Economic Alert iQ

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Wednesday 25th July 2018 –1:00 pm
Latin America
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Economic Alert: Central Bank of Costa Rica (BCCR) revised Macroeconomic Program 2018-19

Highlights of revised BCCR projections:

- Inflation is expected to be in the target range (3% ± 1 p.p.): towards the lower limit for the rest of 2018 and around 3% in 2019.
- Economic growth is forecasted at 3.2% and 3.4% in 2018 and 2019 (3.3% - 2017) respectively, due to a boost in domestic demand.
- The external current account deficit is expected to reach 3.3% and 3.1% of GDP in 2018 and 2019 respectively and continued to be financed from FDI.
- The balance of payments estimate indicates that the net international reserves (RIN) would be around 13.6% and 13.2% of GDP in 2018 and 2019, respectively (12.4% in 2017).
- The Central Government's financial deficit is forecasted at 7.2% of GDP in 2018 and 7.5% in 2019. According to the BCCR, these projections incorporate the administrative measures announced by the Ministry of Finance, but not the effects of an eventual approval legislation of fiscal reform projects. If this happened, the Central Bank will evaluate its implications and can modify its macroeconomic program.
- Global Public Sector debt amounted to ¢ 23.0 billion in June 2018 (66.6% of GDP), an increase of 4.1 p.p. (¢ 2.5 billion) compared to June 2017. Central Government debt to GDP reached 49.8% of GDP (45.8% - 12 months earlier) as at June 2018. The government financed its obligations through the net placement of bonds in the domestic market, to a greater extent, in the private sector and public entities, which has generated upward pressures on local interest rates.

Main risks on the forecast horizon:

- **Deficit of the Central Government.** The non-approval of fiscal reform measures would lead to acceleration of the Central Government's deficit. If this deficit rises above current projections, the upward pressure on interest rates would be more intense, negatively affecting the level of private investment and therefore economic activity**.**
- **Government' debt burden.** The BCCR notes that the increasing Government' debt burden makes evident the fragility of its financial situation, because in the absence of structural reform required to generate the required primary surplus, debt levels will continue to substantially increase.
- **Depreciation of the colon**. Higher international interest rates greater could lead to reversals in the capital flows, to a greater extent, in emerging economies which would cause EM currencies to depreciate, including Costa Rica, which could result in an increase in inflation.
- **Higher inflation expectations**. Although inflation has remained stable within the target range, the risk of greater imported inflation due to a weaker currency and higher energy prices can result in an uptick in inflationary pressures.
- **Supply shocks** such as weather conditions can have adverse effects, with implications for the performance of agricultural activity, the road infrastructure, the production costs and the growth capacity of the Costa Rican economy.

Key Economic Indicators

		2016	**2017**	**2018**	**2019**
Real GDP (percent change)		*4.5%*	*3.3%*	*3.2%*	*3.4%*
Central Government deficit		*4.8%*	*6.2%*	*7.2%*	*7.5%*
Central Government debt as a % of GDP		*45.8%*	*49.1%*	*53.8%*	*58.4%*
Consumer prices		*0.8%*	*2.6%*	*3% ± 1*	*3% ± 1*
Current Account Balance (Percent of GDP)		*3.6%*	*-2.8%*	*-3.3%*	*-3.1%*

Source: Central Bank of Costa Rica (BCCR)

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