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**Statement by Mr. Bevilaqua, Mr. Fuentes, and Mr. Coronel on Costa Rica  
(Preliminary)  
Executive Board Meeting  
March 1, 2021**

We thank staff for the report and Messrs. Moreno and Cartagena for their insightful statement which helps substantiate the case for upper-credit-tranche financial assistance to Costa Rica. **We strongly support the request for a three-year Extended Fund Facility (EFF) arrangement to help address the country's balance of payment needs and anchor the authorities' structural reform agenda.** We premise our support on Costa Rica's robust institutional framework, wide sociopolitical engagement on the proposed program and authorities' strong ownership and policy commitment, which are fully in line with the EFF objectives and the country's ongoing OECD ascension process.

**The COVID-19 pandemic caused considerable disruption to the Costa Rican economy.** Notwithstanding the government's proactive response to the pandemic and the country's widely renowned healthcare system, the two consecutive waves of COVID-19 cases hit Costa Rica hard. While authorities' strict lockdowns and fiscal and financial relief measures helped avoid a deeper socioeconomic crisis, economic activity and employment declined sharply. Job loss has been particularly high in the service and hospitality sectors, as well as for women and youth. Following last year's estimated 4.8 percent GDP contraction, the economy is expected to expand by 2.6 percent this year under heightened uncertainty and considerable downside risks.

**The protracted pandemic shock has exacerbated Costa Rica's pre-existing fiscal imbalances.** After a decade of widening fiscal deficits and rapidly rising debt, the authorities made laudable efforts to curb this trend through the implementation of a comprehensive fiscal reform in 2018, which featured the adoption of a fiscal rule. Nevertheless, the unexpected extent and scope of the pandemic shock increased public expenditure while fiscal

revenue plummeted, generating larger than expected financing needs. The RFI resources approved in April 2020 have been effective to ensure an adequate response to the pandemic and increase social spending, yet they were insufficient to buttress medium-term fiscal sustainability.

**Monetary policy and financial sector support in response to the COVID-19 shock have remained appropriate.** The BCCR provided credit relief to affected businesses and households through well-targeted temporary measures, with some being gradually unwound as conditions improve. Banks appears resilient, yet to ensure banks remain adequately capitalized the authorities have stepped up monitoring and supervision of credit portfolios, given the uncertain environment surrounding the crisis.

**The EFF program seems well designed, comprehensive, and ambitious.** The arrangement will help catalyze additional bilateral and multilateral financial support, essential to address Costa Rica's sizeable financing needs while keeping adequate foreign reserve levels. The program is appropriately focused on ensuring fiscal and debt sustainability while protecting the poor and the most vulnerable. The arrangement is also geared towards strengthening monetary and financial stability and advancing the authorities' reform agenda to foster stronger and more inclusive growth. The authorities and staff have made an effort to calibrate the program design for a broader acceptance by the Costa Rican society, which are expected to minimize immediate risks of a political setback.

**A successful fiscal consolidation strategy within the program will require steadfast commitment and supplementary measures.** The authorities' fiscal reform plan -already afoot with the legislative approval of the 2021 budget- aims at gradually achieving a primary surplus by 2023 and reducing the debt-to-GDP ratio to 50 percent by 2035. However, debt -albeit still sustainable- is expected to remain high beyond the program's conclusion. In this regard, Costa Rica's strong rule of law and institutional development stand as vital assets for medium-term fiscal sustainability. Still, measures to streamline public administration, contain the wage bill, reduce tax expenditures, and reform the personal income tax system will warrant proper sequencing, protracted consensus-building, and an effective communication strategy.

**In closing, we wish the Costa Rican authorities success on their path to full recovery from the pandemic crisis, as well as on the program's implementation.**