the guidelines or criteria once they are available.

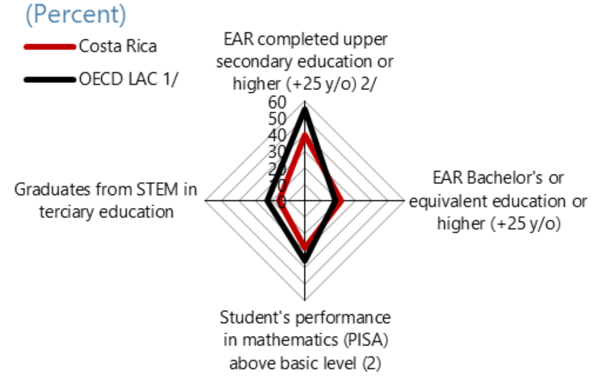
[2] Available at: https://www.sciencedirect.com/science/article/pii/S2666143824000371

31. Addressing skills gaps is crucial to sustain Costa Rica's export and FDI-driven growth. To sustain the job creation gains including through FDI, the authorities are also actively addressing skill shortages, particularly in high-tech industries, by aligning school curricula with market needs, expanding dual education programs, and promoting adult secondary education and bilingualism. Free community training centers have been launched to reduce the digital gap. Additionally, there is room to make public R&D funding, including for public universities, more performance-based and market-oriented. Accelerating these efforts will help develop a highly skilled workforce that can support knowledge-intensive industries and enhance Costa Rica's attractiveness for FDI.

Job Creation per Investment in Greenfield Projects by Sector



Educational Outcomes
(Percent)



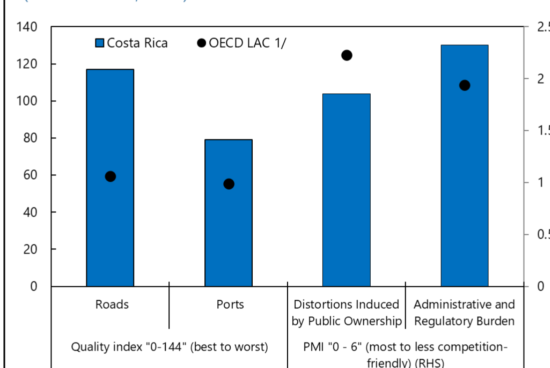
Source: Orbis, OECD, UNESCO and staff estimates.

1/ OECD LAC: Chile, Colombia and Mexico simple average.

2/ EAR: Educational Attainment Rate.

32. Reducing infrastructure gaps and fostering a more competitive business environment are key for private sector-led growth. The new Public Investment Law enhances the Ministry of Planning's role in selecting and appraising infrastructure projects. Further efforts are needed, though, to improve infrastructure maintenance, build institutional capacity and establish a standardized methodology across agencies for allocating and executing capital spending more efficiently. Given the substantial investment needed to upgrade roads and ports, swift approval and implementation of new PPP legislation is critical.

Infrastructure Quality and Product Market Indicators
(Indexes: 2019, 2023)

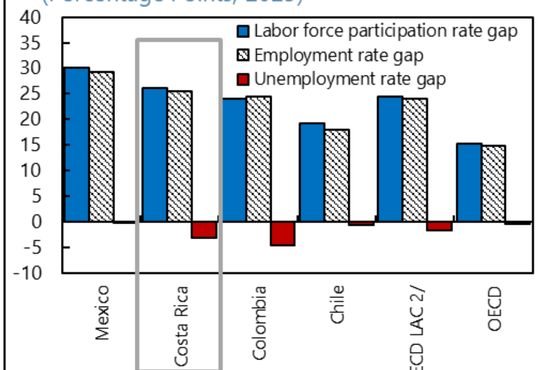


Source: OECD, WB and staff estimates.
1/ OECD LAC: Chile, Colombia and Mexico simple average.

33. The authorities have addressed key regulatory bottlenecks identified in businesses surveys and launched a one-stop window to facilitate permit applications for new businesses. Continued efforts should focus on reducing market distortions, fostering competition and leveling the playing field—particularly in the financial and electricity sectors—to drive long-term productivity growth.

34. Building on recent improvements in social indicators, sustained efforts are needed to achieve long-term inclusive growth. The reduction of the minimum contribution base for part-time workers has incentivized more formal employment. Nonetheless, there is still scope to lower the tax wedge on labor for lower-income workers and to reduce gender gaps in the labor market.[10] This would, though, require a broader tax reform that encompasses offsetting revenue measures. Improving the quality and availability of child- and adult-care networks would help raise female labor force participation. To improve employability and reduce long-term dependence on social assistance, the authorities are linking social transfers to participation in training and entrepreneurship programs, helping beneficiaries gain skills and economic independence.

Gender Gaps in Labor Market 1/
(Percentage Points, 2023)



Sources: OECD and staff calculations.
1/ Gender gap is measured as difference between male and female.
2/ OECD LAC: simple average of Chile, Colombia and Mexico.

Authorities' Views

35. The authorities are committed to advancing their green and inclusive growth agenda. They noted that growth has become more inclusive thanks to not only the strength of the overall economy, but also recent structural reforms aimed at enhancing the efficiency and quality of social spending. Efforts to promote inclusive growth will continue with particular focus on increasing female labor force participation and improving the quality of education. They also underscored the critical role of the RSF in advancing climate reforms, building capacity and catalyzing green financing. Their climate finance strategy will include the issuance of use of proceeds bonds in local markets and the development of bankable green projects.

STAFF APPRAISAL

36. Costa Rica has achieved remarkable economic progress due to its very strong fundamentals, policies, and policy frameworks. GDP growth has averaged above 5 percent per year since 2021, inflation is rising toward the central bank's target, the risk of sovereign debt distress is low, international reserves are at comfortable levels, and systemic financial stability risks are contained. These outturns are fruits of good macroeconomic policies, wide-ranging reforms in the process of becoming a member of the OECD, the successful completion of IMF-supported programs, and a strategic focus on exports and economic diversification. Such factors are expected

[10] The combined average marginal tax from social security contributions and payroll taxes is 29 percent of workers' gross wages for lower income earners.

to support robust growth going forward notwithstanding external headwinds and risks. The external position in 2024 is assessed to be stronger than medium-term fundamentals and desirable policies

37. Public debt has fallen steadily to below 60 percent of GDP, but the task of reducing the debt burden to rebuild fiscal space is not yet complete. The increase in the primary surplus embedded within the medium-term fiscal framework is appropriately paced but will require spending to be kept below the ceiling permitted by the fiscal rule. Tax reforms should aim to increase equity, efficiency, and the revenue-to-GDP ratio, which would allow for higher human capital, infrastructure, and social assistance spending. Legislation to reduce revenues should be avoided.

38. Full implementation of the public employment law would improve the quality of spending. Legislative proposals aimed at amending the law would significantly undermine progress in containing the public-sector wage bill and should be avoided. Institutions that have not yet fully implemented the law should do so without further delay to ensure its benefits are broadened to beyond the central government.

39. Efforts to reduce interest costs should continue and the disputed claim by the social security system should be resolved. Improved sovereign asset and liability management and granting the executive branch more flexibility in issuing external debt would help reduce interest costs. Addressing the social security system's claim on the central government will require improving the CCSS's registries of beneficiaries, clarifying which benefits are covered by the central government budget, and reforming CCSS's governance and accountability.

40. The BCCR's inflation targeting regime is working well and there is scope to further strengthen its *de jure* institutional framework. The BCCR's forward-looking data-dependent approach to monetary policy has proven effective. If the convergence of inflation to the 3 percent target weakens in the coming months there is room to cut the policy rate further. Proposals to improve BCCR governance, transparency, and accountability, and institutionalize the central bank's *de facto* autonomy should be approved by the legislature.

41. The exchange rate should be allowed to flexibly adjust to market conditions. Further accumulation of international reserves is unnecessary and foreign exchange intervention should be used sparingly to address market volatility. The non-financial public sector's reliance on the BCCR as an FX intermediary should be reduced. Regulatory limits on foreign investment should be adjusted in a phased manner. Costa Rica remains current on its obligations under Article VIII and continues to maintain an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions.

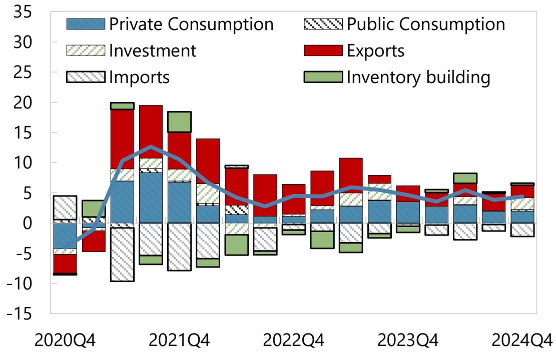
42. There is scope to further capitalize on the significant progress made in financial sector oversight. Indicators of financial soundness remain comfortable, yet the resolution of small non-bank financial institutions last year highlights the importance of a very strong supervisory and crisis management framework. The Legislative Assembly should, therefore, prioritize passing the proposed amendments to the bank resolution and deposit insurance law.

43. Advancing supply-side reforms would help sustain Costa Rica's impressive economic performance. Boosting graduation rates and aligning curricula with workforce needs will help reduce skills mismatches. Enhancing infrastructure quality and implementing legislation on public private partnerships would further strengthen potential growth. Better integrating climate considerations into public investment decisions will make infrastructure more resilient against natural disasters. Removing barriers to competition and formal employment would also strengthen long-term growth.

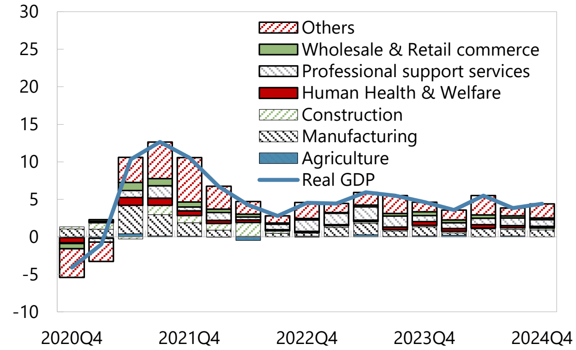
44. Staff recommends that the next Article IV consultation take place on the standard 12-month cycle. With CRI's credit outstanding to the Fund exceeding 200 percent of quota, a Post-Financing Assessment was initiated and the first report published in December 2024. PFAs are generally expected on an annual cycle as long as credit outstanding exceeds 200 percent of quota and there is no current financing arrangement in place.

Figure 1. Costa Rica: Real Sector Developments

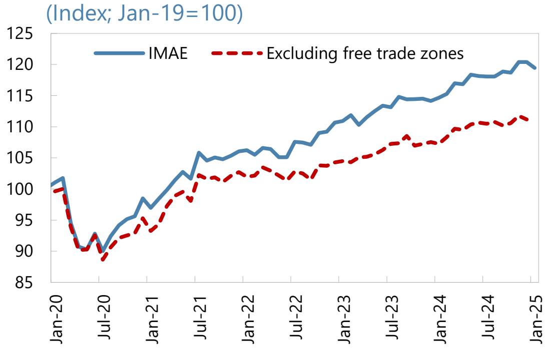
Real GDP Growth by Type of Expenditure
(Year-on-year Percent Change and Contributions)



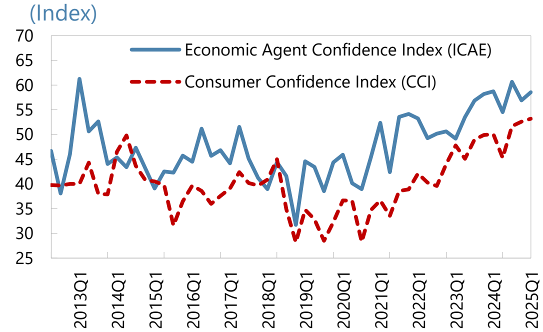
Real GDP Growth by Sector
(Year-on-year Percent Change and Contributions)



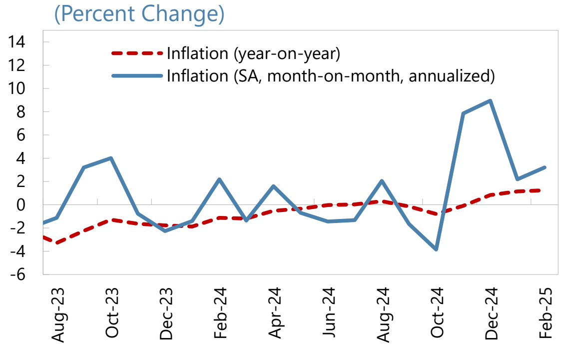
Economic Activity (IMAE Trend)
(Index; Jan-19=100)



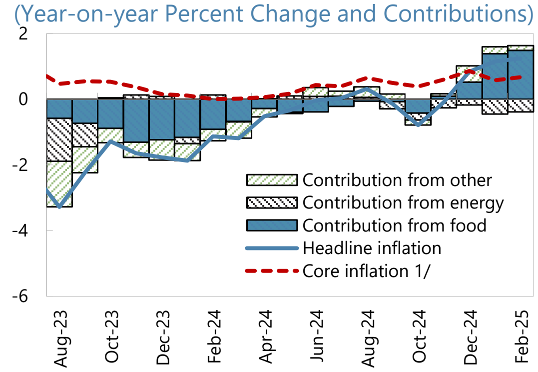
Consumer and Economic Agents Confidence
(Index)



Consumer Price Index
(Percent Change)

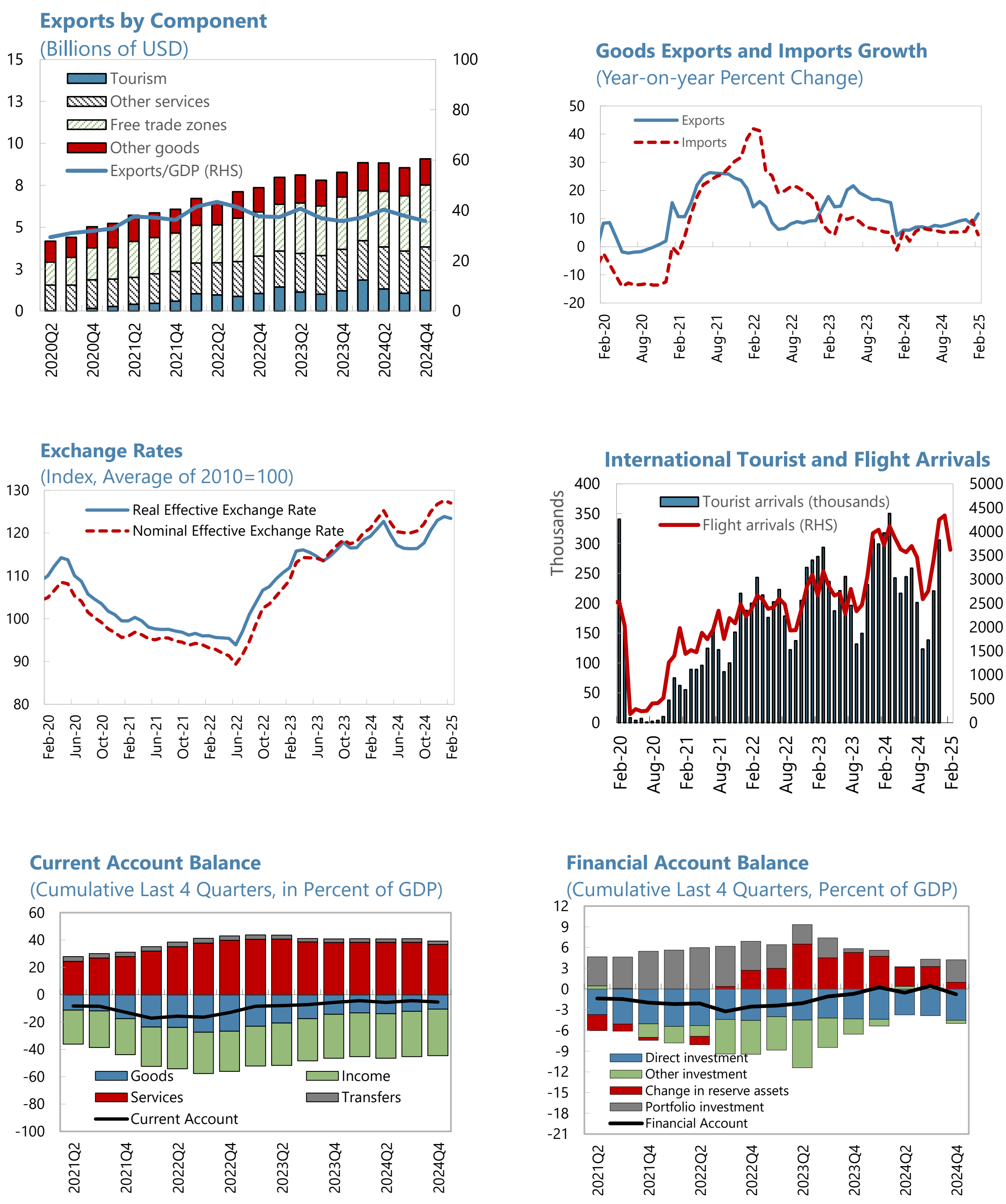


Consumer Price Inflation by Major Components
(Year-on-year Percent Change and Contributions)



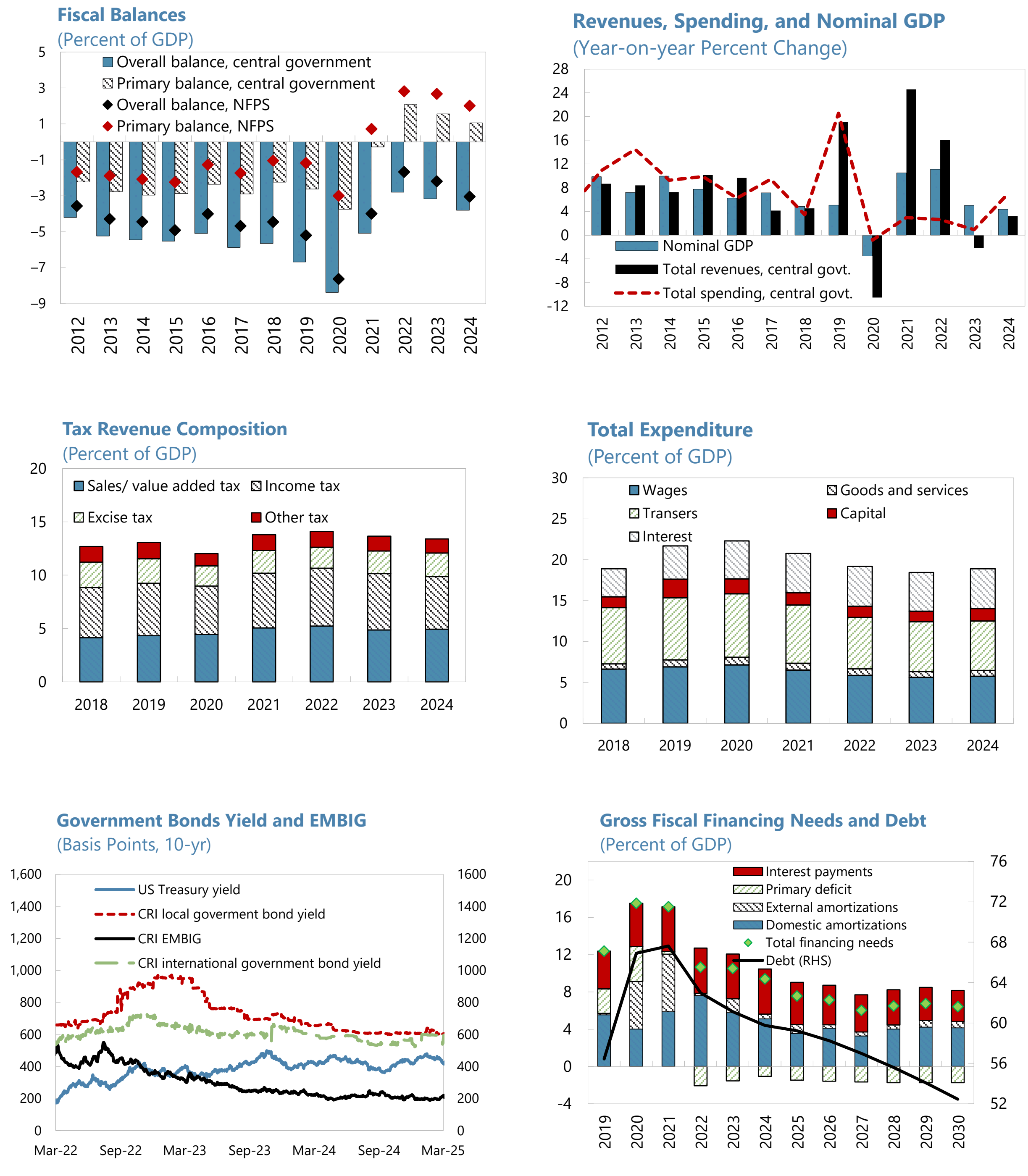
Sources: National authorities and IMF staff estimates.
Note: Average of the five indicators calculated by the authorities to eliminate the effect of having temporary or extreme variations, usually associated with weather, seasonal or institutional factors.

Figure 2. Costa Rica: External Sector Developments



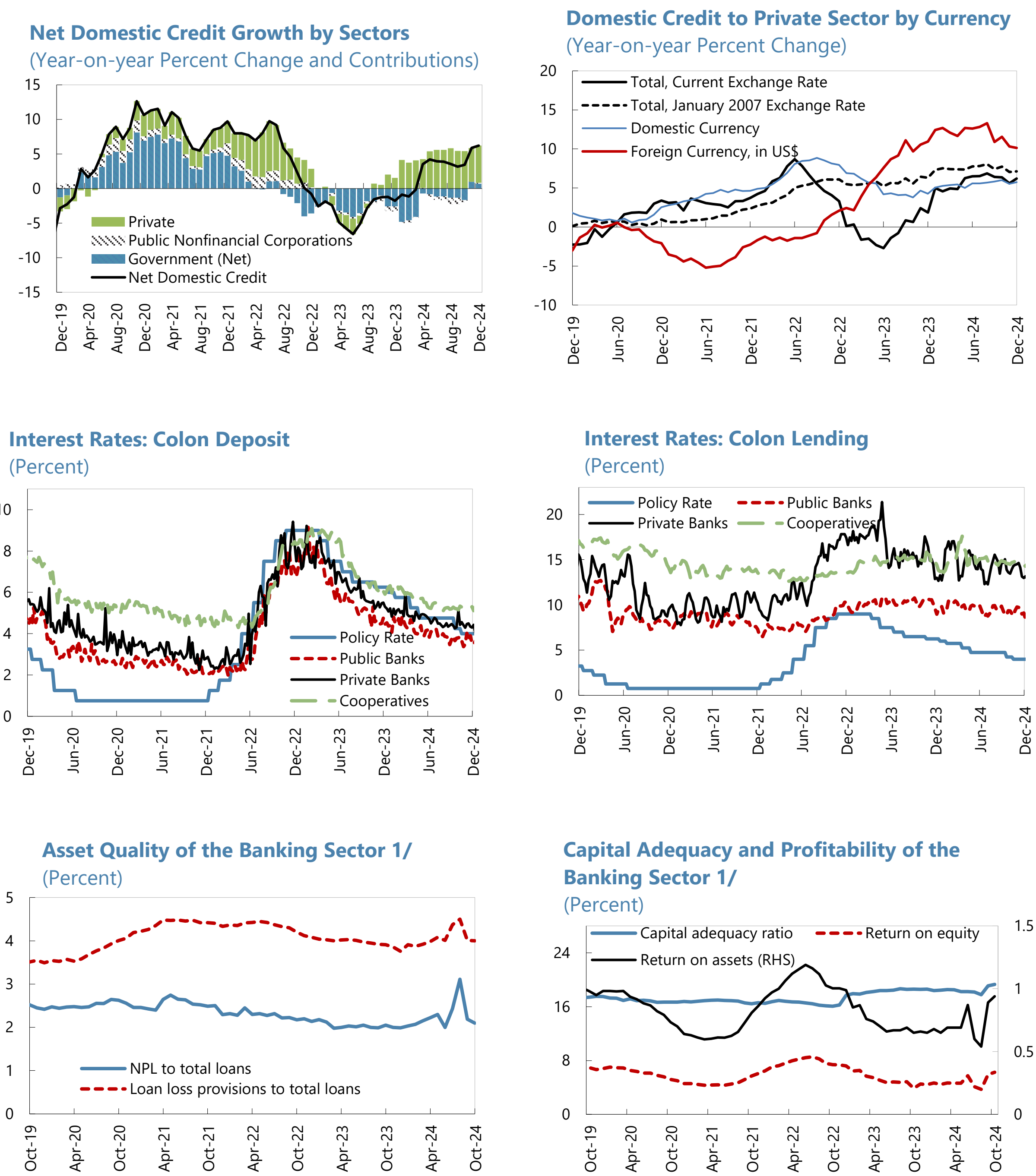
Sources: National authorities, Flight Radar, and IMF staff calculations.

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

	2021	2022	2023	2024	2024	2025	2025	2026	2027	2028	2029	2030
						Projections						
				CR/ 24/359[1/]		CR/ 24/359						
National Income					(Annual percentage change)							
Real GDP	7.9	4.6	5.1	4.0	4.3	3.5	3.4	3.4	3.5	3.5	3.5	3.5
Domestic demand	8.6	0.8	3.1	4.4	4.3	3.5	3.4	3.2	3.3	3.4	3.4	3.4
Consumption	6.9	2.5	4.1	3.1	3.3	3.0	2.5	2.6	2.8	3.0	3.0	3.0
Private	8.3	2.6	5.0	3.4	4.0	3.3	3.0	3.1	3.2	3.3	3.3	3.3
Public	1.7	2.4	0.1	2.1	0.7	1.7	0.8	0.5	1.1	1.6	1.7	1.7
Gross fixed capital formation	7.8	1.5	8.6	4.3	4.3	5.8	6.4	5.7	5.4	5.1	5.0	5.0
Exports of goods and nonfactor services	15.9	18.5	10.0	5.0	5.8	5.8	4.6	5.6	5.4	5.1	5.0	5.0
Imports of goods and nonfactor services	19.2	8.1	5.2	6.5	6.0	6.3	4.8	5.4	5.4	5.2	5.2	5.2
					(Contributions to real GDP growth)							
Domestic demand	8.3	0.7	2.9	4.0	3.9	3.2	3.1	2.9	3.0	3.1	3.1	3.1
Consumption	5.5	2.0	3.1	2.4	2.6	2.3	1.9	1.9	2.1	2.2	2.2	2.2
Gross domestic investment	2.8	-1.3	-0.2	1.7	1.3	0.9	1.2	1.0	0.9	0.9	0.9	0.9
of which : Inventory changes	1.5	-1.5	-1.6	1.0	0.6	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Net exports	-0.3	3.8	2.2	0.0	0.4	0.3	0.3	0.5	0.5	0.4	0.4	0.4
Prices					(Annual percentage change)							
GDP deflator	2.4	6.3	-0.1	0.3	0.0	2.7	3.0	3.2	3.2	3.2	3.2	3.2
Consumer prices (period average)	1.7	8.3	0.5	-0.4	-0.4	1.6	2.2	3.0	3.0	3.0	3.0	3.0
Consumer prices (end of period)	3.3	7.9	-1.8	0.4	0.8	2.4	2.8	3.0	3.0	3.0	3.0	3.0
Savings and Investment					(In percent of GDP, unless otherwise indicated)							
Savings	18.6	17.7	15.3	16.2	15.7	16.7	15.6	15.4	15.7	16.0	16.2	16.4
Domestic savings	15.4	14.4	13.8	14.3	14.3	14.8	13.8	13.5	14.1	14.4	14.6	14.8
Private sector	17.2	14.2	14.3	15.4	15.4	15.1	14.1	13.5	13.7	13.8	13.8	13.8
Public sector	-1.8	0.2	-0.4	-1.1	-1.0	-0.3	-0.3	0.1	0.4	0.6	0.8	1.0
External savings	3.2	3.3	1.4	1.9	1.4	1.9	1.8	1.9	1.6	1.5	1.6	1.6
Gross domestic investment	18.6	17.7	15.3	16.2	15.7	16.7	15.6	15.4	15.7	16.0	16.2	16.4
Private sector	16.3	15.8	13.5	14.4	13.7	14.8	13.6	13.4	13.5	13.7	13.8	13.9
Public sector	2.2	1.9	1.8	1.8	1.9	1.9	2.0	2.1	2.2	2.3	2.4	2.5
External Sector												
Current account balance	-3.2	-3.3	-1.4	-1.9	-1.4	-1.9	-1.8	-1.9	-1.6	-1.5	-1.6	-1.6
Trade balance	-4.4	-6.7	-3.7	-3.9	-2.6	-4.0	-3.4	-4.0	-3.7	-3.9	-3.9	-4.0
Services	7.0	10.1	9.7	9.6	9.2	9.6	8.8	8.4	8.5	8.7	8.5	8.4
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	-1.8	-1.9	-0.7	-1.8	-0.8	-1.8	-1.8	-1.9	-1.6	-1.5	-1.6	-1.5
Foreign direct investment, net	-4.8	-4.4	-4.3	-4.3	-4.5	-4.3	-4.1	-4.0	-4.1	-4.3	-4.4	-4.5
Gross international reserves (millions of U.S. dollars)	6,921	8,724	13,261	14,441	14,181	15,174	14,932	15,792	16,485	17,301	18,026	18,869
-in months of next year's imports	3.1	3.7	5.2	5.2	5.3	5.1	5.1	4.9	4.6	4.4	4.1	3.8
-as percent of gross external financing requirements	102.6	89.8	139.6	...	137.7	...	142.0	135.4	131.8	121.5	114.9	121.3
External debt	48.6	50.7	43.3	41.9	42.0	41.1	42.1	43.3	44.0	44.4	44.7	44.7
Real effective exchange rate, avg. (percent change)	-9.2	1.8	15.2	...	3.5	...	...	...	...	...	...	...
Public Finances												
Central government primary balance	-0.3	2.1	1.6	1.3	1.1	1.6	1.3	1.5	1.6	1.6	1.7	1.7
Central government overall balance	-5.1	-2.8	-3.3	-3.7	-3.8	-3.2	-3.2	-2.8	-2.5	-2.3	-2.0	-1.7
Central government debt	67.6	63.0	61.1	61.1	59.8	60.8	59.7	59.0	57.9	56.7	55.3	53.7
Money and Credit												
Credit to the private sector (percent change)	3.7	3.3	1.9	6.5	6.2	6.7	6.4	6.5	6.6	6.6	7.1	7.2
Credit to the private sector (adjusted by exchange rate changes)	2.4	6.1	6.3	7.5	7.1	6.6	6.4	6.1	6.4	6.3	6.8	6.9
Monetary base[2/]	7.8	8.0	7.9	8.0	8.3	8.0	8.3	8.3	8.2	8.2	8.2	8.2
Broad money	54.0	47.5	47.4	49.4	51.3	50.1	50.5	50.9	51.5	52.3	52.2	53.7
Memorandum Items												
Nominal GDP (billions of colones)	40,327	44,810	47,059	49,083	49,116	52,177	52,307	55,830	59,647	63,720	68,058	72,686
Output gap (as percent of potential GDP)	0.1	-0.3	1.0	0.7	0.6	0.2	0.4	0.2	0.1	0.0	0.0	0.0
Unemployment rate (percent)	13.7	11.7	7.3	7.0	6.9	7.3	7.5	8.0	8.5	8.5	8.5	8.5

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

1/ Costa Rica 2024 PFA SR.

2/ Includes currency issued and required domestic reserves.

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

	2021	2022	2023	2024 CR/ 24/359	2024	Projections 2025 CR/ 24/359	2025	2026	2027	2028	2029	2030
				(In billions of colones)								
Revenue	**6,326**	**7,341**	**7,182**	**7,367**	**7,410**	**7,814**	**7,910**	**8,443**	**9,024**	**9,634**	**10,294**	**11,001**
Tax revenue	5,566	6,312	6,423	6,535	6,577	6,976	7,073	7,550	8,070	8,616	9,207	9,840
Nontax revenue[1/]	760	1,029	759	831	833	837	836	893	954	1,018	1,087	1,161
Expenditure	**8,377**	**8,598**	**8,712**	**9,200**	**9,268**	**9,464**	**9,597**	**10,021**	**10,509**	**11,074**	**11,632**	**12,267**
Current noninterest	5,839	5,803	5,844	6,068	6,145	6,210	6,382	6,710	7,052	7,441	7,849	8,286
Wages	2,624	2,627	2,653	2,794	2,825	2,764	2,878	2,976	3,059	3,151	3,250	3,350
Goods and services	342	356	335	342	348	384	380	415	457	511	568	616
Transfers	2,874	2,820	2,855	2,932	2,972	3,062	3,125	3,319	3,536	3,778	4,031	4,320
Interest[2/]	1,939	2,184	2,260	2,451	2,379	2,468	2,388	2,392	2,412	2,443	2,465	2,486
Capital	599	611	609	682	744	785	827	919	1,045	1,190	1,318	1,495
Primary balance	**-112**	**927**	**730**	**617**	**521**	**818**	**701**	**814**	**927**	**1,004**	**1,126**	**1,221**
Overall Balance	**-2,051**	**-1,257**	**-1,530**	**-1,834**	**-1,858**	**-1,650**	**-1,687**	**-1,578**	**-1,485**	**-1,439**	**-1,338**	**-1,266**
Total Financing	2,158	1,207	1,469	1,834	2,018	1,650	1,687	1,578	1,485	1,439	1,338	1,265
External (net)	645	1,051	1,180	532	513	867	1,282	1,199	743	575	385	246
of which RSF disbursement	0	0	0	380	379	0	0	0	0	0	0	0
Domestic (net)	1,513	156	350	1,302	1,116	783	405	379	741	864	953	1,020
Central government debt	**27,272**	**28,224**	**28,762**	**29,988**	**29,348**	**31,713**	**31,207**	**32,930**	**34,526**	**36,114**	**37,603**	**39,025**
External	6,779	7,210	7,539	7,891	7,818	8,795	9,107	10,397	11,203	11,875	12,360	12,709
Domestic	20,493	21,014	21,224	22,097	21,302	22,918	22,100	22,533	23,322	24,239	25,244	26,316
				(In percent of GDP)								
Revenue	**15.7**	**16.4**	**15.3**	**15.0**	**15.1**	**15.0**	**15.1**	**15.1**	**15.1**	**15.1**	**15.1**	**15.1**
Tax revenue	13.8	14.1	13.6	13.3	13.4	13.4	13.5	13.5	13.5	13.5	13.5	13.5
Nontax revenue[1/]	1.9	2.3	1.6	1.7	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Expenditure	**20.8**	**19.2**	**18.5**	**18.7**	**18.9**	**18.1**	**18.3**	**17.9**	**17.6**	**17.4**	**17.1**	**16.9**
Current noninterest	14.5	12.9	12.4	12.4	12.5	11.9	12.2	12.0	11.8	11.7	11.5	11.4
Wages	6.5	5.9	5.6	5.7	5.8	5.3	5.5	5.3	5.1	4.9	4.8	4.6
Goods and services	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8
Transfers	7.1	6.3	6.1	6.0	6.1	5.9	6.0	5.9	5.9	5.9	5.9	5.9
Interest[2/]	4.8	4.9	4.8	5.0	4.8	4.7	4.6	4.3	4.0	3.8	3.6	3.4
Capital	1.5	1.4	1.3	1.4	1.5	1.5	1.6	1.6	1.8	1.9	1.9	2.1
Primary balance	**-0.3**	**2.1**	**1.6**	**1.3**	**1.1**	**1.6**	**1.3**	**1.5**	**1.6**	**1.6**	**1.7**	**1.7**
Overall Balance	**-5.1**	**-2.8**	**-3.3**	**-3.7**	**-3.8**	**-3.2**	**-3.2**	**-2.8**	**-2.5**	**-2.3**	**-2.0**	**-1.7**
Total Financing	**5.4**	**2.7**	**3.1**	**3.7**	**4.1**	**3.2**	**3.2**	**2.8**	**2.5**	**2.3**	**2.0**	**1.7**
External (net)	1.6	2.3	2.5	1.1	1.0	1.7	2.5	2.1	1.2	0.9	0.6	0.3
of which RSF disbursement	0.0	0.0	0.0	0.8	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	3.8	0.3	0.7	2.7	2.3	1.5	0.8	0.7	1.2	1.4	1.4	1.4
Central government debt	**67.6**	**63.0**	**61.1**	**61.1**	**59.8**	**60.8**	**59.7**	**59.0**	**57.9**	**56.7**	**55.3**	**53.7**
External	16.8	16.1	16.0	16.1	15.9	16.9	17.4	18.6	18.8	18.6	18.2	17.5
Domestic	50.8	46.9	45.1	45.0	43.4	43.9	42.2	40.4	39.1	38.0	37.1	36.2
Memorandum items:												
Non-interest expenditure growth (percent)												
in nominal terms	-0.1	-0.4	0.6	4.6	6.8	3.6	4.6	5.8	6.1	6.6	6.2	6.7
in real terms	-1.8	-8.0	0.1	5.0	7.2	2.1	2.4	2.7	3.0	3.5	3.1	3.6
Domestic financing without RSF (net)	1,513	156	350	1,681	1,496	783	405	379	741	864	953	1,020
Nominal GDP (billions of colones)	40,327	44,810	47,059	49,083	49,116	52,177	52,307	55,830	59,647	63,720	68,058	72,686

Sources: Ministry of Finance and IMF staff estimates.

1/ 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.

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

Table 3. Costa Rica: Balance of Payments

	2021	2022	2023	2024	2024	2025	2025	2026	2027	2028	2029	2030
						Projections						
				CR/ 24/359		CR/ 24/359						
	(In millions of U.S. dollars)											
Current Account	**-2,063**	**-2,272**	**-1,239**	**-1,776**	**-1,291**	**-1,892**	**-1,826**	**-2,076**	**-1,843**	**-1,889**	**-2,055**	**-2,143**
Goods and services balance	1,670	2,297	5,270	5,401	6,311	5,773	5,581	4,881	5,500	5,848	5,895	6,106
Trade balance	-2,845	-4,666	-3,158	-3,728	-2,510	-4,025	-3,461	-4,290	-4,311	-4,742	-5,051	-5,424
Export of goods (f.o.b.)	14,826	16,647	18,886	20,302	20,656	21,870	21,045	22,744	24,951	26,900	29,459	32,286
Import of goods (f.o.b.)	17,671	21,313	22,045	24,029	23,166	25,895	24,506	27,034	29,262	31,642	34,510	37,710
Services balance	4,515	6,963	8,429	9,129	8,820	9,798	9,042	9,171	9,812	10,589	10,946	11,530
Primary Income	-4,254	-5,135	-7,074	-7,764	-8,189	-8,277	-8,093	-7,808	-8,383	-8,827	-9,262	-9,671
Secondary Income	521	566	564	587	587	612	685	852	1,039	1,090	1,313	1,422
Capital Account	**19**	**20**	**22**	**24**	**24**	**27**	**24**	**25**	**28**	**31**	**34**	**37**
Financial Account	**-1,177**	**-1,311**	**-610**	**-1,751**	**-737**	**-1,865**	**-1,803**	**-2,051**	**-1,816**	**-1,859**	**-2,021**	**-2,106**
Public sector	-266	-1,770	-2,551	-1,084	-273	-1,533	-1,045	-1,106	-18	372	971	1,271
Private sector	-648	-1,343	-2,596	-1,848	-1,384	-1,065	-1,509	-1,805	-2,491	-3,048	-3,717	-4,220
Foreign direct investment, net	-3,146	-3,060	-3,701	-4,124	-4,275	-4,371	-4,240	-4,293	-4,704	-5,305	-5,718	-6,206
Other private sector flows	2,498	1,717	1,104	2,276	2,891	3,305	2,731	2,488	2,213	2,258	2,001	1,986
Change in International Reserves (increase +)	-263	1,803	4,537	1,180	920	733	751	860	693	816	725	843
Errors and Omissions	**867**	**941**	**607**	**0**	**529**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
	(In percent of GDP)											
Current Account	**-3.2**	**-3.3**	**-1.4**	**-1.9**	**-1.4**	**-1.9**	**-1.8**	**-1.9**	**-1.6**	**-1.5**	**-1.6**	**-1.6**
Goods and services balance	2.6	3.3	6.1	5.7	6.6	5.7	5.4	4.5	4.8	4.8	4.6	4.5
Trade balance	-4.4	-6.7	-3.7	-3.9	-2.6	-4.0	-3.4	-4.0	-3.7	-3.9	-3.9	-4.0
Export of goods (f.o.b.)	22.8	24.0	21.8	21.3	21.7	21.5	20.5	20.9	21.7	22.0	22.8	23.6
Import of goods (f.o.b.)	27.2	30.8	25.5	25.2	24.3	25.5	23.9	24.9	25.4	25.9	26.7	27.5
Services balance	7.0	10.1	9.7	9.6	9.2	9.6	8.8	8.4	8.5	8.7	8.5	8.4
Of which: Travel balance	1.8	3.9	3.6	3.8	3.7	3.9	3.6	3.7	3.9	3.9	4.2	4.7
Exports of services	13.5	18.4	17.1	17.0	16.9	17.1	16.2	16.1	16.8	17.7	18.5	19.8
Imports of services	6.6	8.4	7.4	7.4	7.6	7.5	7.4	7.7	8.3	9.0	10.0	11.4
Primary Income	-6.5	-7.4	-8.2	-8.2	-8.6	-8.1	-7.9	-7.2	-7.3	-7.2	-7.2	-7.1
Secondary Income	0.8	0.8	0.7	0.6	0.6	0.6	0.7	0.8	0.9	0.9	1.0	1.0
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	**-1.8**	**-1.9**	**-0.7**	**-1.8**	**-0.8**	**-1.8**	**-1.8**	**-1.9**	**-1.6**	**-1.5**	**-1.6**	**-1.5**
Public sector	-0.4	-2.6	-2.9	-1.1	-0.3	-1.5	-1.0	-1.0	0.0	0.3	0.8	0.9
Private sector	-1.0	-1.9	-3.0	-1.9	-1.5	-1.0	-1.5	-1.7	-2.2	-2.5	-2.9	-3.1
Foreign direct investment, net	-4.8	-4.4	-4.3	-4.3	-4.5	-4.3	-4.1	-4.0	-4.1	-4.3	-4.4	-4.5
Other private sector flows	3.8	2.5	1.3	2.4	3.0	3.2	2.7	2.3	1.9	1.8	1.5	1.4
Change in International Reserves (increase +)	-0.4	2.6	5.2	1.2	1.0	0.7	0.7	0.8	0.6	0.7	0.6	0.6
Errors and Omissions	**1.3**	**1.4**	**0.7**	**0.0**	**0.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum Items:												
Non-oil current account (percent of GDP)	-0.8	0.3	1.4	0.6	1.0	0.3	0.5	0.5	0.9	1.1	1.3	1.6
Terms of trade (annual percentage change)	-2.8	-1.6	2.7	0.1	0.0	1.1	1.6	1.0	0.1	0.0	-0.2	-0.3
Gross international reserves (with RSF, millions of U.S. dollars)	6,921	8,724	13,261	14,441	14,181	15,174	14,932	15,792	16,485	17,301	18,026	18,869
Gross international reserves (without RSF, millions of U.S. dollars)	6,921	8,724	13,261	13,705	13,444	14,438	14,195	15,055	15,748	16,565	17,290	18,132
Net international reserves, program definition (millions of U.S. dollars)1/	2,884	3,871	8,266	7,954	7,954	9,089	8,822	9,532	10,113	10,905	11,636	12,199
External debt (percent of GDP)2/	48.6	50.7	43.3	41.9	42.0	41.1	42.1	43.3	44.0	44.4	44.7	44.7

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

	2021	2022	2023	2024 CR/ 24/359	2024	2025 CR/ 24/359	2025	2026	2027	2028	2029	2030
						Projections						
	(In millions of U.S. dollars)											
Gross external financing needs	**-9,336**	**-11,985**	**-8,937**	**-12,493**	**-13,903**	**-13,519**	**-15,528**	**-15,876**	**-17,134**	**-18,502**	**-20,666**	**-22,213**
Current account balance	-2,063	-2,272	-1,239	-1,776	-1,291	-1,892	-1,826	-2,076	-1,843	-1,889	-2,055	-2,143
Amortization	-5,120	-4,681	-7,438	-7,105	-8,015	-7,841	-8,825	-8,621	-9,450	-10,430	-12,074	-13,352
Public sector, of which	-1,254	-358	-1,428	-525	-1,378	-1,084	-1,681	-921	-1,015	-991	-1,531	-1,529
Central government	-134	-150	-1,252	-49	-40	-333	-300	-318	-357	-309	-653	-652
Central bank 1/	-2	-2	-139	-962	-962	0	0	0	0	0	0	0
Private sector	-3,866	-4,324	-6,010	-6,580	-6,637	-6,756	-7,144	-7,700	-8,435	-9,439	-10,543	-11,823
of which: short-term	-2,782	-3,137	-4,757	-5,321	-5,321	-5,572	-5,694	-6,134	-6,710	-7,521	-8,405	-9,443
Other net capital inflows 2/	-2,153	-5,031	-260	-3,612	-4,597	-3,786	-4,877	-5,179	-5,840	-6,183	-6,537	-6,717
Gross external financing sources	**8,182**	**10,409**	**8,514**	**11,242**	**12,652**	**12,073**	**14,131**	**14,783**	**16,342**	**18,091**	**20,318**	**22,245**
Capital transfers	19	20	22	24	24	27	24	25	28	31	34	37
Direct investment, net	3,146	3,060	3,701	4,124	4,275	4,371	4,240	4,293	4,704	5,305	5,718	6,206
Borrowing	4,754	9,131	9,329	8,274	9,272	8,408	10,619	11,325	12,303	13,572	15,291	16,844
Public sector, of which	457	904	3,381	844	152	1,657	1,814	1,420	727	694	699	776
Central government	-12	151	3,144	31	-15	1,079	1,917	1,558	1,000	1,000	1,038	1,147
of which: Eurobonds	0	0	2,921	0	0	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Central bank 3/	502	1,100	0	0	0	0	0	0	0	0	0	0
Private sector	4,298	8,228	5,949	7,430	9,120	6,751	8,804	9,905	11,576	12,878	14,592	16,069
Change in International reserves (increase -)	263	-1,803	-4,537	-1,180	-920	-733	-751	-860	-693	-816	-725	-843
Use of IMF credit	**294**	**554**	**275**	**1,038**	**1,039**	**-186**	**-184**	**-69**	**-138**	**-231**	**-277**	**-278**
Purchases/disbursements	294	554	275	1,284	1,284	0	0	0	0	0	0	0
RFI	0	0	0	0	0	0	0	0	0	0	0	0
EFF	294	554	275	548	548	0	0	0	0	0	0	0
RSF	0	0	0	736	736	0	0	0	0	0	0	0
Repurchases/repayments	0	0	0	-246	-245	-186	-184	-69	-138	-231	-277	-278
Other gross multilateral financing	**861**	**1,021**	**147**	**212**	**212**	**1,631**	**1,581**	**1,162**	**930**	**642**	**624**	**246**
World Bank	313	307	4	12	12	…	…	…	…	…	…	…
Inter-American Development Bank (IDB)	404	385	104	83	83	…	…	…	…	…	…	…
CAF	0	0	0	0	0	…	…	…	…	…	…	…
Central American Bank for Economic Integration (CABEI)	144	329	40	117	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	-1	0
Memorandum items:												
Gross multilateral support	1,154	1,575	422	1,497	1,497	1,631	1,581	1,162	930	642	624	246
In percent of GDP	1.8	2.3	0.5	1.6	1.6	1.6	1.5	1.1	0.8	0.5	0.5	0.2
Of which, committed	1,154	1,575	422	1,497	1,497	1,631	1,581	1,162	930	642	624	246
Of which, disbursed	1,154	0	0	0	0	0	0	0	0	0	0	0
IMF share of total gross multilateral financing (percent)												
Purchases and disbursements, flow basis	25	35	65	86	86	…	…	…	…	…	…	…
Purchases and disbursements, cumulative basis	32	33	36	49	49	…	…	…	…	…	…	…
Current account balance (percent of GDP)	-3.2	-3.3	-1.4	-1.9	-1.4	-1.9	-1.8	-1.9	-1.6	-1.5	-1.6	-1.6
Gross international reserves	6,921	8,724	13,261	14,441	14,181	15,174	14,932	15,792	16,485	17,301	18,026	18,869
In percent of ST debt (remaining maturity)	148	117	161	178	157	201	172	165	155	140	132	141
In percent of gross external financing requirement	103	90	140	146	138	160	142	135	132	121	115	121
In months of next year's imports of G&S	3.1	3.7	5.2	5.2	5.3	5.1	5.1	4.9	4.6	4.4	4.1	3.8

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

	2021	2022	2023	2024	2024	2025	2025	2026
						Projections		
				CR/ 24/359		CR/ 24/359		
	(In billions of colones, unless otherwise indicated)							
Central Bank								
Net foreign assets	4,007	3,800	5,739	6,716	6,070	7,175	6,484	7,047
Of which : Gross international reserves								
(In millions of U.S. dollars)	6,921	8,724	13,251	14,431	14,177	15,164	14,928	15,788
Net domestic assets	-852	-195	-2,006	-2,770	-2,012	-2,987	-2,165	-2,440
Net domestic credit	-1,601	-1,756	-2,036	-1,834	-1,662	-2,631	-2,331	-2,472
Credit to nonfinancial public sector (net)	-315	-615	-1,010	-647	-412	-672	-437	-437
Credit to other depository corporations (net)	-1,204	-1,114	-997	-1,157	-1,228	-1,929	-1,872	-2,013
Credit to other financial corporations (net)	-82	-26	-29	-29	-23	-29	-23	-23
Credit to the private sector (net)	0	0	0	0	0	0	0	0
Monetary stabilization instruments (-)	-1,364	-1,282	-2,073	-2,775	-3,021	-2,775	-3,021	-3,021
Other items (net)	-103	426	-610	-875	-130	-295	386	253
Capital account (-)	2,216	2,416	2,714	2,714	2,802	2,714	2,802	2,802
Monetary base 1/	3,155	3,605	3,733	3,945	4,058	4,189	4,319	4,608
Currency	1,529	1,495	1,539	1,585	1,610	1,685	1,711	1,819
Required reserves	1,626	2,110	2,194	2,360	2,448	2,503	2,608	2,789
Other Depository Institutions								
Net foreign assets	-63	693	734	1,031	544	1,304	1,046	1,675
Net domestic assets	29,012	28,383	28,979	30,555	30,741	32,858	32,886	35,277
Net domestic credit	33,228	33,317	34,298	36,037	36,286	38,754	38,797	41,112
Credit to nonfinancial public sector (net)	5,841	5,185	4,660	4,114	4,289	4,093	4,104	4,076
Credit to nonfinancial private sector	22,405	23,146	23,576	25,098	25,036	26,788	26,630	28,350
In national currency	14,212	15,343	15,999	16,901	16,917	17,970	17,790	18,970
In foreign currency	8,193	7,804	7,577	8,197	8,120	8,818	8,840	9,379
Credit to financial corporations (net)	4,982	4,986	6,061	6,824	6,960	7,873	8,062	8,687
Other items (net)	1,322	677	738	834	737	887	889	1,424
Capital account	-5,538	-5,611	-6,056	-6,316	-6,282	-6,783	-6,800	-7,258
Liabilities to nonfinancial private sector	28,949	29,077	29,714	31,586	31,284	34,163	33,932	36,952
In national currency	17,469	17,859	19,530	20,761	20,806	22,547	22,616	24,772
In foreign currency	11,480	11,218	10,183	10,825	10,478	11,616	11,316	12,180
Of which: Deposits (including CDs)	28,743	28,849	29,457	31,301	31,020	33,854	33,124	36,067
Consolidated Financial System 1/								
Net foreign assets	3,944	4,494	6,473	7,746	6,614	8,480	7,530	8,722
Net domestic assets	25,828	25,625	24,012	24,922	26,040	26,731	27,574	29,208
Net domestic credit	27,931	27,716	27,226	28,565	28,914	30,208	30,297	31,988
Other items (net)	1,219	1,104	128	-41	607	592	1,275	1,676
Capital account	-3,322	-3,195	-3,342	-3,602	-3,481	-4,069	-3,998	-4,456
Broad money	21,779	21,266	22,324	24,263	25,174	26,147	26,393	28,390
Memorandum Items	(Annual percentage change)							
Monetary base 2/	4.0	14.3	3.6	5.7	8.7	6.2	6.4	6.7
Broad money	8.8	-2.4	5.0	8.7	12.8	7.8	4.8	7.6
Credit to the private sector	3.7	3.3	1.9	6.5	6.2	6.7	6.4	6.5
In national currency	4.6	8.0	4.3	5.6	5.7	6.3	5.2	6.6
In foreign currency	2.2	-4.7	-2.9	8.2	7.2	7.6	8.9	6.1
Credit to the private sector (adjusted by exchange rate changes)	2.4	6.1	6.3	7.5	7.1	6.6	6.4	6.1
	(In percent of GDP)							
Monetary base 2/	7.8	8.0	7.9	8.0	8.3	8.0	8.3	8.3
Broad money	54.0	47.5	47.4	49.4	51.3	50.1	50.5	50.9
Of which: Deposits denominated in foreign currency	20.4	18.7	15.6	15.9	15.3	16.2	15.2	15.4
Credit to the private sector	55.6	51.7	50.1	51.1	51.0	51.3	50.9	50.8
Of which: In foreign currency	20.3	17.4	16.1	16.7	16.5	16.9	16.9	16.8
Central bank balance	0.1	-0.4	-0.6	0.0	-0.2	0.0	0.0	0.0

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

1/ Depository corporations survey data.

2/ Includes currency issued and required domestic reserves.

Table 6. Costa Rica: Financial Soundness Indicators

	2018 Dec	2019 Dec	2020 Dec	2021 Dec	2022 Dec	2023 Dec	2024 Dec
			(In percent)				
Capitalization							
Risk-adjusted capital ratio	16.7	17.5	16.8	16.5	17.7	18.6	19.1
Capital-to-assets ratio	14.2	15.2	14.4	14.4	14.4	15.5	15.7
Asset quality							
Nonperforming loans to total loans	2.1	2.4	2.5	2.3	2.1	2.0	2.1
Non-income generating assets to total assets	16.3	15.8	18.3	17.1	18.5	17.5	17.3
Foreclosed assets to total assets	1.0	1.1	1.1	1.0	1.0	0.9	0.3
Loan loss provisions to total loans	3.3	3.5	4.2	4.3	4.1	3.8	3.9
Credit in foreign currency to total credit	39.1	36.6	37.1	36.6	33.7	32.1	32.4
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	89.8
Total expenses to total revenues	95.6	96.7	97.2	94.6	96.9	98.4	97.8
Profitability							
Return on assets (ROA)	0.9	1.0	0.6	0.9	1.0	0.7	1.0
Return on equity (ROE)	6.8	6.8	4.6	6.5	7.2	4.4	6.3
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	80.3
Liquid assets to total assets	28.0	29.8	33.0	35.7	33.8	33.0	32.3
Loans to deposits[1/]	113.1	105.6	99.0	95.6	94.8	93.8	94.2
Liquid assets to deposits	43.7	44.6	50.0	52.4	48.6	46.7	45.2
Sensitivity to market risk							
Net open FX position to capital	21.1	23.5	25.1	25.6	24.4	20.2	18.8
Other							
Financial margin[2/]	7.1	7.1	6.7	7.0	7.0	5.7	5.9

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	73.0	71.5	67.6	61.8	54.8	47.3	39.8	32.9	27.9	24.8	22.4	20.2	18.0	15.7	13.5	11.3	9.1	6.9	4.6	2.7	2.2
GRA	82.1	54.0	47.0	43.2	37.4	30.4	22.9	15.3	8.5	3.5	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Basic charges	...	49.6	44.6	42.0	37.4	30.4	22.9	15.3	8.5	3.5	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Level-based surcharges	...	4.4	2.2	0.8	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
time-based surcharges	...	0.0	0.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF interest	0.0	16.7	22.2	22.2	22.2	22.2	22.2	22.2	22.2	22.2	22.0	20.2	18.0	15.7	13.5	11.3	9.1	6.9	4.6	2.4	0.4	0.0
SDR charges	3.0	2.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
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	74.0	73.1	69.1	63.3	56.1	48.4	40.7	33.7	28.5	25.4	22.9	20.7	18.4	16.1	13.8	11.6	9.3	7.0	4.8	2.7	2.3
GRA	67.0	54.0	47.0	43.2	37.4	30.4	22.9	15.3	8.5	3.5	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Basic charges	...	49.6	44.6	42.0	37.4	30.4	22.9	15.3	8.5	3.5	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Level-based surcharges	...	4.4	2.2	0.8	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
time-based surcharges	...	0.0	0.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF interest	0.0	16.7	22.2	22.2	22.2	22.2	22.2	22.2	22.2	22.2	22.0	20.2	18.0	15.7	13.5	11.3	9.1	6.9	4.6	2.4	0.4	0.0
SDR charges	3.0	2.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Total obligations based on existing and prospective credit																						
Millions of SDRs	269.8	212.6	124.7	172.3	235.2	262.4	254.7	246.9	188.4	131.7	87.4	78.3	76.1	73.8	71.5	69.2	67.0	64.7	62.4	60.2	30.4	2.3
Percent of exports of goods and services	1.0	0.7	0.4	0.5	0.6	0.6	0.6	0.5	0.4	0.3	0.2	0.1	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	1.9	1.0	1.4	1.8	1.9	1.8	1.7	1.2	0.8	0.5	0.5	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.1	0.0
Percent of government revenue	2.5	1.8	1.0	1.3	1.7	1.8	1.6	1.5	1.1	0.7	0.4	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.1	0.0
Percent of public external debt service	10.6	8.7	6.7	8.3	10.8	9.9	9.1	8.3	6.0	4.0	2.5	2.1	1.9	1.8	1.6	1.5	1.4	1.3	1.2	1.1	0.5	0.0
Percent of GDP	0.4	0.3	0.2	0.2	0.3	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Percent of quota	73.0	57.5	33.7	46.6	63.7	71.0	68.9	66.8	51.0	35.6	23.7	21.2	20.6	20.0	19.4	18.7	18.1	17.5	16.9	16.3	8.2	0.6
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	6.2	5.7	4.9	4.0	3.1	2.5	1.9	1.4	1.2	1.0	0.8	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	18.1	15.7	14.5	13.0	11.2	9.2	7.4	5.7	4.5	3.7	3.2	2.8	2.4	2.0	1.6	1.3	1.0	0.7	0.4	0.1	0.0	0.0
Percent of government revenue	17.8	15.1	13.9	12.3	10.4	8.5	6.7	5.1	3.9	3.2	2.7	2.3	1.9	1.6	1.3	1.0	0.7	0.5	0.3	0.1	0.0	0.0
Percent of total public external debt	14.9	12.6	11.3	10.5	9.4	8.3	7.3	5.8	4.8	4.0	3.6	3.1	2.7	2.2	1.8	1.4	1.1	0.7	0.4	0.1	0.0	0.0
Percent of GDP	2.7	2.3	2.1	1.9	1.6	1.3	1.0	0.8	0.6	0.5	0.4	0.3	0.3	0.2	0.2	0.1	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)	36,770	37,644	40,256	44,277	48,503	53,388	56,538	59,790	63,202	66,787	70,550	74,498	78,633	82,962	87,488	92,213	97,144	102,284	107,640	113,219	119,027	125,074
Gross international reserves (millions of U.S. dollars)	14,181	14,932	15,792	16,485	17,301	18,026	18,751	19,476	20,201	20,926	21,651	22,376	23,101	23,826	24,551	25,276	26,001	26,726	27,451	28,176	28,901	29,626
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.
1/ Based on the GRA rate of charge of 4.008 percent as of April 10, 2025.
2/ Costa Rica belongs to the RST Interest Group C. Based on the RST rate of interest of 3.658 percent as of April 10, 2025.

Annex I. Implementation of Past Fund Policy Advice

2023 Article IV Staff Recommendations	Implementation
Ensure debt sustainability while protecting the most vulnerable	
Pursue further consolidation to create more space for spending to improve public services and respond to shocks through a mix of spending restraint and revenue measures.	Structural consolidation has continued though one-offs reduced the primary balance in 2024 compared to 2023. The fiscal rule has safeguarded spending discipline. Proposals to increase the equity and efficiency of the tax system have not yet been approved, while legislators have approved reforms that erode revenues.
Improve the efficiency of spending.	Public Employment Bill implemented by institutions under MIDEPLAN's purview and ongoing in others. Reforms to improve targeting and efficiency of social spending undertaken.
Enhance public financial and debt management.	Laws creating a unified debt management office and centralizing cash balances in a Treasury Single Account approved. New Public Investment Law as well as project appraisal and selection guidelines aim to improve Public Investment Management.
Ensuring Monetary and Financial Stability	
Loosen monetary policy to a neutral stance, keep monetary policy data-dependent and forward-looking.	Stance loosened to be broadly consistent with neutral before end-2024. Monetary policy continues to be transparent and well-communicated.
Institutionalize the BCCR's *de facto* autonomy and governance.	A subset of key recommended amendments is advancing through the Legislative Assembly. Constitutional amendment was submitted to the Assembly.
Based on the Integrated Policy Framework, limit FX intervention to periods of excessive volatility. Develop the FX market.	Interventions in the exchange market have been focused on those to build reserves. Limited progress on FX market development.
Improve institutional setup for financial oversight.	Risk-based supervision is being scaled up. Proposed legal amendments to the Bank Resolution and Deposit Insurance Law that would strengthen supervisory powers/protections and improve the crisis management framework are advancing through the legislative process.
Structural Reforms to promote inclusive green growth	
Improve productivity and inclusiveness.	Measures to incentivize formalization enacted. Regulations streamlined to reduce red tape.
Continue with climate change adaptation and mitigation including by enabling climate finance.	Guidelines to strengthen infrastructure resilience published. Top-down stress-testing methodology developed but application subject to pending legal decisions on data sharing. Bill submitted to enhance PPP framework and facilitate establishment of a project preparation facility.

Annex II. External Sector Assessment

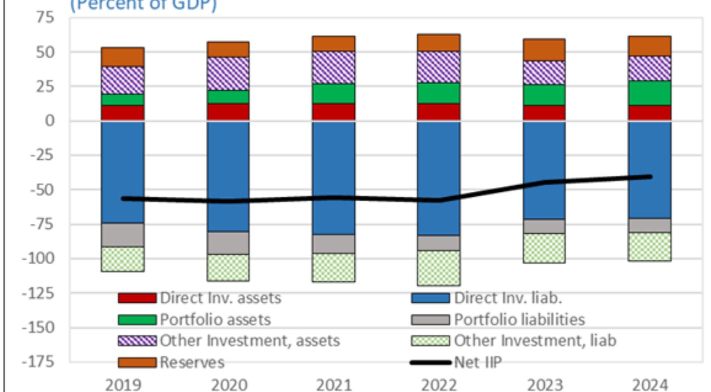
Overall Assessment: *The external position of Costa Rica in 2024 was stronger than the level implied by fundamentals and desirable policies. With the current account (CA) deficit of 1.4 percent of GDP in 2024, Costa Rica's adjusted external position strengthened owing to stronger performance of exports, especially from free zones, a thriving tourism sector, and favorable terms of trade. This assessment takes a medium-term view, with desirable policies set at medium-term levels and temporary factors removed. Reflecting the impact of US tariffs announcement on April 2, the CA deficit is expected to widen to1.8 percent of GDP in 2025, further deteriorating to 1.9 percent of GDP in 2026, before gradually stabilizing around 1.6 percent of GDP over the medium term.*

Potential Policy Responses: *The authorities' fiscal consolidation, mainly driven by spending restraint, along with BCCR's forward-looking and data-dependent monetary policy approach, should continue to support external sustainability. Gross international reserves are assessed as adequate; thus, there is limited rationale to intervene in the FX market to accumulate additional reserves. The authorities should therefore allow the exchange rate to adjust more flexibly to market conditions. The structural reform agenda, aimed at diversifying markets and trading partners, deepening integration into global value chains and attracting FDI, is expected to continue to provide conditions for growth and support a robust external position in the medium-term.*

Foreign Assets and Liabilities: Position and Trajectory

Background. The downward trend of the NIIP from 2020 to 2022 has reversed since 2023, driven mainly by decrease in direct investment and other investment liabilities relative to nominal GDP. The NIIP reached -40.33 percent of GDP in 2024, up from -44.38 and -57.56 percent of GDP in 2023 and 2022, respectively. Foreign assets in 2024 (61.4 percent of GDP) were mostly portfolio and other investments assets (57.4 percent of total) and international reserves (24.2 percent of total). Foreign liabilities (101.8 percent of GDP) mainly include FDI (69.5 percent of total) with other investments (20.6 percent) and portfolio (9.9 percent) comprising most of the remainder. External debt was 42 percent of GDP in 2024, almost 10 percentage points down from the level in 2022. It is projected to slightly increase to 44-45 percent in the medium term. About 14.5 percent of external debt is at short-term maturity and nearly all external debt is denominated in foreign currency.

International Investment Position
(Percent of GDP)



Sources: BCCR and IMF staff estimates.

Assessment. Costa Rica has significant gross external liabilities; however, the substantial share of FDI in these liabilities mitigate potential risks associated with its large net debtor position. Despite a declining trend since 2023 – in line with the global trend – FDI inflows in Costa Rica remain robust, exceeding 70 percent of GDP in 2024, particularly in the advanced manufacturing and technology industries. Performance of public sector external debt in the medium-term would also indicate sustainability. This is further indicated by the results of the ES model. The positive CA gap indicates the CA is higher than the level required to stabilize the NIIP.

2024 (% GDP)	NIIP: -40.33	Gross Assets: 61.4	Debt Assets: 28.39	Gross Liab.: 101.8	Debt Liab.: 30.00

Current Account

Background. The current account deficit narrowed to 1.4 percent of GDP in 2024, below the five-year average of 2.2 percent, mainly driven by strong exports performance and favorable terms of trade. Over the medium term, while these drivers are projected to persist, their impact will be somewhat offset by increased imports and larger net primary income outflows – stemming from higher returns on foreign investments and public debt service payments.

Assessment. The EBA current account (CA) model estimates a cyclically adjusted CA balance of 0.4 percent of GDP and a cyclically adjusted CA norm of -3.3 percent of GDP. This implies a current account gap of 3.7 percent of GDP in 2024, reflecting policy gaps (mostly driven by fiscal balance gap) and an unidentified residual. The estimated fiscal balance gap reflects a relatively tighter fiscal stance in comparison to the world average, coming from the fiscal consolidation under the 2021-2024 EFF program. The EBA external sustainability (ES) model indicates a current account gap of 3.1 percent of GDP, meaning that the current account deficit is larger than the level needed to stabilize net foreign assets at the 2024 level.

Costa Rica continues to pursue an ambitious free trade agenda: in 2023, Costa Rica signed a free trade agreement with Ecuador, became a member of the Pacific Alliance in 2024, and began a trade agreement with the UAE earlier this year. It will soon become member of the CPTPP and began negotiations of a trade agreement with Israel. This agenda will expand opportunities for more diversified trade-based growth.

Costa Rica: EBA Model Estimates, 2024

(In percent of GDP, unless otherwise indicated)

	2024			
	CA model	REER index model	REER level model	ES model
CA-Actual	**-1.4**			**-1.4**
Cyclical Contributions (from model)	-1.8			-1.8
Adjusted CA	**0.4**			**0.4**
CA Norm (from model) 1/	**-3.3**			**-2.7**
Adjustments to the norm	0.0			0.0
Adjusted CA Norm	**-3.3**			**-2.7**
CA Gap	**3.7**	**-2.4**	**-8**	**3.1**
o/w Policy gap	1.1			
Elasticity	-0.27	-0.27	-0.27	-0.27
REER Gap (in percent)	**-13.7**	**8.9**	**29.6**	**-11.5**

1/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. Average REER in 2023 appreciated by 15.2 percent, mostly driven by a nominal appreciation, reflected in an average NEER appreciation of 19.4 percent compared with average 2022 NEER. As of 2024Q3, the REER and NEER continued the trend observed in the last 2 years, with average appreciation of 3.2 and 6.2 percent, respectively, compared with the 2023 averages.

Assessment. The EBA current account model implies a REER undervaluation of 13.7 percent, with a semi-elasticity of 0.27 applied. The EBA REER index and level models estimate overvaluations of 8.9 and 29.6, respectively, in 2024. The ES model estimates an undervaluation of 11.5. The fit of these models is not as good as the CA model, so the assessment is based on the CA model.

Capital and Financial Accounts: Flows and Policy Measures

Background. Costa Rica's capital flows have remained dominated by FDI inflows for many years, which have been particularly strong in advanced manufacturing and technology industries. In 2024, net FDI inflows increased to 4.5 percent of GDP (from 4.3 percent in 2023), with inward FDI representing 86.6 percent of net inward capital flows (debits), and net FDI (debit and credit) accounted to 331.2 percent of the CA. Portfolio investments recorded a substantial net outflows of 3.2 percent of GDP in 2024 compared with net outflows of about 0.5 percent of GDP in the prior year but remained on the downward trend observed since 2022 (4.1 percent of GDP). Other investments, reflecting mostly debt-creating inflows moderated to 0.4 percent of GDP from about 2.2 and 4.7 percent in 2023 and 2022, respectively.

Assessment. Costa Rica shows a robust external financing structure, with strong FDI inflows that adequately cover the current account balance. Portfolio investments abroad by pension funds – which declined since 2022H2 as domestic financial assets' yields increased, easing the pressure on the exchange rate –increased in 2024. The planned pension reform to restructure existing OPCs into generational funds by 2025 may further promote international diversification, potentially triggering the restart of those capital flows. However, this trend could be influenced by changes external and/or domestic financial conditions.

FX Intervention and Reserves Level

Background. Gross international reserves (GIR) have rapidly increased over the last two years, reaching US$ 13.3 billion in 2023 and 14.2 billion in 2024, up from US$ 8.6 billion in 2022. Costa Rica's de facto exchange rate regime has been recently reclassified as a crawl-like arrangement for 2023-2024. Using the IMF's metric for assessing reserve adequacy (ARA metric) for countries with non-floating exchange rates, gross reserves at end-2024 were equivalent to 91.8 percent of the ARA metric. Applying the previous de facto exchange rate regime (floating), Costa Rica's reserves were equivalent to 140.4 percent of the corresponding ARA metric, nearing the upper end of the recommended range (100-150 percent). Other reserves metrics, including GIR as a percent of short-term debt at remaining maturity, broad money and in months of next year's imports, indicate sufficient coverage (see table below and Annex VIII).

There has been a substantial increase in FX interventions in Costa Rica over the last two years. In 2023 and 2024, the BCCR bought about US$3.7 billion and US$2.3 billion on a net basis, respectively, up from US$2 million in 2022, in addition to changes in reserves from other sources like external debt disbursements and service.

The BCCR also acts as intermediary for SOEs to smooth out their large FX transactions. In 2024, intervention to address volatility amounted to US$10 million in net FX sales and intervention on behalf of SOEs amounted to

US$5 million in net purchases. Given sufficient reserves measured by various reserve adequacy metrics and external position that is stronger than medium-term fundamentals and desirable policies, there is limited rationale to accumulate more reserves. Concerted efforts including legal reforms are needed to deepen FX markets and strengthen the non-financial public sector's ability to manage currency risks, reducing its reliance on the BCCR as an intermediary for FX transactions (undertaking more of these transactions directly in the FX market). Alongside the planned reform to restructure existing pension funds into generational funds, regulatory limits on foreign investments by local pension funds need to be updated. Adjustments to these limits should be phased in and supported by FX market development.

Adequacy Metrics
Gross International Reserves, 2024
(percent unless noted otherwise)

Metric	Level	Benchmark
Million of US dollars (2024)	14,181.0	
Million of US dollars (2023)	13,261.0	
ARA metric	91.8	100-150
ARA metric (floating) 1/	140.4	100-150
Short-term debt at remaining maturity	157.4	100
Broad money	28.7	20
Months of next year's imports	5.3	3

Source: IMF staff estimates

1/ Metric adapted as if Costa Rica were classified as having a floating exchange rate regime

Assessment. In 2024, Costa Rica's GIR is assessed to be comfortable based on various reserve adequacy metrics.

Annex III. Sovereign Risk and Debt Sustainability Assessment

Figure 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 third 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/		Sustainable with high probability	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 with high probability. Public debt is projected to decline further below 60 percent of GDP in the short run and to 50 percent of GDP well within 10 years. Gross financing needs are estimated at about 7.5 percent of GDP this year and expected to decline. 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.

Figure 2. Costa Rica: Debt Coverage and Disclosures

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?					Yes		Consolidated GG debt 46% of GDP in 2023. Consolidated PS debt 57%.
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	<0.1% of GDP
CPS / NFPS / GG: expected / CG	3	Social security funds (SSFs)	No	<0.3% of GDP
CPS / NFPS / GG: expected	4	State governments	No	n.a
CPS / NFPS / GG: expected	5	Local governments	No	<0.2% of GDP
CPS / NFPS	6	Public nonfinancial corporations	No	5.5% of GDP
CPS	7	Central bank	No	6.5% of GDP
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

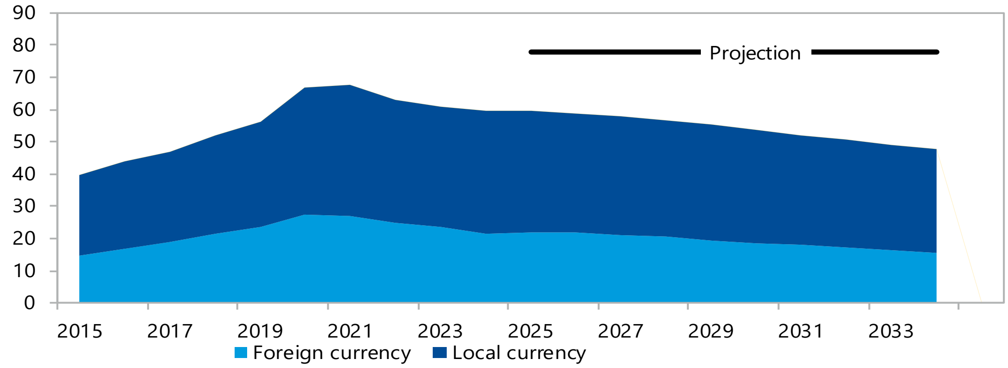
Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1 Budget. central govt									0
2 Extra-budget. funds									0
3 Social security funds									0
4 State govt.									0
5 Local govt.									0
6 Nonfin pub. corp.									0
7 Central bank									0
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. General government consolidated debt is lower than that for the central government alone partly on account of 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.

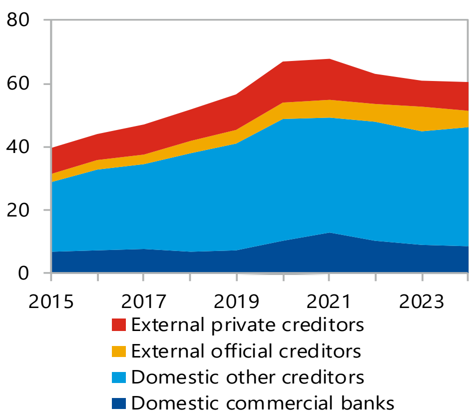
Figure 3. Costa Rica: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



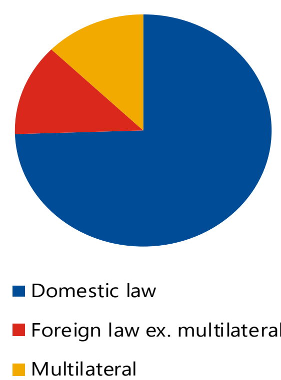
Note: The perimeter shown is central government.

Public Debt by Holder (Percent of GDP)



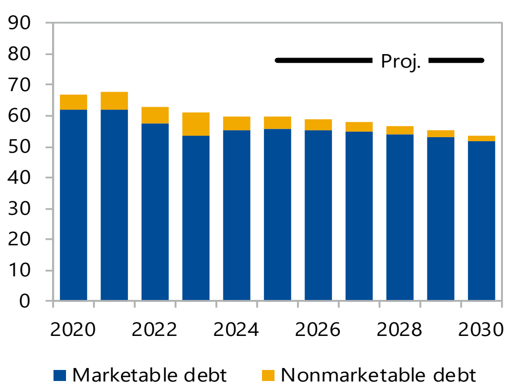
Note: The perimeter shown is central government.

Public Debt by Governing Law, 2024 (percent)



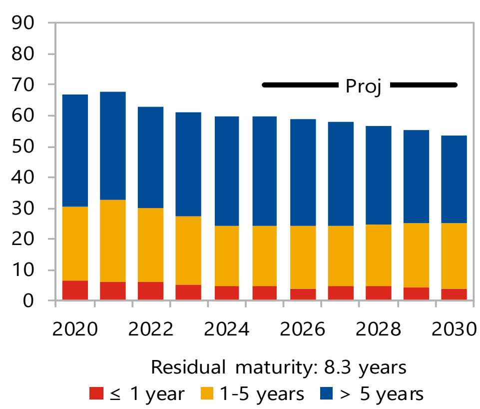
Note: The perimeter shown is central government.

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.

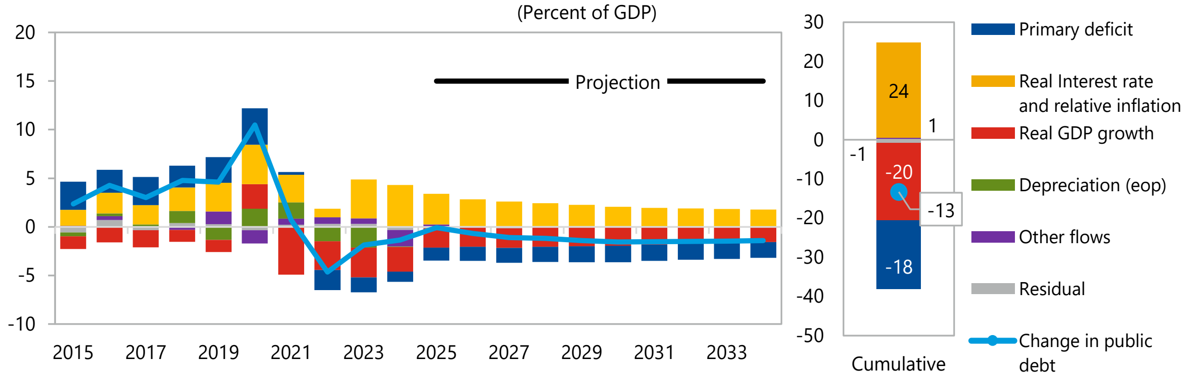
Figure 4. Costa Rica: Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	59.8	59.7	59.0	57.9	56.7	55.3	53.7	52.2	50.7	49.3	47.8
Change in public debt	-1.4	-0.1	-0.7	-1.1	-1.2	-1.4	-1.6	-1.5	-1.5	-1.5	-1.4
Contribution of identified flows	-1.7	0.1	-0.6	-1.0	-1.1	-1.3	-1.5	-1.5	-1.5	-1.4	-1.4
Primary deficit	-1.1	-1.3	-1.5	-1.6	-1.6	-1.7	-1.7	-1.7	-1.7	-1.7	-1.6
Noninterest revenues	15.1	15.1	15.1	15.1	15.1	15.1	15.1	15.1	15.1	15.1	15.1
Noninterest expenditures	14.0	13.8	13.7	13.6	13.6	13.5	13.5	13.5	13.5	13.5	13.5
Automatic debt dynamics	1.1	1.2	0.8	0.5	0.4	0.3	0.1	0.2	0.2	0.2	0.2
Real interest rate and relative inflation	4.3	3.1	2.8	2.5	2.4	2.2	2.0	2.0	1.9	1.8	1.8
Real interest rate	4.8	2.9	2.5	2.3	2.1	2.0	1.8	1.7	1.7	1.6	1.6
Relative inflation	-0.5	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Real growth rate	-2.5	-2.0	-2.0	-2.0	-2.0	-1.9	-1.9	-1.7	-1.7	-1.6	-1.5
Real exchange rate (end of period)	-0.1	…	…	…	…	…	… .	…	…	…	…
Other identified flows	-1.7	0.2	0.1	0.1	0.1	0.1	0.1	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	-1.7	0.2	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Contribution of residual	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	9.4	7.7	7.3	6.2	6.8	7.0	6.7	6.1	5.7	6.5	6.7
of which: debt service	10.5	9.1	8.8	7.8	8.3	8.7	8.3	7.8	7.3	8.2	8.4
Local currency	7.4	5.9	6.3	5.2	6.5	5.9	6.3	6.0	5.4	6.2	6.4
Foreign currency	3.1	3.2	2.5	2.6	1.8	2.7	2.1	1.8	1.9	2.0	2.0
Memo:											
Real GDP growth (percent)	4.3	3.4	3.4	3.5	3.5	3.5	3.5	3.4	3.3	3.3	3.2
Inflation (GDP deflator; percent)	0.0	3.0	3.2	3.2	3.1	3.2	3.2	3.2	3.2	3.2	3.2
Nominal GDP growth (percent)	4.4	6.5	6.7	6.8	6.8	6.8	6.8	6.6	6.6	6.5	6.5
Effective interest rate (percent)	8.3	8.1	7.7	7.3	7.1	6.8	6.6	6.5	6.5	6.5	6.4

Contribution to Change in Public Debt

(Percent of GDP)

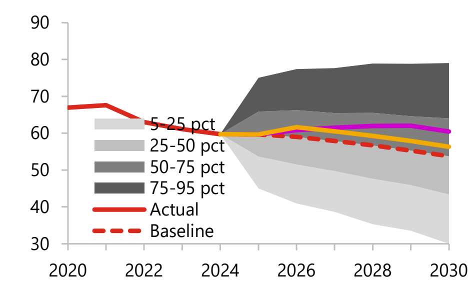


Commentary: Fiscal consolidation, a stronger currency, and strong GDP growth have significantly reduced debt since 2021. In 2024, debt reduction was driven by use of cash buffers (1% of GDP) and centralization of cash holdings in the Treasury Single Account (0.7%), which reduced financing needs. Looking ahead, a reducton in debt is expected to be supported by lower interest payments and a rising primary balance. In the short run, a moderate rise in cash balances is assumed. Although further centralization of cash balances, which would reduce debt, is likely, the projections prudently exclude this dynamic.

Figure 5. Costa Rica: Medium-Term Risk Assessment

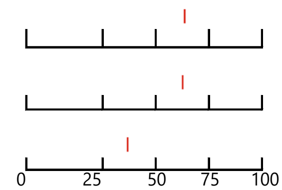
	Value	Contrib 1/	Percentile in peer group 2/

Final Fanchart (Percent of GDP)

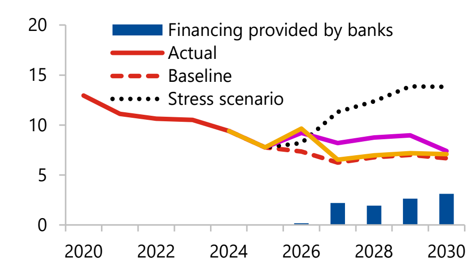


Debt fanchart module

	Value	Contrib 1/
Fanchart width *(percent of GDP)*	49.1	0.7
Probability of debt non-stabilizaiton *(percent)*	7.5	0.1
Terminal debt-to-GDP x institutions index	27.6	0.6
Debt fanchart index (DFI)		1.37
Risk signal: 3/		**Moderate**

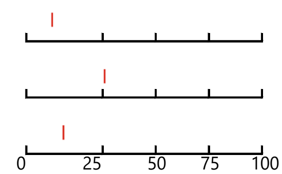


Gross Financing Needs (Percent of GDP)



Gross financing needs (GFN) module

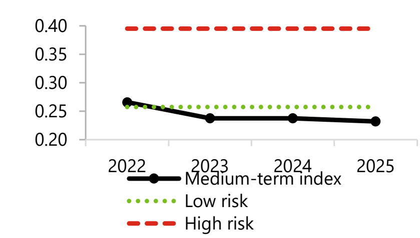
	Value	Contrib 1/
Average baseline GFN *(percent of GDP)*	7.0	2.4
Initial Banks' claims on the gen. govt *(pct bank assets)*	9.9	3.2
Chg. In banks' claims in stress *(pct banks' assets)*	7.9	2.7
GFN financeability index (GFI)		8.2
Risk signal: 4/		**Moderate**



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	0.31	0.5	0.2
GFN finaceability index	8.2	0.16	0.5	0.1
Medium-term index		0.23		
Risk signal: 5/		**Low**		
Final assessment:		**Low**		

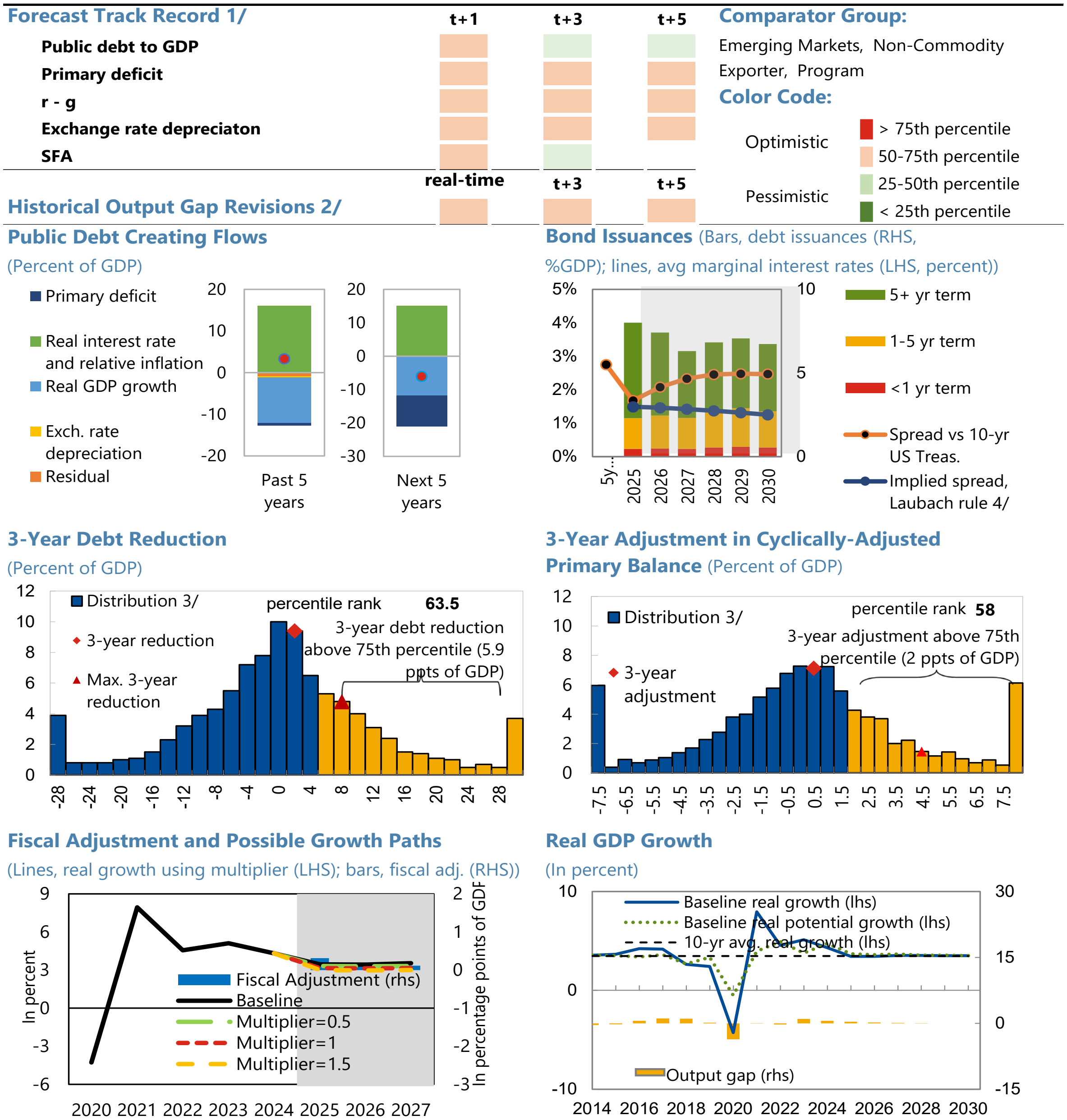
Prob. of missed crisis, 2025-2030, if stress not predicted: 9.1 pct.
Prob. of false alarms, 2025-2030, if stress predicted: 45.5 pct.

Commentary: The MTI has declined and 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. For this DSA, the contingent liability test focuses on the extreme scenario in which the central government becomes liable for the entire (8.5 percent of GDP) disputed claim by the CCSS (which is within general government) and pays this evenly over each of four years starting in 2026. The shock would postpone further debt reduction but not increase GFNs as much as the default stress scenario. The natural disaster shock is customized to a fiscal cost of 2.3 percent of GDP and a 0.7 percent of 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, program.
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.

Figure 6. Costa Rica: Realism of Baseline Assumptions



Commentary: Realism analysis does not trigger major concerns. The 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, though a lower share of multilateral finance is expected to increase the spread over the medium term. 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.

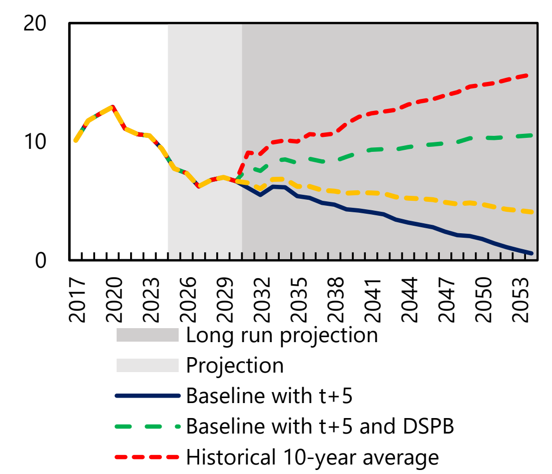
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Figure 7. Costa Rica: Long-Term Risk Assessment: Large Amortization Incl. Custom Scenario

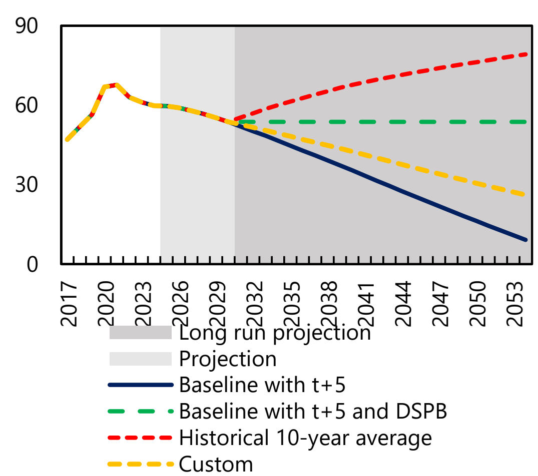
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Historical average assumptions	GFN-to-GDP ratio Amortization-to-GDP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

Variable	2030	2034 to 2038 average	Custom Scenario
Real GDP growth	3.5%	3.2%	2.9%
Primary Balance-to-GDP ratio	1.7%	1.5%	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

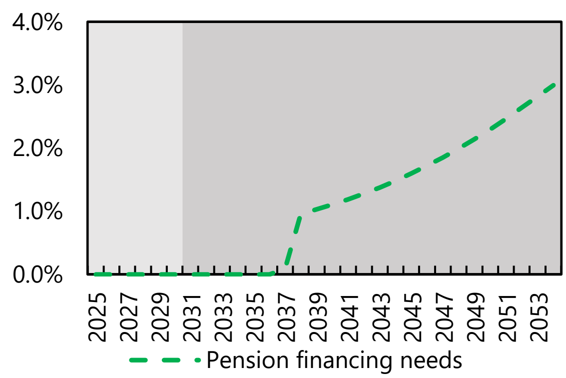


Commentary: This module indicates (in red) when the relevant variable exceeds the historical average by more than one standard deviation according to 10-year historical average assumptions (for example a primary deficit of 1.2% of GDP) or assuming a debt stabilizing primary balance (a small and growing 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.

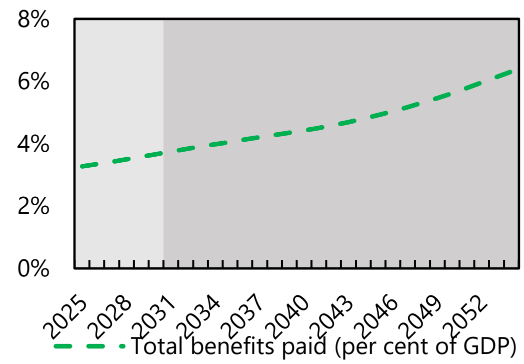
Figure 8. Costa Rica: Demographics: Pensions

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%

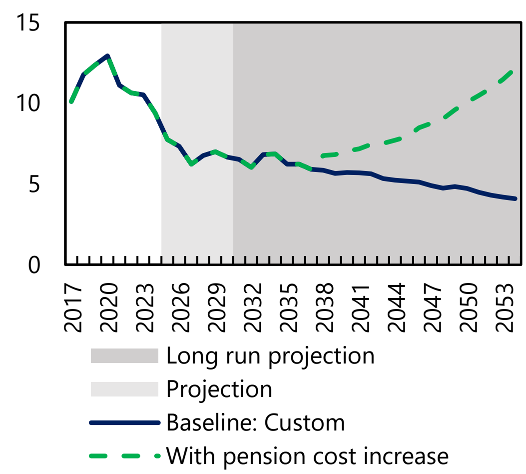
Pension Financing Needs



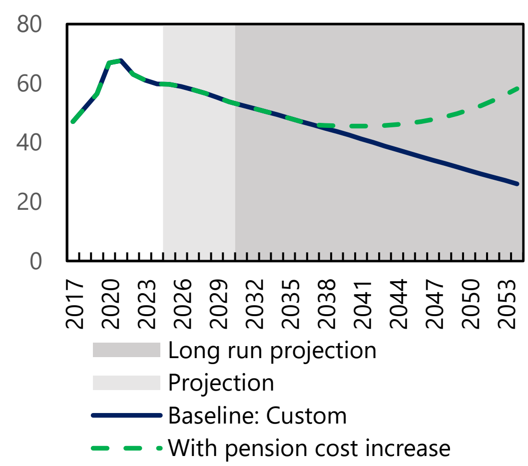
Total Benefits Paid



GFN-to-GDP Ratio

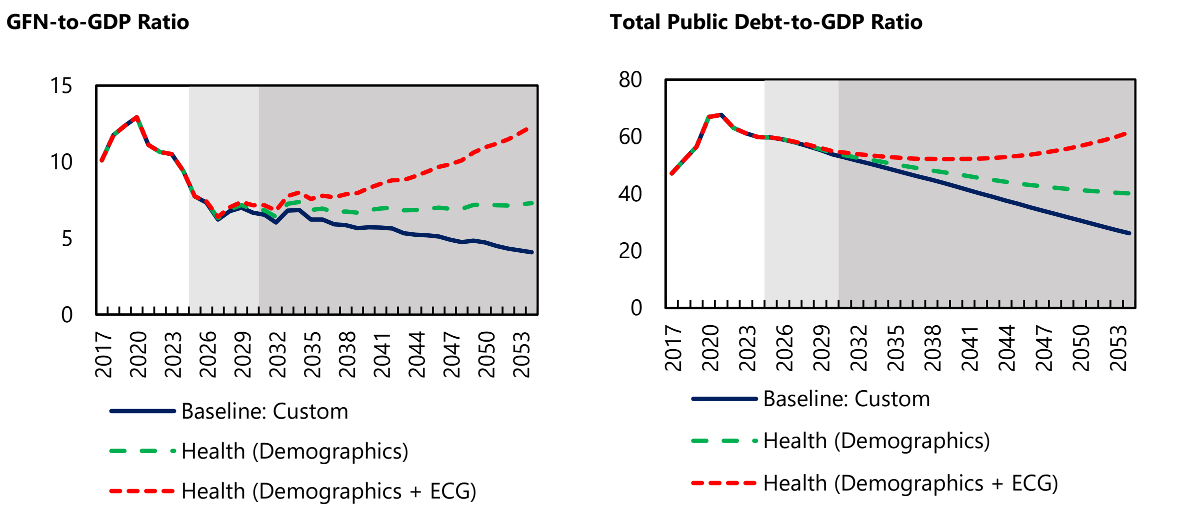


Total Public Debt-to-GDP Ratio



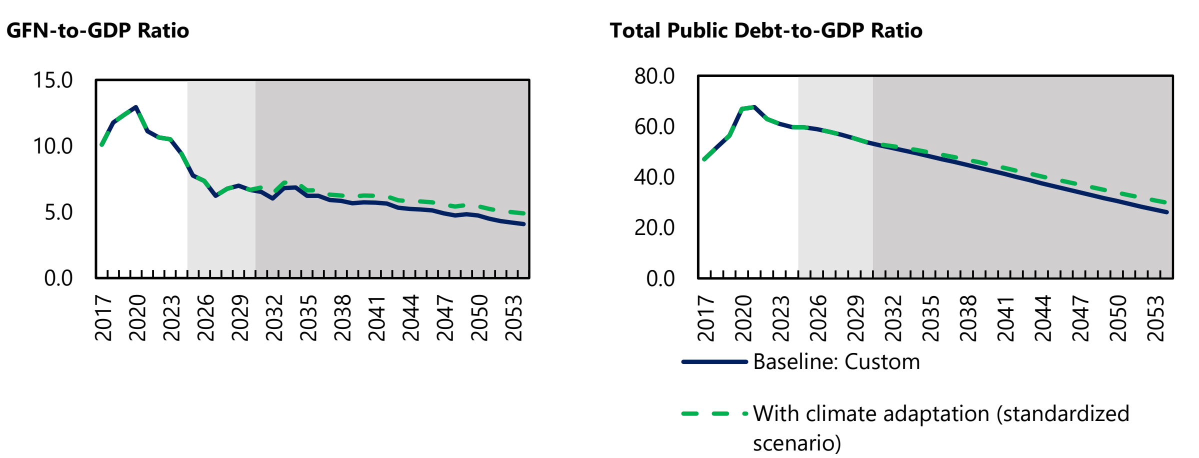
Commentary: The pensions module considers how aging could increase budgetary pressures, focusing on the old age, death, and disability pension. Modelled demographic pressures run down assets by 2036 (in line with the MTFF but sooner than a new actuarial study), generating fiscal pressures and debt risks. 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.

Figure 9. Costa Rica: Demographics: Health



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.

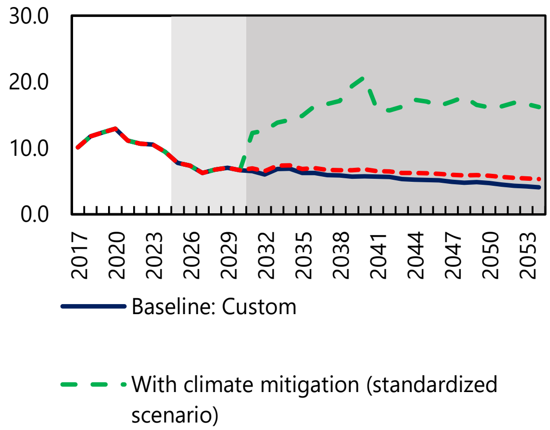
Figure 10. Costa Rica: Climate Change: Adaptation



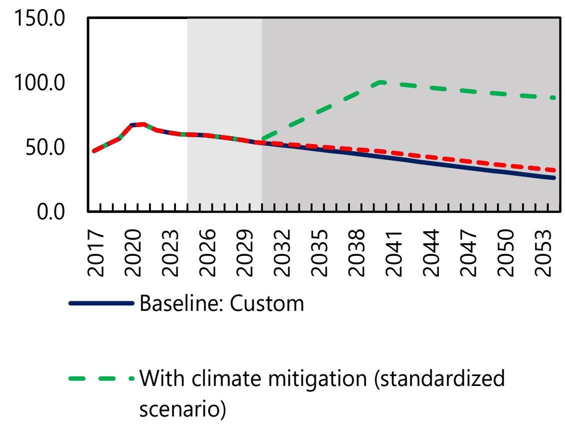
Commentary: The standardized climate change adaptation module adds costs of associated investments of 0.3 percent of GDP in 2030-2034 and 0.1 percent of GDP in the long term. These have a small effect on debt and financing needs. There is an implicit assumption that investment cancels any negative impact of climate change on growth.

Figure 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.

Table 1. Costa Rica: Decomposition of Public Debt and Debt Service by Creditor, 2024-2026[1/]

	Debt Stock (end of period) 2024			Debt Service[3] 2024	2025	2026	2024	2025	2026
	(In US$)	(Percent total debt)	(Percent GDP)	(In US$)			(Percent GDP)		
Total	**57,373.8**	**100.0%**	**60.2%**	**9,769.9**	**9,698.9**	**10,098.0**	**10%**	**9%**	**9.3%**
External	**15,283.1**	**26.6%**	**16.0%**	**1,481.4**	**2,088.5**	**1,618.1**	**2%**	**2%**	**1.5%**
Multilateral creditors[1,2]	7,128.0	12.4%	7.5%	936.0	997.8	969.0	1%	1%	0.9%
IMF	2,518.356	4.4%	2.64%	375.3					
World Bank	1,504.8	2.6%	1.6%	158.5					
ADB/AfDB/IADB	1,921.4	3.3%	2.0%	228.5					
Other Multilaterals	1,183.4	2.1%	1.2%	173.6					
o/w: list largest two creditors	450.8	0.8%	0.5%	73.1					
list of additional large creditors	732.6	1.3%	0.8%	100.6					
Bilateral Creditors[2]	655.1	1.1%	0.7%	51.1	66.9	65.1	0.1%	0.1%	0.1%
Paris Club	326.7	0.6%	0.3%	23.8	-	-	0.0%	0.0%	0.0%
o/w: list largest two creditors	326.7	0.6%	0.3%	23.8					
list of additional large creditors			0.0%						
Non-Paris Club	328.4	0.6%	0.3%	27.3	-	-	0.0%	0.0%	0.0%
o/w: list largest two creditors	328.4	0.6%	0.3%	27.3					
list of additional large creditors									
Bonds	7,500.0	13.1%	7.9%	494.3	1,023.9	584.1	0.5%	1.0%	0.5%
Commercial creditors				-	-	-			
o/w: list largest two creditors									
list of additional large creditors									
Other international creditors	7,500.0	13.1%	7.9%	494.3	-	-	0.5%	0.0%	0.0%
o/w: list largest two creditors	7,500.0	13.1%	7.9%	494.3			0.5%	0.0%	0.0%
list of additional large creditors									
Domestic	**42,090.7**	**73.4%**	**44.1%**	**8,288.5**	**7,610.4**	**8,479.9**	**8.7%**	**7.4%**	**7.8%**
Held by residents, total	41,857.9	73.0%	43.9%						
Held by non-residents, total	232.8	0.4%	0.2%						
T-Bills									
Bonds	42,004.2	73.2%	44.0%	8,184.8	7,600.6	8,469.9	8.6%	7.4%	7.8%
Loans	86.6	0.2%	0.1%	103.7	9.7	10.0	0.1%	0.0%	0.0%
Memo items:									
Collateralized debt[4]									
o/w: Related									
o/w: Unrelated									
Contingent liabilities	9,491.0	16.5%	10.0%						
o/w: Public guarantees	844.8	1.5%	0.9%						
o/w: Other explicit contingent liabilities[5]	8,646.3	15.1%	9.1%						
Nominal GDP	95,365.0		100.0%	95,365.0	102,590.6	108,600.1			

1/As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.

2/Multilateral creditors are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (eg. Lending into Arrea

3/ Debt service figures reflect budgetary execution, which is not forecast beyond the current year at the creditor level.

4/Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

5/Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

Annex IV. Risk Assessment Matrix[1]

Risks		Policy Response
	External	
Trade policy and investment shocks. Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	**High Likelihood** **Medium Impact**	Strengthen and diversify trade, investment, and financial linkages by improving business environment, lowering trade costs (e.g., infrastructure, processing times) and implementing trade and investment agreements. If inflation/expectations exceed the target, tighten monetary policy.
Tighter financial conditions and systemic instability. Higher-for-longer interest rates and term premia amid looser financial regulation trigger asset repricing and further U.S. dollar appreciation, which widens global imbalances, worsens debt affordability, and increases capital outflow from EMDEs.	**Medium Likelihood** **High Impact**	Allow currency to depreciate in response to dollar strength but use reserves in case of disorderly conditions. Grant executive more flexibility to borrow according to market conditions. Preserve fiscal consolidation to contain financing needs and grow fiscal space in case needed to respond to weakening activity. Further improve debt management to manage interest costs.
Regional conflicts. Intensification of conflicts or terrorism disrupt trade in energy and food.	**Medium Likelihood** **Medium Impact**	Allow exchange rate to help absorb shocks to energy and food prices but use reserves in case of disorderly conditions. Increase fiscal space for protection of social goals.
Global growth acceleration. Easing of conflicts, positive supply-side surprises (e.g., oil production shocks), productivity gains from AI, or structural reforms raise global demand and trade.	**Low Likelihood** **Low Impact**	Remove bottlenecks (e.g. infrastructure, skills) to take advantage of upside opportunities.
Commodity price volatility. Supply and demand volatility (due to conflicts, trade restrictions, OPEC+ decisions) increases commodity price volatility, external and fiscal pressures, social discontent, and economic instability.	**Medium Likelihood** **Medium Impact**	Allow flexible exchange rate to help absorb shocks to energy and food prices but use reserves in case of disorderly conditions. Adjust monetary policy stance to limit the impact on domestic inflation. Increase fiscal space.
Sovereign debt distress. Higher interest rates, stronger U.S. dollar, and shrinking development aid amplified by sovereign-bank feedback result in capital outflows, rising risk premia, loss of market access, abrupt expenditure cuts, and lower growth in highly indebted countries.	**High Likelihood** **Medium Impact**	Allow currency to depreciate in response to capital outflows but use reserves in case of disorderly conditions. Grant executive more flexibility to borrow externally. Preserve fiscal consolidation to contain financing needs and limit contagion. 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.

[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
Deepening geoeconomic fragmentation. Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green transition, and lower trade and potential growth.	**High Likelihood** **Medium Impact**	Strengthen and diversify trade, investment, and financial linkages by improving business environment, lowering trade costs (e.g., infrastructure, processing times) and implementing 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). The government only holds 8 out of 57 seats. 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 or more restrictions in other destination 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* (financial cooperative) and *Desyfin* (second-level financial institution) 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.

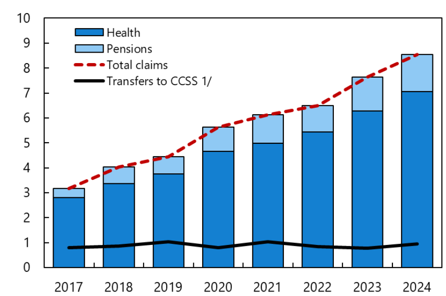
Annex V. CCSS Claims on the Central Government: Origins and Challenges Ahead

A long-standing dispute between Costa Rica's Social Security System (CCSS) and the Ministry of Finance (MoF) has resulted in a claim of about 8.5 percent of GDP, a large contingent liability for the government. A lasting solution of this dispute will require comprehensive reforms, which would involve the development of robust invoice systems and registries and the strengthening of CCSS' governance structure.

1. **Despite annual budget transfers of around 1 percent of GDP to CCSS between 2017 and 2024, CCSS's claims almost tripled as percent of GDP.**[1] As of December 2024, claims under dispute reached 8.5 percent of GDP.[2] Healthcare (*Seguro de Enfermedad y Maternidad*, SEM) accounts for 82 percent of the claim, while pensions (*Seguro de Invalidez, Vejez y Muerte*, IVM) represents 18 percent. However, inadequate registries hinder claim reconciliation, a pre-requisite for repayments.[3]

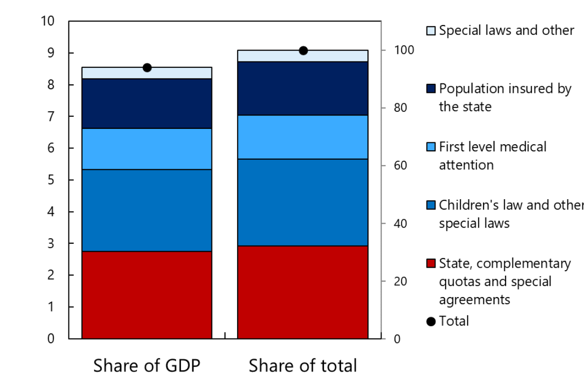
Government Transfers and Social Security Claims

Goverment Transfers to CCSS and Social Security Claims in Health and Pensions
(Percent of GDP)



Sources: CCSS, CGR, MH and staff estimates.
1/ Budget transfers to the CCSS exclude non-contributory pensions and the contributions of the goverment as employer of public sector employees.

Social Security Claims by Legal Mandate, 2024
(Percent of GDP; percent of total claims (RHS))



Sources: CCSS and staff estimates.

2. **The disputed claims arise mostly from unfunded expansion of beneficiaries.** About 68 percent of the claims (or 5.8 percent of GDP) stems from laws approved by the parliament and judicial rulings. Unclear definitions of eligible populations and benefits' duration, compounded by

[1] Transfers from the MoF to the CCSS for payments of reconciled claims have been about 1 percent of GDP during 2017-24. There are also additional transfers from the MoF to the CCSS for payments of government contributions as employer and for the non-contributory pension system, which have not been under dispute. In 2024, interest expense was almost 12 percent of total claims and increased by 0.1 points of GDP between 2023 and 2024.

[2] CCSS claims reached almost CRC 4,2 billion or 8.5 percent of GDP as of December 2024, representing about 85 percent of total Costa Rican contingent liabilities estimated by the MoF.

[3] From MoF's point of view such social security claims do not reflect an outstanding liability and remain unconciliated due to glitches in invoices and registries.

inaccurate registries and invoicing systems managed by CCSS, have delayed the reconciliation.[4]

3. Costa Rica's social security design has also contributed to the buildup of the claims. The remaining 32 percent of the claim (or 2.8 percent of GDP) arises from the MoF's contributions in its role as state for each formal worker, as Costa Rica has a tripartite contribution rate system of social contributions (employer, employee and state). However, this scheme has two main drawbacks: (i) it is procyclical—as formal employment rises, the fiscal deficit increases due to the additional payments for each formal worker; and (ii) it is regressive—transfers are larger for higher-income earners.[5]

4. The CCSS Board has the power to set social security contributions, but without the mandate to properly assess their fiscal and labor market implications.[6] The CCSS Board (comprising three representatives each from the government, employers, and employees) has the constitutional power to *unilaterally* adjust tripartite contribution rates. Since 2019, the Board has approved several reforms to enhance the pension system's sustainability but without comprehensive technical assessments of their fiscal and labor market implications. In addition, the CCSS is not legally required to provide the parliament with regular assessments of the healthcare and pensions systems' quality, efficiency and coverage.

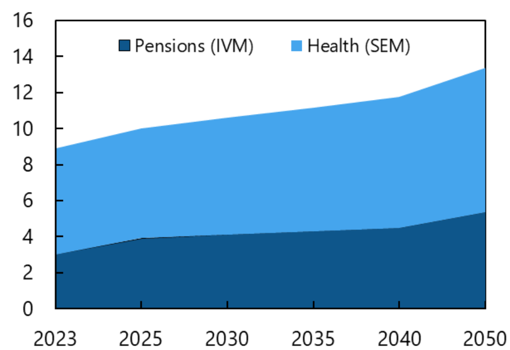
5. Payroll contributions to other public entities make total payroll contributions exceptionally high in Costa Rica. At 39.2 percent of the gross wages, and with employers covering nearly 70 percent of the total, this rate is among the highest in the OECD.

Social Contributions and Payroll Taxes

Item	Employer	Worker	State	Total
Social contributions				
o/w: IVM-Pensions				
2018-19	5.08	3.84	1.24	10.16
2020-22	5.25	4.00	1.41	10.66
2023-25 (current)	5.42	4.17	1.57	11.16
2026-28	5.58	4.33	1.75	11.66
2029	5.75	4.50	1.91	12.16
o/w: SEM-Health (current)	9.25	5.5	0.25	15.00
o/w: Other social contributions (current) 1/	7.00	0.00	0.00	7.00
Total social contributions *(current)*	**21.67**	**9.67**	**1.82**	**33.16**
Payroll taxes (current) 2/	**5.00**	**1.00**	**0.00**	**6.00**
Total of SC and payroll taxes 3/	**26.67**	**10.67**	**1.82**	**39.16**

Source: CCSS.
1/ Other social contributions include: FODESAF: *Fondo de Desarrollo Social y Asignaciones Familiares* (poverty fund), IMAS: *Instituto Mixto de Ayuda Social* (social aid institution) and INA: *Instituto Nacional de Aprendizaje* (technical and work education institution).
2/ Payroll taxes include: BPDC: *Banco Popular y Desarrollo Popular*, FCL: *Fondo de Capitalización Laboral* (fund withdrawable every 5 years or in case of unemployment), ROP: Régimen de Pensión Complementaria (defined contribution pension), INS: *Instituto Nacional de Seguros* (occupational risk insurance).
3/ SC: Social contributions.

Pensions and Healthcare Expenditure Projections
(Percent of GDP)



Source: Staff estimates.

[4] Duplicate, non-existent, previously- insured individuals, and inaccuracy of personal data (e.g., name or date of birth) are reportedly common problems in the databases and invoices provided by CCSS and used for verification by MoF.

[5] Only Luxembourg, Israel and Mexico have mandatory government contributions to the social security system in the OECD.

[6] Unilateral decisions by CCSS to modify the minimum contributory base have also increased CCSS' claims against MoF.

6. A redesign of social security and payroll contributions could help simplify the system, improve formality and equity, and strengthen the fiscal position. Over 40 percent of Costa Rica's total fiscal revenues come from social security contributions and payroll taxes, compared to 27 percent in OECD countries and 18 percent in LAC countries.[7] Tax collection from other sources is low. The scheduled increases in contributions approved unilaterally by the CCSS Board for 2026 and 2029 will increase central government spending while adversely affecting formality.

7. Population aging further threatens the sustainability of the social security system. Although the healthcare and pension systems have sizable liquid reserves that support their functioning, well-designed comprehensive reforms are needed to ensure the long-run sustainability of the social security system as spending pressures increase.[8] For instance, between 2024 and 2035, healthcare and pension expenditures are projected to rise by around 2 percentage points of GDP due to population aging, with healthcare accounting for more than a half of the increase.

8. Comprehensive reforms are needed to address Costa Rica's social security system challenges. In the short term, authorities should strengthen the quality of registries and invoices and facilitate the exchange of information between CCSS and MoF to help resolve existing claims. In the medium term, to contain outlays due to the expansion of beneficiaries, increases in state contributions and population aging, measures could focus on:

- *Healthcare services and beneficiaries covered by the budget should be agreed between CCSS and MoF with additional sources of financing introduced* (e.g., additional contributions after a maximum of covered individuals for enrolled member, optional progressive co-sharing costs with patients to ensure quicker access to certain services to reduce waiting lists).
- *State's contribution to the pension system could be replaced by budgetary allocations agreed between CCSS and MoF.*[9] Additional parametric reforms to the IVM pension system may be needed to ensure its sustainability.
- *The CCSS's governance structure should be strengthened*. CCSS's Board should be professionalized and with differentiated functions for the oversight of the healthcare and pension systems. Disclosures of CCSS' financial statements and healthcare cost and services should also follow best practices including through the use of International Public Sector Accounting Standards (IPSAS).[10] Regular reporting from CCSS to the Legislative Assembly of the social security system's quality, efficiency, and financing should be introduced along with

[7] OECD 2024, *Estadísticas tributarias en América Latina y el Caribe 2024*.

[8] Pension reserves (about 6 percent of GDP) are expected to be depleted by the mid-2030s. Healthcare reserves are about 4 percent of GDP. About 90 percent of CCSS's investments are in sovereign bonds. CCSS is not allowed to issue bonds but has some other forms of liabilities (credit loans and debt with suppliers), which represent about 7 percent of CCSS's total assets (in health insurance).

[9] For instance, to cover the non-contributory pillar and minimum contributory pensions of low-income households.

[10] Implementing the Enterprise Resource Planning System (*Sistema de Planificación de Recursos Empresariales*, SAP-ERP) will help strengthen assessments of healthcare costs and services.

legislation to prevent the approval of measures affecting the social security system without adequate assessments of the fiscal and labor market implications.

9. While undertaking these reforms, rebalancing tax revenues from social contributions and payroll taxes to alternative sources would also promote formal employment, simplify the system, and improve equity.

Annex VI. Government Finance Statistics: Transition to GFSM 2014

The authorities have continued updating government finance statistics and plan to use them for fiscal planning ahead of the 2027 budget cycle. Preliminary data suggests the quantitative implications for headline fiscal statistics are small.

1. The authorities are stepping up broader data improvement, which includes the adoption of the Government Fiscal Statistics Manual (GFSM) 2014. The transition, supported by IMF capacity development, will bring government statistics closer to the System of National Accounts (SNA) 2008 than GFSM 1986 currently in use in Costa Rica. The authorities have been working on digitizing fiscal and tax information through *Hacienda Digital*, which goes together with the GFSM transition. This annex focuses on the central government, where progress is most advanced.

2. The GFSM 2014 differs from the GFSM 1986 in several areas. Besides institutional units covered, differences include the time of recording of economic events (which affects their valuation and coverage), the integration of net/gross flows and their recording, as well as definitions and balancing items. Progress has already been made in integration of flows and stock positions, and reclassification of transactions.

3. Small historical differences in headline fiscal balances so far are mainly explained by the treatment of decentralized public entities. The GFSM 2014 net lending/net borrowing concept is the one closest to surplus/deficit. In earlier years, the change in institutional classification accounts for the difference observed. A legislative change appropriately required the consolidation of decentralized public entities within the Central Government. These data were incorporated from 2021 onwards in the national method, but applied retroactively to 2019 in the GFSM 2014 classification. In 2021 and 2022, such entities were required to transfer accumulated cash balances to the budgetary central government. This was recorded as current transfer income under the national method, but under GFSM 2014 treated as below the line financing, thus decreasing revenues and increasing headline net lending/net borrowing under GFSM 2014. In 2023 and 2024, such resource transfers have been significantly lower, and differences have been negligible.

4. The authorities are developing estimates of aggregate accrued interest expenditure and debt measured at nominal value. They have produced preliminary data from August 2023 onwards and are verifying it ahead of publication. The source data and information technology solution will not permit retroactive production of these statistics. Accrued interest can exceed cash (face value) interest because interest accrues continuously. Accrued interest expenditure can also differ from the face value basis, if a security is issued at a premium or a discount. Similarly, these factors could make debt measured at nominal value higher or lower than at face value.

Comparison between GFSM 2014 and National Method Estimates, 2019-2024
(Percent of GDP)

Method	Indicator	2019	2020	2021	2022	2023	2024
GFSM2014	Revenue	14.74	13.64	15.55	16.20	15.28	15.04
	Expenditure	20.11	21.41	20.87	19.12	18.50	18.84
	Balance 1/	-5.37	-7.77	-5.32	-2.92	-3.21	-3.79
National method	Revenue	14.18	13.09	15.77	16.59	15.26	15.09
	Expenditure	20.83	21.05	20.79	19.11	18.52	18.86
	Balance 2/	-6.65	-7.96	-5.02	-2.52	-3.26	-3.77
Difference (GFSM 2014 minus National Method)	Revenue	0.57	0.55	-0.22	-0.39	0.02	-0.04
	Expenditure	-0.72	0.36	0.08	0.01	-0.02	-0.02
	Balance 3/	1.28	0.19	-0.30	-0.40	0.04	-0.01

Source: Ministerio de Hacienda
1/ Net lending/borrowing
2/ Overall surplus/deficit
3/ Negative number implies higher deficit under new GFSM 2014 methodology

5. The authorities plan to start using the new statistics in fiscal planning. The transition to Hacienda Digital will mainstream and streamline the newer methodology and phase out GFSM 1986 production. The authorities intend to use the new methodology as the basis for the 2027 budget cycle, which starts in early 2026. This will occur once the data, including accrued interest, are verified, the digital infrastructure has been tested, and cross-government compilers' training has been completed. Other supporting measures include clarification of the application of the existing fiscal rule, such as publication of new expenditure classifiers that will be used to define current spending (by means of a decree) and which debt definition will apply.[1] The authorities are evaluating the implications of the new data for forecasting, which include the challenge of short time series.

6. The authorities plan to communicate the transition and the effects of various methodological changes to the public. Ahead of the start of the start of the 2027 budget cycle, the authorities will signal forthcoming changes using the MTFF and the monthly fiscal bulletin. Communications will include conceptual differences, explanations of quantitative variation, and expenditure/debt classifications for fiscal planning.

7. The authorities are committed to the process of modernization. The authorities are addressing the challenges of collecting information from the financial statements of the institutional units of the public sector. The effort to strengthen consistency of institutional classification, update projection modelling, as well as to expand the coverage of instruments, encompassing not only liabilities but also financial assets, is ongoing.

[1] The fiscal rule limits current spending when debt is below 60 percent of GDP and limits both current and total spending when debt is above 60 percent of GDP.

Annex VII. Costa Rica: Data Issues

Table 1. Costa Rica: Data Adequacy Assessment Rating[1/]

A							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	B	A	A	A	A	A
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	A	B	B	A	A		
Granularity 3/	A		A	A	A		
			A		A		
Consistency			B	A		A	
Frequency and Timeliness	A	A	A	A	A		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Data provided by the authorities are adequate for surveillance.
General: The quality of macroeconomic data has continued to improve in recent years. Further statistical improvements are being pursued, including in the real, fiscal and balance of payments sectors. The Central Bank, the Ministry of Finance, and the National Institute of Statistics and Census make data available to the public through regular and timely official publications on their websites (www.bccr.fi.cr, www.hacienda.go.cr, and www.inec.go.cr).

National accounts: National accounts are compiled generally in accordance with the System of National Accounts 2008 (2008 SNA). The Central Bank disseminated the annual national accounts data for the years 1991-2022 and quarterly estimates up to 2024 Q3 (preliminary). Quarterly estimates are released with around a 90-day lag and a 30-day lag for the preliminary estimate. The benchmark year was revised to 2017 (from 2012) for the chained volume measures in late 2020, and national account data reflecting this revision were published in January 2021. The informal activity of households as producers of goods and services is included in GDP levels.
Price statistics: Consumer price index (CPI) compilation generally follows the concepts and definitions of the CPI Manual. Its structure, scope, and coverage were updated in January 2021. The index reference period is December 2020. The CPI weights are based on the 2018/2019 Income and Expenditure Survey. The index only covers resident urban households, which explains the rating "B" in the relevant answer on coverage. The Producer Price Index (PPI) generally follows the concepts and definitions of the PPI Manual and is calculated by product and economic activity.
Government Finance Statistics: The concepts and definitions used in compiling GFS for surveillance generally follow the guidelines of the Government Finance Statistics Manual (GFSM) 1986. For Article IV and program purposes, cash balances of the budgetary central government are used, consistent with the authorities' widely disseminated fiscal outturn updates and medium-term fiscal framework. The country is transitioning gradually to GFSM2014, and as the process of transition is not complete yet, we have scored "B" in coverage. Since March 2023, the authorities have compiled and published monthly GFS statistics for consolidated central government revenues and expenditures (above the line) aligned with the GFSM 2014, but excluding accrued interest. The transition may also lead to some movement of classificators potentially causing a break to the data, although the data remain sufficient for surveillance and the country is receiving technical assistance by CAPTAC-DR, FAD, and STA to overcome any issues. On Public Sector Debt Statistics (PSDS), the market of issuance (Costa Rica or abroad) criterion is followed to classify domestic and foreign debt, instead of the internationally recommended holder residency criterion. The authorities compile and disseminate quarterly PSDS for the general government to the joint World Bank/IMF database with the latest data for 2024 Q3. In terms of consistency, the score was "B" because fiscal data discrepancies among national compilers on specific items are not regularly reconciled, although large fluctuations or discrepancies are investigated. Fiscal statistics are not regularly reconciled with monetary or other macroeconomic statistics.

Table 1. Costa Rica: Data Adequacy Assessment Rating (concluded)

Monetary and FInancial Statistics: The Central Bank of Costa Rica (BCCR) reports the Standardized Report Forms (SRFs) for the central bank, other depository corporations, other financial corporations, and for monetary aggregates for publication in the IMF's International Financial Statistics (IFS) on a monthly basis with a lag of one month. The reported monetary statistics are broadly in line with the methodology of the Monetary and Financial Statistics Manual (MFSM). The BCCR has expanded the coverage of the monetary statistics to include money-market investment funds (MMF) in the 2SR, non-MMF investment funds, pension funds, and insurance companies in the 4SR. The BCCR reports data on some key series and indicators of the Financial Access Survey (FAS).

Financial sector surveillance: Costa Rica reports 15 out of 18 core financial soundness indicators (FSIs), 11 additional FSIs for deposit takers, and 2 additional FSIs for real estate markets on a monthly basis for posting on the IMF's FSI website with less than one quarter lag.

External sector statistics: The BCCR compiles and disseminates quarterly balance of payments and international investment position (IIP) statistics, which are produced on a sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) basis. Source data are generally adequate and derived from sound collection programs and work is still ongoing to improve the coverage of financial transactions of the nonfinancial private sector (such as those related to trade credit and advances), and remuneration of employees. The BCCR also compiles and disseminates on a monthly basis the Data Template on International Reserves and Foreign Currency Liquidity, reports semi-annual data to the Coordinated Portfolio Investment Survey (CPIS) and annual inward and outward Coordinated Direct Investment Survey (CDIS), and submits quarterly external debt statistics to the Quarterly External Debt Statistics (QEDS) database.

Changes since the last Article IV consultation. No new data issues have emerged since the last Article IV mission and the authorities are on track with their planned statistical updates and improvements. Having said that, there have been TA missions: MTFF adaptation to GFSM2014, (Jan 2025); Monthly Indicator of Economic Activity (MIEA), Oct 2024; PSDS: Compilation PSDS - CAPTAC, Sept 2024; GFS: Compilation GFS & PSDS - CAPTAC, May 2024; GDP-National Production, Income and Expenditure Accounts, Jan 2024; and TA - NA - ISA, Dec 2023. These have provided support to the authorities on a variety of issues, including classifiers for the GFS transition that need to be included in the calculation of debt**.**

Corrective actions and capacity development priorities. Currently there is ongoing Capacity Development (CD) activities planned by CAPTAC-DR on GFS building on commitments made and achieved during the recently-concluded program and complemented by FAD CD on how to integrate the improved data in fiscal management with the transition to GFSM2014. The implementation of GFSM 2014 follows a phased approach and is being implemented at the Central Government (CG) level before being extended to the broader public sector by 2027. The implementation of the GFSM 2014 framework was slowed by a cyberattack in April 2022, but significant milestones have been achieved. Further, the authorities have committed to fully digitalize fiscal and tax information (Hacienda Digital), and the work is expected to be completed by the end of 2026.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff does not use any data and/or estimates in the staff report in lieu of official statistics. However, to record the changes in the principal value of an inflation-linked bond as interest in accordance with best practices in fiscal statistics, IMF staff has added the principal's increased value to the interest payments and applied this to all historical interest data**.**

Other data gaps. No other data gaps.

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Table 2. Costa Rica: Data Standards Initiatives

Costa Rica subscribes to the Special Data Dissemination Standard (SDDS) since November 2001 and publishes the data on its National Summary Data Page. The latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).

Table 3. Costa Rica: Table of Common Indicators Required for Surveillance

As of March 2025

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Costa Rica	Expected Timeliness[6,7]	Costa Rica
Exchange Rates	28 Mar 25	28 Mar 25	D	D	D	D	...	1D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Mar 25	Mar 25	M	M	M	M	1W	3W
Reserve/Base Money	Feb 25	Mar 25	M	M	M	M	2W	1W
Broad Money	Jan 24	Mar 25	M	M	M	M	1M	2W
Central Bank Balance Sheet	Feb 25	Mar 25	M	M	M	M	2W	1W
Consolidated Balance Sheet of the Banking System	Dec 24	Mar 25	M	M	M	M	1M	2W
Interest Rates[2]	Mar 25	Mar 25	D	D	D	D	...	1D
Consumer Price Index	Feb 25	Feb 25	M	M	M	M	1M	3D
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	Jan 25	Jan 25	M	M	A	A	2Q	6M
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Jan 25	Jan 25	M	M	M	M	1M	20D
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2024 Q4	2024 Q4	Q	Q	Q	M	1Q	3W
External Current Account Balance	2024 Q4	2024 Q4	Q	Q	Q	Q	1Q	3M
Exports and Imports of Goods and Services	2024 Q4	2024 Q4	Q	Q	M	M	8W	3W
GDP/GNP	2024 Q4	2024 Q4	Q	Q	Q	Q	1Q	3M
Gross External Debt	2024 Q4	Feb 25	Q	Q	Q	Q	1Q	1Q
International Investment Position	2024 Q4	2024 Q4	Q	Q	Q	Q	1Q	1Q

1/ Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.
2/ Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
3/ Foreign, domestic bank, and domestic nonbank financing.
4/ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
5/ Including currency and maturity composition.
6/ Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.
7/ Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

Annex VIII. Foreign Exchange Reserves Coverage and Costs

Foreign exchange reserves are comfortable when compared against multiple metrics, over time, and against peers. Healthy reserves provide the authorities policy space to respond to disorderly exchange rate pressures, and, in light of opportunity costs, imply limited rationale for further accumulation.

1. Foreign exchange reserves are a valuable form of insurance in a country that can confront large shocks. Costa Rica holds foreign exchange (FX) reserves to meet FX demand by the Nonfinancial Public Sector (a legal requirement), to occasionally intervene to smooth excessive fluctuation in the exchange rate, to maintain FX liquidity, and to contribute to financial system stability. Costa Rica is a small open economy subject to developments that can affect the exchange rate, such as fluctuating commodity prices and portfolio reallocations by local pension funds. Dollarization remains high and it is easy for residents to switch between deposits denominated in local and foreign currency.

2. Most metrics show FX reserves are ample.

- *Assessing Reserve Adequacy (ARA) coverage depends on the exchange rate regime classification.* For non-floating exchange rate regimes, gross reserves were equivalent to 92 percent of the ARA metric. For floating exchange rate regimes, the previous de facto exchange rate regime, reserves were equivalent to 140 percent of the ARA metric. Costa Rica's de facto exchange rate regime as a crawl-like arrangement was driven by periods in which appreciation occurred within a 2 percent band, which was the result of the authorities using opportunities to accumulate reserves. In contrast, occasional periods of excess demand for foreign currency have coincided with less constrained depreciations and it is depreciations during which reserves might be needed.[1]

- *Other metrics indicate ample coverage.* Imports and external financing needs are comfortably covered. An extra buffer (about US$ 0.6 billion) for a scenario of additional FX demand by oil importers is comfortably accommodated. Coverage is also above 100 percent when augmenting external financing needs with a buffer ($1.4 billion, which is one standard deviation of the sum of portfolio and other flows) for a scenario of capital flight, which can include currency and deposit outflows and overseas investments by local pension funds (a driver of portfolio flows). FX coverage in support of financial stability also seems satisfactory.[2]

[1] The ARA metric remains appropriate in a partially dollarized economy. Partially dollarized emerging markets do not have higher capital outflows, so there is no need to have tailored ARA metric coefficients. For Costa Rica, the measure of broad money includes residents' domestic FX deposits, which is preferable because FX deposits could be invested abroad or withdrawn to hold as physical cash. A switch from local currency to FX domestic deposits by residents would also constitute demand for FX without being a BOP flow.

[2] There is no standardized metric, but one indicator is that FX reserves are equivalent to more than 60 percent of FX liabilities of the banking system. Importantly, banks' compliance with a required liquidity coverage ratio of at least 100 percent by currency is an important risk mitigant.

Other reserves measures also indicate sufficient coverage. Although indicators are calibrated to gross international reserves, FX reserves exceed most metrics when netting out temporary borrowed resources such as IMF credit outstanding. Excluding other BCCR FX liabilities such as FX deposits results in a net-reserves measure that is about half of gross reserves but still provides most of the coverage required by most metrics. On the other hand, accounting for access to contingent credit lines (such as the Latin American Reserve Fund), further boosts liquidity.

Reserve Coverage Indicators, 2024

	Metric	Gross	Net (EFF definition)[1]	Net[2]	Gross (incl. FLAR)[3]
Levels	USD million (end-2023)	13261	8266	10867	13807
	USD million	14181	7954	11648	15672
	Percent of GDP	15	8	12	16
Coverage (percent of metric)	ARA (not float)[4]	92	52	75	102
	ARA (float)[5]	140	79	115	155
	ARA (oil buffer)[6]	132	74	109	146
	3 months' imports[7]	177	99	145	196
	Short-term debt	157	88	129	174
	External Financing Needs (EFN)[7]	138	77	113	152
	EFN+domestic capital flight[8]	122	69	100	135
	EFN + oil buffer[6]	130	73	107	144
	Banking sector FX liabilities[9]	66	37	54	73

Source: BCCR, FLAR, and IMF staff estimates.
[1] Definition used for completed EFF arrangement. Excludes outstanding IMF credit, non-government FX deposits by residents, and liabilities to nonresidents in convertible FX.
[2] Excludes outstanding FLAR credit (0 in 2024) and IMF credit.
[3] Includes access to FLAR resources of 2.5 times Costa Rica's paid in capital. Excludes World Bank CAT DDO access.
[4] Metric for when not classified as having a floating exchange rate regime.
[5] Metric for when classified as having a floating exchange rate regime.
[6] Coverage needed adds a 1 std-deviation rise in oil import values for 2025 to ARA (float) or EFN.
[7] Short-term debt plus current account deficit (if in deficit).
[8] Coverage needed adds a 1 std-deviation rise in net non-FDI outflows.
[9] Liabilities to residents and non-residents.

3. **Holding more FX reserves than needed carries noticeable annual costs.** The difference between the cost of holding external debt and the return on liquid assets is often proxied by spreads. Costa Rica's spreads averaged 216 basis points in 2024. Accounting for the negative effect of FX reserves on spreads reduces the marginal cost by only about 25 bps.[3] Using differences between the marginal effective interest on external debt and US Treasurys, the marginal cost has been slightly higher. Applying these costs to end-2024 reserves holdings implies an annual cost of 0.3 percent of GDP. The opportunity cost of holding reserves in excess of the minimum ARA threshold under the previous de facto floating exchange rate regime is 0.1 percent of GDP per year. Sterilization costs have recently been negative because of a positive differential between U.S. and Costa Rican monetary policy rates. Opportunity costs in the form of foregone public investment is sometimes proxied by local currency long-term yields and are substantially higher. The calculations do not account for valuation effects, which have contributed to volatility in returns in recent years.

4. **Additional reserves coverage costs are among the drawbacks of less flexible exchange rate regimes.** Under the current non-floating exchange rate regime, Costa Rica's reserves are assessed to be below the minimum ARA threshold. This is because countries that have less flexible exchange rate policy, especially in situations of depreciation pressure, can have higher reserve coverage needs and thus higher costs. To illustrate, the extra coverage prescribed by the ARA metric would add about 0.1 percent of GDP to Costa Rica's annual costs. Moreover, an excessively large

[3] Calculation follows Levy Yeyati (2020), "The cost of reserves", *Economics Letters*, which argues that higher reserves lower spreads significantly for many countries and that the resulting saving on the entire stock of external privately-held debt should be removed from the marginal cost of reserve acquisition.

BCCR footprint in the FX market can stifle monetary policy transmission, FX market development, financial sector de-dollarization, and the shock-absorbing role of the flexible exchange rate.[4]

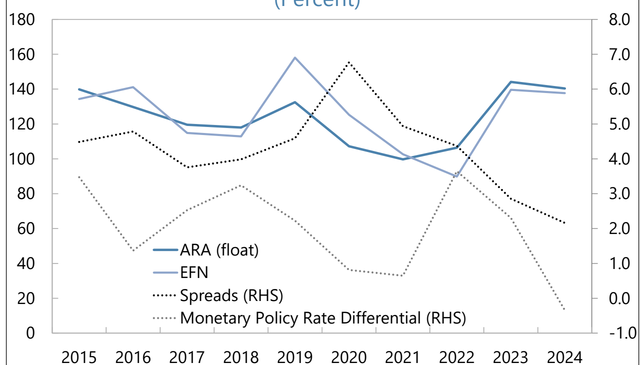
Reserve Coverage Costs
(percent of GDP unless otherwise indicated)

Cost measure	Marginal cost (bps)	End-2024 Gross Reserves	US$ 1 billion	Excess Reserves[1]	Other exchange rate arrangement[2]
Debt service					
Spread 2024 average	216	0.32	0.02	0.08	0.12
Adjusted for lower yields	192	0.29	0.02	0.07	0.11
CG interest rate (external debt) - 1 Yr Treasury	222	0.33	0.02	0.08	0.12
Sterilization (Monetary Policy Rate Differential)[3]	-34	-0.05	0.00	-0.01	-0.02
Opportunity cost (LC bonds)	887	1.32	0.09	0.31	0.50

Source: Bloomberg, BCCR, and IMF staff estimates.
[1] Equivalent to 33% of ARA metric.
[2] Equivalent to difference between ARA metric for float/free-float regimes and ARA metric for other exchange rate regimes.
[3] BCCR TPM minus Fed Funds Target Rate 2015-2024 average is about 200 bps

5. Reserve coverage is at decadal highs, but costs are below pre-pandemic levels. Since early 2022, coverage has risen to its highest since at least 2015. In contrast, opportunity costs proxied by spreads are well below pre-pandemic averages following a sharp decline since 2020. On average, annual costs by this measure have been 0.5 percent of GDP. Using monetary policy rate differentials as a proxy, costs have averaged 0.3 percent of GDP. The floating ARA metric is expected to rise in nominal terms but only reach end-2024 reserves levels in 2029. Costs implied by monetary policy differentials are expected to rise—a return to neutral in the U.S. would imply a differential of about 150 bps.

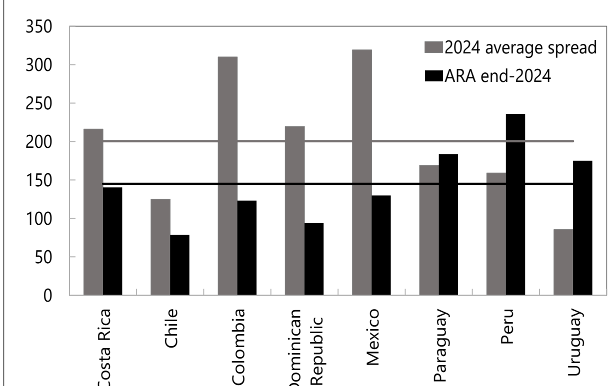
Reserves: Coverage and Costs, 2015-2024
(Percent)



BCCR, Bloomberg, and IMF staff calculations

6. Costa Rica's FX coverage is in line with peers, but costs are above average. Compared to regional peers, Costa Rica's ARA coverage was slightly lower and spreads were slightly higher. In a broad sample of investment grade emerging markets, average ARA coverage was seven percentage points lower than Costa Rica's, but low spreads in Asia drove average costs significantly below Costa Rica's.

Reserve Coverage and Costs, Selected Countries



BCCR, Bloomberg, and IMF staff calculations

[4] See *Foreign Exchange Intervention in Costa Rica through the Lens of the Integrated Policy Framework* in CR 23/442.

Annex IX. Progress in Financial Supervision

Significant efforts are underway to address financial supervision recommendations and close the gaps identified by the latest Basel Core Principle (BCP) assessment[1]*. This annex outlines progress, focusing on areas needing alignment with international standards and prioritizing critical aspects for effective supervision. It also highlights legal proposals pending approval as they move through the legislative process.*[2]

1. Full implementation of the authorities' reform agenda and technical assistance plan is key. This will improve supervision, regulation, and crisis management, with a focus on resolving non-viable institutions instead of recapitalizing them. It will also help mitigate contagion risk associated with financing the resolution through reserves by prioritizing the use of resolution proceeds and providing a public backstop. Moreover, temporary central bank financing would offer immediate liquidity with safeguards, while fiscal exposure would be reduced by limiting public support to systemically important entities and phasing out the blanket guarantee.

2. Regulation should continue advancing to complete SBR implementation and fully integrate consolidated supervision. Risk-based bank supervision is progressing through the ongoing rollout of regulations, with a focus on individual risks (including cybersecurity and climate) and plans to integrate consolidated supervision by 2028. Technical assistance will support NBFI oversight, resourcing and accountability, as well as alignment with global best practices. Remaining challenges—such as the transfer of ownership, concentration risk, large exposures, related parties' transactions, and country or transfer risks—should also be addressed once current issues are resolved.

Table 1. Costa Rica: Progress on Key Financial Supervision Recommendations

Recommendation	Action Taken	Progress Assessment
Supervisory and Regulatory Framework		
Enhance the framework for financial sector oversight by better defining the roles, responsibilities, and mandates of the entities tasked with supervision, intervention, and resolution.	The authorities are committed to advancing TA, which would enhance the effectiveness and credibility of the institutional framework by: (i) aligning financial sector oversight with global best practices, (ii) promoting coordination among entities, and (iii) supporting the development of the capacity, skills, systems, and resources needed for institutions to perform their duties efficiently.	Staff supports the authorities' commitment to advancing the TA agenda. The TA can facilitate the implementation of the necessary legal changes. Entities responsible for supervision, intervention, and resolution should be legally empowered and resourced, with sufficient budgets and data allocated to support their functions.

[1] A Detailed Assessment Report of Compliance with the Basel Core Principles for Effective Banking Supervision was prepared in the context of the World Bank Financial Sector Assessment Program (FSAP) in July 2022.

[2] Draft bill 24256 to amend the bank resolution and deposit insurance law was submitted to the Legislative Assembly in April 2024 and is awaiting approval.

Table 1. Costa Rica: Progress on Key Financial Supervision Recommendations (continued)		
Recommendation	Action Taken	Progress Assessment
Improve governance by establishing a robust fit and proper assessment process for CONASSIF board members and the SUGEF's Superintendent.	The authorities are committed to advancing TA, which could include support in area such as: (i) developing systems to ensure that individuals in key positions have the required experience, skills, and ethical standards, (ii) promoting transparent decision-making processes that enable stakeholders to monitor institutional performance and outcomes, and (iii) enhancing accountability through better oversight, reporting, and enforcement.	Staff supports the authorities' commitment to advancing the TA agenda. Legal and regulatory changes should establish fit and proper mechanisms, criteria for holding supervisors accountable, and transparent disclosure requirements to the public, in line with international best practices. Technical assistance would help revise laws and policies to meet international standards and build public trust through legal mechanisms for rights violations and accountability failures.
Strengthen the legal protection of supervisors.	Amendments to the Bank Resolution and Deposit Insurance Law submitted, awaiting approval. Amendments to Law 9816, Article 36 bis (duty of defense).	Proposed amendments will largely address the recommendations. In line with international best practices, the duty of defense would protect supervisors, resolvers, FGD and CONASSIF from personal complaints and undue legal challenges for actions taken in the course of their responsibilities, in line with international best practices.
Ease resolvability by granting SUGEF power to replace senior management and board members of banks, [following CONASSIF authorization,] and to restrict or prohibit profit distribution by financially distressed institutions when solvency is at risk.	Amendments to the Bank Resolution and Deposit Insurance Law submitted, awaiting approval. Amendments to Law 7558, Article 131 subsection o, p, q and Article 136 quarter and 136 quinines.	Proposed amendments will largely address the recommendations. However, Staff sees scope to further streamline the institutional framework by optimizing the allocation of roles and responsibilities within the context of technical assistance [requested]. CONASSIF, SUGEF
Introduce a recovery and resolution planning framework especially relating to systemic banks.	Amendments to the Bank Resolution and Deposit Insurance Law submitted, awaiting approval. Amendments to Law 7558, Article 131 subsection v and w, Article 136 ter and quarter, and Article 137 bis.	Proposed amendments will largely address the recommendations by: (i) requiring financial institutions to provide information to SUGEF for technical support to CONASSIF; (ii) allowing SUGEF to participate in the management bodies and committees of the financial entities (with speaking rights but no vote), (iii) mandating supervised entities to prepare recovery plans to be activated by SUGEF if prudential measures are violated or when there are significant financial or governance issues, (iv) empowering SUGEF to adopt

Table 1. Costa Rica: Progress on Key Financial Supervision Recommendations (continued)		
Recommendation	Action Taken	Progress Assessment
		prudential measures if the entity refuses or inadequately implements the plan, or if the plan itself proves insufficient.
Strengthen SUGEF's licensing criteria	Modification of authorization procedure (2024)	Legal amendment would be needed.
Prudential Regulation and Oversight		
Grant SUGEF powers to increase prudential requirements, including liquidity, for individual banks based on their risk profile and systemic importance.	Amendments to the Bank Resolution and Deposit Insurance Law submitted, awaiting approval. Amendments to Law 7558, Article 131 subsection s and t and Article 136.	Proposed amendments will largely address the recommendations by granting SUGEF the power to apply prudential measures when the operation, solvency or liquidity of the financial entity are threatened, and to require additional capital for systemic institutions.
Implement SBR framework by increasing the focus on individual risks, including for NBFIs, strengthening the regulation on provisioning and the exercise of judgement.	The authorities indicated interest in TA. The regulation on capital requirements for market and credit risk has been reviewed, with the measurement of interest rate risk on banks' balance sheets to be gradually implemented starting in January 2025. Revisions include updates to banks' capital definitions, conservation and systemic importance buffers, and the definition of systemically important institutions in line with Basel III.[1]	Staff supports authorities' commitment to advancing the TA agenda. Full implementation of the SBR framework is ongoing and would benefit from technical assistance, particularly in clarifying the scope and practical application of risk-based supervision—including NBFIs—and building capacity to support the use of judgement.
Incorporating consolidated supervision by refining the definition of economic groups, reviewing the consolidated and individual risk matrix, and applying prudential metrics on a consolidated basis.	A TA was completed in January 2024. Consolidated supervision has been partially applied since January 2023.	Efforts are ongoing to implement consolidated supervision. Regulation on consolidated supervision and related standards are expected to be finalized by 2025. The adoption of actions based on the FSAP and the CAPTAC-DR Consolidated Supervision TA Reports' is included in the 2024-2028 Strategic Plan, with a roadmap by early 2025. Consolidated supervision is expected to be fully institutionalized once individual risk-based supervision is fully in place.
Improve integrity of financial reporting and external audits for early warnings.	The authorities indicated interest in TA.	Staff supports authorities' commitment to advancing the TA agenda. Particular attention should be given to developing strong risk

Table 1. Costa Rica: Progress on Key Financial Supervision Recommendations (continued)		
Recommendation	Action Taken	Progress Assessment
		management capabilities, building skills to identify and address financial risks early, promoting data analytics for risk detection, enhancing auditor expertise, and ensuring alignment of internal controls and reporting with international standards.
[1/] Other key reforms include: (i) debtors exposed to exchange rate risk (2024); (ii) enhancements in LCR monitoring and transition to the Net Stable Funding Ratio (2024); (iii) credit provision calculation and countercyclical provision (2024); (iv) capital composition, buffers, and leverage (2025); (v) capital requirement for operational risk (2026); (vi) IT management and cybersecurity (2024), with a focus on cyber fraud (2025); (vii) ESG risk regulation (2027).		
Crisis Management and Resolution		
Reinforce the resolution authority's powers to order the resolution—and for private institutions, the liquidation—of non-viable entities, including the transfer of assets, liabilities, and shares.	Amendments to the Bank Resolution and Deposit Insurance Law submitted, awaiting approval. Amendments to Law 7558, Article 139 ter, and Law 9816, Articles 31 and 38.	Proposed amendments will largely address the recommendations. However, the need for additional legislation to liquidate SOBs and manage the dismissal of their board members is expected to continue distort the playing field between state-owned and private banks.
Establish greater independence and autonomy of the DGF and strengthen its financial position by increasing the annual contribution from financial institutions.	Amendments to the Bank Resolution and Deposit Insurance Law submitted, awaiting approval. Amendments to Law 9816, Articles 8, 17, 18 and 21, 57.	Proposed amendments will largely address the recommendations. The independence of the DGF is strengthened by the accountability and expertise requirements introduced for the Director, who is responsible for proposing the methodology for calculating and collecting contributions, including extraordinary ones. To ensure proper safeguard, this methodology would be approved by the newly established *Comisión de Estabilidad Financiera* (CEF) and reviewed if changes in the financial system threaten the Fund’s objectives. Regarding the DGF funding position, it should be noted that the increase in the annual contributions would remain insufficient for the Fund to achieve financial autonomy in managing systemic events in the short-to-medium term.
Enable the DGF to finance the resolution with a public backstop, while the central bank provides immediate liquidity via	Amendments to the Bank Resolution and Deposit Insurance Law submitted, awaiting approval.	Proposed amendments will largely address the recommendations and put limits on potential risks associated with using reserve requirements in

Table 1. Costa Rica: Progress on Key Financial Supervision Recommendations (concluded)

Recommendation	Action Taken	Progress Assessment
newly issued government bonds.	Amendments to Law 9816, Articles 2, 5 and 55, 55 bis and 55 ter; Law 1644, Article 172.	case the DGF lacks sufficient resources. Fiscal costs will be covered by proceeds from the resolution process, with additional contributions from the banking sector if needed. Moreover, the temporary nature of BCCR financing to the Ministry of Finance for addressing systemic risk events, including the repayment process to the central bank (or the DGF) if liquidity is provided, is more clearly defined in a way that ensures financial stability is not compromised.
Eliminate distortions between state-owned and private banks by gradually removing the state-owned bank guarantee and permitting temporary financing from the Ministry of Finance to resolve entities that pose a systemic risk.	Amendments to the Bank Resolution and Deposit Insurance Law submitted, awaiting approval. Amendments to Law 1644, Article 4, Law 7052, Articles 122 and 157, and Law 9816, Article 55.	Proposed amendments will largely address the recommendations. However, some distortions persist regarding the need for additional legislation to liquidate SOBs and to manage the dismissal of their board members. Moreover, the feasibility and timeline to eliminate the blanket State guarantee should be clarified.

INTERNATIONAL MONETARY FUND

COSTA RICA

April 21, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared by: The Western Hemisphere Department (in consultation with other departments)

CONTENTS

FUND RELATIONS

(As of February 28, 2025)

Membership Status: Joined: January 8, 1946; Articles VIII and XIV.

General Resources Account:	**SDR Million**	**% Quota**
Quota	369.40	100.00
IMF's Holdings of Currency (Holdings Rate)	1,674.08	453.19
Reserve Tranche Position	71.34	19.31

SDR Department	**SDR Million**	**% Allocation**
Net cumulative allocation	510.59	100.00
Holdings	437.88	85.76

Outstanding Purchases and Loans:		
Emergency Assistance [1/]	138.53	37.50
Extended Arrangements	1,237.49	335.00
RST Credit	554.10	150.00

[1/] Emergency Assistance may include ENDA, EPCA, and RFI.

Latest Financial Commitments

Arrangements:

Type	**Date of Arrangement**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
EFF	Mar 01, 2021	Jul 31, 2024	1,237.49	1,237.49
RSF	Nov 14, 2022	Jul 31, 2024	554.10	554.10
Stand-By	Apr 11, 2009	Jul 10, 2010	492.30	0.00

Outright loans:

Type	**Date of Commitment**	**Date Drawn**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
RFI	Apr 29, 2020	Sep 15, 2020	369.40	369.40

Projected Payments to Fund
(SDR Million; based on existing use of resources and present holdings of SDRs):

			Forthcoming		
	2025	**2026**	**2027**	**2028**	**2029**
Principal	138.53	51.58	103.13	171.88	206.25
Charges/Interest	58.27	73.08	69.15	63.29	56.12
Total	196.79	124.66	172.28	235.17	262.37

Exchange Rate Arrangement. Costa Rica's de jure current exchange rate arrangement classification is "managed floating." The de facto exchange rate is classified as crawl-like. The central bank is committed to allowing the exchange rate to be freely determined by foreign currency supply and demand but reserves the right to participate in the market to meet its own foreign currency requirements and those of the nonbank public sector, and to address sudden movements in the exchange rate without changing the trend in this macro price. The de facto exchange rate is classified as "craw-like," as of July 2023, given BCCR's FX interventions that kept the exchange rate fluctuation within a limited 2 percent band for more than 6 months since late 2023. Costa Rica maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

Article IV Consultation. The last Article IV consultation was concluded on December 6, 2023 (Country Report No. 2023/442).

Articles VIII and XIV Status. Costa Rica has accepted obligations under Article VIII and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions.

FSAP/FSSR Participation and ROSCs. The Financial Sector Assessment Program (FSAP) took place in 2001 and was updated in 2008. A Financial Sector Stability Review (FSSR) mission was conducted in 2017. A data ROSC took place in 2002 with a reassessment in 2010. A fiscal ROSC took place in 2007, with a reassessment in 2013.

Safeguards Assessment. An updated safeguards assessment of the BCCR was finalized in October 2020. Since the last assessment in 2009, the BCCR has enhanced safeguards in its external audit mechanism and financial reporting. Most recommendations have been implemented, but some areas for improvement remain in the legal framework and governance arrangements. Specifically, the BCCR Law, which was last amended in 2019 to improve personal autonomy provisions, requires further amendments to safeguard the central bank's institutional, functional, and financial autonomy. There is also a need to further strengthen the decision-making structure of the BCCR, clearly distinguishing between executive and oversight functions, and safeguarding the independence of internal audit. The authorities have submitted a proposal for legal amendments to the Legislative Assembly addressing some of the remaining Safeguards Assessment recommendations on transparency and accountability and autonomy of the central bank in 2024,[1] still to be considered by the Legislative Assembly. Staff will continue monitoring the implementation of these recommendations per the safeguards policy for as long as Fund credit remains outstanding.

Technical Assistance (TA) and Capacity Development (CD).

Costa Rica's capacity development (CD) efforts since the 2021 Article IV Consultation were aligned with the reform objectives under the EFF and RSF arrangements. Looking ahead, Costa Rica is

[1] A bill to improve the BCCR's transparency and accountability, and to institutionalize its de facto autonomy was submitted in June 2024 and is advancing through the legislative process. A separate constitutional amendment to grant autonomy to the BCCR, which should also allow the BCCR to implement governance reforms through internal regulations, was submitted to the legislature in August 2024.

expected to remain a heavy user of CD as it maintains reform momentum and institutionalizes progress made under the IMF-supported reform programs. The main CD objectives for Costa Rica focus on consolidating the achievements to date and making further progress on the authorities' macro-critical reform priorities. These include further improving fiscal institutions and implementing fiscal reforms to boost private investment and support inclusive and green growth while ensuring debt sustainability, further strengthening the central bank's autonomy and governance and the supervisory and crisis management framework, financial sector supervision and crisis management, and advancing structural reforms to incentivize private investment and support inclusive and green growth. The authorities' engagement and ownership of these issues remain strong. Given the heavy use of CD from the Fund and other partners, integration between CD activities and program priorities as well as coordination with other technical assistance is ongoing and is facilitated through regular publications (see for example Annex 1 of IMF Country Report No.24/166, published in June 2024).

RELATIONS WITH OTHER FINANCIAL INSTITUTIONS

A. World Bank

https://www.worldbank.org/en/country/costarica

B. Inter-American Development Bank

https://www.iadb.org/en/countries/costa-rica

C. Development Bank of Latin America (CAF)

https://www.caf.com/en/countries/costa-rica

D. Central American Bank for Economic Integration (CABEI)

https://www.bcie.org/en/member-countries/founders/republic-of-costa-rica

E. Latin American Reserve Fund (FLAR)

https://flar.com/costa-rica/

Statement by Xiana Mendez Bertolo, Executive Director for Costa Rica and Valerie Lankester Campos, Senior Advisor to Executive Director
May 12, 2025

On behalf of our authorities, we thank staff for their close and candid engagement during the 2025 Article IV consultation. They would like to express their appreciation to Mr. Ding Ding, the mission chief, and his team for their outstanding work and commitment to Costa Rica. We wish Mr. Ding all the best going forward as he completes his cycle as Costa Rica's mission chief and look forward to working closely and collaboratively with Mr. Chensavasdijai.

The authorities welcome the report's recognition of Costa Rica's remarkable economic performance through private sector-led growth, sound macroeconomic management, sustained implementation of institutional and supply-side reforms, and commitment to inclusive and sustainable development. The positive assessment of Costa Rica's fiscal institutions, financial system stability, and ongoing structural reform agenda is also welcomed.

For almost a decade, Costa Rica has designed and implemented wide-ranging reforms in the context of becoming a member of the OECD, and two successfully completed IMF-supported programs, while maintaining good macroeconomic policies and a strategic focus on exports and economic diversification. During 2021-24, its GDP growth rate averaged above 5 percent, an outstanding pace within the region and contributing to lower poverty and unemployment to historical lows. Over the same period, public debt fell 8 percentage points of GDP to below 60 percent of GDP.
This Buff statement refers to the results and forecasts of the Central Bank of Costa Rica (BCCR), and the Ministry of Finance (MoF), which were published after the cut-off date for the report.

Recent Macroeconomic Developments

Amid the ongoing global challenges, the very strong policy framework laid out by the Costa Rican authorities and supported by the IMF have been crucial tools to safeguard macroeconomic stability, anchor fiscal consolidation efforts, and strengthen the country's climate agenda.
In an international environment characterized by high uncertainty, associated with the tariff measures announced and the frequent changes in these announcements, the Costa Rican economy showed positive performance in the first months of the current year.

In the first quarter of 2025, inflation (headline and core) remained positive and below the lower limit of the tolerance range around the inflation target. Year-on-year headline inflation remained in positive territory, averaging 1.2 percent (0.0 percent in the previous quarter and 0.8 percent last December), as did core inflation, although in the latter case with rates below 1.0 percent. Also, the BCCR considers that the behavior of monetary and credit aggregates in the first three months of 2025 will not generate inflationary pressures that exceed the inflation target in the next 24 months.

In the same period, GDP growth registered an increase of 3.9 percent, which, despite being below last year's rate, is higher than the growth rate forecast for the global economy (2.8 percent) envisaged for 2025. Additionally, various labor market and social indicators show that the trend of improvement continues in relation to historical values, despite the slowdown in economic activity.

With regard to the external accounts, solid performance continues, with a relatively low current account deficit (0.2 percent of GDP), fully financed with long-term external savings, mainly direct investment (1.3 percent of GDP), which, together with other resources, allowed for maintaining adequate external financial shielding. In the first quarter of this year, the country received net external financing equivalent to 0.6 percent of GDP, a rate 0.3 p.p. higher than that observed in the same period of the previous year. These inflows were mainly directed to the private sector, financed the current and financial accounts, and allowed for accumulating reserve assets by around 0.4 percent of GDP. At the end of March, the balance of these assets amounted to USD 14,645.7 million (14.3 percent of GDP), while the net international reserves (IR) tracking indicator stood at 143.1 percent of the minimum adequate level defined by the Board of Directors of the Central Bank.

During the first quarter of 2025, three monetary policy meetings were held (January 23, March 13, and April 10), and in each of them, the decision of the BCCR Board of Directors was to maintain the Monetary Policy Rate (TPM) at 4.0 percent annually, a rate in effect since the meeting on October 17, 2024.

At the meeting on April 10, the BCCR Board of Directors indicated, among other reasons, and leveraging on BCCR’s forward-looking and data dependent approach, that although the risk assessment showed a higher probability of inflation being below the central projection, there was not enough clarity about global trade measures and their macroeconomic consequences, warranting caution in TPM movements in a highly changing global environment.

In terms of the exchange rate, in accordance with its Organic Law, the BCCR will participate in the foreign exchange market to meet its own requirements and those of the non-banking public sector, as well as to mitigate disruptive fluctuations in the foreign exchange market. If conditions allow, the BCCR may seek to further strengthen the country's financial shield cautiously, according to the parameters and guidelines defined by its Board of Directors.

Regarding Costa Rica’s fiscal stance, even when the economy has been subject to multiple shocks, the authorities have maintained their commitment to the fiscal rule, the public employment law and to fiscal discipline more broadly without increasing or creating new taxes. In the first two months of 2025, the central government primary and financial balances were equivalent to 0.1 percent and -0.8percent of GDP, respectively, slightly lower in the first case and similar in the second to what was observed in the same period of the previous year (0.3 percent and -0.8 percent). It is worth noting that during 2024, Costa Rica recorded a primary fiscal surplus for the third consecutive year, and that the debt reached 59.8 percent of GDP.

Going forward

The authorities recognize that the current international environment, which is trending towards greater protectionism, lower trade flows, and a slowdown in economic growth, could lead under certain circumstances to an increase in inflation in the US relative to previous estimates, but combined with lower commodity prices.

Against this backdrop, the economic growth estimate for 2025 and 2026 is 3.6 percent and 3.8 percent, respectively. Additionally, the projected headline inflation would return to the tolerance range around the target in the first quarter of 2026 while core inflation would do so in the fourth quarter of 2025. Risks for the inflation forecast are skewed downward, but in a context of much greater uncertainty. Still, the Central Bank does not foresee inflationary pressures exceeding its target under plausible scenarios.

The Medium-Term Fiscal Framework, MTFF, has become a vital tool for charting this path as it allows to project the needed fiscal path to continue reducing debt levels and reaffirms the government's commitment to economic stability, transparency, and sustained fiscal discipline.

Fiscal projections for the biennium 2025-2026 assume that the commitment to medium-term fiscal consolidation is maintained, anchored in sizable primary surpluses and a decreasing trajectory of interest spending in terms of GDP. In this context, balance of payments, financial inflows and credit to the private sector would increase in line with the real GDP growth forecast and the inflation target. The baseline scenario from the MTFF shows an improvement in the primary and financial balances: the primary surplus would increase to 1.3 percent of GDP in 2025 and 2026. In turn, this implies improving the overall financial deficit to 3.3 percent of GDP in 2025 and 3.1 percent in 2026 along with a reduction of public gross financing needs. Consequently, the debt ratio is projected to reach 59.5 percent of GDP in 2025 and 59.1 percent the year after.

The fiscal results show the authorities' commitment towards fiscal sustainability, as shown by the downward trend of the central government debt-to-GDP ratio envisaged going forward.

The latter is part of the authorities' fiscal objectives anchored also in the quest towards obtaining investment grade in the near term. To achieve this, they are pressing ahead with their reform agenda, which includes the approval of reforms to improve debt management, promote a fairer tax system, and consolidate primary surpluses as a key tool to gain fiscal space. Overall, the MoF will continue its reform agenda to reinforce Costa Rica's fiscal consolidation and create buffers against shocks while protecting the poor.

Also, the authorities continue to move ahead with their strong climate-related reform agenda and aim to leverage on the RSF's catalyzing effect. Building on Costa Rica's credentials as a global leader in combating climate change, authorities will maintain and strengthen their efforts to further improve climate resilience and fully decarbonize its economy.

The Central Bank reaffirms its commitment to price stability, a condition that favors macroeconomic stability and positively impacts economic growth, job creation, and the well-being of the population. It will maintain a prudent monetary policy based on a forward-looking and data dependent analysis of inflation, its macroeconomic drivers, and risks. Improving communication further with the public will continue to be a priority to facilitate a better understanding of the macroeconomic situation and the elements that support the BCCR's monetary policy decisions and their efforts to safeguard the financial system stability.

Finally, the BCCR will continue its efforts to strengthen its autonomy, governance, and operational framework, which would be achieved by approving legislative proposals, already in Congress, to improve governance, transparency, and accountability, and institutionalize the central bank's *de facto* autonomy. Also, they will continue their efforts to push the Congress agenda so the vote on the bank law resolution law takes place as soon as possible.

Based on its track record, it is evident that the Costa Rican authorities stand ready to implement a very strong policy and institutional economic framework with the necessary policy actions in response to external shocks, internal challenges and to address the risks associated with climate change developments over the medium and long run.

In sum, the Costa Rican authorities aim to enhance the economy's resilience by implementing policies that promote stability and sustainable growth. This involves strengthening financial systems, diversifying the economy, and investing in infrastructure and human capital. By fostering a robust regulatory environment and encouraging innovation, authorities aim to mitigate the impact of external shocks and ensure long-term economic health. Additionally, maintaining prudent fiscal policies and carefully building up reserves as conditions warrant would provide additional buffers against economic downturns. Collaboration with international organizations, such as the IMF, also plays a crucial role in bolstering economic resilience, enabling countries to better navigate global uncertainties and challenges. Hence, a continuous and close engagement with the IMF is expected to be maintained through its core activities, including the Fund's key role as trusted advisor.