



COSTA RICA

June 2024

SIXTH REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, THIRD REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT, AND MONETARY POLICY CONSULTATION CLAUSE

In the context of the Article IV Consultation, Sixth Review Under the Extended Arrangement Under the Extended Fund Facility, Third Review Under the Resilience and Sustainability Facility Arrangement, and Monetary Policy Consultation Clause the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 14, 2024, following discussions that ended on April 12, 2024 with the officials of Costa Rica on economic developments and policies underpinning the IMF Extended Fund Facility arrangement, and reform measures supporting the IMF Resilience and Sustainability Facility arrangement. Based on information available at the time of these discussions, the staff report was completed on May 23, 2024.
- A **Statement by the Executive Director** for Costa Rica.

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

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IMF Executive Board Concludes the Sixth Review of Costa Rica's Extended Fund Facility and the Third Review under the Resilience and Sustainability Facility

FOR IMMEDIATE RELEASE

- The IMF Executive Board concluded today the sixth and final review under the Extended Fund Facility (EFF) for Costa Rica, allowing for a disbursement equivalent to about US\$ 272 million.
- The IMF Executive Board also concluded the third and final review under Costa Rica's Resilience and Sustainability Facility (RSF) arrangement, making available about US\$ 243 million in support of Costa Rica's ambitious climate change agenda. Costa Rica is the first member to complete an RSF arrangement.
- The authorities continue to make important progress on Costa Rica's economic reform agenda. Going forward, the authorities should focus on institutionalizing the impressive progress over the past three years and sustaining reform momentum.

Washington, DC – June 14, 2024: The Executive Board of the International Monetary Fund (IMF) completed today the sixth review of Costa Rica's economic reform program supported by the IMF's extended arrangement under the Extended Fund Facility (EFF). Completion of this review makes available SDR 206.23 million (about US\$ 272 million), bringing total disbursements under the arrangement to SDR 1237.49 million (about US\$ 1.6 billion).

The Executive Board also concluded today the third review under Costa Rica's Resilience and Sustainability Facility (RSF) arrangement. Completion of this assessment makes available SDR 184.7 million (about US\$ 243 million), bringing total disbursements under the arrangement to SDR 554.10 million (about US\$ 730 million).

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

Costa Rica's RSF arrangement was approved on November 14, 2022, in the amount of SDR 554.1 million (about US\$ 725 million or 150 percent of quota in the IMF at the time of approval of the arrangement, see [Press Release No. 22/382](#)). Its duration coincides with the period remaining under the EFF, disbursements under the RSF being contingent on the conclusion of relevant reviews under the EFF and implementation of scheduled reform measures. The sixth EFF and third RSF reviews mark the final reviews of both arrangements. Costa Rica is the first country to complete an RSF arrangement, doing so having implemented all twelve targeted reform measures.

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

"The completion of the reviews marks the successful conclusion of an ambitious, multi-year, multi-dimensional reform program, under which the authorities demonstrated strong commitment to a broad-based homegrown reform program that is helping reshape Costa Rica's economy and advance the climate agenda. Growth has remained strong and inflation is rising to the lower end of the central bank's tolerance range. Formal employment, private-sector wages and poverty are all moving in the right direction.

"The central bank has appropriately lowered the policy rate and its data-dependent, forward-looking approach should continue to help inflation rise back to target. It is critical to institutionalize the central bank's autonomy as well as clarify its mandate and decision-making processes through comprehensive legal reforms as soon as circumstances are propitious.

"The supervisory authorities should continue to enhance their toolkits to strengthen financial sector resilience. A recently submitted bill to amend the bank resolution and deposit insurance law would help strengthen the crisis management framework and the financial safety net and should be approved quickly.

"Following another strong fiscal performance, the authorities' firm commitment to further spending-driven consolidation will reduce debt and interest burdens and create space for capital and social investment. To simultaneously achieve these objectives, legislative changes that erode revenue should be avoided and the coverage of the fiscal rule should be maintained.

"Keeping the momentum of structural reforms is critical to achieving greener and more inclusive growth. The new social assistance single window is increasing the quality of social spending. It is critical for the public employment bill to be fully implemented by all affected institutions. Reforms supported by the RSF arrangement are helping to reduce risks to prospective balance of payments stability and aiding ongoing efforts to attract private-sector finance."

Costa Rica: Selected Economic and Financial Indicators

	2020	2021	2022	2023	Projections					
					2024	2025	2026	2027	2028	2029
Output and Prices										
Real GDP	-4.3	7.9	4.6	5.1	4.0	3.5	3.3	3.3	3.3	3.3
GDP deflator	0.8	2.4	6.3	-0.1	1.3	3.2	3.2	3.2	3.2	3.2
Consumer prices (period average)	0.7	1.7	8.3	0.5	0.3	2.9	3.0	3.0	3.0	3.0
Savings and Investment										
Gross domestic saving	15.2	15.4	15.0	14.4	14.4	14.9	15.4	15.7	16.4	18.5
Gross domestic investment	16.2	18.6	18.3	15.4	16.4	16.9	17.3	17.4	17.9	18.5
External Sector										
Current account balance	-1.0	-3.2	-3.2	-1.0	-2.0	-2.1	-1.9	-1.7	-1.5	-1.4
Trade balance	-3.2	-4.4	-6.7	-3.8	-4.6	-4.6	-4.7	-4.6	-4.6	-4.7
Financial account balance	-0.4	-1.2	-3.2	-0.5	-2.0	-2.0	-1.9	-1.7	-1.5	-1.4
Foreign direct investment, net	-2.6	-4.8	-4.4	-4.4	-4.5	-4.5	-4.5	-4.5	-4.4	-4.3
Gross international reserves (millions of U.S. dollars)	7,232	6,921	8,724	13,261	14,229	14,915	15,646	16,218	16,906	17,593
-as percent of ARA metric	107.3	99.8	106.2	145.1	141.7	142.5	141.3	139.5	138.7	138.3
External debt	49.6	48.6	50.7	43.3	42.2	41.4	41.6	41.3	40.4	39.6
Public Finances 1/										
Central government primary balance	-3.7	-0.3	2.1	1.6	1.9	2.0	2.0	2.0	2.0	2.0
Central government overall balance	-8.4	-5.1	-2.8	-3.2	-3.0	-2.7	-2.4	-2.2	-2.0	-1.8
Central government debt	66.9	67.6	63.0	61.1	60.3	59.3	58.3	57.0	55.7	54.2
Money and Credit										
Credit to the private sector (percent change)	3.4	3.7	3.3	1.9	5.7	6.1	6.1	6.1	6.0	6.1
Monetary base 2/	8.3	7.8	8.0	7.9	7.8	7.7	7.7	7.7	7.7	7.7
Broad money	54.8	53.8	47.3	47.3	46.7	46.4	46.4	46.4	46.4	46.4
Memorandum Items										
Nominal GDP (billions of colones) 3/	36,495	40,327	44,810	47,059	49,553	52,923	56,416	60,139	64,109	68,340
Output gap (as percent of potential GDP)	-3.6	0.1	-0.3	1.0	0.7	0.2	0.0	0.0	0.0	0.0
GDP per capita (US\$)	12,164	12,539	13,240	16,390	18,306	19,440	20,334	21,317	22,350	23,409
Unemployment rate	20.0	13.7	11.7	7.3	8.3	9.3	9.3	9.3	9.3	9.3

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

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

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

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



COSTA RICA

May 23, 2024

SIXTH REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, THIRD REVIEW UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT, AND MONETARY POLICY CONSULTATION CLAUSE

EXECUTIVE SUMMARY

Recent developments and outlook. Growth accelerated to 5.1 percent in 2023 and is projected to remain robust at 4 percent in 2024. Inflation (year-on-year) has stayed negative since mid-2023, triggering Board Consultation under the Monetary Policy Consultation Clause. However, as base effects drop out of the year-on-year calculation, headline inflation is expected to return to the central bank's tolerance band (2-4 percent) by late 2024. Formal employment, private-sector wages, and poverty are all moving in the right direction.

Performance under the Extended Fund Facility (EFF) and Resilience and Sustainability Facility (RSF) arrangements. All performance criteria for this review were met. Fiscal performance has again exceeded expectations, while foreign exchange reserves remain at comfortable levels. The structural benchmarks on a single window for social assistance applicants was met while one on submission of the bill to improve the bank resolution and deposit insurance framework was not met but implemented with a delay. All the RSF reform measures targeted for this review have been completed.

Focus of the Review. The review focused on institutionalizing the impressive progress over the past three years supported by the Fund. Fiscal consolidation continues to appropriately prioritize debt reduction while creating space for additional social spending. The government's tax proposals aim to make the system more equitable and efficient while safeguarding domestic revenues. The central bank has demonstrated a successful track record of data-dependent, forward-looking policymaking and should aim to return to a neutral monetary policy stance in the coming months. Efforts are underway to further deepen the FX market and strengthen financial oversight. A better social safety net and incentives to participate in the formal labor market should help further reduce poverty. The authorities have maintained their enviable track record of decarbonization and climate adaptation, supported by the RSF arrangement, and are working to mobilize international sources of green finance in support of these aims.

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

The team consisted of Ding Ding (head), Charlotte Lundgren, Alberto Behar, and Chao He (WHD), Fumitaka Nakamura (MCM), Igor Zuccardi (SPR), Juan Carlos Benítez (FAD), Santiago Acosta-Ormaechea and Ivania García (Resident Representative office), with assistance from Heidi Canelas, Justin Lesniak, and Alfredo Alvarado (all WHD). Discussions were held during April 1-12, 2024 in San José, Costa Rica. The team held meetings with Costa Rica’s President Chaves Robles, Vice Presidents Brunner Neibig and Munive Angermüller, BCCR’s President Madrigal López, Minister of Finance Acosta Jaén, and other senior government and financial sector officials, members of the Legislative Assembly, academics, the private sector, civil society, and other development partners. Alfonso Guerra and Valerie Lankester (OED) joined some of the meetings.

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OVERVIEW

1. This review marks the successful conclusion of an ambitious, multi-year, multi-dimensional reform program that has been supported by Fund resources. As the pandemic unfolded, Costa Rica sought Fund support, first through the Rapid Financing Instrument (RFI), then with an EFF arrangement in 2021, and finally by becoming the pioneer recipient of an RSF arrangement in 2022. Under these arrangements, successive administrations have demonstrated strong commitment to a broad-based homegrown reform program that is helping reshape Costa Rica's economy. An important fiscal consolidation underpinned by a fiscal rule has helped substantially reduce public debt. A decisive tightening of monetary policy in reaction to the post-pandemic upsurge of inflation and the subsequent timely easing of the policy rate helped anchor inflation expectations, while international reserves have been rebuilt. Improvements have been made to financial sector supervision, the framework for public employment, and the social safety net, although critical central bank governance and autonomy reforms have stalled due to the lack of societal consensus. Finally, a broad set of reforms put in place will strengthen Costa Rica's resilience to climate events. These are very impressive achievements.

RECENT DEVELOPMENTS AND OUTLOOK

2. Output growth accelerated in 2023. Real GDP grew by 5.1 percent in 2023, up from 4.6 percent in 2022, with substantial contributions from private consumption, investment, and economic activity outside the free trade zones. The unemployment rate declined to a historically low 7.8 percent in March, albeit in part due to lower labor force participation (Box 1). Growth in 2024 is now expected to be 4 percent (above long-run potential growth of about 3¼ percent). Risks to growth and the balance of payments are broadly balanced with the potential for supply chain disruptions or a sustained tightening of global financial conditions being offset by possible upsidess from stronger-than-expected FDI inflows. Tensions in neighboring countries create the potential for a significant increase of in-transit migration, which could add to fiscal pressures and social tensions.

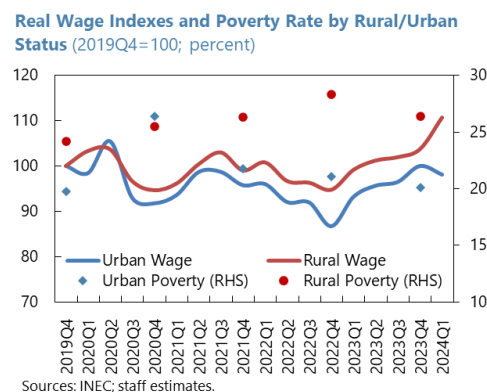
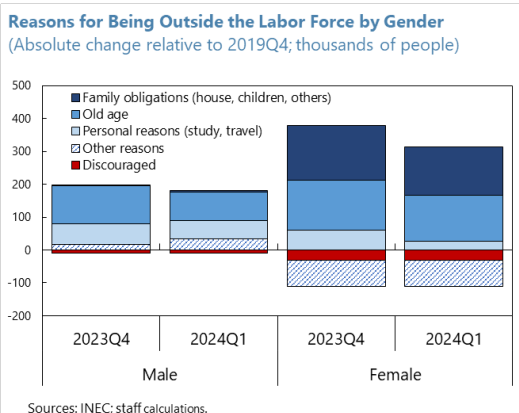
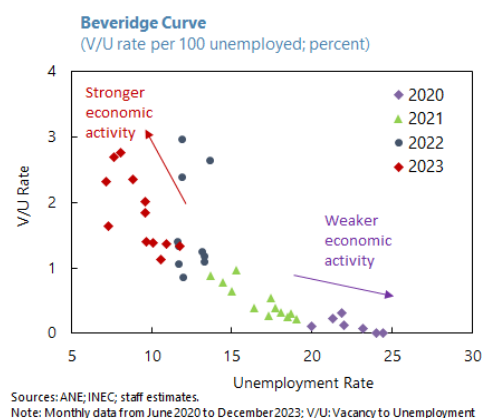
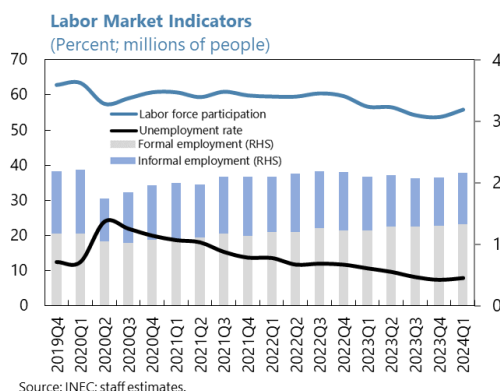
3. Inflation has begun an uneven rise toward the central bank's tolerance band. Headline inflation remains negative at -0.5 percent (y-o-y) in April, reflecting base effects, lower commodity prices, past monetary policy tightening, and currency appreciation. Core inflation remains low (0.05 percent y-o-y in April) and inflation expectations have edged down to the lower limit of the BCCR's tolerance band. Staff expects annual inflation to reach the lower limit of the band (2 percent) by the end of this year. Higher commodity prices, including from global geopolitical developments, are the main upside risks to inflation. The overall risk is tilted to the downside as a prolonged period of low inflation may de-anchor inflation expectations downwards.

Box 1. Labor Market and Poverty Developments in Costa Rica

The labor market is showing signs of tightening amid a historically low unemployment rate, driven in part by declining labor force participation. The fall of labor participation accelerated in 2023, mostly driven by population aging coupled with early retirement (ahead of a tightening of retirement rules, which took effect in January 2024). In addition, for women, family care responsibilities are increasingly cited as reasons for not participating. Therefore, despite strong growth, there was a fall in overall employment, accompanied by a switch from informal to formal sector work. However, as of 2024Q1, total employment (including informal) and labor force participation have shown signs of recovering.

Despite the reduction in total employment, the real wage gains observed in 2023 and an increase in formalization have improved poverty outcomes, particularly in rural areas. Household real wage income increased by 5 percent in 2023 after the inflation-led contraction of 3 percent observed in 2022, benefitting private sector workers in both rural and urban areas. The improvement in real wages, which by end-2023 recovered to above pre-pandemic levels, has supported a reduction in the total poverty rate for the first time since the pandemic by 1.2 percentage points in 2023.

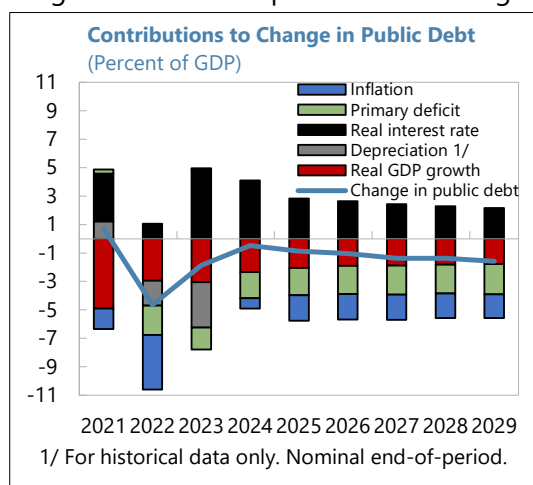
Costa Rica: Labor Market and Poverty Measures



4. Credit growth has accelerated. Private sector credit growth rose to 7.5 percent (y-o-y, foreign exchange (FX) adjusted) in 2024Q1 underpinned by robust FX borrowing demand from the service sector, despite a regulatory tightening on unhedged FX loans. The strong economy is expected to sustain similar levels of private credit growth in 2024. The financial sector's capital ratio exceeded 18 percent in March, well above the regulatory minimum, and NPLs remain low at 2 percent.

5. The current account deficit narrowed from 3.2 percent of GDP in 2022 to 1 percent of GDP in 2023. Stronger exports and more favorable terms of trade were the main drivers. Higher imports and larger net primary income outflows (due to higher returns on foreign investment and public debt service payments) are expected to increase the current account deficit in 2024. Net International Reserves (NIR) were almost US\$5 billion above the program target at the end of December 2023 and gross reserves were equivalent to 135 percent of the IMF's Assessing Reserve Adequacy metric at the end of April 2024, following repayment of the balance of a \$1.1 billion loan from the Latin America Reserve Fund (FLAR). Although the currency has continued to appreciate, it has done so more slowly since March 2023.

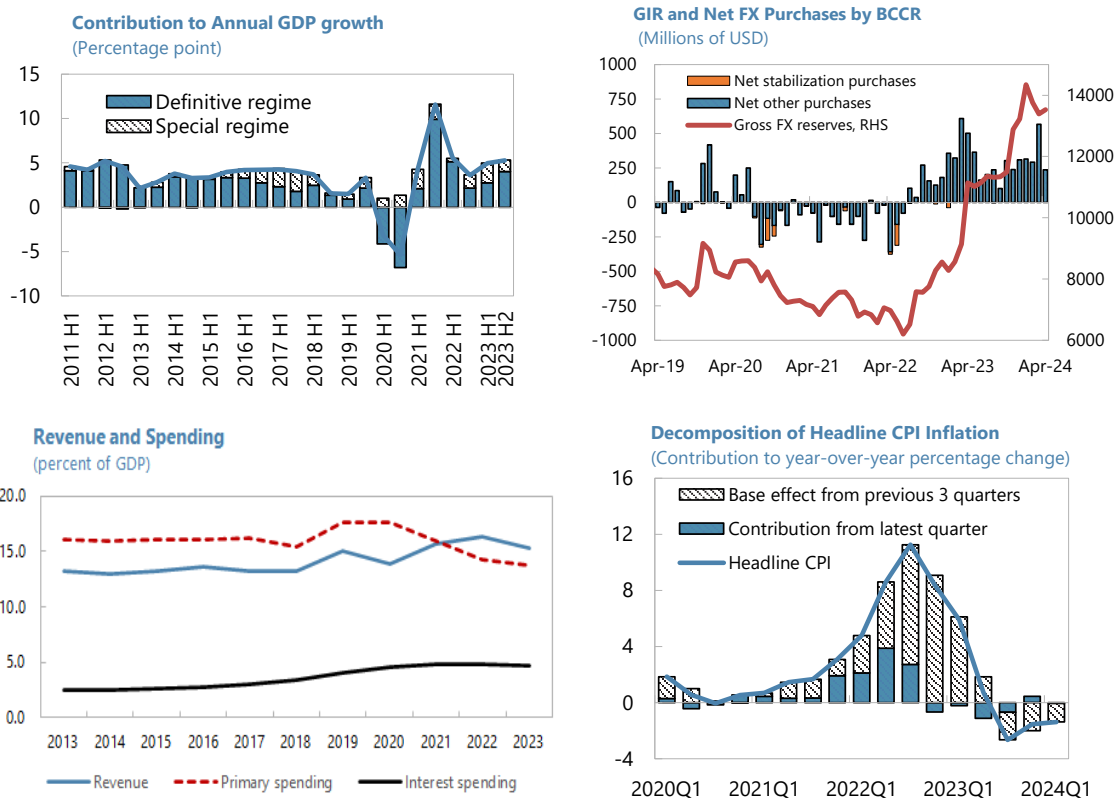
6. The 2023 primary balance fell modestly to 1.6 percent of GDP and public debt continued to decline. Revenue as a share of GDP declined by about 1 percentage point as one-off non-tax revenues in 2022 were not repeated and tax revenue growth slowed in part due to the large upward inflation-related adjustment of the personal income tax brackets and a stronger currency. Primary spending fell by more than 0.5 percent of GDP due to wage freezes, lower transfers to public entities, and disappointing execution of capital projects. Debt fell to 61 percent of GDP at end-2023 even with a 0.6 percent of GDP build-up of cash balances. Since 2021, the primary balance has been a key driver of the turnaround in the debt path, though strong GDP growth, inflation and currency appreciation have also aided debt reduction. Looking ahead, consistent with the 2024 budget, further spending restraint is expected to raise the primary surplus to 1.9 percent of GDP this year and debt is expected to continue falling by around 1 percent of GDP per year over the medium term. Gross financing needs are projected to remain around 8 percent of GDP in 2024-5 partly because of a high interest burden. The risk of sovereign debt distress is low¹ and a key risk is contingent liabilities (including a growing disputed claim² by the social security fund).



¹ See *Sovereign Risk and Debt Sustainability Assessment*, Annex III in CR 23/442.

² The fund, which is part of the general government, invoices the central government for pension and health services it provides to beneficiaries. The gross claim amounts to approximately 8 percent of GDP. The reconciliation between the Ministry of Finance and the fund of the potential amount owed, which includes verification of the data needed to calculate the invoices, is subject to considerable lags.

Costa Rica: Recent Developments



Source: BCCR; Haver; International Financial Statistics database and IMF staff estimates.

Note: The special regime includes the free trade zones (*zonas francas*) and companies operating under a separate incentive scheme for inward processing and re-exportation. The definitive regime refers to the rest of the economy.

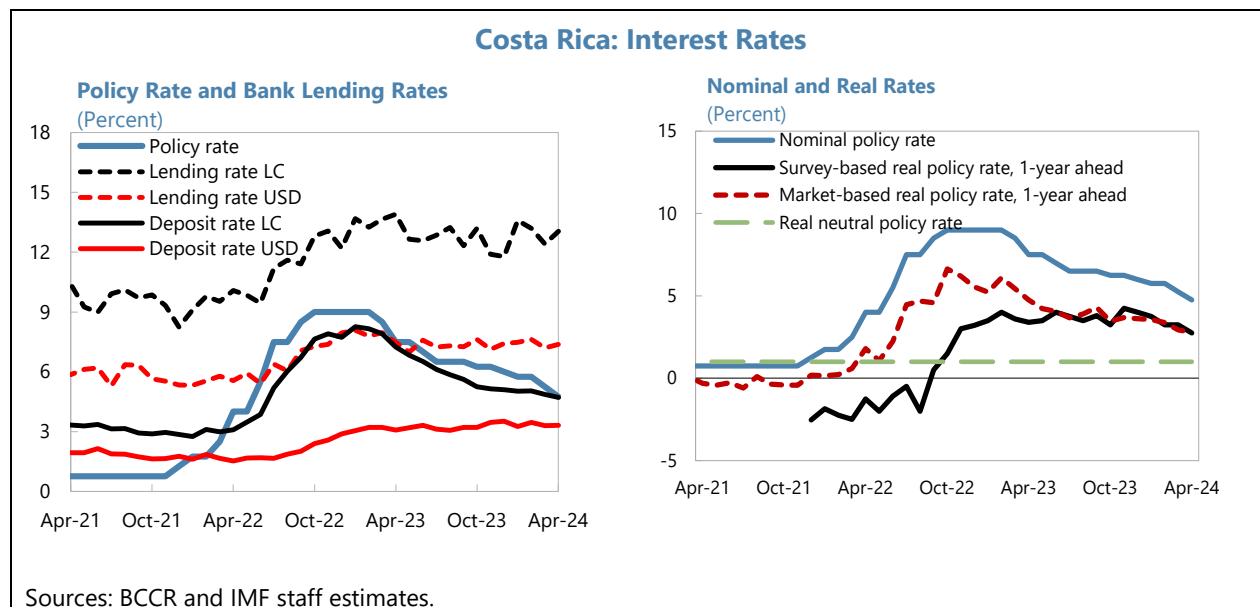
PROGRAM PERFORMANCE AND POLICY DISCUSSIONS

A. Safeguarding Monetary and Financial Stability

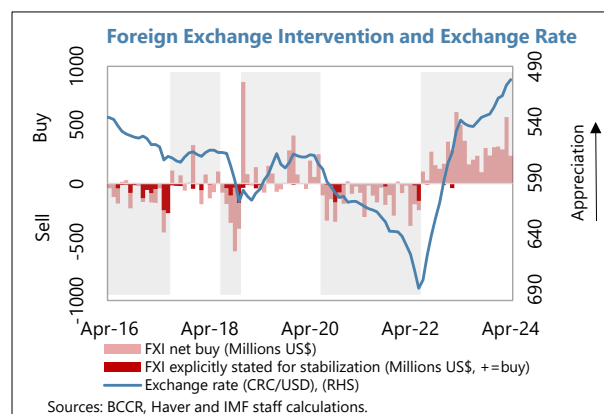
7. Faced with large external shocks, the central bank has maintained a data-dependent, forward-looking approach. Once confirming that inflation was on a steady downward trend, the BCCR was one of the first central banks in the region to start easing in March 2023 and has since lowered the policy rate from the peak of 9 percent to 4.75 percent as of end-April 2024.

8. Based on staff's current baseline forecast, the central bank should continue its return to a neutral monetary policy stance in the coming months. Notwithstanding the easing so far, the lower outer band of the program's Monetary Policy Consultation Clause (MPCC) was breached in December by 1.6 percentage points, triggering a Board consultation. Even with continued monetary policy easing, inflation is expected to reach the central bank's target of 3 percent only by Q2-2025.

As such, given the risk of de-anchoring inflation expectations downward, it is important to return the monetary policy rate to neutral in the coming months.³



9. With FX reserves at comfortable levels, the exchange rate should be allowed to respond flexibly to market conditions. Since 2022H2, the *colon* has appreciated by 27 percent in nominal terms versus the U.S. dollar by end-April and the BCCR has taken advantage of a strong BOP position to replenish reserves. With FX reserves now ample, the central bank's participation in the FX market should be limited to responding to disorderly market conditions. An accelerated implementation of planned reforms to improve the functioning and liquidity of the FX market (including extending MONEX trading hours, introducing new market makers, and developing FX derivative markets) would further support a fully flexible exchange rate regime by reducing frictions in the FX market.⁴ Continued and consistent alignment of the timing of BCCR FX purchases on behalf of the non-financial public sector (NFPS) with the sale of FX to these entities can also improve price formation and market transparency.



10. The authorities remain committed to advancing central bank governance reforms in line with the 2020 Safeguards Assessment recommendations, including through legislative

³ Staff estimation of the ex-ante real neutral rate is around 1 percent (see *The Neutral Interest Rate: Revised Estimates*, Selected Issues Paper in CR 23/443).

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

reforms. While the BCCR is *de facto* making its monetary policy decisions independently, institutionalizing this autonomy as well as clarifying the BCCR's mandate and decision-making process through comprehensive legal reforms is critical, and the authorities should continue to build support for that. Following the conclusion of the Constitutional Court process, which had held up the filling of a BCCR Board vacancy, the executive branch is taking the necessary steps to fill the vacancy.

11. Supervisory tools are being strengthened in line with recommendations of the 2022 World Bank Financial Sector Assessment. Regulations to tighten licensing standards for new banks have been approved, risk weights for unhedged borrowers of FX have been increased, and supervisors have started publishing bottom-up stress test results of individual entities. Drawing on the Basel Core Principles assessment, the authorities have submitted a bill to improve legal protection of supervisory staff and strengthen the legal powers of supervisors, including their corrective and sanctioning powers. They are also taking steps to operationalize consolidated supervision and phase in risk-based supervision. The net stable funding ratio is expected to come into effect from September 2024, initially with transitional arrangements, which should reduce liquidity risks in the banks.

12. The authorities are working to strengthen the bank resolution and deposit insurance framework. Amendments to the bank resolution and deposit insurance law and related legislation, including on supervisory powers (¶111), were submitted to the Legislative Assembly in April 2024 to address shortcomings in the existing legal and regulatory framework and better align the framework with international standards. A prompt approval of the legislation will enact a crisis management framework for orderly resolution of non-viable financial institutions by (i) strengthening the power of the resolution authority; (ii) enhancing the autonomy of the deposit guarantee fund; and (iii) providing a public resolution funding mechanism, subject to robust safeguards, to finance the resolution of bank failures with systemic implications.

Costa Rica: Amendments to the Bank Resolution and Deposit Insurance Framework

Objective

- Strengthen the existing bank resolution and deposit insurance framework
- Make feasible closure and orderly exit of non-viable financial institutions, minimizing disruptions to the financial system and the real economy
- Improve promptness and efficiency of the resolution process in line with international standards

Role and Powers of Resolution Authority

- Reinforce the powers of the resolution authority so that it may
 - Order the resolution and, for private institutions, also the liquidation of non-viable supervised entities
 - Order the transfer of assets, liabilities, and shares

Supervisory Powers

- Supervisory powers are strengthened to ease resolvability, allowing the
 - Dismissal of members of the bank's management, allowing supervisors to undertake timely corrective actions
 - Restriction or prohibition of financially distressed entities from distributing profits if their solvency is threatened
 - Requirement that supervised entities prepare recovery plans

Deposit Guarantee Fund (DGF)

- Establish greater independence and autonomy of the DGF, which provides protection to the depositors in case a bank is unable to pay back
- Increase the annual contribution from the financial institutions to the DGF to strengthen its financial position

Resolution Funding

- Allow the DGF to fund resolution, subject to safeguards, with a public backstop to supplement available resources
- In order to provide immediate liquidity, BCCR is empowered to acquire newly issued 18-month government bonds, subject to a cap and other safeguards to protect its balance sheet
- Fiscal cost is recovered through increased contributions from the banking sector

Leveling the Playing Field

- The guarantee to state-owned banks is gradually eliminated to promote efficiency and foster competition between public and private banks

Source: National authorities.

B. Strengthening Fiscal Institutions and Preserving Fiscal Sustainability

13. Over the past three years, fiscal outturns have consistently exceeded program targets.

Under the program the authorities have raised the primary balance by over 5 percent of GDP through significant cuts in spending and increased revenues from the 2018 tax reform. The government's strong consolidation efforts were significantly more frontloaded than anticipated, though this was in part aided by one-off windfalls and cyclical factors. Adherence to the fiscal rule put in place in 2018 has supported these efforts, underscoring the importance of maintaining the rule's broad spending coverage.⁵ Staff expects tighter spending to drive further fiscal consolidation with the appropriate aim of reducing debt to below 60 percent of GDP in 2025. In the medium term, staff expects a primary balance of around 2 percent of GDP, which would be sufficient to bring debt

⁵ A change to the fiscal rule in 2023 appropriately excluded from its coverage financially sound non-financial public sector institutions that operate under market conditions or without government control, but it also excluded some other institutions' specific budgetary lines of spending. In 2024, an additional temporary exclusion on redistributions to municipalities was approved (MEFP ¶15). Spending coverage at the central government remains broad but at the risk of being diminished through legislative action.

to below 50 percent of GDP within ten years while allowing for a gradual increase in social and capital spending as the stringency of the fiscal rule subsides. However, the net revenue effects of recently approved tax exemptions, possible future tax reforms, and compliance improvements are uncertain.

14. The authorities are committed to improving the efficiency and progressivity of the tax system while safeguarding revenue. The government submitted bill 23.760 to the legislature to equalize the tax treatment between employees and self-employed, increase the top marginal rate for high earners, tax capital income at a single flat rate, tax corporate profits through a single flat rate, strengthen the simplified regime for small and medium taxpayers, reduce VAT exemptions, and tax passive income earned abroad by Costa Rican residents and dividend distributions to Costa Rican residents by firms in free zones. Costa Rica continues to make progress on international cooperation efforts to curb tax evasion and avoidance.⁶ On the other hand, some other bills under discussion but not proposed by the government risk reducing the equity, efficiency, and yields of the tax system.

15. Ongoing improvement to risk management and data analysis at the tax and customs' administration are expected to help strengthen compliance. Going forward, these efforts will be entrenched within the tax and custom administration's governance framework. This will require improving inter-agency and international cooperation information exchanges, expanding third-party data collection, enhancing data analysis capabilities through the new Information Technology embedded in Hacienda Digital, adopting new technologies to support core customs processes, and implementing tailored measures based on taxpayer type.

16. Recent PFM reforms should help improve the quality of government spending. The implementation of the National Public Investment Law starting in 2025 is expected to improve project selection and align investment projects with the country's medium- and long-term strategic priorities. Efforts are underway to extend gender budgeting to the full public sector and a dedicated macro-fiscal unit in the Ministry of Finance should begin operations later this year. There is, nonetheless, scope to strengthen the implementation of the recently approved public procurement law and to increase the digitalization of various aspects of public finances.

17. The Public Employment Bill continues its gradual implementation through a global wage scheme applicable to the whole public sector. The executive branch has implemented its global wage spine, as have the legislative branch, Supreme Electoral Tribunal, and the National University. The judicial branch, Social Security Institution, and the municipalities, which are all outside the purview of the executive branch, are on track to fully implement the global wage spine by end-2024. This landmark reform, although challenging both technically and politically, is

⁶ Costa Rica was removed from the EU's Annex I List of Non-Cooperative Jurisdictions for Tax Purposes in October 2023. It remained on the EU's Annex II State of Play document; in April 2024, the Legislative Assembly approved a bill regulating the procedure to request financial institutions' due diligence on financial information of non-residents for automatic exchange of information purposes.

improving public sector performance incentives, modernizing the wage structure, and supporting fiscal consolidation.⁷

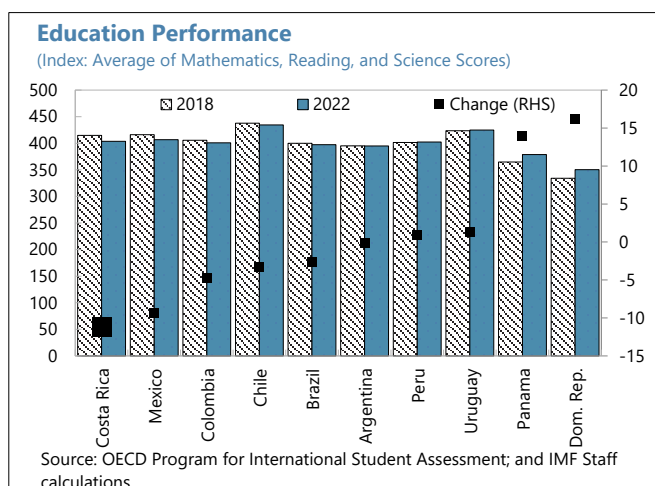
18. The management of public debt has been greatly improved. This includes a Medium-term Debt Strategy and more active liability management. Passage of a bill to unify debt management functions and the proposed constitutional amendment to allow the sovereign to issue external debt for budget financing with more flexibility would also improve the debt profile and reduce financing costs.

C. Advancing Inclusive Growth

19. Robust growth has supported wage increases and job creation in the formal sector, but sustaining progress requires keeping reform momentum. Recent strong growth and a

reduction in the minimum contribution for social security have helped increase labor formality, particularly for younger and part-time workers. There is scope to further reduce the taxation of labor income for lower income workers to incentivize labor formalization further. The “Roadmap for Education” and a revamp of dual education (whereby students complete their degrees while working in industry) will help improve education outcomes and workforce skills. Plans to strengthen childcare should encourage female labor force participation.

There is scope to simplify work requirements for new migrants and more quickly process residency applications by migrants and refugees.



20. With the still-high poverty rate, recent reforms will strengthen the social safety net, but efforts should continue. In 2023, social spending was preserved at 1.7 percent of GDP. In 2024, social spending is budgeted to increase by 11 percent compared to the previous budget. To improve the efficiency, quality and accessibility of social programs, the authorities have put in place a single window for social programs that complements SUPRES (the centralized system for digital payments of benefits). Data and analysis tools for social assistance are being improved, and benefits for the elderly are being expanded and targeted better.

⁷ See *Public Compensation Control and Public Employment Reform: Two Landmark Achievements*, Annex V in CR 23/442.

D. Supporting Climate Change Resilience and Decarbonization

21. Costa Rica is adapting to climate-related exposures. It is exposed to higher temperatures and sea levels as well as storms, floods, and droughts. 2022 was one of the rainiest years on record, triggering floods that required emergency repairs. In contrast, the *El Niño* climate pattern, which reduced rainfall in late 2023 and early 2024, has reduced hydroelectricity production,⁸ agriculture quality, and fishing yields. Guided by their National Adaptation Plan (NAP), the authorities are strengthening their long-established System for Disaster Risk Management (including business continuity) and prioritizing climate-resilient infrastructure.

22. Sustaining Costa Rica’s conservation track record is at the center of the government’s development plans. The National Decarbonization Plan (NDP) is expected to yield net economic benefits for the economy.⁹ An updated [Climate Action Tracker](#) affirmed Costa Rica’s policies and actions as consistent with limiting global warming to 1.5°C. Of note are improved electric vehicle infrastructure, increased zero emission public vehicles, and policies to reduce methane emissions in livestock and waste treatment. Costa Rica recently won a Global Government Excellence award for reforestation.

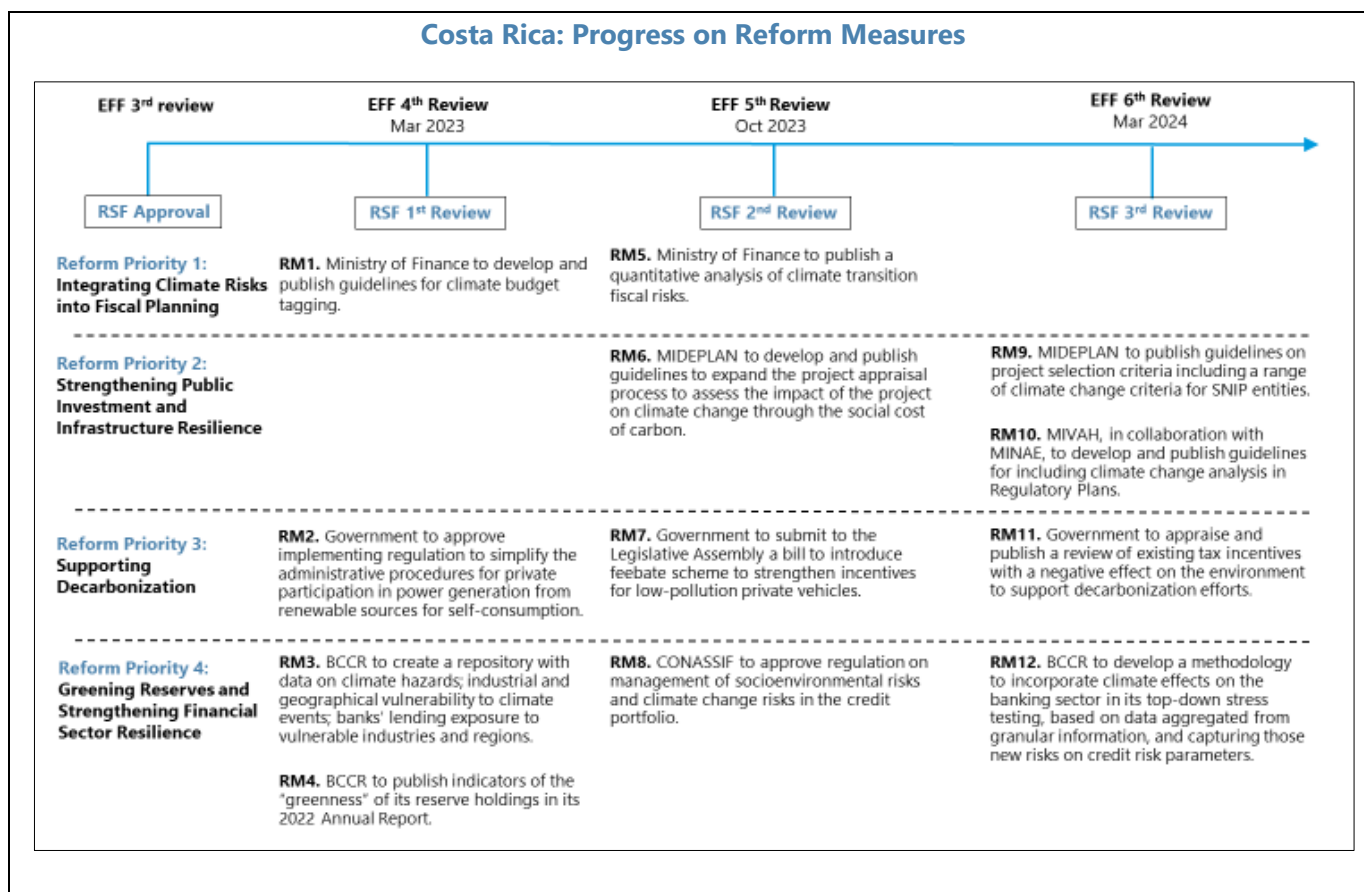
23. The RSF has supported reforms spanning a variety of areas. For this review, the authorities published guidelines that include climate change mitigation and adaptation factors when [selecting public investment projects](#) (RM9) or [making urban regulatory plans](#) (RM10). They also published (RM11) a [list of tax exemptions](#) that could be removed on environmental grounds and developed a [methodology](#) (RM12) that will be implemented to enable the incorporation of climate considerations in stress testing of banks’ credit risk once the necessary data becomes available.¹⁰ Reforms supported by the RSF arrangement – which help reduce risks to prospective BOP stability by integrating climate risks in fiscal planning, strengthening public investment and infrastructure resilience, supporting decarbonization, as well as greening reserves and strengthening financial sector resilience – build on earlier progress and set the stage for further advances (Box 2).

⁸ Thanks to proactive water storage, the effects were mitigated, and the share of electricity generated from renewable sources was 95 percent in 2023 compared to an average of over 99 percent in the preceding five years.

⁹ See *Costa Rica’s Climate Change Challenge*, Annex III in IMF Country Report No. 22/345 and IDB, DCC, Rand Corporation, and UCR (2020), *The Benefits and Costs of Decarbonizing Costa Rica’s Economy*.

¹⁰ Using granular data on climate hazards and industrial and geographical vulnerability to climate events collected in the climate data repository (RM3), the stress test uses a combination of tools and methodologies to estimate credit exposures, identify extreme hydrometeorological events, and estimate probability of default and the impact on the credit portfolio using scenarios defined by the Network for Greening the Financial System (NGFS). The authorities remain committed to conducting (with a view to publishing) stress tests when the needed micro data on the remainder of the banking sector becomes available. In particular, access to granular geolocational data is crucial to map bank loans to the geographic location of the economic activities subject to climate risks.

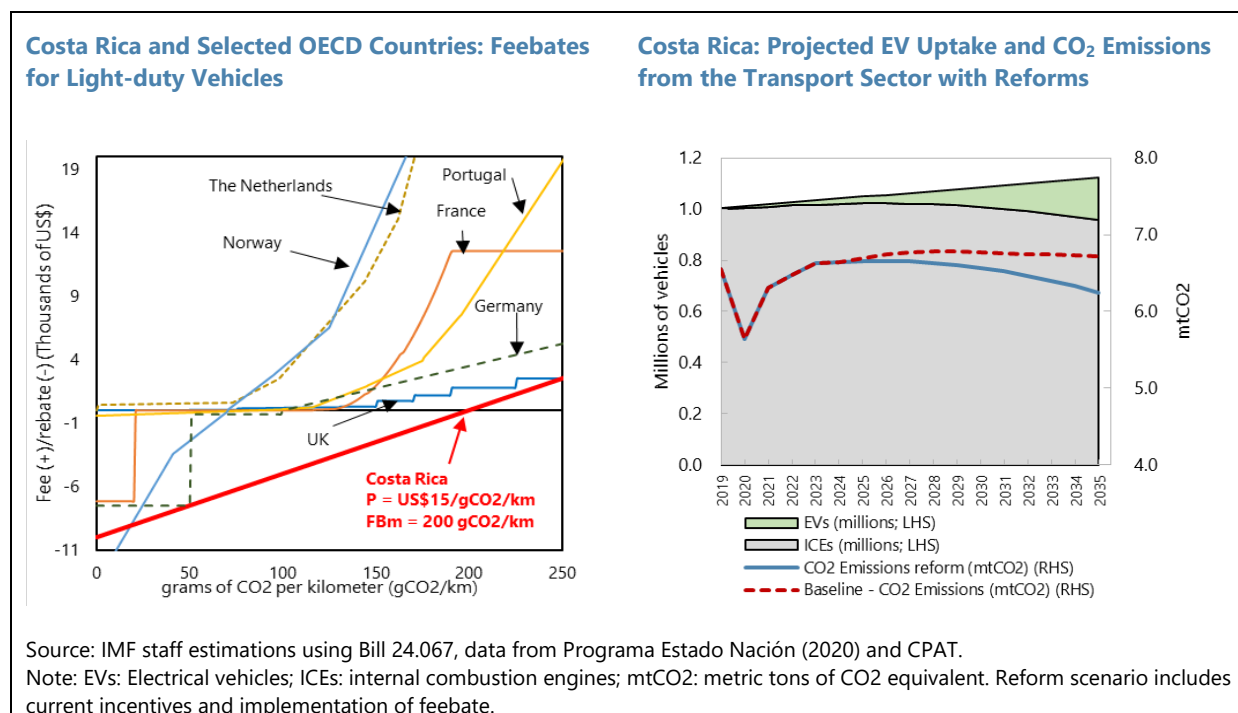
Costa Rica: Progress on Reform Measures



24. Decarbonization and adaptation will have significant fiscal costs. While the planned introduction of vehicle feebates (RM7) is designed to be revenue neutral, the improvements in fuel efficiency envisaged by this and other reforms could result in additional revenue losses of 0.1 percent of GDP per year when implemented. This risk increases the importance of safeguarding revenues and removing tax exemptions, including those with a negative environmental impact (RM11).¹¹ Combined costs of meeting NDP intermediate emissions targets and scaling up environmentally conscious investment (consistent with the NAP) to reduce climate-related infrastructure loss and support public service continuity are estimated at around US\$ 4 billion (around 1 percent of GDP per year) for the next 5 years.

¹¹ Tax exemptions with a negative effect are defined as tax breaks or tax reductions granted to specific industries', firms' or individuals' activities or commodities that result in higher levels of pollution and greenhouse emissions.

Costa Rica: RSF Reform Measure Matrix			
PRIORITY	REFORM MEASURE (RM) AND COMPLETION DATE	ANALYSIS	RM EXPECTED OUTCOME
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.	Improved tracking of climate-related spending (positive and negative effects) in the budget and financial reporting.
	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. IDB TA.	Integration of key possible fiscal effects of decarbonization efforts into fiscal planning (e.g., MTFE).
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.	Reduced greenhouse gas emissions from public investments. Helps improve project quality and execution, thus accelerating climate-related financing.
	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). IDB TA.	Methodology to score and prioritize promotes resilience in public infrastructure and decarbonization. Improves project quality and execution, accelerating climate-related financing.
	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.	Provides municipalities with a spatial planning tool to promote resilient infrastructure and preserve ecosystems.
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.	Improved competition in the electricity sector, accelerating electrification.
	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.	Reduced emissions from private cars.
	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.	Facilitated removal of incentives to engage in activities with negative environmental impact and reduction of tax expenditures.
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.	Prioritization of environmentally friendly investment of the reserve holdings.
	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.	An integrated database needed to systematically capture climate-related financial sector risks.
	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.	Improved management of socioenvironmental credit risks by regulated financial sector entities.
	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).	Priority identified in the BCCR’s climate change roadmap. Methodology guided by recommendations of the NGFS.	Diagnostic of climate-related credit risks, supporting risk management.



25. The authorities are working to attract new climate financing to support these plans. In 2024-25, the IDB plans to lend about US\$400 million (mostly for mitigation), the AFD plans about US\$100 million, the Central American Bank for Economic Integration plans about US\$350 million (to fortify vulnerable infrastructure), and the World Bank plans about US\$250 million (mostly for adaptation). Development partners are coordinating to provide technical support to complement financial support. With IDB support, the authorities are strengthening the legal and regulatory framework for public-private partnerships in Costa Rica, which is an important step toward the establishment of a Project Preparation Facility.

Box 2. Coverage of Climate-Related Reforms in Costa Rica

Fund supported reforms have spanned many areas. These comprise sectoral reforms, PFM, fiscal policy, and financial reforms.¹ Since new regulations to facilitate private participation in generation of electricity from renewable sources (RM2), more than 50 operators have joined. Reported benefits include cost efficiencies and increased resilience to *El Niño* and to oil price volatility. New guidelines, which aim to aid adaptation by making urban planning more resilient to disasters, and which have broader conservation considerations, were published (RM10). The Payment for Ecosystems model is being extended beyond forestry into other areas of agriculture. Transport is being decarbonized through improved public transport (including electric busses) and charging infrastructure. Fiscal policy is helping this sector through incentives to adopt low-emissions vehicles (RM7), while potential fiscal revenue losses from low-emissions transport could be mitigated by removing tax exemptions, including those identified to have a negative environmental impact (RM11).

Financial reforms build on and complement the authorities' roadmap² to green the financial sector. The BCCR is continually improving data and modelling, including by establishing indicators on the "greenness" of its reserves (RM4) and building a data repository (RM3) to identify climate risks. The data repository is a critical intermediate step to the application of a sophisticated top-down stress testing methodology (RM12), and results are expected to be published and used to support prudential policies (following evolving global practice) to mitigate the impact of climate-related shocks. The financial supervisory authorities are developing a green taxonomy as part of efforts to include climate considerations in its supervisory functions and to promote further green financing. An approved regulation on socio-environmental risks (RM8) requires regulated financial entities to put in place policies and processes to manage socioenvironmental risks and to incorporate them into decision making processes.

PFM (including C-PIMA) reforms are reaching more advanced stages. With many initial stages related to strategic planning (such as integration with national plans) and the fiscal framework (such as the MTFF) established, Fund-supported reforms include development of a strategy for meeting financing needs in the event of natural disasters, publication of transition risks (RM5) for incorporation in the MTFF, and development of a roadmap for resilient infrastructure (SB). Coordination is being further improved through consolidated governance and support to municipalities. Having published guidelines for tagging expenditures with positive/negative effects on climate change, natural disaster resilience, and biodiversity (RM1), preparations for inclusion in the 2025 budget are underway, while subsequent reforms include applying green budgeting to spending execution and monitoring. Key weaknesses identified by the IMF's PIMA / C-PIMA are in project appraisal and selection, so reforms in these areas (RM6 and RM9) are catalyzing broader improvements in investment management alongside climate adaptation and mitigation. The project preparation facility is also expected to improve project execution and catalyze climate finance. Although vulnerable infrastructure in urgent need of preventative repair has been identified and financing for maintenance has been approved, a key area for future reform would be closer integration with the budget. For example, foreign-financed capital projects, including for climate mitigation and adaptation, should be incorporated into the standard budget process.³ This would complement the inclusion of routine maintenance estimates in that process.

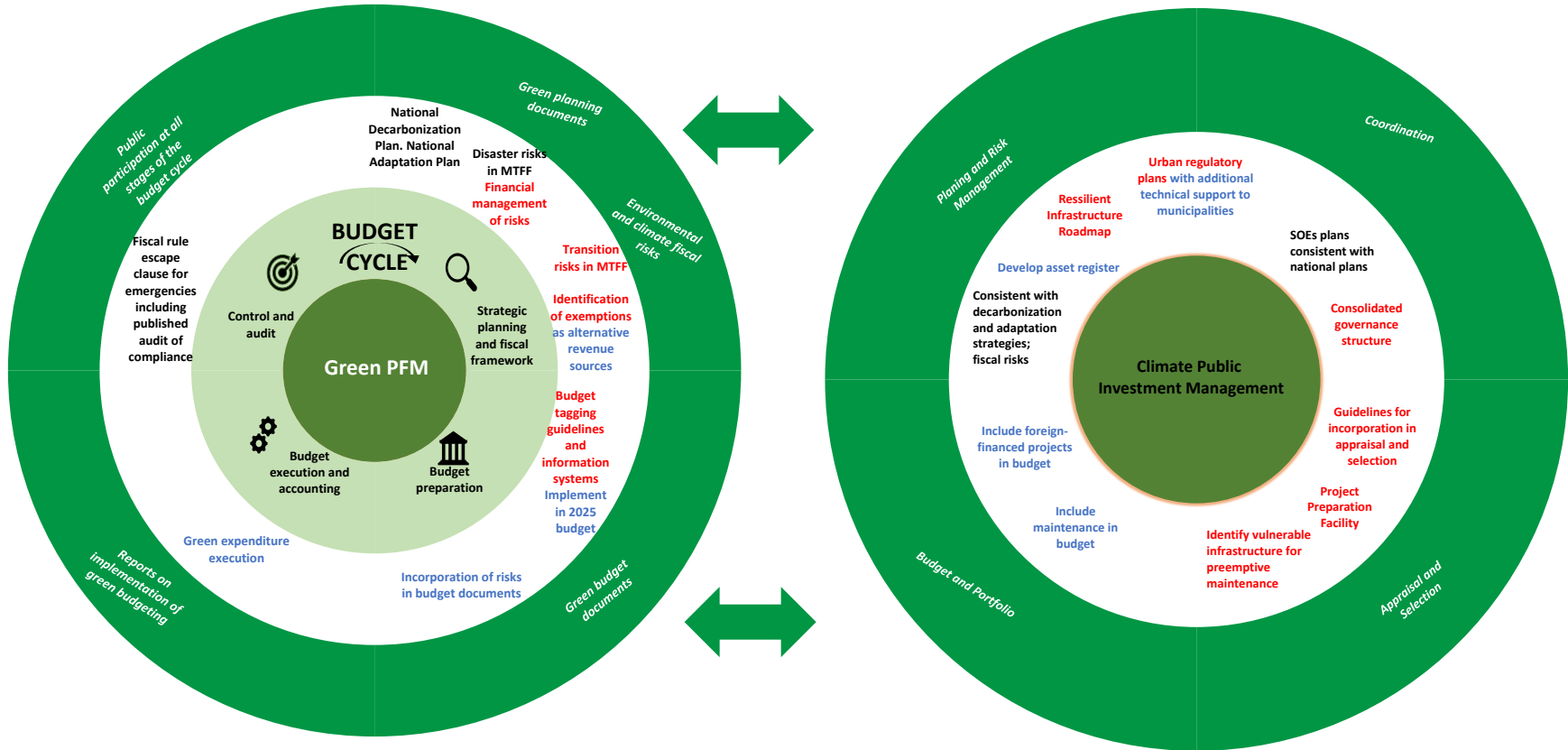
¹ Reforms span all areas in IMF (2024). *Interim Review of the Resilience and Sustainability Trust and Review of Adequacy of Resources*. SM/24/73.

² See Staff Report for the First and Second EFF Reviews, CR/22/93.

³ IMF (2023). *Costa Rica: Technical Assistance Report-Upgrading the Rule-Based Fiscal Framework*.

Box 2. Coverage of Climate-Related Reforms in Costa Rica (concluded)

Costa Rica: Climate-Related Reforms in the Context of the PFM and PIMA Cycles



Notes: Black text illustrates achievements prior to the EFF/RSF arrangements. Red text indicates EFF- and RSF-supported reforms. Blue text indicates planned or potential future reforms.
Sources: IMF (2021) *Climate-Sensitive Management of Public Finances – “Green PFM”*, IMF Staff Climate Note 2021/002. IMF (2024) *Interim Review of the Resilience and Sustainability Trust and Review of Adequacy of Resources*.

EFF PROGRAM AND RSF ISSUES

26. All PCs and one structural benchmark were met while a second structural benchmark was implemented with a delay (Appendix 1, Attachments I and II). Both end-December QPCs on the primary balance and NIR and the associated March-2024 ITs were met by large margins.¹² The social programs single window SB was met. The end-December 2023 SB to improve the bank resolution and deposit insurance framework was not met but the requirements were implemented with a delay. Low inflation triggered a MPCC Board Consultation (Appendix I, Attachment III) but monetary loosening, which is an adequate corrective response, is expected to help bring inflation back to target by Q2-2025. This review continues a strong track record across the span of the EFF in meeting quantitative targets and implementing structural reforms.

27. The authorities have completed the four RMs targeted for this review. This completes the implementation of all twelve reform measures that were targeted under the RSF.

28. Costa Rica's capacity to repay the Fund remains adequate and the program is fully financed. The program remains fully financed with firm financing commitments over the next 12 months and good prospects thereafter (Table 4). Costa Rica has an adequate capacity to repay the Fund, with outstanding Fund credit peaking at 2.6 percent of GDP or 6.8 percent of exports in 2024 (Table 7). Access to the EFF is helping Costa Rica meet its existing balance-of-payments needs. Both the EFF and the RSF financing will continue to be used for direct budget support. RSF resources provide Costa Rica with financing at longer maturities, substituting shorter-term private financing and improving their capacity to repay. Financing for 2024 remains subject to downside risks, particularly from the external environment, but there are reserves and government liquidity buffers in place to respond to shocks. If needed, additional financing could be mobilized from domestic

Costa Rica: Program Financing (In millions of U.S. dollars)			
	2022	2023	2024
Financing need	2,677	855	1,267
Reserve accumulation (excl. RSF)	1,803	4,537	231
Underlying BOP need 1/	875	-3,682	1,036
Official multilateral financing	2,675	422	1,267
IMF	554	275	548
EFF	554	275	548
Other multilateral creditors	2,121	147	719
World Bank	307	4	88
Inter-American Development Bank	385	104	395
CAF Development Bank for Latin America	0	0	0
Central American Bank for Economic Integration	329	40	237
Latin American Reserve Fund	1,100	0	0
Unidentified financing	2	433	0
RSF disbursement	0	0	736
Total change in official reserves (incl. RSF)	1,803	4,537	968
<i>Memorandum items:</i>			
Capital market access	0	2,921	1,000
Gross international reserves (incl. RSF)	8,610	13,261	14,229
In percent of the ARA metric (incl. RSF)	106	145	142
In percent of the ARA metric (excl. RSF) 2/	106	146	134

Source: IMF staff estimates.
 Note: IMF financing in 2024 includes disbursements associated with the 5th and 6th reviews of the EFF and the 1st, 2nd and 3rd reviews of the RSF.
 1/ Net of private sector and bilateral financing.
 2/ Excludes cumulated RSF disbursements.

¹² The end-December debt IT was not met as the authorities built up liquidity buffers ahead of repayment obligations but the end-March debt IT was met.

financial institutions or regional partners. Medium-term downside risks are mitigated by Costa Rica's access to international markets and good track record of repayment to the Fund.

29. Future Engagement. The authorities remain strongly interested in continuing close engagement with the Fund after the current arrangements end in July through the Post Financing Assessment (PFA), surveillance, and capacity development. Having solidified their economic fundamentals, strengthened their institutional frameworks, and built a track record of good policies, the authorities agreed that it is critical to entrench the impressive performance and for reform momentum to continue.

STAFF APPRAISAL

30. The BCCR has appropriately lowered the policy rate and its data-dependent, forward-looking approach should continue to help inflation rise back to target. Under staff's baseline, the BCCR should continue to ease monetary policy to reach a neutral stance in the coming months. With ample FX reserves, foreign exchange intervention should be limited to responding to disorderly market conditions. It is critical for the authorities to institutionalize the BCCR's autonomy as well as clarify its mandate and decision-making processes through comprehensive legal reforms as soon as circumstances are propitious.

31. The supervisory authorities should continue to enhance their toolkits to strengthen financial sector resilience. Recently submitted bills to amend the bank resolution and deposit insurance law and related legislation (including to strengthen supervisory powers) are important and should be approved quickly to help strengthen the crisis management framework and the financial safety net.

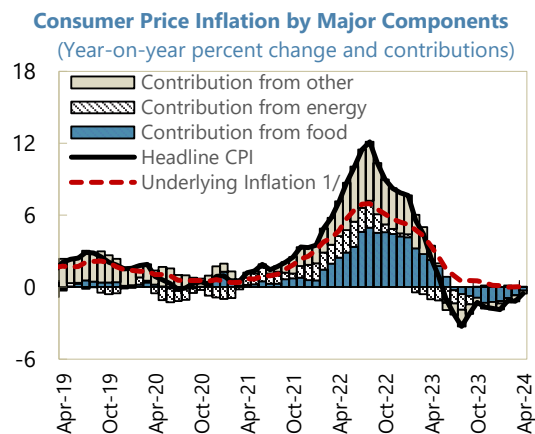
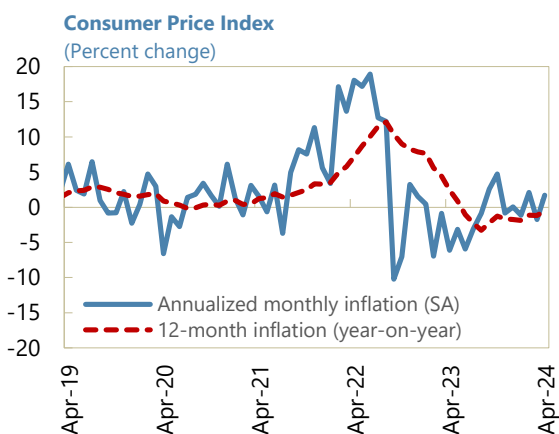
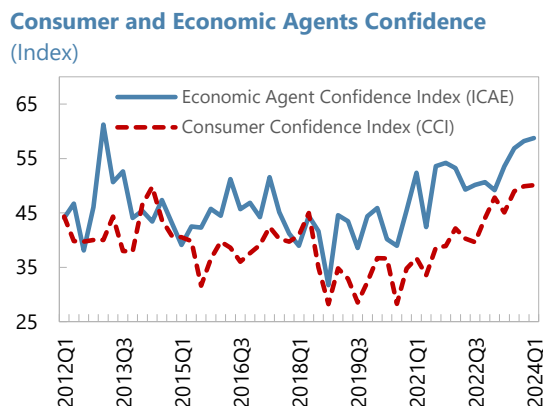
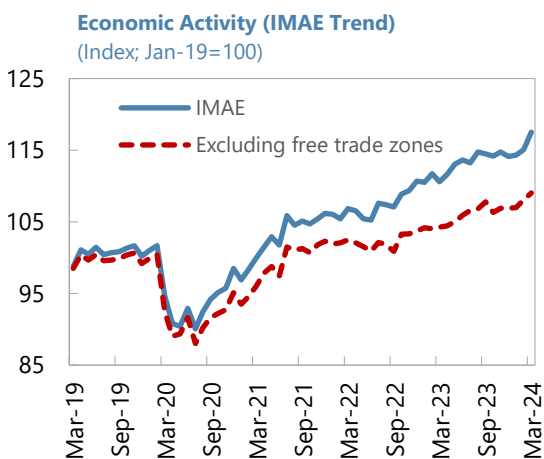
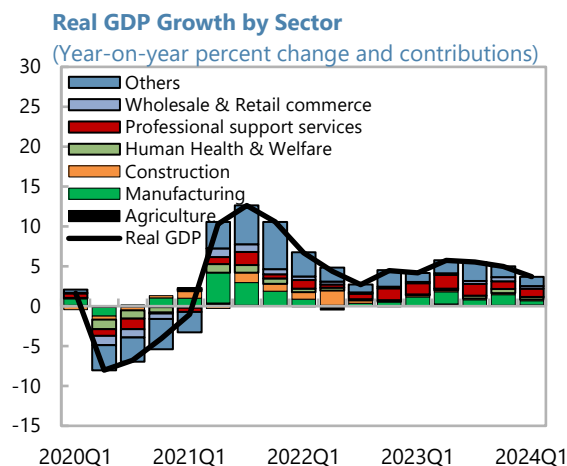
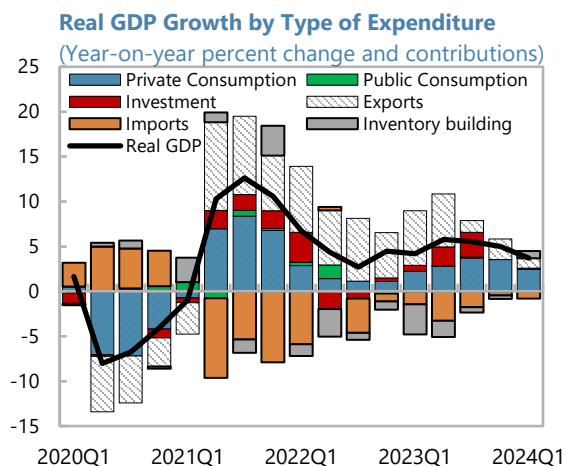
32. Following another strong fiscal performance, the planned further consolidation is appropriate. The authorities met their 2023 primary balance targets by a large margin. Their firm commitment to further spending-driven consolidation will reduce debt and interest burdens and create space for capital and social investment. To simultaneously achieve these objectives, legislative reforms that erode revenue should be avoided and the coverage of the fiscal rule should be maintained. The proposed structural reform of the income tax would make the system more equitable and efficient.

33. Keeping the momentum of structural reforms is critical to achieving greener and more inclusive growth. The new social assistance single window is increasing the quality of social spending, which would also benefit from more widespread use of analytical tools. Lower social security contributions for more part-time workers should promote formal employment. Following significant progress and considerable effort, it is critical for the public employment bill to be fully implemented by all affected institutions. Reforms supported by the RSF arrangement are helping to reduce risks to prospective BOP stability and set the stage for further progress on an ambitious climate agenda. To support this agenda, ongoing efforts to attract private-sector finance are essential.

34. Staff supports the authorities' request for completion of the Board consultation under the MPCC, the sixth review under the EFF arrangement and the third review under the RSF arrangement. Staff also supports disbursements amounting to SDR 206.23 million under the EFF and SDR 184.70 million under the RSF based on the strong macroeconomic performance, important progress on structural reforms, and completion of RMs 9-12.

35. Given that outstanding credit to the Fund exceeds 200 percent of quota, staff recommend initiation of a PFA. It is recommended that the next Article IV consultation revert to the standard 12-month cycle.

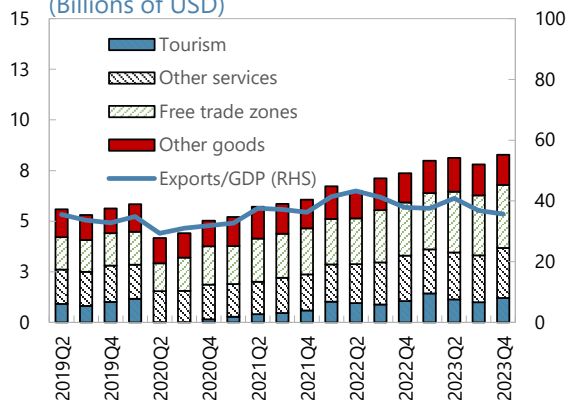
Figure 1. Costa Rica: Real Sector Developments



Sources: National authorities and IMF staff estimates

Figure 2. Costa Rica: External Sector Developments

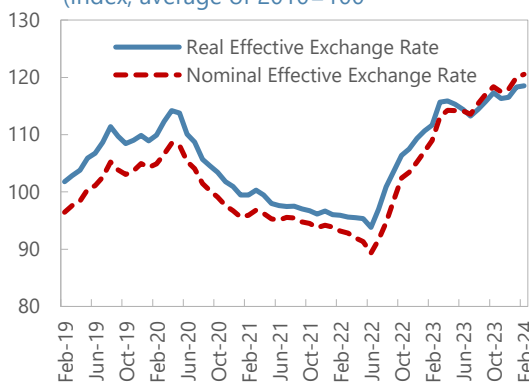
Exports by Component
(Billions of USD)



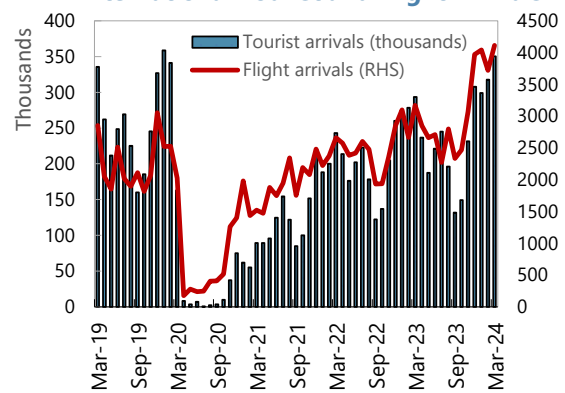
Goods Exports and Imports Growth
(Year-on-year percent change)



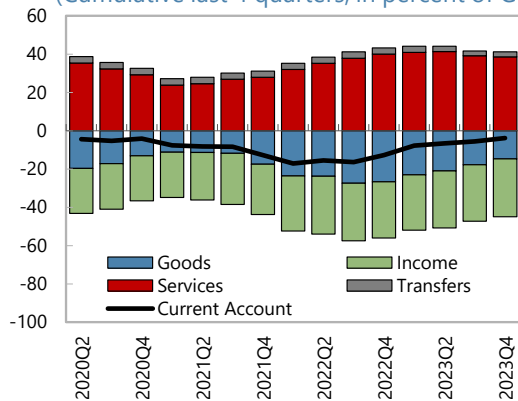
Exchange Rates
(Index, average of 2010=100)



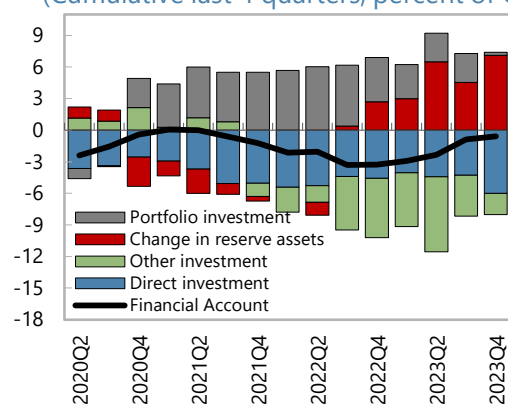
International Tourist and Flight Arrivals



Current Account Balance
(Cumulative last 4 quarters, in percent of GDP)



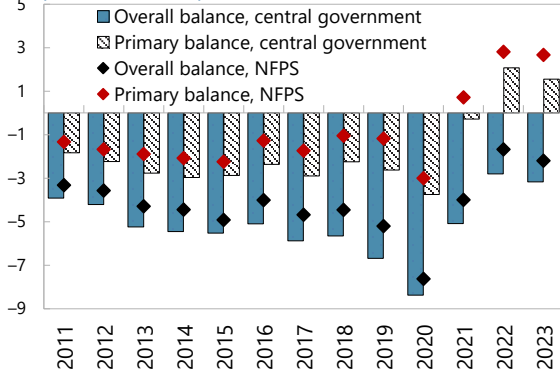
Financial Account Balance
(Cumulative last 4 quarters, percent of GDP)



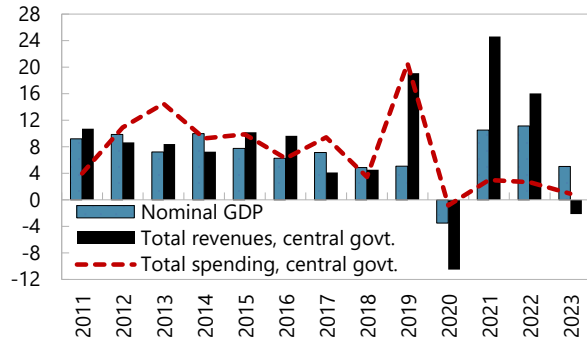
Sources National authorities, Flight Radar, and IMF staff calculations.

Figure 3. Costa Rica: Fiscal Sector Developments

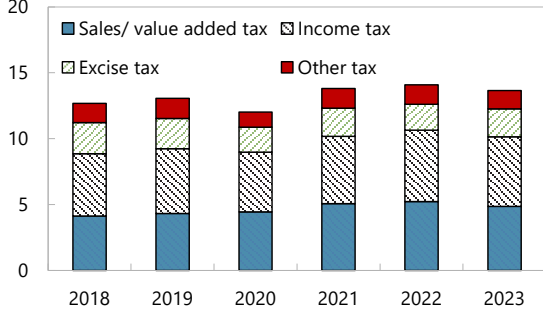
Fiscal Balances
(Percent of GDP)



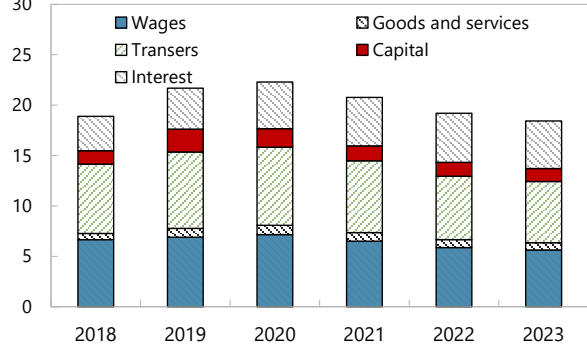
Revenues, Spending, and Nominal GDP
(Year-on-year percent change)



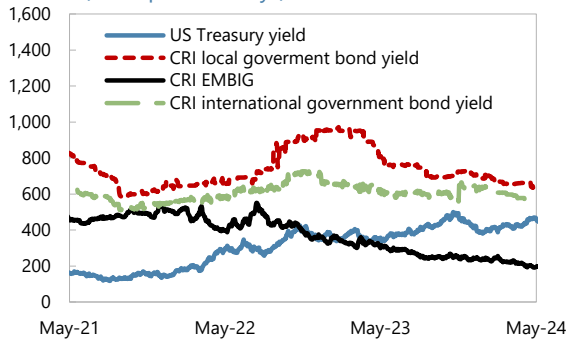
Tax Revenue Composition
(Percent of GDP)



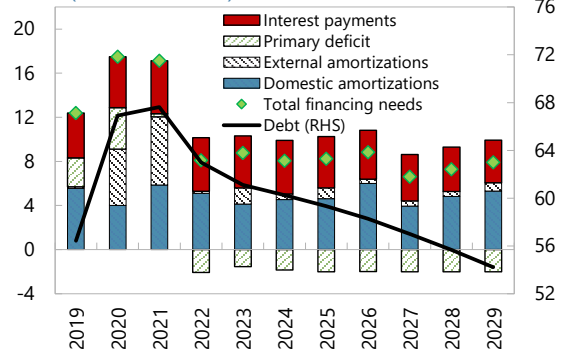
Total Expenditure
(Percent of GDP)



Government Bonds yield and EMBIG
(Basis points, 10-yr)

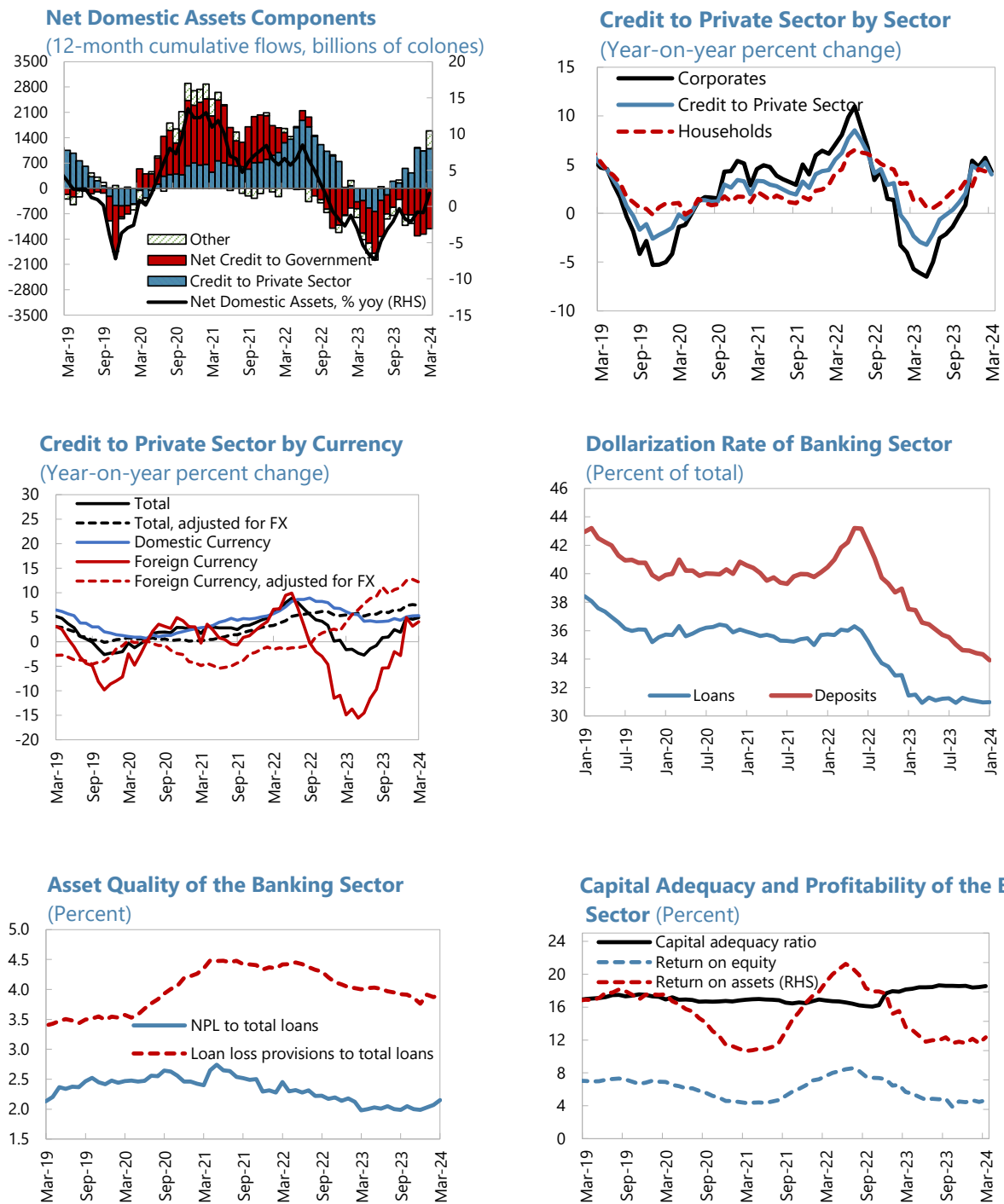


Gross Fiscal Financing Needs and Debt
(Percent of GDP)



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

Figure 4. Costa Rica: Monetary and Financial Sector Developments



Sources: National authorities and IMF staff calculations.

Table 1. Costa Rica: Selected Economic and Financial Indicators

	2020	2021	2022	2023	2023	Projections							
						2024	2024	2025	2025	2026	2027	2028	2029
				CR/ 23/442		CR/ 23/442		CR/ 23/442					
National Income													
	(Annual percentage change)												
Real GDP	-4.3	7.9	4.6	5.1	5.1	3.5	4.0	3.3	3.5	3.3	3.3	3.3	3.3
Domestic demand	-4.8	8.6	2.0	2.6	3.2	3.0	4.2	3.0	3.6	3.2	3.2	3.1	3.1
Consumption	-5.3	6.9	3.2	3.5	4.4	3.0	2.9	2.8	2.9	2.9	2.8	2.7	2.7
Private	-6.9	8.3	3.4	4.1	5.4	3.3	3.4	3.2	3.3	3.2	3.2	3.2	3.2
Public	0.8	1.7	2.4	1.1	0.1	1.9	1.1	1.6	1.2	1.7	1.5	0.9	0.7
Gross fixed capital formation	-3.4	7.8	1.5	4.7	8.6	4.2	7.8	1.7	6.5	4.6	4.5	4.5	4.5
Exports of goods and nonfactor services	-10.6	15.9	13.2	12.8	10.5	7.9	6.9	6.3	6.7	6.4	6.2	6.2	6.2
Imports of goods and nonfactor services	-12.9	19.2	6.0	6.8	5.6	7.4	8.1	6.1	7.6	6.8	6.5	6.3	6.2
	(Contributions to real GDP growth)												
Domestic demand	-4.6	8.3	1.9	2.5	3.0	2.7	3.9	2.7	3.3	3.0	3.0	2.9	2.8
Consumption	-4.3	5.5	2.5	2.7	3.4	2.3	2.2	2.2	2.2	2.2	2.2	2.1	2.0
Gross domestic investment	-0.3	2.8	-0.6	-0.2	-0.4	0.4	1.7	0.5	1.1	0.8	0.8	0.8	0.8
of which: Inventory changes	0.2	1.5	-0.9	-1.0	-1.8	-0.2	0.4	0.3	0.0	0.0	0.0	0.0	0.0
Net exports	0.4	-0.3	2.6	2.6	2.1	0.8	0.1	0.6	0.2	0.3	0.3	0.4	0.5
	(Annual percentage change)												
Prices													
GDP deflator	0.8	2.4	6.3	1.0	-0.1	2.9	1.3	3.2	3.2	3.2	3.2	3.2	3.2
Consumer prices (period average)	0.7	1.7	8.3	0.7	0.5	1.9	0.3	3.0	2.9	3.0	3.0	3.0	3.0
Consumer prices (end of period)	0.9	3.3	7.9	-0.8	-1.8	3.0	2.0	3.0	3.0	3.0	3.0	3.0	3.0
	(In percent of GDP)												
Savings and Investment													
Savings	16.2	18.6	18.3	16.2	15.4	17.1	16.4	17.5	16.9	17.3	17.4	17.9	18.5
Domestic savings	15.2	15.4	15.0	13.8	14.4	15.0	14.4	15.6	14.9	15.4	15.7	16.4	18.5
Private sector	20.9	17.2	14.0	12.9	13.8	13.6	13.1	13.9	13.3	13.7	13.7	14.3	16.2
Public sector	-5.8	-1.8	1.0	0.9	0.6	1.4	1.2	1.7	1.6	1.8	2.0	2.1	2.3
External savings	1.0	3.2	3.2	2.3	1.0	2.1	2.0	1.9	2.1	1.9	1.7	1.5	0.0
Gross domestic investment	16.2	18.6	18.3	16.2	15.4	17.1	16.4	17.5	16.9	17.3	17.4	17.9	18.5
Private sector	14.1	16.3	16.1	14.0	13.3	14.8	14.3	15.1	14.7	15.0	15.0	15.3	15.7
Public sector	2.1	2.2	2.1	2.2	2.1	2.3	2.1	2.4	2.2	2.4	2.5	2.6	2.8
	External Sector												
Current account balance	-1.0	-3.2	-3.2	-2.3	-1.0	-2.1	-2.0	-1.9	-2.1	-1.9	-1.7	-1.5	-1.4
Trade balance	-3.2	-4.4	-6.7	-5.3	-3.8	-5.9	-4.6	-6.1	-4.6	-4.7	-4.6	-4.6	-4.7
Services	7.2	6.9	10.1	8.1	9.8	8.8	9.8	9.0	9.8	9.9	10.0	10.1	10.3
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	0.0
Financial account balance	-0.4	-1.2	-3.2	-2.3	-0.5	-2.1	-2.0	-1.9	-2.0	-1.9	-1.7	-1.5	-1.4
Foreign direct investment, net	-2.6	-4.8	-4.4	-3.6	-4.4	-3.6	-4.5	-3.6	-4.5	-4.5	-4.5	-4.4	-4.3
Gross international reserves (millions of U.S. dollars)	7,232	6,921	8,724	11,944	13,261	11,693	14,229	12,015	14,915	15,646	16,218	16,906	17,593
-as percent of ARA metric	107.3	99.8	106.2	122.9	145.1	115.8	141.7	114.3	142.5	141.3	139.5	138.7	138.3
-in months of next year's imports	4.0	3.1	3.7	4.2	4.9	3.8	4.9	3.7	4.8	4.7	4.6	4.5	5.3
External debt	49.6	48.6	50.7	47.3	43.3	45.4	42.2	45.0	41.4	41.6	41.3	40.4	39.6
Real effective exchange rate, avg. (percent change)	1.0	-9.2	1.8	...	15.1	...	...	...	...	...	...	...	...
	Public Finances^{1/}												
Central government primary balance	-3.7	-0.3	2.1	1.5	1.6	1.9	1.9	2.0	2.0	2.0	2.0	2.0	2.0
Central government overall balance	-8.4	-5.1	-2.8	-3.3	-3.2	-3.0	-3.0	-2.6	-2.7	-2.4	-2.2	-2.0	-1.8
Central government debt	66.9	67.6	63.0	60.8	61.1	60.2	60.3	59.2	59.3	58.3	57.0	55.7	54.2
	Money and Credit												
Credit to the private sector (percent change)	3.4	3.7	3.3	1.4	1.9	6.0	5.7	6.2	6.1	6.1	6.1	6.0	6.1
Credit to the private sector (adjusted by exchange rate changes)	1.0	2.4	6.1	5.5	6.3	5.9	7.2	6.0	5.7	5.8	5.9	5.8	5.9
Monetary base ^{2/}	8.3	7.8	8.0	8.1	7.9	7.8	7.8	7.8	7.7	7.7	7.7	7.7	7.7
Broad money	54.8	53.8	47.3	48.3	47.3	48.0	46.7	47.5	46.4	46.4	46.4	46.4	46.4
	Memorandum Items												
Nominal GDP (billions of colones) ^{3/}	36,495	40,327	44,810	47,588	47,059	50,681	49,553	54,026	52,923	56,416	60,139	64,109	68,340
Output gap (as percent of potential GDP)	-3.6	0.1	-0.3	0.7	1.0	0.2	0.7	0.0	0.2	0.0	0.0	0.0	0.0
Unemployment rate	20.0	13.7	11.7	8.1	7.3	8.7	8.3	9.3	9.3	9.3	9.3	9.3	9.3

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

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

2/ Includes currency issued and required reserves.

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

Table 2. Costa Rica: Central Government Balance^{1/}

	2020	2021	2022	2023	2023	Projections							
						2024	2024	2025	2025	2026	2027	2028	2029
						CR/ 23/442	CR/ 23/442	CR/ 23/442					
	(In billions of colones)												
Revenue	5,077	6,326	7,341	7,277	7,182	7,732	7,499	8,267	8,023	8,605	9,199	9,812	10,479
Tax revenue	4,385	5,566	6,312	6,532	6,423	6,929	6,747	7,413	7,220	7,749	8,286	8,839	9,442
Nontax revenue ^{2/}	693	760	1,029	745	759	804	752	854	803	856	913	973	1,037
Expenditure	8,136	8,377	8,598	8,862	8,676	9,233	8,991	9,647	9,428	9,983	10,525	11,105	11,740
Current noninterest	5,781	5,839	5,803	5,855	5,844	5,990	5,866	6,302	6,169	6,549	6,945	7,332	7,739
Wages	2,612	2,624	2,627	2,654	2,653	2,724	2,707	2,783	2,783	2,903	3,013	3,108	3,220
Goods and services	337	342	356	380	335	402	379	421	412	442	480	519	556
Transfers	2,832	2,874	2,820	2,822	2,855	2,864	2,780	3,097	2,974	3,204	3,452	3,705	3,963
Interest ^{3/}	1,690	1,939	2,184	2,301	2,224	2,440	2,411	2,443	2,463	2,504	2,529	2,580	2,633
Capital	665	599	611	705	609	804	714	902	796	930	1,051	1,193	1,368
Primary balance	-1,368	-1,12	927	716	730	939	919	1,063	1,058	1,126	1,204	1,286	1,372
Overall Balance	-3,058	-2,051	-1,257	-1,585	-1,494	-1,501	-1,493	-1,380	-1,405	-1,378	-1,325	-1,294	-1,261
Total Financing	3,377	2,158	1,207	1,585	1,433	1,501	1,493	1,380	1,405	1,378	1,325	1,294	1,261
External (net)	724	645	1,051	1,213	1,180	1,941	1,359	752	704	969	643	432	136
of which RSF disbursement	0	0	0	0.0	0	396.5	374	0	0	0	0	0	0
Domestic (net)	2,654	1,513	156	372	314	-440	134	628	701	410	682	862	1,125
Central government debt	24,420	27,272	28,224	28,926	28,762	30,492	29,856	31,963	31,398	32,882	34,284	35,685	37,053
External	5,898	6,779	7,210	7,615	7,539	9,589	8,596	10,415	9,395	10,451	11,160	11,688	11,921
Domestic	18,522	20,493	21,014	21,311	21,224	20,902	21,260	21,549	22,003	22,431	23,124	23,997	25,132
	(In percent of GDP)												
Revenue	13.9	15.7	16.4	15.3	15.3	15.3	15.1	15.3	15.2	15.3	15.3	15.3	15.3
Tax revenue	12.0	13.8	14.1	13.7	13.6	13.7	13.6	13.7	13.6	13.7	13.8	13.8	13.8
Nontax revenue ^{2/}	1.9	1.9	2.3	1.6	1.6	1.6	1.5	1.6	1.5	1.5	1.5	1.5	1.5
Expenditure	22.3	20.8	19.2	18.6	18.4	18.2	18.1	17.9	17.8	17.7	17.5	17.3	17.2
Current noninterest	15.8	14.5	12.9	12.3	12.4	11.8	11.8	11.7	11.7	11.6	11.5	11.4	11.3
Wages	7.2	6.5	5.9	5.6	5.6	5.4	5.5	5.2	5.3	5.1	5.0	4.8	4.7
Goods and services	0.9	0.8	0.8	0.8	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Transfers	7.8	7.1	6.3	5.9	6.1	5.7	5.6	5.7	5.6	5.7	5.7	5.8	5.8
Interest ^{3/}	4.6	4.8	4.9	4.8	4.7	4.8	4.9	4.5	4.7	4.4	4.2	4.0	3.9
Capital	1.8	1.5	1.4	1.5	1.3	1.6	1.4	1.7	1.5	1.6	1.7	1.9	2.0
Primary balance	-3.7	-0.3	2.1	1.5	1.6	1.9	1.9	2.0	2.0	2.0	2.0	2.0	2.0
Overall Balance	-8.4	-5.1	-2.8	-3.3	-3.2	-3.0	-3.0	-2.6	-2.7	-2.4	-2.2	-2.0	-1.8
Total Financing	9.3	5.4	2.7	3.3	3.0	3.0	3.0	2.6	2.7	2.4	2.2	2.0	1.8
External (net)	2.0	1.6	2.3	2.5	2.5	3.8	2.7	1.4	1.3	1.7	1.1	0.7	0.2
of which RSF disbursement	0.0	0.0	0.0	0.0	0.0	0.8	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	7.3	3.8	0.3	0.8	0.7	-0.9	0.3	1.2	1.3	0.7	1.1	1.3	1.6
Central government debt	66.9	67.6	63.0	60.8	61.1	60.2	60.3	59.2	59.3	58.3	57.0	55.7	54.2
External	16.2	16.8	16.1	16.0	16.0	18.9	17.3	19.3	17.8	18.5	18.6	18.2	17.4
Domestic	50.8	50.8	46.9	44.8	45.1	41.2	42.9	39.9	41.6	39.8	38.5	37.4	36.8
Memorandum items:													
Non-interest expenditure growth (percent)													
in nominal terms	-3.4	-0.1	-0.4	2.3	0.6	3.6	2.0	6.0	5.8	7.4	6.9	6.6	6.8
in real terms	-4.1	-1.8	-8.0	1.6	0.1	1.6	1.7	3.0	2.8	4.3	3.8	3.5	3.7
Domestic financing without RSF (net)	2,654	1,513	156	372	314	-43	508	628.1	701	410	682	862	1,125
Nominal GDP (billions of colones)	36,495	40,327	44,810	47,588	47,059	50,681	49,553	54,026	52,923	56,416	60,139	64,109	68,340

Sources: Ministry of Finance and IMF staff estimates.

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

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

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

Table 3. Costa Rica: Balance of Payments

	2020	2021	2022	2023	Projections								
					2024	2024	2025	2025	2026	2027	2028	2029	
					CR/ 23/442	CR/ 23/442	CR/ 23/442						
(In millions of U.S. dollars)													
Current Account	-632	-2,061	-2,235	-2,036	-845	-2,017	-1,973	-1,895	-2,146	-2,090	-2,021	-1,881	-1,848
Goods and services balance	2,477	1,669	2,334	2,476	5,259	2,817	5,054	2,975	5,433	5,800	6,339	6,815	7,221
Trade balance	-2,018	-2,844	-4,658	-4,642	-3,245	-5,580	-4,475	-6,108	-4,820	-5,162	-5,376	-5,719	-6,188
Export of goods (f.o.b.)	12,067	14,826	16,645	19,214	18,857	20,769	20,729	22,368	22,439	24,090	25,744	27,359	29,008
Import of goods (f.o.b.)	14,085	17,671	21,303	23,855	22,102	26,348	25,204	28,476	27,259	29,251	31,119	33,078	35,195
Services balance	4,495	4,514	6,992	7,118	8,503	8,396	9,529	9,083	10,253	10,962	11,715	12,534	13,409
Primary Income	-3,634	-4,251	-5,135	-5,094	-6,663	-5,434	-7,596	-5,500	-8,168	-8,511	-9,016	-9,388	-9,799
Secondary Income	526	521	566	582	560	601	569	630	588	621	656	692	730
Capital Account	18	19	20	23	19	25	21	28	24	26	29	32	35
Financial Account	-272	-782	-2,212	-2,014	-393	-1,991	-1,952	-1,867	-2,123	-2,064	-1,992	-1,850	-1,812
Public sector	488	-266	-1,772	-771	-2,435	-2,905	-2,418	-865	-877	-1,325	-625	-173	390
Private sector	995	-253	-2,243	-4,462	-2,495	1,164	-501	-1,324	-1,932	-1,471	-1,940	-2,364	-2,890
Foreign direct investment, net	-1,644	-3,146	-3,060	-3,147	-3,834	-3,414	-4,370	-3,598	-4,662	-4,922	-5,208	-5,428	-5,653
Other private sector flows	2,639	2,893	817	-1,315	1,338	4,577	3,869	2,274	2,730	3,452	3,268	3,064	2,763
Change in International Reserves (increase +)	-1,755	-263	1,803	3,220	4,537	-251	968	322	686	731	573	688	688
Errors and Omissions	342	1,260	2	0	433	0	0	0	0	0	0	0	0
(In percent of GDP)													
Current Account	-1.0	-3.2	-3.2	-2.3	-1.0	-2.1	-2.0	-1.9	-2.1	-1.9	-1.7	-1.5	-1.4
Goods and services balance	4.0	2.6	3.4	2.8	6.1	3.0	5.2	3.0	5.2	5.3	5.4	5.5	5.5
Trade balance	-3.2	-4.4	-6.7	-5.3	-3.8	-5.9	-4.6	-6.1	-4.6	-4.7	-4.6	-4.6	-4.7
Export of goods (f.o.b.)	19.3	22.8	24.0	22.0	21.8	21.9	21.3	22.2	21.5	21.8	22.0	22.1	22.2
Import of goods (f.o.b.)	22.6	27.2	30.8	27.3	25.5	27.8	25.8	28.3	26.1	26.5	26.6	26.8	26.9
Services balance	7.2	6.9	10.1	8.1	9.8	8.8	9.8	9.0	9.8	9.9	10.0	10.1	10.3
Of which: Travel balance	1.7	1.8	3.9	3.1	3.6	3.8	3.8	3.9	3.9	4.0	4.1	4.1	4.1
Exports of services	12.7	13.5	18.4	15.9	17.2	16.7	17.2	17.0	17.3	17.4	17.4	17.5	17.6
Imports of services	5.5	6.6	8.3	7.7	7.3	7.9	7.4	8.0	7.4	7.4	7.4	7.4	7.4
Primary Income	-5.8	-6.5	-7.4	-5.8	-7.7	-5.7	-7.8	-5.5	-7.8	-7.7	-7.7	-7.6	-7.5
Secondary Income	0.8	0.8	0.8	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Capital Account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account	-0.4	-1.2	-3.2	-2.3	-0.5	-2.1	-2.0	-1.9	-2.0	-1.9	-1.7	-1.5	-1.4
Public sector	0.8	-0.4	-2.6	-0.9	-2.8	-3.1	-2.5	-0.9	-0.8	-1.2	-0.5	-0.1	0.3
Private sector	1.6	-0.4	-3.2	-5.1	-2.9	1.2	-0.5	-1.3	-1.8	-1.3	-1.7	-1.9	-2.2
Foreign direct investment, net	-2.6	-4.8	-4.4	-3.6	-4.4	-3.6	-4.5	-3.6	-4.5	-4.5	-4.5	-4.4	-4.3
Other private sector flows	4.2	4.5	1.2	-1.5	1.5	4.8	4.0	2.3	2.6	3.1	2.8	2.5	2.1
Change in International Reserves (increase +)	-2.8	-0.4	2.6	3.7	5.2	-0.3	1.0	0.3	0.7	0.7	0.5	0.6	0.5
Errors and Omissions	0.5	1.9	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:													
Non-oil current account (percent of GDP)	0.3	-0.8	0.4	0.1	1.8	0.1	0.4	0.2	0.2	0.3	0.4	0.6	0.8
Terms of trade (annual percentage change)	5.1	-2.8	-1.6	2.4	2.8	0.0	0.9	0.7	0.7	0.8	0.7	0.6	0.5
Gross international reserves (with RSF, millions of U.S. dollars)	7,232	6,921	8,724	11,944	13,261	11,693	14,229	12,015	14,915	15,646	16,218	16,906	17,593
Gross international reserves (without RSF, millions of U.S. dollars)	7,232	6,921	8,724	11,944	13,261	10,950	13,493	11,272	14,178	14,909	15,482	16,170	16,857
Net international reserves, program definition (millions of U.S. dollars) ^{1/}	3,712	2,884	3,871	6,354	8,266	4,981	7,903	5,240	8,740	9,321	9,788	10,456	11,154
External debt (percent of GDP) ^{2/}	49.6	48.6	50.7	47.3	43.3	45.4	42.2	45.0	41.4	41.6	41.3	40.4	39.6

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

1/ 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

	Projections												
	2020	2021	2022	2023	2024	2024	2025	2025	2026	2027	2028	2029	
				CR/ 23/442	CR/ 23/442	CR/ 23/442							
(In millions of U.S. dollars)													
Gross external financing needs	-9,978	-9,336	-11,986	-15,724	-9,074	-14,244	-14,177	-13,854	-13,980	-14,423	-14,613	-14,458	-15,356
Current account balance	-632	-2,061	-2,235	-2,036	-845	-2,017	-1,973	-1,895	-2,146	-2,090	-2,021	-1,881	-1,848
Amortization	-4,886	-5,120	-4,681	-10,137	-7,432	-8,703	-6,994	-8,293	-7,726	-7,453	-7,636	-7,825	-8,470
Public sector, of which	-1,145	-1,254	-358	-2,181	-1,523	-967	-526	-1,073	-1,086	-629	-606	-513	-859
Central government	-372	-134	-150	-391	-1,252	-36	-50	-322	-335	-358	-416	-322	-712
Central bank 1/	0	-2	-2	-275	-139	-550	-962	-275	0	0	0	0	0
Private sector	-3,741	-3,866	-4,324	-7,956	-5,909	-7,735	-6,468	-7,220	-6,640	-6,824	-7,030	-7,312	-7,611
of which: short-term	-2,709	-2,782	-3,137	-6,723	-4,757	-6,387	-5,321	-5,907	-5,463	-5,613	-5,777	-6,010	-6,242
Other net capital inflows 2/	-4,460	-2,156	-5,069	-3,551	-797	-3,525	-5,210	-3,666	-4,107	-4,879	-4,956	-4,751	-5,038
Gross external financing sources	8,598	8,182	10,411	15,381	8,651	11,628	12,419	12,753	12,876	13,222	14,027	14,322	15,412
Capital transfers	18	19	20	23	19	25	21	28	24	26	29	32	35
Direct investment, net	1,644	3,146	3,060	3,147	3,834	3,414	4,370	3,598	4,662	4,922	5,208	5,428	5,653
Borrowing	5,182	4,754	9,133	15,431	9,336	7,939	8,995	9,449	8,876	9,004	9,362	9,549	10,411
Public sector, of which	524	457	905	3,415	3,387	2,062	1,991	1,643	1,665	1,558	1,450	1,356	1,331
Central government	231	-12	151	3,076	3,144	1,254	1,166	1,123	1,122	1,052	1,078	1,018	1,027
of which: Eurobonds	0	0	0	3,000	2,921	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Central bank 3/	0	502	1,100	0	0	0	0	0	0	0	0	0	0
Private sector	4,658	4,298	8,228	12,016	5,949	5,877	7,004	7,806	7,212	7,446	7,913	8,194	9,080
Change in International reserves (increase -)	1,755	263	-1,803	-3,220	-4,537	251	-968	-322	-686	-731	-573	-688	-688
Use of IMF credit	522	294	554	213	275	1,048	1,039	-187	-184	-69	-138	-231	-277
Purchases/disbursements	522	294	554	275	275	1,296	1,284	0	0	0	0	0	0
RFI	522	0	0	0	0	0	0	0	0	0	0	0	0
EFF	0	294	554	275	275	553	548	0	0	0	0	0	0
RSF	0	0	0	0	0	743	736	0	0	0	0	0	0
Repurchases/repayments	0	0	0	-62	0	-248	-245	-187	-184	-69	-138	-231	-277
Other gross multilateral financing	858	861	1,021	130	147	1,568	719	1,288	1,288	1,270	725	367	221
World Bank	105	313	307	5	4	...	88	...	...	...	...	...	...
Inter-American Development Bank (IDB)	282	404	385	96	104	...	395	...	...	...	...	...	...
CAF	448	0	0	0	0	...	0	...	...	...	...	...	...
Central American Bank for Economic Integration (CABEI)	23	144	329	29	40	...	237	...	...	...	...	...	...
Debt rescheduling or refinancing	0	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	0
Unidentified financing	0	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:													
Gross multilateral support	1,380	1,154	1,575	405	422	2,864	2,004	1,288	1,288	1,270	725	367	221
In percent of GDP	2.2	1.8	2.3	0.5	0.5	3.0	2.1	1.3	1.2	1.2	0.6	0.3	0.2
Of which, committed	1,380	1,154	1,575	405	422	2,864	2,004	1,288	1,288	1,270	725	367	221
Of which, disbursed	1,380	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	38	25	35	68	65	...	64	...	...	...	...	...	...
Purchases and disbursements, cumulative basis	38	32	33	36	36	...	45	...	...	...	...	...	...
Current account balance (percent of GDP)	-1.0	-3.2	-3.2	-2.3	-1.0	-2.1	-2.0	-1.9	-2.1	-1.9	-1.7	-1.5	0.0
Gross international reserves	7,232	6,921	8,724	11,944	13,261	11,693	14,229	12,015	14,915	15,646	16,218	16,906	17,593
In percent of the ARA metric	107	100	106	123	145	116	142	114	143	141	139	139	138
In percent of ST debt (remaining maturity)	141	148	116	132	181	136	178	146	196	199	199	191	191
In percent of gross external financing requirement	126	103	89	108	162	110	143	119	153	157	159	158	952
In months of next year's imports of G&S	4.0	3.1	3.7	4.2	4.9	3.8	4.9	3.7	4.8	4.7	4.6	4.5	5.3

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

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

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

3/ Includes FLAR credit line in 2022.

Table 5. Costa Rica: Monetary Survey

	2020	2021	2022	2023	2023	Projections				
						2024	2024	2025	2025	2026
	CR/ 23/442					CR/ 23/442		CR/ 23/442		
(In billions of colones, unless otherwise indicated)										
Central Bank										
Net foreign assets	4,474	4,007	3,800	5,015	5,739	4,958	6,516	5,197	6,991	7,488
<i>Of which</i> : Gross international reserves (In millions of U.S. dollars)	7,232	6,921	8,724	11,944	13,251	11,693	14,219	12,015	14,905	15,636
Net domestic assets	-1,441	-852	-195	-1,177	-2,006	-980	-2,656	-996	-2,894	-3,124
Net domestic credit	-1,894	-1,592	-1,745	-2,255	-2,003	-2,367	-2,107	-3,094	-2,838	-2,935
Credit to nonfinancial public sector (net)	-35	-306	-605	-962	-976	-982	-995	-982	-1,010	-1,010
Credit to other depository corporations (net)	-1,832	-1,204	-1,114	-1,267	-997	-1,358	-1,083	-2,086	-1,798	-1,895
Credit to other financial corporations (net)	-26	-82	-26	-26	-29	-26	-29	-26	-29	-29
Credit to the private sector (net)	0	0	0	0	0	0	0	0	0	0
Monetary stabilization instruments (-)	-1,564	-1,364	-1,282	-2,375	-2,073	-2,375	-2,605	-2,375	-2,605	-2,605
Other items (net)	-226	-112	416	1,037	-644	1,346	-658	2,057	-165	-298
Capital account (-)	2,243	2,216	2,416	2,416	2,714	2,416	2,714	2,416	2,714	2,714
Monetary base ^{1/}	3,033	3,155	3,605	3,838	3,733	3,978	3,859	4,201	4,097	4,364
Currency	1,498	1,529	1,495	1,556	1,539	1,650	1,632	1,754	1,734	1,844
Required reserves	1,535	1,626	2,110	2,282	2,194	2,328	2,228	2,447	2,362	2,520
Other Depository Institutions										
Net foreign assets	-720	-63	693	857	734	1,166	1,041	1,459	1,323	1,692
Net domestic assets	27,100	29,012	28,383	30,085	28,979	31,728	30,051	33,606	31,860	33,764
Net domestic credit	30,630	33,228	33,317	34,867	34,301	35,960	35,734	38,171	38,008	39,585
Credit to nonfinancial public sector (net)	3,900	5,841	5,185	5,118	4,663	4,573	4,249	4,299	4,013	3,563
Credit to nonfinancial private sector	21,601	22,405	23,146	23,473	23,576	24,877	24,920	26,411	26,434	28,055
In national currency	13,583	14,212	15,343	15,954	15,999	17,240	17,165	18,642	18,524	19,987
In foreign currency	8,019	8,193	7,804	7,519	7,577	7,638	7,755	7,769	7,910	8,068
Credit to financial corporations (net)	5,129	4,982	4,986	6,276	6,063	6,510	6,565	7,460	7,561	7,967
Other items (net)	1,602	1,322	677	1,404	734	2,357	694	2,458	662	1,439
Capital account	-5,131	-5,538	-5,611	-6,186	-6,056	-6,589	-6,377	-7,023	-6,810	-7,260
Liabilities to nonfinancial private sector	26,380	28,949	29,077	30,941	29,714	32,894	31,092	35,064	33,183	35,457
In national currency	16,593	17,469	17,859	19,252	19,530	20,504	20,409	21,918	21,838	23,454
In foreign currency	9,787	11,480	11,218	11,689	10,183	12,390	10,682	13,146	11,345	12,003
<i>Of which</i> : Deposits (including CDs)	26,201	28,743	28,849	30,914	29,457	32,840	30,738	34,718	32,844	35,200
Consolidated Financial System										
Net foreign assets	3,753	3,944	4,494	5,872	6,473	6,124	7,556	6,656	8,314	9,180
Net domestic assets	23,953	25,828	25,625	26,299	24,010	27,998	24,546	29,636	25,837	27,202
Net domestic credit	25,465	27,939	27,726	27,629	27,262	28,468	28,173	29,728	29,436	30,608
Other items (net)	1,376	1,210	1,093	2,441	90	3,703	36	4,516	497	1,141
Capital account	-2,888	-3,322	-3,195	-3,770	-3,342	-4,173	-3,663	-4,607	-4,097	-4,546
Broad money	19,990	21,683	21,215	22,996	22,248	24,344	23,163	25,686	24,554	26,160
Memorandum Items										
(Annual percentage change)										
Monetary base ^{1/}	13.7	4.0	14.3	6.5	3.6	3.6	3.4	5.6	6.2	6.5
Broad money	17.9	8.5	-2.2	8.4	4.9	5.9	4.1	5.5	6.0	6.5
Credit to the private sector	3.4	3.7	3.3	1.4	1.9	6.0	5.7	6.2	6.1	6.1
In national currency	2.5	4.6	8.0	4.0	4.3	8.1	7.3	8.1	7.9	7.9
In foreign currency	4.9	2.2	-4.7	-3.6	-2.9	1.6	2.3	1.7	2.0	2.0
Credit to the private sector (adjusted by exchange rate changes)	1.0	2.4	6.1	5.5	6.3	5.9	7.2	6.0	5.7	5.8
(In percent of GDP)										
Monetary base ^{1/}	8.3	7.8	8.0	8.1	7.9	7.8	7.8	7.8	7.7	7.7
Broad money	54.8	53.8	47.3	48.3	47.3	48.0	46.7	47.5	46.4	46.4
<i>Of which</i> : Deposits denominated in foreign currency	18.5	20.4	18.7	17.8	15.6	17.3	15.2	17.1	14.9	14.7
Credit to the private sector	59.2	55.6	51.7	49.3	50.1	49.1	50.3	48.9	49.9	49.7
<i>Of which</i> : In foreign currency	22.0	20.3	17.4	15.8	16.1	15.1	15.7	14.4	14.9	14.3
Central bank balance	0.3	0.1	-0.4	0.0	-0.6	0.0	0.0	0.0	0.0	0.0

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

1/ Includes currency issued and required reserves.

Table 6. Costa Rica: Financial Soundness Indicators

	2018	2019	2020	2021	2022	2023	2024
	Dec	Dec	Dec	Dec	Dec	Dec	Mar
	(In percent)						
Capitalization							
Risk-adjusted capital ratio	16.7	17.5	16.8	16.5	17.7	18.6	18.6
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	2.2
Non-income generating assets to total assets	16.3	15.8	18.3	17.1	18.5	17.5	17.2
Foreclosed assets to total assets	1.0	1.1	1.1	1.0	1.0	0.9	0.8
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	31.6
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	87.0
Total expenses to total revenues	95.6	96.7	97.2	94.6	96.9	98.4	98.1
Profitability							
Return on assets (ROA)	0.9	1.0	0.6	0.9	1.0	0.7	0.7
Return on equity (ROE)	6.8	6.8	4.6	6.5	7.2	4.4	4.7
Interest margin to gross income	21.3	16.4	18.9	26.9	13.8	10.4	12.2
Liquidity							
Liquid assets to total short-term liabilities	98.6	96.8	93.9	89.9	89.9	87.4	86.6
Liquid assets to total assets	28.0	29.8	33.0	35.7	33.8	33.0	33.2
Loans to deposits ^{1/}	113.1	105.6	99.0	95.6	94.8	93.8	92.7
Liquid assets to deposits	43.7	44.6	50.0	52.4	48.6	46.7	46.5
Sensitivity to market risk							
Net open FX position to capital	21.1	23.5	25.1	25.6	24.4	20.2	20.1
Other							
Financial margin ^{2/}	7.1	7.1	6.7	7.0	7.0	5.7	5.6

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

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046
Fund obligations based on existing credit																							
(millions of SDRs)																							
Principal	184.7	138.5	51.6	103.1	154.7	171.9	171.9	171.9	120.3	68.7	35.7	36.9	36.9	36.9	36.9	36.9	36.9	36.9	36.9	36.9	18.5	0.0	0.0
GRA	184.7	138.5	51.6	103.1	154.7	171.9	171.9	171.9	120.3	68.7	17.2	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	18.5	36.9	36.9	36.9	36.9	36.9	36.9	36.9	36.9	36.9	18.5	0.0	0.0
Charges and interest ^{1/}	70.0	87.8	81.0	77.5	67.2	55.0	46.1	37.3	29.5	24.3	21.7	19.9	18.0	16.1	14.3	12.4	10.5	8.7	6.8	4.9	3.3	3.2	3.2
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	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	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	0.0
Charges and interest ^{1/2/}	81.3	111.8	105.7	103.5	93.3	77.7	63.2	52.6	43.0	36.0	31.7	28.6	25.8	23.0	20.2	17.4	14.6	11.8	9.0	6.2	3.7	3.2	3.2
Total obligations based on existing and prospective credit																							
Millions of SDRs																							
Percent of exports of goods and services	0.9	0.8	0.5	0.6	0.7	0.7	0.6	0.6	0.4	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Percent of gross international reserves	2.5	2.2	1.3	1.7	2.1	2.2	1.9	1.7	1.2	0.8	0.5	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 government revenue	2.4	2.1	1.2	1.5	1.9	1.9	1.7	1.5	1.1	0.7	0.5	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.0	0.0
Percent of public external debt service	12.2	9.1	6.5	7.9	9.6	9.0	8.0	7.2	5.2	3.4	2.2	1.8	1.6	1.5	1.3	1.2	1.1	1.0	0.9	0.8	0.4	0.0	0.0
Percent of GDP	0.4	0.3	0.2	0.2	0.3	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Percent of quota	72.0	67.8	42.6	55.9	71.8	76.9	73.0	70.1	53.5	37.7	25.4	22.7	22.0	21.2	20.5	19.7	19.0	18.2	17.4	16.7	8.5	0.9	0.9
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	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	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	0.0
Outstanding IMF credit based on existing and prospective drawings																							
Millions of SDRs																							
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	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	0.0
Percent of exports of goods and services	6.8	5.9	5.4	4.8	4.0	3.3	2.5	1.9	1.5	1.2	1.0	0.8	0.7	0.6	0.4	0.3	0.2	0.2	0.1	0.0	0.0	0.0	0.0
Percent of gross international reserves	18.0	16.0	14.8	13.5	11.6	9.6	7.5	5.7	4.4	3.5	2.9	2.5	2.0	1.6	1.3	1.0	0.7	0.5	0.3	0.1	0.0	0.0	0.0
Percent of government revenue	17.4	15.1	13.8	12.3	10.4	8.4	6.6	5.0	3.8	3.1	2.6	2.2	1.8	1.4	1.1	0.9	0.6	0.4	0.2	0.1	0.0	0.0	0.0
Percent of total public external debt	12.6	10.8	9.7	8.6	7.5	6.4	5.0	3.8	2.9	2.3	1.9	1.6	1.3	1.1	0.9	0.7	0.5	0.3	0.2	0.1	0.0	0.0	0.0
Percent of GDP	2.6	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	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	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	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	0.0
Net use of IMF credit (millions of SDRs)																							
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	0.0
Repayments and repurchases	184.7	138.5	51.6	103.1	171.9	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	55.4	27.7	0.0	0.0
Memorandum items:																							
Exports of goods and services (millions of U.S. dollars)	37,467	40,480	43,273	46,086	48,984	52,027	55,461	59,122	63,024	67,183	71,617	76,344	81,383	86,754	92,479	98,583	105,089	112,025	119,419	127,301	135,702	144,659	154,206
Gross international reserves (millions of U.S. dollars)	14,229	14,915	15,646	16,218	16,906	17,593	18,755	19,992	21,312	22,718	24,218	25,816	27,520	29,336	31,273	33,337	35,537	37,882	40,382	43,048	45,889	48,917	52,146
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	370.4

Source: IMF staff estimates and projections.

1/ Based on the GRA rate of charge of 5.107 percent as of May 2, 2024.

2/ Costa Rica belongs to the RST Interest Group C. Based on the RST rate of interest of 5.057 percent as of May 2, 2024.

Table 8. Costa Rica: Access and Phasing Under the Extended Fund Facility

Availability Date	Millions of SDR	Percent of Quota	Conditions
March 1, 2021	206.34	55.86	Board approval of the Extended Arrangement under the Extended Fund Facility
October 15, 2021	103.115	27.91	First review and continuous and end-July 2021 performance criteria
March 15, 2022	103.115	27.91	Second review and continuous and end-December 2021 performance criteria
October 15, 2022	206.23	55.83	Third review and continuous and end-June 2022 performance criteria
March 15, 2023	206.23	55.83	Fourth review and continuous and end-December 2022 performance criteria
October 15, 2023	206.23	55.83	Fifth review and continuous and end-June 2023 performance criteria
March 15, 2024	206.23	55.83	Sixth review and continuous and end-December 2023 performance criteria
Total	1237.49	335	
<i>Memorandum item:</i>			
Quota	369.40		

Source: IMF staff calculations.

Table 9. Costa Rica: Access Under the Resilience and Sustainability Facility Arrangement

Availability Date	Millions of SDR	Percent of Quota	Conditions
March 15, 2023	46.175	12.50	Reform measure 1 implementation review
March 15, 2023	46.175	12.50	Reform measure 2 implementation review
March 15, 2023	46.175	12.50	Reform measure 3 implementation review
March 15, 2023	46.175	12.50	Reform measure 4 implementation review
October 15, 2023	46.175	12.50	Reform measure 5 implementation review
October 15, 2023	46.175	12.50	Reform measure 6 implementation review
October 15, 2023	46.175	12.50	Reform measure 7 implementation review
October 15, 2023	46.175	12.50	Reform measure 8 implementation review
March 15, 2024	46.175	12.50	Reform measure 9 implementation review
March 15, 2024	46.175	12.50	Reform measure 10 implementation review
March 15, 2024	46.175	12.50	Reform measure 11 implementation review
March 15, 2024	46.175	12.50	Reform measure 12 implementation review
Total	554.10	150.00	
<i>Memorandum item:</i>			
Quota	369.40		

Source: IMF staff calculations.

Annex I. Capacity Development Integration: Updated Country Strategy Note¹

Building on the progress to date, Costa Rica's capacity development (CD) efforts are aligned with the reform objectives under the Fund-supported EFF and RSF arrangements. CD priorities include improving fiscal institutions, strengthening the central bank's autonomy and governance as well as supervisory and crisis management, and advancing structural reforms to incentivize private investment and foster green and inclusive growth. The authorities' engagement and ownership on these issues remain strong. Given their heavy use of CD from the Fund and other partners, close integration between CD activities and program priorities as well as coordination with other technical assistance providers has been critical.

Context

1. Despite the authorities' timely response, the COVID-19 pandemic took a heavy toll on Costa Rica, exacerbating pre-existing fiscal and social challenges. Following the disbursement under the Rapid Financing Instrument in 2020, the Executive Board on March 1, 2021, approved the country's request for a three-year arrangement under the Extended Fund Facility (EFF) to further support the authorities' response and gradual economic recovery, while anchoring their policy and reform efforts. The program's reform priorities have benefited from the authorities' broad-based political and social dialogue with key stakeholders and are anchored by three key pillars: (i) implementing equitable fiscal reforms to ensure debt sustainability, while protecting the poor and most vulnerable; (ii) maintaining monetary and financial stability, while continuing to strengthen the central bank's autonomy and governance and addressing structural financial vulnerabilities; and (iii) advancing structural reforms to support inclusion, while boosting labor productivity, under the government's strong commitment to fighting climate change. Under the administration that took office in May 2022, CD has continued to advance the implementation of reforms under the EFF and the RSF, which was approved by the Executive Board on November 14, 2022. The EFF and RSF expire on July 31, 2024. CD will continue to play a key role in the Fund's engagement with the authorities to institutionalize the impressive progress they have achieved.

Engagement Strategy

- **Fund's CD Engagement with Costa Rica.** Historically, the Costa Rican authorities have received extensive CD, with generally good traction and implementation record. Some of the CD implemented over the years has offered textbook cases of how CD can improve the quality of policy making, for example, with the punctual update of the base year of the national accounts

¹ This country strategy note and the attached table matrices illustrate the integration of capacity development and program objectives guided by key recommendations in the IMF Board Paper [2018 Review of the Fund's Capacity Development Strategy](#). The acronyms in the note refer to the following IMF and other CD providers: Central America-Panama-Dominican Republic Regional Technical Assistance Center (CAPTAC-DR); Fiscal Affairs Department (FAD), Finance Department (FIN), Institute for Capacity Development (ICD); Legal Department (LEG), Monetary and Capital Markets Department (MCM); Statistics Department (STA); Inter-American Development Bank (IDB); Organization of Economic Cooperation and Development (OECD); World Bank (WB); and United Nations (UN).

(NA), which helps measure the informal sector, or the publication of tax expenditure reports as part of the budget process. Table AII.1 and AII.2 summarize the key CD priority areas and engagement since January 2019, consistent with the EFF and RSF agenda. Looking ahead, Costa Rica is expected to remain a heavy user of CD as it institutionalizes its impressive progress made under the arrangements under the EFF and RSF facilities.

- Integration of CD in the Fund’s surveillance and lending.** CD delivery in Costa Rica has traditionally been closely integrated with the surveillance priorities identified in previous Article IV Consultations and has been following recommendations of the 2018 Financial Sector Stability Review and recent Basel Core Principles assessment conducted as part of the 2022 WB FSAP Development Module. This coordination effort was stepped up under the EFF-supported program and the RSF arrangement with the country team and CD providers working closely together, including through mission participation, to ensure CD is consistently integrated in the authorities’ reform priorities and effectively supports program design and implementation. For example, a Public Investment Management Assessment (PIMA) and Climate PIMA provided the basis for an EFF structural benchmark and RSF reform measures, timely intervention to support the implementation of the public wage bill put a cornerstone reform back on track. CD has also been critical in the design of a feebate scheme and for improving the quality of deposit insurance and for putting in place a new bank resolution framework for which law proposals were presented to the Legislative Assembly. Appropriate sequencing of CD across reform streams is coordinated by the country team, in consultation with the authorities and CD providers, including CAPTAC-DR, as appropriate. The Fund’s resident representative office plays a key role in these efforts.
- Collaboration with other partners** remains strong, especially in the areas of debt management, social spending targeting and delivery, and climate change, where efforts are being closely coordinated with those of the IDB and the WB. To support the authorities’ goal of improving public spending efficiency and transparency as well as fostering an inclusive and green recovery, staff continues to engage with multilateral and bilateral donors—including the WB on climate change adaptation, business climate, and FSAP follow-up; the IDB on public employment reform, climate change mitigation, and FinTech; the OECD on improving reporting standards of state-owned enterprises; and the UN on gender and education. Staff is engaging with other CD partners on a regular basis through joint meetings and/or missions and regularly debriefs donors to ensure consistency of policy advice and synergies in supporting the program’s objectives.

CD Priorities

2. 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 implementing fiscal reforms to boost private investment and support inclusive and green growth while ensuring debt sustainability and further strengthening the autonomy and governance of the Central Bank of Costa Rica (BCCR) when the political environment is conducive as well as the

supervisory and crisis management framework to maintain monetary and financial stability. Fund CD is supporting these main reform areas as follows:

3. Implement fiscal reforms to support inclusive and green growth while ensuring debt sustainability. To tackle the large fiscal imbalances built up over the past decades, the authorities approved a comprehensive fiscal reform in 2018, which included a mix of tax reforms and spending measures as well as the introduction of a new fiscal rule with spending ceilings to ensure debt sustainability. The authorities are strengthening price incentives to support their National Decarbonization Plan through revenue instruments, based on the options for environmental tax reforms identified by past CD by FAD, and upgrading their analysis of transition risks. The Fund-supported program has improved fiscal institutions, including through more efficient revenue administration and public financial management, strengthened the social safety net, and improved data reporting and analytical and forecasting capacity. The authorities will continue these efforts.

- *Public Employment Reform.* The corrective actions, including the prior action, and adherence to the revised timeline drew heavily on TA provided in February 2023.
- *Revenue administration and tax Policy: FAD/CAPTAC-DR.* To promote further tax reform gains, this workstream supports the authorities' revenue mobilization efforts through Tax Compliance Improvement Plans (SB), a Customs Law, and the implementation of the Hacienda Digital information technology project. FAD helped propose legislative reforms such as redesigning personal income tax to increase horizontal and vertical equity (consistent with Article IV recommendations) and feebates to support emissions reduction (RSF reform measure).
- *Public financial management: FAD/CAPTAC-DR.* CD in this workstream supports the development of a comprehensive Medium-Term Fiscal Framework covering the entire NFPS (SB) as well as improvement of the Treasury's cash management. To foster inclusive growth, CD efforts also focus entrenching gender budgeting as well as the centralization and digitalization of the payment system for all cash transfer social assistance programs (SB) that can support parallel work by the WB to strengthen targeting accuracy of the social safety net. The 2022 PIMA identified actions pursuant of public investment efficiency and resilience to climate change in support of the authorities' ambitious climate change infrastructure agenda (SB) and related RSF-supported reform measures. The Public Expenditure Framework Assessment led by the WB provided complementary advice. FAD fiscal rule TA also assisted the authorities' efforts to improve how the rule operates while preserving its critical role in reducing debt. FAD TA facilitated the incorporation of climate-related transition risks in fiscal planning, complementing work by the IDB on risks to fuel revenues from decarbonization of the transport sector.
- *Debt management: MCM, in coordination with the WB.* CD efforts aim at deepening the domestic debt market and enhancing debt management in line with international best practices, including by updating the Medium-Term Debt Strategy (SB) and unifying existing debt functions within the same agency (SB).
- *Government finance statistics (GFS): STA/CAPTAC-DR/ICD.* Building on progress under the program, CD by STA/CAPTAC-DR in the GFS will continue to support efforts to improve the

quality and timeliness of fiscal reporting, expand coverage beyond the central government, and transition from GFSM 1986 to GFSM 2014.

- *Macroeconomic frameworks: CD by ICD* is enhancing the analytical and forecasting capacity of the MoF with the development of a comprehensive macro-fiscal framework and delivery of customized training to support policy decisions and align the MTFP with best practice.

4. Further strengthen the autonomy and governance of the BCCR and the supervisory and crisis management framework. The authorities have been advancing the implementation of the recommendations in the 2018 FSSR and 2022 WB FSAP Development Module, including by approving new laws on consolidated supervision and banking resolution, strengthening the macroprudential framework and monitoring of systemic risk, and implementing the national financial education strategy. Progress continues in several critical areas to maintain monetary and financial stability and address remaining structural financial vulnerabilities.

- *Central bank operations: LEG/MCM/CAPTAC-DR.* This workstream by LEG has supported the authorities' efforts to further strengthen the BCCR's operational autonomy and governance, as recommended by the 2020 Safeguards Assessment (SA), with draft amendments to the BCCR Law prepared in August 2021 (SB) and further revised in December 2022 for partial submission to the Legislative Assembly (SB), with additional legal amendments to be submitted when the political context allows. CD by MCM/CAPTAC-DR is also supporting the deepening the FX market to facilitate effective risk management and increased intermediation in local currency, consistent with recent Article IV recommendations.
- *Financial Crisis Management: LEG/MCM.* CD by LEG/MCM supports the authorities' efforts to improve alignment of the legal framework on bank resolution and deposit insurance with best international practices based on the already conducted gap analysis that will guide further reforms, including with regard to adequate institutional arrangements for the deposit insurance fund and the resolution authority, safeguards for resolution, proper public backstop schemes, and clear resolution triggers (SB).
- *Financial Supervision and Regulation: CAPTAC-DR/MCM.* Ongoing CD by CAPTAC-DR/MCM is also helping strengthen supervision and regulation, including by enhancing consolidated supervision and gradual adoption of Basel III. CD by CAPTAC-DR/MCM is engaging in dialogue with Costa Rican authorities on climate change issues and supporting the authorities' efforts to enhance FinTech regulation and cybersecurity, and to develop derivatives markets.
- *Macroeconomic Frameworks: ICD.* CD by ICD is enhancing the analytical, forecasting, and policy analysis capacity of the BCCR through further development of macroeconomic frameworks and delivery of tailored training. ICD provided TA and training on semi-structural gap and DSGE models and helped align the BCCR forecasting and policy analysis system with best international practices.

Table AI.1. Costa Rica: Capacity Development Integration Matrix Under the EFF and RSF Arrangements				
Specific Area	Objectives	IMF, WB, and IDB TA/Training engagement	Achieved Outcomes	Future CD and Program Outcomes
Implementing Fiscal Reforms to Support Inclusive and Green Growth While Ensuring Debt Sustainability				
<i>Ensuring debt sustainability by improving tax collection, fiscal institutions, and analytical capacity, while strengthening social protection</i>				
Tax Policy	Improve tax policy under principles of efficiency, fairness, and sufficiency.	<ul style="list-style-type: none"> FAD: options for income tax reform; environmental feebate scheme; tax expenditures analysis and measurement. WB: Cross-border taxation. 	<ul style="list-style-type: none"> Published tax expenditure reports as part of the budget process. Evaluated tax exemptions and incentives. Introduced bill to eliminate VAT exemptions. Introduced income tax bills to strengthen equity and efficiency. Introduced feebate bill to mitigate climate change. 	<ul style="list-style-type: none"> Ensure tax incentives granted in free trade zones are consistent with OECD/G20 Pillar 2 minimum global tax.
Revenue Administration	Mobilize revenue by strengthening core tax administration functions and improving tax compliance.	<ul style="list-style-type: none"> FAD: Tax Administration and Diagnostic Assessment Tool (TADAT), Revenue Administration Gap Assessment, risk and tax liability management and Compliance Improvement Plans (CIPS). CAPTAC-DR: risk management, international tax risks and Tax Audit procedures to mitigate tax fraud and fake invoices. WB: upgraded tax and customs procedures and information systems. 	<ul style="list-style-type: none"> TADAT assessment completed. New Custom Portal aligned with WTO TF Agreement. Approved a bill containing a new Customs Law. Developed and implemented Tax CIPs. Updated the methodological framework to estimate VAT and CIT compliance gaps. 	<ul style="list-style-type: none"> Implement Hacienda Digital project. Heightened cyber security.

Table AI.1. Costa Rica: Capacity Development Integration Matrix Under the EFF and RSF Arrangements (continued)				
Public Financial Management	Strengthen treasury and fiscal risk management, strengthen the medium-term fiscal framework (MTFF), review fiscal rule, introduce gender budgeting (GB), review pensions system, strengthen the social safety net, improve public spending efficiency, and promote climate change resilience and decarbonization.	<ul style="list-style-type: none"> • FAD: efficiency and improvement of the payment system for social programs, PIMA (including climate change criteria), development of a MTFF and GB, transition risks. • CAPTAC-DR: improve Treasury and fiscal risk management and coverage and quality of fiscal and financial reporting. • WB: improve targeting of the social safety net and centralize and digitalize payments systems. Disaster Risk Management and payment for ecosystems schemes. Public Expenditure Framework Assessment • IDB public investment management including climate change criteria, transition risks, and climate-related budget tagging. 	<ul style="list-style-type: none"> • First MTFF report for the central government (CG) and NFPS published. • Methodology for fiscal risk reporting formulated. • General assessment of the Treasury Single Account (TSA) operation and coverage completed. • Centralize and digitalize payment system for cash transfer social assistance programs. • Fiscal rule bill amended. • Developed GB pilots. • Established a social assistance single window. • Implemented PIMA recommendations. • Transition risks analysis published and incorporated in MTFF. 	<ul style="list-style-type: none"> • Create and staff a macro-fiscal unit. • Additional fiscal rule modifications supplemented by MTFF. • Establish an independent fiscal council. • Expand coverage of the TSA. • Implement PIMA additional recommendations. • Business continuity policies in place. • Full GB adoption. • Align budget classifiers to GFSM 2014.
Financial Integrity	Further promote transparency and accountability of public procurement processes.	<ul style="list-style-type: none"> • LEG: strengthen legal framework to enable collection and publication of beneficial ownership information. • WB: SOE procurement. • IDB: Transparency on Covid-related purchases. 	<ul style="list-style-type: none"> • New public procurement law approved. • Transparency portal created. • Published implementing regulations to enable collection and publication of beneficial ownership information for awarded contracts. 	<ul style="list-style-type: none"> • Upskilling to further improve public procurement planning.

Table AI.1. Costa Rica: Capacity Development Integration Matrix Under the EFF and RSF Arrangements (continued)

Debt Management	Enhance public debt management by undertaking institutional reforms, updating the medium-term debt management strategy (MTDS), and developing the domestic debt market.	<ul style="list-style-type: none"> • MCM: Assist with institutional reforms of debt management function and deepening of domestic debt markets. Update MTDS. • IDB: market development. • WB: Annual Borrowing Plan (ABP), market development, and legal reforms to attract non-resident investors. • MCM / CAPTAC-DR: Sovereign asset and liability management. 	<ul style="list-style-type: none"> • Publication of guidelines for public institutions debt management. • Debt Committee established on public debt management. • Pilot market-making / primary dealer program. • Structure operational responsibilities of the Public Credit Directorate and the National Treasury. Centralization of functions within Public Debt Management Office. • Include contingent liabilities in MTFE. 	<ul style="list-style-type: none"> • Deepen domestic debt market and improve price formation and auction mechanism. • Update MTDS to also include government's contingent liabilities. • Asset and liability management roadmap.
Public Employment	Ensure equity of pay within and cross public sector institutions and reduce public-sector wage premium to enhance the equity and efficiency of public spending and promote private employment.	<ul style="list-style-type: none"> • IDB: Design of Public Employment Bill and Implementing Regulation. • FAD, IDB, and WB: Design of Single Wage Spine. 	<ul style="list-style-type: none"> • Public Employment Bill passed. • Implementing Regulation published and law took effect. • Single wage spine in place for Executive Branch to meet objectives. 	<ul style="list-style-type: none"> • Guidelines on how to revalue points on pay spine over time. • Technical amendments to law to strengthen implementation certainty. • PEB fully implemented.
Government Finance Statistics (GFS)	Strengthen compilation and dissemination of GFS and Public Sector Debt Statistics (PSDS).	<ul style="list-style-type: none"> • CAPTAC-DR: Compile and reconcile high frequency CG GFS and PSDS and expand coverage. • STA: Support towards 2014 GFSM adoption. 	<ul style="list-style-type: none"> • Higher frequency and improved coverage of GFS and PSDS compiled and disseminated. • 51 public institutions consolidated under CG. • Produced debt stocks at nominal value (including accrued interest) for budgetary central government. 	<ul style="list-style-type: none"> • Fully adopt 2014 GFSM accrual accounting standards for NFPS data.

Table AI.1. Costa Rica: Capacity Development Integration Matrix Under the EFF and RSF Arrangements (continued)

Macroeconomic Frameworks	Improve macro-fiscal projections and develop a comprehensive macro-fiscal framework at the MoF.	<ul style="list-style-type: none"> • ICD: Assist with the development of a macro-fiscal projection model. 	<ul style="list-style-type: none"> • Creation of a core MoF team in charge of developing and updating the macroeconomic projection tool. • Incorporation of fan chart in MTF. 	<ul style="list-style-type: none"> • Develop comprehensive macro-fiscal framework to support policy decisions and MTF aligned with best practices.
Maintaining Monetary and Financial Stability				
<i>Strengthening exchange rate flexibility, the central bank's autonomy and governance, and supervisory and crisis management framework, while addressing structural financial vulnerabilities</i>				
Central Bank Operations	Strengthen BCCR's operational autonomy and governance as well as its functions as a risk monitor, a lender of last resort (LOLR), and an inflation targeter.	<ul style="list-style-type: none"> • CAPTAC-DR: Design a LOLR facility. • MCM/CAPTAC-DR: Deepen FX market and develop derivatives markets. • LEG/FIN: Update SA, and clarify BCCR's legal mandate, and strengthen its decision-making structure, autonomy, and transparency and accountability mechanisms. 	<ul style="list-style-type: none"> • Regulation on emergency liquidity assistance facility approved by the BCCR Board in July 2018. • Legal reforms to further strengthen the BCCR's mandate, autonomy, decision-making structures, and transparency and accountability mechanisms were drafted. Parts of these legal reforms were submitted to the Legislative Assembly, others to be taken forward when the political context allows. 	<ul style="list-style-type: none"> • Deepen FX market, increase daily variation in net open FX position limits, introduce BCCR FX swaps, develop interbank markets to increase liquidity, and promote legal reform to allow greater NFPS' FX activity with FX intermediaries.

Table AI.1. Costa Rica: Capacity Development Integration Matrix Under the EFF and RSF Arrangements
(continued)

<p>Financial Supervision and Regulations</p>	<p>Strengthen the resilience of the financial sector through enhancing consolidated supervision of financial groups, mitigating risks associated with high financial dollarization, as well as advancing risk-based prudential supervisory framework.</p>	<ul style="list-style-type: none"> • MCM: FSSR follow-up. • WB: FSAP Development Module, identification of data for climate-related risks and green taxonomy. • CAPTAC-DR: Revamp credit risk management framework, improve liquidity risk monitoring; strengthen supervisor's stress testing capacities, and develop regulatory framework for consolidated supervision. • MCM/CAPTAC-DR: regional training and country dialogue on integrating climate change considerations into financial policies; enhancing FinTech and cybersecurity regulation. 	<ul style="list-style-type: none"> • Greater exchange rate flexibility, and prudential policies implemented to discourage dollarization. • Liquidity risk monitoring improved with the introduction of liquidity coverage ratio (LCR) and the expected introduction of a net stable funding ratio (NSFR). • Further discouraged financial dollarization: (i) revised the definition of "unhedged borrowers"; (ii) issued regulation imposing additional capital requirements on unhedged FX borrowing; and (iii) published data on unhedged FX borrowing. • The supervisory framework for consolidated supervision of financial conglomerates was strengthened and adapted to size, risk and profile. • Credit-risk regulation revamped. • Strengthened supervisory stress test models/tools of credit, market, liquidity and contagion risks. • Approval on regulation ensuring that the regulated financial sector entities adequately take into account socioenvironmental risks, including climate change risks (RSF RM). • Drafted regulations to address governance and risk management of cyber risks in the financial sector for approval. • Introduced regulations for consolidated supervision of financial groups. • Liquidity and contagion risks. 	<ul style="list-style-type: none"> • Implement recommendations from the Basel Core Principles detailed assessment report. • Develop regulations of climate risks to further enhance the risk management of the financial sector. • Enhance FinTech and cybersecurity regulation.
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Table AI.1. Costa Rica: Capacity Development Integration Matrix Under the EFF and RSF Arrangements (concluded)

Macroprudential Policy Framework and Systemic Risk Analysis	<p>Strengthen the resilience of the financial sector through enhancing macroprudential (MAP) frameworks and systemic risk monitoring.</p>	<ul style="list-style-type: none"> • MCM: FSSR follow-up. • Develop a NSFR. 	<ul style="list-style-type: none"> • Financial Stability Committee established to coordinate MAP policy. • A NSFR to take effect from 2024. • Crisis management protocols in place. • Creation of a data repository and methodology for incorporating climate effects on the banking sector in top-down stress testing (RSF RMs). 	<ul style="list-style-type: none"> • Strengthen macro-financial stress testing tools, including further developing the methodology to assess climate risks.
Financial Crisis Management	<ul style="list-style-type: none"> • Enhance financial safety net and crisis preparedness framework. 	<ul style="list-style-type: none"> • MCM/LEG: Strengthen banking resolution and deposit insurance legal framework. 	<ul style="list-style-type: none"> • Legal amendments to strengthen the financial safety net have been prepared. • Amendments to the bank resolution and deposit insurance law and related legislation, submitted for Legislative Assembly's approval. 	<ul style="list-style-type: none"> • Pass bank resolution and deposit insurance law. • Operationalize the enhanced crisis management framework.
Real Sector Statistics	<ul style="list-style-type: none"> • Strengthen compilation and dissemination of macroeconomic and financial statistics for decision making according to internationally accepted statistical standards. • Development of High-frequency Indicators. 	<ul style="list-style-type: none"> • CAPTAC-DR: compile a quarterly supply and use table (SUT) and improve monthly economic activity indicator (IMAE), annual accounts, and non-financial asset balance sheets. 	<ul style="list-style-type: none"> • GDP rebased to 2017. • Rebased GDP published by industry and expenditure approach, in line with the 2008 SNA. • Main 2008 SNA recommendations implemented. • Financial accounts integrated to 2021. 	<ul style="list-style-type: none"> • Develop financial accounts, balance sheets, revaluation and other volume changes in asset accounts, and quarterly SUT for all sectors to meet national data and ISWGNA minimum requirements. • Update CPI weights with year 2025 as the reference year.
Macroeconomic frameworks	<ul style="list-style-type: none"> • Develop further capacity at the BCCR in macroeconomic forecasting and policy analysis. 	<ul style="list-style-type: none"> • ICD: Assist and train staff on model-based forecasting and policy analysis, including semi-structural and structural models. • IDB: Impact analysis of climate policies. 	<ul style="list-style-type: none"> • Help develop further the BCCR model-based frameworks. 	<ul style="list-style-type: none"> • Align the BCCR forecasting and policy analysis system with best international practices.

Table AI.2. Costa Rica: IMF Capacity Development Missions 2019¹

TA/Training Mission	Provider	Mission Date (Completed/Planned)
Implementing Equity-Enhancing Fiscal Reforms to Ensure Debt Sustainability		
Revenue Administration and Tax Policy		
Strengthening taxpayers' registry	CAPTAC-DR	February 2019, September 2022
Strengthening risk management including international tax risks such as high net worth individuals, common reporting standards and country by country reporting.	CAPTAC-DR	May, November 2019, February 2020, June 2022, November 2022, April 2023, November 2023
Customs: improvement of risk analysis	CAPTAC-DR	March 2019, October 2023, March 2024
Improvement of clearance process	CAPTAC-DR	March 2019
Risk management for improving tax and customs compliance & improving registration process	CAPTAC-DR	June 2019
Process management	CAPTAC-DR	October 2019
Integral cargo control plan	CAPTAC-DR	June 2019
TADAT Assessment	FAD	June 2019
Improving management of declarations	CAPTAC-DR	August 2019, January 2020
Improving tax filing compliance	CAPTAC-DR	January 2020
Strengthening Strategic Planning	CAPTAC-DR	June 2020
Strengthening the identification, assessment, and quantification of compliance risks	CAPTAC-DR	July, October 2020, May 2021, July 2021
Improving tax services for tax compliance plan	CAPTAC-DR	September 2020
Improving import and export process	CAPTAC-DR	October 2020, February 2021
Workshop: Tax compliance risk management	CAPTAC-DR	December 2020
Enhancing cargo control program	CAPTAC-DR	March 2021
Strengthening auditing of large taxpayers	CAPTAC-DR	April 2021
New Customs Law	CAPTAC-DR	April 2021, May 2021
Definition of new functionalities and technology transfer for the new Customs Web Portal	CAPTAC-DR	May 2021
Development of Tax CIP	FAD	April 2021
Improvement in tax compliance risk management	CAPTAC-DR	May 2021
Strengthening of tax audit	CAPTAC-DR	October 2021, March 2023, July-August 2023
Revenue administration gap assessment (RA-GAP)	FAD	May 2023
Implementation of Tax compliance improvement plan	CAPTAC-DR/FAD	September 2020, May 2021, June 2021, August 2021, October 2021, June-July 2022, September 2022, December 2022, November 2023
Post clearance controls and audit Mission	CAPTAC-DR	October 2021, February-March 2022, July-August 2022, January 2023, February 2023, March-April 2023, September-November 2023, April 2024
Customs Modernization Strategy	CAPTAC_DR	April 2022
Design of a global personal income tax, feebates to support emissions reduction, and incentives to promote female labor force participation.	FAD	September 2022
Support the implementation of the income tax reform	FAD	July 2023, September 2023
¹ As at end-April 2024.		

Table AI.2. Costa Rica: IMF Capacity Development Missions since 2019 (continued)

Public Financial Management		
Fiscal risk-specific risks	CAPTAC-DR	April, November 2019, November 2020, June 2021, November 2022
Treasury management and fiscal risks	CAPTAC-DR	April 2019, January, March, April 2021
Treasury management – coordination between Treasury and Crédito Público	FAD	June 2019
Hackathons on the payment system of social programs	FAD	June, July, November 2019, February 2021
Accounting – IPSAS & consolidation	CAPTAC-DR/FAD	July, November 2020, August 2021, October 2021, May 2022
Treasury Single Account	FAD	August-September 2021
Medium-term fiscal framework (MTFF)	FAD	July 2020, March 2021
Centralization and digitalization of cash transfer social assistance programs	FAD	August 2021
Public investment management assessment (PIMA)	FAD	November-December 2021
Gender budgeting	FAD	January-February 2022, September-November 2022, December 2022, April 2023, August-October 2023, February-March 2024
Improved budget execution and control through internal audit	CAPTAC-DR	April 2022
Evaluation of public expenditure and accountability	CAPTAC-DR	May 2022
Comprehensive, credible and policy-based budget preparation – MTFF & MTFF for NFPS	CAPTAC-DR	December 2021, May 2022
Fiscal rules	FAD	October-November 2022
Climate-related transition risks including for MTFF	FAD	June-August 2023
Financial Integrity		
COVID-19 financial integrity measures	LEG	March-December 2021
Debt Management		
Updating medium-term debt management strategy (MTDS), and institutional reform and deepening debt markets	MCM	November 2021, March-April 2022
Management for the improvement of assets and liabilities	CAPTAC-DR	May, August, November-December 2021, March, May 2022, November 2023
Sovereign Assets and Liability Management	MCM	November 2022
Macro-Fiscal Capacity Building		
Macro-fiscal projection model	ICD	September 2021, October 2022, January 2023, February 2023, July 2023, December 2023, January-February 2024, April 2024

Table AI.2. Costa Rica: IMF Capacity Development Missions since 2019 (continued)

Government Finance Statistics		
Assessment of CG high frequency data	CAPTAC-DR	June 2019
Compilation of high frequency CG GFS and PSDS, including data from Ods	CAPTAC-DR	September 2020
Reconciliation of high frequency CG GFS and PSDS, including data from Ods	CAPTAC-DR	October 2020
Adoption of GFSM 2014 for CG GFS and PSDS	CAPTAC-DR	June 2021
Improving compilation and coverage of GFS and PSDS – Including customized training for PSDS	CAPTAC-DR	July 2021, September 2021, March 2022, March 2023, May 2023
GFS and PSDS – Compilation and consolidation of CCG, including Extrabudgetary Units; incorporation of accrued interest; debt stocks, and GFS implementation plan	CAPTAC-DR	October 2022, February 2023
GFS and PSDS – Consolidated GG and Non-Financial Public Sector (Compilation and consolidation)	CAPTAC-DR	May 2023, March 2023, September 2023, October 2023, February 2024
GFS and PSDS – incorporation in <i>Hacienda Digital</i>	CAPTAC-DR	February 2023
Public Expenditure Reform		
Public Employment Bill implementation	FAD	February 2023
Universal Basic Pension proposal (	FAD	May 2023
Maintaining Monetary and Financial Stability		
Central Bank Operations		
Safeguards assessment update	FIN/LEG	July 2020
Developing FX market framework	MCM	February 2021
Assisting the BCCR to prepare amendments to the Central Bank Law	LEG	March, July 2021, October-November 2022, March-April 2023
Monetary operations scoping mission	CAPTAC-DR	August 2021
Central Bank FX Swap Introduction	CAPTAC-DR	November 2021
Development of domestic liquidity markets	CAPTAC-DR	April 2022
BCCR Foreign Exchange Operations to Aid Reserves Accumulation	MCM	July-August 2022
Macroeconomic forecasting and policy		
Model-based economic frameworks (BCCR)	ICD	December 2022, January 2023, May 2023, September-November 2023
Financial Supervision and Regulation		
Regional TA: CCSBSO Accounting standardization	CAPTAC-DR	October 2019, August 2020
Credit risk regulation: strengthening management and provisioning regulations, including COVID-19 effects	CAPTAC-DR	January, April, May 2019, July-August 2020
FSSR follow-up: insurance and pensions (WAH)	MCM	February 2019
Regional TA: Cross-border consolidated supervision procedures	CAPTAC-DR	March 2019
Basel Standards – Pillar II – ICAAP implementation	CAPTAC-DR	March 2024
Consolidated Supervision of Financial Conglomerates	CAPTAC-DR	October 2023, January 2024

Table AI.2. Costa Rica: IMF Capacity Development Missions since 2019 (concluded)		
Supervisory liquidity stress test	CAPTAC-DR	December 2019, June 2020, September-December 2020
FSSR follow-up: insurance supervision	MCM	October 2020
Financial groups regulatory framework	CAPTAC-DR	February-March 2021
Derivatives Regulation Training	CAPTAC-DR	August 2022
Cybersecurity Regulation Training, review regulation	MCM/ CAPTAC-DR	July 2022, March-April 2023
Financial Crisis Management		
Roadmap for strengthening legal framework for banking resolution and restructuring	MCM	April 2021
Strengthen legal framework for deposit insurance and bank resolution	LEG	February 2022, May-June 2022, January-February 2023, May 2023
Real Sector Statistics		
Preparation of quarterly SUT and sectoral accounts for rebasing national accounts to 2017	CAPTAC-DR	July 2019, August 2020
National accounts: define statistical samples for the monthly survey of non-financial services	CAPTAC-DR	October 2019
Annual sectoral accounts: compile non-financial balance sheets for the total economy and the non-financial corporations	CAPTAC-DR	December 2019
Implementation of 2008 SNA	CAPTAC-DR	March 2020
National accounts statistics: Source data for the volume of services index	CAPTAC-DR	January 2021
National Accounts Statistics: balance sheet	CAPTAC-DR	February, October 2021, November 2022
Webinar on Business Information and Macroeconomic Management	CAPTAC-DR	February 2021
Quarterly accounts and seasonal adjustment	CAPTAC-DR	July 2021
Price statistics	CAPTAC-DR	February 2022, November 2023
National Production, Income, and Expenditure Accounts	CAPTAC-DR	December 2023, January 2024
National accounts statistics: Source data for the use of the digital fiscal invoice	CAPTAC-DR	December 2021, February 2023
Institutional Sectoral Accounts and flow of funds	CAPTAC-DR	November-December 2022, December 2023
High Frequency Economic Activity Indicators	CAPTAC-DR	December 2022, February 2023

Appendix I. Letter of Intent

San José, May 20, 2024

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Georgieva:

Our economic program, supported by the Extended Arrangement under the Extended Fund Facility (EFF), has played a critical role in solidifying macroeconomic stability and implementing fundamental reforms that will promote a stronger and more inclusive growth over the medium term. The arrangement under the Resilience and Sustainability Facility (RSF) has supported our ambitious climate change agenda, and its broad set of reforms will serve to strengthen Costa Rica's resilience to climate events for many years to come. We expect these efforts to catalyze additional climate financing from other sources.

This last program review concludes the Fund-supported program on a high note. We met the end-December fiscal and international reserves targets for the sixth review by large margins. All September, December and March indicative targets (IT) were met except for the December debt IT, which was breached by 0.4 percent of GDP, as we built up liquidity buffers ahead of coming repayment obligations. As a result of lower commodity prices and the lagged effects of currency appreciation, and despite the continuous lowering of the policy rate by 425 bps so far, the lower outer target band for inflation under the program's Monetary Policy Consultation Clause (MPCC) was breached in December and March, triggering a Board Consultation as part of this review cycle. We continue to comply with the continuous performance criteria. We submitted amendments to the bank resolution and deposit insurance law to the Legislative Assembly. We continue to progress in the full implementation of the landmark Public Employment Bill, including a final single wage spine, in the whole public sector. We have put in place a single window for social programs, which is a critical step in further strengthening the social safety net. We remain committed to completing the outstanding measures to align the Central Bank of Costa Rica (BCCR)'s governance and operational frameworks with the objectives of the end-December 2022 structural benchmark. However, the current political environment prevents us from doing so. As soon as the situation improves, we will resume our efforts to ensure that the proposal to the Legislative Assembly to provide constitutional autonomy to the central bank can be submitted.

We implemented four RSF reform measures (RMs) linked to this review: we published guidelines on project selection criteria including a range of climate change criteria, published guidelines for including climate change analysis in Regulatory Plans, appraised and published a review of existing

tax incentives with a negative effect on the environment to support decarbonization efforts, and developed a methodology to incorporate climate effects on the banking sector in the BCCR's top-down stress testing.

In view of the strong macroeconomic policies implemented to achieve the main program objectives, as well as the completion of key structural reforms under the program, we request the completion of the sixth review of the Extended Arrangement under the EFF and the purchase of SDR 206.23 million. In view of our completion of four RMs under the third RSF review, we request the disbursement of SDR 184.70 million.

Our fiscal consolidation efforts delivered another strong overperformance in 2023 with a primary surplus of 1.6 percent of GDP, and we are on track to achieve a primary surplus of 1.85 percent of GDP in 2024. These represent a cumulative overperformance relative to our original program objectives and important steps towards achieving a debt-to-GDP ratio of 60 percent of GDP by end-2025 and of 50 percent of GDP by end-2035. Additional progressive income and expenditure measures will yield further declines in debt to secure macroeconomic stability and foster inclusive and sustainable growth, in line with international best practices. Monetary policy will, using its data-dependent and forward-looking approach, bring inflation back to within the BCCR's tolerance band and continue to anchor expectations, in line with the BCCR's inflation targeting and flexible exchange rate regime. As reiterated in our new National Development and Investment Plan for 2023-2026, which we published in December 2022, we remain committed to advancing our ambitious reform agenda to support a dynamic and inclusive economy, tackling the structural challenges posed by still high informality and inequality, and fostering greater economic empowerment of women. We are also resolved to advance our pioneering efforts to adapt to climate change, given our country's important exposure to natural disasters, and transition to a low carbon and resilient economy, financed by attracting climate financing, and generating growth and new job opportunities.

This Letter of Intent (LOI) and the attached Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU) update the versions dated December 5, 2023, and set out the economic policies and reform measures that we have implemented and will continue to implement to achieve the objectives of our Fund-supported program under the EFF and of the RSF arrangement.

In keeping with our transparency policy, we authorize the publication of this letter and its attachments as well as the associated staff report.

We are grateful to the IMF for the ongoing support to Costa Rica and we look forward to continuing our close cooperation beyond the program engagement.

Sincerely yours,

/S/

Róger Madrigal López
President, Central Bank of Costa Rica
Governor of the IMF

/S/

Nogui Acosta Jaén
Minister of Finance

Attachments (3)

Memorandum of Economic and Financial Policies

Technical Memorandum of Understanding

Consultation with the IMF Executive Board on the Missed Inflation Target Under the Monetary Policy

Consultation Clause (MPCC)

Attachment I. Memorandum of Economic and Financial Policies

1. The government of Costa Rica has successfully implemented the economic reform program supported by the extended arrangement under the EFF and the reform measures under the RSF arrangement. The extended arrangement was approved by the IMF Executive Board on March 1, 2021, and ratified by the country's Legislative Assembly on July 19, 2021. The RSF arrangement was approved by the IMF Executive Board on November 14, 2022, and ratified by the Legislative Assembly on October 17, 2023. This memorandum outlines in detail the progress toward meeting the objectives under the EFF arrangement and our policy commitments under the RSF arrangement, as well as our policy plans to further advance these objectives beyond the program period. Tables 1, 2, and 3 summarize performance to date, progress on structural benchmarks under the EFF, as well as progress on reform measures supported by the RSF arrangement.

2. Our economic reform program has aimed at securing macroeconomic stability, while fostering an inclusive, green, and sustainable recovery from the pandemic. Our policy and reform efforts remain anchored around three main pillars: (i) gradually implementing equitable fiscal reforms to protect the most vulnerable, while ensuring debt sustainability; (ii) maintaining monetary and financial stability, strengthening the central bank's autonomy and governance, and addressing financial vulnerabilities; and (iii) advancing structural reforms to facilitate inclusion, boost labor productivity, and address the implications of climate change. These broad-based efforts will continue to help support more inclusive, green, and sustainable growth in Costa Rica over the medium term.

I. MACROECONOMIC DEVELOPMENTS AND OUTLOOK

3. Costa Rica's growth remains resilient. GDP growth in 2023 accelerated to 5.1 percent (y-o-y). While strong exports, in particular from the free trade zones, were initially the main driver, growth has gradually become more broadbased. Real GDP growth is forecast to slow down to 3.8 percent in 2024, continuing to grow in line with potential of 3½-4 percent in 2025 and over the medium term. The rapid decline in inflation troughed at -3.3 percent (y-o-y) in August 2023, well below the Central Bank of Costa Rica (BCCR)'s 2-4 percent tolerance band. Since then, the disinflation has gradually moderated to -0.5 percent y-o-y in April, supported by stabilizing commodity prices but with base effects continuing to weigh on headline inflation. The balance of payment has continued to strengthen, supported by the strong export performance (including tourism), favorable terms of trade, and FDI inflows, which allowed the BCCR to rebuild international reserve buffers. The current account deficit narrowed from 3.2 percent of GDP in 2022 to 1.0 percent of GDP in 2023. The sovereign spread has continued to narrow, supported by sovereign credit rating upgrades in 2023 and this year. The outlook remains subject to downside risks, including weaker-than-expected global demand, geopolitical tensions, commodity price volatility, tightening of global financial conditions, and climate events such as El Niño.

II. PROGRAM PERFORMANCE

4. Since taking office, we have made important progress on our reform agenda. The end-December 2023 Quantitative Performance Criteria (QPC) and end-March 2024 Indicative Targets (IT) on the central government (CG) primary balance and on net international reserves were met with comfortable margins. Although the end-December IT for the debt stock was breached by 0.4 percent of GDP, as we built up liquidity buffers ahead of upcoming repayment obligations, we met the end-March IT. The Monetary Policy Consultation Clause (MPCC) lower outer band was breached by 1.6 percentage points in December 2023 and by 1.4 percentage points in March 2024. We continue to observe the continuous PCs on non-accumulation of new external arrears, non-imposition/intensification of restrictions on the making of payments and transfers for current international transactions, non-imposition/modification of multiple currency practices (MCPs), non-introduction/intensification of import restrictions for BOP reasons, and no conclusion of bilateral payments agreements that are inconsistent with Article VIII obligations. We submitted amendments to the bank resolution and deposit insurance law to the Legislative Assembly, only with a slight delay to ensure full ownership of all authorities involved. We continue to progress in the full implementation of the landmark Public Employment Bill, including a final single wage spine applied to the whole public sector. We have put in place a single window for social programs, which is a critical step in further strengthening the social safety net. We remain committed to completing the outstanding measures to align the BCCR's governance and operational frameworks with the objectives of the end-December 2022 structural benchmark. However, the current political environment prevents us from doing so. As soon as the situation improves, we will resume our efforts to ensure that the proposal to the Legislative Assembly to provide constitutional autonomy to the central bank is submitted. The constitutional autonomy will then allow us to implement measures envisaged in the original structural benchmark.

III. FISCAL POLICY

Fiscal Stance

5. The main priorities of fiscal policy are to meet the critical social and health needs of the population, support the recovery, and secure debt sustainability. Costa Rica's fiscal balance deteriorated sharply over the previous decade, due to a permanent increase in current spending following the global financial crisis. Recognizing the pressing fiscal and financing challenges facing our country, a comprehensive fiscal reform bill was approved by the Legislative Assembly in December 2018 to rein in spending and strengthen revenue. The economic contraction caused by the pandemic made an additional fiscal adjustment necessary to keep debt manageable. This reform started to improve the fiscal balance in 2021 and put public debt on a declining trajectory, mostly by requiring a significant decline in spending as a share of GDP. Building on a strong revenue overperformance and spending restraint over the past three years, we are committed to pressing ahead with the required fiscal consolidation, while continuing to protect the vulnerable and supporting a sustainable economic recovery. Our efforts to date have contributed to an improved fiscal outlook. We exceeded our primary balance target of 1.3 percent of GDP at end-2023 by 0.3 percentage points of GDP and we will strive to achieve a surplus of 1.85 percent of GDP by end-

2024. We expect to reach a debt-to-GDP ratio below 60 percent by end-2025 and 50 percent by 2035. Additional progressive income and expenditure measures will foster more inclusive and sustainable growth and deliver a faster decline in debt.

6. The 2018 reform represented a major milestone towards debt sustainability through strict and comprehensive spending limits and a more efficient and fair taxation system.

- Fiscal rule.** The reform introduced a fiscal rule tying down nominal spending growth and included tight restraints on public sector remunerations. The reform also enabled the reallocation of earmarked revenues and legally mandated spending (except those mandated by the Constitution) if debt exceeds 50 percent of GDP. The rule has played a pivotal role in anchoring debt sustainability. However, the pandemic and Russia's invasion of Ukraine helped identify opportunities to improve the rule. Following a change to the implementing regulation of the fiscal rule in June 2022, the spending ceilings for execution are no longer based on the previous year's execution but exclusively on the previous year's original budget. The change addressed a structural shortcoming in the regulation that penalized under-execution by ministries and other agencies and reduced the flexibility to reallocate resources within the budget envelope to meet evolving or unanticipated needs. In 2023, we enacted further modifications to the fiscal rule by amending the rule's regulatory perimeter excluding public institutions operating under market conditions or without government control consistent with budgetary classifiers, in line with IMF TA recommendations. This amendment, however, also excluded other non-IMF advised institutions such as the national security sector, donations to the non-financial public sector, and royalties paid to ARESEP and SUTEL among other transitory arrangements, complicating the verification of compliance with the fiscal rule. More recently, the Legislative Assembly passed further modifications to the fiscal rule, despite the government's argumentation against these changes(¶15).
- Tax reform.** The 2018 reform also included important enhancements to Costa Rica's taxation system. A VAT replaced the General Sales Tax. Income taxation was strengthened through the: (i) globalization and a phased harmonization of capital income and gains tax at a 15 percent rate; (ii) phasing-in of new rules for corporate income taxation (CIT); and (iii) increase in the progressivity of the personal income taxation (PIT) with additional brackets of 20 and 25 percent for employment and pension income.

7. In 2022, we entrenched further improvement in the fiscal accounts, in line with the program targets. Despite the challenges posed by a cyberattack that targeted several government systems and the rising external pressures on the economy, we comfortably met all primary balance and debt targets under the program. In particular, the end-September primary balance was CRC 1,003 billion compared to a program target of CRC 215 billion. The end-December primary balance was CRC 927 billion compared to a program target of CRC 287 billion. We implemented the following measures:

- Revenue measures.** Despite being forced to shut down our main tax collection systems in late April 2022 due to a breach into our information systems, revenue performance remained strong

in 2022, especially for corporate profits, VAT, and import-related taxes, thanks to the prompt deployment of contingency plans to ensure the continuity of basic services to large taxpayers. Moreover, the implementation of the 2018 tax reform generated durable and incremental yields through the phased-in increases of VAT on construction-related services and tourism as well as on capital income. To mitigate the impact of the global commodity price shock, we delayed the scheduled inflation adjustment to the fuel tax for six months until December 2022. We used one-off revenues—from transferring surpluses accumulated by decentralized entities before incorporation into the central government—to accelerate debt reduction.

- Spending measures.** Because of the sharp contraction in GDP in 2020 and the debt ratio exceeding 60 percent of GDP, our fiscal rule envisages tighter spending constraints for 2022-2025 to accelerate debt reduction. Accordingly, total spending grew by 1.4 percent in 2022. Total and current spending grew well within the limits established by the fiscal rule after accounting for relevant exclusions. Primary spending fell in nominal terms and by 1.6 percent of GDP in 2022. The spending restraint is based on continued wage constraints imposed by the 2018 fiscal reform (freeze in base salaries, annuities, and new hiring; and elimination of all vacancies). Moreover, until September 2022, we implemented (i) annual nominal reductions of temporary wage components (such as overtime) by 8.5 percent; (ii) freezes in pensions of public sector retirees and current transfers to the public sector excluding transfers to the Social Security Fund (CCSS); (iii) cuts in non-pension private transfers, non-CCSS public transfers, and transfers with external resources; and (iv) annual nominal reduction in spending on goods and services. While the regulation related to these constraints was abrogated in September 2022 to provide more flexibility to the budget process, the Ministry of Finance's (MOF) circular issued in November 2021 as envisaged by law 8131 continues to ensure tight spending controls remain in place in line with the budget and fiscal rule. Moreover, we closely monitored spending execution and adjusted appropriations to line ministries monthly. Delays and reprioritization of capital projects as well as unused resources from a guarantee fund led to an under execution of capital spending. Moreover, despite the rigidities imposed by the fiscal rule on some agencies, we issued supplementary budgets, excluded *Fondo de Desarrollo Social y Asignaciones Familiares* (FODESAF) resources from the fiscal rule, identified operational efficiencies, and deployed higher-than-anticipated revenues from the Joint Institute for Social Welfare's (IMAS) commercial activities to reallocate additional resources to mitigate the effects of higher prices on the most vulnerable. Compared to the budget, we provided an additional 0.2 percent of GDP including additional cash transfers for poverty reduction (including temporary food support for new beneficiaries) and additional support for childcare. In 2022, when faced with considerable social and political pressure, a temporary scheme to limit the increase in gasoline prices was under consideration by the Legislative Assembly. However, the measure became less urgent amid reduced external pressures from energy prices and did not advance further through the legislative process. Nonetheless, if such pressures were to reemerge, we are committed to amending the measure before it is sent for debate to ensure its duration does not exceed 9 months, the fiscal cost is capped at CRC 3 billion (or less than 0.01 percent of GDP), and it is covered by the fiscal rule spending ceiling.

8. We sustained our fiscal consolidation efforts in 2023. A primary balance of CRC 730 billion up to end-December 2023 exceeded the QPC of CRC 609 billion, despite three laws passed by congress that reduced revenues. We also met our primary surplus target of CRC 230 billion (or about 0.5 percent of GDP) by end-March 2024. To deliver the needed structural adjustment, net of one-offs, and support a balanced and progressive fiscal consolidation going forward, we are committed to implementing the following revenue and expenditure measures, consistent with the 2024 budget approved by the Legislative Assembly in November 2023:

- Revenue measures.** The 2018 tax reform will provide additional income tax yields in 2024 due to the delayed enforcement of thin capitalization rules between related parties; these are forecast to generate a yield of 0.1 percent of GDP. In 2023, we implemented measures to improve the efficiency of the tax system by taxing imports of certain goods with VAT throughout each stage of value production until sold to the final consumer, yielding 0.06 percent of GDP. We fully phased out the reduced VAT rates to the tourism sector and construction services. We remain committed to improving revenue mobilization through a more equitable and efficient tax system (¶11). In September 2022, we adopted a legal framework to periodically appraise tax expenditures and remove those no longer serving their intended purpose, aiding our efforts to broaden the tax base and improve its fairness. We also strengthened the pecuniary framework for taxpayers' wrongful use of exemptions. After a first appraisal of the tax expenditures' efficiency, progressivity and environmental considerations published in May 2023, we expect to broaden the tax base and mobilize at least 0.07 percent of GDP in additional revenue by removing the lenient VAT treatment of airfares, medical equipment, and wood (after accounting for its negative environmental impact), and tax exemptions on car rentals through legislation submitted to the Legislative Assembly in May 2023 (bill 23.763). We will continue to remove tax expenditure provisions with a higher social cost than their benefit going forward. In September 2022, we conducted a detailed review of our personal income tax (PIT), with support from IMF TA. Based on the findings of the analysis, we submitted in May 2023 to the Legislative Assembly a tax bill (23.760) to reform the PIT to increase horizontal and vertical equity by taxing the income of employed, pensioners, and self-employed individuals under a single recalibrated schedule, thereby equalizing their tax burden. The reform intends to fully harmonize the PIT rate on capital income and gains, broaden the tax base by, among others, including dividends distributed by firms in free trade zones to Costa Rican residents, removing the progressive schedule within the CIT, while retaining and updating the existing simplified tax regime to provide targeted support to small and medium enterprises. Moreover, the bill seeks to broaden the tax base by including passive capital income earned abroad by Costa Rican residents and simplify the taxation of non-residents. To support and cooperate with international efforts to reduce profit shifting and base erosion and remove Costa Rica from the EU's list of non-cooperative jurisdictions for tax purposes, the Legislative Assembly passed law 10.381, which removed Costa Rica from the EU's Annex I list of noncooperative jurisdiction by amending the definition of permanent establishment to align it to international standards, taxing non-resident firms without economic substance and reinforcing the territoriality principle for resident firms. The President partially vetoed the bill because it narrows our tax base, generates revenue losses, distorts investment decisions and erodes the horizontal equity of the tax system but the

Legislative Assembly overrode the partial veto instead of accepting the revised bill or alternatives previously proposed by the Executive, which would have safeguarded revenues and equity. As Costa Rica remains on the EU State of Play document (Annex II), which reflects ongoing work needed in the field of taxation to ensure we are not deemed as a non-cooperative jurisdiction for tax purposes in future rounds, we submitted and the Legislative Assembly approved bill 23.088 in April 2024 to ensure that financial institutions comply with the due diligence process regarding financial information of non-residents required for the automatic exchange of information, and cooperate with international efforts to fight against tax evasion, safeguarding the integrity of tax systems. The Legislative Assembly also approved in September 2023 an extension and expansion of the tax exemption on small and medium enterprises, representing a setback in our efforts to achieve a more efficient tax system. The tax yield of the recurrent property tax on vehicles was also reduced through a bill introduced and approved by the Legislative Assembly in September 2023. As part of our commitment to foster green growth, we submitted to the Legislative Assembly a revenue neutral scheme of feebates to strengthen incentives to replace high-polluting private vehicles and further our decarbonization plans in November 2023 (¶42). Going forward, we will strive to simplify the excise tax, continue assessing the effectiveness of exemptions, and work to build consensus in the Legislative Assembly to pass structural reforms towards a more progressive and efficient income tax by resuming the discussions on the structural provisions in bill 23.760.

- **Spending measures.** We continue to prudently manage budget execution to fully meet the program's primary surplus target, adjusting appropriations to line ministries monthly as warranted. In 2023, as we did in 2022, we, through extraordinary budgets, reallocated underexecuted resources to the main cash transfer-, non-contributory pension-, and childcare programs with identified coverage and funding gaps while stepping up efforts to verify eligibility. In 2023, net of one-off programs, we increased social spending by 5 percent in the context of flat primary spending. As approved under the 2018 fiscal reform, we are also effectively reallocating spending away from legally mandated uses (with the exemption of those mandated by the Constitution) when the debt-to-GDP ratio is above 50 percent of GDP. We remain committed to staying current on all our payment obligations and not accumulating any spending arrears. Approval in November 2022 by the Legislative Assembly of external loans by our multilateral partners and multi-year Eurobond issuance, together with continued improvement in market conditions and ongoing debt management efforts, will help contain interest expenditure, which will reduce the headline deficit and create additional space for priority spending. Importantly, after verifying a portion of money claimed by the CCSS, we reached an agreement to pay CRC 51 billion, of which we paid CRC 23 billion in 2023 due to limited budget space in the CCSS. We will pay the remaining CRC 28 billion this year.

9. The 2024 budget targets a primary balance of at least 1.85 percent of GDP. This target is consistent with conditions set by the Legislative Assembly for further Eurobond issuance. The budget permits nominal primary current spending growth of 2.5 percent, as current and overall spending comply with the 3.5 percent limit of the fiscal rule and continue to decline as a share of GDP despite higher interest costs. Despite these constraints, there is an increase in priority social

spending of 11 percent relative to the ordinary 2024 budget and, once there is greater clarity on the budgetary space available, we expect to increase social spending budget allocations through extraordinary budgets in the second half of the year. Ongoing improvements in tax- and customs administration are expected to support revenue yields. Further progress in strengthening our tax system, with the approval of tax bills the government presented to the Legislative Assembly, would also secure our public finances on a firmer footing. Although the primary aim of bill 23.760 (¶18) continues to be the improvement of the equity and efficiency of the tax system, we will through revisions to the bill pursue means to minimize the yields lost through the recent passage of legislation on CIT and property taxes on vehicles (¶18) in addition to enhanced compliance measures. Nevertheless, were revenues to underperform, we will propose to the Legislative Assembly compensating tax measures and we will reprioritize non-critical spending as needed to ensure that we reach our primary targets required for Eurobond issuance. We are committed to saving any revenue over-performance or windfalls to accelerate our debt reduction plans.

10. We will further advance our fiscal consolidation efforts over the medium term to reduce our debt to below 60 percent of GDP as soon as possible, while making space for critical infrastructure and social needs. We aim to reach the 60 percent threshold in 2025 and continue reducing the debt thereafter. Additional measures will be underpinned by a planned income tax reform and additional efforts to rationalize tax expenditure (¶11). In line with the fiscal rule and our current debt forecasts, the freeze in the basic wage will be extended until 2027. At that point, we expect fiscal savings from the implementation of our ambitious reform of public-sector employment (¶13) to begin to materialize. These factors will further support our commitment to keeping nominal spending growth low. Meanwhile, we will continue to modernize and strengthen our social safety net (¶14) and allocate additional resources to improve coverage. Expected efficiency gains through consolidation of ministries and other institutions as part of our broader public sector reform; our planned asset sale program; and greater revenue mobilization from the modernization of the tax and customs administration (¶12) and PFM reforms (¶15), provide important upsides to our ability to tackle our current debt and financing challenges faster than expected, thereby supporting macroeconomic stability and growth. We will verify and as appropriate settle additional CCSS claims in a systematic fashion, thus reducing contingent liability risks to the central government while putting the CCSS on an even firmer financial footing for the provision of health and pensions.

Structural Fiscal and Debt Management Reforms

11. We are developing a medium-term revenue strategy to move towards a more progressive and growth-friendly tax system that supports equitable growth. We are improving the tax system through a comprehensive set of policies to support the government's priorities and meet revenue goals. This strategy includes (i) redesigning the PIT for a more equitable, efficient and neutral tax system where wages earned by employees, profits from the self-employed, and pensions are taxed through a single recalibrated progressive tax schedule (¶18); (ii) broadening the base by taxing dividends distributed by firms in free trade zones as well as passive capital income earned abroad by Costa Rican residents; (iii) rationalizing and simplifying income taxation of non-residents;

(iv) further broadening the tax base by removing services taxed with reduced VAT rates and going forward through the systematic and regular cost-benefit analysis of tax exemptions, to remove outdated or ineffective exemptions, including a thorough review of those that have a negative environmental impact; (v) removing the progressive tax schedule within the corporate income tax (CIT) while protecting small firms through the revamping of the special tax regime, and broadening the tax base and correcting non-neutralities; (vi) revising our current incentives under the free trade zones to protect our domestic base in line with the new international taxation architecture (Pillar 2) with World Bank (WB) support; and (vii) supporting the environmental agenda by introducing and periodically recalibrating feebates to support the transition to low emission vehicles and safeguarding revenues consistent with IMF advice. Because the individual elements have varying implications for yields, we aim for the comprehensive package to compensate for the revenue losses of the CIT and the property tax on vehicles (¶18).

12. We are strengthening revenue administration to support our fiscal consolidation plans and medium-term revenue strategy.

We continue implementing our Tax Compliance Improvement Plan, approved in December 2021 (structural benchmark) with IMF TA support and updated in December 2022 and December 2023 with tangible results. In 2023, we recouped CRC 51 million, through a more hands-on approach to recovering delinquent tax arrears. We have fine-tuned our use of robust large-scale automated cross-matching of information to detect inaccurate reporting, and revamped audit programs focused on VAT on services and erosion of CIT bases. While the rollout of the compliance plan was delayed in April 2022 due to the hacking of the tax and customs administration's main collection systems, we resumed the implementation of different compliance risk mitigation strategies in August 2022, with quarterly monitoring based on both quantitative and qualitative indicators for the selection of risk-based cases. From September 2022 to November 2023, our risk assessments of VAT, large corporate taxpayers, and cross-border taxation allowed the tax administration to recoup approximately US\$ 38.5 million in owed taxes, including interest and penalties. We designed a methodology to undertake risk assessments of large net-wealth taxpayers and we will deploy a pilot in May 2024 to fine-tune the risk mitigation strategies. We are also modernizing our tax code through another bill (23.759) submitted in May 2023 to instate fiduciary responsibility, simplified enforcement procedures, updates on penalties, coercive collection, and precautionary administrative measures. Through the approval of bill 23.088, we amended our general tax code to ensure that financial institutions adequately comply with the due diligence process regarding financial information of non-residents required for the automatic exchange of information for tax purposes. We strengthened the integrity of the taxpayers' registry, with IMF TA, through debugs of the taxpayer registry in 2023. We are requiring that large taxpayers that declare zero taxable profits present externally-audited financial statements and we are analyzing this subset of large taxpayers. We developed the international taxation risk assessment guideline (*ficha*) to identify Common Reporting Standards (CRS) non-compliance and began a pilot in August 2023 to assess whether the identified risk criteria translate in actual non-compliance. We will use administrative and third-party information to enhance compliance, including the automatic exchange of information on financial accounts (CRS), Country-by-Country (CbC) reports, and effective use of corporation shareholders and beneficial owners' registers when warranted. We have also started to exploit data from samples of electronic invoices to detect unusual activity in specific

sectors and taxpayer behaviors to improve enforcement capabilities and the efficiency of the tax administration. We required large cross-border service providers to register for VAT to enhance tax compliance on cross-border services consumed in Costa Rica. In addition, with IMF TA, we updated our framework to estimate non-compliance estimations for VAT and CIT in March 2024. In addition, we continue to monitor and update the strategic indicators and targets in the Compliance Improvement Plan. We are currently working on the approval of a new bi-annual tax compliance plan to entrench compliance risk management strategic priorities going forward. On the customs side, the approval of the new Customs Law in May 2022, designed and approved with IMF TA support, will further promote trade facilitation to help increase productivity growth in trade-related sectors and improve revenue collection through more effective risk-based enforcement. The implementing regulation was approved and published in June 2023. The Directorate of Customs has prioritized the operational- and procedural changes mandated by the law and delayed the organizational changes until the new operational- and procedural guidelines are in place. We passed an executive decree in mid-May 2024, curbing abuses and improving our oversight of service logistics firms in the free trade zones by requiring them to share their inventories and limiting some activities which can be carried out within the zones. We are modernizing points of entry for imported merchandise at the border with Panama and Nicaragua. Additionally, with the support of CAPTAC-DR, we continue developing analytical tools to improve our risk-based assessments and to reduce the under declaration of imported goods. To improve enforcement, we are employing non-intrusive scanners using risk-selection criteria of containers in the Moin Port. In 2024, we are working on the implementation of an Annual Audit Plan fully based on risk management and with a special focus on sensitive sectors. Additional revenue administration and customs efficiencies are expected from the MOF's digital transformation plan, *Hacienda Digital*, supported by the WB, which will upgrade tax and customs procedures and information systems, and replace the National Integrated Risk Management Systems, a tax and customs coordinated risk management approach, which was abandoned due to technical issues with the service provider. The discussion with the firms for the development of the Commercial-Off-The-Shelf modules for tax and customs are ongoing. We expect these modules to be fully interoperable improving risk-management and enforcement capabilities. We have also deployed an aggressive strategy to minimize cyber risks through an extensive communication strategy and training programs on cyber risks geared toward all MOF staff. We have invested in updating security measures to reduce vulnerabilities.

13. We are rationalizing and improving the efficiency and quality of government spending through the full implementation of the public employment reform. In particular, we have gone beyond the executive branch and all the public sector has adopted the transitory single wage spine while they conclude the design of their definitive global wage spine as mandated in the Public Employment Bill.

- *The landmark Public Employment Bill was approved in March 2022 (the related structural benchmark was not met by end-May 2021 as initially envisaged due to legislative delays). The reform enhances fairness and productivity by replacing the composite salary system, which indiscriminately rewarded seniority and civil service exclusivity, generating perverse incentives for public servants, with a single pay spine. It modernizes and streamlines the public*

administration, bringing the public wage bill on a sustainable path, in line with OECD recommendations. Beyond the fiscal consolidation efforts envisaged by the 2018 fiscal reform, the PEB puts the public wage bill on a sustainable path after its excessive expansion over the previous 15 years. Due to the large wage premium in the public sector, the public employment reform freezes salaries that fall above the spine until the single pay spine reaches them. This, along with the gradual transition to the single wage spine for existing workers whose salaries fall below the reference wage (Transitory Disposition XI), will generate savings. The reform introduces new rules for recruitment and selection, professional development, and performance evaluation, including for top-ranked officials; and new employee benefits including one-month parental leave, two-month extension of maternity leave (for special cases), and sick leave to take care of a family member.

- Our implementation timeline was achieved through a phased approach.* The implementation process had to overcome unanticipated methodological complexities in designing the single wage spine, including incomplete wage data resulting from the cyberattack to the MOF in 2022. The Ministry of National Planning and Economic Policy (MIDEPLAN), through the creation of a Public Employment Unit and in coordination with the Civil Service General Directorate (DGSC) and with support from the Inter-American Development Bank (IDB), finalized the methodology to create a single wage spine with all seven job families, consolidating within the single salary other wage supplements such as annuities, bonuses, incentives and others in June 2023. The oversight over the design of the single wage spine was shared between MIDEPLAN and autonomous institutions for their employees (Judiciary and Legislative Branches, Supreme Electoral Tribunal, public universities, municipalities, and CCSS), following the criteria and ceilings approved by the Bill. The implementation of the single wage spine was achieved by engaging with stakeholders, including a public consultation in January 2023, to facilitate the approval of the implementing regulation as envisaged by March 2023. As a result, new hiring in the public sector was subject to the new rules in line with the Public Employment Bill since then. A follow-up National Dialogue was set up in March 2023 and held for 10 days to better communicate the implementation of the PEB to stakeholders and iron out technicalities within the PEB. MIDEPLAN issued general methodological guidelines pertaining to job data collection, analysis of job classes by job family, and the formulation of the single wage spine in May 2023 to inform the implementation of the PEB by public institutions whether or not they are legally under the technical tutelage of MIDEPLAN. For institutions not under MIDEPLAN's tutelage, these guidelines are a non-binding reference for the correct application of the PEB and can be used as institutions see fit.
- With IMF TA support, we took corrective actions and established a strict schedule of activities to meet our program commitments to implement the single wage spine while ensuring it meets the objectives of the law.* MIDEPLAN produced a single wage spine in compliance with the Public Employment Bill covering at least one-quarter of job positions in the executive branch in June 2023, by producing a document detailing how factors are mapped into points, points are assigned to the job positions, monetary values are assigned to points, and developing (with the support of the MOF) fiscal scenarios for the public administration to provide adjustment margins

to the single wage spine if needed. MIDEPLAN exceeded the envisaged structural benchmark by incorporating 100 percent of the executive branch's job positions in the single wage spine in early-September 2023 (structural benchmark), covering all institutions under MIDEPLAN's legal purview according to the law. MIDEPLAN also published the wage spine and its directives, which will set the global salaries of new workers and the transitional provisions in the PEB and how its regulations will be applied henceforth. We updated our payroll system, *Integra*, and began administering payments for all employees covered by the law in line with the transitional provisions set by the PEB and its regulation in November 2023.

- *In February 2024, MIDEPLAN took steps to ensure the implementation meets our reform's objectives.* To ensure the robustness of the published wage spine and with the support of the IDB, MIDEPLAN ran simulations on a small but representative sample of jobs. MIDEPLAN contrasted the resulting wage spine from the sample with the published global spine and confirmed that our published wage spine is robust across different simulations and assumptions.
- The drafting and approval of other guidelines and regulations related to human resource management envisioned in the law and its regulation were completed in March-2024. Going forward, to ensure fiscal savings are preserved and to ensure the public sector can attract qualified human capital, MIDEPLAN will develop a compensation policy in the medium-term.
- We remain committed to implementing the PEB for the whole public sector by end-2024. All constitutionally autonomous institutions covered by the PEB but not under MIDEPLAN's legal tutelage continue making progress towards the adoption of a definitive global wage spine. However, progress has been uneven across these autonomous institutions. The Supreme Electoral Tribunal, the Legislative branch, the BCCR and the National University have implemented their definitive wage spines. The Judicial branch has undertaken the technical work and we expect they will publish their definitive wage spine by September 2024. The technical complexity surrounding the design of the definitive global wage spine for municipalities and the CCSS implies a longer time period will be required for these institutions. MIDEPLAN remains committed to spurring the uptake of the PEB by offering technical assistance, despite prevailing staff constraints, to support the remaining autonomous institutions. Notwithstanding, as an interim step, institutions that have not defined their global wage spine have adopted the transitory global wage spine for all new hires. Furthermore, the CGR is undertaking audits of institutions to foster the adoption of the PEB.

14. We are committed to enhancing the targeting accuracy and delivery of our social protection programs, leveraging digitalization. Costa Rica devotes important resources in its budget to fighting poverty and reducing inequality. There are opportunities to build on recent improvements and further enhance the effectiveness of some of its social assistance programs through improved coverage, targeting, and delivery. The delivery system is also highly fragmented with different entities engaging in social assistance activities, with scope for improvement in institutional arrangements, transparency, and payment delivery. To consolidate the social protection system, facilitate access to services, allow complementary programs to provide holistic care to families, and provide more flexibility in social spending, we presented bill 23.436 in October 2022 to

integrate the functions of various bodies within IMAS. The bill is advancing through the legislative process. Ongoing improvements include:

- Centralization and digitalization of the payment system.** The payment system for all cash transfer social assistance programs at the MOF's National Treasury (SUPRES), in coordination with social assistance units, was centralized and digitalized in December 2021 (structural benchmark). Specifically, we signed agreements with responsible institutions, issued appropriate regulations, and incorporated the payment software solution into the Digital Treasury system. Despite the delays caused by the cyberattack, by July 2023, the system included all IMAS programs and numerous other institutions' programs, representing 97 percent of cash payments financed with resources from the national budget. To achieve 100 percent payment of such resources through the budget, we are developing round-the-clock real-time payments and the ability to compensate third parties for in-kind services. As a next step, we will be supporting adoption by remaining institutions and programs that deliver cash benefits by tailoring the data interface and helping them overcome capacity constraints. Four (out of five) main institutions that provide benefits in the form of cash (IMAS, CONAPDIS, PRONAE, and PANI) became fully compliant with the new system by end-December 2023. We estimate that introducing the system reduced the payment processing time needed to reach the final beneficiaries from 3-5 days to less than 24 hours (often in real time) and improved service delivery to beneficiaries, fiscal operations efficiency, savings on transactions costs such as bank transfer fees, and financial inclusion of the low-income population (especially women) through the adoption of digital payment tools in any of the entities of the national banking system.
- Targeting and coverage of social programs.** To continue enhancing the targeting accuracy of our social programs, we continue strengthening the role of SINIRUBE (*Sistema Nacional de Información y Registro Único de Beneficiarios del Estado*) as the main instrument to target social protection benefits and services, which will also contribute to a more harmonized framework for inter-institutional coordination. We are also increasing the interoperability between SINIRUBE and SUPRES. A study by *Programa Estado de la Nación* confirmed the robustness of the SINIRUBE algorithm for targeting beneficiaries. Major social assistance programs have already adopted SINIRUBE and the office in charge of its administration has prepared plans to support the adoption by 2 institutions outside the social sector that are strategic for its operation, namely the judiciary and higher education. The government is also persuading municipalities to learn and adopt SINIRUBE as their targeting instrument. In addition to boosting inclusiveness, these efforts will improve spending efficiency by promoting interoperability with other sources of data to reduce costs of data validation and rationalize existing programs. In this context, building on IMAS Directive 0122-2022, we are increasing the use of information from SINIRUBE to have a better and up-to-date socio-economic profile of individuals and households, to inform benefit allocation decisions. For example, SINIRUBE will incorporate the *Baremo* tool, which quantifies the intensity of a person's needs, to aid with prioritization. Additionally, IMAS is progressing in accordance with its roadmap to remove ineligible duplicate benefits, outside of municipalities. In particular, possible duplicates have been identified by SINIRUBE and relayed to institutions for review. Through regulations and directives, we have included measures to

prevent duplication in key institutions. Bill 23.436 will safeguard our powers to do so. As targeting improves and more resources become available, we will increase coverage of priority programs over the medium term, including those targeting children and the elderly in poverty. We are also, with UN support, assessing our legal options for increasing or decreasing the conditionality of cash transfers.

- **Social Assistance Single Window.** With technical support from the WB, IMAS is continually designing and developing a Social Assistance Single Window (*ventanilla única*) to consolidate social programs and to move from a first-come-first-serve basis to prioritization based on the urgency of need, thus improving response times and targeting. We started by launching an online form allowing changes in contact details and started to strengthen associated back-office systems. Building on these efforts, IMAS launched a single window for social programs under its authority (except those related to emergency care, the group programs of the Area of Productive and Community Development, and the ones corresponding to the Area of Social Action and Administration of Institutions) in February 2024 (**structural benchmark**). The window automates the process from when a request is made to when an appointment is assigned. The user online self-service module is now integrated with one to manage appointments (including through a chatbot). This allows the public to enter or update information relevant for assessing their situation and determining eligibility and integrating this online form with SINIRUBE, whose capacity to validate data and assess eligibility is being strengthened. We also improved interoperability across databases, automated prioritization of beneficiaries (including through validation of data using SINIRUBE), and extended access rights beyond registered social workers in December 2023. These efforts have already yielded tangible results such as time savings (which have allowed social workers to have more appointments with people in need), telecommunication costs savings (which have been redirected to increase coverage), and better prioritization (which has improved targeting). We have advanced on subsequent phases of the work. In April 2024, we completed an inventory of programs from other institutions that could be linked to the services of the single window. As a first step, we agreed to start a pilot exercise with the three executing units of the REDCUDI. We drafted a directive to clarify the single window's governance structure and expect it to be published in December 2024. We are working to secure the financing needed to make the single window as effective as possible. We are making further improvements and, when completed, the single window will: (i) serve as a one-stop-shop for potential beneficiaries to access information on social programs; (ii) consolidate information on benefits and programs that individuals and families are receiving; (iii) provide information on potential eligibility for new benefits to beneficiaries and social workers; (iv) facilitate the preparation of legal documents for beneficiaries such as certificates for appeals; (v) provide an online interface where individuals and families can more easily and regularly update personal and contact information; and (vi) facilitate coordination among public institutions that manage benefits and programs.

15. We are taking further actions to improve public financial management (PFM) and the functioning of our fiscal rule.

- Fiscal Rule Amendments.** Despite the different amendments, the fiscal rule preserves broad coverage of spending categories (e.g., capital when debt is above 60 percent, interest, and court rulings), in line with IMF TA. However, the institutional coverage and thus the amount of spending covered by the rule was reduced by 5.8 percent of non-financial public sector spending. The rule retains the spending ceilings and maintains the rule's essential role in containing spending and reducing debt at the central government level but the influence of the fiscal rule on non-financial public sector expenditure has been considerably weakened and its compliance verification has been made more complex. To facilitate resource allocation in line with the administration's priorities, the MOF produced an assessment of legal changes needed to empower the STAP to make the expenditure limit applicable to the overall central government (including extrabudgetary entities) on aggregate instead of to individual entities in September 2023. The assessment concluded that including extrabudgetary entities in the aggregate would require constitutional and other supporting reforms. In March 2024, the Legislative Assembly approved the temporary exclusion of central government redistributions to municipalities that are funded by the tax on bananas exports. Going forward, we will continue to strongly oppose ad hoc requests for additional institutional exclusions.
- Medium-Term Fiscal Framework.** With support from IMF TA, the MOF published in April 2022 a Medium-Term Fiscal Framework (MTFF) covering the NFPS including the period 2022-2027, meeting the relevant structural benchmark. Since then, the MTFF has been updated accordingly. The revised MTFF, which improves the credibility of the budget process and presents a coherent fiscal strategy in line with the fiscal rule, includes analysis and reporting of fiscal risks with contingent liabilities, debt guarantees, and explicit fiscal contingency reserve schemes, and integrates into the fiscal strategy a medium-term public investment plan/framework. The MTFF was updated in September 2023 as part of the submission of the 2024 budget, and in March 2024, ensuring continuity in the analysis of macroeconomic shocks and further analysis of debt management. We further strengthened the September 2023 MTFF by better aligning our fiscal policy with long-term national plans, explicitly stating the goal to reduce debt to 50 percent of GDP by 2035. To further enhance fiscal risk analysis, the March 2024 MTFF includes climate transition risks (¶44) and fan chart analysis produced with IMF CD.
- Public Investment Management Assessment.** To improve the planning, allocation, and implementation of public investment among the numerous entities currently responsible for infrastructure development, the MOF and MIDEPLAN undertook the IMF Public Investment Management Assessment (PIMA), including a new Climate Change Module, in November-December 2021, with support from the WB and IDB. Based on the assessment, we have defined a plan aimed at strengthening public investment efficiency while making fiscal space for our climate change-related and other critical infrastructure needs (¶41). As part of this plan, we submitted and the Legislative Assembly approved law No. 10.441 (bill No. 22.470) to extend the process and procedures of the national public investment management system (*Sistema Nacional de Inversión Pública (SNIP)*) to all the decentralized entities attached to the different ministries, the Legislative Branch, the Judicial Branch, the Supreme Electoral Tribunal, and their dependencies and auxiliary entities, as well as to the decentralized administration: autonomous

and semiautonomous state-owned enterprises and municipalities. The bill was signed by the President in March 2024 and the law will enter into force in March 2025. The new law will improve public investment transparency, better the prioritization of national projects, as well as improve the portfolio of capital expenditure projects, strengthen the identification, formulation and project evaluation methodologies, and allocate funds to projects with the best financial, economic, social and environmental returns. We incorporated the climate impact of projects by integrating the social cost of carbon in our project appraisal. In September 2023, we published guidelines for the appraisal of projects with specific illustrations in the transport sector considering the climate impact of the project through the social cost of carbon (T41). To seamlessly implement the appraisal process, we have started training public sector institutions' planning units so they are able to apply them. To give continuity to the work initiated with the support of IDB and private consultants, we published in end-December 2023 a set of clear and transparent project selection criteria including climate change criteria (T41). We already issue quarterly and half-year reports on the physical and financial progress of externally funded projects. To streamline capital project portfolio monitoring, and in line with our National Public Investment Law, we plan to extend the process to domestically funded projects. We also plan to develop a comprehensive asset register including information on the stock of public assets and their condition as a necessary precondition to inform investment planning, selection, and maintenance.

- **Gender budgeting.** We introduced gender budgeting to better operationalize the gender equality policy agenda in our 2024 national budget proposal. With IMF capacity development support, we incorporated a gender lens into the budget preparation process by publishing a gender budget statement that identifies gender-related spending for the Ministry of Justice, Ministry of Education, Ministry of Agriculture and Livestock, the Judicial Branch, National Institute of Learning, Rural Development Institute, National Institute of Cooperative Development, and IMAS as an annex to their respective 2024 budgets (completed in October 2023). Intermediate steps in the preparation of the budget included: (i) a pilot exercise to identify gender-related expenditures (completed by end-December 2022); (ii) adjusting budget call circulars for the 2024 budget to give instructions to identify gender-related spending in the pilot ministries (completed by end-April 2023); (iii) establishing coordination between the MOF, the STAP and the Comptroller's Office, so the CGR considers the adoption of the technical budgeting standards to identify gender-related spending and mandatorily applies it in the decentralized sector. The execution of gender-related spending, in line with the budget statement, will be monitored during 2024.
- **Fiscal Council.** We continue working to resource and fully operationalize the Fiscal Council to enable it to publish its first public assessment of the government's fiscal strategy, fiscal rule compliance, debt sustainability, and macro-fiscal projections through a law creating the council and enabling stipends for its members. Once the fiscal council is established, we will support the Fiscal Council in developing its own communication tools as well as a memorandum of collaboration with the MOF to clarify the separation of functions and information sharing.

- **Macro-fiscal Unit.** In line with IMF TA recommendations, we have initiated the process needed to formalize a unit at the MOF permanently in charge of macro-fiscal issues, without amending any of the legally mandated functions of the other established directorates within the MOF, by end-June 2024.
- **Other key PFM institutional reforms.** The MOF and the Comptroller's Office will continue working together throughout the entire budget cycle to ensure compliance with the fiscal rule, despite the additional complexity created by recent changes. We have recently resumed our efforts to reduce budget fragmentation. Following the consolidation under the CG budget from 2021 of all public entities, as required by Law 9524 of April 2018, we plan to consolidate public services within fewer public institutions, as part of our planned public sector reform. Specifically, we submitted legislation to consolidate the responsibilities of multiple entities within the Ministry of Public Works and Transportation (MOPT), a new Ministry of Housing, and a new Social Ministry to abate redundancies within the public sector. We are also restructuring several ministries to strengthen their oversight of other decentralized entities and eliminating the Ministry of Governance, reallocating some of its directorates under other public institutions. In addition, with IMF TA support, we will continue improving the management of public sector liquidity by extending the Treasury Single Account (TSA) to the entire public sector, including decentralized and autonomous entities. Specifically, we submitted a revised bill (No. 22.661) in September 2022, with expected approval by end-November 2024, that requires the phased transfer of all cash held by decentralized and autonomous entities in commercial bank accounts to the TSA, which will reduce idle cash in the financial system and reduce the central government's borrowing costs. Additional expenditure administration efficiencies are expected from the MOF's digital transformation plan, *Hacienda Digital*, supported by the WB, which will modernize and integrate our PFM information systems to better align expenditure policies across core PFM entities, planning, and spending units.

16. We modernized our public procurement processes. In line with the Social Dialogue's agreements, we enforced the use by all procuring entities of the electronic platform *Sistema Integrado de Compras Públicas* (SICOP) to lower transaction costs and improve capacity and expertise. The Public Procurement Law (No. 9986) approved in May 2021 introduced a sound regulatory and institutional framework for managing and implementing umbrella contracts for goods and services, eliminating past exceptions to public bidding processes and increasing competition for government contracts. This new procurement legal framework entered into force in December 2022 and requires bidders' registration in the e-procurement system, 'Electronic Registry of Official Suppliers and Subcontractors of the Unified Digital System', to be incorporated into the SICOP. The regulation was published in November 2022. Since the Law's enforcement in December 2022, all public procurement has been centralized in SICOP, with the exception of public institutions with no operational budget. The regulation also requires all competing bidders to submit accurate and current beneficial ownership information through affidavits as part of the bidding process. The required information includes information to identify the beneficial owner, including their full name, and type and number of official identification document(s) for legal persons. Although SICOP is accessible to the public, beneficial ownership information will be held within MOF's supplier registry

for consultation by the Comptroller General of the Republic, Office of the Attorney General of the Republic or other judicial authority upon request. It will also allow the authorities to cross-check information with the Transparency and Final Beneficiary Registry, administered by the BCCR to combat tax fraud and money laundering (135). Moreover, the enforcement of the Public Procurement Law updates, streamlines, and modernizes the public procurement processes ensuring greater efficiency savings through bulk purchases of certain goods and it will allow differentiating by public works, goods, and services, and set different thresholds and processes for each procurement category, doing away with a great deal of complexity in the public procurement process. We will continue striving to upskill procurement offices within the public sector to improve public procurement planning in line with the National Procurement Plan for 2024.

17. We continue to foster transparency and adhere to best practices in the procurement and contract awards of any COVID-19 related spending. The Comptroller's Office developed a Fiscal Transparency Portal for COVID-19, with published information on public purchases and audit results on the use of emergency assistance, while the Ministry of Labor and Social Security created a transparency portal on the *Bono Proteger* program, which includes the list of beneficiaries, statistics, and reports. Moreover, with IDB support, MIDEPLAN launched a revamped the Transparency Portal (*Rendir Cuentas*) with the intention of disseminating the CG's COVID-19-related public purchases, subsidies and donations, including data from SICOP, IMAS, MTSS, MINSA, CNE, CCSS and SINIRUBE. On public purchases, the data published in the Portal include information on awarded vendors, including their legal ownership (if tenders required it). The Comptroller's Office continues carrying out specific audits on emergency cash transfers to ensure related funds are used properly and publish them in its Portal.

18. We are committed to improving governance and increasing transparency in SOEs. Although SOEs play a dominant role in many key sectors of the economy, such as electricity, telecommunications, transportation, banking- and insurance services, and petroleum products, some of them present data reporting weaknesses, constraining full assessments of their balance sheets and potentially hiding risks to public finances and taxpayers. To foster greater transparency in line with international standards, we are committed to accelerating the full adoption of International Financial Reporting Standards (IFRS) by SOEs. As regards the publication of the 2020 financial statements for three SOEs according to IFRS (end-December 2021 structural benchmark), ICE (*Instituto Costarricense de Electricidad*) was fully compliant and AyA (*Instituto Costarricense de Acueductos y Alcantarillados*) became compliant with a delay in June 2022. To fully comply with IFRS, CNP (*Consejo Nacional de Producción*) continues to work on implementing a new accounting system for FANAL, a very small company under its purview. The full implementation of IFRS is expected to be achieved by end of 2024. The remaining SOEs already published their 2020 financial statements per IFRS standards. An updated 2021 aggregate report on SOE performance was published in February 2022. With support from the OECD and WB, SOEs' public procurement process is fully consistent with the SICOP as required by the Public Procurement Law, limiting the use of exceptions for direct public procurement and gradually eliminating regulations that grant them the right to withhold confidential information.

19. We are strongly committed to boosting productivity through greater efficiency and competitiveness in the electricity sector and the modernization of electricity tariffs. Since 2021, the Costa Rican Institute of Electricity has been implementing an efficiency strategy to reduce electricity prices in the context of its strategic plan. This strategy includes actions such as reducing operational costs, restructuring debt, and comply with the IFRS standards (¶18). As a result of these efforts, the cumulative price reductions in ICE's generation, transmission and distribution systems were 10 percent, 14 percent and 5 percent, respectively, from December 2020 to December 2023. The Government is committed to advancing this efficiency strategy through further debt restructuring and cost reduction in order to achieve lower and more competitive tariffs. ICE is continuing the execution of its Financial Sustainability Roadmap to reduce fixed costs and renegotiate debt conditions in its financial statements and the regulatory accounting used for tariff setting by reclassifying operating leases as finance leases; this last step was concluded in March 2023 and it was reflected in the reduction of tariffs as of 2024. In line with these efforts, ICE constantly assesses its cost structure in each segment of the electricity supply chain (generation, transmission, distribution) to identify efficiency opportunities. In September 2023, ICE carried out an ordinary tariff study and asked *Autoridad Reguladora de Servicios Públicos* (ARESEP) to reduce prices in the generation and distribution systems (9 and 2 percent, respectively), which took effect in January 2024. ICE is renewing and/or renegotiating at affordable terms the private generator contracts as they expire to leverage installed capacity to meet increasing electricity demand and guarantee investment efficiency, as well as achieve benefits in end-user tariffs. To optimize the use of installed infrastructure, a bill (No. 22.561) authorizing private energy generators, public companies, and cooperatives to sell their surplus energy (after supplying local demand) to the regional market was submitted to the Legislative Assembly in June 2021 and is expected to be approved by end-June 2024. ARESEP will expand its efforts to analyze tariff competitiveness in generation, distribution, and transmission and the adoption of a new efficient tariffs benchmark, based on a study made with IDB support. Based on the study for the modernization of the tariff's structure of 2022, under ARESEP's leadership, three companies (ICE, ESPH and COOPELESCA) started to implement an important part of the tariff modernization program, including time-of-use tariffs (i.e., hourly tariffs) to promote an efficient use of electricity. In 2023, the remaining five distribution companies presented proposals for the modernization of their tariff structure mainly related to hourly tariffs; those proposals have been submitted to a new task force in ARESEP to review the methodologies of these new tariffs structure, which is expected to be finalized by end-December 2024. ARESEP will continue monitoring distribution companies' financial costs to ensure their investment projects' financing terms fit with the underlying assets' useful lifespan. Efforts are also ongoing to promote the harmonization of the energy sector. The implementing regulation for Law No. 10086 to simplify the administrative procedures for private participation in power generation from renewable sources for self-consumption, approved in October 2021, was officially established in February 2023 (¶42). Moreover, ICE and the Costa Rican Chamber of Distributed Generation simplified the procedures for the interconnection of distributed generators in ICE's network through an internal protocol. We submitted a bill (No. 23.414) to the Legislative Assembly in October 2022 to promote the development of new technologies and business schemes for the provision of public electricity service, optimize physical infrastructure, and ignite the commercialization of electricity, all of which are an effort to further increase efficiency of electricity costs. The bill also seeks to

integrate the public planning for electricity and fuels, which is under discussion in the legislative committee.

20. We have launched a comprehensive reform of debt management. To contain the risk of rising debt levels, the President of Costa Rica and the Minister of Finance approved in 2019 a Debt Policy for the Public Sector (Executive Decree 41935-H), which establishes solid guidelines for public institutions to put debt on a sustainable path in the long term. The rises in public debt and financing risks amid the COVID-19 crisis and more recent rises in global interest rates have highlighted the urgent need to diversify sources of fiscal financing and better manage the outstanding debt stock and liquidity. Our debt management agenda comprises:

- ***Eurobond issuance.*** In November 2022, the Legislative Assembly authorized the Ministry of Finance to issue up to US\$ 5 billion in Eurobonds. In our first central government issuance since 2019 (ICE issued a bond in 2021), we successfully secured US\$ 1.5 billion in March 2023 and followed this with another US\$ 1.5 billion in November 2023 (at face value). We have authorization for up to US\$ 1 billion in 2024, and, subject to prudent fiscal targets being met in 2024 to continue debt reduction, up to US\$ 1 billion in 2025. The general authorization will provide us with some flexibility for international issuances. In April 2024, a constitutional reform that would grant the executive greater flexibility in international borrowing according to best practices was presented to the Legislative Assembly. If approved, this will allow the MOF to optimize the balance and timing of internal and external debt issuance to finance the approved budget. It will also allow the budget debate in the Legislative Assembly to have a more holistic approach that moves beyond discussions of expenses to include discussions on financing (including debt) needed to close any gaps in the budget.
- ***Institutional debt management reforms.*** We submitted an amendment to law 8131 to the Legislative Assembly to centralize all debt-related functions of the government, in line with best international practices, to improve transparency and reporting of public debt, within the purview of a new standalone Public Debt Management Office reporting directly to the Minister of Finance, in May 2023 (an end-June 2023 structural benchmark). The bill is advancing through the appropriate legislative processes. The established Assets and Liabilities Committee, comprising the Treasurer, the Minister or the Vice-Minister of spending, economic advisor in the Minister's office, and the Director of the Public Credit Department (DCP). The BCCR will continue to provide strategic guidance and inter-agency coordination of high-level policy decisions related to government debt including implications for monetary policy.
- ***Medium-term debt strategy (MTDS).*** We published an updated MTDS covering 2022-27 in April 2022, meeting the relevant structural benchmark. The report covered the government's contingent liabilities, especially guarantees provided to state-owned companies. Going forward, we will publish and adhere to Annual Borrowing Plans and Quarterly Issuance calendars in line with the MTDS and strengthen the accounting and budget execution processes for public debt payments.
- ***Domestic market development.*** With WB support, we are taking steps to improve the

functioning of the debt markets. We are focusing our issuance on standard fixed-rate bullet bonds of select maturities while open bond windows and bilateral bond sales are being gradually phased out, and the overall size of the issuance was discussed in the executive committee of the market makers in June 2023. We will reform the auction mechanism for the Treasury to become a price-taker in bond auctions (which will improve the price discovery process). We are promoting non-resident participation in our debt market by easing regulatory barriers and harmonizing the tax regime for non-resident investors, subject to macroprudential considerations. The Legislative Assembly approved in December 2022 a law to promote and open the Costa Rican public debt market to foreign participants by easing regulatory barriers and harmonizing tax treatment. We are also in consultations with different international platforms to allow clearing and settlement of our debt securities in accordance with international standards. In December 2022, with support from the IDB, we rolled out a pilot market-making / primary dealer program with a small group of participants with well-defined rights and responsibilities to support the development of the public debt securities market, enhance the liquidity and provide stable demand. The Market Makers Program Executive Committee was created and has been discussing the smooth operation and functioning of the program, and the Business Rules Proposals proposed by the Committee were sent to SUGEVAL and for public consultation. The Market Makers Program is expected to be launched in the second half of 2024, subject to the approval of the instruments necessary for risk management. Moreover, we are aiming to prepare workshops towards the end of 2024 with Euroclear, local central securities depositories and regulators to fulfill the necessary legal changes and other requirements from Euroclear, which allows the domestic debt instruments to be linked to the international securities depositories.

- **Liquidity Management.** Over the last decade, the government has had cash balances of much less than 1 percent of GDP. For example, in 2020, balances were insufficient for one month of obligations. We have been steadily building up cash buffers in order to reduce rollover risks and increase market confidence. We accelerated our build-up of cash balances due to the appetite for government securities and high financing needs anticipated in the first half of 2024, and we expect our cash balances to stabilize. Our approach trades off (i) comfortable coverage of needs in domestic and foreign currency, (ii) increased use of foreign financing consistent with our MTDS, and (iii) our goals to contain interest costs and the headline debt. To improve the tradeoffs and meet our targets, we increased the use of liability management operations in line with our MTDS, rescheduled some disbursements, and conducted coordinated FX sales/purchases directly to/from the BCCR.

21. We stand ready to adopt a sovereign asset and liability management (SALM) at an operational level to effectively analyze and manage overall risk exposures. We agreed to publish the recent Technical Assistance report on SALM to facilitate a broader discussion on a new framework among stakeholders. The Committee for Sovereign Assets and Liabilities was established to coordinate public debt management, cash management, and financial programming of the budget, which facilitates managing the liquidity surplus properly. We are evaluating the appropriate mechanism to facilitate implementation of an investment strategy, which will allow us to reduce the

cost of carry. We plan to develop a roadmap to implement key recommendations proposed in the report by September 2024. This roadmap should cover broadening data collection on all sovereign assets and liabilities, consistent with international accrual accounting standards, and establish a framework to analyze system-wide liquidity risk, rollover risk, contingent liabilities, and other shocks to the budget.

22. We are advancing our efforts to improve data quality and transparency in fiscal reporting. We are committed to improving the timeliness, quality, and comprehensiveness of the fiscal, financial and debt accounting for the public sector, with support from IMF TA. Despite some delays due to the hacking attacks on several government systems, we resumed efforts to adopt the GFSM 2014 accrual accounting standards for fiscal and debt information. We finalized and published the compilation of monthly revenue and expenditure (above-the-line) data excluding accrued interest for 2019-2023 for the Consolidated Central Government (CCG), including for all extrabudgetary units (*unidades descentralizadas*) in March 2024. We have produced Budgetary Central Government (BCG) debt stocks, including loans and debt securities at nominal value (including accrued interest) according to the GFSM 2014 framework for August 2023 and are producing monthly data before the end of the following month. To allow for a year's worth of observations, facilitate inter-year comparison, and carefully communicate the implications of the methodological changes to the public, we will publish a report detailing and explaining the BCG debt and accrued interest data in October 2024. We will progressively extend this effort to expand institutional coverage of GFS and PSDS to the general government (GG) and its subsectors (CCG, CCSS, and local governments). We published monthly GG above the line data (excluding accrued interest) from 2019-2023 in March 2024. We will have compiled monthly debt data (including accrued interest) for the CCSS for December 2023 to February 2024 consistent with 2014 GFSM accrual accounting standards by end-May 2024. We will publish at least a year's worth of monthly consolidated GG fiscal data consistent with GFSM 2014 standards in January 2025, and debt data (including accrued interest) in September 2025. We will expand institutional coverage to include nonfinancial public corporations' GFS above-the-line and PSDS quarterly data by end-March 2025. In this context, we initiated the compilation, consolidation, and dissemination of 2022, 2023 and 2024 data on assets and liabilities for all subsectors of CCG, and gradually that from local governments, the social security fund, and the nonfinancial public corporations, and developed the reporting of fiscal risks (in the context of the MTFF), to include contingent liabilities, guarantees, concession contracts, and the indebtedness of municipal governments and nonfinancial public corporations by end-March 2025. These improvements include the comprehensive collection and reconciliation of financing (below-the-line) data, the harmonization of both methodology and data coverage among national accounts, government finance and public sector debt statistics, as well as coordinated improvements on public sector accounting to guarantee stock-flow consistency, allow balance sheet enhanced analysis, and provide improved data for decision making. These improvements form part of our efforts to harmonize statistics with those of other countries in the region.

IV. MONETARY AND EXCHANGE RATE POLICY

23. Monetary policy continues to be underpinned by our firm commitment to low inflation within an inflation targeting framework. Maintaining low and stable inflation, under a flexible exchange rate, is critical to secure domestic and external stability, consistent with the BCCR's mandate. Given rising inflationary pressures in the wake of the COVID-19 pandemic and upside risks to the inflation forecast, the BCCR began to raise the policy rate in December 2021. As a result of the protracted commodity shock from the war in Ukraine, inflationary pressures became more entrenched and started to impact inflation expectations. In response, the BCCR accelerated its tightening pace, bringing the policy rate to 9 percent by October 2022. In addition, the minimum legal reserve requirement rate for deposits and obligations in national currency was raised from 12 percent to the typical maximum level of 15 percent in July 2022. Together with the decline in global fuel prices, this monetary tightening led to a decline in inflation and inflation expectations starting in September 2022. The removal of strong upward base effects revealed weak underlying inflationary pressure, primarily associated with lower commodity prices alongside past appreciation, and inflation bottomed out at -3.3 percent y-o-y in August 2023. Since then, the disinflation has gradually moderated to -0.5 percent y-o-y in April. This led to a breach of the outer lower MPCC band in December 2023 and March 2024 by 1.6 and 1.4 percentage points, respectively (Table 1, as described in the attached TMU). In light of the accelerated decline in headline and core inflation, the decline in inflation expectations, and the downward revision to the inflation projection, the BCCR saw room to move towards a less restrictive monetary policy stance since March 2023 and lowered the policy rate by 4.25 percent by April 2024.

24. Monetary policy will remain data dependent and forward-looking to meet the inflation target of 3 percent, with a tolerance band of ± 1 percentage point. The BCCR will continue to monitor inflation developments closely and communicate clearly and transparently the drivers of inflation, the inflation outlook, and the implications for monetary policy. The BCCR will continue its prudent move towards a neutral monetary policy stance as soon as conditions allow.

25. We are committed to allowing the exchange rate to flexibly adjust, in line with market conditions, and to maintain international reserves at adequate levels. Costa Rica operates a flexible exchange rate regime, intervening only to avoid disorderly market conditions and to maintain adequate reserves levels. During the first half of 2022, the BCCR faced significantly higher FX demands from energy imports by the NFPS and from pension funds. This was only partially offset through the BCCR's FX purchases from the market, resulting in the end-June 2022 and end-September 2022 NIR targets being missed by US\$612.2 million and US\$48.6 million, respectively. As external pressures eased in the second half of 2022 and throughout 2023, the BCCR proactively purchased foreign currency from the market and exceeded all the NIR targets from end-December 2022 to end-March 2024. The end-December 2023 and end-March 2024 NIR targets were exceeded by US\$4982 million and US\$4832 million, respectively. The Internal Audit Office of the BCCR have been regularly reviewing the NIR and underlying data, in line with the definition in the TMU, and, as needed, reconciled them with the audited financial statements as of the end of the fiscal year. We intend to continue maintaining levels of reserves in line with the IMF's Assessing Reserve Adequacy (ARA) metric.

26. A calibrated series of operational reforms are underway to deepen the FX market and further enhance exchange rate flexibility. The BCCR is taking steps to strengthen the predictability and transparency of its FX transactions and create incentives for greater reliance on market-based transactions. To improve visibility on large orders and better manage FX demands from the NFPS, since April 2022, NFPS entities must give advance notice of at least one month to the BCCR for FX requests. We pass the NFPS's demand for FX to the market as quickly as possible, so as to facilitate price discovery in the FX market and greater exchange rate flexibility. We will target the use of FX intervention to addressing excessive exchange rate volatility, given Costa Rica's shallow FX market and currency mismatches arising from dollarization. Recommendations by the BCCR staff for reforms of the FX market are being considered by the BCCR Board. The BCCR is considering measures to improve the functioning of the spot foreign exchange market in order to favor better price formation and liquidity, including the introduction of market makers that will enhance liquidity in the market. Specifically, we have identified potential candidates for a market makers scheme, who would have an obligation to regularly quote prices based on minimum trading lots and maximum bid/ask spread, and we are in the process of defining the appropriate incentives for entities to take on the market maker role. Once we have achieved better market functioning and liquidity, we will re-extend Monex's trading hours starting with a gradual expansion that aims to cover at least the hours of heavy trading at the commercial banks' windows. To improve efficiency and price formation, the BCCR is looking for ways to balance the participation of different parties with different order sizes. In line with these objectives, to promote ethical, responsible and transparent behavior of participants in Monex, we introduced an obligation to adhere to the FX Global Code, which is implemented starting January 2024. We also plan to revise the FX intermediaries' net open FX position requirements in line with best practices in peer countries, including by loosening the daily NOP limit, to enhance their market making ability. With better liquidity in the spot market, we will also work to develop the FX derivative market, which would improve FX liquidity, hedging potential, and price formation. A master agreement is being developed (in coordination with foreign exchange intermediaries) for the negotiation of FX derivatives in the country by end-2024. We also see the need for NFPS to enhance their ability to manage currency risks and reduce their reliance on the BCCR as an intermediary for FX transactions. All the envisaged reforms will be conducted in a manner consistent with our Article VIII commitments and The IMF's Institutional View on Liberalization and Management of Capital Flows. All these actions to deepen the FX market and allow for greater flexibility of the exchange rate would complement other measures being taken to reduce financial dollarization (¶130), which in turn should reduce financial vulnerabilities and strengthen monetary policy transmission.

27. We stand ready to further strengthen the BCCR's independence, transparency, and accountability in the implementation of the flexible inflation targeting regime. The amendments to the BCCR Law in 2019—to tighten the dismissal rules for the BCCR Governor, delink the Governor's term from the political cycle, and remove the Minister of Finance's voting rights in the BCCR Board—have improved the personal autonomy provisions in the law. To further strengthen the BCCR law, and in line with the recommendations of the IMF's 2020 Safeguards Assessment, we submitted to the MOF draft amendments to the BCCR law, prepared in consultation with IMF staff, by end-August 2021, meeting the relevant structural benchmark. The final

amendments, however, were not submitted to the Legislative Assembly by end-December 2022, missing the structural benchmark. Therefore, taking into account the particularly challenging political environment, we decided to adjust the implementation process of this reform. In June, we submitted to the Legislative Assembly a subset of the previously foreseen changes to the BCCR law, which are now with the Commission of Economic Affairs. We remain committed to addressing remaining Safeguards Assessment recommendations to strengthen the BCCR's autonomy, governance and operational structure, and believe that the most viable way to achieve this is by the award of constitutional autonomy to the BCCR. We have already prepared such legislation and intend to facilitate its submission to the Legislative Assembly as soon as the political context so allows. The constitutional autonomy will then allow us to implement measures envisaged in the original structural benchmark. The BCCR has completed nine of the twelve recommendations from the Safeguards Assessment. Following the needed Constitutional Court decision, the Executive Branch is taking the necessary steps in order to fill the current vacancy in the BCCR Board. In addition, we will develop a long-term roadmap to continue to strengthen the BCCR's equity position.

V. FINANCIAL SECTOR POLICIES

28. We have made significant progress in financial sector reforms. Over the last years, we have approved and implemented several important financial sector reforms, building on the IMF's 2018 Financial Sector Stability Review (FSSR) and OECD recommendations as well as the WB's 2022 FSAP Development Module. As a result of sound prudential policies, the banking system has strong capital and liquidity buffers, as evidenced by the stress test results. Nevertheless, high levels of unhedged FX borrowing and indebtedness in the household and corporate sectors are important sources of vulnerabilities in the financial system. To increase transparency, since March 2023, SUGEF began to publish the names of the domestic systemically important financial entities, the quarterly Capital Adequacy Ratio of each supervised financial entity, and information on the bottom up stress test (BUST) results. While the first publication of the BUST results only covered aggregated results of systemically important financial entities, we started to publish stress test results for each participating entity in January 2024, together with arranging a press conference to explain objectives, methodology and scenarios to the public.

29. The banking sector remains stable. Although the BCCR lowered the policy rate significantly, the lending rates remain high. To help borrowers in financial difficulty, CONASSIF and SUGEF created a transitional loan classification category—to soften the effect on the risk rating when financial entities make modifications (extensions, restructurings, refinancings) in their credit operation— on January 1, 2023. This measure also incentivizes borrowers to report their true conditions, which helps financial entities to modify credit operations in response to the true situation of the borrower. We are keeping this measure transparent by recording all the historical changes in classification. To prepare against adverse economic conditions, SUGEF has also reactivated counter cyclical provision from January 2023, which was reduced in 2020 to mitigate negative effects coming from the COVID-19 crisis. In addition, CONASSIF approved a new regulation and guidelines for credit provisioning effective from January 1, 2024, which uses an updated

methodology, risk parameters, credit segmentation, and similar treatment to credit restructurings, extensions or refinancing. In parallel, we have strengthened reporting and monitoring efforts, as laid out in the attached TMU, and we will continue to monitor the situation closely, including through the Financial Stability Committee's (FSC) Monitoring and Coordination Group (MCG) comprising senior representatives of the BCCR, CONASSIF, the Superintendencies, and the MOF. The technical group supporting the MCG will continue to meet frequently to follow up on key systemic developments and financial risks and to detect and anticipate sources of stress, including interest rates and FX movements. Over the years, we have also made significant progress in systemic risk assessment by strengthening our credit, market and liquidity risks' stress test models and contagion risk tools. We will continue updating our bottom-up and top-down stress test results and publishing them in our annual Financial Stability Report. In line with the BCCR's roadmap to integrate climate considerations into monetary and financial policies, we have been working to enhance our capabilities in climate risk management, including through an integrated climate and economic model, and developing stress testing methodologies (¶45). Also, SUGEF has developed a roadmap to incorporate key recommendations to enhance the resilience of the financial system in the 2022 World Bank Financial Sector Assessment report. The regulations to tighten authorization requirements to address the shortcomings in Core Principles 5 and 6 were approved in March 2024, following several industry consultations. The amendments to the central bank law (no. 7558) and the bank resolution and deposit guarantee law (no. 9816), aimed to underpin the legal power of superintendents by strengthening the corrective and sanctioning powers, were submitted to the Legislative Assembly in April 2024.

30. We have taken further actions to reduce the risks from financial dollarization, in line with international standards. Since 2018, the BCCR has allowed for greater exchange rate flexibility, helping agents internalize exchange rate risks (¶25-26). However, this effect may be reduced by the strong appreciation of the exchange rate since mid-2022, generating incentives for economic agents to once again take risk in foreign currency. The FSC is closely monitoring the risks from dollarization, and SUGEF and CONASSIF have continued to take further measures to recognize these risks in prudential parameters, including (i) establishing a higher general provision requirement for loans to non-FX generators; (ii) calculating liquidity coverage requirements by currency; (iii) requiring additional capital requirements for foreign currency mortgages to unhedged borrowers, based on LTV thresholds; and (iv) requiring banks to assess the sensitivity of debtors' payment capacity to exchange rate changes. SUGEF and CONASSIF have (i) revised the definition of an unhedged borrower, which took effect in January 1, 2023; and (ii) issued a new regulation imposing additional capital requirements on foreign currency loans to unhedged borrowers, in replacement of the general provision mentioned above. In the new regulation, the definition of unhedged borrowers is based on information on whether borrowers currently have a natural hedge or financial hedge against exchange rate risk, and thereby reduces the room for discretion in the assessment of currency mismatches between their income and loan currency. These natural or financial hedges are only considered when they cover at least 100 percent of the loan instalment, regardless of the number of hedges. Also, the regulation establishes a gradual increase in the risk weight for credits to unhedged borrowers, starting on January 1, 2024, and ending on January 1, 2031. The risk weight, which has stricter standards compared to Basel ones, applies gradually to

both the loan balance by end-December 2023 and to the marginal loans from the corresponding effective date. To increase transparency, SUGEF has also begun to publish data quarterly on unhedged FX borrowing since March 2023, and end-March data was uploaded to our website in April 2024.

31. We are advancing efforts to strengthen the prudential regulatory and supervisory regime. The reforms to the laws on consolidated banking supervision and on securities market regulation passed in 2019 (Law no. 9768) marked important milestones towards effective supervision by strengthening the powers of supervisors, including sanctioning ones, in line with international best practices.

- **Implementing consolidated supervision.** In May 2022, CONASSIF approved a regulation to strengthen the governance of supervised financial entities, holding companies, and affiliated companies of financial groups and conglomerates, which took effect on January 1, 2023, with transition arrangements towards full implementation. In September 2022, CONASSIF introduced regulations to implement consolidated supervision of financial groups, including issuing guidelines to strengthen regulatory provisions and information sharing, and to update the solvency and capital requirements for financial groups, with different aspects taking effect in a phased manner starting January 1, 2023. With support from IMF TA, we identified further room for improvement and are taking additional steps (including fine-tuning the regulation and supervisory guidelines) to strengthen the supervisory framework for domestic financial conglomerates depending on their size, risk and profile.
- **Phasing in risk-based supervision.** We are taking further steps to advance our risk-based supervision framework, including by adopting Basel III standards in a phased manner: (i) SUGEF enhanced its liquidity risk management supervision through improvements in the monitoring of the liquidity coverage ratio, and the net stable funding ratio is expected to come into effect with transitional arrangements from September 1, 2024; (ii) SUGEF also revamped its credit risk management framework by introducing forward-looking assessment of losses and provisioning requirements, with new regulation and guidelines for provisioning finalized in November 2021, which came into effect from January 1, 2024; (iii) we have revised banks' capital definition, established conservation and systemic importance capital buffers, and the definition of systemically important institutions, in line with Basel III, with the regulation issued in August 2021, to come into effect from January 1, 2025; (iv) we have also reviewed the regulation on capital requirements for market risk and credit risk, and included the measurement of interest rate risk in the balance sheet of the banking sector, all of which is expected to be approved in July 2024 with effective date on January 1, 2025, to be implemented gradually. These effective dates will allow for a sufficient adjustment period in the context of the combined effect of the new regulations on the financial system. During the adjustment period, the financial entities have been required to assess operational and financial impacts from some of the aforementioned regulations and send these results to SUGEF on a quarterly basis, starting in the last quarter of 2022. Based on available resources, we will continue to strengthen practices toward fully risk-based supervision, such as broadening the risk assessment of banks beyond

specific business lines and bringing in more specialized expertise to assess and validate their risk management practices. In June 2023, SUGEF launched a functional re-organization to reallocate supervisory resources in response to new responsibilities for resolution and consolidated supervision, and to modernize the structure as required by the risk-based supervisory approach. The structure we envision will have an area that will bring together risk specialists who will provide transversal support to the supervision process. The challenge will be to have the budget and agile processes to attract and maintain qualified professionals or external experts, strengthen analytical and statistical capabilities, and continue developing supervisory skills on emerging risks. The organizational change proposal was sent to the BCCR and will be discussed by the BCCR Board by May 2024, with the expectation of being approved shortly after.

- **Strengthening supervisors' legal powers and protection.** Drawing on the Basel Core Principles assessment from a recent FSAP developmental module, we intend to pursue critical legislative reforms to strengthen supervisors' legal powers and protection. Specifically, we intend to grant to supervisors the legal powers to (i) dismiss members of the Board and senior management of banks for engaging in unsafe and unsound practices; (ii) ease the legal conditions for the exercise of supervisory powers (giving more discretion to the supervisor); and (iii) establish a separate appeal procedure for (at least) the most serious supervisory measures, and to establish that the intervention agreement or the effects of the measures adopted prior to the declaration of non-viability of the entity can never result in the reversal of its legal effects. Moreover, we will work to recalibrate the sanctioning framework to provide the proper incentives. In addition, we intend to strengthen the legal protection for supervisors with respect to coverage of legal costs, and protection against good faith errors. These amendments to the law aimed to underpin the legal power of superintendents were submitted to the Legislative Assembly in April 2024. Finally, with support from IMF TA, we are developing the regulations and supervisory process to impose additional capital requirements under Basel Pillar II on individual banks. In particular, the draft regulations for interest rate risk in the banking book, which is Basel capital framework regarding the risks arising from adverse movements in interest rates affecting the bank's banking book positions, are expected to be approved in July 2024.
- **Responding to cyber risks.** In addition, with support from IMF TA, we prepared draft regulations to address governance and risk management of cyber risks, including with respect to information sharing, immediate incident reporting and testing frameworks, as well as how to address third-party risks and response to and recovery from cyber incidents. Moreover, the supervisory authorities will follow up with implementation plans prepared by financial institutions. The draft regulations, which were reviewed by the IMF TA mission in April 2023, are expected to be approved in July 2024.

32. We continue to strengthen our financial safety net by enhancing our banking resolution and deposit guarantee framework in line with best practices. We have advanced our crisis preparedness framework considerably, with the approval by the Legislative Assembly in February 2020 of the law on banking resolution and the creation of a deposit guarantee fund (DGF) (law no. 9816). Implementing regulations have been in effect since May 2021, and quarterly

payments into the DGF started in October 2021. In May 2023, CONASSIF approved the regulation on recovery and resolution plans, which establishes a period of 12 months, at SUGEF's request, to present the recovery plan and the report to support the resolution plan. With support from IMF TA, we are further strengthening the legal framework on bank resolution and deposit insurance, including adequate institutional arrangements for the DGF and the resolution authority, sufficient resolution powers, and clear resolution triggers. This includes enhancing the legal regime for resolution and recovery plans. In this context, the MOF created a commission in coordination with SUGEF, CONASSIF and the BCCR to prepare a plan for the back-up resolution financing, clarifying the roles and contributions by the various stakeholders, with the technical support from the IMF. Accordingly, we finalized draft amendments to Law 9816 and other relevant laws, in coordination with CONASSIF, MOF and the BCCR, and submitted the final legal amendments in line with program understandings, to the Legislative Assembly in April 2024 (**structural benchmark**). The financial safety net and the crisis preparedness framework have also been strengthened by the continuous monitoring of macro-financial risks by the MCG (¶29), including through an updated early warnings system; an updated contingency plan for episodes of financial stress, with the inclusion of a communications protocol; and the BCCR's recent enhancement of its Lender of Last Resort mechanism. We will assess the scope for improvements to the Lender of Last Resort mechanism for it to perform its function in a timely and effective manner. As a contingent measure in situations of stress, the BCCR increased the tenure of the emergency liquidity facility from 24 hours to 84 days.

33. The Executive Branch is committed to levelling the playing field between public and private banks to foster competition. Several distortions and regulatory asymmetries hamper both private- and state-owned banks, and hence their ability to support growth and job creation in Costa Rica. To remove these asymmetries, we understand that in the future it is necessary to prepare a proposal for the Legislative Assembly including the following: (i) conversion of parafiscal contributions by state-owned banks into a single commensurate transfer to the CG budget, adjusting the fiscal rule spending accordingly; (ii) removal of the requirement on state-owned financial institutions to comply with public procurement requirements; (iii) gradual phasing out of the requirement for private banks, which have not opened agencies or branches in certain areas listed in the law, to transfer a part of their short-term deposits as a loan to state-owned banks (the *peaje*), while identifying alternative ways to channel resources to underserved sectors, limiting any fiscal contingent liabilities. The asymmetry generated by the existing legal requirement for NFPS to do their banking with state-owned banks will be corrected with the approval of the legislation on the Single Treasury Account (¶15) that is being discussed by the Legislative Assembly. The legal amendments to our banking resolution and deposit guarantee framework submitted to the Legislative Assembly (¶32) include gradually phasing out of the existing blanket guarantee for state-owned banks. We will work to improve the BCCR and MEIC database that compares credit products across the financial system, to enhance information for financial consumers and foster bank competition.

34. We are pressing ahead with our efforts to promote financial inclusion. During the pandemic, a sharp increase in the use of electronic transactions and the allocation of *Bono Proteger* have led to a significant increase in bancarization and financial inclusion. However, structural issues,

such as limited banking competition and partial coverage of the credit registry, push up lending rates and hinder financial inclusion. In line with the IMF's FSSR recommendations, the Ministry of Economy, Industry and Commerce (MEIC) has developed and started implementing a national strategy for financial education, with participation of the BCCR, CONASSIF and the Superintendencies. To broaden access to our payment system and promote digital banking, we have simplified requirements for opening a bank account and launched an electronic payment system for public transport nationwide. We are committed to improving the design and scope of the public credit registry, *Centro de Información Crediticia* (CIC). This initiative broadens the coverage by incorporating non-supervised credit providers, the data for which will be collected by private bureaus. The draft bill was approved by CONASSIF in December 2023, and is expected to be sent to the Legislative Assembly by May 2024. CONASSIF and the four Superintendencies finalized the draft legislation for financial consumer protection, following which the Executive Branch decided to revise the draft bill so that in the future this matter, for both regulated or non-regulated entities, will be in the hands of the MEIC. Moreover, with support from the IDB, CONASSIF, BCCR and the Superintendencies, we inaugurated in April 2022 a Financial Innovation Center to support and provide guidance to fintech startups. The Center is acting as an advisor to our ongoing efforts to strengthen and develop new regulations on fintech. We will ensure that our regulations strike a good balance between fostering innovation and protecting financial stability.

35. We remain fully committed to further strengthen the AML/CFT regime and disclosure of beneficial ownership information.

- Costa Rica has concluded its enhanced follow-up by the *Grupo de Acción Financiera de Latinoamérica* (GAFILAT), a regional FATF-style body, and continues to make significant progress in addressing the technical compliance issues in its mutual evaluation report. At the GAFILAT Plenary in December 2023, three FATF Recommendations (17, 22, and 28) were upgraded to compliant or mostly compliant. To strengthen compliance with Recommendation 15 on new technologies, which was downgraded to Non-Compliant due to the changes to the FATF standard, a draft amendment law (Bill No. 22.837) subjecting virtual assets (VAs) and virtual asset service providers (VASPs) to AML/CFT supervision by SUGEF had been presented to the Legislative Assembly on December 9, 2021. The draft was sent for consultation to SUGEF and the financial sector in October 2022 and is currently under review in the Legislative Assembly. We aim to achieve full compliance in the next mutual evaluation, set to begin for Costa Rica in February 2026. With support from TA, we are currently identifying areas for improvements.
- In order to support reporting entities' know-your-customer (KYC) and monitoring obligations, financial institutions are required to upload to CICAC (*Centro de Información Conozca a su Cliente*) the information from customers that explicitly authorize the financial entity. One of the objectives of the CICAC is to provide information that enables entities to create a unique client profile, justifying the origins of the fund. This facilitates the cross-checking of AML/CFT related activities. As of March 31, 2024, CICAC is holding over 114,941 active files with customer information from 48 financial institutions.

- To strengthen disclosure of beneficial ownership information, the BCCR's centralized beneficial ownership registry RTBF (Transparency and Beneficial Ownership Registry), has commenced to collect shareholder and beneficial ownership information for all legal entities except third-party resource managers and non-profit organizations. The information is accessible to the Ministry of Finance and the Costa Rican Institute on Drugs. A beneficial ownership declaration form for non-profit organizations is available since August 2023, and they will declare for the period of 2024 in due course. We have also completed the development of the technology that allows financial institutions' legal entity clients to share the beneficial ownership information, provided to the RTBF with the CICAC repository.

VI. STRUCTURAL REFORMS TO BOOST PRODUCTIVITY AND PROMOTE GREEN AND INCLUSIVE GROWTH

36. We are resolved to further advance our growth-enhancing reform agenda, to help achieve our medium- and long-term vision. In May 2021, Costa Rica officially became an OECD member, following a successful accession process, which saw the introduction of 14 landmark legal and administrative reforms. As underscored in our new National Development and Investment Plan, we remain fully committed to further advancing our reform agenda. Specifically, our strategy hinges on three key objectives: (i) protecting the most vulnerable and supporting inclusion, including by promoting greater female labor force participation; (ii) boosting productivity growth, including by eliminating barriers to business formalization, investment, and job creation; and (iii) promoting a green recovery, anchored by our National Decarbonization Plan and the goal of becoming a zero net emission economy by 2050.

I. Protecting the Most Vulnerable and Boosting Productivity Growth

37. We are taking steps to foster productivity growth to attract investment and create jobs. Our efforts focus on reducing skill mismatches and promoting innovation, closing infrastructure gaps, cutting red tape, and attracting FDI:

- **Formalization.** To incentivize formalization, since 2017, the CCSS has adopted plans to reduce social security contributions, targeting populations where informality is prevalent. To ensure the burden of social security payments is lower for vulnerable workers, in 2020 the CCSS created a specific mechanism to provide coverage for coffee harvest workers, including migrants and their families. This model changed the tripartite contribution mechanism involving worker, employer and state to a two-party modality where contributions are covered by the state and ICAFE, the Costa Rica's coffee institute, eliminating employees' contributions and thus the burden for workers. In addition, in October 2023, the National Insurance Institute (INS) and ICAFE, in collaboration with the Ministry of Agriculture, launched a new mechanism to further protect coffee harvesters through an occupational risk insurance scheme. To encourage formal part-time or flexible employment, the CCSS Board of Directors formulated in June 2022 a plan to adjust the minimum contribution base of the mandatory pension and health insurance schemes for part-time workers and submitted it for public consultation. While the related structural

benchmark was not met by end-June as originally envisaged, the CCSS approved the final plan in September 2022. For health insurance, the reduced minimum contribution base (MCB) is being implemented in three phases to minimize the shortfall of contributions, starting in January 2023 as planned for workers below the age of 35; in January 2024 for workers below the age of 50; and in January 2025 for all workers. For pension insurance, the plan allows part-time workers who earn less than the MCB to accumulate fractional quotas, counted to receive a pension benefit, proportional to their contributions. For instance, contribution brackets are set from, less than 25 percent, 25-50 percent, 50-75 percent, to over 75 percent of the MCB; and workers are credited with 0.25, 0.50, 0.75 and 1 quotas, respectively (a total of 180 quotas are required to receive a minimum pension). Furthermore, since May 2022, to ease independent workers' entry to the social security system, the CCSS allows them to contribute voluntarily to the health- and pension schemes for 6 months provided their income is below the MCB, but after the 6-month period, the health and pension contributions to the CCSS become automatically mandatory. The MCB for health- and pension insurance is being implemented as expected and has reached more than 34,800 and 28,900 workers, respectively, in February 2024. The CCSS is implementing law No. 10232, approved in December 2022, which authorizes the relief of social security debts in order to encourage the formalization of more than 18,750 independent workers and employers. The CCSS also issued the regulation of the law (No. 10.363), approved in May 2023, to reduce the cost of settling independent workers' unpaid debts with the CCSS from 10 to 4 years. To reduce the administrative burden for firms, we reduced the number of minimum wages across job categories for the private sector from 26 to 16 over the last four years, and we intend to further reduce the number of categories to 11 by end-June 2024, in line with OECD recommendations.

- Education.** To improve the quality of the education system, we launched a Roadmap for Education (*Ruta de la Educación 2022-2026*) in February 2023. The Roadmap is progressing as expected and we have provided to the public regular updates. A report that summarizes the progress in implementing the Roadmap for Education is expected to be available in May 2024. To improve the transparency and efficiency of the public education system, *Ministerio de Educación* (MEP) is developing a project with WB and IDB support through which the MEP will develop an internal reorganization and decentralization plan, following MIDEPLAN guidelines, by end-December 2025. With UN support, we are working to transform the current budget structure to a results-based one, for which an information system of indicators will be developed by end-September 2024. A guideline has been implemented and the 2024 Annual Operations Plan has been adjusted to reflect these results. We have also developed 13 guidelines for teachers to strengthen students' competences in school curricula for: i) citizenship; ii) life; and iii) employability and entrepreneurship. Since February 2023, it is mandatory that all children in first grade know how to read and write to enter the next school year, for which we have implemented the strategy *La Aventura de Leer y Escribir*. Support for teachers to accelerate the learning process will be provided, for instance, in the case of English as a second language, through *ABC Mouse* and *My Math Academy* accelerators, which are available for teachers of 489 educational centers as of October 2023. Through these programs, we are offering free training opportunities for teachers to further improve digital, methodological, and English competencies.

We are developing a preliminary proposal for a new teachers' performance-based evaluation model, which will include: i) defining a desired profile for teachers with reference to the National Qualification Framework by end-December 2024; ii) supporting teachers to identify their real profile by end-March 2025; iii) providing courses and online/offline support materials for teachers to close skill gaps during 2025; and iv) evaluating teachers based on desired profiles in 2025. The Ministry of Education administered a standardized digital test for 163,000 students from grades 6 (end of primary school) and grades 11 and 12 (end of secondary school) to measure students' performance at the beginning and the end of the year (*Prueba Nacional Estandarizada*) starting in 2023. For 2024 school year, tests are scheduled in April and November. In addition, a comprehensive test was applied to students from all grades, where 766,000 students completed the test at the initial and mid-year terms in order to prepare educational recovery plans. Test results were shared with teachers, school principals and other stakeholders to better understand areas requiring further strengthening. To reallocate teachers' time away from administrative responsibilities to focus on teaching and support to students that lag behind, we introduced the new Agile Evaluation System (SEA) to replace the time-consuming registration systems in place. We assessed the SEA and found high rates of acceptance among 11,878 interviewed teachers in 2023. We will work on the SEA improvements identified by teachers. 92 percent of the educational centers have internet connection and, to close the digital gap, we expect to connect the remaining centers during 2024. In addition, we have provided high-speed internet connection in 2,886 centers, including 910 centers from rural areas with satellite internet. In collaboration with the Ministry of Health, we have identified 849 schools with sanitary orders. We are addressing the infrastructure gap by: i) executing budget resources allocated to the "*juntas de educación y administrativas*" to provide maintenance, design and construction of 1054 centers using funds from the 2022 and 2024 budgets; ii) constructing 103 new centers during the 2022-24 period; iii) investing in school infrastructure (leveraging Public-Private Partnerships (PPPs)) and building 26 educational centers under the program *Adopte un Centro Educativo*, including two in indigenous territories; iv) including \$151 million in a broader infrastructure CABEL loan for the construction and repair of 133 centers; and iv) building 3 new mega-centers (infrastructure that brings together students from various levels/locations) in 2025. To help youth in low-income families, we are increasing food support at school towards the universalization of the provision of meals benefiting 523,874 preschool and primary students. Food assistance was also provided to nearly 300,000 secondary school students. As of December 2023 (compared to December 2022), food provision was offered to nearly 77,875 new students in schools located in low-income areas. In addition, 23,862 poor students living far from education centers started to receive school transportation during the 2023 school year. We are working with IMAS to ensure that the *Avancemos* scholarship program is achieving its purpose of maintaining students in the classrooms. To address this, we issued a directive requiring school principals to monthly report when an *Avancemos* scholarship student drops out of school to ensure early detection and re-enrolling, while improving the targeting of social spending. In February 2021, a Bilingualism Education Policy was introduced, with an Action Plan to improve proficiency in a second language by 2040, including students in rural areas. We administered English and French tests to 75,000 secondary school students and we are processing the results to place them according to the Common European Framework of

Reference for Languages (CEFR). 62 and 49 percent achieved A2 and B1 in French and English, respectively. We are also providing English lessons to 24,236 preschoolers and piloted a plan to test the oral and written English skills of primary and secondary students (8,333 and 7,954, respectively) using artificial intelligence. We are strengthening the implementation of the vocational curricula of technical careers in the context of Industry 4.0, with 5 technical education careers starting in February 2024 and 6 new careers under dual education also beginning in February 2024. This is in addition to the February 2023 launch of 5 new technical education programs, and 4 more programs under dual education. In 2023, we assumed the official leadership of the technology education agenda and approved the inclusion of technological courses in the national curriculum. Starting in 2024, 1,857 schools began teaching the technology program within the official curriculum to benefit 691,000 students while other 2,500 schools began using technology in other subjects to benefit 289,000 students. In total, the program is already reaching out to 4,357 schools benefiting 980,000 students from kindergarten to adult education. We also worked on linking public universities' funding to labor market needs by including targets and commitments in the 2024 university budget negotiation agreement. A comprehensive review to revamp the dual education scheme (whereby students complete their degrees while working in industry) will help raise skill levels and improve education outcomes. We also reformed a regulation to streamline the approval and monitoring processes for private higher education careers, under which we have improved by 275 percent the approval rate of new and revised careers. A new program was also developed for persons who have not completed their secondary school degree, and in March 2024 5,000 students were able to graduate from high school, bringing new opportunities to improve their employability. A second phase for this initiative has been approved for almost 600,000 persons who finished 9th grade but were unable to complete their secondary school, which is planned to start in May 2024.

- **Investment climate.** To attract investment, we are identifying spending priorities and promoting PPPs, with support from CABI and IDB, to reduce existing physical and digital infrastructure gaps, consistent with our fiscal consolidation plans under the program. With IDB support, we launched the Program of Road Infrastructure and Promotion of PPPs, which will provide critical training on PPP development across central and local governments during 2022-24, and we will assess changes in legislation, including in bill No. 24009 and associated regulations, needed to enhance the PPP framework by June 2024. In February 2023, we issued a methodological guide to evaluate the appropriateness of PPPs. We also identified a portfolio of infrastructure projects that could be developed through PPPs, including a new airport and highways. In parallel, we will work with the non-government sectors to address the challenges and build confidence in the PPP model, along with the development of the required structural reforms. Another critical step in promoting investment is our ongoing effort to reduce electricity tariffs (T19). To further promote high quality, innovative and affordable telecommunication services in all our territory and develop digital skills, we launched in December 2022 a new National Telecommunications Plan 2022-2027. This plan aims to generate the necessary conditions to encourage the timely deployment of robust, scalable, resilient, and sustainable telecommunications network infrastructure (regulated by Law N° 10216 and derived regulations, which were issued in January 2024). The target is to increase competition among mobile

technology operators, including 5G networks, for which we will conduct a tender process by end-June 2024. To strengthen public sector cybersecurity, we launched the Cybersecurity Strategy for public consultation and the final version was published in November 2023. In collaboration with the private sector, we have launched the program *Le Dejamos Trabajar*, which eliminated 140 obstacles for businesses by end-September 2023. To continue the deregulation strategy during 2024-2026, we issued the Directive No. 032-MEIC. To this end, a consultation phase with the public sector has been completed. As part of our strategy, we implemented *Costa Rica Fluye* commitments with 10 public institutions to enact 16 regulatory and administrative improvements, of which 9 were completed and 7 are ongoing. We also implemented a single-window system (VUI), where businesses can apply for licenses and permits. To further cut red tape, the VUI was implemented in 51 local governments, while measures to simplify 163 procedures across the public sector to start a business, integrate environmental permits, and centralize procedures at the national level to provide a single point of contact, in line with OECD recommendations, were completed in September 2023. In September 2022, we issued 11 decrees to eliminate minimum fees to increase competition in professional associations. Currently, in 7 services there are no minimum fees, allowing professionals and consumers to freely agree on the fees. Since some of the decrees were not operational due to legal issues, we also submitted a bill (No. 23.357) to the Legislative Assembly in September 2022 to eliminate mandatory fees for all professional associations. In addition, the regulations for the implementation of a new bankruptcy law (Ley 9957) were published in September 2023. The law simplifies the bankruptcy process to reduce the duration and cost of liquidation proceedings and promote the restructuring of affected firms. To foster FDI attraction, already one of Costa Rica's strengths, we will promote innovation clusters to remove information barriers and facilitate the integration of domestic firms in global value chains. In line with this, we foresee that multinational companies will expand their operations in Costa Rica as a result of the partnership with the United States to explore semiconductor supply chain opportunities. In March 2023, we amended the Development Banking System Regulations to ease financing for entrepreneurs in rural areas, women, youth, vulnerable populations and SMEs, and halved the time it takes to formalize guarantees. We also approved a regulation to promote investment in the renewable energy sector (142).

38. As part of our efforts to promote inclusive growth, we continue to focus on increasing female labor force participation. Costa Rica's long-standing provision of universal healthcare, pensions, and general education has supported greater inclusiveness and equality of opportunities. We aim to further promote inclusive growth by strengthening female labor force participation, which is considerably lower than for men, despite women having better educational outcomes. In this context, we launched in September 2020 the Gender Parity Initiative (IPG), with support from the IDB, WB, and AFD, to reduce women's care burden—the top obstacle to female labor force participation—and promote their participation in the labor market, particularly in leadership positions. Under the IPG, we plan to implement an action plan with measures ranging from regulatory changes to awareness-raising initiatives that involve the public and private sectors. We will issue a decree by end-June 2024 to revamp the IPG to strengthen governance and coordination

between the public and private sector. We are also advancing our gender budgeting agenda to support the implementation of IPG and other initiatives to reduce the gender economic gap (¶15).

- Workplace discrimination and sexual harassment.** We continue to work on the program that certifies gender equality in the workplace at private companies and the public sector. In addition, we appointed inspectors from the Ministry of Labor and Social Security in each region to monitor and sanction gender discrimination, including pay gaps, in private companies. The gender focus inspections were done in agriculture, commerce, industry, services and transportation sectors and have benefited more than 10,380 women. Infractions on gender discrimination, wage differentials and lack of breastfeeding rooms have been issued, and labor judges are taking courses on this matter. Moreover, in October 2022 we launched a strategy to combat sexual harassment (Decree 43771-MSP-MTSS-MCM), dubbed *Ruta de Género*. The strategy was revamped in October 2023 and includes the provision of emotional and legal support to victims, the increase of resources for first-response centers, *Puntos Violeta*, and secure spaces (such as businesses and stores — including in tourist sites — that provide assistance in case of harassment), and the development of an app to report violence cases, including protocols to prevent harassment in public transport by issuing a drivers' handbook. To increase awareness on harassment, a broad communication campaign is being developed.
- Childcare.** The 2018 fiscal reform expanded the definition of public education to include early education centers, with a view to help reallocate funds to increase the supply of public childcare services. In 2021, childcare services were increased by covering 15,000 additional children (relative to 2017), with a focus on children up to 5 years old, improving access for low-income households. We also increased the coverage of children below 12 relative to pre-pandemic levels during 2023. To expand coverage, we have completed a review of the supply of existing childcare services, standardizing the costing framework and the basic certification for the supply of services. We have reviewed the governance of the childcare network *Red de Cuido* and we will submit a bill to the Legislative Assembly to: i) define governance; ii) increase coverage by reducing average cost per child with IDB support; iii) define financing sources; iv) establish childcare services depending on demand and service offered by private entities; and v) better target the population. This bill will be submitted to the Legislative Assembly by end-July 2024. In addition, through a PPP alliance, we will launch the CRECCE project to pilot a tripartite co-payment scheme (government, private sector and beneficiaries) to certify companies providing childcare services and promoting female participation in the labor market by end-December 2024. Stronger childcare facilities can in turn support educational outcomes and female labor force participation. The Public Employment Bill (¶13) has also introduced for public sector workers one month of paternity leave, a two-month extension of maternity leave (in specific cases), and paid leave to take care of a family member.
- Long-term care.** In March 2022, the SINCA (*Sistema Nacional de Cuidados y Apoyos para personas adultas y personas adultas mayores en situación de dependencia*) was created (Law No. 10192) to improve the quality and access to long-term care. We issued the SINCA's regulation in November 2023 to implement the governance of the long-term care system, as established in

the law. A plan will be progressively implemented along five pillars: governance, data intelligence, strengthening of care supply and benefits, generation of conditions for closing gender gaps in labor markets, and quality assurance. With support from the IDB, in an effort to unify access to long-term care in November 2023, we issued a decree to make mandatory the allocation of benefits through the tool *Baremo*, which defines a single dependency scale. We are aiming for 6,000 vulnerable households (according to the *Baremo*) to receive long-term care support by end-December 2026. Furthermore, effective in 2023, we implemented a benefit (care subsidy for people in a dependency situation) to 3,500 households with a female head living in impoverished conditions and caring of a severely dependent person. The Ministry of Health expects to design accreditation standards to strengthen the quality of long-term care home services by end-May 2024. In addition, by end-July 2024, the *Baremo* will be integrated into SINIRUBE to identify the dependent population, as well as level of dependency and the supply of services of the national care system for dependent adults and senior adults. INA worked on updating the training available and providing training in long-term caregivers' services, with IDB support. Moreover, we are working with the IDB on developing a pilot of home care services to support caregivers (*Cuidadores a domicilio*), for which a methodology to quantify the cost of a minimum set of care services (*Canasta de dependencia*) was finalized in May 2024.

- Education and entrepreneurship.** The ongoing efforts to strengthen our education system and vocational training as well as to deepen financial inclusion (¶34) will be critical to support women's economic empowerment. We have re-designed the plan to boost at regional level the program *FOMUJERES*, which finances women-owned businesses and provides support to formalize them. We started its implementation in August 2023. This plan has made the entrepreneurship process more user-friendly for women, providing technical assistance during the formulation phase of business projects, and granting financing in the planning and development phases. Additionally, state institutions including public banks and private entities jointly completed pilot programs to strengthen financial inclusion and women's empowerment, a project financed by CAF, by focusing on the design of financial products based on women's specific needs. A new project to elaborate a National Strategy for Financial Education with a gender focus is being developed between MEIC and INAMU, with CAF support. INAMU launched a roadmap to guide 178 women from entrepreneurship up to the export stage of their products in November 2023, as well as the broader gender roadmap to strengthen women's economic autonomy in March 2024. To this end, MEIC and INAMU amended in April 2023 the regulations of Law 8262 to facilitate women's access to comprehensive financial services. The objective is to provide institutional support and develop a special financing program for vulnerable women to strengthen their economic independence through INAMU, Banco Popular and FODEMIPYME. In collaboration with the IDB, in 2022 we completed the incorporation of all regions in the country into the STEAM education strategy to continue fostering the participation of women in these fields. 56 new educational public institutions were added in 2022 to the 166 institutions already implementing the STEAM education strategy, and we incorporated 27 new public institutions in 2023 to reach 249 public institutions implementing the STEAM strategy. We will also continue to implement our national action plan for gender equality in scientific and technological fields, which will strengthen female labor force participation and productivity

growth. As part of this policy, a new scholarship program was developed to promote STEAM careers by reformulating incentives to attract women to technical education through the INA's program *Rompiendo moldes*, as well as a new student grant approved in 2023 to financially support 231 women in STEAM careers. More than 10,000 women have trained with a conditional cash transfer program for capacity development (*Empleate* program), of which 2,000 studied STEAM fields. As part of the dual education program, INA has created new alliances with 60 companies impacting regional employability and new options for the young workforce during 2023. Furthermore, since 2022 the INA has been revamping its services by transitioning from a previous objective-based curriculum model to a new competency-based one. This shift has enabled the discontinuation of 61 percent of services, which were not aligned with the current model, and has led to the creation of 685 competency-based services aligned with the National Qualifications Framework's standards. This diversification of INA's offerings is achieved through services related to training, education, and labor competency-based certification, including STEAM. The Ministry of Education launched an employability and entrepreneurship-focused program that will enable adults who are lagging behind to obtain their secondary education diploma (1137).

- **Employability.** We launched Costa Rica's first National Employability Strategy (*Estrategia Brete*) in July 2023 to promote the employability of vulnerable groups, targeting 25,700 women, the young population and people with disabilities. We will launch a pilot to implement a result-based trained to grant employment transfers are aligned labor market demand. We also published a employment and health coverage strategy for regular migrant workers in December 2023 and a plan to improve working conditions of female migrant workers (which take a large share of paid housekeeping jobs) in September 2023, with ILO support.

II. Adapting to Climate Change, Decarbonizing the Economy, and Promoting Green Growth

39. We are strongly committed to responding to the challenges of climate change and fostering the transition to a resilient and low-carbon economy. Our ambitious strategy centers on: (i) adapting to climate change, with a strong emphasis on crisis preparedness, climate-resilient infrastructure, as well as our agriculture and agroindustry; (ii) reaching net-zero emissions by 2050 while ensuring a just transition in terms of jobs and growth; (iii) greening the financial sector, monitoring the risks posed by climate change and updating our modeling and regulatory tools; (iv) mobilizing official and private financing to meet the significant short- to long term costs to confront the long-term challenges from climate change within our budget envelope. In this context, we have been fully committed to implementing the reform measures supported by the Resilience and Sustainability Facility, which are important elements of our broader comprehensive climate strategy and complementary to reforms supported by other development partners. This instrument

has been critical to our efforts, together with the additional climate finance resources it is expected to catalyze.

40. To support our strategy, we are enhancing our institutional readiness to respond to the climate change challenge. The Ministry for Energy and the Environment (MINAE) has overall responsibility for climate change issues. To mainstream and consolidate governance of the ecosystems, we submitted a bill (23.213) in June 2022 to integrate relevant decentralized bodies (for example, *Comisión Nacional para la Gestión de la Biodiversidad*, *Fondo Nacional de Financiamiento Forestal*, and *Sistema Nacional de Áreas de Conservación*) into MINAE. The legislative committee approved it in February 2023, we are addressing 400 amendment requests, and we expect the bill to be approved by the Legislative Assembly by end-2024. MINAE produced our National Adaptation Plan with the support of MIDEPLAN and our National Decarbonization Plan with the support of other ministries. The National Commission of Risk Prevention and Emergencies (CNE) coordinates actions and articulates the overall disaster management framework. MINAE's National Directorate of Climate Change oversees our Carbon Neutrality Country Program (PPCN 2.0), which supports the country's mitigation efforts by providing a mechanism for the voluntary adequate management of greenhouse gas emissions for public and private organizations, and is working to include more sectors in the program's management. Moreover, we will establish a data-driven, highly inclusive process to update NDCs and long-term climate action plans including the new National Development Plan for the environmental sector, which was launched in October 2022. MINAE, through the Secretariat of Planning's Environmental Sector (*Secretaria de Planificación del Sector Ambiente (SEPLASA)*) is coordinating with MIDEPLAN and ministries and entities that are part of the environmental sector to ensure the sustainability of the modeling and analysis capabilities that have been developed over the last six years. The BCCR is part of the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) and established the Group for Strategic Analysis of Climate Change (GAECC), which is instrumental in coordinating national efforts to green the monetary and financial sector (¶45).

41. We are pushing ahead with our adaptation efforts, given the considerable vulnerability of our people and economy to climate change. We launched a National Adaptation Plan (NAP) in April 2022 to set climate adaptation milestones for 2022-2026 consistent with the National Policy on Adaptation across different sectors of the economy.

- **Disaster Risk Management.** With support from the WB, we are strengthening our National System for Disaster Risk Management—which has been in force since 2006—in line with the Institutional Strategic Plan 2018-2022 of the National Commission for Risk Prevention and Emergency Care. Based on the National Risk Management Policy for the period 2016-2030, the National Risk Management Plan is currently in force for the period 2021-2025. Costa Rica has served as a pilot for the application of the Global Risk Assessment Framework (GRAF), with which the following products have been generated: An inventory of information sources to evaluate risk in sectors in charge of critical infrastructure, a risk modeling system for various threats including those linked to climate, and methodological guides for evaluating the impact of disasters in critical sectors. Costa Rica has served as the setting for the execution of the

project “Principles for a resilient infrastructure” developed by the United Nations Office for Disaster Risk Reduction, which applies a stress test of critical service infrastructure, which must conclude with the design of sectoral strategies to ensure the continuity of services. We will have business continuity policies in all providers of public services by November 2024. We will decentralize and increase access to early warning, preparedness, and response services, including in coastal areas. We have already developed climate risk maps for extreme hydrometeorological events for 23 country cantons and expect to cover all remaining cantons by end-June 2024. We also plan to address the significant gaps in integrating climate-related risks into spatial planning and regulations. Currently only about 50 percent of Costa Rica’s cantons are regulated by land-use/spatial plans, and the Regulatory Plans (urban and coastal) and Regional Development Plans do not always take into account climate change considerations. Considering the importance of spatial planning for resilient infrastructure, the Ministry of Housing and Human Settlements (MIVAH) and National Institute of Housing and Urbanism (INVU) in collaboration with MINAE, with AFD support, developed and published guidelines for including climate change considerations in Regulatory Plans in March 2024 (**RSF reform measure**). The guide is available on the INVU’s website. We are working with local governments and with MIDEPLAN’s Pre-investment Fund to implement the new guidelines into all the new regulatory plans and gradually adjust the existing ones in order to increase resilience to current and future climate-related events and preserve ecosystems. In complementary work, the National Commission for Risk Prevention and Emergency Care is providing information to the municipalities on climate-related risks. To aid the most vulnerable productive sectors, a new insurance scheme has been developed to enable agricultural producers to protect their harvests against climate change risks using parametric climate criteria. The scheme will offer affordable insurance premiums for the producers through a bill introduced in May 2024.

- **Climate-resilient infrastructure and public investment management.** We developed a roadmap to enhance infrastructure resilience to climate change in September 2022 (structural benchmark) with a view to guiding the technical planning and implementation, including through an assessment of the medium-term investment needs and associated costs, beyond what is already in the pipeline, as well as available private and public sector financing options to support them. In line with the road map, we have identified several priority actions to reduce infrastructure loss due to climate change and the associated interruption of public goods provision, fiscal costs of rebuilding and retrofitting existing infrastructure, and damage to transport and water sectors. To meet the fiscal costs amid tight fiscal space, we are exploring new opportunities for green finance from official and private sources (¶146), while at the same time seeking ways to improve the efficiency of public investment. In this context, we are committed to strengthening our institutional capacity to plan and manage efficiently green and resilient investment projects, building on the recommendations of the PIMA (¶115) and its climate change module, with support from IMF TA. In 2020, we issued a Decree (N°42465- MOPT-MINAE-MIVAH) on incorporation of resilience measures in infrastructure. With WB support through the Public Expenditure and Accountability Framework for assessing climate responsive PFM (PEFA Climate), we have continued building climate change considerations into public investment management, by updating the methodological guidelines for preparing and

appraising public investment projects to incorporate principles to handle exposure and resilience of public works to disasters. As the next step in project appraisal and as part of our enhancements to the operation of the SNIP (115), we developed and published guidelines to expand the project appraisal process to assess the impact of the project on climate change through the social cost of carbon by end-September 2023 (RSF reform measure). The guidelines indicate an estimate of the social cost of carbon and a detailed application to the transport sector, which we produced with the support of the Economic Commission for Latin America and the Caribbean. As a next step, we are helping institutions to apply them. We are also advancing our work to strengthen project selection criteria. With the support of the IDB and a private company we finalized a methodology to score and prioritize capital projects according to a set of criteria and weights. Building on the piloting of this new methodology, we published guidelines setting clear and transparent project selection criteria including a range of climate change criteria for SNIP entities in December 2023 (**RSF reform measure**). Given the increased prevalence of climate-related disasters, we are also resolved to have a more efficient and proactive approach to capital maintenance to strengthen infrastructure resilience. With support from the German Development Agency (GIZ), we produced a Methodology for the Evaluation of Climatic Risks in the Public Infrastructure of Costa Rica (MERICI), which could be applied to other countries. In this context, guidelines were issued to assess needs and allocate adequate amounts of resources to routine and capital repairs. For example, with the support of CABEL and the WB, we have started to strengthen infrastructure under imminent threat from disasters and identify what other infrastructure could be at risk.

42. We are strongly committed to promoting environmentally sustainable growth by implementing the mitigation strategies in our ambitious National Decarbonization Plan.

Recognizing the need for prompt and bold action to mitigate climate change, in 2019, we launched a National Decarbonization Plan, pledging to reduce greenhouse gas emissions to a net absolute maximum of 9.11 million tons of carbon dioxide equivalent (CO₂e) by 2030 and achieve zero net emissions by 2050. The Plan is among the few assessed to be consistent with limiting global warming to 1.5°C, in line with the Paris Agreement. With almost 100 percent of the electricity matrix currently sourced from renewables, we start off from a strong position to increase the share of electricity and hence the role of renewables in the broader energy matrix.

- **Renewable energy.** Our efforts to increase competition in the energy sector and reduce electricity prices from renewable sources will support decarbonization. We published the implementing regulation of Law No. 10086, as approved by the Legislative Assembly in October 2021, to simplify the administrative procedures for private participation in power generation from renewable sources for self-consumption in February 2023 (RSF reform measure). This regulation is in line with best practice as it boosts competitiveness and investment for market participants by: i) defining responsibilities for owners to promote the safe and reliable interconnection of the electricity grid; ii) securing the economic sustainability of generation projects by authorizing the sale of energy surpluses and encouraging the use of price signals or different tariffs depending on the time; and iii) declaring certain activities, such as energy storage and electric vehicle charging, as "services of general interest", which allows public

services to be provided by private players. Since the regulation was issued, more than 50 new operators have participated in electricity production, in addition to the existing operators who have switched to the new framework. Operators report that the regulation has facilitated cost efficiency and reduced vulnerability to climate change and external shocks (i.e., *El Niño* and oil prices). To complement this action, we completed efforts (i) by the Costa Rican Institute of Electricity to enact tariff reductions by reducing operational costs, restructuring debt, and implementing IFRS; (ii) by the *Autoridad Reguladora de Servicios Públicos (ARESEP)* to reduce electricity prices charged by other generators beyond ICE with IDB support, applying new tariff methodologies; and (iii) to introduce measures to remove barriers to foreign participation in the energy sector through legislation currently under consideration by the legislative assembly (¶19). Through our proactive approach to rainfall storage, we mitigated the effects of lower rainfall (a result of *El Niño*) on hydroelectricity production. We are also developing the legal framework to allow the private sector to use geothermal energy in industrial processes, agriculture, and tourism. Currently only ICE is allowed to use low-enthalpy geothermal energy, and we have finalized a draft bill and will submit it to the Legislative Assembly to facilitate private provision and expanded use of this renewable energy in August 2024. To complement hydroelectric and geothermal sources of renewable energy, ICE in March 2024 announced plans to scale up solar sources.

- **Electrification of transport.** Transport is key to broader efforts to increase the shares of renewable energy in the economy (which include efforts described in the ICE group 2023-2027 strategy). To support the electrification of private vehicles, the Legislative Assembly approved a bill to extend tax incentives for electric vehicles to 2034. Moreover, we are developing a feebate scheme to promote the transition to low-emission vehicles (¶18). The scheme comprises a sliding scale of fees to light-duty vehicles with above-average emission rates and a sliding scale of rebates to light-duty private passenger vehicles with below-average emission rates levied at the time of purchase or import of new or used vehicles up to 5 years old. The current design aims to be revenue-neutral, with safeguards to reduce risks of revenue loss. With support from IMF TA, we completed the technical design of the feebate scheme. We submitted to the Legislative Assembly the bill on the introduction of the feebate scheme to strengthen incentives for low-pollution private vehicles in November 2023 (RSF reform measure). As part of our systematic cost-benefit analysis of tax exemptions (¶11), we appraised and published a review of existing tax incentives with a negative effect on the environment to support decarbonization efforts in April 2024 (**RSF reform measure**), with a view to streamlining them over time. In parallel, we will continue encouraging fleet electrification processes in the transport sector—the largest contributor to greenhouse gas emissions. For public transport, we developed new promotional electric tariffs, building on the experience of existing pilots, for the use and supply of electricity associated with charging centers for electric buses and incorporate the tariff into the current tariff schedules of electricity distribution companies. With support from the IDB, we installed 55 fast charging centers nationwide by end-December 2022. The scheme requires that new buses follow the guidelines of the National Decarbonization Plan, Nationally Determined Contributions, and the National Electric Transportation Plan, and it took effect in March 2024, thus steadily increasing the share of zero-emissions vehicles in the fleet. We are determined to

revamp public transportation. To this end, we launched a plan for self-sustainable financing to electrify public transport buses by end-2024. We expect to have 500 zero-emissions buses by end-2025. In addition, by end-2024, we will launch the public transport sectorization plan, which includes a cost-efficient route redesign, electronic payment, and the integration of the urban train into the public transport routes. All these measures will also encourage the use of public transport instead of private transport. In a pilot project, we introduced electric taxis in Juan Santamaria Airport in December 2023.

- **Agriculture and forestry.** The agriculture and forestry sectors play a major role in carbon sequestration and are therefore key to reaching our zero net emission target. With assistance from the GIZ, we will further support farmers in adopting resilient and low-carbon technologies and practices by providing technical assistance, promoting agricultural research on low-carbon and resilient solutions, and further developing financing instruments. We are also scaling up adaptation and mitigation actions such as nationally appropriate mitigation actions (NAMAs) for coffee, livestock, rice, sugarcane, and bananas, with support from the IDB, AFD, and GIZ-EU and the participation of CONARROZ, CORBANA, FEDECANA and other private-sector actors. The scaling up entails a stocktake of capacity in each sector to design the adaptation and mitigation actions, sectoral mitigation scenarios and targets, operationalization through financing and innovation, and monitoring. We are advanced on the pilot in the rice sector and have started the sugar pilot. We completed an assessment of the costs of such a scaling up and identified suitable financing, starting with priority sectors, by end-March 2023. With support from the WB and the Global Environmental Facility, we will refine our payment for ecosystems schemes to cover the entire landscape (including agriculture, livestock, and forestry), differentiate payment according to the environmental benefit and source of financing, and reduce associated transactions costs, as envisaged in our PSA 2.0 directive to be published by June 2024. To support this, the 2022 National Development and Investment Plan envisages additional training and land coverage. We also established initiatives to promote job creation through such schemes, including in the wood industry.
- **Marine ecosystems.** We are also committed to supporting the “blue” economy through sustainable and innovative approaches to the use of coastal areas while ensuring their conservation. We exceeded our goal to protect 30 percent of our marine territory under conservation schemes by end-December 2022 early. To this end, in December 2021, we signed the decree 43368-MINAE to expand the protection of Coco Island National Park and Montes Submarinos Marine Area to consolidate the protection of important marine ecosystems as well as endangered species and high commercial value ones and promote sustainable tourism and other economic activities while preserving the health and resilience of the ocean. This is part of a broader regional conservation and management strategy in the Eastern Tropical Pacific, which aims to establish a transboundary biosphere reserve to consolidate swim-ways or underwater biological corridors that will connect Cocos Island (Costa Rica), Galapagos (Ecuador), Malpelo (Colombia) and Coiba (Panama), with the relevant technical papers ready and interim governance structures established for jointly managing financial support received by the four countries. We filed the application in March 2024. We are also piloting programs to strengthen

wetlands and mangroves while improving the lives of the local populations, with donor support, in order to leverage these ecosystems' ability to reduce net emissions. To this end, we have issued 300 permits, and expect to issue another 300, to community members to protect and sustainably use mangrove resources keeping the biological cycle of this ecosystem in balance. We are also seeking other opportunities to extend the payment for environmental services model to the marine sectors, starting with the fisheries, with WB support.

- **Environmental trade.** We are making progress in negotiating an Agreement on Climate Change, Trade and Sustainability (ACCTS) with five other countries (Fiji, Iceland, New Zealand, Norway, Switzerland) to ensure that our trade policy supports the goals set forth by the National Decarbonization Plan. We and other ACCTS members have agreed to work towards eliminating tariffs on environmental goods trade, barriers to environmental services trade, and environment-damaging subsidies and commitments. Relevant government institutions published a roadmap in November 2023 and presented at COP 28 our sustainable agro-landscapes strategy, which with the support of the IDB, World Bank, GIZ, and others, will help position our agro products as sustainable and carbon neutral on global markets under a unified brand (Essential Costa Rica). MINAE is supporting the Ministry of Foreign Trade in negotiations with trading partners for such products and we are seeking financial support for implementing good practices. The strategy outlines three phases, including moving from making agriculture not only net-zero in deforestation but also carbon neutral (initially excluding transport) and low in use of agrochemicals.

43. We are further developing our strategy for transition mitigation. In March 2021, we released the Territorial Economic Strategy for an Inclusive and Decarbonized Economy 2020-2050, with support from the IDB. The Strategy aims to gradually transition to an inclusive and decarbonized economy by 2050, with 12 development poles, six corridors—that will facilitate the interaction between these poles—and 12,750 km² of territorial management areas. The strategy involves policy measures on economic growth, social inclusion, human capital, gender, infrastructure and connectivity, and natural capital. Among the fifty priority actions, key just transition actions include expanding coverage of early English education and implementing training programs on the green and blue economy. Our modeling work, with support from the IDB and UN, has estimated that our National Decarbonization Plan has economic benefits of US\$41 billion in net present value terms and a net positive effect on jobs by 2050. With ILO support, we conducted a pilot study of new green jobs (including tasks that directly green the economy and reduce pollution and jobs that indirectly support those tasks) and blue jobs (in activities related to the oceans, seas, and coasts) focused on the North East coast. The study found that, although women's jobs tend to be more green and more blue than men's jobs, women are expected to account for a minority of new green and blue jobs created, and that there will be a growing gap between the demand for jobs and graduates. We are working on policies to promote enrollment in relevant programs, especially by women. Our 2022 National Development and Investment Plan includes a pilot program to help women transition to a green urban economy. In May 2023, we issued a decree and accompanying strategy to promote gender equality in climate action to comply with our Paris Agreement commitments, with UN support. With AFD and ILO support, we are conducting additional analytical

work to study the technical profiles for new green and blue jobs by end-September 2024. We expect to incorporate the analysis and policy plans in our just transition strategy in 2025. We are also promoting electricity and biomethane (produced from agricultural waste) as substitutes for bunker oil, LPG, and diesel fuel. To help different transport and domestic industries decarbonize, with IDB support we published a long-term green hydrogen strategy in July 2023. The strategy also seeks to make Costa Rica a regional hub for green hydrogen innovation and to explore export opportunities. The strategy estimates an annual reduction of 225 000 tons of CO₂e by 2030 and the creation of 18,000 jobs over the period 2022-2030. Financing is being provided through the NAMA facility and the Green Climate Fund.

44. To proactively assess the macro-fiscal implications of our climate change strategy, we are integrating climate risks into our budget planning. In May 2022 we approved the functional budget classification system in line with the 2014 IMF Government Finance Statistics Manual and the international concepts and definitions of climate change and disaster risk expenditure. With the support of the IDB and the AFD we developed a methodology for tagging climate-related expenditure in budget and financial reporting, and the MOF published guidelines for climate budget tagging in January 2023 (RSF reform measure), which allow identification and quantification of positive and negative effects of public spending on climate change, natural disaster management, and biodiversity. We will enhance the capacities of ministries and agencies on green budget tagging and modify the financial management information systems to operationalize the new climate change expenditure classification in time for the 2025 budget, with a view to monitoring and execution using these classifiers. In September 2022, we published a National Strategy for Financial Management of Disaster Risks, which quantifies financial losses and identifies possible financial instruments that could be mobilized *ex ante* (e.g., budget provisions, the National Emergency Fund, and insurance) or *ex post* (e.g., budget reallocations, new loans) to respond to such losses. The MOF, in collaboration with the National Commission for Risk Prevention and Emergency Care, will develop and publish an implementation plan of the strategy to select an optimal combination of instruments by end-December 2024. For example, our new National Development and Investment Plan has a target to increase emergency funds available for managing risks to 0.25 percent of GDP. We are seeking funding sources, including external sources, to achieve this goal, and conducting an actuarial valuation of the fund with WB support. In 2023, with support from the WB, we started an evaluation of the contingent liability, which determines future spending related to care and recovery from disaster events, including those associated with climate. This study determines which sectors have the most impact on the determination of this contingent liability and costs assignable to the State and the private sector are being estimated. In March 2023, we signed a Disaster Risk Management Policy Loan with a Catastrophe Drawdown Option with the WB, which will allow us to have immediate access to financial resources in the event of major disasters. While disaster risks are well integrated into the fiscal risks analysis, with IMF assistance, we included a preliminary introduction for transition risks in the September 2023 Medium-Term Fiscal Framework. With IMF support, we published a quantitative analysis of climate transition fiscal risks associated with the implementation of the National Decarbonization Strategy in November 2023 (RSF reform measure) and integrated those findings in the risk analysis of the March 2024 Medium-Term Fiscal Framework.

45. The BCCR and the supervisory authorities are pressing ahead with efforts to address climate change effects on the financial sector. In 2019, the BCCR joined the Network of Central Banks and Supervisors for Greening the Financial System (NGFS). The BCCR also established within the central bank the Group for Strategic Analysis of Climate Change (GAECC), comprising representatives of different departments, to address the impacts and risks related to climate change on the central bank's main objectives. With support from GAECC, the BCCR developed a roadmap to integrate climate change considerations into the design of monetary, financial, and macro-prudential policies. The roadmap is centered around four blocks: (i) establishing reliable and comparable data with identification of systematic data gaps; (ii) strengthening modeling and analytical capacity for scenario analysis; (iii) promoting climate change risk management in the financial system; (iv) and greening international reserves. Over the past few years, the CONASSIF and the Superintendencies have also worked to raise awareness and train the industry on the risks and opportunities associated with climate change, efforts that create strong synergies with the BCCR road map. They have aligned their agendas with the National Strategic Plan 2050. The GAECC now regularly coordinates efforts on climate change issues with the CONASSIF and the Superintendencies. The BCCR has taken the decision to dedicate permanent staff resources to the GAECC, which will ensure continuity and allow further strengthening and broadening of its coordination function. In line with these efforts, on October 4, 2023, the Superintendencies signed a Statement of Commitment to promote a resilient financial sector against climate change risks.

- **Data and modeling to assess financial sector climate risks.** The BCCR is continuing to take stock of the required data to adequately analyze the impact of climate change and to identify suitable indicators that can serve as a reference to measure and monitor climate-related risks. An important part of monitoring such risks is to document the main climate risks faced by Costa Rica at a more granular level, combining information from various sources, and identifying systemic data gaps. Supervisory agencies will coordinate efforts to obtain firm-level disclosures of climate-related risks to inform the design of regulatory and supervisory approaches to manage these risks, within their respective mandates. SUGEF has identified improvements in the identification and location of real collateral guarantees and the understanding of the destination of resources. Concerning real collateral, new variables based on the political-administrative division of the country will be included in the reporting structures, including georeferencing. About destinations of the resources, valuable information is currently being reported by the financial entities. To make the most of the information, SUGEF will carry out specific actions on data mining, in-depth monitoring and data quality. In addition, an integrated database, with more granular information, is needed to systematically capture risks at the national level. To this end, the BCCR completed the RSF reform measure of creating a data repository, as a first step, covering 35 percent of the credit portfolio, which includes indicators of (i) main climate hazards, notably hydro-meteorological ones; (ii) degree of vulnerability to climate-related events at sectoral and geographical levels; (iii) exposure of banks' credit portfolios to vulnerable industries and regions. With support from the IDB, the BCCR has developed an integrated economic and environmental model to conduct impact analysis of climate and environmental policies and is

further advancing in the analysis of different climate scenarios combined with various mitigation and adaptation policies.

- Climate change risk management.** The BCCR is assessing the interlinkages between climate-related and macro-financial variables as well as the risks to the financial system from climate change. The BCCR is guided by the recommendations of the Network of Central Banks and Supervisors for Greening the Financial System in its “top-down” stress-testing methodologies. The BCCR remains committed to further expanding coverage of the data repository, to support our ability to map the main transmission channels of climate-related shocks to financial institutions and improve stress testing methodologies for macro-financial risk surveillance. The objective remains to incorporate climate effects on the banking sector, focused on physical risks, in BCCR’s “top-down” stress test, based on aggregated data built upon granular data and capturing those new risks on credit risk parameters. However, due to an ongoing legal process to determine the BCCR’s right to access the needed detailed information about the credit portfolio, the expansion of the data repository has been delayed. Without this detailed information, the credits cannot be properly matched with the geographic location of the economic activity being financed, as the loan dataset sometimes references the bank branch instead. Given the differences in the banks’ business models and in the geographic concentration of the activities financed, stress tests based only on the partial credit portfolio, which the BCCR has conducted, is likely to be misleading. While the legal process is still ongoing, the BCCR finalized the new stress test methodology in April 2024 (**RSF reform measure**) and preliminary information on the methodology was published in May 2024. Once full coverage of the data has been obtained, the BCCR will use the methodology to incorporate climate effects in its top-down stress tests as previously planned. The BCCR will further develop its methodologies and climate risk macro-financial scenario building to address the specific risks faced by Costa Rica, with a view to publish climate stress test results in future Financial Stability Reports and ultimately support the design of macro- and micro-prudential policies that effectively mitigate the impact of climate-related shocks. SUGEF has also started early work, supported by GIZ, to develop methodological guidelines and, as a pilot project, identify risk exposure in one bank, and the preparation will start in June 2024. The technical assistance focused on the assessment of the financial system and proposing a methodology to carry out the pilot stress testing. Additionally, technical assistance in several areas is in progress to support SUGEF in integrating climate-change related risks into its functions: supervision guidelines and practices, training for financial entities and supervisors, and the definition of a roadmap on the next steps in the agenda on climate-change risk for the financial sector, including developing the definition of green taxonomy, developing the data analysis capacities, and follow-up with supervised entities about regulatory changes.
- Greening international reserves.** The BCCR aims at leading the search of investments for its international reserves that is environmentally friendly and increases exposures to issuers with the best environmental performance. To this end, the BCCR published a final selection of indicators of the “greenness” of its reserve holdings together with its 2022 Annual Report published in March 2023 (RSF reform measure). The indicators for 2023 were published in March 2024 and

will be updated annually. The indicators are used to increase the investment limits for the issuers that perform well from an environmental perspective, using a “best in class strategy”, and without compromising the primary objectives of capital preservation, liquidity and return.

- **Regulation of socioenvironmental risks.** To lay the foundations for ensuring that the regulated financial sector entities adequately take into account socioenvironmental risks, including climate change risks, in a way that is consistent with the principles for the effective management and supervision of climate-related financial risks from the Basel Committee on Banking Supervision, CONASSIF approved a regulation on management of socioenvironmental risks and climate change risks in the credit portfolio in October, 2023 (RSF reform measure). This regulation aims to strengthen risk management by requiring banks to put in place policies and processes to manage socioenvironmental risks, to incorporate them into decision-making processes, and to promote actions to identify, assess and mitigate such risks. In particular, the regulation specifies roles for the Board and senior management, the main risk areas to be covered for credit risk management purposes (including physical and transition risks), classification of credit operations according to socioenvironmental and climate change risk assessment, and disclosure requirements in the Annual Risk Report of the financial entity. The scope of the regulation includes all supervised financial intermediaries except for some of the small and less complex cooperatives. Environmental and social risk management frameworks must be implemented no later than December 31, 2026, and financial institutions are required to report these environmental and social risk categories by January 31, 2027. We are also strengthening internal training for supervisors and processes to determine that banks are in compliance with the expectations above. As national and international practice in this area develops and we improve information collection and taxonomies, we will be able to take further steps towards the establishment of capital and liquidity requirements and requirements for market risk, operational risk, and other material climate-related risks. In the same way, the financial sector will gain the capacity to meet the requirements of the Task Force on Climate-related Financial Disclosures (TFCD), concerning governance, strategy, risk management, metrics and targets.

46. We are taking further steps to develop green financing. Our overall reform agenda, including fiscal consolidation to reduce debt; PFM reforms to improve monitoring, transparency, and accountability of green public investment projects; enhanced financial sector risk management; and efforts to develop deeper and more open capital markets for foreign investors, creates an enabling environment for attracting further green public and private financing. A study conducted with the support of GIZ identified activities with particular potential to attract foreign direct green investments, such as components for green hydrogen (¶43), green data centers for digitization, and the development of materials from waste recovery. FDI in these sectors will be supported by our overall agenda to improve the investment climate (¶37). We are also taking specific actions to attract other forms of green financing:

- The Legislative Assembly approved in October 2021 Law 10.051 to Promote Financing and Investment for Sustainable Development, through the use of Thematic Public Offering

Securities, to promote such financing for investment in activities aimed at achieving the national goals for a sustainable development and a green economy.

- CONASSIF approved updates to a series of associated regulations in May 2022 according to which supervised entities are (i) required to incorporate the sustainable or responsible component in their investment policies; (ii) required to incorporate ESG risk management into their risk management framework; (iii) allowed to issue ESG bonds; and (iv) recommended to include voluntary disclosures on their ESG actions in their annual reports. The first two of these measures were approved with a transitional period that ended in December 2023, and were complemented by regulation on management of socioenvironmental risks and climate change risks in the credit portfolio approved in October 2023.
- To further support the development of green financing, the CONASSIF and the Superintendencies are developing a single green taxonomy for the financial sector. Following initial technical assistance from the WB to develop general guidelines for a new taxonomy, the authorities, including MINAE, are starting a two-year project supported by the Green Climate Fund, with the United Nations Environment Programme as delivery partner, to create the taxonomy, expected to be finalized by December 2024.
- Our sovereign bonds are already included in indices that recognize our green credentials. Together with those assisting us with planned Eurobond placements and the UNDP, we have advanced our exploration of Costa Rica's ability to be further recognized as an Environmental Social Governance (ESG) sovereign to catalyze further financing from private investors by leveraging our ambitious climate actions, including through the possible issuance of Use of Resources bonds or sustainability-linked Eurobonds (SLBs). These bonds could reference key performance indicators related to forest coverage, ecological integrity, and biodiversity. To support the extensive monitoring and reporting requirements associated with such issuances, we are strengthening internal coordination between ministries to facilitate collaboration between relevant units of the MOF (including the Debt Management Office), MINAE and others, whose contributions are necessary for their potential issuance. Beyond the central government, the Costa Rican Institute for Electricity is exploring the issuance of a second sustainable bond with WB assistance.
- We are also working to develop a project preparation facility (PPF) with support from the IDB, aimed at creating a pipeline of sustainable projects to catalyze private financing. We are currently taking steps to strengthen our institutional PPP framework including by reviewing existing legislation and regulations, supported by IDB technical assistance, which would create the necessary conditions to establish the PPF. Initial operational costs of the PPF would be jointly covered with development partners, but once fully operational it would be self-financed. The PPF will help with the screening, appraisal and structuring of projects. This in turn will improve our capacity for project selection and the management of fiscal risks (for instance through the analysis of contingent liabilities from PPPs, which are currently important constraints to scale up investment in Costa Rica). It will also facilitate potential de-

risking support for structured finance provided by the IDB and other development agencies. We hope that the PPF could catalyze US\$1.2 billion in private sector investments.

VII. RISKS AND CONTINGENCIES

47. Risks come from an array of external and domestic factors. Intensified regional conflicts and resulting further supply disruptions, renewed global financial market turmoil and sustained tightening of global financial conditions, and weaker-than-expected global downturn, all carry the potential to adversely impact Costa Rica's economy. These shocks and the required policy response to renewed inflationary and external pressures would likely entail a slowdown in domestic activity. This could in turn lead to increased domestic financial vulnerabilities and weaker-than-expected revenue performance that would impact our fiscal consolidation strategy. Legislative pressures risk weakening the fiscal consolidation. Our exposure to natural disasters continues to pose important risks, which are likely to increase over time. These downside risks could renew concerns about debt sustainability. Although we are committed to reducing those risks over which we have influence, should any of these risks materialize, the government of Costa Rica stands ready to adjust promptly its policies. On the upside, were domestic or external developments to support a stronger economic performance, we stand ready to accelerate the adjustment and reform process, strengthening the resilience of our economy to future shocks.

VIII. PROGRAM MONITORING

48. Progress in the implementation of our policies, which are supported by the IMF, is monitored through semi-annual reviews, performance criteria (PCs), indicative targets (ITs), and structural benchmarks (SBs). Progress in meeting the inflation target under the program has been monitored through a MPCC. These are detailed in Tables 1, 2, and 3 with definitions and data requirements provided in the attached TMU. Purchases and disbursements under the EFF and RSF arrangements will be used for direct budget support during the program period consistent with the Memoranda of Understanding on the responsibilities for servicing financial obligations to the IMF under the EFF and RSF arrangements. The EFF arrangement ends on July 31, 2024.

Table 1. Costa Rica: Quantitative Performance Criteria (PC) and Indicative Targets (IT)^{1/}
(Cumulative from the beginning of the year, in billions of colones, unless otherwise noted)

	Table 1. Costa Rica: Quantitative Performance Criteria (PC) and Indicative Targets IT1/ (Cumulative from the beginning of the year, unless o.w. noted; in billions of Colones, unless otherwise specified)																			
	2023												2024							
	End-Mar			End-Jun			End-Sep			End-Dec			End-March							
	IT	Adj. Prog.	Act.	Met / not met	PC	Adj. Prog.	Act.	Met / not met	IT	Adj. Prog.	Act.	Met / not met	PC	Adj. Prog.	Act.	Met / not met	IT	Adj. Prog.	Act.	Met / not met
I. Quantitative Performance Criteria																				
Floor on cash primary balance of the central government (= borrowing)	152		467	met	305		646	met	457		810	met	609		730	met	230		352	met
Floor on net international reserves of the Central Bank (stock, in millions of U.S. dollars)	2,314	2,872	4,401	met	3,771	3,219	6,530	met	2,860	2,256	6,380	met	2,815	3,285	8,266	met	3,884	2,704	7,536	met
II. Continuous Performance Criteria^{2/}																				
Ceiling on accumulation of new external arrears (in millions of U.S. dollars)	0		0	met	0		0	met	0		0	met	0		0	met	0		0	met
III. Monetary Policy Consultation Clause (MPCC)^{3/}																				
Year-on-year inflation in the consumer price index ^{4/}																				
Upper outer band limit (3 percent above center point)	6.0		...		6.0		...		6.0		...		6.0		...		6.0		...	
Upper inner band limit (1.5 percent above center point)	4.5		...	inner	4.5		...	inner	4.5		...	outer	4.5		...	outer	4.5		...	outer
End-of-period inflation center point (percent)	3.0		5.9	band	3.0		0.7	band	3.0		-2.6	band	3.0		-1.6	band	3.0		-1.4	band
Lower inner band limit (1.5 percent below center point)	1.5		...	breach	1.5		...	breach	1.5		...	breach	1.5		...	breach	1.5		...	breach
Lower outer band limit (3 percent below center point)	0.0		...		0.0		...		0.0		...		0.0		...		0.0		...	
IV. Quantitative Indicative Targets																				
Ceiling on debt stock of the central government	29,710		29,035	met	30,254		30,394	not met	30,598		30,218	met	30,942		31,143	not met	31,317		31,314	met
V. Memorandum Items																				
External program financing (in millions of U.S. dollars) ^{5/}	0		0		890		0		890		0		1,360		53		534		0	
External project financing (in millions of U.S. dollars)	61		33		141		77		212		122		286		197		72		2	
External commercial borrowing (in millions of U.S. dollars)	0		0		1,500		1,500		1,500		1,500		1,500		2,922		0		0	
Domestic FX-denominated debt issuance (in millions of U.S. dollars)	0		646		220		680		220		731		220		749		60		208	
Proceeds from commercialization of public assets to non-residents (in millions of U.S. dollars)	0		0		0		0		0		0		0		0		0		0	
Amortization of official external debt by the central government (in millions of U.S. dollars)	64		76		95		111		158		174		256		377		163		1,048	
Amortization of external commercial loans (in millions of U.S. dollars)	1,000		1,000		1,000		1,000		1,000		1,000		1,138		1,000		138		0	
Interest payments of official external debt by the central government (in millions of U.S. dollars)	180		232		450		375		734		680		966		854		385		309	
Domestic FX-denominated debt service (in millions of U.S. dollars)	123		159		441		558		912		1,085		1,014		1,228		545		599	

1/ Definitions as specified in the Technical Memorandum of Understanding (TMU).

2/ The Standard Continuous Performance Criteria will also apply: (i) Not to impose new or modify existing restrictions on the making of payments and transfers for current international transactions; (ii) Not to introduce new or intensify existing multiple currency practices; (iii) Not to conclude bilateral payments agreement that are inconsistent with the IMF's Articles of Agreement (Article III); and (iv) Not to impose new or intensify existing import restrictions for balance of payments reasons.

3/ The Monetary policy consultation clause bands consist of two types of thresholds. The inner band triggers a staff consultation and the outer band triggers a Board consultation as detailed in the TMU.

4/ See the TMU for how to measure year-on-year inflation.

5/ Excluding IMF financing.

Table 2. Costa Rica: Structural Benchmarks and Prior Actions

Action	Target Date	Status	Comment
Prior Action			
MIDEPLAN to produce a single wage spine in compliance with the Public Employment Bill covering at least one-quarter of job positions in the executive branch.	Prior Action for Fourth Review	Met	June 3, 2023.
Structural Benchmarks			
Efficiency of government spending			
Legislative Assembly to approve Public Employment Bill.	End-May 2021	Not Met	Approved on March 7, 2022.
Implementation of Public Employment Bill, including introduction of a single pay spine.	End-March 2023	Not met	Pending for the CCSS, the judicial branch, and municipalities.
MIDEPLAN to incorporate 90 percent of the executive branch's job positions in the single wage spine.	End-September 2023	Met	
Revenue mobilization			
The Tax Commissioner to approve a new Tax Compliance Improvement Plan, in line with IMF staff recommendations.	End-December 2021	Met	
Fiscal governance and transparency			
Publication of financial statement under IFRS standards for fiscal year 2020 for three SOEs (ICE, AyA, CNP).	End-December 2021	Not met	Pending for a small firm under CNP.
Cabinet to approve and publish a Medium-Term Fiscal Framework for the entire Non-Financial Public Sector for 2023-2026.	End-April 2022	Met	
Cabinet to approve and publish a Medium-Term Debt Strategy (MTDS) for 2023-2026.	End-April 2022	Met	
Government to submit law amendments to the Legislative Assembly to centralize all debt-related functions of the government within the purview of a standalone Public Debt Management Office, reporting to the Minister of Finance.	End-June 2023	Met	

Table 2. Costa Rica: Structural Benchmarks (concluded)

Table 2. Costa Rica: Structural Benchmarks (concluded)			
Social safety nets			
MOF's National Treasury to centralize and digitalize the payment system for all the cash transfer social assistance programs, in coordination with social assistance units.	End-December 2021	Met	
IMAS to launch a single window for social programs under its authority.	End-February 2024	Met	
Monetary and financial sector reforms			
The BCCR to submit to the Ministry of Finance draft amendments to the BCCR Law, prepared in consultation with IMF staff, to strengthen the central bank's operational autonomy and governance framework.	End-August 2021	Met	
The government to submit amendments to the BCCR Law to the Legislative Assembly, prepared in consultation with IMF staff, to strengthen the central bank's operational autonomy and governance framework.	End-December 2022	Not met	Selected BCCR Law amendments submitted to the Legislative Assembly in June 2023.
Government to submit amendments to the bank resolution and deposit insurance law and related legislation, in line with program understandings, to the Legislative Assembly, to strengthen the crisis management framework.	End-December 2023	Not met	Submitted in April 2024.
Macro-structural reforms			
CCSS to formulate and approve a plan to adjust the minimum contribution base for part-time workers.	End-June 2022	Not met	Approved on September 1, 2022.
Authorities to develop a roadmap to enhance infrastructure resilience to climate change, including cost assessment and financing options.	End-September 2022	Met	

Table 3. Costa Rica: Reform Measures Under the Resilience and Sustainability Facility Arrangement			
Reform Measures (RMs)	Indicative Date	Expected Corresponding Review under the EFF Arrangement	Update
Integrating Climate Risks into Fiscal Planning			
RM1. Ministry of Finance to develop and publish guidelines for climate budget tagging.	End-February 2023	Fourth EFF Review	Completed
RM5. Ministry of Finance to publish a quantitative analysis of climate transition fiscal risks.	End-November 2023	Fifth EFF Review	Completed
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.	End-September 2023	Fifth EFF Review	Completed
RM9. MIDEPLAN to publish guidelines on project selection criteria including a range of climate change criteria for SNIP entities.	End-December 2023	Sixth EFF Review	Completed
RM10. MIVAH, in collaboration with MINAE, to develop and publish guidelines for including climate change analysis in Regulatory Plans.	End-February 2024	Sixth EFF Review	Completed

Table 3. Costa Rica: Reform Measures Under the Resilience and Sustainability Facility Arrangement (concluded)			
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.	End-December 2022	Fourth EFF Review	Completed
RM7. Government to submit to the Legislative Assembly a bill to introduce feebate scheme to strengthen incentives for low-pollution private vehicles.	End-September 2023	Fifth EFF Review	Completed
RM11. Government to appraise and publish a review of existing tax incentives with a negative effect on the environment to support decarbonization efforts.	End-February 2024	Sixth EFF Review	Completed
Greening Reserves and Strengthening Financial Sector Resilience			
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.	End-February 2023	Fourth EFF Review	Completed
RM4. BCCR to publish indicators of the "greenness" of its reserve holdings in its 2022 Annual Report.	End-February 2023	Fourth EFF Review	Completed
RM8. CONASSIF to approve regulation on management of socioenvironmental risks and climate change risks in the credit portfolio.	End-September 2023	Fifth EFF Review	Completed
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.	End-February 2024	Sixth EFF Review	Completed

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) sets out a framework for monitoring the performance of Costa Rica under the program supported by the Extended Arrangement under the Extended Fund Facility (EFF). It specifies the performance criteria and indicative targets (including adjustors) under which Costa Rica's performance will be assessed through semiannual reviews. Monitoring procedures and reporting requirements are also specified.

2. The quantitative performance criteria and indicative targets specified in Table 1 attached to the Memorandum of Economic and Financial Policies (MEFP) are listed as follows.

- a) a quantitative performance criterion on central government primary balance (floor);
- b) a quantitative performance criterion on net official international reserves (floor);
- c) a continuous quantitative performance criterion on new external payment arrears by the nonfinancial public sector and the BCCR (ceiling);
- d) a monetary policy consultation clause;
- e) an indicative target on debt stock of the central government (ceiling);

3. In addition to the performance criteria listed in Table 1, the arrangement includes the performance criteria standard to all Fund arrangements, namely:

- a) no imposition or intensification of restrictions on the making of payments and transfers for current international transactions;
- b) no imposition or intensification of import restrictions for balance of payments reasons;
- c) no introduction or modification of multiple currency practices;
- d) no conclusion of bilateral payments agreements that are inconsistent with Article VIII of the IMF Articles of Agreement.

- These four performance criteria are monitored continuously.

4. For program monitoring purposes, all foreign currency-related assets, liabilities, and flows will be evaluated at "program exchange rates" as defined in Table 1 below, except for items related to fiscal operations which will be measured at current exchange rates. The program rates are those that prevailed on September 13, 2022. Monetary gold will be valued at US\$1,703 per troy ounce, which was the price prevailing on September 13, 2022.

Colones to the U.S. dollar	635.725
U.S. dollar to the SDR	1.3068
U.S. dollar to the Yen	0.0070
U.S. dollar to the Euro	1.0179
U.S. dollar to the Canadian dollar	0.7620
U.S. dollar to the Chinese RMB	0.1443
U.S. dollar to the British Pound	1.1730
Gold price per troy ounce (U.S. Dollar)	1,703

5. Throughout this TMU, the central government figures comprise all branches of the government (executive, legislative, and judiciary), including the Comptroller's Office and the Ombudsman's Office; the Supreme Electoral Court; the budget lines "*Servicio de la Deuda Pública*", "*Regímenes de Pensiones con cargo al Presupuesto de la República*" and "*Obras Específicas*"; and the public entities that is required to be consolidated under central government (CG) from 2021 by Law 9524 (see below). The Central Bank of Costa Rica (BCCR), the state-owned enterprises and other public sector agencies are excluded from the definition of central government. For program purposes, the definition of debt is set out in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 16919-(20/103) adopted October 28, 2020.

Specifically, the following entities are required to be consolidated under CG by Law 9524:

1. *Agencia de Protección de Datos de los Habitantes (PRODHAB)*, 2. *Casa de Cultura de Puntarenas*, 3. *Centro Costarricense de Producción Cinematográfica*, 4. *Centro Cultural e Histórico José Figueres Ferrer*, 5. *Centro Nacional de la Música*, 6. *Comisión Nacional para la Gestión de la Biodiversidad (CONAGEBIO)*, 7. *Comisión Nacional de Prevención de Riesgos y Atención de Emergencias (CNE)*, 8. *Comisión Nacional de Vacunación y Epidemiología*, 9. *Comisión de Ordenamiento y Manejo de la Cuenca Alta del Río Reventazón (CONCURE)*, 10. *Consejo Nacional de Clubes 4-S*, 11. *Consejo Nacional de Concesiones (CNC)*, 12. *Consejo Nacional de la Persona Adulta Mayor (CONAPAM)*, 13. *Consejo Nacional de la Política Pública de la Persona Joven (CPJ)*, 14. *Consejo Nacional de Vialidad (CONAVI)*, 15. *Consejo de Salud Ocupacional (CSO)*, 16. *Consejo de Seguridad Vial (COSEVI)*, 17. *Consejo Nacional de Investigación en Salud (CONIS)*, 18. *Consejo Nacional de Personas con Discapacidad (CONAPDIS)*, 19. *Consejo Superior de Educación (CSE)*, 20. *Consejo Técnico de Asistencia Médico Social (CTAMS)*, 21. *Consejo Técnico de Aviación Civil (CTAC)*, 22. *Consejo de Transporte Público (CTP)*, 23. *Dirección Nacional de Centros de Educación y Nutrición y de Centros Infantiles de Atención Integral (Dirección de CEN-CINAI)*, 24. *Dirección Nacional de Notariado*, 25. *Fondo de Desarrollo Social y Asignaciones Familiares (FODESAF)*, 26. *Fondo Nacional de Becas (FONABE)*, 27.

Fondo Nacional de Financiamiento Forestal (FONAFIFO), 28. Instituto sobre Alcoholismo y Farmacodependencia (IAFA), 29. Instituto Costarricense sobre Drogas (ICD), 30. Instituto Costarricense de Investigación y Enseñanza en Nutrición y Salud (INCIENSA), 31. Instituto Nacional de Innovación y Transferencia en Tecnología Agropecuaria (INTA), 32. Instituto de Desarrollo Profesional Uladislao Gámez Solano, 33. Junta Administrativa del Archivo Nacional (JAAN), 34. Junta Administrativa de la Dirección General de Migración y Extranjería, 35. Junta Administrativa de la Imprenta Nacional (JAIN), 36. Junta Administrativa del Registro Nacional, 37. Laboratorio Costarricense de Metrología (LACOMET), 38. Museo de Arte Costarricense, 39. Museo de Arte y Diseño Contemporáneo (MADC), 40. Museo Histórico Cultural Juan Santamaría, 41. Museo Nacional de Costa Rica (MNCR), 42. Museo Dr. Rafael Ángel Calderón Guardia, 43. Oficina de Cooperación Internacional de la Salud (OCIS), 44. Patronato de Construcciones, Instalaciones y Adquisiciones de Bienes, 45. Servicio Fitosanitario del Estado, 46. Servicio Nacional de Salud Animal (SENASA), 47. Sistema Nacional de Áreas de Conservación (SINAC), 48. Sistema Nacional de Educación Musical (SINEM), 49. Teatro Nacional (TNCR), 50. Teatro Popular Melico Salazar (TPMS), and 51. Tribunal Registral Administrativo (TRA).

Data from *Unidad Ejecutora del Proyecto* (UEP) was included in the historical series presented in the program document in 2019. From 2020 onwards, data related to UEP is already included in the budgetary central government.

I. PERFORMANCE CRITERIA

A. Performance Criterion on Central Government Primary Balance

6. The overall balance of the Central Government is defined as the difference between budgetary revenue and total expenditure. Cash primary balance is defined as the overall balance excluding net interest payment. Revenue data are registered on a cash basis, whilst expenses are accruals except in the case of interest, which are recorded when disbursements are made. Capital expenditure reflects the accrued amounts recorded under investment projects, not fully reconciled with the concept of the transactions categorized as net acquisition of nonfinancial assets. This system is internationally known as modified cash. The proceeds from privatization or commercialization of public assets to residents or non-residents will not be recorded as part of central government revenues. The consolidation of the data from entities contained in paragraph 5 and the other entities of the central government as well as the consolidation of data within the entities included above consider funds granted as both current and capital transfers. The consolidation process is done entity by entity and never aggregated. Whenever consolidation adjustments are necessary to maintain primary and overall balance unalterable, following international best practices, these residuals affect capital transfers (income and/or expense). Financing (below the line) data are not currently used for the calculation of primary or overall balance. Any variable or definition that is omitted but is relevant for primary balance is defined in accordance with the Fund's statistical manuals and shall be aligned with the framework of a modified cash approach. Figures until 2018 do not comprise the entities included in paragraph 5. For the purpose of program monitoring, the cash primary balance of the central government will be monitored from above the line data as described in the previous paragraph.

7. The performance criterion on the central government cash primary balance will have one adjustor for 2022 and 2023. The floor on the central government cash primary balance will be adjusted downward by the full amount of any increase in COVID-19 emergency spending compared to budgeted amounts such as transfers to the health system, transfers for targeted support to families, workers, and firms heavily affected by the pandemic, or social assistance programs to the most vulnerable groups. Such additional expenditure should be clearly identified and reflected in an appropriate document (e.g., supplementary budget, government resolution, a circular of the MOF). The adjustor is capped at CRC 95 billion for 2023 (about 0.2 percent of GDP) cumulatively.

B. Performance Criterion on Net Official International Reserves

8. For the purpose of program monitoring, net official international reserves (NIR) will be measured as the U.S. dollar value of the difference between (a) and (b) below, and will be called the "Program NIR":

a) Gross international reserves of the BCCR. They include monetary gold; foreign exchange balances (foreign currency cash, deposits with foreign correspondents, and holding of foreign securities); the reserve position at the IMF and SDR holdings. Excluded from gross foreign reserve assets are participation in international financial institutions; holdings of nonconvertible currencies; holdings of precious metals other than monetary gold; claims on residents (e.g., statutory reserves on foreign currency deposits of commercial banks and central bank foreign currency deposits with resident commercial banks); pledged, non-liquid, collateralized or otherwise encumbered foreign assets; and claims in foreign exchange arising from derivative transactions (such as futures, forwards, swaps and options).

b) Gross reserve-related liabilities of the BCCR. They include: all short-term liabilities to nonresidents denominated in convertible foreign currencies with an original maturity of one year or less; all short-term liabilities to residents denominated in convertible foreign currencies; the stock of IMF credit outstanding; the nominal value of all short-term derivative positions (including swaps, options, forwards, and futures), implying a sale of foreign currency or other reserve assets. Excluded from these liabilities are foreign exchange liabilities to the general government or related to deposit guarantees.

- At end-2021, the Program NIR, evaluated at market exchange rates, stood at US\$2,884 million. Targets for the Program NIR are set for cumulative flows from the end of the previous year. To calculate the cumulative flows, the Program NIR at the test dates and the end of the previous year are evaluated at the program exchange rates and gold price specified in paragraph 4.
- The following adjustment will apply:

9. If (i) the amount of foreign program financing by the central government and the BCCR net of IMF purchases (GRA and RST resources) and all debt service; (ii) the amount of external commercial borrowing (including international sovereign bonds and syndicated loans) by the central

government net of debt service; (iii) the amount of project loans and grants disbursed to the central government net of debt service; (iv) the amount of foreign exchange-denominated domestic debt issued by the central government net of debt service; and (v) proceeds from commercialization of public assets to non-residents;—as set out in Table 1 of the MEFP—are higher/lower in U.S. dollar terms than assumed under the program, the floor on the program NIR will be adjusted upward/downward by the cumulative differences on the test date. The proceeds from commercialization of public assets are defined as cash receipts from the sale or lease of publicly held assets. Such assets will include, but not be limited to, publicly held land, public holdings of infrastructure or commercial real estate, and public or quasi-public enterprises. These adjustors will apply to the NIR floor for end-July 2021 and thereafter.

10. If the sum of amortization of official external debt and interest payments on official external debt by the central government or the BCCR in U.S. dollar terms—as set out in Table 1 of the MEFP—is higher/lower than assumed under the program, the floor on the program NIR will be adjusted downward/upward by the cumulative differences on the test date. Official external debt refers to external debt owed to multilateral and official bilateral creditors, as defined in the *2013 External Debt Statistics: Guide for Compilers and Users*. These adjustors will apply to the NIR floor for end-July 2021 and thereafter.

II. CONTINUOUS PERFORMANCE CRITERIA

A. Performance Criterion on New External Payment Arrears by the Nonfinancial Public Sector and the BCCR

11. A continuous performance criterion applies to the non-accumulation of new external payments arrears on external debt contracted or guaranteed by the nonfinancial public sector and the BCCR. The nonfinancial public sector is defined following the 1986 Government Finance Statistics Manual and the 2008 System of National Accounts. It includes (but is not limited to) the central government as defined in paragraph 4 and nonfinancial public enterprises, i.e., boards, enterprises and agencies in which the government holds a controlling stake. External payments arrears consist of debt-service obligations (principal and interest) to nonresidents falling due after the date of Board approval of the arrangement that have not been paid at the time they are due, as specified in the contractual agreements, subject to any applicable grace period. However, overdue debt and debt service obligations that are in dispute by the authorities with respect to their amount and/or validity will not be considered as external payments arrears for the purposes of program monitoring. This PC also excludes arrears on external financial obligations of the government subject to rescheduling. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

III. MONETARY POLICY CONSULTATION CLAUSE

12. The inflation target bands are specified in Table 1 attached to the MEFP. For this purpose, the year-on-year inflation, as measured by the headline Consumers Price Index (CPI) published by the National Institute of Statistics and Census (INEC), for each test date is measured as follows:

$$\{CPI^*(t) - CPI^*(t-12)\} / CPI^*(t-12) * 100$$

where

t = the month within which the test date is included

CPI(t) = CPI index (all items) for month t

CPI(t-k) = CPI index (all items) as of k months before t

$CPI^*(t) = \{CPI(t-2) + CPI(t-1) + CPI(t)\} / 3$

$CPI^*(t-12) = \{CPI(t-14) + CPI(t-13) + CPI(t-12)\} / 3$

If the observed year-on-year inflation falls outside the outer band limits of +/- 3 percentage points around the targets as specified in Table 1 attached to the MEFP for the relevant semi-annual test dates, the authorities will complete a consultation with the IMF Executive Board, which would focus on (i) the stance of monetary policy and whether the Fund-supported program remains on track; (ii) the reasons for deviations from the specified band, taking into account compensating factors; and (iii) on proposed remedial actions, as deemed necessary. When the consultation with the IMF Executive Board is triggered, access to Fund resources would be interrupted until the consultation takes place and the relevant program review is completed. If the observed year-on-year inflation falls outside the inner band limits of +/- 1.5 percentage points around the targets for the relevant semi-annual test dates, the authorities will conduct a consultation with IMF staff on the reasons for the deviation and the proposed policy response.

IV. INDICATIVE TARGETS

A. Indicative Target on Debt Stock of the Central Government

13. The term “debt”, as defined in the Guidelines on Public Debt Conditionality in IMF Arrangements, Decision No. 15688-(14/107), will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take a number of forms, the primary ones being loans, debt securities, bonds, commercial loans, buyers’ credits and off-budget project loans.

14. All foreign currency denominated debt will be converted into colones using the program exchange rates set out in Table 1. All domestic debt denominated in inflation-indexed units (TUDES) will be converted into colones using the program rate set out in Table 1.

15. The performance criterion on debt stock of the central government will have one adjustor for 2023. The ceiling on debt stock of the central government will be adjusted upward by the full amount of any increase in COVID-19 emergency spending compared to budgeted amounts such as transfers to the health system, transfers for targeted support to families, workers, and firms heavily affected by the pandemic, or social assistance programs to the most vulnerable groups. Such additional expenditure should be clearly identified and reflected in an appropriate document (e.g., supplementary budget, government resolution, a circular of the Ministry of Finance (MOF)). The adjustor is capped at CRC 95 billion.

V. DATA REPORTING REQUIREMENTS

16. Costa Rica shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Costa Rica in achieving the objectives and policies set forth in the Memorandum of Economic and Financial Policies and Letters of Intent. All the program monitoring data will be provided by the MOF, IMAS, FODESAF, BCCR, and SUGEF. For the purpose of monitoring the fiscal performance under the program, data will be provided in the format shown in Tables 2, 3, and 4. For the purpose of monitoring the external sector performance under the program, data will be provided in the format shown in Tables 5 and 6. For the purpose of monitoring priority social spending, data will be provided in the format shown in Table 7. For the purpose of monitoring financial sector performance under the program, data will be provided as described in paragraph 20.

17. Data relating to the fiscal targets (Tables 2, 3, and 4) will be furnished within the following timelines:

- Data on the cash primary balance of the central government will be provided on a monthly basis, no later than three weeks after the end of the month to which the cash balance is calculated.
- Data relating total stock of debt of the central government will be provided on a monthly basis, no later than three weeks after the end of the month, with breakdowns listed in Table 4.

18. Data relating to the external targets (Table 5) and monetary consultation band will be furnished within no more than three weeks after the end of each month, except for data on official reserve assets (Table 6), which will be furnished within one week after the end of each week.

19. Data regarding the level of social safety net spending (program spending only, not including wage and salaries and administrative costs of relevant agencies; see Table 7) will be provided on a quarterly basis, no later than four weeks after the end of the quarter.

20. Data relating to the financial sector will be reported as follows:

- Financial soundness indicators of banks and cooperatives, bank by bank, group (public and private), and system level. Data will be reported monthly, no later than four weeks after the end of each month.
- Anonymized bank-by-bank asset quality indicators, according to various disaggregations such as asset classification and provisioning by currency and type of credit, currency and economic sector. Data will be reported on a monthly basis, no later than four weeks after the end of each month. Such data on individual banks will be treated as strictly confidential and will not be published except in aggregate form.

Table 2. Costa Rica: Central Government Operations^{1/}
(In billions of colones)

Total Revenue

Current Revenue

Income Tax
Tax on Income and Profits
Income and to natural and legal per
Income and to Individuals
Revenue and Profit Corporations
Dividends and interest s / Securities
Remittances Abroad
Banks and non-domiciled Financ
Property Tax
Owned vehicles
Supportive Housing Imp
Import Tax
Tariff:
1% Customs Value:
Export Tax
Exported Banana Case
Der.de Exp.ad / valorem
Sales Tax
Internal
Customs
Consumption Tax
Internal
Customs
Undistributed Customs
Indirect Tax
Single tax fuels
Tax soft drinks
Tax soap
Alcohol tax
Transfer used vehicles
Transfer property
Fiscal Stamp
Exit fees Homeland
Consular Rights
Tax Law on Migration and Aliens
Tax on Tobacco
Other tax revenue
Social Security Contributions
Non Tax
Current transfers
Capital Income
Recovery of Loans
Capital Transfers
Donation
Admin.Finan Act. (Cash only)

Table 2. Costa Rica: Central Government Operations (concluded)^{1/}
(In billions of colones)

Total Expenditure

No Interest Expense Total
 Current expenses
 Salaries
 Wages and salaries
 Social Security Contributions
 Social Security Contributions CCSS
 Social Security Contributions Worker Protection Act
 Social Security Contributions Others
 Purchase of Goods and Services
 Interest Expenditure
 Internal Interest Expenditure
 Interest Expenditure External
 Transfers
 Transfers Private Sector
 Pensions (including CCSS)
 Transfers Others
 Transfers Public Sector
 Transfers External Sector
 Transfers Ctes with external resources
 Capital Expenditure
 Investment
 Capital Transfers
 Capital Transfers Private Sector
 Capital Transfers Public Sector
 Capital Transfers External Sector
 Capital with external resource transfers
 Capitalization banks

Primary Balance**Overall Balance**

Residual

Total Financing

Net Domestic Financing
 Net Foreign Financing
 Privatization

1/ As agreed for the purpose of monitoring the program.

Table 3. Costa Rica: Central Government Financing^{1/}
(In billions of colones)

Financing
Net Domestic Financing
Net BCCR Financing
BCCR Renegotiated debt
Deposits BCCR
Deposits BCCR Initial Balance
Deposits BCCR Final Balance
BCCR Net loans
Banking System Financing
Banking System Financing Loans
Banking System Financing Amortization
Banking System Financing Deposits
Banking System Financing Var. Securities
Banking System Financing Var. Securities Initial Balance
Banking System Financing Var. Securities Final Balance
Banking System Financing Cash and Banks
Banking System Financing Cash and Banks Initial Balance
Banking System Financing Cash and Banks Final Balance
Banking System Financing Net Loans
Central Government Financing
Central Government Financing Amortization of government
Central Government Financing Change in Government Securities
Central Government Financing Change in Government Securities Initial Balance
Central Government Financing Change in Government Securities Final Balance
Other domestic financing
Other domestic financing Credit providers
Other domestic financing Disbursements
Other domestic financing Amortizations
Other domestic financing Var. Dep in other entities
Other domestic financing Var. Dep in other entities Initial Balance
Other domestic financing Var. Dep in other entities Final Balance
Other domestic financing Other financ. internal
Other domestic financing Exchange Losses
Other domestic financing Net loans
Net Foreign Financing
Net Foreign Financing Disbursements
Net Foreign Financing Amortization
Net Foreign Financing Var. Dep abroad
Net Foreign Financing Var. Dep abroad Initial Balance
Net Foreign Financing Var. Dep abroad Final Balance

1/ As agreed for the purpose of monitoring the program.

Table 4. Costa Rica: Central Government Debt^{1/}

(In billions of colones)

Debt stock

Domestic

- Bonds

Tasa basica

Zero coupon colones

Zero coupon dolares

Fixed coupon colones

Fixed coupon dolares

Floating coupon colones

Floating coupon dolares

Inflation-linked bond (TUDES)

- Other liabilities

External

- Bilateral

- Bonds

- Multilateral

Unidentified financing

Domestic debt stock by maturities

o.w.: OD domestic debt by maturities

External debt stock by maturities

o.w.: OD external debt by maturities

Total borrowing requirement**Financial deficit of CG****CG debt amortization**

Domestic

o.w.: OD domestic debt amortization

External

o.w.: OD external debt amortization

- Bilateral

- Bonds

- Multilateral

Source of funds

Domestic placement or disbursement

External placement or disbursement

- Bilateral

- Bonds

- Multilateral

Use of government deposits

1/ As agreed for the purpose of monitoring the program.

Table 5. Costa Rica: Foreign Exchange Cashflows of the Central Bank and the Government^{1/}

(In millions of U.S. dollars)

1. Total Inflows

- Official sector disbursement
 - Program loans
 - IMF
 - World Bank
 - IDB
 - CABEI
 - ADF
 - CAF
 - Project loans and grants, of which
 - World Bank
 - IDB
 - CABEI
 - bilateral: KFW/JICA/China Eximbank
- Commercial loans
 - Syndicated loans
 - Sovereign bond, incl Eurobonds
- Domestic FX debt issuance
- Other inflows
 - BCCR Interest receipts and other net items
 - Change in balances in public accounts
 - o/w proceeds from public asset sale

2. Total outflows

- External debt service
 - Amortization (excl. to IMF), of which:
 - Official loans, of which:
 - World Bank
 - IDB
 - CABEI
 - CAF
 - Bilaterals: AFD/KFW/JICA/Eximbank
 - Commercial loans
 - Syndicated loans
 - Sovereign bonds
 - Interest payment (incl. to IMF)
- Domestic FX debt service
 - Residents
 - Non-residents
- Net capital transfers and miscellaneous

3. Net FX intervention, of which

- Net intervention for volatility management
- Programmed reserve accumulation
- Net FX purchases for rest of public sector

4. Other net flows

- Net Central Government<-->BCCR transactions^{1/}
- Change in short-term liabilities with non-residents
- Change in liabilities w/ residents

Net International Reserves (at market exchange rates)^{2/}

Net International Reserves (at program exchange rates)^{2/}

Gross International Reserves (at market exchange rates)

1/ As agreed for the purpose of monitoring the program.

2/ As defined in TMU ¶18.

Table 6. Costa Rica: Gross Official Reserve Position^{1/}
(In millions of U.S. dollars)

Date	Central Bank		Reserve Position at IMF & SDR holdings	Total (1)+(2)	Government	Gross Official Reserves (3) + (4)	Liabilities			Net International Reserves (5) - (9)	
	Reserves managed by BCCR				Foreign Reserve Asset Balances		Short-term Liabilities with Residents	Short-term Liabilities with Non-Residents	Drawings from the IMF		Total (6)+(7)+(8)
	Foreign Assets (FA) (Without DA)	Domestic Assets (DA)									
	1		2	3	4	5	6	7	8	9	10

^{1/} As agreed for the purpose of monitoring the program.

Table 7. Costa Rica: Priority Social Spending^{1/}
(In billions of Colons)

	FODESAF	Central Govt transfers	Other sources of financing	Total public sector spending	Number of beneficiaries
1. Non-contributory pensions and healthcare					
1.1. Non contributory pensiones regime (RNC)					
2. Targeted social assistance programs					
2.1. Conditional cash transfer <i>Creceemos</i> ^{2/}					
2.2. Conditional cash transfer <i>Avancemos</i>					
2.3. Poverty reduction and income support					
2.3.1. Basic needs (Atención a Familias)					
2.3.2. Family allowance (Asignación Familiar)					
2.3.3. Emergencies					
2.3.4. Fishing subsidies (Veda)					
2.4. Childcare					
2.4.1. Childcare transfer					
2.4.2. Childcare transfer CIDAÍ					
2.4.3. Childcare services (API intramuros)					
2.5. School programs					
2.5.1. School lunch program					
2.5.2. School transportation					
2.5.3. Social scholarship program ^{3/}					
2.6. Housing subsidies					
2.6.1. Housing improvement					
2.6.2. Housing grants					
2.7. Food security and nutrition programs					
2.7.1. Prestación alimentaria					
2.8. Active labor market programs					
2.8.1. Employment National Program (PRONAE)					
2.8.2. Small enterprises' support program (PRONAMYPE)					
2.8.3. Productive ideas					
2.8.4. Training aid					
2.8.5. Training voucher program ^{4/}					
2.9. Other targeted programs					
2.9.1. Subsidies for elderly persons					
2.9.2. Subsidies for persons with disabilities					
2.9.3. Subsidies for violence female victims					
2.9.3. Subsidies for teenage mothers					
3. Capital transfers to social assistance programs					
3.1. Community infrastructure and socio-productive projects					
TOTAL					

^{1/} As agreed for the purpose of monitoring the program.

^{2/} Creceemos program will be merged under Avancemos program starting in 2022.

^{3/} Since 2020, the program reports only tertiary education scholarship information, with primary education scholarships information (that used to be reported under this program) consolidated under Creceemos.

^{4/} Starting in 2022, this program will provide support to students enrolled in private institutions' training programs when the National Institute of Apprenticeship (INA) cannot provide the service directly.

Attachment III. Consultation with the IMF Executive Board on the Missed Inflation Target Under the Monetary Policy Consultation Clause (MPCC)

Inflation in December 2023 and March 2024, as defined for the purpose of the Monetary Policy Consultation Clause (MPCC) in the Technical Memorandum of Understanding (TMU), stood at -1.6 and -1.4 percent, respectively. Despite the continued upward trend in inflation since September 2023, this outcome results in a breach of the lower outer band limit agreed in the MPCC by 1.6 percentage points (p.p.) in December 2023 (semi-annual test date) and by 1.4 p.p. in March 2024.

A. Inflation Trajectory

1. **After reaching a maximum value of 12.1 percent (y-o-y) in August 2022, inflation declined sharply.** The disinflationary process intensified during 2023 and headline inflation reached negative values starting in June 2023. Headline inflation remained negative through the first quarter of 2024 and below the Central Bank of Costa Rica (BCCR)'s tolerance band (2-4 percent). Therefore, inflation remained below the lower outer band limit agreed in the MPCC from July 2023 to March 2024. However, since its lowest level in August 2023, inflation has gradually become less negative, reaching -0.5 percent (y-o-y) in April 2024.
2. **The disinflationary process is observed in all indicators of inflation (headline and core inflation) and had direct effects on inflation expectations.** Core inflation decreased continuously since its peak in August 2022, but remained in positive territory and stabilized close to zero since the beginning of 2024. Inflation expectations at 12 and 24 months have adjusted downwards, and since the second quarter of 2023 have remained between the inflation target and the lower limit of the BCCR's tolerance band.
3. **The sustained reduction in inflation rate reflects the reversion of external supply shocks from 2022, as well as the accumulated effect of restrictive monetary policy and exchange rate appreciation.** Price reductions on international markets of oil and grains, as well as the decline in shipping costs, with associated base effects on headline inflation given the very high price levels in 2022, are among the main external factors behind the rapid decrease in local inflation.
4. **Producer price pressures are also low.** The Producer Price Index (IPP-MAN) has decreased since the second half of 2022 and reached negative y-o-y rates in the second quarter of 2023, with an average annual rate of -2.2 percent in 2023 and -4.9 percent during the first quarter of 2024. This is consistent with the reversion of external supply shocks, and it suggests lower cost pressures to the consumers' inflation indicators.

B. Policy Response

5. **Since March 2023, the BCCR gradually reduced its monetary policy rate by 425 basis points to 4.75 percent.** The decline in prices having occurred faster than previously expected

allowed for more reductions in the monetary policy rate, given the external and internal risks identified. The Central Bank has announced that it will keep reducing its policy rate to reach a neutral stance as soon as conditions allow. In addition, in July 2023, the Central Bank launched new bonds (*Bonos de Estabilización Monetaria*) with maturities of 3 and 6 months to enhance the monetary policy transmission and facilitate the valuation of financial assets.

6. The Central Bank has publicly reiterated its commitment to the continuous monitoring of the evolution of different macroeconomic indicators, which allows it to take the necessary monetary policy actions in the required direction in a timely fashion, in response to changes to the inflation forecast and inflation expectations. To achieve the long-term inflation target of 3 percent, the monetary policy stance will continue to be data-dependent and forward-looking, in line with the inflation targeting framework.

C. Inflation Projections

7. The BCCR models project that the disinflationary process will revert during 2024. The projections of headline and core inflation suggest that both indicators will return to the BCCR's tolerance band in the next 12 months. In annual terms, inflation is expected to return to positive in 2024.

8. As all forecasts, inflation projections are conditional on risk factors. The risks evaluated at the monetary policy meeting of April 2024 suggest a downward bias on inflation trajectory in the short run while it is balanced for longer horizons. Downside risks include a slow growth in our main trading partners induced by a longer than expected restrictive monetary policy and, domestically, lower and slower transmission of the adjustments in monetary policy rate to the lending rates in the financial system. Upward risks to inflation include supply shocks and global trade fragmentation due to geopolitical tensions and weather phenomena, and upward inflation expectations caused by depreciation pressures on the exchange rate, which may encourage capital outflows and the demand for foreign currency by residents.

**Statement by Alfonso Guerra, Executive Director for Costa Rica
and Valerie Lankester Campos, Senior Advisor to Executive Director
June 14, 2024**

Our authorities want to express their gratitude to staff for their close and active engagement to conclude the sixth and last review under the Extended Fund Facility (EFF) arrangement and the third and last review under the Resilience and Sustainability Arrangement (RSF). They would like to underline their appreciation to Mr. Ding Ding, the Mission Chief, and his team for their remarkable work, commitment, and keenness to open and candid discussions with the authorities and civil society. Also, they welcome the valuable engagement with the Fund's capacity development and the collaborative work with the World Bank and the Interamerican Development Bank's staff.

Amid the ongoing global challenges, the programs laid out by the Costa Rican authorities, and supported by the EFF and RSF, have been crucial tools to safeguard macroeconomic stability, anchor fiscal consolidation efforts, and strengthen the country's climate agenda. Also, they have been instrumental in catalyzing financial and technical support from other multilateral institutions and supporting a more resilient access to international capital markets.

The EFF Program

Costa Rica's three-year extended arrangement under the EFF was approved on March 1, 2021. At that time, the fiscal balance had sharply deteriorated following a considerable increase in current spending after the global financial crisis, a fiscal deterioration that was exacerbated by the pandemic. Economic and fiscal projections were bleak in that year: an economic contraction of 5 percent, an overall fiscal deficit exceeding 9 percent of GDP, and a debt-to-GDP ratio reaching nearly 70 percent. In contrast, in 2023, growth was at 5.1 percent, the overall fiscal deficit was at 3.3 percent, but with a primary balance that turned to be a 1.5 percent surplus, and the debt-to-GDP decreased to 61 percent. These results show how the support from the Fund and the commitment from the authorities, from successive administrations, have been crucial to safeguarding macroeconomic stability and anchoring fiscal consolidation efforts. Without doubt, the country has built a strong track record and is finishing its program with a robust overall performance.

The program was designed with three key objectives: (i) gradually implementing equitable fiscal reforms to ensure debt sustainability while protecting the most vulnerable; (ii) maintaining monetary and financial stability while continuing to strengthen central bank autonomy and governance and addressing structural financial vulnerabilities; and (iii) on the structural front, advancing on key reforms to promote inclusive, green, and sustainable growth.

As in past reviews, the fiscal consolidation results continued to overperform the government's and program's targets. The Central Bank (BCCR) continued to take decisive actions to tame inflation and to increase international reserve buffers, which have reached comfortable levels. The authorities continued to report in this last review a sound implementation of macroeconomic policies to achieve the main program objectives, including: the structural benchmarks on a single window for social

assistance programs, which was met as scheduled; and the submission of the bill to improve the bank resolution and deposit insurance framework, which was met with a delay. Along with them, all performance criteria (PC) were comfortably met, and all September, December, and March indicative targets (IT) were met except for the December debt IT, which was breached by 0.4 percent of GDP, as the MoF built up liquidity buffers ahead of coming repayment obligations. The authorities want to thank staff for the updated country strategy note on capacity development, which has managed to effectively align the CD provision strategy with the objectives under the Fuds-supported programs.

Macroeconomic Performance

For the last three decades, Costa Rica has implemented a growth strategy centered in diversifying its economy; it has incorporated specialized manufacturing, tourism, and other services, along with an export promotion policy. These activities have been complemented by the traditional agricultural industry. The attraction of high-tech electronic companies and the medical sector, along with other areas of the service sector, has led to buoyant export growth in recent years, benefiting the overall economy. Due to this diversification, Costa Rica's exports have changed substantially, driving economy-wide increases in productivity.

In recent years, amid a challenging international context, the Costa Rican economy has been resilient. On top of strong growth in 2023, economic activity in the first quarter of 2024 grew 4.9 percent y-o-y. Private consumption grew robustly in the first quarter of 2024 and at a similar pace to that recorded in the second half of the previous year, capital formation continued to increase but at a lower rate, while government consumption stagnated amid strict spending controls. The behavior of private consumption was influenced by improvements in consumer confidence, growth in household credit, and an increase in their real disposable income. The latter is linked to the acceleration in the growth rate of real wages and their recovery to pre-pandemic levels, decreasing inflation, currency appreciation, and improvements in the terms of trade. For the first quarter of 2024, the deficit of the current account increased to 0.1 percent of GDP, a lower level (in 0.2 p.p.) compared to the previous year. For 2024 and 2025, the BCCR projects that the economy will grow by around 3.8 percent.

The labor market continues its recovery trend. The unemployment rate has decreased from its peak of 24.4 percent to 7.8 percent, with an underemployment rate of 3.0 percent in the first quarter of 2024. The level of employment has increased, while formal employment and real wages in the private sector continued the improvement observed in 2023 and are well above pre-pandemic levels.

Inflation (CPI) and core inflation, monthly variation, were 0.08 percent in May 2024, while the y-o-y variation was recorded at -0.33 and 0.16 percent, respectively. BCCR estimates that the return to positive values for y-o-y inflation will occur in the second half of 2024 and will be within the tolerance range (3.0 percent \pm 1 p.p.) by the beginning of 2025. Inflation expectations remain within the tolerance range around the target.

The BCCR conducts its monetary policy based on an inflation targeting framework that is forward-looking and data dependent. It remains vigilant and has responded in a timely manner to the shocks faced by the economy, evidencing its de facto independence. Moreover, in the latest inflationary

episode, its decisions have positioned the BCCR as one of the first central banks to raise its Monetary Policy Interest Rate (TPM) and as one of the first to lower it (from 9 to 5.25 percent between March 2023 and March 2024) and to reduce it below the FED's fund rate. In April, the Board of Directors unanimously agreed to further reduce it by 50 b.p., bringing monetary policy closer to a neutral stance. Changes in the TPM will continue to be gradual and prudent, responding promptly and in the appropriate direction when macroeconomic conditions and risk assessments require that.

Monetary policy actions also consider short-term liquidity conditions. So far this year, the domestic financial system has maintained the ample liquidity condition that characterized the previous year; these excesses have been contained in BCCR's deposit instruments. The excess liquidity over 20 months (until April 2024) largely originated from the expansive monetary effect associated with the BCCR's purchase of foreign currencies, purchases that have occurred in the context of a surplus private exchange market. An outcome consistent with the country's economic activity evolution, the remarkable performance of exports from the free trade zone regime, and the rebound in inbound tourism.

The BCCR's participation is defined by three motives: reserve accumulation, mitigating excessive fluctuations, and serving the needs of the public sector. Even when the latter has been defined by law, the authorities are committed to maintaining their participation limits to allow the exchange rate to reflect market conditions.

In the bimonthly period, April-May, there has been a lower relative foreign currency abundance as a response to the tourism off-season, lower TPM, and post-tax payment periods from foreign firms. This translated into an increase of 23.64 colones in the exchange rate with the US dollar relative to end-March; by the end of May, the average exchange rate was 527.49 colones. Still, this level represents a -3.14 percent y-o-y variation. As of May 29, the balance of net international reserves (NIR) was equivalent to 13.3 percent of the GDP and 142.5 percent of the level considered adequate by the Board of Directors of the Central Bank and estimated with the IMF's ARA metric.

The financial sector has also shown its resilience. Due to sound prudential policies, the banking system has strong capital and liquidity buffers. The authorities have advanced the crisis preparedness framework considerably, as evidenced in the recent episode with one small financial cooperative, Coopeservidores R.L., for which CONASSIF (National Financial Supervision Council) agreed to intervene after SUGEF (Superintendency of Financial Entities) detected a series of administrative decisions that jeopardized the safety and solvency of the institution. It is worth noting that this situation is specific and does not correspond to a systemic situation, hence, the risk of contagion is limited.

On the fiscal front, even when the economy has been subject to multiple shocks, the authorities have maintained their commitment to fiscal rule and to fiscal discipline more broadly without increasing or creating new taxes. As a result, fiscal consolidation has overperformed the government and the EFF program targets.

Public finances presented results consistent with the trajectory towards the sustainability of public debt. At the end of the first two months of 2024, the Central Government generated a primary surplus

equal to that of a year earlier, 0.3 percent of GDP, and a slightly higher financial deficit of 0.8 percent (0.7 percent in the previous year). For 2023, the overall fiscal deficit was 3.3 percent, and the primary balance surplus was 1.6 percent of GDP. On the latter, it is the second consecutive year with a surplus, something not seen in fifteen years. At the same time, the Central Government's debt decreased by 1.9 p.p. compared to 2022, falling from 63 to 61.1 percent of GDP. For 2024, the MoF estimates a primary result of 1.8 percent of GDP and a financial deficit of 3.2 percent of GDP.

Fiscal consolidation has contributed to improving confidence among economic agents regarding the central Government's ability to meet its obligations, which was reflected in a reduction in most of the interest rates on local and foreign currency. These results in the monetary and fiscal sectors have been noted by international capital markets and credit rating agencies; sovereign spreads have fallen since 2020, and the yields of sovereign bonds were positioned below the EMBI LATAM and the EMBI Global. In fact, in four years, between early 2020 and 2024, the EMBI CR has decreased by approximately 188 b.p.

Within the structural reforms to promote inclusive, green, and sustainable growth, the public employment law, a SB under the program, was fully implemented for the executive branch's job positions in the single wage spine in early-September 2023, and the new social assistance single window, another SB, is increasing the quality of social spending as it consolidates social programs and moves from a first-come-first-served basis to prioritization based on the urgency of need, thus improving response times and targeting. Also, the payment system for all cash transfer social assistance programs was centralized and digitalized, and the main platform (SINIRUBE - Sistema Nacional de Información y Registro Único de Beneficiarios del Estado) to target social protection benefits and services has been enhanced to quantify the intensity of a person's needs and aid with prioritization in a robust manner. Efforts to promote inclusive growth are continuous and focused on increasing female labor force participation.

The RSF Program

Costa Rica, a country distinguished by its biodiversity and commitment to environmental sustainability, has as its goals carbon neutrality and proactive environmental policies to achieve a balance between environmental, economic, and fiscal sustainability. With this aim, the authorities are strongly committed to enhancing their crisis preparedness, climate-resilient infrastructure, greening the financial sector, reaching net zero emissions by 2050, and mobilizing official and private financing to meet the significant short- to long term costs of confronting the challenges of climate change within their budget envelope.

Still, even when the country has made some significant progress in the climate agenda to diminish environmental pressures over its economic growth, more is needed given the challenges posed by climate change. Hence, on top of a very strong program, Costa Rica opted for the RSF as a tool and anchor to further advance its climate agenda. As its pioneer recipient, the authorities were committed to implementing the reform measures designed in the program as they were important elements of the broader comprehensive climate strategy and complementary reforms supported by other development partners.

For its third and last review, the four reform measures (RMs) were completed. The authorities published guidelines that include climate change mitigation and adaptation factors when selecting public investment projects (RM9) or making urban regulatory plans (RM10). They also published (RM11) a list of tax exemptions that could be removed on environmental grounds and developed a methodology (RM12) that will be implemented to incorporate climate considerations in stress testing of banks' credit risk once the necessary data becomes available. This completes the implementation of all twelve reform measures targeted under the RSF.

The authorities will continue to move ahead with their strong climate-related reform agenda and aim to keep on building on the RSF's catalyzing effect. This strategy includes potentially issuing sovereign bonds recognized for the country's overall climate and social credentials. Costa Rica's efforts to further improve resilience to climate change and fully decarbonize its economy are financially costly. Hence, the authorities believe the RSF is critical to their efforts, together with the additional climate finance resources it is expected to catalyze. Against this backdrop, the authorities are grateful to the IMF and its Climate Finance Task Force for facilitating a roundtable with other IFIs and private sector stakeholders about scaling up climate financing to support Costa Rica's climate agenda. As a result, the authorities are working with multilateral partners to launch a sustainable project preparation facility and crowd in climate investments to identify and prepare a pipeline of bankable projects.

Going forward

Based on their 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, including geopolitical tensions (higher commodity prices and lower global growth), internal challenges, and to address the risks associated with climate change developments over the medium and long run. The authorities will remain vigilant and focused on debt sustainability, with public debt (ratio of GDP) remaining on a firm downward trend and ready to act in a timely manner if inflation pressures resume. The MoF will continue its reform agenda to reinforce Costa Rica's fiscal consolidation and create buffers against shocks while protecting the poor. In fact, it has communicated the explicit long-term objective of achieving a debt-to-GDP ratio of 50 percent by 2035.

Also, the authorities will continue their reform program to strengthen the supervisory tools in line with the 2022 World Bank Financial Sector Assessment recommendations, along with the implementation of policies to address financial system vulnerabilities. In this sense, the discussion in Congress of the bank resolution project will be critical. Moreover, the BCCR aims to request constitutional autonomy, for which the law project will be presented before the end of this year, to consolidate the de jure independence and governance of the BCCR. For both projects, support from the Fund would be vital throughout the discussion in Congress. More broadly, a close relationship with the IMF will be maintained, which is necessary to support the government's own reform agenda. The authorities remain strongly interested in continuing close engagement with the Fund after the current arrangements end in July through the Post Financing Assessment (PFA), surveillance, and capacity development.