COSTA RICA

Table 1	2023
Population, million	5.1
GDP, current US$ billion	81.8
GDP per capita, current US$	16021.4
International poverty rate ($2.15)[a]	0.9
Lower middle-income poverty rate ($3.65)[a]	3.0
Upper middle-income poverty rate ($6.85)[a]	12.7
Gini index[a]	46.7
School enrollment, primary (% gross)[b]	107.6
Life expectancy at birth, years[b]	77.3
Total GHG emissions (mtCO2e)	8.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2023), 2017 PPPs.
b/ Most recent WDI value (2022).

Growth accelerated to 5.1 percent in 2023 but lost steam in the first half of 2024. Low inflation and decreasing interest rates since Q12023 boosted private consumption and investment, but slower growth in trade partners decelerated external demand in H12024. Poverty (US$6.85 poverty line) declined slightly, but inequality remains high. Fiscal consolidation is enhancing market access and should continue to promote spending efficiency while targeting resources to protect the most vulnerable.

Key conditions and challenges

Costa Rica's income per capita has doubled in the past two decades, thanks to an outward-oriented growth model, investments in human capital, and good governance. The country upgraded and diversified its exports, making it less vulnerable to external shocks. It also strengthened its green trademark through sustainable natural resources management and reforestation.

However, integration between the export-oriented and domestic-oriented segments of the economy remains weak, leading to income and territorial disparities. Despite accessible healthcare and education, monetary poverty reduction has been limited (2.9 p.p. between 2010 and 2023), and inequality has persisted (Gini index above 47 since 2010). Monetary poverty remained particularly high among vulnerable groups such as Afro-descendants, Indigenous populations, and migrants. The pandemic deepened these challenges, with the aggregate poverty rate (measured by the US$6.85/day, 2017 PPP) increasing from 13.7 percent in 2019 to 19.9 percent in 2020. As labor market conditions improved, poverty gradually declined to below 2019 levels, but female labor force participation remains among the lowest in the region (49.3 percent in 2022).

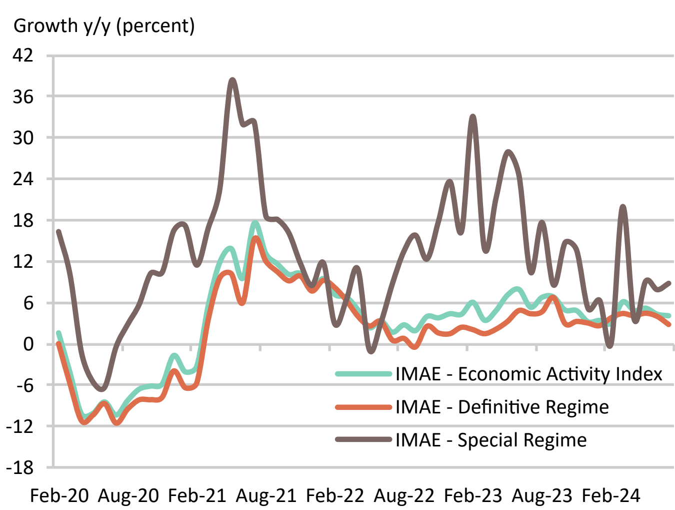
Additionally, fiscal challenges arose between 2008 and 2018 due to increased spending without a corresponding rise in revenues. A 2018 reform was implemented to stabilize the fiscal situation, but the pandemic and commodity price shocks delayed the adjustment. Public debt increased from 56 percent in 2019 to 68 percent of GDP in 2021. Increased revenues, expenditure control measures, and strong growth enabled the country to post the first primary surplus in a decade in 2022. The public debt ratio is declining but remains relatively high.

Addressing Costa Rica's twin challenges of inclusion and fiscal management is crucial. Growth needs to become more inclusive across the different socioeconomic groups. Fiscal policies should continue to support creditworthiness and protect vulnerable groups. Improving revenue mobilization and spending efficiency are essential to address these challenges.

Recent developments

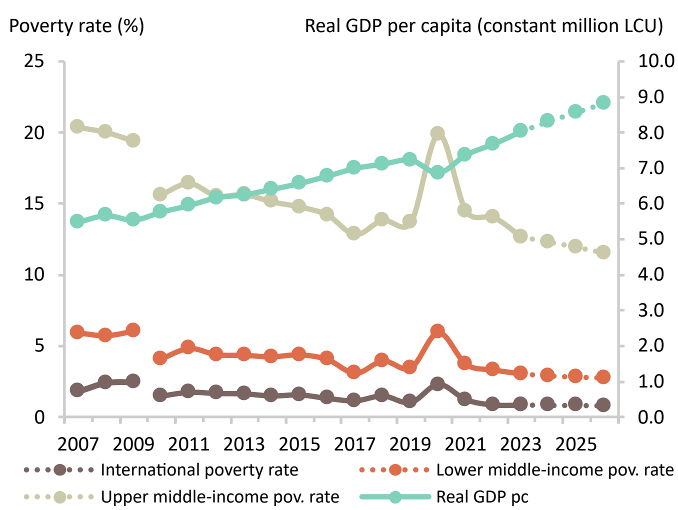
Growth surpassed expectations at 5.1 percent in 2023, bolstered by robust domestic and external demand, but decelerated to 4.5 percent in the first half of 2024, impacted by weakening external demand. Inflation subsided in early 2023, transitioning to deflation for most of that year, reaching 0.3 percent y/y in August 2024. This shift allowed the central bank to ease monetary policy, which stimulated private consumption and investment. While the export-oriented sector is still the primary source of growth, it has decelerated, expanding 8.6 percent in June 2024, compared to 24.7 percent in June 2023.

FIGURE 1 Costa Rica / Economic activity growth (seasonally adjusted)



Sources: Central Bank of Costa Rica and World Bank staff calculations.
Notes: Special Regime includes Free Trade Zone, Active Improvement, and Refund of Rights regimes. Definitive Regime focuses on domestic use or consumption.

FIGURE 2 Costa Rica / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

With stable inflation and resilient labor market conditions, the poverty rate (US$6.85/day, 2017 PPP) declined to 12.7 percent in 2023, the lowest in over a decade. While also declining, poverty measured with the national poverty line stayed at 24.4 percent in 2023.

The current account deficit narrowed in 2023, driven by a larger trade surplus, and was financed by robust foreign direct investment (FDI). Exports, particularly of medical equipment, tourism, and business services, saw notable expansion, outstripping the recovery in imports. While exports and imports decelerated in early 2024, the trade balance remained stable. Costa Rica maintained its position as one of the world's leading recipients of greenfield FDI relative to GDP.

The fiscal deficit widened from 2.5 percent in 2022 to 3.3 percent of GDP in 2023, pressured by a record-high interest bill of 4.8 percent of GDP and a smaller primary surplus of 1.6 percent of GDP. The latter was the result of the phase-out of large one-off revenues associated with an institutional restructuring, which exceeded spending controls. The primary surplus declined to 1 percent of GDP in the first half of 2024, as revenues underperformed. Nonetheless, the debt-to-GDP ratio continued to decline reaching 61.1 percent in the end of 2023 and 59.4 percent in June 2024. Solid fiscal performance prompted upgrades in Costa Rica's sovereign credit ratings.

Outlook

Amid global uncertainty and a slowdown in key trading partners, growth is projected to moderate to around 3.5 percent during the forecast period. External demand is anticipated to continue decelerating through early 2026, while domestic demand is expected to temper in 2026 as monetary policy normalizes and fiscal consolidation advances. The current account deficit is projected to widen marginally to 2.1 percent of GDP, reflecting a deceleration in external demand and stabilization of terms of trade. Nonetheless, the deficit is anticipated to be fully covered by FDI inflows.

The poverty rate ($6.85/day, 2017 PPP) is projected to decline to 11.5 percent in 2026 supported by robust labor market outcomes. Targeting and efficiency enhancements in social assistance, especially for historically marginalized groups and those below the poverty line, could further reduce poverty and vulnerability.

Fiscal consolidation is expected to persist throughout the forecast period, underpinned by a fiscal rule that constrains spending growth, bringing the debt-to-GDP ratio below 60 percent threshold. Recent strides in debt management and the deepening of domestic markets are likely to reduce Costa Rica's financing costs, while tax administration efforts should reinforce revenue mobilization. Announced reforms, including cuts in tax expenditures, adjustments to income tax, and a decrease in the fragmentation of social programs, could further accelerate the pace of adjustment and help establish safeguards against shocks while protecting the poor and vulnerable.

This economic outlook is subject to downside risks. Costa Rica's high susceptibility to external shocks, such high global prices, dampened global growth, and tightening financial conditions, could pose challenges. Climate vulnerabilities, exacerbated by phenomena like La Niña, compound these uncertainties and could disproportionately impact the poor. Additionally, recent surges in migration and perceived criminality could increase expenditure demands, potentially impeding the pace of fiscal consolidation.

TABLE 2 Costa Rica / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	7.9	4.6	5.1	4.0	3.5	3.4
Private consumption	8.3	2.6	5.0	3.4	3.4	3.2
Government consumption	1.7	2.4	0.1	0.8	1.0	1.0
Gross fixed capital investment	7.8	1.5	8.6	5.6	5.7	5.2
Exports, goods and services	15.9	18.5	10.0	6.4	6.4	6.6
Imports, goods and services	19.2	8.1	5.2	7.0	6.8	6.7
Real GDP growth, at constant factor prices	7.9	4.6	5.1	4.0	3.5	3.4
Agriculture	2.2	-2.3	3.5	2.0	2.1	2.2
Industry	12.3	2.1	8.3	2.7	2.7	2.9
Services	7.0	5.8	4.3	4.5	3.9	3.6
Inflation (consumer price index)	1.7	8.3	0.5	1.5	3.0	3.0
Current account balance (% of GDP)	-3.2	-3.2	-1.5	-2.1	-2.1	-2.0
Net foreign direct investment inflow (% of GDP)	4.8	4.4	4.5	4.5	4.5	4.7
Fiscal balance (% of GDP)	-5.0	-2.5	-3.3	-3.2	-2.5	-1.9
Revenues (% of GDP)	15.7	16.4	15.3	15.5	15.6	16.2
Debt (% of GDP)	67.6	63.0	61.1	60.6	59.8	59.6
Primary balance (% of GDP)	-0.3	2.1	1.6	1.7	1.8	2.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.2	0.9	0.9	0.8	0.8	0.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	3.7	3.3	3.0	2.9	2.8	2.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	14.5	14.1	12.7	12.3	11.9	11.5
GHG emissions growth (mtCO2e)	8.5	6.0	0.3	5.0	3.2	2.9
Energy related GHG emissions (% of total)	99.6	98.6	97.1	94.8	93.0	91.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on SEDLAC harmonization, using 2023-ENAHO. Actual data: 2023. Forecasts are from 2024 to 2026.
b/ Projections using microsimulation methodology.