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- The gap in GDP per capita against the advanced OECD countries is narrowing but remains large. Labour productivity improvements have been strong due to a marked increase in total factor productivity, but gains in labour utilisation have been modest, slowing convergence toward OECD countries' standards of living.
- Inequality is high by OECD and Latin America standards but has been stable in the last few years, after having increased in the 5 years prior to the crisis. This is in contrast with many other Latin American economies where inequality has diminished.
- Policy reforms and institutional changes could put Costa Rica on a path to stronger and more inclusive growth. One of the main priorities is to improve competition policy and the governance of state-owned enterprises. Promoting innovation and enhancing transport infrastructure would also boost productivity. Such reforms need to go hand in hand with making Costa Rica a more inclusive society by improving the quality of education and reducing barriers to formal employment, thus expanding opportunities and sharing prosperity more widely.
- Costa Rica is well known for its efforts to reconcile environmental protection (especially forest protection) with rising material living standards. However, decarbonising the economy will require significant reduction in the transport sector's CO_2 emissions.

Going for Growth 2017 priorities

Improve regulations in product markets. Competition is weak and the role of state-owned enterprises is pervasive in many sectors, hampering productivity.

Recommendations: Improve the business environment by reducing regulatory barriers to entrepreneurship. Give the competition commission more decisional and administrative independence and raise its human and financial resources. Eliminate anti-trust exemptions. Improve the corporate governance of state-owned banks and enterprises by adopting the OECD *Guidelines on Corporate Governance of State-Owned Enterprises*. Eliminate regulatory asymmetries favouring state-owned banks and introduce a deposit-insurance scheme covering the whole banking sector.

Enhance the quality and efficiency of the education system. Spending on education is high relative to OECD standards, but outcomes are poor. Average school attainment and the quality of education remain low. Repetition and drop-out rates are high and concentrated in low-income households.

Recommendations: Establish better educational outcomes as the main policy target, with special emphasis on improving the performance of disadvantaged students and schools. Expand publicly-funded early-childhood education for children below 4 years old, specifically targeting low-income households. Provide additional support to disadvantaged students and schools by scaling up early detection and tutoring classes. Develop an apprenticeship system that closely involves employers. Establish schools evaluation mechanisms and introduce performance-based teacher pay. Make the university system more responsive to labour market needs by introducing funding mechanisms that encourage a better alignment of courses and curricula with skills demand.

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1. Since this country is covered for the first time in *Going for Growth*, structural reform priorities are all new by definition, which implies that there is no follow-up on actions taken on those priorities.

COSTA RICA

Growth performance and inequality indicators

A. Growth

Average annual growth rates (%)		2003-09	2009-15
GDP per capita		3.0	2.6
Labour utilisation		0.2	0.0
of which:	Labour force participation rate	0.4	0.4
	Employment rate[1]	-0.2	-0.4
	Employment coefficient[2]	0.0	0.0
Labour productivity		2.1	2.1
of which:	Capital deepening	0.0	-0.1
	Total factor productivity	2.1	2.2
Dependency ratio		0.7	0.5

B. Inequality

	Level	Annual variation (percentage points)
	2014	2009-14
Gini coefficient[3]	48.5 (31.7)*	-0.5 (0)*
Share of national disposable income held by the poorest 20%	4.2 (7.7)*	0.1 (0)*

OECD average

C. Gaps in GDP per capita and productivity are being reduced but remain large
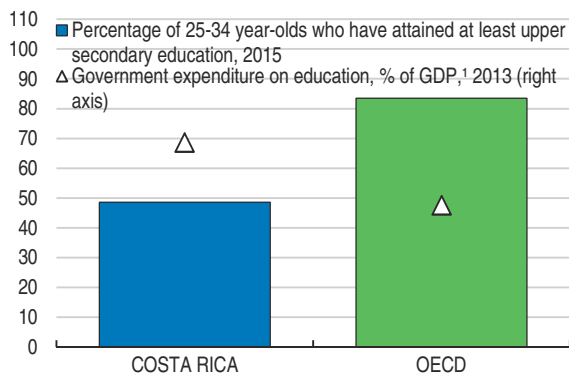Gap to the upper half of OECD countries[4]
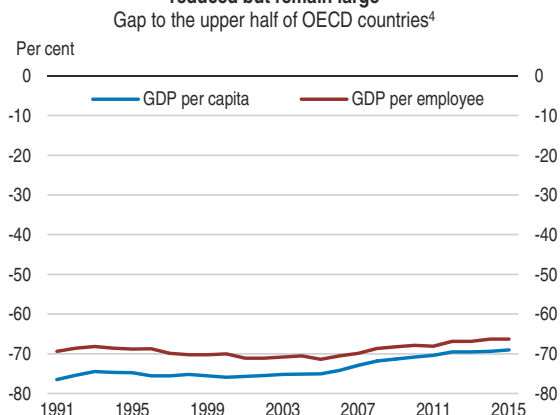
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice-versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. The Gini index measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.
4. Percentage gap with respect to the weighted average using population weights of the highest 17 OECD countries in terms of GDP per capita and GDP per employee (in constant 2010 PPPs).

Source: Panel A: OECD, *Economic Outlook No. 100 Database*; Panel B: World Bank, *World Development Indicators (WDI) Database*; Panel C: OECD, *National Accounts and Productivity Databases*; World Bank, *World Development Indicators (WDI) Database*; ILO, *Key Indicators of the Labour Market (KILM) Database*.

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Policy indicators

A. Spending on education is high but outcomes are low

Percentage of 25-34 year-olds who have attained at least upper secondary education, 2015

△ Government expenditure on education, % of GDP,[1] 2013 (right axis)

B. There is scope to ease regulation in product markets
Index scale of 0-6 from least to most restrictive, 2013
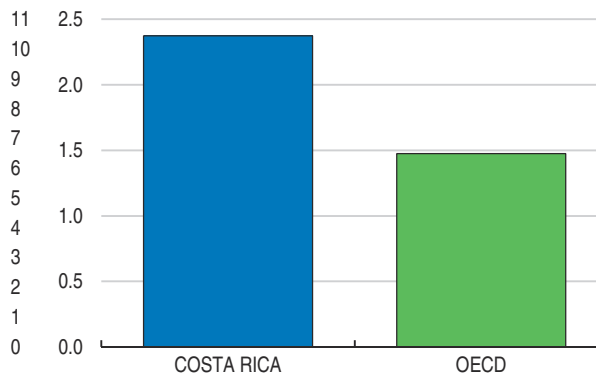
1. Data refer to 2011 for Costa Rica.
Source: Panel A: OECD, *Education at a Glance 2016: OECD Indicators* Database and OECD (2016), *OECD Economic Surveys: Costa Rica 2016: Economic Assessment*; Panel B: OECD, *Product Market Regulation Database* and OECD-WBG Product Market Regulation for Costa Rica.

StatLink ᵃˢˡ° *http://dx.doi.org/10.1787/888933455454*

Reduce barriers to formal employment. The share of informal employment is high by OECD standards. Contrary to recent developments in some other Latin American countries, informality has increased markedly in recent years, making the labour market far from inclusive.

Recommendations: Adopt a comprehensive strategy to reduce high labour market informality by strengthening enforcement, reducing administrative burdens on start-ups, and enabling the poor to become formal workers. Lower social security contributions, with a focus on segments where informality is rampant, such as workers in construction, agriculture and domestic work. Set-up one-stop shops for facilitating the formalisation of micro and small firms. Simplify the minimum wage structure and enforce compliance with the law.

Upgrade transport infrastructure. Transport infrastructure is deficient due to a complex institutional setting and low co-ordination among agencies, leading to low and ineffective spending.

Recommendations: Streamline the institutional and legal framework of public-work agencies to improve policy design and project execution in transport and other infrastructure sectors. Establish a clear separation of state-owned enterprises' activities in the transport sector by distinguishing between the regulation and the provision of infrastructure services and between the management of and access to the infrastructure network. Move the National Concession Council within the Ministry of Finance. Start fully recording contingent liabilities arising from private participation in infrastructure. Define and apply clear standards for cost-benefit analysis for infrastructure projects. Define and update a clear and reliable infrastructure project pipelines.

Strengthen innovation policies. Innovation spending is well below OECD standards, similarly to peer Latin American countries, hampering productivity growth and economic catch-up.

Recommendations: Encourage innovation and improve the links between domestic and foreign firms, by better enforcing and implementing intellectual property rights to promote business R&D and shifting public R&D spending towards tertiary education institutions to strengthen linkages with local innovative companies and improve job prospects for technical graduates. Improve the co-ordination of public programmes promoting innovation in local firms and linkages with foreign affiliates.
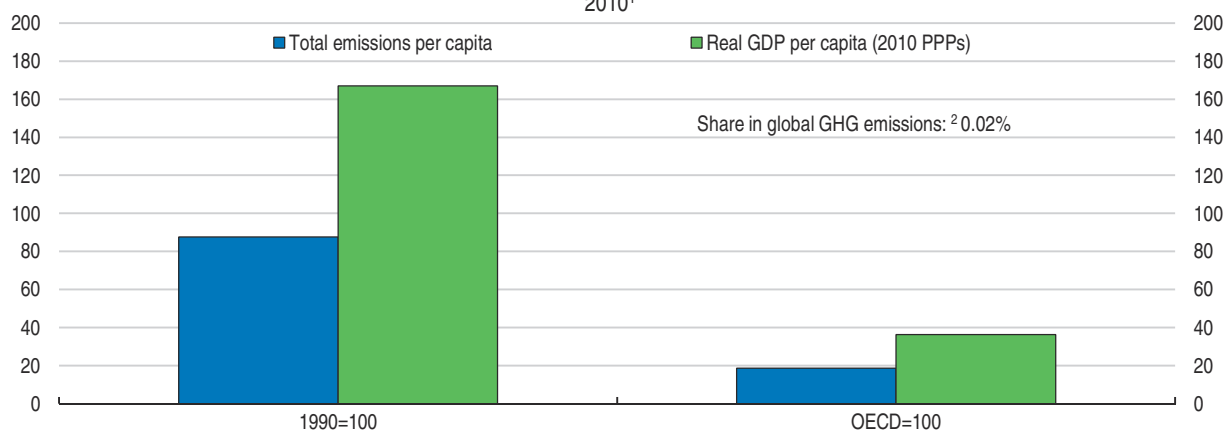
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Beyond GDP per capita: Other policy objectives

A. Household income for the poor and the middle class increased
Annualised percentage points growth in quintile shares between 2009 and 2014
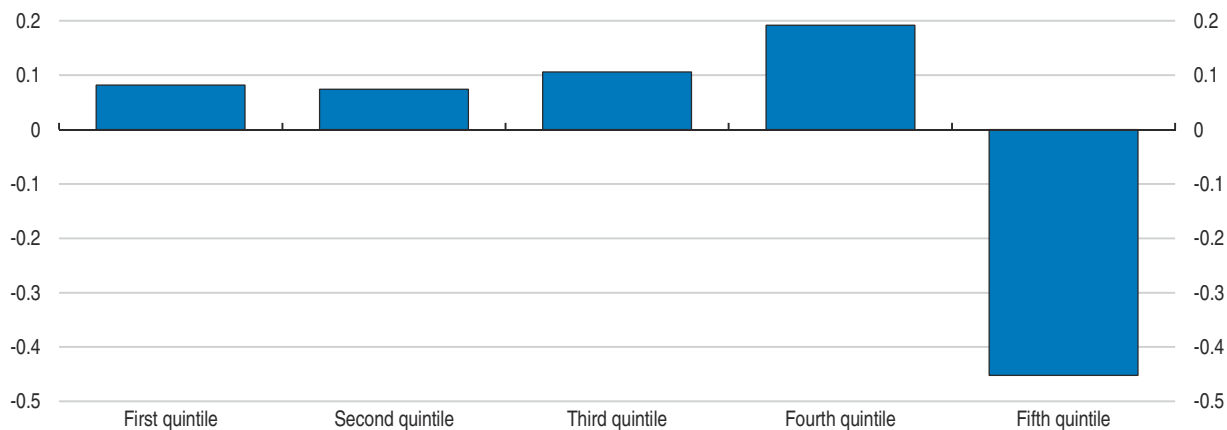
B. Emissions per capita are below the 1990 level
2010[1]

Share in global GHG emissions: [2] 0.02%

1. Total GHG emissions in CO_2 equivalents from the International Energy Agency (IEA) database. This data conform to UNFCCC GHG emission calculations but are not directly comparable to data for Annex I countries due to definitional issues. The OECD average is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) 2010 data.

Source: Panel A: World Bank, *World Development Indicators database*; Panel B: OECD, *National Accounts and Energy (IEA) Databases, United Nations Framework Convention on Climate Change (UNFCCC) Database.*

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