Economic Alert iQ

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Fitch revises Costa Rica's Outlook to Negative

- On 23rd January 2015, Fitch Ratings lowered its credit rating outlook on Costa Rica from "Stable" to "Negative".
- Costa Rica's credit rating of BB+ has been affirmed.
- According to the ratings agency the revision was driven by:
  1. Continued widening of Costa Rica's budget deficit and difficulty in the passage of tax reform bills;
  2. Deteriorating debt dynamics and financing conditions; and
  3. Deceleration of growth
- Fitch estimates that Costa Rica's budget deficit rose to 5.6% of GDP in 2014, the weakest outturn since 1980 and above the 3% of GDP required to stabilize debt. The deterioration in public finances continues due to the inability of Government to curb spending as increases in public sector payroll and social transfers continue and low fiscal revenue due to weak compliance and a generalized system of incentives and tax exemptions. An expansionary budget passed in November 2014 is expected to further boost spending in 2015. Interest payments to revenue exceeded 17% in 2014, more than double the 'BB' median of 7%. Taxation is one of the primary methods targeted by Government to ease the fiscal deficit but tax reforms have been unable to be implemented despite various attempts in the past. The current legislative assembly is the most fragmented in Costa Rica's history, increasing the difficulty to pass tax reform.
- Consolidated general government debt rose to 34.6% of GDP in 2014 (20% in 2008). Fitch's outlook is negative forecasting that the debt burden may surpass the 'BB' median of 40% in 2016 with no stabilization before 2019. Despite continued access to debt markets and multilateral credit lines, financing conditions are deteriorating due to the lower absorption capacity of the domestic public sector investor base and the rising pressure on international interest rates.

- The withdrawal of Intel from Costa Rica in 2014 has led to downward pressure on Costa Rica's growth rate. Fitch forecasts that economic activity may decelerate below the estimated 4% in 2015-2016 and will continue to be constrained by bureaucratic red tape, weak competition in the energy and financial services market and infrastructure bottlenecks.
- Costa Rica is rated BB (Stable) by Standard and Poor's and Ba1(Stable) by Moody's.

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