Costa Rica

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	BB
Short-Term IDR	B

Local Currency

Long-Term IDR	BB
Short-Term IDR	B
Country Ceiling	BB+

Outlooks

Foreign-Currency Long-Term IDR	Negative
Local-Currency Long-Term IDR	Negative

Financial Data

Costa Rica

(USDbn)	2017
GDP	57.7
GDP per head (USD 000)	11.7
Population (m)	4.9
International reserves	7.1
Net external debt (% GDP)	3.5
Central government total debt (% GDP)	48.1
CG foreign-currency debt	10.6
CG domestically issued debt (CRCbn)	12,432.4

Related Research

2017 Outlook: Latin America Sovereigns (December 2017)

Global Economic Outlook (December 2017)

Analysts

Arend Kulenkampff
+1 646 582 4720
arend.kulenkampff@fitchratings.com

Todd Martinez
+1 212 908 0897
todd.martinez@fitchratings.com

Key Rating Drivers

Negative Outlook, Ratings Affirmed: Fitch Ratings recently revised Costa Rica's Outlook to Negative, reflecting the country's diminished flexibility to finance its rising budget deficits and public debt burden, as well as persistent institutional gridlock preventing progress on reforms to correct the fiscal imbalance. Costa Rica's structural indicators are stronger than peers' in areas such as high per capita income, social development and governance standards, which underpin its ratings.

Rising Fiscal Deficits: The central government's budget deficit increased to an estimated 5.9% of GDP in 2017, from 5.2% 2016; Fitch expects it to rise to 6.2% in 2018. Assuming no significant consolidation measures in 2018, the general government deficit (i.e. including the social security fund surplus) is forecast to reach 5.2% in 2018, above the 'BB' median of 3.4%.

Uncertain Prospects for Fiscal Reform: Fitch's projections assume some fiscal adjustment after the 2018 general election via a combination of spending cuts and tax hikes, although the timing and scope of the measures remain uncertain. Past attempts at comprehensive fiscal reform have foundered in the gridlock-prone Congress or Constitutional Court.

Rising Debt Burden: Prolonged delays in addressing Costa Rica's fiscal imbalance will amplify the costs of future adjustments and raise the risks to growth. Fitch projects that Costa Rica's general government debt burden, at 43% of GDP in 2017 (net of debt holdings by the social security fund), will surpass the 'BB' median of 46% in 2018.

Increasing Liquidity Constraints: The government has relied heavily on the local market to finance its deficits since congressional authorisation for external bond issuance expired in 2015. A favourable backdrop for domestic borrowing began to unwind in early 2017 when tighter monetary conditions put upward pressure on local interest rates. As a result, the National Treasury faced difficulties raising funds mid-year, but has since validated higher interest rates demanded by the market.

Monetary Policy Tightening: Currency depreciation and rising inflationary pressures led to a sharp tightening of monetary policy in 2017, which was swiftly transmitted to the banking sector via higher lending rates. Proactive tightening should keep headline inflation within the 2%-4% target range.

Resilient Growth: Real GDP growth is projected to have slowed to 3.4% in 2017 from 4.5% in 2016. The economy should remain broadly resilient to the deteriorating fiscal situation, in Fitch's view. Growth is forecast to average 3.9% in 2018-2019, in line with potential, although fiscal imbalances pose risks of crowding out and constrain fiscal policy flexibility.

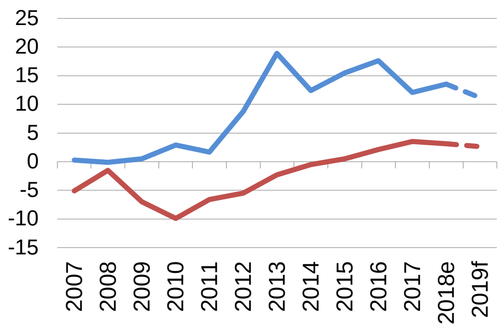
Rating Sensitivities

Financing Constraints, Fiscal Deterioration: Evidence of sovereign financing constraints; a failure to consolidate public finances, leading to a sharper deterioration in debt dynamics; or deterioration in macro-financial stability could lead to a negative rating action.

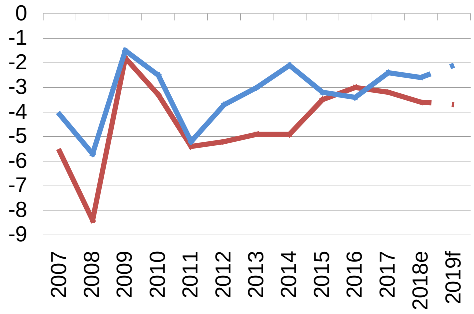
Material Fiscal Progress: An easing of political gridlock that improves overall fiscal management, including passage and implementation of meaningful fiscal reform, and meaningful progress on structural fiscal consolidation that improves the prospects for debt stabilisation could lead to a positive rating action.

Peer Comparison

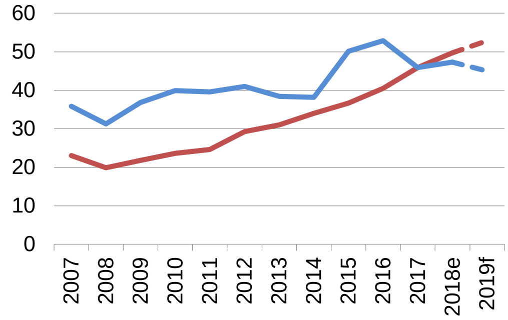
Net External Debt
% of GDP



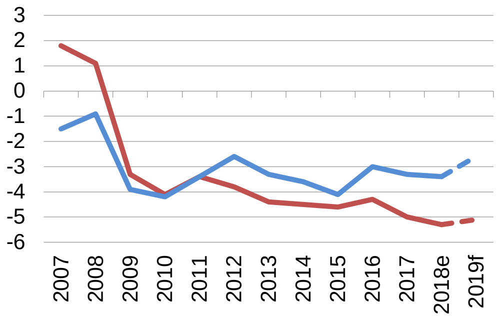
Current Account Balance
% of GDP



General Government Debt
% of GDP

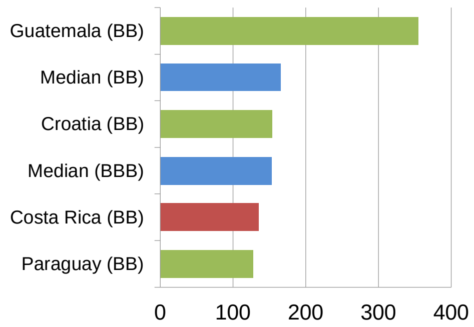


General Government Balance
% of GDP

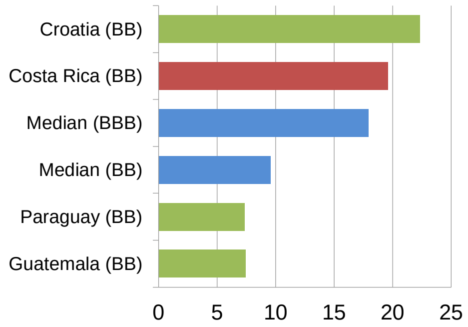


Costa Rica   Medians

International Liquidity Ratio, 2018
%



GDP per capita Income, 2017e
At market exchange rates, USA = 100



Related Criteria

Sovereign Rating Criteria (July 2017)
Country Ceilings Criteria (July 2017)

Rating Factors

Peer Group

Rating	Country
BB+	Azerbaijan
	Bahrain
	Namibia
	South Africa
	Turkey
BB	**Costa Rica**
	Brazil
	Croatia
	Cyprus
	Guatemala
	Macedonia
	Paraguay
	Serbia
BB−	Bangladesh
	Bolivia
	Dominican Republic
	Georgia
	Seychelles
	Vietnam

Rating History

Date	Long-Term Foreign Currency	Long-Term Local Currency
19 Jan 17	BB	BB
4 Mar 11	BB+	BB+
5 Nov 98	BB	BB+

Summary: Strengths and Weaknesses

Rating factor	Macroeconomic	Public finances	External finances	Structural issues
Status	Neutral	Weakness	Neutral	Neutral
Trend	Stable	Negative	Stable	Stable

Note: Relative to 'BB' category
Source: Fitch

Strengths

Costa Rica's ratings are underpinned by comparatively high levels of per-capita GDP and social development, as well as strong governance indicators relative to peers.

A successful economic model centred on high value-added manufacturing and service activities has supported relatively robust foreign direct investment (FDI) inflows and favourable growth rates in line with the 'BB' median.

A diversified export profile and adequate reserve levels support external solvency and resilience to terms-of-trade shocks. Net external debt is below rating peers, although it has been on an upward trajectory in recent years on sovereign and bank external borrowing.

Weaknesses

The general government debt burden is roughly in line with the 'BB' median as a share of GDP, but is on a rapid upward trajectory due to high fiscal deficits. The ratio of interest payments to fiscal revenues is high relative to 'BB' peers and presently increasing due to a growing debt stock and rising borrowing costs.

Costa Rica's rigid budget expenditure limits the authorities' capacity to arrest negative debt dynamics and respond to adverse shocks. Despite relatively strong governance indicators, a fragmented and gridlock-prone political system has hindered efforts to implement reforms necessary to address growing fiscal imbalances. Successive fiscal reform efforts have failed over the past decade.

Monetary policy is constrained by high fiscal deficits and dollarisation, reflected in a more volatile inflation record than peers. In 2014, the authorities formally switched to a managed float regime from a crawling band, but exchange rate flexibility remains constrained by private-sector currency mismatches and competitiveness concerns.

Banks have adequate capitalisation and liquidity levels, but credit dollarisation that is largely unhedged via dollar earnings or derivative instruments poses credit risk to financial institutions.

Local-Currency Rating

The Long-Term Local-Currency (LTLC) IDR is in line with the Long-Term Foreign-Currency (LTFC) IDR. In Fitch's view, neither of the two key factors that support upward notching of the LTLC IDR cited in the criteria are present, namely strong public finance fundamentals relative to external finance fundamentals and previous preferential treatment of local-currency creditors relative to foreign-currency creditors.

Country Ceiling

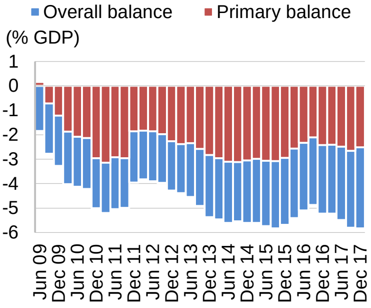
The Country Ceiling is one notch above the LTFC IDR, underpinned by Costa Rica's commitment to the free flow of capital and international trade. The one-notch uplift is also supported by Costa Rica's membership of the Dominican Republic-Central America Free Trade Agreement (DR CAFTA) and the World Trade Organization (WTO).

Strengths and Weaknesses: Comparative Analysis

2017	Costa Rica BB	BB Median[a]	BBB Median[a]	Croatia BB	Guatemala BB	Paraguay BB
Macroeconomic performance and policies						
Real GDP (5yr average % change)	3.4	3.5	3.1	1.3	3.6	6.0
Volatility of GDP (10yr rolling SD)	1.8	2.3	2.6	3.2	1.1	5.5
Consumer prices (5yr average)	2.4	3.1	1.8	0.6	3.8	3.7
Volatility of CPI (10yr rolling SD)	3.9	2.4	1.9	1.9	2.7	2.5
Unemployment rate (%)	9.4	10.4	5.6	11.0	3.0	5.6
Type of exchange rate regime	Managed float	n.a.	n.a.	Peg	Managed float	Managed float
Dollarisation ratio (% of bank deposits)	42.1	35.5	31.0	-	15.9	46.0
REER volatility (10yr rolling SD)	5.4	4.9	4.0	2.4	3.2	7.3
Structural features						
GDP per capita (USD, mkt exchange rates)	11,734	5,611	10,715	12,953	4,464	4,399
GNI per capita (PPP, USD, latest)	15,750	13,680	19,030	22,880	7,750	9,060
GDP (USDbn)	57.7	n.a.	n.a.	54.3	75.4	30.0
Human development index (percentile, latest)	64.7	57.7	67.9	75.9	33.1	41.7
Governance indicator (percentile, latest)[b]	72.2	50.1	59.2	66.1	29.8	36.1
Broad money (% GDP)	49.8	64.5	68.6	73.4	47.7	45.2
Default record (year cured)[c]	1990	n.a.	n.a.	1996	1989	2003
Ease of doing business (percentile, latest)	68.3	57.2	72.4	73.6	49.3	43.4
Trade openness (avg. of CXR + CXP % GDP)	38.3	50.3	45.7	58.2	30.4	44.0
Gross domestic savings (% GDP)	18.3	18.8	24.1	25.1	5.0	20.7
Gross domestic investment (% GDP)	18.1	21.5	22.1	22.1	12.8	18.9
Private credit (% GDP)	61.2	61.4	57.1	59.7	36.2	53.2
Bank systemic risk indicators[d]	bb/1	n.a.	n.a.	-/1	bb/1	-/2
Bank system capital ratio (% assets)	14.1	15.4	15.9	20.0	14.8	18.3
Foreign bank ownership (% assets)	31.4	28.2	26.0	89.7	0.0	43.0
Public bank ownership (% assets)	47.9	30.1	13.8	6.3	1.2	6.0
External finances						
Current account balance + net FDI (% GDP)	1.3	0.2	1.2	5.7	1.1	1.0
Current account balance (% GDP)	-3.2	-3.1	-1.0	4.0	0.9	0.0
Net external debt (% GDP)	3.5	14.1	-0.2	25.9	2.4	9.5
Gross external debt (% CXR)	124.2	125.6	132.4	132.8	91.5	122.4
Gross sovereign external debt (% GXD)	26.7	34.5	33.4	39.9	40.2	31.6
Sovereign net foreign assets (% GDP)	1.4	0.3	3.6	2.9	1.8	9.4
Ext. interest service ratio (% CXR)	4.8	4.0	4.5	4.0	3.0	6.1
Ext. debt service ratio (% CXR)	20.4	12.6	15.5	29.5	10.3	12.2
Foreign exchange reserves (months of CXP)	3.7	4.3	6.8	6.5	5.2	7.0
Liquidity ratio (latest)[e]	135.0	164.2	171.6	153.5	354.8	127.8
Share of currency in global reserves (%)	0	n.a.	n.a.	0	0	0
Commodity export dependence (% CXR, latest)	19.9	19.7	17.8	13.1	29.0	76.4
Sovereign net foreign currency debt (% GDP)	-0.2	-0.6	-7.1	26.9	-2.5	-10.8
Public finances[f]						
Budget balance (% GDP)	-5.0	-3.1	-2.6	0.3	-1.1	-0.8
Primary balance (% GDP)	-1.5	-0.5	-0.5	3.3	0.3	-0.1
Gross debt (% revenue)	160.8	183.1	171.7	168.1	205.4	87.9
Gross debt (% GDP)	43.4	47.8	40.9	78.3	21.8	20.5
Net debt (% GDP)	42.3	43.6	31.1	72.2	15.2	9.4
Foreign currency debt (% total debt)	36.5	50.8	38.3	73.5	48.2	71.8
Interest payments (% revenue)	12.6	9.6	6.9	6.4	13.3	3.2
Revenues and grants (% GDP)	27.0	29.3	28.9	46.6	10.6	23.4
Volatility of revenues/GDP ratio	1.6	5.3	5.8	5.2	4.1	6.1
Central govt. debt maturities (% GDP)	4.0	7.5	3.9	12.4	0.9	1.2

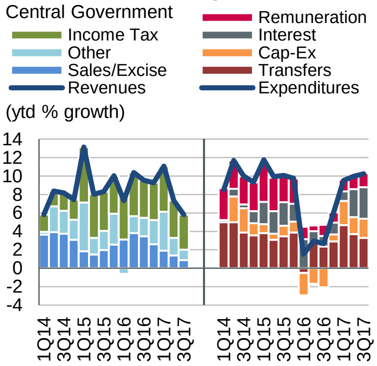
[a] Medians based on three-year centred averages
[b] Composite of six World Bank Governance Indicators used in the Sovereign Rating Model; Government Effectiveness; Rule of Law; Control of Corruption; Voice and Accountability; Regulatory Quality; and Political Stability and Absence of Violence
[c] Foreign-currency bond debt rescheduling: 1984-85; foreign-currency bank rescheduling: 1981, 1983-1990
[d] Bank systemic indicator, which equates to a weighted average Viability Rating; and macro prudential indicator, with 1 'low' systemic risk through to 3 'high'
[e] Ratio of liquid external assets, defined as the stock of official FX reserves including gold at the end of the previous calendar year plus banks' liquid external assets, to liquid external liabilities, defined as scheduled external debt service in the current year, plus the stock of short-term external debt and all non-resident holdings of marketable medium- and long-term local-currency debt at the end of the previous calendar year
[f] General government unless stated
Note: Acronyms used: Consumer Price Inflation (CPI), Gross Domestic Product (GDP), Current External Receipts (CXR), Current External Payments (CXP), Gross National Income (GNI), Purchasing Power Parity (PPP), Standard Deviation (SD), Foreign Direct Investment (FDI)
Source: Fitch

Renewed Rise in Deficits
Rolling 12-month central government deficits



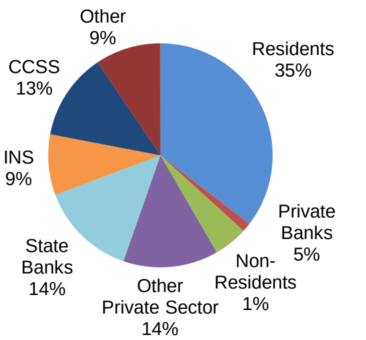
Source: Ministerio de Hacienda

Revenues Vs Expenditures
Central Government



Source: Ministerio de Hacienda

Holders of Domestic Debt
Central Government, September 2017



Source: BCCR

Key Credit Developments

Deficits Reach Record Highs as Tax Reform Remains Uncertain

After shrinking in 2016 for the first time in five years, the central government's budget deficit increased to an estimated 5.9% of GDP in 2017 from 5.2% of GDP in 2016 – the biggest gap since the Costa Rican debt crisis in the early 1980s. Inertial spending pressures coupled with a cyclical slowdown in revenues largely negated the marginal improvements in tax collection and cost containment achieved in 2015-2016. A mounting debt service burden has been the main expenditure driver as a rising debt stock, recent jump in local borrowing costs and exchange rate depreciation have swelled the interest bill to nearly a quarter of central government revenues (from 15% in 2012).

Fitch expects continued fiscal deterioration in 2018. Higher borrowing costs and a rising debt stock will keep upward pressure on the interest bill, while relatively sluggish economic growth limits the upside for revenues. Low inflation kept growth of wages and current transfers relatively contained in 2016 and 2017 (given a widespread indexation of salaries and benefits in the public sector), but the renewed upturn in prices should have the opposite effect this year and next. Given these challenges and assuming no significant consolidation measures in 2018, the general government budget deficit – including the social security fund surplus – is forecast to reach 5.2% of GDP in 2018, well above the 'BB' median of 3.4%.

The timing and scope for measures to contain the deteriorating fiscal position remain uncertain. Fitch's projections assume a fiscal consolidation of around 1 percentage point of GDP beginning in 2019 via a combination of spending cuts and tax hikes, including reforms to VAT and income tax. Past attempts at comprehensive fiscal reform, including three iterations by the Solis administration, foundered in the gridlocked Congress or were struck down by the Constitutional Court on procedural grounds.[1] Political conditions are unlikely to be more conducive for reform during the next administration.

Prolonged delays in addressing Costa Rica's fiscal imbalance will amplify the costs of future adjustments and raise the risks to growth. Costa Rica's general government debt burden, at 44% of GDP in 2017 (net of debt holdings by the social security fund), is projected to surpass the 'BB' median of 46% this year and continue climbing steeply over the medium term. Bringing the central government primary balance back to the debt-stabilising level of around 1.6% over the next decade would require consolidation of around 3 percentage points of GDP to close the debt sustainability gap.[2] An adjustment of this magnitude will likely have material knock-on effects on economic growth.

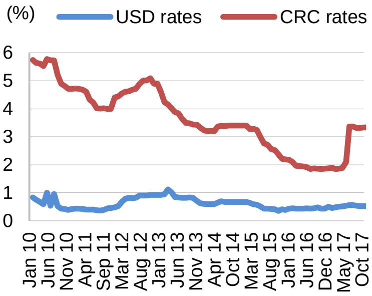
Incremental administrative reforms under the Solis administration have yielded some efficiency gains that will support longer-term fiscal sustainability. Significant progress was made in 2017 on reforms to improve the solvency of the public pensions system – a key source of long-term public spending pressure.[3] In addition, a draft proposal for a new fiscal rule that would institute meaningful checks on expenditure growth was presented to Congress late last year, although it is unlikely to be adopted for several years and the spending-side efforts needed to make it viable remain unclear.

[1] A last-ditch effort in August 2017 failed to gain opposition backing as political calculations became skewed by the February 2018 elections, and Fitch does not expect it to pass in the few weeks before the poll or subsequent run-off.

[2] This figure may be understated by the fact that large increases in revenue are needed to close budget gaps since a significant portion (around 70% of central government expenditures) of additional revenues are automatically channelled to constitutionally-mandated spending items.

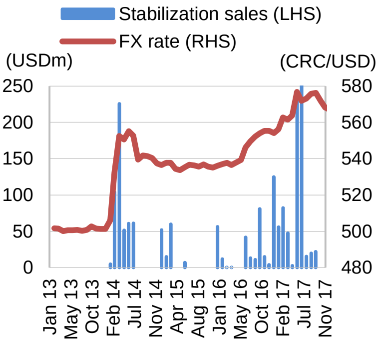
[3] The social security fund (CCSS) approved a 1 percentage point hike in the employee contribution rate (0.5pp in July 2017 and 0.5pp in Jan 2018) and reached an initial agreement with key stakeholders on additional financing measures.

Diminishing Colón Savings Premium
One-month deposit rates



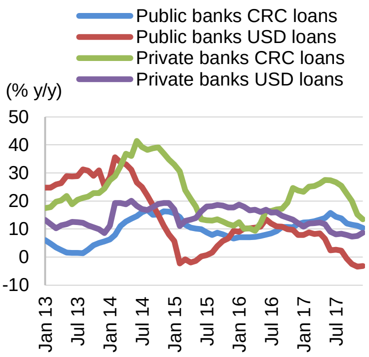
Source: BCCR

FX Sell-Off & Intervention



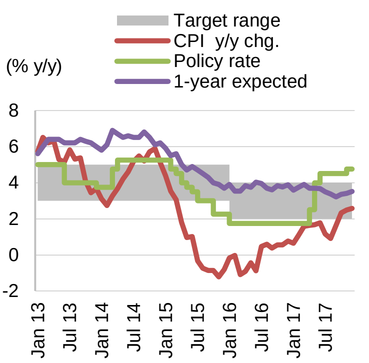
Source: BCCR

Credit Slowdown



Source: BCCR

Abrupt Monetary Tightening



Source: BCCR

Tighter Liquidity Adds to Fiscal Squeeze

The government has relied heavily on the local market to finance its deficits since congressional authorisation for external bond issuance expired in 2015. Low inflation and interest rates through 2017 kept down borrowing costs, and the sovereign was able to tap ample funds in the domestic capital market dominated by largely captive publicly-administered funds (e.g., social security and state-owned banks). However, this favourable backdrop began to unwind in early 2017 when tighter monetary conditions put upward pressure on local interest rates. As a result, the National Treasury faced difficulties raising funds mid-year, as evidenced by unsuccessful auctions and tightening liquidity, but has since validated higher interest rates demanded by the market.

Fitch's baseline is that ample domestic market liquidity and adequate local financing flexibility will continue to support the sovereign's debt service capacity, albeit at increasingly punitive interest rates. Indirect external borrowing via global depository notes (GDNs) or other structured finance mechanisms could provide additional flexibility.[4] However, an increasing reliance on short-term local paper raises roll-over and refinancing risks. Evidence of further sovereign difficulty in raising funds (eg, unsuccessful auctions) could weigh further on fiscal policy credibility.

Currency Volatility Forces Abrupt Shift in Monetary Policy

The vulnerability of the public finances to domestic liquidity conditions was highlighted by a bout of currency volatility in the first half of 2017. In recent years, a narrowing interest-rate differential with local USD instruments had encouraged deposit shifting by residents and put downward pressure on the exchange (FX) rate. When that trend accelerated in mid-May, the Central Bank (Banco Central de Costa Rica (BCCR)) reacted first by intervening in the FX market, and then by aggressively hiking its monetary policy rate, committing USD1 billion of FX reserves, and tapping a liquidity facility with the Latin American Reserve Fund (FLAR) for USD1 billion. This had the desired effect of halting the sell-off, but at the cost of a 7% decline in reserves between April and June and an abrupt tightening of monetary policy. A rebound in the FX rate during 2H17 helped the BCCR replenish its FX buffers, which at 3.7x current external payments at end-2017 are adequate but below the 'BB' median.

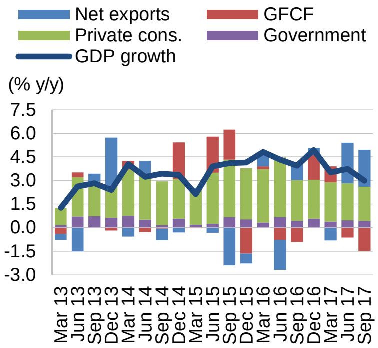
The 275bps rise in the policy rate was swiftly transmitted to the banking sector. Lending rates jumped in similar proportion, leading to a sharp deceleration in credit growth. At the same time, consumer price inflation began to pick up in early 2017 on the back of rising fuel and food prices and stoked by pass-through effects from FX depreciation, prompting another rate-hike in November. Proactive tightening coupled with muted demand pressures should keep headline inflation within the 2%-4% target range, in Fitch's view. Inflation expectations have continued to decline and appear firmly anchored at the target level, a sign of progress in Costa Rica's transition toward an inflation-target regime.

Domestic Demand Falters, But External Accounts Remain Resilient

Real GDP growth slowed to 3.4% in 2017 from 4.5% in 2016, according to Fitch's forecasts. While exogenous factors such as higher oil prices and disruptions from tropical storm Nate (October 2017) were partly responsible for the slowdown, there are also incipient signs that the fiscal imbalance may be contaminating the broader economy by putting upward press on interest rates. Higher rates, in turn, led to deceleration in private credit growth in 2H17 and contributed to a 7.4% contraction of gross fixed capital formation in 3Q17. FX volatility has hit consumer confidence, in particular discouraging purchases of imported consumer durables. This had the effect of boosting net exports, and by extension headline growth.

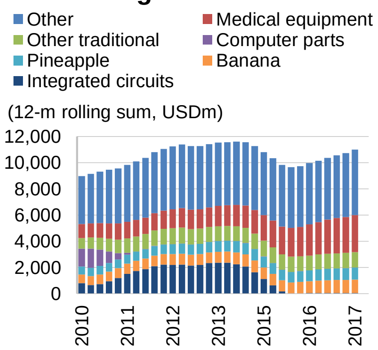
[4] The government announced in late 2017 that it planned to issue a USD1.5 billion foreign-currency denominated local jurisdiction bond that would be sold on to foreign investors via a local intermediary.

Growth Slowdown



Source: BCCR

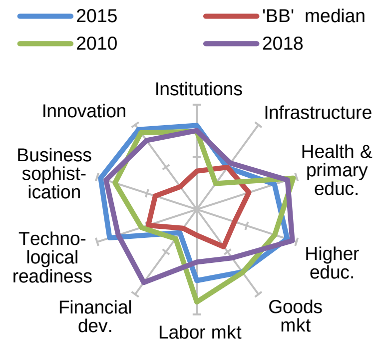
Recovering After Intel



Source: ProComer

Competitiveness Indicators

Percentile rank



Source: World Economic Forum (2017-18)

Fitch forecasts growth to average 3.9% in 2018-2019, only slightly below potential but with increasing downside risks from crowding-out effects. Robust external demand plus relatively resilient FDI will continue to provide support in the context of tight fiscal and monetary policy. FDI inflows have diminished in the past few years, falling to 4.6% in 2017 from 5.6% in 2014, but still comfortably cover the current account deficit of 3.2% of GDP.

Fitch expects FDI inflows to remain relatively firm and for the current account deficit to widen slightly over the forecast horizon owing to weaker terms of trade. Three years on since the relocation of Intel's microprocessor assembly plant to Asia, which raised concerns about the loss of external competitiveness, there are still few indications that Costa Rica has lost its allure as a high value-added manufacturing hub. Strong growth in other exports items such as medical devices, professional and tourism service exports, and traditional products (bananas, pineapple, coffee, palm oil) has largely compensated for the decline in microprocessors. Furthermore, the country continues to improve in measures of international competitiveness and is currently in accession talks to join the OECD.

Competitive Elections Amid Charged Political Atmosphere

Campaigning for the general elections on 4 February revealed similar undercurrents that led to the upset victory by the PAC and Luis Guillermo Solis in 2014. Social discontent over corruption scandals and perceived insecurity (2017 marked the second successive year of record homicide figures, although rates remain well below those of regional neighbours) plus political polarisation along ideological lines has eroded support for mainstream parties, as reflected in the poor showing of their candidates in electoral polling and the surge in popularity of political outsiders such as Juan Diego Castro of the PIN. While the likely winner of the presidency is highly uncertain, Fitch's base case assumes he will have another minority government and face challenges from a highly fragmented legislature. This could complicate coalition building and add to legislative gridlock and reform inertia, especially around controversial fiscal issues.

Fitch uses stylised projections for a sovereign's gross general government debt/GDP ratio to illustrate the sustainability of its debt burden and its sensitivity to economic growth, the cost of borrowing, fiscal policy and the exchange rate.

Public Debt Dynamics

Fitch's baseline scenario assumes that policymakers achieve partial progress on fiscal reforms, with a 1 percentage point of GDP cumulative fiscal adjustment beginning in 2019 (around a third of the 2.7pts-of-GDP in measures needed to stabilise the debt trajectory). Debt to GDP would rise to 63% of GDP by 2026.

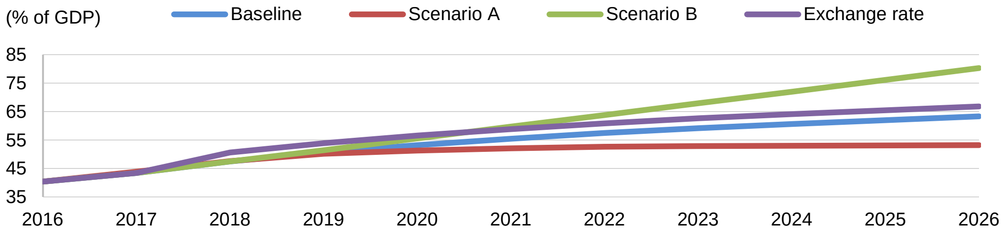
Debt Dynamics: Fitch's Baseline Assumptions

	2016	2017	2018	2019	2020	2021	2026
Gross general government debt (% GDP)[a]	40.5	43.4	47.5	50.7	53.3	55.5	63.3
Primary balance (% of GDP)	-1.4	-1.5	-1.3	-0.8	-0.5	-0.5	-0.5
Real GDP growth (%)	4.5	3.4	3.8	3.9	4.0	4.0	4.0
Avg. nominal effective interest rate (%)	8.4	8.9	9.5	9.4	8.9	8.7	7.8
Local currency/USD (annual avg.)	544.7	567.5	582.9	597.8	602.1	608.1	639.1
GDP deflator (%)	1.8	1.9	3.6	2.9	3.2	3.5	3.5

[a] The inflation adjustment of the principal of inflation indexed bonds (TUDES) is included as a stock-flow adjustment

Sensitivity Analysis

Gross general government debt



Source: Fitch debt dynamics model

Debt Sensitivity Analysis: Fitch's Scenario Assumptions

Scenario A	An aggressive adjustment totalling 3pts of GDP by 2020 and a weaker growth path is assumed. Debt stabilises at 53% of GDP in 2023.
Scenario B	The primary balance remains unchanged at -1.3% of GDP – the level projected for 2018. Debt would rise rapidly in later years to 80% by 2026.
Exchange rate	Assumes a 25% devaluation at end-2018, then follows the baseline assumptions.

Forecast Summary

	2013	2014	2015	2016	2017e	2018f	2019f
Macroeconomic indicators and policy							
Real GDP growth (%)	2.3	3.5	3.6	4.5	3.4	3.8	3.9
Unemployment (%)	9.3	9.6	9.6	9.5	9.4	9.5	9.6
Consumer prices (annual average % change)	5.2	4.5	0.8	0.0	1.6	3.1	3.7
Short-term interest rate (bank policy annual avg.) (%)	6.8	6.9	6.7	5.2	5.2	6.0	5.0
General government balance (% of GDP)	-4.4	-4.5	-4.6	-4.3	-5.0	-5.2	-4.9
General government debt (% of GDP)	31.0	34.0	36.7	40.5	43.4	47.5	50.7
CRC per USD (annual average)	499.77	538.32	534.57	544.74	567.51	582.95	597.75
Real effective exchange rate (2000 = 100)	126.5	121.7	133.1	131.3	125.4	123.2	121.9
Real private sector credit growth (%)	7.9	11.1	7.8	11.0	6.0	4.4	5.8
External finance							
Current account balance (% of GDP)	-4.9	-4.9	-3.5	-3.0	-3.2	-3.6	-3.7
Current account balance plus net FDI (% of GDP)	-0.1	0.7	1.1	1.3	1.3	1.0	0.9
Net external debt (% of GDP)	-2.3	-0.5	0.5	2.1	3.5	3.1	2.6
Net external debt (% of CXR)	-6.7	-1.6	1.4	5.9	9.5	8.4	6.8
Official international reserves including gold (USDbn)	7.3	7.2	7.8	7.6	7.1	7.8	8.0
Official international reserves (months of CXP cover)	4.5	4.3	4.6	4.2	3.7	3.8	3.6
External interest service (% of CXR)	2.7	3.3	3.6	4.3	4.8	5.8	5.6
Gross external financing requirement (% int. reserves)	64.8	71.2	66.2	60.8	68.2	78.8	75.3
Real GDP growth (%)							
US	1.7	2.6	2.9	1.5	2.3	2.5	2.2
China	7.8	7.3	6.9	6.7	6.7	6.4	6.1
Eurozone	-0.3	1.2	2.0	1.8	2.0	1.8	1.4
World	2.6	2.8	2.7	2.5	2.9	3.1	3.0
Oil (USD/barrel)	108.8	98.9	53.0	45.1	55.0	52.5	55.0

Source: Fitch

Fiscal Accounts Summary

(% of GDP)	2014	2015	2016	2017e	2018f	2019f
General government						
Revenue	**25.6**	**26.0**	**26.7**	**27.0**	**27.1**	**27.6**
Expenditure	**30.1**	**30.6**	**31.0**	**32.0**	**32.3**	**32.6**
O/w interest payments	2.6	2.8	2.9	3.4	3.9	4.2
Primary balance	-1.9	-1.8	-1.4	-1.5	-1.3	-0.8
Overall balance	**-4.5**	**-4.6**	**-4.3**	**-5.0**	**-5.2**	**-4.9**
General government debt	**34.0**	**36.7**	**40.5**	**43.4**	**47.5**	**50.7**
% of general government revenue	132.7	140.9	151.5	160.8	175.1	183.3
Central government deposits	1.0	1.1	1.1	1.1	1.1	1.0
Net general government debt	33.0	35.6	39.3	42.3	46.4	49.7
Central government						
Revenue	**14.0**	**14.3**	**14.7**	**14.7**	**14.9**	**15.5**
O/w grants	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure and net lending	**19.6**	**20.0**	**19.9**	**20.6**	**21.2**	**21.6**
O/w current expenditure and transfers	15.3	15.4	15.3	15.4	15.5	15.6
- Interest	2.6	2.7	2.8	3.3	4.0	4.3
O/w capital expenditure	1.7	1.8	1.8	1.8	1.8	1.8
Current balance	-1.3	-1.1	-0.6	-0.7	-0.6	-0.1
Primary balance	-3.0	-2.9	-2.4	-2.5	-2.4	-1.9
Overall balance	**-5.6**	**-5.7**	**-5.2**	**-5.9**	**-6.2**	**-6.1**
Central government debt	38.5	41.0	45.1	48.1	51.9	54.9
% of central government revenues	275.9	287.1	307.0	327.5	348.8	353.5
Central government debt (CRCbn)	**10,482.7**	**12,004.1**	**14,024.2**	**15,762.3**	**18,298.5**	**20,693.6**
By residency of holder						
Domestic	7,955.9	8,878.2	10,643.3			
Foreign	2,526.8	3,125.9	3,380.9			
By currency denomination						
Local currency	6,690.7	7,567.1	8,727.5			
Foreign currency	3,792.0	4,437.0	5,296.7			
In USD equivalent (eop exchange rate)	7.0	8.2	9.5			
Average maturity (years)	9.2	9.5	9.7			
Memo						
Nominal GDP (CRCbn)	27,226.7	29,263.9	31,126.9	32,767.0	35,256.8	37,702.4

Source: Ministry of Finance and Fitch estimates and forecasts

External Debt and Assets

(USDbn)	2012	2013	2014	2015	2016	2017
Gross external debt	**15.4**	**19.6**	**21.6**	**23.6**	**25.5**	**26.3**
% of GDP	33.1	39.5	42.8	43.1	44.5	45.6
% of CXR	94.7	116.1	121.6	128.8	127.0	124.2
By maturity						
Medium- and long-term	12.3	16.9	19.2	21.1	22.9	23.7
Short -term	3.1	2.7	2.4	2.5	2.6	2.6
% of total debt	20.3	13.8	11.0	10.5	10.0	10.1
By debtor						
Sovereign	**3.9**	**4.7**	**5.4**	**6.3**	**6.9**	**7.0**
Monetary authorities	0.4	0.4	0.3	0.2	0.3	0.3
General government	3.4	4.3	5.1	6.0	6.6	6.7
O/w central government	3.0	3.8	4.7	5.8	6.1	6.1
Banks	**3.2**	**4.8**	**5.5**	**6.3**	**6.6**	**7.1**
Other sectors	**8.3**	**10.1**	**10.7**	**11.0**	**11.9**	**12.2**
Gross external assets (non-equity)	**17.9**	**20.8**	**21.9**	**23.3**	**24.3**	**24.3**
International reserves, incl. gold	6.9	7.3	7.2	7.8	7.6	7.1
Other sovereign assets nes	0.7	0.7	0.7	0.7	0.7	0.7
Deposit money banks' foreign assets	0.9	1.4	1.7	1.2	1.5	1.5
Other sector foreign assets	9.5	11.3	12.3	13.6	14.5	15.0
Net external debt	**-2.6**	**-1.1**	**-0.3**	**0.3**	**1.2**	**2.0**
% of GDP	-5.5	-2.3	-0.5	0.5	2.1	3.5
Net sovereign external debt	-3.7	-3.3	-2.5	-2.3	-1.4	-0.8
Net bank external debt	2.3	3.4	3.8	5.1	5.2	5.6
Net other external debt	-1.2	-1.2	-1.5	-2.5	-2.6	-2.8
Net international investment position	**-15.3**	**-19.2**	**-22.6**	**-25.6**	**-28.5**	**-31.1**
% of GDP	-32.9	-38.7	-44.7	-46.8	-49.9	-53.8
Sovereign net foreign assets	**3.7**	**3.3**	**2.5**	**2.3**	**1.4**	**0.8**
% of GDP	8.0	6.7	5.0	4.1	2.4	1.4
Debt service (principal & interest)	**1.8**	**2.5**	**3.4**	**3.5**	**3.9**	**4.3**
Debt service (% of CXR)	11.3	14.6	18.9	19.1	19.6	20.4
Interest (% of CXR)	2.0	2.7	3.3	3.6	4.3	4.8
Liquidity ratio (%)	124.4	143.3	149.8	158.1	147.2	135.0
Net sovereign FX debt (% of GDP)	-6.5	-5.3	-3.6	-2.9	-1.2	-0.2
Memo						
Nominal GDP	46.5	49.7	50.6	54.7	57.1	57.7
Inter-company loans	2.5	3.6	4.7	5.4	6.6	6.6

Source: BCCR, IMF, World Bank and Fitch estimates and forecasts

External Debt Service Schedule on Medium- and Long-Term Debt at December 2017

(USDm)	2018	2019	2020	2021	2022	2023	2024+
Sovereign: Total debt service	474	482	747	512	624	1,617	11,839
Amortisation	101	97	348	131	236	1,257	6,799
Official bilateral	10	8	8	21	33	33	386
Multilateral	91	88	89	110	133	143	2,137
O/w IMF							
Other	0	0	0	0	69	81	1,277
Bonds placed in foreign markets	0	0	250	0	0	1,000	3,000
Interest	373	385	399	381	388	360	5,039
Non-sovereign public sector	340	291	282	766	203	185	1,885

Source: Ministry of Finance, BCCR and Fitch

Balance of Payments

(USDbn)	2014	2015	2016	2017e	2018f	2019f
Current account balance	**-2.5**	**-1.9**	**-1.7**	**-1.9**	**-2.2**	**-2.4**
% of GDP	-4.9	-3.5	-3.0	-3.2	-3.6	-3.7
% of CXR	-13.8	-10.6	-8.5	-8.8	-9.7	-9.6
Trade balance	**-5.3**	**-4.6**	**-4.4**	**-4.4**	**-4.9**	**-5.2**
Exports, fob	9.5	9.4	10.2	10.9	11.5	12.2
Imports, fob	14.8	14.1	14.6	15.3	16.4	17.4
Services, net	**4.5**	**4.6**	**5.1**	**5.1**	**5.4**	**5.8**
Services, credit	7.1	7.7	8.6	9.0	9.9	10.8
Services, debit	2.6	3.1	3.5	4.0	4.4	5.0
Income, net	**-2.1**	**-2.4**	**-2.9**	**-3.1**	**-3.3**	**-3.6**
Income, credit	0.3	0.3	0.3	0.3	0.3	0.4
Income, debit	2.5	2.7	3.2	3.4	3.6	3.9
O/w: Interest payments	0.6	0.7	0.9	1.0	1.3	1.4
Current transfers, net	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**
Capital and financial accounts						
Non-debt-creating inflows (net)	2.2	2.1	1.5	2.7	2.9	3.0
O/w equity FDI	2.2	2.2	1.7	2.9	3.1	3.2
O/w portfolio equity	-0.1	0.0	-0.2	-0.2	-0.2	-0.2
O/w other flows	0.0	0.0	0.1	0.0	0.0	0.0
Change in reserves	0.1	-0.6	0.2	-0.4	-0.6	-0.2
Gross external financing requirement	5.2	4.8	4.8	5.2	5.6	5.9
Stock of international reserves, incl. gold	7.2	7.8	7.6	7.1	7.8	8.0

Source: IMF and Fitch estimates and forecasts

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