Country Report

Costa Rica

Generated on May 7th 2020

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The Economist Intelligence Unit

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ISSN 2047-4563

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Costa Rica

Summary

Outlook for 2020-24

Data and charts

Summary

Recent analysis

Politics

Economy

Briefing sheet

Editor: **Giancarlo Morelli**
Forecast Closing Date: **May 2, 2020**

Political and economic outlook

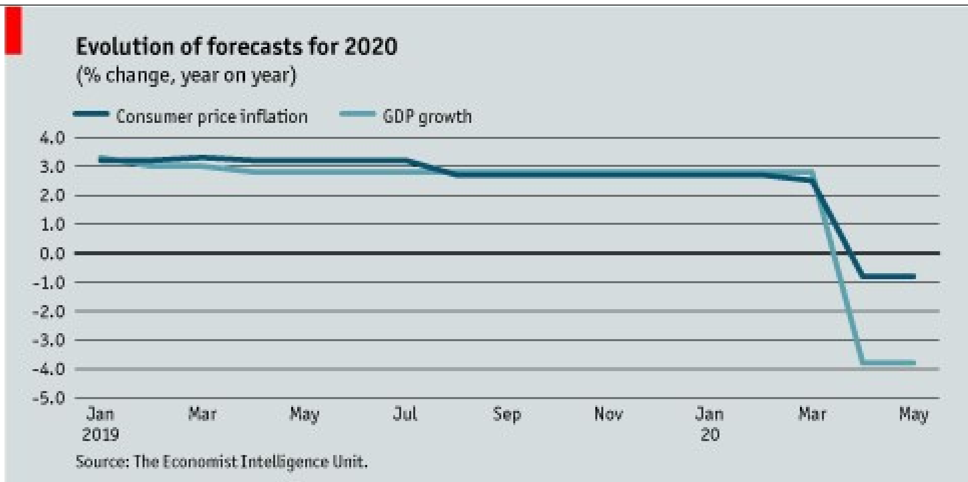
- The administration of the president, Carlos Alvarado of the centre-left Partido Acción Ciudadana (PAC), will focus on containing the spread of the novel coronavirus (Covid-19) domestically and limiting the virus's adverse effects on the economy.
- The Economist Intelligence Unit believes that real GDP will contract by 3.8% in 2020, owing to a collapse in international tourism markets and the dampening effects of social-distancing measures on domestic economic activity.
- Despite a heavy public debt burden, the government will pursue countercyclical expansionary measures, in particular direct cash transfers, to cushion the recession's effects on the country's productive capacity.
- The central government deficit will widen to 9.5% of GDP in 2020, from 6.9% of GDP in 2019, owing to low tax intake and extraordinary expenditure measures. The public debt/GDP ratio will climb from 73.8% in 2019 to 84.4% in 2020.
- We expect Costa Rica to enter an extended fund facility (EFF) agreement with the IMF over the coming quarters to bolster the fragile fiscal and financial outlook.
- Consumer prices will fall by 0.8% in 2020 and rise only marginally in 2021, owing to deflationary pressures stemming from a contraction in overall demand.
- The current-account deficit will widen to 4.9% of GDP in 2020, owing to the collapse in tourism flows and contracting overall global demand. However, this will be countered to some degree by import compression.

Key indicators

	2019[a]	2020[b]	2021[b]	2022[b]	2023[b]	2024[b]
Real GDP growth (%)	2.1	-3.8	3.3	3.2	3.3	3.5
Consumer price inflation (av; %)	2.1	-0.8	0.1	2.6	2.9	2.5
Government balance (% of GDP)	-6.9	-9.5	-7.3	-5.9	-5.7	-4.7
Current-account balance (% of GDP)	-2.5	-4.9	-2.1	-2.5	-2.3	-2.3
Money market rate (av; %)	2.8	1.1	1.5	3.0	3.5	3.5
Unemployment rate (%)	11.8	14.1	14.2	13.8	13.3	12.6
Exchange rate C:US$ (av)	587.3	571.3	577.5	587.0	600.2	612.5

[a] Actual. [b] Economist Intelligence Unit forecasts.

Market opportunities



Key changes since April 15th

- The evangelical Partido Restauración Nacional, the centre-right Partido Liberación Nacional and the ruling PAC agreed to renew their ad hoc alliance for the 2020/21 legislative year (May-April). This will support governability and cross-party dialogue.
- On April 29th the IMF approved Costa Rica's request for US$505m in emergency financial assistance to help support vital coronavirus-related health spending and relief measures.

The month ahead

- **May 12th—Monthly economic activity (Q1 2020):** This will be one of the first data points regarding activity since social-distancing measures were brought in. We forecast that real GDP will contract by 0.6% quarter on quarter in January-March.

Major risks to our forecast

Scenarios, Q1 2020	Probability	Impact	Intensity
Government fails to curtail public expenditure	High	Very high	20
Legislative gridlock halts policymaking altogether	Moderate	High	12
The colón suffers from further depreciation pressure	Moderate	High	12
Revenue shortfalls lead to new tax hikes	Low	Very high	10
Clashes between the executive and the constitutional chamber (Sala IV) impede progress on economic reform	Moderate	Moderate	9

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

Outlook for 2020-24

Political stability

The president, Carlos Alvarado of the centre-left Partido Acción Ciudadana (PAC), and his administration will focus on containing the public health crisis triggered by the outbreak of the novel coronavirus (Covid-19) and its damp-ening effects on the economy. Two coronavirus-related economic shocks will hamper Costa Rica in 2020: the stifling effects of social-distancing measures on domestic activity and the collapse in international tourism flows. The Economist Intelligence Unit expects that the dramatic hit to economic activity will lead to the country's deepest recession since the 1980s.

The concurrent public health and economic crises call for fiscal stimulus and other measures. Nevertheless, the government's countercyclical measures will be limited by the weak state of the public finances. The administration's response to the looming economic crisis has been disorderly and slow, in contrast to its adequate public health reaction. That said, the government has announced a cash transfer programme and additional healthcare spending. On balance, we believe that the need for expansionary fiscal policy, a low tax intake and existing fiscal fragilities will force the government to seek further lending from multilateral institutions. An extended fund facility (EFF) with the IMF is also likely.

Despite the PAC's minority position in the Legislative Assembly, we expect cross-party communication channels and consensus-building to prevail over the coming months in response to the coronavirus crisis, supporting governability and policymaking throughout the ongoing emergencies. This co-operation will ebb in the second half of 2020, when legislative support for bills is likely to be obtained on a case-by-case basis. Looking into 2021, legislative gridlock will become the norm as 2022 presidential election campaigns kick off early.

Outside the Legislative Assembly, Mr Alvarado may face bigger challenges to governability in the form of labour unrest. Ever since public-sector workers led a three-month protest in late 2018, significant animosity has persisted between the executive and public-sector unions. The projected recession will exacerbate these tensions, as average real wages will fall and the unemployment rate is expected to reach 14.1% in 2020. Furthermore, the new economic reality is likely to force the government to pursue unpopular decisions. The conditions of an EFF are likely to be medium-term structural reforms to government spending. Overall, a tenser sociopolitical environment could fuel further strikes and demonstrations in 2020.

The strength of Costa Rica's political institutions, its long democratic tradition, relative social stability and low (albeit rising) crime levels remain important factors supporting political stability. However, political effectiveness will be relatively weak, and the government will have only some success in addressing poverty levels and growing income inequality.

Election watch

The next presidential and legislative elections are scheduled for February 2022. The traditional, centrist Partido Liberación Nacional has strong possibilities of advancing to a run-off vote. However, its success will depend on who is chosen as its official candidate. Despite being the government party for two presidential terms, the PAC is also likely to be in contention. Evangelical Christian parties will maintain a meaningful presence in the Legislative Assembly, but are unlikely to improve on their performance in the 2018 elections.

International relations

The government's main foreign policy goal is to obtain OECD membership. On March 31st Costa Rica's public policies were approved by the last of 22 OECD committees. We expect the country to be formally invited to become a member of the bloc by end-2020. Mr Alvarado opposes accession to full membership of the Pacific Alliance (a trade bloc comprising Chile, Colombia, Mexico and Peru), arguing that Costa Rica should protect its agricultural sector from competition.

Despite some evidence of protectionism locally, there will be progress in other areas as the country seeks closer trade and investment ties with Asia. This focus is reflected in Costa Rica's bilateral free-trade agreements (FTAs), such as those with China, Singapore and South Korea. The country is a member of the Dominican Republic-Central America Free-Trade Agreement (DR-CAFTA) imple-mented in 2009 and has an FTA with the EU that took effect in 2013. Relations with the US will remain strong.

An ongoing political crisis in neighbouring Nicaragua prompted increased flows of refugees and migrants into Costa Rica and obstructed cross-regional trade in 2018. The political situation has stabilised in recent years, but bilateral frictions are likely to flare up in the coming months as Nicaragua's oblivious-ness in the face of the coronavirus outbreak poses a public health risk to Costa Rica. Assuming that the Nicaraguan president, Daniel Ortega, stays in office at least until the November 2021 elections, we expect bilateral relations to remain distant for the next two years and the prospect of further social unrest in Nicaragua to remain high.

Policy trends

Notwithstanding the constraints of a high public debt burden, the Alvarado government's near-term economic policies will focus on containing the public health and economic effects of the coronavirus pandemic. To date, the country's public health response has been adequate. It was quick to enact preventive health and social-distancing measures, and has swiftly stepped up testing and contact tracing among suspected cases. At the time of writing, the country has reported only 733 cases of the virus, of which more than half have already recovered. Despite not having imposed a nationwide quarantine, Costa Rica currently has one of the lowest ratios of coronavirus cases per million in Latin America. Furthermore, the government already announced that from May 1st onwards some businesses, such as theatres, cinemas and hair salons, will be allowed to open at reduced capacity. Nevertheless, social-distancing measures will be lifted only gradually, as the country has a limited number of hospital beds and a spike in infections could overwhelm the health system quickly.

The government will pursue countercyclical expansionary fiscal measures to safeguard the economy's productivity capacity during the peak of the virus and reactivate economic activity thereafter. However, fiscal stimulus will be limited, owing to the high public debt burden (73.8% of GDP in 2019) and restricted private financing options. The government's economic response has been sluggish and disorderly, but some of the main measures are laid out below.

- C275bn (US$481m) in cash transfers to approximately 375,000 households in which members have lost their jobs. The scheme is currently set for April-June.
- Deferrals of value-added tax (VAT), corporate taxes and social security contributions, particularly for businesses in the tourism sector.

In total, the measures announced so far amount to 0.75% of GDP and form part of the government's Plan Proteger, its planned "war chest" against the coronavirus, the fiscal impact of which it expects will amount to C1trn (US$1.75bn, or 2.7% of GDP). It remains unclear where these resources will be allocated, but they are most likely to go towards additional cash transfers and extra healthcare expenditure, and towards calming liquidity concerns. Financing for the plan, as well as general budgetary support, will come from multilaterals. The government has already secured US$675m from the Inter-American Development Bank, US$500m from the Corporación Andina de Fomento (CAF) and US$505m from the IMF's Rapid Financing Instrument (RFI). Some of the funding will come from reallocating existing items in the current budget and from tapping profits from the government's state-owned enterprises.

The country's fiscal weaknesses will continue to constrain policymakers. On top of the Fund's RFI, we now expect Costa Rica to enter a multi-year EFF with the IMF (we estimate a US$3bn deal), as the combination of a need for fiscal stimulus, a collapse in tax intake, and large principal and interest payments limit the government's room to manoeuvre. Conditionality primarily will lie in enacting structural reforms over the medium term to a bloated and largely inefficient public sector. The government has already touted privatisation of non-key state-owned enterprises and these are likely to form part of its economic programme under the probable EFF.

In the medium term, Costa Rica will continue to benefit from strong institutions, a fairly well-educated workforce and a favourable attitude towards private investment—all of which will underpin an attractive business environ-ment. Despite the reforms under a probable IMF EFF programme, we expect the government to continue its capital investment in infrastructure and renewable initiatives, and carry on taking steps to reduce poverty.

Fiscal policy

The coronavirus-led crisis will exacerbate existing fiscal weaknesses and force the sovereign to seek further assistance from multilaterals. In the near term, the government will expand funding towards healthcare and make cash transfers to those in need. However, temporary increments in some taxes are possible as the government seek to limit the fallout in tax revenue. After reaching a whopping 6.9% of GDP in 2019, we expect the central government deficit to widen to 9.5% of GDP in 2020, owing to a lower tax intake and the necessity for expansionary fiscal measures. The public debt/GDP ratio will climb to 84.4% of GDP in 2020 as a result, from 73.8% in 2019.

Expenditure will normalise to a degree in the final months of 2020, as some extraordinary spending (such as direct cash transfers) is temporary, but the budget deficit will still be substantial. Rapidly rising debt interest payments and rigid current expenditure will continue to weigh on the already fragile fiscal and financing outlook. Large interest-rate premiums in the saturated local debt market make domestic debt expensive. Furthermore, external issuance is unviable, owing to international investor aversion to emerging markets and fears regarding the legislature's capacity to enact significant fiscal consolidation measures. Ultimately, we expect the government to enter an EFF in the coming quarters, securing about US$3bn from the Fund. This would calm investors, partly because it would help to secure further funds from other multilaterals.

Overall, the fiscal deficit will remain large during our 2020-24 forecast period, but will narrow to 4.7% of GDP in 2024. We expect the primary deficit (before interest payments) to narrow from 4.3% of GDP in 2020 to a surplus of 0.8% of GDP in 2024. In addition, we expect the public debt/GDP ratio to stabilise at an average of 91.7% in 2022-24, before falling gradually in the medium to long term.

Monetary policy

In 2020 the Banco Central de Costa Rica (BCCR, the central bank) will continue with monetary easing and liquidity-enhancing measures in view of the coronavirus crisis. In March the BCCR cut its main policy rate from 2.25% to 1.25%. Over the past 15 months, the central bank has reduced its main policy rate by a total of 400 basis points and lowered its reserve requirement ratio from 15% to 12% for local-currency deposits in mid-2019. However, the BCCR recognised that looser monetary policy had not fully translated into lower commercial interest rates. In response, in January the BCCR modified its overnight deposit rate (currently standing at 0.75%); this should improve monetary policy transmission.

The BCCR's monetary firepower is now limited, but we expect it to lower its main policy rate by a further 50 basis points mid-year and to start normalising rates in 2021, assuming that the economy recovers. Foreign-exchange reserves now stand at US$8.5bn—providing six months of import cover. Although the BCCR does not have a target exchange rate, it will continue to intervene in the event of a sharp depreciation. A significant risk is the possibility of significant currency pressures resulting from the country's fragile fiscal position. Substantial colón weakness, amid limited international reserves, could halt the BCCR's expansionary cycle or even lead to monetary tightening.

International assumptions

	2019	2020	2021	2022	2023	2024
Economic growth (%)						
US GDP	2.3	-2.9	1.9	2.0	1.8	2.2
OECD GDP	1.6	-3.6	1.6	1.9	1.9	1.9
World GDP	2.2	-2.5	3.0	2.9	2.8	2.8
World trade	0.9	-15.3	22.8	3.6	3.7	3.7
Inflation indicators (% unless otherwise indicated)						
US CPI	1.8	0.1	1.3	1.7	2.0	1.9
OECD CPI	1.9	1.0	1.6	1.9	2.1	2.0
Manufactures (measured in US$)	-1.2	0.1	3.6	3.8	3.5	3.1
Oil (Brent; US$/b)	64.0	36.0	40.0	58.5	65.0	62.5
Non-oil commodities (measured in US$)	-6.2	-1.9	4.5	3.5	1.1	1.3
Financial variables						
US$ 3-month commercial paper rate (av; %)	2.2	1.5	0.7	0.5	0.9	1.4
Exchange rate C:US$ (av)	587.29	571.35	577.52	586.97	600.24	612.50
Exchange rate US$:€ (av)	1.12	1.10	1.12	1.17	1.21	1.24

Economic growth

The impact of the coronavirus: global and regional assumptions

The novel coronavirus (Covid-19) that originated in December 2019 in Wuhan, central China, is now a global pandemic. The Economist Intelligence Unit assumes that the virus will affect about 50% of the world population, including asymptomatic cases. Of the symptomatic cases, about 20% will experience severe symptoms and about 1% will not recover. Death ratios will depend on a country's capacity to detect, track and contain the virus, and the capacity of its national health system. We believe that a mass vaccine will be available at end-2021 (at the earliest) and that the coronavirus will become a seasonal disease, with another outbreak likely in winter 2020/21.

Quarantine and social-distancing measures will be effective in limiting the spread, but they will have severe negative economic consequences. Disruptions to global supply chains will also be severe. Overall, we forecast that global output will contract by 2.5% in 2020, and that global trade will drop by 15.3%. All G7 countries and almost all G20 countries will experience a full-year recession. We forecast real GDP growth in China of only 1% in 2020 and a full-year recession in the US, with a contraction of 2.9%. We assume that oil prices will be 40% lower this year, averaging US$36/barrel. Most countries have responded with huge fiscal expansion to support businesses and households, raising the risk of sovereign debt crises in the medium term. Central banks have cut interest rates and, more importantly, have stepped up as buyers of last resort for government and corporate debt.

The infection curve in Latin America is about four to six weeks behind that of European countries and about two to three weeks behind that of the US. As such, cases are expected to peak in May in Latin America. Managing the health crisis in the region is particularly challenging, given overstretched hospitals, limited fiscal resources and the fact that large swathes of the population live in shanty towns with poor basic services and where social distancing is challenging. Although containment measures will remain the priority in the short term, the policy debate in Latin America will soon begin to turn towards how to plan for an easing of lockdown measures. In formulating exit strategies, Latin American governments will draw on all the data available relating to the progression of the pandemic and experiences in other regions. Their challenge will be to get the timing and phasing right, so that the numbers of coronavirus cases and deaths remain under control, health services can cope, public confidence in the handling of the crisis remains strong and the economy can recover. Exit strategies will be implemented gradually and reviewed on a regular basis. There is a risk that even a gradual and phased easing will expose countries to a second wave of infections (as has happened in Singapore and South Korea).

The coronavirus pandemic will have a severe economic impact. We forecast a Latin American recession in 2020, with a contraction of 5%, with output in all of the major economies contracting by 3-7%. Some Caribbean countries, which depend on tourism, will be hit even harder. Quarantine measures will result in a sharp supply-side shock, hitting working hours and productivity, and manufacturers will suffer from a disruption to global supply. Supply-side disruptions will be short-lived, but demand effects will be long-lasting. A decline in confidence is likely to persist after quarantine measures are lifted. For fear of contagion, people may continue to avoid public spaces, and tourism may not resume immediately. Households will limit their consumption in response to a loss of income, and businesses will delay investment.

The longer-lasting political and geopolitical impact of the crisis will be significant. The pandemic has resulted in an extraordinary expansion of executive powers, with limited parliamentary oversight. Elections have been cancelled, or delayed, in some countries. When the pandemic has passed, governments will face intense scrutiny on their response. A failure to address the humanitarian crisis triggered by the coronavirus could further erode trust in national institutions. A severe global economic crisis, followed by renewed fiscal austerity and large-scale unemployment, will fuel a new wave of popular protests. The crisis may encourage support for the nation state and a backlash against globalisation and open borders. The competition for global leadership between China and the US will intensify as a result of the crisis, and a realignment of geopolitical spheres of influence may ensue in Europe, Africa and other regions. This will provide a challenging environment for Latin America over the medium term as the region tries to grapple with the debt overhang from the extra spending measures and the hit to revenue, as well as lower potential growth rates, owing to the damage to productive sector value chains, particularly small and medium-sized enterprises (SMEs).

Economic growth

We forecast that the Costa Rican economy will contract by 3.8% in 2020, owing to coronavirus-related economic shocks. There will be two main transmission mechanisms. First, the social-distancing measures undertaken by the govern-ment to curb the spread of the virus will inevitably hit domestic demand hard, particularly in March-May. Secondly, travel restrictions and social-distancing measures across the globe will halt international tourism arrivals. We expect this halt to represent a significant challenge to the economy, as the tourism industry accounts directly for 8.8% of jobs and indirectly for about 10% of GDP.

We currently expect a gradual resumption in activity in the second half of 2020, as most of the damage to private consumption will be concentrated in the second quarter. However, fixed investment will remain weak throughout 2020, owing to sustained overall aversion to emerging markets and concerns about the country's fragile public finances. A global recession will dampen goods exports; however, external demand will remain firm for a number of major Costa Rican exports, such as medical supplies and agricultural exports including pineapples and bananas.

Although not enough to offset the collapse in private demand, we expect growth in public consumption in 2020 amid expansionary fiscal measures. There are a number of risks to our forecast. For example, if the government proves unable to contain the spread of the virus, or if there is a second wave, social distancing would be extended and the adverse effect on domestic demand would intensify.

In 2021 we expect real GDP to grow by 3.3% (only a partial recovery from the 2020 decline), with all GDP components (bar government spending) showing positive growth. We expect the recovery to be gradual for two reasons. First, although we expect tourism flows to resume to some extent, the sector will remain weak compared to pre-coronavirus levels.

Secondly, even after the health crisis, consumer confidence will remain weak as a result of high unemployment, weak real wages and probable post-coronavirus fiscal consolidation measures. In the longer term, economic growth will accelerate amid recovering internal and external demand. This reflects an attractive business climate, positive factors that support investment (such as accession to the OECD) and firm expansion in important sectors (tourism and construction).

Economic growth

%	2019[a]	2020[B]	2021[b]	2022[b]	2023[b]	2024[b]
GDP	2.1	-3.8	3.3	3.2	3.3	3.5
Private consumption	1.6	-3.3	3.0	3.4	3.3	3.4
Government consumption	4.9	9.6	-4.8	-0.4	0.2	0.5
Gross fixed investment	-6.4	-8.0	6.9	5.2	4.1	4.5

Exports of goods & services	2.8	-7.3	7.5	3.6	3.3	3.5
Imports of goods & services	0.2	-5.6	4.2	3.3	2.2	2.4
Domestic demand	1.9	-3.2	2.2	3.0	2.9	3.1
Agriculture	-1.2	2.0	3.5	4.0	4.0	4.0
Industry	-1.2	1.0	3.0	3.5	3.5	3.5
Services	3.3	-5.4	3.5	3.1	3.3	3.5

[a] Actual. [b] Economist Intelligence Unit forecasts.

Inflation

Overall, consumer prices will fall in 2020 and stay largely unchanged in 2021, owing to substantial downward price pressures. Contracting domestic demand, a fairly stable exchange rate and falling fuel prices will apply deflationary pressures to prices, which will fall by 0.8% in 2020. In the medium term, annual inflation largely will remain in the lower half of the BCCR's 2-4% target range.

Based on our assumption that GDP growth (and internal demand) will pick up in 2022-24, we expect inflation to rise to an average of 2.7%. Weak aggregate demand, swings in international oil prices, further bouts of sharp currency depreciation and the possibility of weather-related supply disruptions represent risks to our forecast.

Exchange rates

Despite significant volatility in global capital markets, the currency will be broadly stable in 2020. Unlike other countries in Latin America, which have suffered substantial currency depreciation in recent weeks, Costa Rica is not hugely integrated in global financial markets and, as an oil importer, has seen an improvement in its terms of trade. This has shielded it from downward pressures on the colón.

The projected collapse in tourism inflows, capital flight and a wide fiscal deficit are risks to the currency, although they are mitigated by other factors, including enhanced inflows from multilaterals, provided that these materialise as projected. Looking forward to 2021-24, we forecast a modest depreciating trend—taking the colón to C616.1:US$1 by end-2024—reflecting fundamental factors including a structural current-account deficit.

External sector

The current-account deficit will widen to 4.9% of GDP in 2020, owing to a collapse in tourism inflows and overall contracting global demand. However, this will be countered by severe import compression and ultra-low inter-national oil prices. We forecast that the deficit will narrow thereafter, to an average of 2.3% of GDP in 2021-24, reflecting a normalisation in tourism flows given the resilient performance of its tourism and IT sectors. The trade deficit will widen beyond pre-crisis levels in 2021-24.

After reaching US$2.5bn (4.1% of GDP) in 2019, foreign direct investment (FDI) will plummet in 2020, owing to investors' aversion to emerging markets. Financing from multilaterals will allow Costa Rica to meet meeting its growing external financing requirement this year. With the exception of 2020, our forecast assumes that the current-account deficit will be covered entirely by FDI inflows in the forecast period.

Forecast summary

Forecast summary
(% unless otherwise indicated)

	2019[a]	2020[b]	2021[b]	2022[b]	2023[b]	2024[b]
Real GDP growth	2.1	-3.8	3.3	3.2	3.3	3.5
Industrial production growth	-1.2	1.0	3.0	3.5	3.5	3.5
Gross agricultural production growth	-1.2	2.0	3.5	4.0	4.0	4.0
Unemployment rate (av)	11.8	14.1	14.2	13.8	13.3	12.6
Consumer price inflation (av)	2.1	-0.8	0.1	2.6	2.9	2.5
Consumer price inflation (end-period)	1.5	-2.5	2.3	3.1	3.1	2.1
Commercial bank prime lending rate	8.7	7.8	7.5	7.8	8.0	8.3
Central government balance (% of GDP)	-6.9	-9.5	-7.3	-5.9	-5.7	-4.7
Exports of goods fob (US$ bn)	11.6	10.9	11.6	12.7	13.5	14.2
Imports of goods fob (US$ bn)	15.4	13.2	15.4	17.0	17.9	18.8
Current-account balance (US$ bn)	-1.5	-3.1	-1.3	-1.7	-1.6	-1.6
Current-account balance (% of GDP)	-2.5	-4.9	-2.1	-2.5	-2.3	-2.3
External debt (end-period; US$ bn)	30.5[c]	31.7	33.8	38.7	42.6	46.2
Exchange rate C:US$ (av)	587.3	571.3	577.5	587.0	600.2	612.5
Exchange rate C:US$ (end-period)	573.3	572.8	579.8	590.4	605.0	616.1
Exchange rate C:¥100 (av)	538.7	527.3	535.0	563.4	586.2	622.1
Exchange rate C:€ (end-period)	644.0	630.1	663.8	699.7	741.1	764.0

[a] Actual. [b] Economist Intelligence Unit forecasts. [c] Economist Intelligence Unit estimates.

Quarterly forecasts

Quarterly forecasts

	2019				2020				2021			
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
GDP												
% change, quarter on quarter	0.9	0.4	0.9	1.0	-0.6	-9.2	4.1	2.3	0.0	0.8	2.1	1.5
% change, year on year	1.5	1.0	2.4	3.3	1.8	-8.0	-5.1	-3.8	-3.3	7.3	5.2	4.4
Private consumption												
% change, quarter on quarter	0.7	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
% change, year on year	1.3	1.3	1.7	2.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Government consumption												
% change, quarter on quarter	5.7	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
% change, year on year	2.6	2.7	5.7	8.8	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Gross fixed investment												
% change, quarter on quarter	-3.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
% change, year on year	-3.5	-10.2	-6.9	-4.7	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Exports of goods & services												
% change, quarter on quarter	-0.2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
% change, year on year	1.5	3.6	2.7	3.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Imports of goods & services												
% change, quarter on quarter	-1.1	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
% change, year on year	1.2	-0.2	1.8	-1.3	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Consumer prices												
% change, quarter on quarter	0.3	0.7	0.9	-0.1	0.3	-1.3	-1.1	-0.3	0.4	0.4	0.7	0.4
% change, year on year	1.5	2.3	2.8	1.8	1.8	-0.2	-2.1	-2.4	-2.2	-0.5	1.2	1.9
Producer prices												
% change, quarter on quarter	1.2	0.1	-0.7	-0.1	-0.1	-0.7	0.0	-0.7	0.6	0.6	0.4	0.6
% change, year on year	4.4	3.5	2.2	0.4	-0.8	-1.6	-0.9	-1.4	-0.8	0.6	1.0	2.2
Exchange rate C:US$												
Average	606.7	592.7	574.4	575.3	570.8	550.4	543.3	539.0	543.9	542.7	543.7	554.0
End-period	599.2	580.2	580.9	573.3	583.4	546.8	541.1	572.8	543.3	543.2	548.8	579.8
Interest rate (%; av)												
Money market rate	5.0	4.5	3.8	2.8	1.3	1.2	1.0	1.0	1.3	1.3	1.8	1.7
Long-term bond yield	10.4	10.5	10.2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Data and charts

Annual data and forecast

	2015[a]	2016[a]	2017[a]	2018[a]	2019[a]	2020[b]	2021[b]
GDP							
Nominal GDP (US$ m)	54,803	57,188	58,519	60,587	61,799	62,833	63,314
Nominal GDP (C bn)	29,296	31,153	33,210	34,957	36,294	35,900	36,565
Real GDP growth (%)	3.6	4.2	3.9	2.7	2.1	-3.8	3.3
Expenditure on GDP (% real change)							
Private consumption	4.6	4.0	3.6	2.0	1.6	-3.3	3.0
Government consumption	2.3	2.4	3.3	0.2	4.9	9.6	-4.8
Gross fixed investment	3.2	4.6	-2.2	3.0	-6.4	-8.0	6.9
Exports of goods & services	2.9	9.2	4.2	4.6	2.8	-7.3	7.5
Imports of goods & services	4.3	8.9	3.6	-0.1	0.2	-5.6	4.2
Origin of GDP (% real change)							
Agriculture	-2.7	5.2	3.7	1.8	-1.2	2.0	3.5
Industry	0.3	2.6	1.9	3.5	-1.2	1.0	3.0
Services	5.0	4.4	4.5	2.8	3.3	-5.4	3.5
Population and income							
Population (m)	4.8	4.9	4.9	5.0	5.0	5.1	5.1
GDP per head (US$ at PPP)	15,618	16,287	17,077	17,805	18,326[c]	17,784	18,561
Recorded unemployment (av; %)	9.6	9.5	9.1	10.3	11.8	14.1	14.2
Fiscal indicators (% of GDP)							
Public-sector balance	-5.7	-5.2	-6.1	-5.8	-6.9	-9.5	-7.3
Public-sector debt interest payments	2.7	2.8	3.1	3.5	4.2	5.2	5.6
Public-sector primary balance	-3.0	-2.4	-3.0	-2.3	-2.7	-4.3	-1.7
Net public debt	57.8	62.9	64.1	70.0	73.8	84.4	90.4
Prices and financial indicators							
Exchange rate C:US$ (end-period)	538.4	554.6	569.5	608.1	573.3	572.8	579.8
Consumer prices (end-period; %)	-0.8	0.8	2.6	2.0	1.5	-2.5	2.3
Stock of money M1 (% change)	13.2	8.5	-2.3	6.6	16.8	3.9	6.9
Stock of money M2 (% change)	13.9	7.3	9.5	1.7	8.1	0.4	2.7
Lending interest rate (av; %)	14.2	11.6	11.4	11.1	8.7	7.8	7.5
Current account (US$ m)							
Trade balance	-4,607	-4,426	-4,370	-4,389	-3,804	-2,382	-3,849
Goods: exports fob	9,452	10,100	10,808	11,474	11,623	10,854	11,594
Goods: imports fob	-14,060	-14,526	-15,178	-15,863	-15,427	-13,236	-15,443
Services balance	4,609	5,110	4,797	5,189	5,337	2,198	5,382
Primary income balance	-2,380	-2,452	-2,891	-3,262	-3,591	-3,400	-3,377
Secondary income balance	457	511	503	463	513	522	526
Current-account balance	-1,921	-1,257	-1,961	-1,999	-1,545	-3,063	-1,319
External debt (US$ m)							
Debt stock	23,589	25,563	25,616	27,819	30,535[c]	31,650	33,833
Debt service paid	2,767	2,830	2,959	3,880	3,717[c]	3,128	3,411
Principal repayments	1,687	1,721	1,797	2,484	2,478[c]	1,921	2,347
Interest	1,080	1,109	1,162	1,395	1,239[c]	1,207	1,064
Debt service due	2,767	2,830	2,959	3,880	3,717[c]	3,128	3,411
International reserves (US$ m)							
Total international reserves	7,834	7,574	7,150	7,501	8,937	7,325	9,283

[a] Actual. [b] Economist Intelligence Unit forecasts. [c] Economist Intelligence Unit estimates.
Source: IMF, International Financial Statistics.

Quarterly data

	2018 2 Qtr	3 Qtr	4 Qtr	2019 1 Qtr	2 Qtr	3 Qtr	4 Qtr	2020 1 Qtr
Central government finance (C bn)								
Revenue	1,162.3	1,080.7	1,532.5	1,357.0	1,171.2	1,274.5	1,552.9	n/a
Expenditure	1,630.4	1,635.0	2,023.2	1,892.2	1,726.0	1,858.8	2,372.1	n/a
Balance	-468.1	-554.3	-490.7	-535.2	-554.8	-584.3	-819.3	n/a
Output								
Real GDP at 1991 prices (C bn)	7,156.3	7,122.3	7,132.2	7,199.1	7,230.4	7,296.3	7,367.4	n/a
Real GDP (% change, year on year)	3.1	2.5	1.3	1.5	1.0	2.4	3.3	n/a
Nominal GDP (C bn)	8,732.8	8,775.3	8,869.1	8,983.7	n/a	n/a	n/a	n/a
Nominal GDP (% change, year on year)	5.9	4.9	4.6	4.7	n/a	n/a	n/a	n/a
Prices								
Consumer prices (June 2015=100; seasonally adjusted)	103.0	103.4	104.2	104.6	105.3	106.2	106.1	106.4
Consumer prices (% change, year on year)	2.2	2.2	2.1	1.5	2.3	2.8	1.8	1.8
Producer prices (2012=100; seasonally adjusted)	112.9	113.5	115.4	116.8	116.8	116.0	115.9	115.8
Producer prices (% change, year on year)	3.2	2.7	3.9	4.4	3.5	2.2	0.4	-0.8
Financial indicators								
Exchange rate C:US$ (av)	565.9	571.4	601.6	606.7	592.7	574.4	575.3	570.8
Exchange rate C:US$ (end-period)	566.8	582.5	608.1	599.2	580.2	580.9	573.3	583.4
Deposit rate (av; %)	4.0	4.0	4.1	4.5	4.9	5.1	4.0	n/a
Discount rate (end-period; %)	5.0	5.0	5.3	5.0	4.5	3.8	2.8	n/a
Lending rate (av; %)	11.2	11.0	10.6	9.4	8.3	9.2	8.1	n/a
M1 (end-period; C bn)	2,835.8	2,942.1	3,252.0	3,203.1	2,941.5	3,234.0	3,799.1	4,281.8
M1 (% change, year on year)	10.1	11.6	6.6	6.0	3.7	9.9	16.8	33.7
M2 (end-period; C bn)	10,645.3	10,794.2	10,926.8	11,004.2	11,043.9	11,111.7	11,814.2	11,874.8
M2 (% change, year on year)	7.2	4.8	1.7	2.7	3.7	2.9	8.1	7.9
Foreign trade (US$ m)								
Exports fob	2,979.6	2,768.1	2,766.1	2,776.8	3,000.6	2,835.1	2,840.3	3,021.3
Imports cif	-4,339.1	-3,966.8	-4,361.5	-4,016.9	-3,999.9	-3,959.0	-4,132.9	-3,861.6
Trade balance	-1,359.5	-1,198.7	-1,595.4	-1,240.1	-999.3	-1,123.9	-1,292.6	-840.3
Foreign reserves (US$ m)								
Reserves excl gold (end-period)	8,090	7,469	7,501	8,356	7,810	7,482	8,937	8,059

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

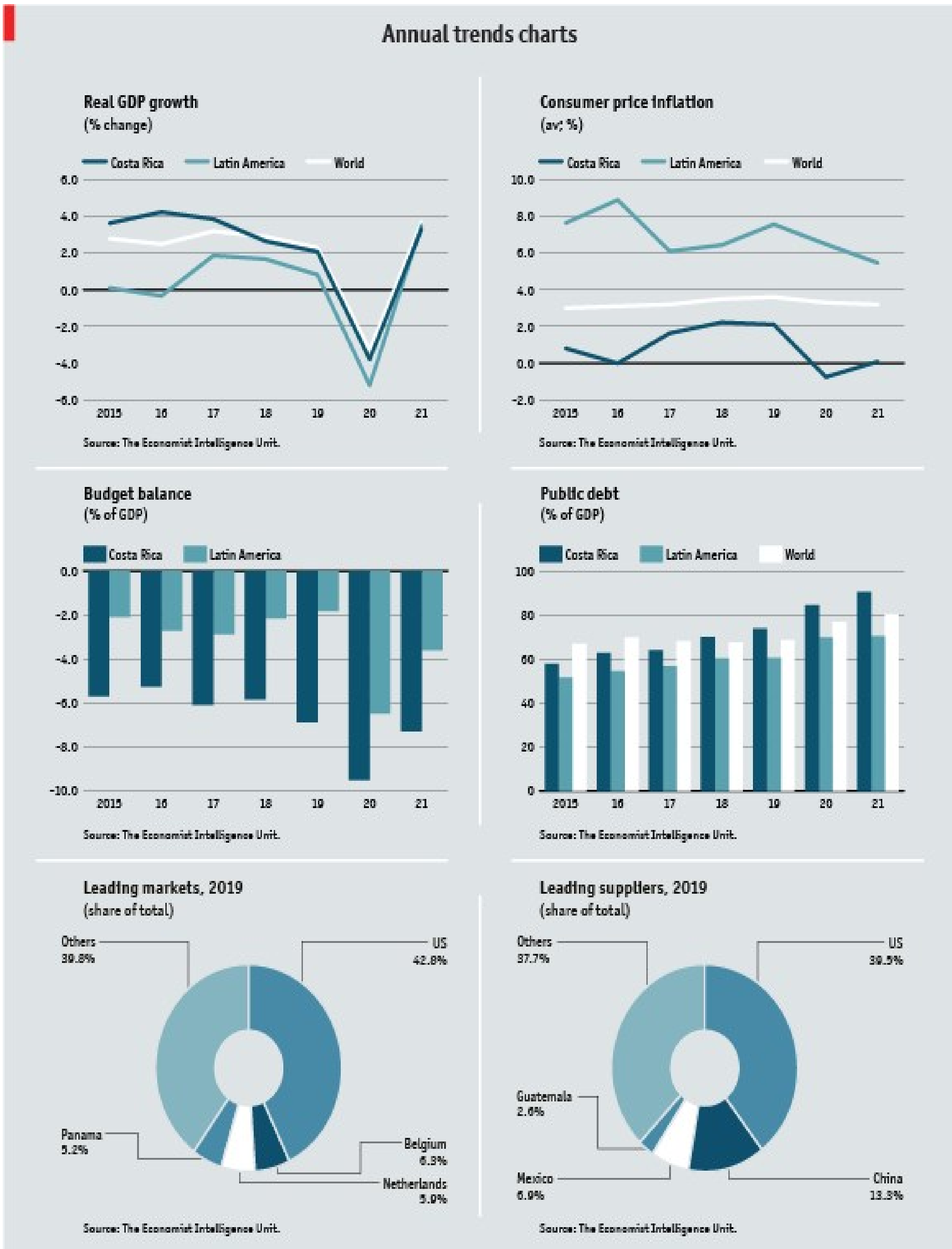
Monthly data

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate C:US$ (av)												
2018	569.1	570.7	567.2	565.2	565.3	567.3	567.1	567.8	579.2	592.4	611.4	601.1
2019	606.1	610.1	603.8	599.8	592.0	586.4	576.9	568.5	577.9	581.1	576.4	568.4
2020	570.1	571.2	571.2	569.3	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Exchange rate C:US$ (end-period)												
2018	569.3	570.0	565.9	565.2	566.1	566.8	566.8	572.6	582.5	607.0	599.6	608.1
2019	611.0	607.9	599.2	598.2	587.3	580.2	570.3	571.4	580.9	582.6	562.4	573.3
2020	570.2	569.1	583.4	567.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Real effective exchange rate (1997=100; CPI-basis)												
2018	117.60	116.45	117.02	117.17	118.28	118.64	119.16	119.16	116.79	114.68	112.47	114.70
2019	112.87	111.74	112.39	113.36	115.46	116.71	119.32	121.95	120.06	118.75	119.81	120.95
2020	83.65	83.35	82.23	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
M1 (end-period; % change, year on year)												
2018	-5.8	-5.4	8.2	7.7	5.9	10.1	7.8	7.2	11.6	14.8	7.1	6.6
2019	12.5	8.5	6.0	2.5	1.4	3.7	7.3	8.8	9.9	1.0	12.8	16.8
2020	21.1	28.3	33.7	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
M2 (end-period; % change, year on year)												
2018	9.0	9.0	9.0	6.7	7.0	7.2	5.6	5.0	4.8	3.4	2.6	1.7

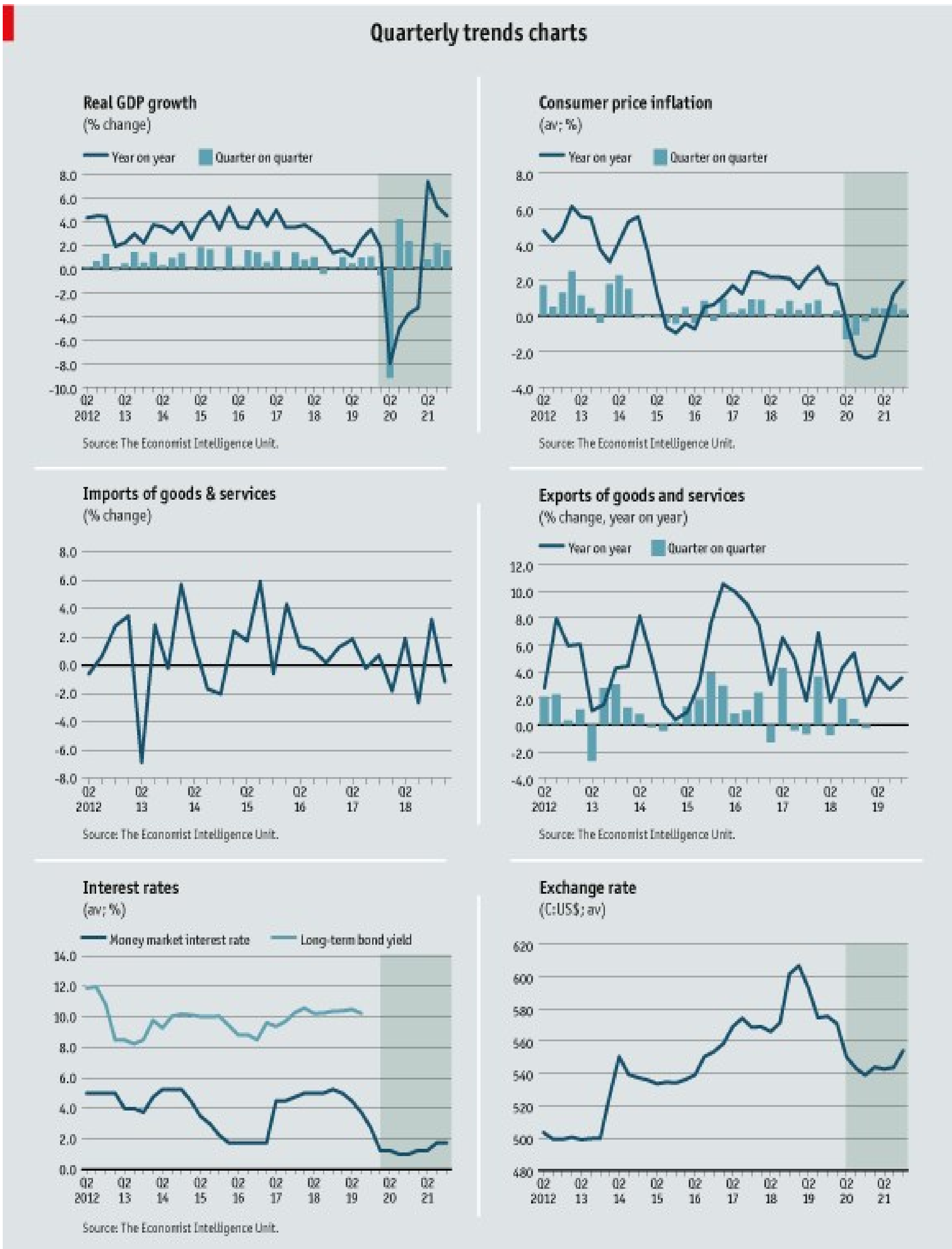
2019	2.7	1.8	2.7	2.8	3.1	3.7	3.9	2.9	2.9	2.5	5.6	8.1
2020	8.7	9.8	7.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Deposit rate (av; %)												
2018	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.1	4.1	4.0	4.1
2019	4.8	4.1	4.7	4.7	4.1	6.1	5.8	5.6	4.0	4.0	4.1	3.9
2020	3.8	2.9	3.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lending rate (av; %)												
2018	11.9	11.9	11.3	11.3	11.3	11.0	11.0	11.1	10.9	10.6	10.5	10.7
2019	11.7	8.6	7.8	7.4	8.6	8.9	9.7	8.7	9.2	7.0	7.7	9.6
2020	8.1	9.4	7.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Consumer prices (av; % change, year on year)												
2018	2.4	2.2	2.6	2.4	2.0	2.1	2.1	2.2	2.2	2.0	2.3	2.0
2019	1.7	1.5	1.4	2.1	2.3	2.4	2.9	2.9	2.5	2.1	1.9	1.5
2020	1.6	1.8	1.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Producer prices (av; % change, year on year)												
2018	3.0	3.3	3.6	3.5	3.0	3.1	2.5	2.6	2.9	3.2	4.3	4.3
2019	4.4	4.5	4.1	4.0	3.5	3.1	2.5	2.2	1.9	1.4	0.1	-0.3
2020	-0.7	-1.0	-0.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Average real wages (% change, year on year)												
2018	0.0	0.2	-0.3	-0.1	0.3	0.1	0.4	0.2	0.3	0.5	0.3	0.4
2019	1.2	1.4	1.4	0.8	0.6	0.5	0.1	0.1	0.5	1.0	1.2	1.5
2020	0.9	0.7	0.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total exports fob (US$ m)												
2018	793.6	877.8	1,070.6	938.1	1,065.5	976.0	922.2	946.4	899.5	991.9	946.9	827.3
2019	826.8	897.2	1,052.8	958.5	1,071.2	970.9	932.3	962.1	940.7	988.9	979.3	872.1
2020	850.1	1,015.4	1,155.8	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total imports cif (US$ m)												
2018	1,321.0	1,214.3	1,363.6	1,454.6	1,507.0	1,377.5	1,431.2	1,410.6	1,125.0	1,567.7	1,526.0	1,267.8
2019	1,361.0	1,206.4	1,449.5	1,324.1	1,429.0	1,246.8	1,364.0	1,314.2	1,280.8	1,468.3	1,398.6	1,266.0
2020	1,355.0	1,225.1	1,281.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Trade balance fob-cif (US$ m)												
2018	-527.4	-336.5	-293.0	-516.5	-441.5	-401.5	-509.0	-464.2	-225.5	-575.8	-579.1	-440.5
2019	-534.2	-309.2	-396.7	-365.6	-357.8	-275.9	-431.7	-352.1	-340.1	-479.4	-419.3	-393.9
2020	-504.9	-209.7	-125.7	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total exports fob (% change, year on year)												
2018	4.6	5.3	12.4	4.8	7.0	1.5	6.9	10.1	1.1	11.6	3.2	4.3
2019	4.2	2.2	-1.7	2.2	0.5	-0.5	1.1	1.7	4.6	-0.3	3.4	5.4
2020	2.8	13.2	9.8	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total imports cif (% change, year on year)												
2018	3.4	0.9	-2.9	27.5	5.3	2.6	22.6	3.2	-14.7	13.9	-1.2	-4.5
2019	3.0	-0.7	6.3	-9.0	-5.2	-9.5	-4.7	-6.8	13.8	-6.3	-8.3	-0.1
2020	-0.4	1.6	-11.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Foreign-exchange reserves excl gold (US$ m)												
2018	7,120.1	7,015.9	8,474.0	8,128.2	8,026.4	8,090.4	7,900.7	7,801.6	7,468.8	6,871.0	6,542.4	7,500.9
2019	7,594.7	7,544.6	8,355.7	8,155.7	7,758.9	7,809.6	7,889.8	7,719.3	7,482.0	7,718.6	9,165.2	8,937.1
2020	8,227.9	8,086.8	8,058.7	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Sources: IMF, International Financial Statistics; Haver Analytics.

Annual trends charts

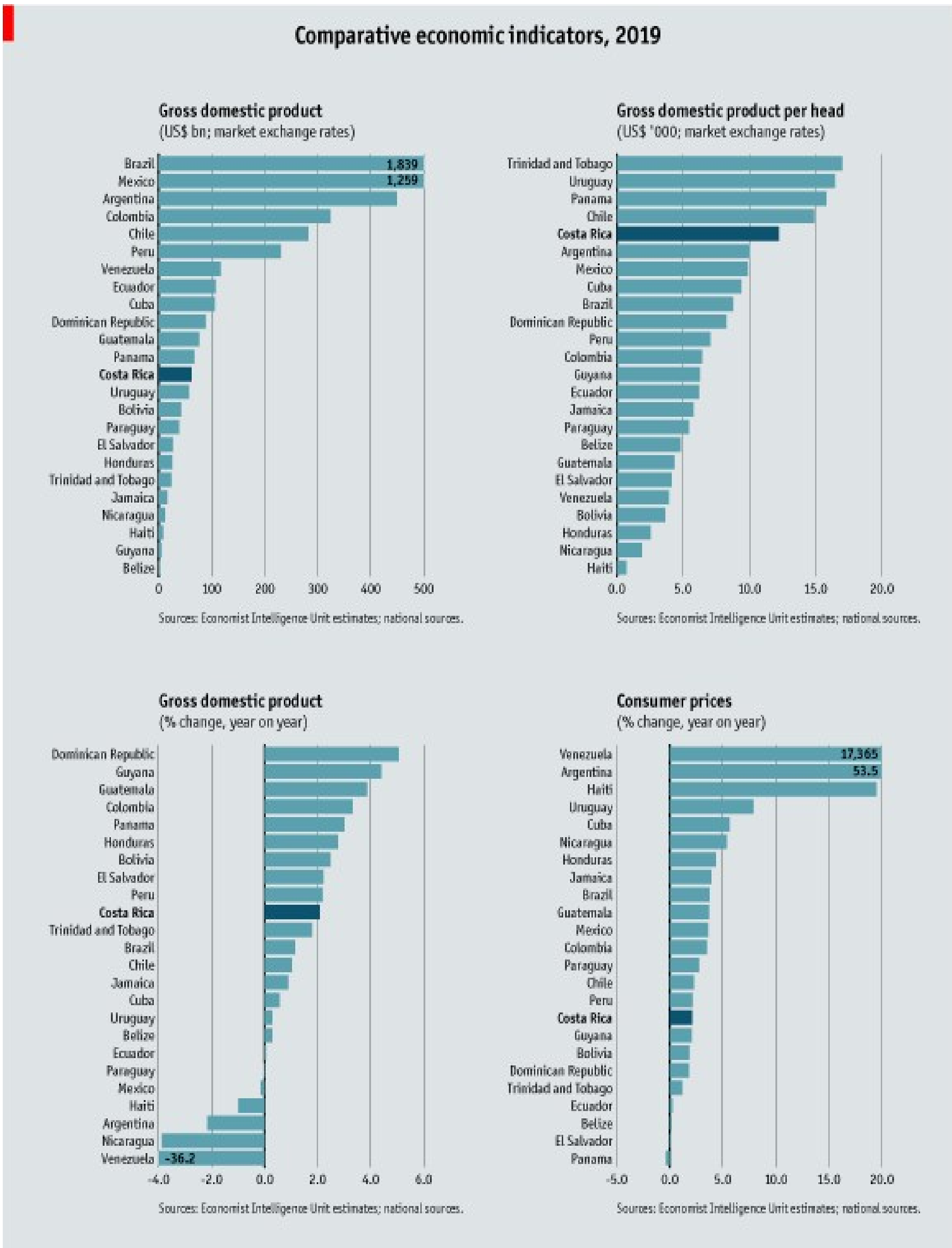


Quarterly trends charts



Monthly trends charts

Comparative economic indicators



Basic data

Land area

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

Population

5m (2018, Instituto Nacional de Estadística y Censos estimate)

Main towns

Population by canton in '000 (2018, Instituto Nacional de Estadística y Censos estimates)

San José (capital): 342

Alajuela: 306

Desamparados: 241

San Carlos: 194

Cartago: 162

Pococí: 146

Pérez Zeledón: 143

Climate

Tropical in lowlands, warm temperate on highland plateau and valleys

Weather in San José (altitude 1,172 metres)

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

Languages

Spanish

Measures

Metric system

Currency

1 colón (C) = 100 céntimos. Average exchange rate in 2019: C587.3:US$1; year-end exchange rate in 2019: C573.3:US$1

Time

Six hours behind GMT

Public holidays

January 1st (New Year's Day); April 9th-10th (Easter); April 11th (Battle of Rivas); May 1st (Labour Day); July 25th (Annexation of Guanacaste); August 15th (Mother's Day); September 15th (Independence Day); December 25th (Christmas Day). There are two unpaid, optional holidays: August 2nd (Virgin Mary Queen of Angels, Patron of Costa Rica) and October 15th (Spanish discovery of the New World, called Día de las Culturas), both of which may be moved to the following Monday

Political structure

Official name

Republic of Costa Rica

Form of state

Presidential democracy with a Legislative Assembly

The executive

The head of state is the president, who is elected for four years by universal adult suffrage and appoints a cabinet, as well as the heads of public agencies and the Banco Central de Costa Rica (the central bank). Carlos Alvarado Quesada of the Partido Acción Ciudadana (PAC) took office in May 2018; his term finishes in May 2022

National legislature

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

Legal system

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

Elections

The last elections (presidential and legislative) took place in February 2018, and a second presidential round in April 2018. The next presidential and legislative elections will take place in

February 2022

Main political organisations

Government: Partido Acción Ciudadana (PAC)

Opposition: Partido Liberación Nacional (PLN); Restauración Nacional (RN); Partido Unidad Social Cristiana (PUSC); Partido Integración Nacional (PIN); Partido Republicano Social Cristiano (PRSC); Frente Amplio (FA)

Key ministers

President: Carlos Alvarado Quesada

First vice-president: Epsy Campbell Barr

Second vice-president: Marvin Rodríguez Cordero

Agriculture: Renato Alvarado Rivera

Culture: Sylvie Durán Salvatierra

Economics, industry & trade: Victoria Hernández Mora

Education: Giselle Cruz Maduro

Environment & energy: Carlos Manuel Rodríguez Echandi

Finance: Rodrigo Chaves Robles

Foreign relations: Rodolfo Solano Quirós

Foreign trade: Dyalá Jiménez Figueres

Health: Daniel Salas Peraza

Housing: Irene Campos Gómez

Justice: Marcia González Aguiluz

Labour & social security: Geannina Dinarte

National planning & economic policy: Pilar Garrido Gonzalo

Presidency (including interior): Marcelo Prieto Jiménez

Public security: Michael Soto Rojas

Public works & transport: Rodolfo Méndez Mata

Science, technology & telecommunications: Luis Adrián Salazar Solís

Sports: Hernán Solano Venegas

Tourism: María Amalia Revelo Raventós

Women's issues: Patricia Mora Castellanos

Central bank president

Rodrigo Cubero Brealey

Recent analysis

Generated on May 7th 2020

The following articles were published on our website in the period between our previous forecast and this one, and serve here as a review of the developments that shaped our outlook.

Politics

Analysis

Coronavirus poses risks to political stability and democracy

April 22, 2020

The novel coronavirus (Covid-19) pandemic poses significant short- and medium-term risks for politics in Latin America. So far, citizens have responded well to, and rallied around, governments that have taken decisive action to combat the crisis, while leaders who have dithered in their response have lost popularity and have increased political polarisation. Looking ahead, the crisis will change political priorities in the region and will exert serious pressure on incumbent governments in 2020-21. There are also growing political risks centred on the likelihood of greater state control—particularly the role of the military—beyond the end of the crisis, and on the potential for severe political instability as the scale of the economic crisis is felt.

With the notable exceptions of Brazil and Mexico, Latin American countries have undertaken a robust response to the pandemic. A regional poll by Consulta Mitofsky (a Mexican pollster) at end-March shows that health has become the top priority for respondents throughout the region, outpacing previous concerns such as the economy and security. The rapid response taken by some governments to contain the pandemic threat—which Latin American countries will struggle to combat, given vastly underfunded healthcare systems and structural economic weaknesses—has paid political dividends. In El Salvador—where the government was quick to close the border and institute strict social-distancing measures—97% of the population has supported the government's response. Support for tough, quick action is also evident in the approval of the government's handling of the crisis in Argentina (88%) and Peru (82%). Peru has combined strict social distancing with the region's largest economic support package to date.

Meanwhile, countries that have been caught flat-footed by the crisis (such as Ecuador), or where the presidents have dithered in their response (such as Mexico and Brazil), have seen public support slip. The Mitofsky poll shows that only 21% of Ecuadoreans had confidence in their government to address the crisis, and the government has indeed appeared to have been overwhelmed by the crisis. In Brazil and Mexico, the populist presidents (Jair Bolsonaro and Andrés Manuel López Obrador, respectively) largely have downplayed the threat of the pandemic, with both refusing to announce social-distancing measures and ignoring World Health Organisation (WHO) public health advice by continuing to meet with crowds (although states in both countries have taken their own measures, meaning that containment measures and disruption in business activity is taking place). Both have seen their approval ratings slip during the course of the month, and both have seen challenges to their leadership from the opposition, increasing already high levels of political polarisation.

A stress test for democracy

Although a robust response to the pandemic is to be welcomed, we do have concerns that, in some cases, illiberal measures taken at the time of the crisis could be abused or become permanent fixtures of government. A number of governments have declared states of emergency or centralised power in the executive. Given the weak power of the police throughout the region, several governments have also deployed the military to handle public security during the crisis. Abuses of emergency powers already have been reported in the region; the US House of Representatives Committee on Foreign Affairs has condemned as excessive the arbitrary detention of 1,200 Salvadorans for violating the country's curfew. Venezuela's authoritarian government has used the crisis to further harass opposition members or journalists under the guise of public health.

The pandemic also raises concerns about electoral processes. A number of countries in the region have decided to delay—in some cases without stipulating a new date—elections that were planned for this year. The high levels of uncertainty surrounding the coronavirus and the length of lockdown measures open the door to government attempts to perpetuate their hold on power, particularly in those countries where the outcome of the election looked to threaten the ruling party's hold on power (such as Bolivia, the Dominican Republic and Suriname). In addition, lockdowns have included severe restrictions on individual freedoms (such as movement and speech) that could damage the electoral process, especially given the limits on public protest in a time of social distancing. Bolivia's national quarantine law includes provisions that punish the spread of "misinformation" about the national quarantine with up to ten years in prison. Ultimately, there is a risk that some elections may not be held at all; Venezuela's planned legislative election (due by December 2020) looks particularly at risk.

Unwinding the measures could be a problem

As the pandemic winds down, governments will need to plan to let go of their emergency political powers. However, it will be tempting to keep them, given the scale of the economic catastrophe that we forecast for the region (a contraction of real GDP of 5% in 2020). Given that many countries will also face potential debt crises, and that there will be demands for government economic support throughout the region, there is likely to be a significant increase in social unrest in the year ahead. This is particularly true, given the economic precariousness of much of Latin America's workforce. Some 55% of Latin Americans work in the informal sector, and the economic crisis is likely to increase this number and push many more out of the fragile middle class. In the face of this, governments may be tempted to prolong emergency powers granted to it during the pandemic.

There is also an increased risk of military involvement. In the face of rising levels of public insecurity, a vulnerable population might be more prone to accept a greater role for the military—the military is one of the most trusted institutions within the region, according to the *Latinobarómetro* (a regional study). In this context, the military's role during the crisis is a cause for concern. Given the weak institutional capacity of the police in the region (as well as low levels of public trust in law enforcement) governments have deployed the military to enforce national quarantines, secure borders and distribute aid. This is a cause for concern, given the region's history of military involvement in the democratic process, as well as military dictatorships. As a result of the social and economic consequences of the coronavirus, there is a significant risk that weakened democratic institutions and rising instability will lead to the military becoming entrenched within the state apparatus.

Corruption, which is already a major problem and source of public disillusionment, is also likely to resurface as the crisis eases. Governments across the region are taking bold steps to mitigate the impact of the pandemic on the economy by introducing fiscal stimulus packages. Many are also receiving aid from multilateral institutions to strengthen the healthcare system, and distribute food and other basic staples. The influx of financial resources, combined with weak transparency mechanisms, raises the risk of widespread corruption. Although this is being overlooked for now, it is likely to come to light in the medium term, raising the risk that it weakens trust in democratic institutions.

Countries with stronger institutional capacity (such as Chile, Costa Rica and Uruguay) and independent judiciaries will be better able to address all these issues and weather the easing of restrictions, but those with weak rule of law or public confidence in the government will face huge challenges.

New policy priorities will emerge

As the crisis passes, the temporary papering-over of political differences will fade, and voters will increasingly hold incumbent governments to account for their handling of the crisis. This will play out not just in social unrest, but also in national elections to be held this year and for several years to come. It is too early to predict the outcome of future elections as the pandemic response is still unfolding, but early signs would favour those governments that took robust, early containment actions. That said, even in countries that did take robust action (such as Chile), low public confidence in the government before the crisis (the Mitofsky poll showed that only 21% of respondents trusted the government to battle the crisis)means that political tensions are likely to re-emerge sooner or later. In such an environment, it is unclear whether there will be a reversal of the recent electoral trend in the region that has favoured anti-establishment political figures and movements. In countries with elections in 2021, such as Ecuador (which has a general election), Mexico (mid-term legislative elections) and Nicaragua (general election), incumbent parties are likely to see significant challenges amid a voter backlash against the inadequate government response. Although populist leaders such as Mr Bolsonaro and Mr López Obrador have been discredited, it is too soon to suggest that populism is dead and buried in Latin America. Indeed, the deep economic crisis brought about by the coronavirus could lead to further splintering of traditional party structures and the rise of more populist outsiders in the region.

Political debate is also likely to change throughout the region. The importance of investing in healthcare, which by and large remains woefully low, will increase region-wide. A stronger social safety net will also be demanded, particularly as the crisis has laid bare the vulnerability of much of the region's population, in particular the informal sector. There will also be a much greater state role in economic planning at least in the short term, meaning that liberalising efforts seen in some countries (most notably Brazil) in recent years are likely to be affected. Businesses should prepare themselves for this eventuality in planning for the years ahead.

Economy

Analysis

Latin America coronavirus weekly brief: April 21st

April 21, 2020

Most of the initial fiscal, monetary and credit support measures in response to the novel coronavirus (Covid-19) pandemic have already been announced, but some bills are still pending ratification by local legislatures; we are monitoring progress on these. Over the next few weeks attention will turn to the implementation of these programmes and their effectiveness in keeping businesses afloat over the next quarter, particularly small and medium-sized enterprises (SMEs), which are the most vulnerable. With coronavirus cases yet to peak, several countries have already extended their lockdowns into May, but pressure to open up economic activity thereafter will grow amid a rise in unemployment and bankruptcies. We will be monitoring local debates around these issues and the impact that they will have on the political landscape. The longer social distancing drags on, the greater the chance of simmering social and political tensions boiling over. In Brazil, the far-right populist president, Jair Bolsonaro, has from the outset espoused lax social-distancing guidelines, clashing with World Health Organisation (WHO) guidance and the rest of the political establishment, including most state governors who were responsible for implementing the stay-at-home steps.

The week in review

The dash for cash

In the past week several countries have been busy tapping external finance to fund the extra spending required in response to the pandemic, either via multilateral financial institutions or via international bond markets, creditworthiness permitting. After Panama's successful US$2.5bn bond issuance in late March, Peru issued US$3bn in bonds in five- and ten-year maturities at yields of under 3% and which were eight times oversubscribed, suggesting appetite for higher-yielding debt from good credits despite global financial market turbulence. The proceeds from Peru's bond will help to finance its coronavirus-combating programme, estimated at 12% of GDP, one of the most extensive in the region in GDP terms. Other countries are lining up in this "dash for cash", including Uruguay, which is considering issuing Samurai bonds. Latin America's sovereign yields have mostly come down from their March 23rd highs (see chart), providing some opportunities to tap the markets. However, the spread has risen further for weaker credits, like Costa Rica and El Salvador. Other countries have secured loans from multilateral institutions, which are stepping up. On April 17th the IMF approved US$111.6m in emergency financing for Haiti, which also benefited from debt relief under the Fund's Catastrophe Containment and Relief Trust (CCRT). Several countries, including Jamaica, are lining up credit lines via the IMF's Rapid Financing Instrument (RFI).

Debt default doom in some parts

Other countries coming into the crisis with stressed public finances, like Argentina and Ecuador (whose yields are trading in default territory, see chart), now find themselves with even less of a chance of avoiding disorderly debt defaults. Collapsing oil prices and the unfolding health crisis have left Ecuador teetering on the brink of sovereign default. Both countries' governments presented their overseas bondholders with debt-reprofiling plans last week. On April 16th the Argentinian government launched an offer to restructure its bonded external debt (US$66bn). The aggressive proposal includes a 5.4% capital reduction, a 62% reduction in interest payments and a three-year grace period—implying a net present value loss of 60-70% for creditors (above the average for recent emerging-market sovereign debt restructurings). In an ominous sign, on April 20th three groups of creditors were reportedly minded not to accept the terms. Last week Ecuador asked bond investors for permission to delay interest payments of US$800m (on ten external bonds totalling US$19.2bn) through mid-August. This comes less than a month after the payment of US$325m in capital at maturity—only the second bond that the sovereign has ever been able to repay fully. However, this coincided with the invocation of a 30-day grace period on interest payments that runs out on April 24th. The government expects US$3bn to arrive from multilaterals and China between April and May, including an IMF RFI, some of which would be used to cover financing needs. If the consent solicitation fails, however, Ecuador would enter default. In both cases, therefore, if debt-restructuring proposals fail, messy debt defaults will follow; this would be particularly problematic amid the raging pandemic.

Sectoral analysis

More data have emerged in the past week showing the extent of the hit to the region's economy. In Brazil, car sales fell by over 20% year on year in March, with a larger decline probable in April, as the lockdown that has brought most activity to a screeching halt began only midway through the month. Huge falls in business and consumer confidence surveys taken in mid-April also paint a dire picture. Mexico lost nearly 350,000 formal jobs in the three weeks after March 13th—when social-distancing measures began—according to the ministry for labour. The majority of job losses have come from medium-sized and large businesses, although no breakdown was given in terms of sector. Formal job losses will probably reach between 750,000 and 1m in April as a whole. We have also been monitoring alternative data to provide some timely insights, helping us to gauge the virus's impact. For instance, according to a mobility report prepared by Google, foot traffic in retail and recreation centres had fallen by nearly 90% in Peru by April 5th compared with the pre-lockdown average. This drop was much greater than in Brazil and Mexico (where the decline was under 50%), whose presidents have been laxer, increasing the health risks to the population posed by the virus.

Last week the IMF held its Spring Meetings and warned of the potential for another "lost decade" in 2015-25. Latin America has been hit by the coronavirus just as many countries were struggling to gain lift after adjusting to the end of the commodities boom; income per capita will now be set back further. The Fund also released its revised economic forecasts for the region, sending shivers down the spines of Latin American policymakers and investors. The sharp declines envisaged by the Fund are similar to those published by The Economist Intelligence Unit several weeks earlier. In late March for Brazil we revised out forecasts for real GDP in 2020 to -5.5% (IMF forecast, -5.3%) and for Mexico to -6.5% (IMF Forecast, -6.6%).

The week ahead

The Covid-19 pandemic is still building in the region, with the peak in cases probably still a few weeks out. We will be monitoring the health response and social containment measures. In what will be a closely watched signal not only for Brazil but for the rest of the region, the governor of São Paulo state, João Doria, is expected to announce his "exit strategy" plans on April 22nd; the quarantine will run until May 10th in Brazil's largest state, and a dialling-down of social-distancing measures is likely to begin in secondary towns later in May, before being extended to the state capital itself, perhaps in June.

This week we are publishing a regional analysis piece on the ramifications of Covid-19 on politics. In the short term we have seen citizens respond well to and rally around governments that have taken decisive action to combat the crisis, whereas leaders who have dithered in their response have lost popularity. This has contributed to political polarisation, as in Brazil. Risks lie in the role of greater state control—particularly the role of the military—beyond the end of the crisis, and in the rise of political instability as the scale of the economic crisis is felt. The crisis will change political priorities in the region and exert serious pressure on incumbent governments over the medium term.

This week we will also continue to monitor ongoing financing efforts—as well as the forlorn attempts by Argentina and Ecuador to avoid disorderly debt defaults. Elsewhere, some Covid-19 economic measures still await congressional approval. Brazil's lower house is expected to approve a "war budget" of extra spending with aid for states' lost tax revenue and tighten the conditions regarding central bank purchases of corporate securities as part of its liquidity programme. We will be following this closely, as well as the implementation of other measures announced across the region, to determine how effective government assistance will be during this critical period.

Latin America coronavirus weekly brief: April 28th

April 28, 2020

The past week has once again been dominated in Latin America and the Caribbean by the search for finance (multilateral and private foreign bonded debt); by the rollout of stimulus and social safety net measures; and by debate over the timing and shape of exit from lockdown measures. These are themes that we will be monitoring for a long time to come. But in the coming week, a lot of our attention will be on Latin America's big three economies, Brazil, Mexico and Argentina, which are all currently under huge pressure (in varying forms) from the impacts of the coronavirus (Covid-19) outbreak.

Argentina: debt, exit strategy and a farewell to free trade

The government of Alberto Fernández is facing an increasingly precarious balancing act. Its fiscal space to provide economic stimulus and social support is limited by the long-running economic crisis, and in this environment it is being forced to kickstart the (gradual) process of unwinding containment measures. Although the lockdown will continue until at least May 10th (the government expects cases to peak in mid-May, the government's list of "essential activities" is expanding, and more exceptions are likely to be made in coming days, easing restrictions on more sparsely populated areas, for example, and on non-labour-intensive industries.

Complicating matters, the government has the additional huge obstacle of negotiations with private foreign creditors to restructure close to US$70bn in external bonded debt. Creditors have indicated that the government's unilateral proposal on April 16th is unacceptable, and the clock is now ticking on negotiations: the government has set a 20-day timeframe for talks, and the end of this period is fast approaching, although the real deadline is May 22nd, when the 30-day grace period on a past-due US$500m bond payment expires. There is some wriggle room in negotiations; creditors have, for example, baulked at the government's proposed pause on coupon payments until 2023 (particularly in the case of already restructured bonds). Even so, the proposed haircut (focused on interest payments) is aggressive as things stand, and unless the government conceded significant ground, a disorderly default is on the cards.

In the meantime, in what seems to be a misguided appeal to nationalist sentiment, the government has announced its withdrawal from ongoing trade negotiations between its Mercosur partners and various countries including Singapore and Canada. The move was the first concrete turn away from globalisation in the region since the pandemic emerged, and it is unsurprising that the government is focused on domestic issues. The government's recent formal statement seems, however, an unnecessary move that further isolates the country from neighbouring Brazil, Uruguay and Paraguay. Mr Fernández may have an eye on his opinion poll ratings. These are currently very high, with voters strongly in favour of the government's robust containment measures. However, the economic situation is dire, and the impending debt crisis will exacerbate it, and in this context, the political situation is on the verge of becoming much trickier for the president.

Brazil: political crisis and the impact on economic policy

Brazil's president, Jair Bolsonaro, will focus this week on damage-control and political survival in the aftermath of the resignation of his popular, anti-corruption crusading minister of justice, Sergio Moro, last week. This came hot on the heels of Mr Bolsonaro's dismissal of his popular health minister, Luis Henrique Mendetta, who clashed with him over social containment measures and was becoming a political rival. The first step appears to be trying to prop up his beleaguered free-market economy minister, Paulo Guedes, whose permanence in his post came into doubt after the government announced a "Pro-Brazil" recovery programme of public infrastructure investments by the more interventionist "military wing" of his cabinet without Mr Guedes's involvement. Yesterday, the president came out in public in support of his economy minister as being the reference for economic policy.

However, these tensions are bound to linger for quite some time. Mr Guedes's reform agenda has been shelved by the need to deal with Covid-19 crisis, and given the deterioration in the political climate, with Mr Bolsonaro falling out with the leader of the lower house, Rodrigo Maia, the medium-term outlook for reforms has deteriorated. In Congress the president is now trying to reach out to a handful of parties in the influential centrist block known as the *centrão*, to shore up his position. His antics during the Covid-19 crisis (for example, attending rallies by his supporters calling for military intervention and the closing of Congress) provide grounds for his impeachment. The ducks are not aligned for such a process, however, as he retains sufficient popular support (polls show approval ratings of 33%) and legislators are unlikely to engage in lengthy impeachment proceedings (which can last 6-8 months) at this point in time. However, the government's weaknesses and dysfunctionalities have come to the fore at a critical time, given the Covid-19 pandemic and economic crisis.

Mexico: a surprisingly weak fiscal response

In Mexico, the government still has yet to announce any significant fiscal stimulus measures to combat the fallout from the crisis. Economic activity indicators for the first two months of the year show month-on-month contractions of 0.01% and 0.4% in January and February, respectively. Accounting for the sharp dip we expect to see for March, the first quarter is likely to be grimmer than we initially expected (although our forecast last month for a contraction of 6.3% in GDP this year is at the low end of consensus). Preliminary first-quarter real GDP data (to be released by the central bank on Thursday) will give us a clearer picture, but we are already in the process of downgrading our full-year real GDP forecast. If the government fails to pass fiscal stimulus (a real possibility, we now believe), the full-year outturn could be grimmer still.

In the absence of central government fiscal stimulus, state governments and Mexico's powerful business groups have stepped into the void. The largest business group, the Consejo Coordinaro Empresarial (CCE) has partnered with IDB Invest (part of the Inter-American Development Bank) to provide up to US$12bn in loans for Mexico's small- and medium-sized enterprises (SMEs) to help them weather the effect of the crisis; some US$3bn will be available immediately. The president, Andrés Manuel López Obrador, was critical of the plan, saying the government would not come to the aid of companies if the loans went wrong. The recent disagreement could lead to further confrontations between Mr López Obrador, the business sector and opposition governors in the week ahead.

