January 2010
IMF Country Report No. 10/2

Costa Rica: Staff Report for the Second Review Under the Stand-By Arrangement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Costa Rica

In the context of the Second Review Under the Stand-By Arrangement, the following documents have been released and are included in this package:

- The staff report for the Second Review Under the Stand-By Arrangement was prepared by a staff team of the IMF, following discussions with the officials of Costa Rica that ended on November 10, 2009. Based on information available at the time of these discussions, the staff report was completed on November 30, 2009. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A press release summarizing the views of the Executive Board as expressed during its December 16, 2009 discussion of the staff report that approved the Second Review Under the Stand-By Arrangement.

- A statement by the Executive Director for Costa Rica.

The documents listed below have been separately released

Letter of Intent sent to the IMF by the authorities of Costa Rica*
Supplement to the Memorandum of Economic and Financial Policies by the authorities of Costa Rica*
*Also included in the Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

COSTA RICA

Second Review Under the Stand-By Arrangement

Prepared by the Western Hemisphere Department
(In consultation with other departments)

Approved by Miguel A. Savastano (WHD) and Dominique Desruelle (SPR)

November 30, 2009

EXECUTIVE SUMMARY

- ***Costa Rica's economy is slowly emerging from recession***. Economic activity is expanding but a number of key sectors (commerce, construction, and tourism-related industries) are still lagging. Inflation has fallen to historically low levels; there have been no balance of payments pressures; and the financial sector remains stable.

- ***Performance under the Stand-By Arrangement (SBA) has remained very strong***. All quantitative performance criteria for end-September were met, most with considerable margins. The authorities have continued to treat the SBA as precautionary.

- ***The outlook for a gradual recovery amid domestic and external stability remains the central scenario***. Real GDP growth is expected to rise to 2.3 percent in 2010, following a 1.5 percent contraction in 2009. Inflation is on track to fall to 5 percent (12-month basis) by end-2009 and remain within the central bank's target band of 4–6 percent in 2010.

- ***Program risks have declined further and now appear broadly balanced***. The main threat to the growth outlook is the possibility of a slower-than-expected global recovery. Weak revenue performance remains a risk to the program.

- ***The scope for further policy easing is limited***. The program provides room for further fiscal stimulus in early 2010, followed by moderate withdrawal to keep financing needs in check. Upside risks to the inflation outlook suggest that the authorities should continue to maintain a cautious approach to monetary easing.

- ***The reduced uncertainty about the external environment and lower program risks justify modification of the frequency of program reviews from quarterly to biannual***. With this modification, the third (and final) program review would take place in June 2010.

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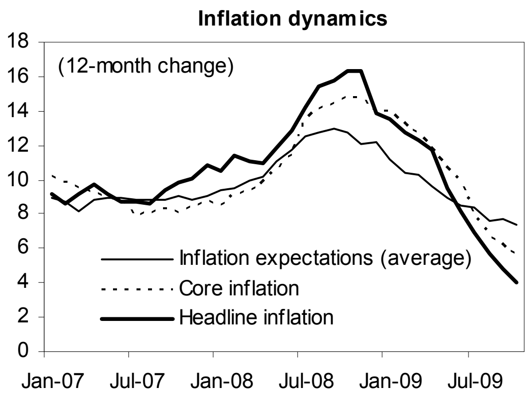
I. Recent Developments[1]

1. ***Developments since the first program review were in line with the outlook discussed in IMF Country Report No. 09/303***. The recovery of Costa Rica's economy is gradually taking hold (Figure 1). In the second quarter of 2009, the decline in real GDP slowed to -2.4 percent (y/y), and in the third quarter the indicator of economic activity (IMAE) rose 1 percent (q/q, seasonally adjusted). However, the recovery has been largely driven by manufacturing, while other sectors (commerce, construction, and tourism-related industries) remain depressed. Headline and core inflation continued to fall in October, to 4.0 and 5.7 percent (12-month basis), respectively, while median annual inflation expectations declined to 7.3 percent, approaching the ceiling of the central bank's inflation target range for 2010.



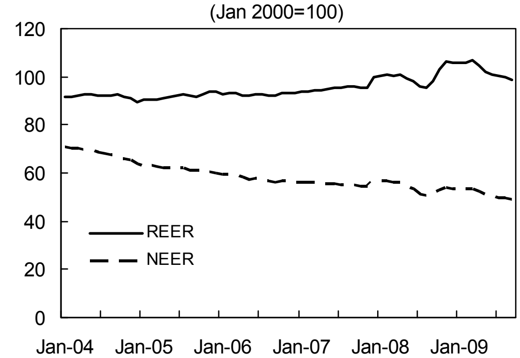
Source: Banco Central of Cost Rica

2. ***Although the slow recovery has continued to weigh on government revenues, the fiscal deficit has been below the program limits***. Revenues of the central government through September were 7.7 percent lower than during the same period of 2008, mainly owing to a sharp drop in import-related taxes, including sales and excise taxes collected at customs (Box 1). During the same period, the central government's noninterest spending rose strongly (23.6 percent) but remained below the levels assumed in the program (owing partly to lower-than-projected inflation and a slower pace of hiring). As a result, the deficit of the central government in the first nine months of the year was below program projections (by 0.3 percent of GDP). Interest rates on domestic debt have fallen by more than 200 bps since September (to about 9.9 percent for 3-year benchmark bonds), partly as a result of a reduced volume of issuances.

3. ***Monetary conditions have begun to ease***. Market interest rates did not fall in tandem with the July cut in the policy interest rate. However, during October market interest rates ("tasa pasiva") fell by 250 bps and have since remained on a downward trend. The real effective exchange rate (REER) continued to depreciate during the third quarter, largely due to the fall in inflation. Since mid-August, the *colón* has remained continuously below the

[1] Discussions on the second program review were held in San José during November 2–11, 2009. The staff team comprised A. Bauer (Head), M. Nozaki (all WHD), and O. Melander (SPR), and was joined by J. Gramajo (OED) and F. Delgado (Regional Resident Representative) in some meetings. The mission met with Finance Minister Phillips, Central Bank Governor Gutiérrez, other senior officials, representatives of the financial sector, and the economic teams of the leading presidential candidates. The staff team overlapped with an MCM technical assistance mission on the financial sector safety net.

Nominal and Real Effective Exchange Rates
(Jan 2000=100)



Source: IMF staff calculations

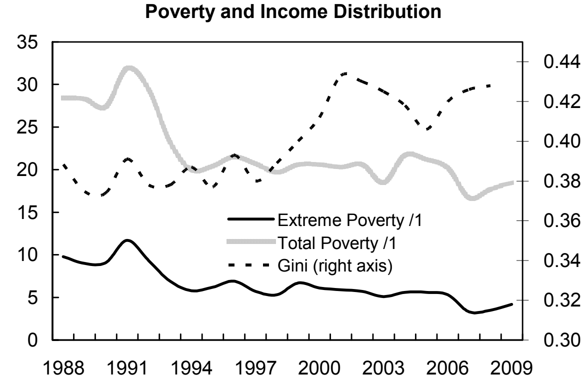
ceiling of the currency band. Bank credit to the private sector remained anemic, growing by less than 1.5 percent during January–September. Banks continued to repay external credit lines and strengthened their net foreign asset positions. Solvency and credit quality indicators of the banking system deteriorated slightly in the third quarter, but remain at comfortable levels.

4. ***There have not been significant balance of payments pressures***. In the first half of 2009, imports collapsed and exports experienced a significant contraction. As a result, the external current account deficit turned into broad balance, while the capital account posted a modest surplus (0.4 percent of GDP), despite a significant slowdown in FDI. In the third quarter, exports started to recover while import growth remained subdued. As a result, as of end-September the trade deficit was substantially lower than in 2008. Net international reserves as of mid-November stood at about \$4 billion, roughly the same amount as of end-2008 (excluding the additional SDR allocation).

5. ***Performance under the Stand-By Arrangement (SBA) has continued to be strong (Table 1)***. All quantitative performance criteria for end-September were met, most with considerable margins. Base money growth at end-September was somewhat above program projections, reflecting a temporary spike in commercial bank deposits at the central bank, which was subsequently reversed.

6. ***Unemployment and indicators of poverty and income inequality worsened as a result of the economic downturn***. The annual household survey shows that the unemployment rate rose from 4.9 percent to 7.8 percent and the share of poor households from 17.7 percent to 18.5 percent from mid-2008 to mid-2009. Income distribution also worsened, with the income share of the lowest quintile falling by ½ of a percentage point. The deterioration in these indicators was less severe than anticipated, partly as a result of the fall in inflation and higher government transfers. Public sector hiring (mainly police officers and teachers) also mitigated the increase in the unemployment rate.

Poverty and Income Distribution



Source: INEC
1/ In percent of households

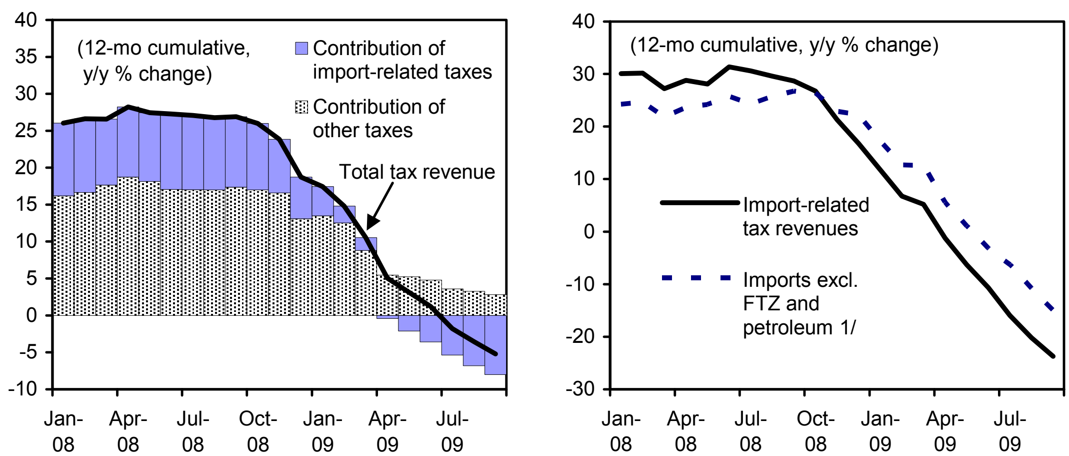
7. ***Parliamentary discussions of a number of important economic laws have been protracted***. The Assembly passed the supplementary budget for 2009 in October. However, no progress was made in approving pending legislation on central bank recapitalization, consolidated financial sector supervision, and a budget support loan from the World Bank (for $500 million). The proximity of the general elections (February 2010) does not bode well for their approval before mid-2010.

Box 1. Factors Behind the Sharp Fall in Tax Revenue

The sharp decline in tax revenues in 2009 is mostly attributable to import-related taxes (import duties and sales and consumption taxes collected at customs). In the first nine months of the year, import-related taxes were 30 percent lower than in the same period of 2008.

About two-thirds of the decline in import-related tax revenue is explained by a lower tax base, as the value of imports in *colones* (excluding free trade zones and petroleum) declined by 22 percent through September. The rest is explained by a decline in the implicit effective tax rate, caused by the sharp contraction of certain imported goods that are highly taxed.

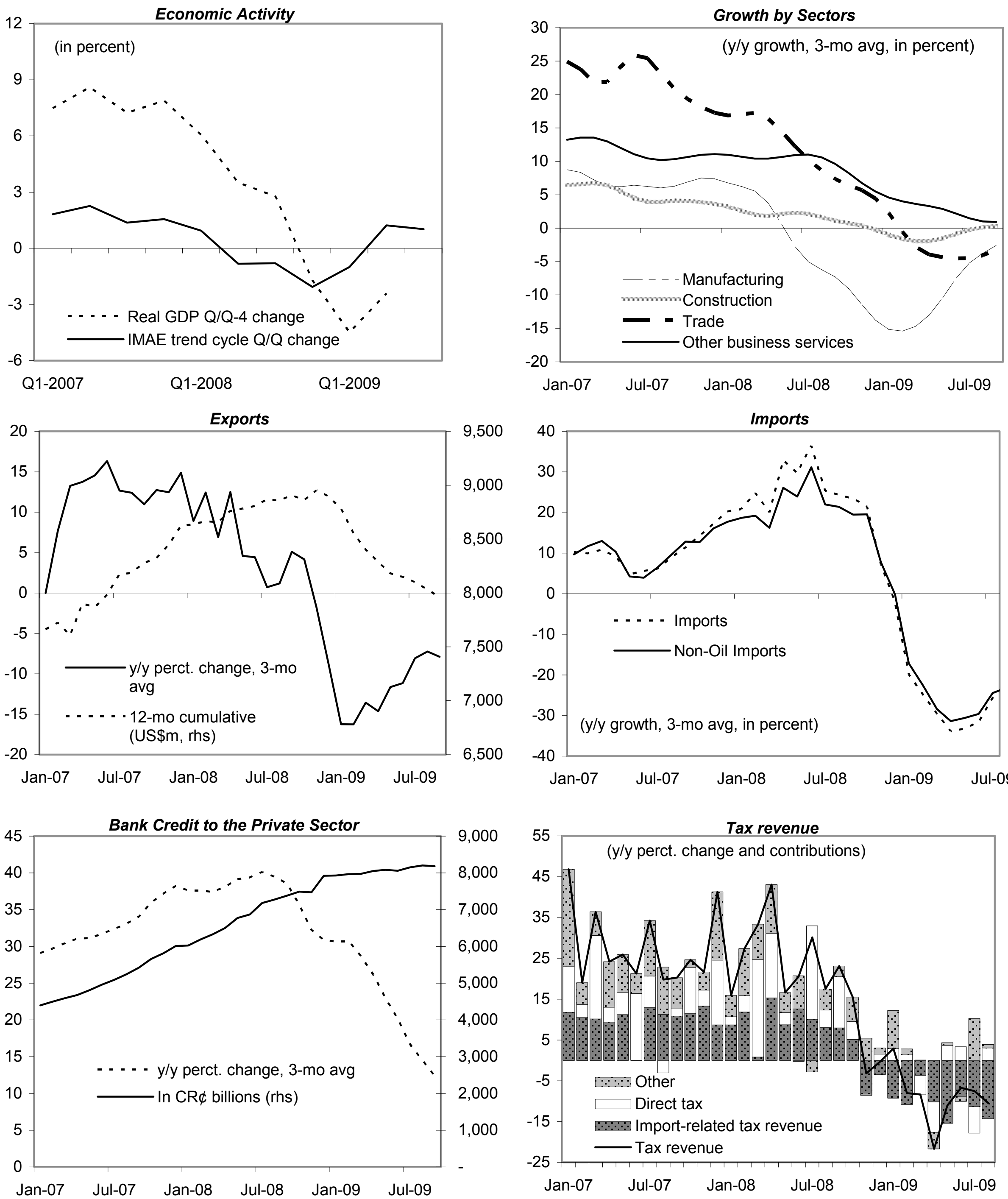
Imports of durable goods, for example, fell by 38 percent during January–September. Since cars and domestic electrical appliances are subject to above-average import tariffs and excise tax rates, the lower durable goods imports led to a more-than-proportional decline in tax revenues. The negative impact on revenues was magnified by the fact that the general sales tax is levied on the import price including tariffs and excise taxes. Revenues from car imports alone were down by 0.5 percent of GDP in the first nine months of the year, compared to the same period of 2008. In addition, the authorities estimate that the implementation of CAFTA-DR has reduced import duties by about 0.2 percent of GDP.



Sources: Costa Rican authorities; and Fund staff calculations.
1/ In *Colones*.

Figure 1. Costa Rica: Recent Economic Developments

Recent data suggests that economic activity bottomed out during the first quarter of 2009. However, the recovery is still at an early stage.



Sources: Country authorities; and Fund staff calculations.

II. Outlook and Risks

8. ***The economic outlook has not changed significantly since the first program review***.[2] The central scenario continues to assume a gradual recovery with real GDP growing by 2.3 percent in 2010. Annual inflation is on track to fall to 5 percent by end-2009, and remain within the central bank's target band of 4–6 percent in 2010. In view of the continued import contraction and strength of services exports, the external current account deficits in 2009 and 2010 are projected to be somewhat lower than previously envisaged (3 percent and 4.5 percent of GDP, respectively).

9. ***Risks to the outlook have declined further and now appear broadly balanced***. A slower-than-expected recovery of Costa Rica's main trading partners presents the main risk to growth. However, there are also some upside risks given the recent opening of the telecommunications and insurance sectors to private operators, which could attract additional foreign direct investment. Short-term risks to the balance of payments have moderated with the recent strengthening of the *colón,* the revised outlook for the current account deficit, and the seasonal pick up of foreign exchange inflows expected by year-end. Weak revenue performance remains the main risk to the program, as it could lead to higher-than-projected fiscal deficits and domestic financing requirements.

III. Policy Discussions

10. ***There was agreement that the SBA continues to provide a sound framework to bolster confidence and support the recovery***. Policy discussions focused on the size and phasing of fiscal stimulus in 2010, the appropriate monetary policy stance, the next steps in the transition to greater exchange rate flexibility and inflation targeting, and the health of the financial sector. The authorities reiterated their intention to continue treating the SBA as precautionary.

A. Fiscal Policy

11. ***The fiscal deficit targets agreed during the first review were maintained, despite the lower-than-projected revenues***. The targets were seen as continuing to strike a reasonable balance between the goals of supporting domestic demand and containing the increase in government borrowing and public debt. Compared to the projections in IMF Country Report No. 09/303, the revised program contemplates 0.3 percent of GDP of lower tax revenues in 2009. A slower pace of execution of budgeted spending (including public investment) is expected to offset the lower revenues and allow to comply with the end-year deficit targets for the central government and the combined public sector (4.1 percent of GDP and 4.8 percent of GDP, respectively) without additional policy measures. Total revenue and expenditure projections for 2010 were adjusted for the lower level of revenues and

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[2] See IMF Country Report No. 09/303, pp. 7–8

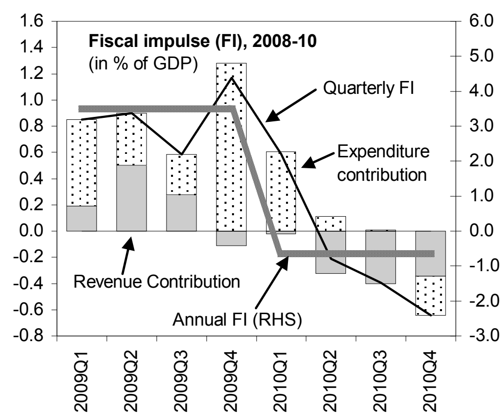
expenditures now projected for 2009; the deficit targets for the central government and the combined public sector, however, remain the same as those agreed during the first review (4.1 percent of GDP and 4.7 percent of GDP, respectively).

Costa Rica: Central Government Balance in 2009–10

	2009 Q1-Q3		2009 Q4		2009		2010		2009 Q1-Q3		2009Q4		2009		2010	
	Prog. 1/	Prel.	Prog. 1/	Proj.	Prog. 1/	Proj.	Prog. 1/	Proj.	Prog. 1/	Prel.	Prog. 1/	Proj.	Prog. 1/	Proj.	Prog. 1/	Proj.
	(In billions of colones)								(In percent of GDP)							
Revenue	1,724	1,674	708	703	2,432	2,376	2,764	2,724	10.3	10.0	4.2	4.2	14.5	14.2	15.2	15.0
Expenditure	2,175	2,081	937	975	3,112	3,057	3,517	3,477	13.0	12.4	5.6	5.8	18.6	18.2	19.4	19.1
Overall balance	-452	-408	-229	-273	-680	-680	-753	-753	-2.7	-2.4	-1.4	-1.6	-4.1	-4.1	-4.1	-4.1
Memorandum item:																
Nominal GDP																
(in billions of colones)	...	...	...	...	...	...	...	...	16,754	16,754	16,754	16,754	16,754	16,754	18,175	18,175

Sources: Ministry of Finance; and Fund staff estimates.
1/ IMF Country Report No. 09/303.

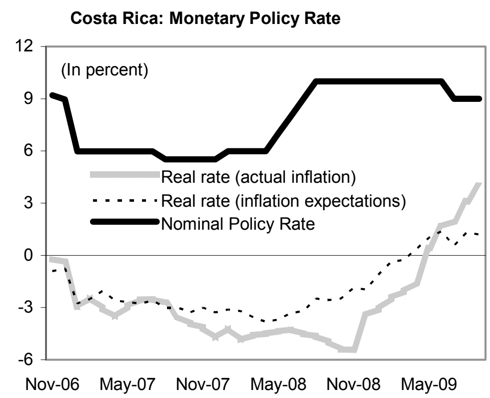
12. ***The fiscal program for 2010 contemplates some backloaded withdrawal of fiscal stimulus***. To allow more time for the recovery of private demand, the program provides for a positive fiscal impulse in the early part of the year and a withdrawal of stimulus in the latter part. There was agreement on the desirability of relying on external financing to cover a significant share of the government's borrowing needs in 2010. However, the authorities noted that this strategy would hinge on obtaining parliamentary approval for external borrowing (including the US$500 million budget support loan from the World Bank that has already been submitted to the Assembly). If approval of external borrowing was not forthcoming, the authorities would continue to meet their financing needs in the domestic market.



Source: IMF staff calculations.

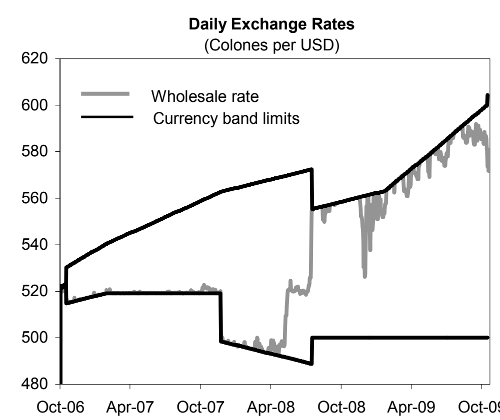
B. Monetary, Exchange Rate, and Financial Sector Policies

13. ***There was agreement that a cautious easing bias for monetary policy remained appropriate in the near term***. The continued downward trend of core inflation and inflation expectations, and the presence of a negative output gap bode well for compliance with the inflation target for 2010 (4–6 percent) with the present stance. The stickiness of inflation and depreciation expectations (currently around 7 percent) and the fact that the dampening effects of the fall in commodity prices of early 2009 will not recur, however, represent upside risks.[3] Staff noted that the recent rise of the real policy rate had increased the scope for policy maneuver, but stressed that more aggressive interest rate easing should await firmer evidence of lower inflation (and depreciation) expectations.



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

14. ***The authorities reiterated their intention to complete the transition toward greater exchange rate flexibility and inflation targeting by end-2010***.[4] They felt that the recent fluctuation of the *colón* away from the ceiling of the currency band and the decline in inflation provided favorable conditions for advancing further in this direction. In particular, the authorities intended to maintain the annual rate of crawl for the ceiling of the currency band at 9 percent and review regulations for foreign currency derivatives to speed the development of domestic hedging instruments. The mission suggested to also seize the opportunity to re-introduce a negative rate of crawl for the floor of the currency band, and reiterated the advice from the 2009 Article IV consultation regarding the need to clarify the central bank's role in the foreign exchange market and improve monetary operations. While they concurred with the latter recommendations, the authorities saw a strong case for maintaining the current horizontal floor for the exchange rate band as they were concerned that too many changes in the parameters could unsettle expectations.



Source: Central Bank of Costa Rica

[3] Inflation and depreciation expectations are measured by the central bank through a monthly survey.

[4] The exchange rate regime of Costa Rica is classified in the category of "other managed" arrangements in the current IMF classification.

15. ***There was agreement that the financial sector had weathered the downturn relatively well and that continued vigilance remained appropriate***. The authorities and financial sector representatives expressed satisfaction about the resilience of the quality of credit portfolios. As of end-September 2009, the banking system's nonperforming loan ratio stood at 2.1 percent, about one percentage point higher than one year earlier. Nonperforming loans were expected to continue rising, albeit at a moderate rate. The mission found that the authorities are on track to fulfill the end-December structural benchmarks on submitting legislation to create a limited deposit insurance scheme and strengthen the bank resolution framework. A first draft of the law has been prepared and is currently under revision.

C. Program Modalities

16. ***Considering the lower uncertainty about the external environment and the lower program risks, it was agreed to modify the frequency of program reviews from quarterly to biannual***. The program would maintain quantitative performance criteria and indicative targets for end-December 2009 and end-March 2010. The main consequence of the proposed modification would be to eliminate the review originally scheduled for late March 2010 and have the next (and final) program review in late June 2010. In addition, the availability date of the fourth purchase would be moved forward, to January 29, 2010 (Tables 1–3 in the attached Memorandum of Economic and Financial Policies).[5] The mission welcomed the progress made by the authorities in implementing recommendations of the recent safeguards assessment. The central bank has hired an external auditor to conduct annual audits of its financial statements from 2008 onwards, and to prepare an analysis of existing gaps between the central bank's accounting practices and international financial reporting standards (IFRS).

IV. Staff Appraisal

17. ***The Costa Rican economy is showing clearer signs of recovery***. Economic activity has been growing for several months on a seasonally adjusted basis, even though this expansion is not yet broad-based. Inflation has moderated to a historically low level, there have been no balance of payments pressures, and the financial sector remains stable. These developments are broadly consistent with the staff's projections at the time of the first program review in September.

[5] The Technical Memorandum of Understandings (TMU) remains unchanged from the first review (IMF Country Report No. 09/303).

18. ***Performance under the precautionary SBA with the Fund has continued to be very strong, as the authorities met all quantitative performance criteria for end-September***. Immediate risks to the program have declined further, especially the likelihood of balance of payments and exchange rate pressures. Weak revenue performance remains a risk, as it could lead to higher-than-projected fiscal deficits and domestic financing requirements.

19. ***Fiscal policy should continue to strike a balance between supporting domestic demand and keeping government borrowing in check***. In the first three quarters of 2009, fiscal policy has provided timely support to domestic demand, despite a somewhat slower than projected execution of public spending. The program for 2010 provides room for some additional fiscal stimulus in the early part of the year, to allow more time for private demand to recover.

20. ***A gradual easing bias for monetary policy remains adequate for the near term***. Recent inflation and exchange rate developments have increased the room for policy maneuver, but there remain upside risks to the inflation outlook that warrant maintaining a cautious approach to monetary easing. Staff welcomes the authorities' commitment to advance in the transition toward inflation targeting and greater exchange rate flexibility. It encourages them to seize the opportunity to clarify the central bank's role in the foreign exchange market and improve the framework to conduct monetary operations, in line with the staff's recommendations of the recent 2009 Article IV consultation.

21. ***While progress is being made on some structural reforms, the continued delay in parliamentary approval of a number of important economic laws is disappointing***. Good progress is being made toward the submission of legislation to create a limited deposit insurance and strengthen the bank resolution framework (end-December structural benchmarks under the program), and the authorities are implementing key recommendations of the safeguards assessment. Staff reiterates the importance of approving legislation on central bank recapitalization, consolidated financial sector supervision, and foreign financing for the 2010 budget.

22. ***Staff recommends the approval of the second review under the SBA***. Performance under the program has been strong, and the authorities' policies continue to be adequate to support economic recovery while maintaining internal and external stability.

Table 1. Costa Rica: Quantitative Performance Measures

(In billion of colones, unless otherwise indicated)

	2009 Program								2010 Program
	End-March 1/		End-June		End-September		End-December		End-March 2/
	Prog. 3/	Actual	Prog. 3/	Actual	Prog. 4/	Actual	Prog. 4/	Proposed	Proposed
Quantitative Performance Criteria									
Floor on cash balance of the Central Government (cumulative)	-210	-106	-312	-206	-471	-377	-639	-639	-322
Ceiling on the debt stock of the Central Government	4,303	4,239	4,356	4,338	4,753	4,551	4,871	4,914	5,286
Ceiling on NDA of the Central Bank 5/	-915	-1,301	-786	-1,244	-970	-1,170	-896	-896	-800
Floor on NIR of the Central Bank (million of US$) 5/	3,500	4,167	3,350	3,936	3,555	4,059	3,705	3,705	3,405
Continuous Performance Criteria									
Accumulation of external debt arrears	0	0	0	0		0		0	0
Indicative targets									
Floor on cash balance of the combined public sector (cumulative)	-146	-43	-325	-179	-524	-411	-774	-774	-352
Memorandum item									
Base money	1,102	1,101	1,144	1,024	1,079	1,170	1,240	1,240	1,163
Program exchange rate (ask price, colones per U.S. dollar)	576	558	576	569	576	576	576	576	576

Sources: Central Bank of Costa Rica; Ministry of Finance; and Fund staff projections.

1/ Projection only. Performance criteria were only set from end-June onward.

2/ The end-March 2010 quantitative PCs will be evaluated at the 2009 program exchange rates as defined in the TMU for the first review (IMF Country Report No. 09/303).

3/ IMF Country Report No. 09/134.

4/ IMF Country Report No. 09/303.

5/ The floor on NIR and ceiling on NDA at end-September and end-December have been adjusted by $205 million compared to the levels set at program approval (IMF Country Report No. 09/134) to reflect the special and general SDRs allocations of 132.81 millions SDRs.

Table 2. Costa Rica: Selected Economic Indicators 2006-10

Per capita income (2008, U.S. dollars)	6,544	Unemployment (2009, percent of labor force)	7.8
Population (July 2008, millions)	4.5	Poverty (2009, percent of households)	18.5
Life expectancy (2005, years)	79.1	Extreme poverty (2009, percent of households)	4.2

	2006	2007	2008	2009		2010	
				Prog. 1/	Proj.	Prog. 1/	Proj.
	(Annual percentage change, unless otherwise indicated)						
National Income and Prices							
GDP at constant prices	8.8	7.8	2.6	-1.5	-1.5	2.3	2.3
Implicit deflator	11.0	9.3	12.1	8.9	8.9	6.0	6.0
Consumer prices (end of period)	9.4	10.8	13.9	5.0	5.0	5.0	5.0
External Sector							
Exports of goods (volume, fob)	10.6	9.2	-3.4	-6.9	-8.2	2.5	3.1
Imports of goods (volume, cif)	9.3	4.1	5.8	-12.3	-17.8	3.1	7.5
Terms of trade (deterioration -)	-3.9	-3.7	-4.6	5.2	4.9	-2.3	-1.8
Real Effective Exchange Rate (eop; depreciation -)	0.9	2.8	5.4	…	…	…	…
Money and Credit							
Base money	26.9	33.0	11.9	7.7	7.7	10.0	9.7
Broad money	25.3	16.3	17.3	15.6	16.2	12.8	13.0
Bank credit to private sector	28.5	38.3	31.8	4.7	5.6	12.7	13.1
Lending interest rate (end of period)	20.7	16.3	20.7	…	…	…	…
	(In percent of GDP)						
Public Finances							
Combined public sector primary balance 2/	2.8	4.1	2.3	-2.4	-2.5	-2.3	-2.3
Combined public sector overall balance 2/	-0.7	1.2	0.1	-4.8	-4.8	-4.7	-4.7
Central government balance	-1.4	0.3	-0.3	-4.1	-4.1	-4.1	-4.1
Social security balance	1.9	1.2	0.6	0.2	0.2	0.1	0.1
Central bank balance	-1.1	-0.7	-0.2	-0.8	-0.8	-0.6	-0.6
Other public enterprises and entities balance	0.0	0.4	0.0	-0.1	-0.1	0.0	0.0
Combined public sector debt (gross) 2/	47.8	43.2	35.8	39.9	39.9	41.6	41.6
Of which: External public debt 3/	9.4	7.8	5.5	8.3	5.5	9.3	6.7
Savings and Investment							
Gross domestic investment	26.4	24.6	25.8	17.1	14.8	18.8	17.8
Gross national savings	21.9	18.3	16.6	13.5	11.8	13.9	13.3
External Sector							
Trade balance	-12.1	-11.4	-16.8	-10.2	-8.8	-11.3	-11.3
Current account balance	-4.5	-6.3	-9.2	-3.6	-3.0	-4.8	-4.5
Foreign direct investment	6.1	6.2	6.8	4.3	4.1	4.7	4.3
	(In millions of U.S. dollars, unless otherwise indicated)						
Change in net international reserves (increase -)	-802	-839	315	0	0	-100	-100
Net international reserves 4/	3,115	4,114	3,799	4,004	4,004	4,104	4,104
-in months of nonmaquila imports of G&S	3.5	3.8	4.3	4.1	4.2	4.0	4.0
Gross Domestic Product	22,528	26,269	29,664	29,291	29,291	30,433	30,429

Sources: Central Bank of Costa Rica; Ministry of Finance; and Fund staff projections.

1/ IMF Country Report No. 09/303.

2/ Combined Public sector = Central government + Central bank + Other public enterprises and entities (excluding ICE).

3/ The revision from IMF Country Report No. 09/303 reflects an application of the residency criterion to measure external debt.

4/ Includes valuation adjustments of US$160 million in 2007 for reclassification of capital contribution to FLAR and US$205 million in 2009 for SDR allocation.

Table 3. Costa Rica: Balance of Payments 2006-10

(In millions of U.S. dollars, unless otherwise indicated)

	2006	2007	2008	2009		2010	
				Prog. 1/	Proj.	Prog. 1/	Proj.
Current Account	-1,023	-1,646	-2,732	-1,057	-890	-1,474	-1,384
Trade balance	-2,727	-2,985	-4,984	-2,979	-2,589	-3,439	-3,437
Trade balance goods for processing	1,210	2,214	1,859	2,175	2,463	2,239	2,199
Export of goods (f.o.b.)	8,102	9,299	9,566	8,798	8,694	9,132	9,120
General merchandise and others	3,370	3,802	4,339	3,859	3,768	4,044	4,064
Goods for processing	4,732	5,498	5,227	4,939	4,925	5,088	5,056
Import of goods (f.o.b.)	10,829	12,285	14,551	11,777	11,283	12,571	12,557
General merchandise and others	7,306	9,001	11,183	9,012	8,820	9,721	9,700
Oil products	1,250	1,444	2,089	1,254	1,224	1,571	1,621
Others	6,057	7,557	9,094	7,758	7,596	8,151	8,079
Goods for processing	3,522	3,284	3,368	2,765	2,463	2,849	2,857
Services	1,351	1,734	2,201	2,002	2,246	2,118	2,340
Of which: Travel	1,222	1,393	1,692	1,442	1,492	1,554	1,558
Income	4	-865	-391	-491	-877	-517	-636
Of which: Interest on external public debt	-160	-177	-180	-191	-180	-175	-191
Of which: FDI income, net	-113	-998	-442	-450	-812	-605	-605
Current transfers	349	470	442	411	330	364	350
Financial and Capital Account	1,675	2,315	2,413	1,057	890	1,574	1,484
Direct investment	1,371	1,634	2,015	1,270	1,201	1,420	1,295
Capital flows	303	660	391	-213	-311	154	189
Public sector	-164	0	11	104	89	457	454
Disbursements	199	236	737	577	547	673	655
Amortization (inc. changes in PE deposits)	-363	-237	-726	-473	-458	-216	-200
Private net capital	467	660	380	-317	-401	-303	-265
Of which: Commercial banks	66	830	159	-711	-873	0	0
Of which: Private nonfinancial sector	401	-170	221	393	473	-303	-265
Errors and Omissions	150	171	4	0	0	0	0
Change in Net Reserves (increase -)	-802	-839	315	0	0	-100	-100
			(Annual percentage change)				
Export of Goods (f.o.b.)							
Value	14.1	14.8	2.9	-8.0	-9.1	3.8	4.9
Volume	10.6	9.2	-3.4	-6.9	-8.2	2.5	3.1
Import of Goods (c.i.f.)							
Value	16.0	12.7	18.1	-18.4	-22.4	5.9	12.5
Volume	9.3	4.1	5.8	-12.3	-17.8	3.1	7.5
Of which: oil							
Value	25.2	15.6	44.7	-40.0	-41.4	25.3	32.4
Volume	8.7	4.6	2.6	-8.8	-4.9	8.2	5.6
			(In percent of GDP)				
Current account	-4.5	-6.3	-9.2	-3.6	-3.0	-4.8	-4.5
Non-oil current account	1.0	-0.8	-2.2	0.7	1.1	0.3	0.8
Export of goods (f.o.b.)	36.0	35.4	32.2	30.0	29.7	30.0	30.0
Import of goods (f.o.b.)	48.1	46.8	49.1	40.2	38.5	41.3	41.3
Non-oil goods imports (f.o.b.)	42.5	41.3	42.0	35.9	34.3	36.1	35.9
Income	0.0	-3.3	-1.3	-1.7	-3.0	-1.7	-2.1
Direct investment	6.1	6.2	6.8	4.3	4.1	4.7	4.3
Memorandum Items:							
Net international reserves (US$ million) 2/	3,115	4,114	3,799	4,004	4,004	4,104	4,104
-in months of non-maquila imports	3.5	3.8	4.3	4.1	4.2	4.0	4.0
-in percent short-term debt 3/	109.7	97.0	79.6	104.2	104.9	100.2	103.2
External debt 4/	31.0	31.8	31.2	31.3	30.4	30.3	29.9

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

1/ IMF Country Report No. 09/303.

2/ Includes valuation adjustments of US$160 million in 2007 for reclassification of capital contribution to FLAR and US$205 million in 2009 for new SDR allocation.

3/ Public and private sector external debt on remaining maturity. Includes trade credits.

4/ Includes public and private sector debt.

Table 4. Costa Rica: Central Government Balance 2006-10

(In percent of GDP)

	2006	2007	2008	2009		2010	
				Prog. 1/	Proj.	Prog. 1/	Proj.
Revenue	**14.2**	**15.5**	**15.9**	**14.5**	**14.2**	**15.2**	**15.0**
Tax revenue	14.0	15.2	15.7	14.3	13.9	14.9	14.7
Direct taxes	4.0	4.6	5.1	4.6	4.7	5.1	5.1
Sales tax	5.4	5.9	6.0	5.4	5.0	5.5	5.3
Excise, customs, and others	4.5	4.8	4.6	4.2	4.3	4.3	4.3
Nontax revenue	0.2	0.3	0.2	0.3	0.3	0.3	0.3
Expenditure	**15.7**	**15.2**	**16.2**	**18.6**	**18.2**	**19.4**	**19.1**
Current noninterest	10.5	10.5	11.4	13.9	13.8	14.4	14.3
Wages and salaries	4.6	4.4	4.6	5.8	5.8	6.0	6.0
Pensions and social security	2.4	2.4	2.4	2.7	2.7	2.7	2.7
Transfers and other	3.4	3.7	4.4	5.5	5.4	5.7	5.6
Interest	4.2	3.3	2.7	2.6	2.4	2.9	2.9
o/w adjustment for TUDES 2/	0.4	0.3	0.5	0.2	0.2	0.3	0.3
Capital	1.0	1.3	1.8	2.1	2.0	2.1	2.0
Recapitalization of commercial bank	0.0	0.0	0.4	0.0	0.0	0.0	0.0
Primary balance	**2.7**	**3.7**	**2.4**	**-1.5**	**-1.6**	**-1.2**	**-1.2**
Structural primary balance 3/	2.4	2.7	2.0	-1.3	-1.5	-0.8	-0.8
Overall Balance	**-1.4**	**0.3**	**-0.3**	**-4.1**	**-4.1**	**-4.1**	**-4.1**
Structural overall balance 3/	-1.8	-0.6	-0.6	-3.9	-3.9	-3.7	-3.7
Total Financing	**1.4**	**-0.3**	**0.3**	**4.1**	**4.1**	**4.1**	**4.1**
External (net)	-0.1	0.3	-1.2	-0.6	0.0	1.5	1.5
Internal (net)	1.5	-0.6	1.5	4.7	4.0	2.7	2.7
Memorandum Items:							
Central government debt	33.3	27.6	24.9	28.9	28.9	31.0	31.0
External 4/	6.7	5.7	4.3	7.1	4.3	8.2	5.6
Domestic	26.7	21.9	20.6	21.8	24.6	22.8	25.4

Sources: Ministry of Finance; and Fund staff estimates.

1/ IMF Country Report No. 09/303.

2/ TUDES are inflation indexed bonds of the central government. The inflation adjustment of principal is not reflected as interest expenditure in the fiscal accounts of the Costa Rican authorities, but is added here to the Fund presentation of the fiscal deficit and public sector debt.

3/ For 2008, excludes one time expense for recapitalization of public commercial banks.

4/ The revision from IMF Country Report No. 09/303 reflects an application of the residency criterion to measure external debt.

Table 5. Costa Rica: Central Government Balance 2006-10

(In billions of colones)

	2006	2007	2008	2009		2010	
				Prog. 1/	Proj.	Prog. 1/	Proj.
Revenue	**1,639**	**2,105**	**2,490**	**2,432**	**2,376**	**2,764**	**2,724**
Tax Revenue	1,612	2,067	2,453	2,389	2,333	2,713	2,673
Direct taxes	465	622	801	774	786	936	936
Sales tax	627	798	937	906	835	1,000	960
Excise, customs, and others	520	647	715	709	712	778	778
Nontax Revenue	27	38	37	43	44	51	51
Expenditure	**1,804**	**2,062**	**2,535**	**3,112**	**3,057**	**3,517**	**3,477**
Current noninterest	1,212	1,427	1,776	2,335	2,320	2,610	2,590
Wages and salaries	535	601	721	965	968	1,090	1,090
Pensions and social security	282	324	372	448	448	488	488
Transfers and other	396	503	683	922	903	1,032	1,012
Interest	482	454	415	432	408	527	527
Of which: adjustment for TUDES 2	45	35	75	41	41	60	60
Capital	110	180	279	345	329	381	360
Recapitalization of commercial bank	0	0	65	0	0	0	0
Primary balance	316	497	370	-248	-272	-226	-226
Structural primary balance 3/	274	370	320	-219	-243	-143	-144
Overall Balance	**-165**	**43**	**-45**	**-680**	**-680**	**-753**	**-753**
Structural overall balance 3/	-207	-84	-95	-651	-651	-670	-671
Total Financing	165	-43	45	680	680	753	753
External (net)	-11	38	-183	-109	7	264	268
Internal (net)	176	-81	228	789	673	489	485
Memorandum Items:							
Central government debt	3,837	3,744	3,885	4,843	4,843	5,631	5,631
External 4/	766	773	669	1,183	716	1,485	1,009
Domestic	3,071	2,971	3,216	3,660	4,127	4,146	4,622

Sources: Ministry of Finance; and Fund staff estimates.

1/ IMF Country Report No. 09/303.

2/ TUDES are inflation indexed bonds of the central government. The inflation adjustment of principal is not reflected as interest expenditure in the fiscal accounts of the Costa Rican authorities, but is added here to the IMF presentation of the fiscal deficit and public sector debt.

3/ For 2008, excludes one time expense for recapitalization of public commercial banks.

4/ The revision from IMF Country Report No. 09/303 reflects an application of the residency criterion to measure external debt.

Table 6. Costa Rica: Combined Public Sector Operations 2006-10 1/

(In percent of GDP)

	2006	2007	2008	2009		2010	
				Prog. 2/	Proj.	Prog. 2/	Proj.
Revenues	**21.2**	**22.8**	**23.3**	**22.2**	**21.9**	**23.3**	**23.1**
Tax revenue	14.0	15.2	15.7	14.3	13.9	14.9	14.7
Direct taxes	4.0	4.6	5.1	4.6	4.7	5.1	5.1
Sales tax	5.4	5.9	6.0	5.4	5.0	5.5	5.3
Excise, customs, and others	4.5	4.8	4.6	4.2	4.3	4.3	4.3
Nontax revenue	0.2	0.3	0.2	0.3	0.3	0.3	0.3
Contributions to social security	6.2	6.3	6.8	7.1	7.1	7.5	7.5
Operating balance of public enterprises	0.7	1.0	0.6	0.6	0.6	0.6	0.6
Noninterest expenditure	**18.4**	**18.8**	**21.0**	**24.6**	**24.4**	**25.6**	**25.4**
Wages and salaries	7.2	7.1	7.5	8.9	9.0	9.4	9.4
Goods and services	1.8	2.0	2.1	2.4	2.3	2.5	2.4
Pensions	4.4	4.4	4.6	5.2	5.2	5.6	5.6
Transfers	2.9	3.2	3.8	4.7	4.7	4.9	4.8
Central Bank primary losses	0.2	0.0	-0.2	0.0	0.0	0.1	0.1
Net capital expenditure	1.9	2.1	3.2	3.3	3.2	3.2	3.1
Central Government (incl. capital transfers)	1.0	1.3	2.2	2.1	2.0	2.1	2.0
Rest of the Nonfinancial Public Sector	0.9	0.8	1.0	1.3	1.3	1.1	1.1
Primary balance	**2.8**	**4.1**	**2.3**	**-2.4**	**-2.5**	**-2.3**	**-2.3**
Net interest expenditure	3.4	2.9	2.1	2.4	2.2	2.4	2.4
Overall Balance	**-0.7**	**1.2**	**0.1**	**-4.8**	**-4.8**	**-4.7**	**-4.7**
Central government	-1.4	0.3	-0.3	-4.1	-4.1	-4.1	-4.1
of which : Adjustment for TUDES 3/	-0.4	-0.3	-0.5	-0.2	-0.2	-0.3	-0.3
Social Security Agency	1.9	1.2	0.6	0.2	0.2	0.1	0.1
of which : Adjustment for TUDES 3/	0.3	0.3	0.2	0.1	0.1	0.1	0.1
Other public enterprises and entities	0.0	0.4	0.0	-0.1	-0.1	0.0	0.0
Central bank	-1.1	-0.7	-0.2	-0.8	-0.8	-0.6	-0.6
Total Financing	**0.7**	**-1.2**	**-0.1**	**4.8**	**4.8**	**4.7**	**4.7**
External	0.1	0.3	-1.1	-0.3	-0.1	1.6	1.3
Internal	0.6	-1.5	0.9	5.1	4.9	3.1	3.3
Memorandum items:							
Total combined public sector debt	47.8	43.2	35.8	39.9	39.9	41.6	41.6
External 4/	9.4	7.8	5.5	8.3	5.5	9.3	6.7
Domestic	38.4	35.4	30.3	31.6	34.4	32.3	34.9

Sources: Ministry of Finance; and Fund staff estimates.

1/ Combined Public sector = Central government + Central bank + Other public enterprises and entities (excluding ICE).

2/ IMF Country Report No. 09/303.

3/ TUDES are inflation indexed bonds of the central government. The inflation adjustment of principal is not reflected as interest expenditure in the fiscal accounts of the Costa Rican authorities, but is added here to the IMF presentation of the fiscal deficit and public sector debt.

4/ The revision from IMF Country Report No. 09/303 reflects an application of the residency criterion to measure external debt.

Table 7. Costa Rica: Combined Public Sector Operations 2006-10 1/

(In billions of colones)

	2006	2007	2008	2009		2010	
				Prog. 2/	Proj.	Prog. 2/	Proj.
Revenues	**2,437**	**3,098**	**3,635**	**3,718**	**3,662**	**4,243**	**4,204**
Tax revenue	1,612	2,067	2,453	2,389	2,333	2,713	2,673
Direct taxes	465	622	801	774	786	936	936
Sales tax	627	798	937	906	835	1,000	960
Excise, customs, and others	520	647	715	709	712	778	778
Nontax revenue	27	38	37	43	44	51	51
Contributions to social security	715	855	1,057	1,190	1,190	1,371	1,371
Operating balance of public enterprises	84	139	89	96	96	108	108
Noninterest expenditure	**2,119**	**2,547**	**3,279**	**4,120**	**4,088**	**4,658**	**4,618**
Wages and salaries	829	959	1,165	1,498	1,501	1,717	1,717
Goods and services	211	266	321	404	392	449	439
Pensions	506	597	719	877	877	1,011	1,011
Transfers	340	430	596	787	781	888	878
Central Bank primary losses	17	5	-27	-2	-2	13	13
Net capital expenditure	216	290	505	555	539	580	560
Central Government (incl. capital transfers)	110	180	344	345	329	381	360
Rest of the Nonfinancial Public Sector	106	110	161	210	210	200	200
Primary balance	**317**	**552**	**357**	**-402**	**-426**	**-415**	**-414**
Net interest expenditure	394	388	334	394	370	432	433
Overall Balance	**-77**	**164**	**23**	**-796**	**-796**	**-847**	**-847**
Central government	-165	43	-45	-680	-680	-753	-753
of which : Adjustment for TUDES 3/	-45	-35	-75	-41	-41	-60	-60
Social Security Agency	218	160	101	36	36	10	10
of which : Adjustment for TUDES 3/	35	37	34	19	19	27	27
Other public enterprises and entities	2	57	-4	-25	-25	6	6
Central bank	-131	-96	-29	-127	-127	-110	-110
Total Financing	**77**	**-164**	**-23**	**796**	**796**	**847**	**847**
External	10	36	-170	-54	-18	284	241
Internal	66	-200	147	851	814	563	606
Memorandum items:							
Total combined public sector debt	5,502	5,869	5,596	6,681	6,681	7,569	7,569
External 4/	1,078	1,063	861	1,387	921	1,698	1,220
Domestic	4,425	4,806	4,734	5,293	5,760	5,871	6,349

Sources: Ministry of Finance; and Fund staff estimates.

1/ Combined Public sector = Central government + Central bank + Other public enterprises and entities (excluding ICE).

2/ IMF Country Report No. 09/303.

3/ TUDES are inflation indexed bonds of the central government. The inflation adjustment of principal is not reflected as interest expenditure in the fiscal accounts of the Costa Rican authorities, but is added here to the IMF presentation of the fiscal deficit and public sector debt.

4/ The revision from IMF Country Report No. 09/303 reflects an application of the residency criterion to measure external debt.

Table 8. Costa Rica: Monetary Survey 2006-10

(In billions of colones)

	2006	2007	2008	2009		2010	
				Prog. 1/	Proj.	Prog. 1/	Proj.
Net foreign assets	1,608	2,125	2,186	2,475	2,476	2,630	2,641
Net international reserves	1,607	2,037	2,090	2,337	2,338	2,487	2,487
(In millions of US$)	3,115	4,114	3,799	4,004	4,004	4,104	4,104
Net domestic assets	-834	-1,097	-1,035	-1,236	-1,236	-1,266	-1,281
Net domestic credit	-395	-429	-547	-835	-833	-835	-903
Credit to the Nonfinancial Public Sector	-43	-61	-20	-94	-92	16	-74
Credit to Other Depository Corporations (r	-361	-380	-525	-735	-735	-846	-823
Credit to Other Financial Corporations (ne	-1	2	0	-3	-3	-3	-4
Credit to the Private Sector (net)	11	10	-2	-2	-2	-2	-2
Capital account (-)	1,138	1,182	1,219	1,336	1,358	1,303	1,468
Other items net (-)	-153	-8	-254	-339	-356	-339	-492
Monetary stabilization bonds (-)	-1,424	-1,842	-1,453	-1,398	-1,405	-1,395	-1,355
Monetary base	773	1,028	1,151	1,240	1,240	1,364	1,360
Currency	413	546	575	623	623	683	662
Required reserves	360	482	576	616	616	681	698
Net foreign assets	67	-347	-473	-87	8	-90	8
Net domestic assets	4,980	6,250	7,796	8,732	8,739	9,977	10,080
Net domestic credit	6,488	8,097	10,064	11,042	11,117	12,348	12,506
Credit to nonfinancial public sector (net)	541	338	316	559	506	682	626
Credit to the private sector	4,347	6,014	7,926	8,302	8,367	9,356	9,460
Credit to financial corporations (net)	1,600	1,746	1,823	2,181	2,243	2,310	2,419
Capital account	1,037	1,237	1,597	1,656	1,653	1,717	1,736
Other items (net)	-472	-609	-671	-653	-724	-653	-690
Liabilities	5,046	5,904	7,323	8,645	8,747	9,887	10,088
National currency	2,673	3,502	3,950	4,481	4,501	5,097	5,121
Foreign currency	2,373	2,402	3,373	4,164	4,246	4,790	4,967
Net foreign assets	1,674	1,778	1,713	2,388	2,484	2,539	2,649
Net domestic assets	4,706	5,645	6,997	7,679	7,640	8,813	8,794
Net domestic credit	4,845	6,291	8,221	8,766	8,781	10,054	10,013
Capital account	-101	55	378	320	295	414	268
Other items (net)	-240	-590	-847	-767	-846	-826	-951
Broad money (M4)	6,381	7,423	8,709	10,067	10,123	11,353	11,443
Memorandum Items							
				(Percent changes)			
Monetary base	26.9	33.0	11.9	7.7	7.7	10.0	9.7
Broad money (M4)	25.3	16.3	17.3	15.6	16.2	12.8	13.0
Credit to the private sector (National Currency)	34.0	45.2	27.1	3.4	4.8	12.4	12.2
Credit to the Private Sector (Foreign Currency)	22.3	30.0	38.2	6.5	6.6	13.0	14.1
				(In percent of GDP)			
Monetary base	6.7	7.6	7.4	7.4	7.4	7.5	7.5
Broad money (M4)	55.4	54.7	55.8	60.1	60.4	62.5	63.0
Credit to the private sector (National Currency)	20.7	25.5	28.2	27.1	27.5	28.1	28.5
Credit to the private sector (Foreign Currency)	17.0	18.8	22.6	22.4	22.4	23.3	23.6
				(In billion of Colones)			
Net domestic assets (Program Definition)	-833	-1,009	-939	-1,098	-1,098	-1,123	-1,127

Sources: BCCR; and Fund staff estimates.

1/ IMF Country Report No. 09/303.

Table 9. Costa Rica: External Financing Requirements and Sources 2006-10

(In millions of U.S. dollars)

	2006	2007	2008	2009		2010	
				Prog. 1/	Proj.	Prog. 1/	Proj.
1. Gross Financing Requirements	**4,497**	**5,324**	**6,659**	**5,860**	**5,664**	**5,415**	**5,300**
Current account deficit (exc. official transfers)	1,023	1,646	2,732	1,057	890	1,474	1,384
Debt amortization 2/	2,673	2,838	4,242	4,803	4,774	3,841	3,817
Medium and long-term debt	577	483	1,018	808	779	583	559
Public sector	363	237	726	497	458	208	200
Private sector	215	246	292	311	321	375	358
Short-term debt 3/	2,095	2,356	3,224	3,995	3,995	3,258	3,258
Repayment of arrears	0	0	0	0	0	0	0
Gross reserves accumulation	802	839	-315	0	0	100	100
2. Available Financing	**4,497**	**5,324**	**6,659**	**5,860**	**5,664**	**5,415**	**5,300**
Foreign direct investment (net)	1,371	1,634	2,015	1,270	1,201	1,420	1,295
Debt financing	3,020	4,072	5,258	4,159	4,423	4,363	4,006
Medium and long-term financing	664	848	1,263	901	1,165	1,037	802
Public sector	199	236	737	577	547	673	655
Private sector	466	612	526	324	618	364	147
Short-term financing	2,356	3,224	3,995	3,258	3,258	3,326	3,204
Other flows 4/	107	-382	-614	431	39	-368	0
Memorandum Item:							
Gross financing requirement (in percent of GDP)	20.0	20.3	22.4	20.0	19.3	17.8	17.4

Sources: Authorities; and Fund staff estimates.

1/ IMF Country Report No. 09/303.
2/ Excluding the IMF.
3/ Original maturity of less than 1 year. Stock at the end of the previous period.
4/ Includes all other net financial flows, and errors and omissions.

Table 10. Costa Rica: Indicators of External Vulnerability 2006-10

				Projection	
	2006	2007	2008	2009	2010
Merchandise exports (percent change) 1/	11.3	12.8	14.1	-13.1	7.8
Merchandise imports (percent change) 1/	15.3	23.2	24.2	-21.1	10.0
Terms of trade (percent change)	-3.9	-3.7	-4.6	4.9	-1.8
Current account balance (in percent of GDP)	-4.5	-6.3	-9.2	-3.0	-4.5
Central bank net international reserves (in US$ millions)	3,114.6	4,113.7	3,799.1	4,004.1	4,104.1
-In months of next year's imports of nonmaquila goods and services	3.5	3.8	4.3	4.2	4.0
-In percent of base money	208.6	199.3	183.3	190.1	182.8
-In percent of M4	25.3	27.6	24.2	23.3	21.7
-In percent of deposits in foreign currency	68.0	85.3	62.6	55.5	50.1
-In percent of short-term external debt 2/	109.7	97.0	79.6	104.9	103.2
Public external debt service (in percent of GDP)	2.0	1.8	3.1	2.2	1.3
External debt (in percent of GDP)	31.0	31.8	31.2	30.4	29.9
External debt (in percent of exports)	63.2	64.9	67.7	70.4	68.7
REER appreciation (+)	0.9	2.8	5.4	…	…

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

1/ In value terms, excludes maquila.
2/ Public and private sector external debt on remaining maturity. Includes trade credits.

Table 11. Costa Rica: Medium-Term Framework 2006-14

(Annual percentage change; unless otherwise indicated)

				Projection					
	2006	2007	2008	2009	2010	2011	2012	2013	2014
Real GDP	8.8	7.8	2.6	-1.5	2.3	3.5	4.5	5.2	5.2
Consumption	5.4	6.8	4.3	2.0	2.3	2.5	2.9	4.1	4.1
Private consumption	5.7	7.4	4.5	1.7	2.2	2.5	3.0	4.3	4.3
Government consumption	2.9	2.2	2.4	4.0	3.3	2.6	2.5	2.4	2.5
Gross domestic investment	13.9	-1.3	12.2	-30.0	11.5	7.7	9.8	8.7	8.3
Fixed capital formation	10.8	18.0	11.9	-12.0	3.0	5.8	6.2	6.3	6.2
Exports of goods and nonfactor services	10.3	10.0	-1.8	-7.0	2.9	5.0	5.0	5.2	5.3
Imports of goods and nonfactor services	8.1	4.5	4.3	-16.3	6.7	5.4	4.9	5.1	5.2
Consumption (contribution to growth)	3.9	4.9	3.1	1.5	1.7	1.9	2.2	3.0	2.9
Investment (contribution to growth)	2.2	3.7	2.7	-3.0	0.7	1.3	1.4	1.4	1.5
Inventories (contribution to growth)	1.4	-4.0	0.2	-5.0	1.5	0.3	0.7	0.5	0.5
Net exports (contribution to growth)	1.3	3.2	-3.4	4.9	-1.6	0.1	0.2	0.3	0.3
Investment and savings (in percent of GDP)									
Savings	26.4	24.6	25.8	14.8	17.8	19.2	20.7	21.6	22.3
National savings	21.9	18.3	16.6	11.8	13.3	14.4	15.9	16.6	17.2
External savings 1/	4.5	6.3	9.2	3.0	4.5	4.8	4.9	5.0	5.1
Gross domestic investment	26.4	24.6	25.8	14.8	17.8	19.2	20.7	21.6	22.3
Private sector	16.8	18.6	20.2	16.6	16.8	17.1	17.4	17.6	18.0
Public sector	3.1	3.2	4.0	4.1	4.1	4.1	4.2	4.2	4.3
Inventory changes	6.5	2.8	1.6	-5.9	-3.0	-2.0	-0.9	-0.3	0.0
Balance of payments (in percent of GDP)									
Current account balance	-4.5	-6.3	-9.2	-3.0	-4.5	-4.8	-4.9	-5.0	-5.1
Trade balance	-12.1	-11.4	-16.8	-8.8	-11.3	-11.9	-12.4	-12.9	-13.4
Services	6.0	6.6	7.4	7.7	7.7	8.0	8.2	8.5	8.9
Income	0.0	-3.3	-1.3	-3.0	-2.1	-2.0	-1.8	-1.7	-1.7
Current transfers	1.6	1.8	1.5	1.1	1.2	1.1	1.1	1.1	1.1
Financial and capital account	7.4	8.7	8.1	3.0	4.9	5.5	5.8	6.0	6.2
Direct investment	6.1	6.2	6.8	4.1	4.3	4.2	4.2	4.2	4.2
Capital flows	1.3	2.5	1.3	-1.1	0.6	1.3	1.6	1.8	2.0
Public sector	-0.7	0.0	0.0	0.3	1.5	0.4	0.3	0.2	0.3
Private net capital	2.1	2.5	1.3	-1.4	-0.9	0.9	1.3	1.6	1.7
Errors and Omissions	0.7	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in Net Reserves (increase -)	-3.6	-3.2	1.1	0.0	-0.3	-0.6	-0.9	-1.0	-1.0
Memorandum items:									
GDP deflator	11.0	9.3	12.1	8.9	6.0	5.0	4.5	4.0	3.8
CPI (avg)	11.5	9.4	13.4	8.4	5.0	4.7	4.5	4.5	4.2
CPI (eop)	9.4	10.8	13.9	5.0	5.0	4.5	4.5	4.5	4.0
Net international reserves (millions of US$)	3,115	4,114	3,799	4,004	4,104	4,304	4,604	4,954	5,354

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

1/ External current account deficit.

Table 12. Costa Rica: Banking Sector Indicators

(In percent)

	Total Banking system							Public banks	Private Banks	Coope-ratives
	2008				2009			2009		
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Sep		
Capitalization										
Risk-adjusted capital ratio	15.5	14.7	14.5	15.1	15.2	15.4	15.4	13.8	13.4	19.1
Capital-to-assets ratio	12.8	12.8	12.8	13.3	13.3	13.5	13.7	12.0	10.7	18.6
Asset quality										
Nonperforming loans to total loans	1.2	1.1	1.2	1.5	1.8	2.0	2.1	2.8	1.5	1.0
Non-income generating assets to total assets	16.6	17.0	18.1	18.2	19.1	18.9	19.0	21.3	19.7	5.6
Foreclosed assets to total assets	0.2	0.2	0.2	0.3	0.4	0.4	0.5	0.5	0.6	0.3
Loan loss provisions to total loans	1.8	1.7	1.7	1.8	1.9	1.9	2.0	2.3	1.6	2.9
Management										
Administrative expenses to total assets	4.8	4.6	4.5	4.4	4.3	4.3	4.2	4.6	3.6	4.2
Noninterest expenses to gross income	77.2	79.6	82.2	79.3	78.9	77.4	75.7	76.7	83.3	37.0
Total expenses to total revenues	90.6	91.0	91.7	92.5	93.0	93.5	93.7	93.8	96.0	90.3
Profitability										
Return on assets (ROA)	1.5	1.6	1.7	1.8	1.7	1.6	1.5	1.3	1.2	1.8
Return on equity (ROE)	11.8	12.2	13.4	14.3	14.3	12.4	11.5	11.6	12.7	9.5
Interest margin to gross income	34.0	29.4	25.6	20.8	20.4	20.8	21.7	25.0	13.4	34.5
Liquidity										
Liquid assets to total short-term liabilities	87.5	84.6	80.1	83.0	94.9	101.2	99.6	88.7	91.2	574.7
Liquid assets to total assets	32.5	29.7	27.4	27.7	30.0	31.1	30.7	36.0	25.1	24.2
Loans to deposits	103.1	107.3	109.8	109.7	101.9	98.6	98.4	79.1	118.6	151.0
Liquid assets to deposits	48.5	44.6	41.0	42.1	43.7	44.8	43.7	46.4	37.0	49.9
Sensitivity to market risk										
Net open FX position to capital	19.0	21.7	19.5	20.4	22.8	22.9	26.4	11.7	77.2	1.1
Other										
Financial margin 1/	7.8	7.6	7.7	7.9	8.0	8.3	7.9	8.4	4.9	7.4
Credit growth (over a year ago)	38.3	40.0	33.5	27.8	20.6	13.1	10.4	9.8	14.8	3.6
Deposit growth (over a year ago)	22.4	23.8	21.3	25.4	21.9	23.1	24.6	19.4	42.7	19.6

Source: Superintendency of Banks.

1/ Difference between implicit loan and deposit rates.

Attachment 1

Letter of Intent

San José, November 18, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C.

Dear Mr. Strauss-Kahn:

1. The purpose of this letter is to inform you about the progress in the implementation of our economic program, which is being supported under the Stand-By Arrangement (SBA) approved by the IMF Executive Board on April 10, 2009. The attached supplement to the Memorandum of Economic and Financial Policies (MEFP) summarizes developments since the completion of the first program review on September 23, 2009, and describes modifications to the program.

2. Macroeconomic developments have been broadly in line with projections made at the time of the first program review. The decline in real GDP moderated in the second quarter of 2009, mainly reflecting a recovery in the manufacturing sector. Inflation fell to 4 percent in October, and inflation expectations are gradually approaching the central bank's inflation target range for 2010. The external current account deficit is likely to be smaller than projected, and in the past two months the *colón* has traded continuously below the ceiling of the currency band. Liquidity and solvency indicators of the banking sector remain adequate.

3. Performance against the program targets remains very strong. All quantitative performance criteria for end-September were met, most with significant margins. Work is underway toward the implementation of the two end-December structural benchmarks (submission of draft laws to create a deposit insurance scheme and strengthen the bank resolution framework).

4. In light of this performance and our continued commitment to the program, we request completion of the second review under the SBA. Our intention remains to treat the arrangement as precautionary. We are requesting to change the frequency of program reviews from quarterly to biannual, given reduced uncertainty about the external environment and lower program risks, and bring forward the availability date of the fourth purchase under the arrangement. The third and final program review would be expected to take place in late June 2010. The program's quantitative performance criteria and indicative targets for end-December 2009 and end-March 2010, and remaining structural benchmarks are set out in Tables 1 and 2 of the attached supplement to the MEFP.

5. We believe that the policies described in the attached supplement to the MEFP are adequate to meet the objectives of our program. However, if needed, the government stands ready to take additional measures. In accordance with the Fund's policies, we will be in continuous communication with the Fund with regard to policy actions related to this program.

Sincerely yours,

/s/	/s/
Jenny Phillips Minister of Finance	Francisco de Paula Gutiérrez President, Central Bank of Costa Rica

Attachments

Attachment 2

Supplement to the Memorandum of Economic and Financial Policies

November 18, 2009

1. ***Recent developments***. Macroeconomic developments have been broadly in line with projections made at the time of the first program review. The decline in real GDP moderated in the second quarter of 2009 (to -2.4 percent y/y, from -4.5 percent in the first quarter), mainly reflecting a recovery in the manufacturing sector. Moreover, in September the indicator of economic activity rose 0.3 percent from the previous month (seasonally adjusted), marking the seventh consecutive month of positive growth. In October, headline and core inflation fell further, to 4.0 and 5.7 percent (y/y) respectively, while median 12-month inflation expectations declined to 7.3 percent, gradually approaching to the central bank (BCCR)'s inflation target range of 4–6 percent for end-2010. In the first half of 2009, the external current account was broadly in balance, whereas the capital account posted a modest surplus (0.4 percent of GDP), despite a significant slowdown in FDI. In the third quarter, exports showed signs of recovery while import growth remained subdued. As a result, the trade deficit through September was substantially lower than during the same period last year. In addition, the colón has traded continuously below the ceiling of the currency band since mid-August. In the banking sector, the aggregate nonperforming loan ratio and the capital adequacy ratio deteriorated slightly, but liquidity and solvency indicators remained adequate.

2. ***Performance under the program***. All quantitative performance criteria for end-September were met, most of them with significant margins. Base money growth at end-September was somewhat above program projections, reflecting a temporary spike in commercial bank deposits at the BCCR that reversed during October.

3. ***Macroeconomic framework***. The outlook for 2009 and 2010 remains broadly unchanged from the first program review. The macroeconomic framework assumes a gradual recovery with real GDP growth of around 2.5 percent in 2010, following a 1–1.5 percent contraction in 2009. Inflation is on track to fall to 5 percent (12-month basis) by end-2009, and is expected to remain within the central bank's target band of 4–6 percent in 2010. The external current account deficit is now expected to be somewhat smaller than previously projected at 3.0 percent and 4.5 percent of GDP in 2009 and 2010, respectively.

4. ***Fiscal policy***. Central government revenues through September were 7.7 percent lower than during the same period of 2008, mainly owing to a sharp drop in import-related taxes (including sales and excise taxes collected at customs). This performance was somewhat weaker than assumed in the program, and revenues for the whole year 2009 could fall short of program projections by about 0.3 percent of GDP. At the same time, central government spending has been lower than projected, and we expect some underexecution to persist through the end of the year. As a result, we are keeping the program target for the overall central government deficit

in 2009 unchanged at 4.1 percent of GDP. The deficit target for 2010 of 4.1 percent of GDP also remains unchanged, although with lower estimates for both revenues and expenditures in light of the anticipated underperformance in 2009. Our quarterly fiscal program for 2010 envisages a gradual withdrawal of fiscal stimulus. The program allows for a small positive fiscal impulse during the first half of the year, to provide continued support to domestic demand until the recovery of the private sector strengthens.

5. ***Monetary and exchange rate policies***. The downward trend of core inflation and inflation expectations, and the persistence of a negative output gap suggest that the inflation target for 2010 (4–6 percent) is achievable. However, there are some upside risks to the outlook as the dampening effect of the fall in commodity prices of early 2009 will unwind, and depreciation expectations and nontradables inflation remain above the target range. In view of these risks, the BCCR will continue to maintain a cautious approach to monetary policy easing. Our exchange rate policy will remain guided by the objective of gradually achieving greater flexibility of the *colón*.

6. ***Safeguards assessment***. The recommendations of the safeguard assessment of the BCCR that was completed in July 2009 are being implemented. In particular, the BCCR has appointed an external auditor to conduct annual audits of the BCCR financial statements from 2008 onwards. The scope of the audit includes an analysis of the existing gaps between the BCCR's accounting practices and IFRS, in order to establish an action plan for the implementation of IFRS by 2011.

7. ***Program monitoring***. The program will continue to be monitored on a quarterly basis, by quantitative performance criteria, indicative targets, and structural benchmarks. We are requesting to change the frequency of program reviews from quarterly to biannual, given reduced uncertainty about the external environment and lower program risks. The next and final program review is therefore expected to take place in June 2010. The quantitative performance criteria and indicative targets for end-December 2009 and end-March 2010 are set out in Table 1. The structural benchmarks of the program and the phasing of access under the arrangement are set out in Tables 2 and 3, respectively.

Table 1. Costa Rica: Quantitative Performance Measures

(In billion of colones, unless otherwise indicated)

	2009 Program								2010 Program
	End-March 1/		End-June		End-September		End-December		End-March 2/
	Prog. 3/	Actual	Prog. 3/	Actual	Prog. 4/	Actual	Prog. 4/	Proposed	Proposed
Quantitative Performance Criteria									
Floor on cash balance of the Central Government (cumulative)	-210	-106	-312	-206	-471	-377	-639	-639	-322
Ceiling on the debt stock of the Central Government	4,303	4,239	4,356	4,338	4,753	4,551	4,871	4,914	5,286
Ceiling on NDA of the Central Bank 5/	-915	-1,301	-786	-1,244	-970	-1,170	-896	-896	-800
Floor on NIR of the Central Bank (million of US$) 5/	3,500	4,167	3,350	3,936	3,555	4,059	3,705	3,705	3,405
Continuous Performance Criteria									
Accumulation of external debt arrears	0	0	0	0		0		0	0
Indicative targets									
Floor on cash balance of the combined public sector (cumulative)	-146	-43	-325	-179	-524	-411	-774	-774	-352
Memorandum item									
Base money	1,102	1,101	1,144	1,024	1,079	1,170	1,240	1,240	1,163
Program exchange rate (ask price, colones per U.S. dollar)	576	558	576	569	576	576	576	576	576

Sources: Central Bank of Costa Rica; Ministry of Finance; and Fund staff projections.

1/ Projection only. Performance criteria were only set from end-June onward.

2/ The end-March 2010 quantitative PCs will be evaluated at the 2009 program exchange rates as defined in the TMU for the first review (IMF Country Report No. 09/303).

3/ IMF Country Report No. 09/134.

4/ IMF Country Report No. 09/303.

5/ The floor on NIR and ceiling on NDA at end-September and end-December have been adjusted by $205 million compared to the levels set at program approval (IMF Country Report No. 09/134) to reflect the special and general SDRs allocations of 132.81 millions SDRs.

Table 2. Structural Benchmarks

	Test Date	Status
Establishment of a monthly monitoring report for the banking system.	End-June 2009	Met
Unification of the money market under a single platform.	End-June 2009	Met (by August 2009)
Establishment of a system of daily forecasting of systemic liquidity in the money market.	End-June 2009	Met
Submission to parliament of a draft law to strengthen the bank resolution framework.	End-December 2009	
Submission to parliament of a draft law to create a limited deposit guarantee scheme.	End-December 2009	

Table 3. Schedule of Availability of Disbursements

Amount	Date	Conditions for Disbursement
SDR 328,200,000	April 10, 2009	Executive Board approval of the 18-month Stand-By Arrangement.
SDR 41,025,000	September 23, 2009	Observance of performance criteria for end-June 2009 and completion of the first review under the Stand-By Arrangement.
SDR 41,025,000	December 16, 2009	Observance of performance criteria for end-September 2009 and completion of the second review under the Stand-By Arrangement.
SDR 41,025,000	January 29, 2010	Observance of performance criteria for end-December 2009.
SDR 41,025,000	June 17, 2010	Observance of performance criteria for end-March 2010 and completion of the third review under the Stand-By Arrangement.

Press Release No. 09/470
FOR IMMEDIATE RELEASE
December 18, 2009

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second Review Under Stand-By Arrangement with Costa Rica

The Executive Board of the International Monetary Fund (IMF) completed on December 16, 2009 the second review of Costa Rica's economic performance under a program supported by a 15-month Stand-By Arrangement (SBA). The authorities have indicated that they will continue treating the arrangement as precautionary.

The SBA was approved on April 13, 2009 (See Press Release No. 09/124) for SDR 492.3 million (about US$783.5 million) Completion of the review makes an additional SDR 41.025 million (about US$65.3 million) available for disbursement, bringing the total resources that are currently available to Costa Rica under the arrangement to SDR410.25 million (about US$652.9 million).

Following the Executive Board's discussion on Costa Rica, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, stated:

"Costa Rica's performance under the Stand-By arrangement with the Fund is commendable. An economic recovery is gradually taking hold, inflation has moderated to a historically low level, and the financial sector has remained sound. The authorities' economic program has helped cushion the impact of the global downturn and is providing a solid framework to support the recovery. Economic policies will continue to strike a balance between supporting domestic demand in the near term and maintaining domestic and external stability to foster sustained growth over the medium term.

"Fiscal policy has provided timely support to domestic demand in 2009, and the fiscal program for 2010 allows room for some additional stimulus in the early part of the year. Afterwards, the authorities plan to gradually unwind the fiscal stimulus as the recovery of private demand takes hold.

"Inflation has continued to decline and the exchange rate has moved toward the middle of the currency band. These developments have increased the central bank's room for policy maneuver, although upside risks to the inflation outlook warrant maintaining a cautious approach to monetary easing. The more benign domestic and global environment also provides an opportunity to further modernize exchange rate and monetary operations, and advance in the transition toward inflation targeting.

“The banking sector has weathered the cyclical downturn well, and liquidity and solvency indicators remain adequate. Further progress in the reform agenda remains important to strengthen the financial sector safety net, including the recapitalization of the central bank and passage of legislation to enable consolidated financial sector supervision,” Mr. Portugal said.

Statement by Ramon Guzman, Executive Director for Costa Rica
and Johny Gramajo-Marroquin, Senior Advisor
December 16, 2009

We thank Staff for a comprehensive and well-written paper. Our authorities broadly agree with the Staff's assessment. Performance under the Program was very strong; all quantitative performance criteria for end-September were meet, most with significant margins. Work is underway to accomplish the two structural benchmarks for December: a) submission of draft laws to create a deposit insurance scheme, and b) strengthening of the bank resolution framework.

Recent developments. Macroeconomic events have been largely consistent with estimations made on occasion of the first program review. The economy has been recovering gradually. As a matter of fact, the decline in real GDP in the fist quarter of 2009 (-4.5 percent y/y) was less severe in the second quarter (-2.4 percent y/y), mainly due to a recovery in the manufacturing sector. In September, the indicator of economic activity (IMAE) increased 0.3 percent from the previous month (seasonally adjusted), which constitutes the seventh consecutive monthly increase. In November, annual headline and core inflation fell further, to 2.57 percent and 4.15 percent respectively, while average12-month inflation expectations declined to 7.4 percent, gradually approaching to the central bank's inflation target range of 4–6 percent for end-2010. In the first half of 2009, the balance of payments current account was broadly in balance, while the capital account observed a modest surplus (0.4 percent of GDP) despite an important slowdown in FDI. In the third quarter, exports showed signs of recovery while import growth remained subdued. As a result, the trade deficit through September was substantially lower than during the same period last year.

Economic outlook. The outlook for the rest of 2009 and for 2010 remains mostly unchanged from the first program review. In terms of economic activity, the macroeconomic framework assumes a gradual recovery with real GDP growth of around 2.5 percent in 2010, following a 1–1.5 percent contraction in 2009. Annual inflation is on track to fall to around 4 percent by end-2009, and is expected to be within the central bank's target band of 4–6 percent during 2010. The external current account deficit is now projected to be slightly smaller than previously projected at 3.0 percent and 4.5 percent of GDP in 2009 and 2010, respectively.

Fiscal policy. Central government revenues through September were 7.7 percent lower than during the same period in 2008, mainly owing to a sharp drop in import-related taxes (including sales and excise taxes collected at customs). This performance was somewhat weaker than assumed in the program, and revenues for the whole year 2009 could fall short of program projections by about 0.3 percent of GDP. At the same time, central government spending has been lower than projected, and it is expected some under-execution to persist through the end of the year. As a result, authorities are keeping the program target for the overall central government deficit in 2009 unchanged at 4.1 percent of GDP. The deficit target for 2010 of 4.1 percent of GDP also remains unchanged, although with lower estimates for both revenues and expenditures in light of the anticipated underperformance in 2009. Authorities will continue to strike an adequate balance between supporting domestic demand and keeping public debt dynamics manageable. In that context, the quarterly fiscal program for 2010 envisages a gradual withdrawal of fiscal stimulus, however allowing a small positive fiscal impulse during the first half of the year in order to provide continued support to domestic demand until recovery of the private sector strengthens.

Our authorities believe that given the global economic reality, the exchange of information between nations is fundamental for the optimal application of tax systems, taking into account the current international practices.

Monetary policy. The descending trend of core inflation and inflation expectations, and the persistence of a negative output gap suggest that the inflation target for 2010 (4–6 percent) is feasible under the current monetary policy stance. Although there are some upside risks to the outlook related to the dampening effect of the fall in commodity prices of early 2009 that is expected not to come again, the Central Bank will continue to maintain a prudent approach to monetary policy easing.

Exchange rate policy. The *colón* has traded continuously below the ceiling of the currency band since mid-August. The authorities consider that this situation, along with the decline in inflation, provide some room for more flexibility in the exchange rate. Therefore, the exchange rate policy will remain guided by the objective of gradually increasing the flexibility of the *colón*.

Banking sector. In the banking sector, the aggregate nonperforming loan ratio and the capital adequacy ratio deteriorated slightly; however, liquidity and solvency indicators remained adequate.

Finally, the authorities believe that the ongoing policies are adequate to meet the objectives of their economic program, which has been effectively supported by the Stand-By arrangement. The authorities reiterate that they will continue treating the arrangement as precautionary.