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## Costa Rica downgraded by S&P to BB-

- On 25 February 2016, Standard & Poor's lowered its long-term foreign currency rating on Costa Rica from BB to BB- with a negative outlook.
- According to S&P, the downgraded was triggered by the country's continued deterioration of its fiscal accounts due to increasing expenditure pressures and the lax of tax reform to address it.
- The fragmented nature of Costa Rica's congress has resulted in President Luis Guillermo Solis's administration being unable to pass the tax reforms required to curtail the rising fiscal deficit. Reforms to increase taxation and introduce value added taxes have all been defeated and efforts to control spending have yielded little results.
- The fiscal deficit has continued to widen and is forecasted to rise to 7% GDP by 2017 and boost general government debt above 45% of GDP. Interest payments are expected to rise to 13% of government revenues by 2017.
- According to S&P, general government debt has increased by an average of 5.5% of GDP for 2013-2015 and an average increase of 7% of GDP is expected during 2016-2018.
- Debt denominated in foreign currency accounts for just under 40% of total sovereign debt making the country vulnerable to any unexpected adverse change in the exchange rate.
- Depreciation could lead to higher debt service costs though in recent times the currency has remained strong in relation to its Latin American counterpart which has reduced the country's external competitiveness.
- A high level of dollarization, with dollar-denominated loans accounting for around half of total loans, constrains Costa Rica's monetary flexibility.

- GDP growth is forecasted to average moderate growth of 3.6% for 2016-2018. Low oil prices have helped reduce the current account deficit to 4.1% of GDP in 2015 and temper a 15% drop in exports due to the exit of Intel's manufacturing operations. The current account deficit is forecasted at 4.0% of GDP in 2016 with FDI funding more than 90% of it.
- Costa Rica is rated BB+ (Negative) by Fitch and Ba1 (Stable) by Moody's.



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