



OECD Economic Surveys

Costa Rica

April 2018

OVERVIEW



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This Overview is extracted from the Economic Survey of Costa Rica. The Survey is published on the responsibility of the Economic and Development Review Committee (EDRC) of the OECD, which is charged with the examination of the economic situation of member countries.

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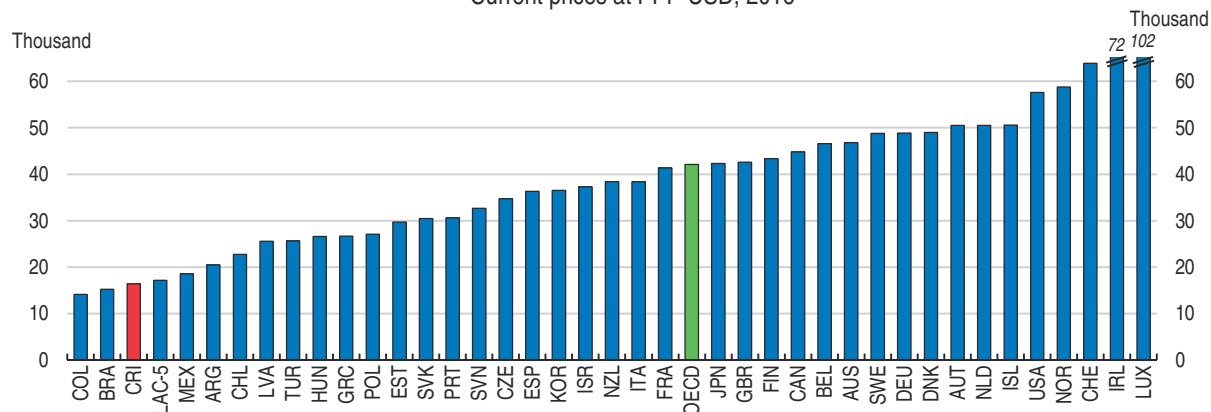
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Costa Rica at a glance

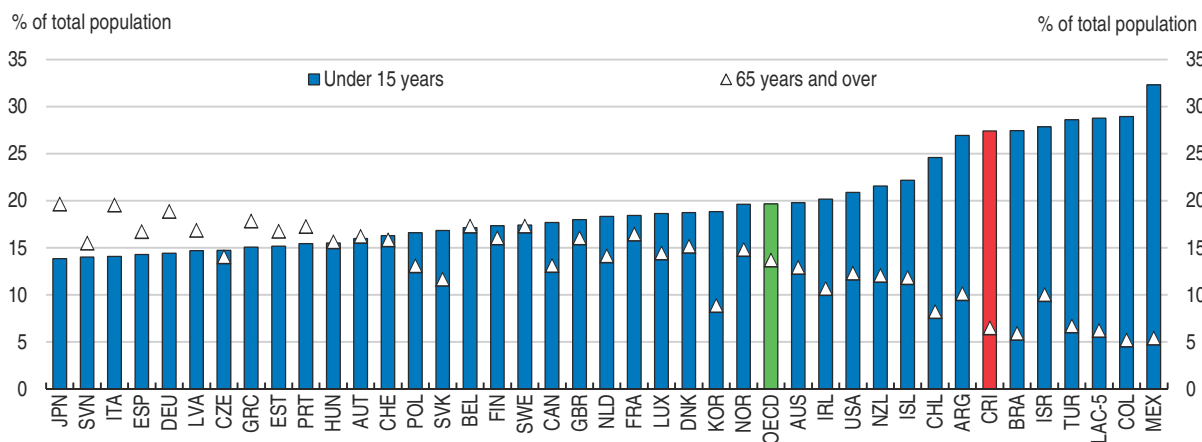
- *General economic and demographic indicators*
- *Inequality and poverty indicators*
- *Labour market inclusion indicators*
- *Education indicators*
- *Health indicators*
- *OECD regulatory indicators*
- *World Bank Doing Business indicators*

General economic and demographic indicators

A. GDP per capita
Current prices at PPP USD, 2016



B. Population by age group



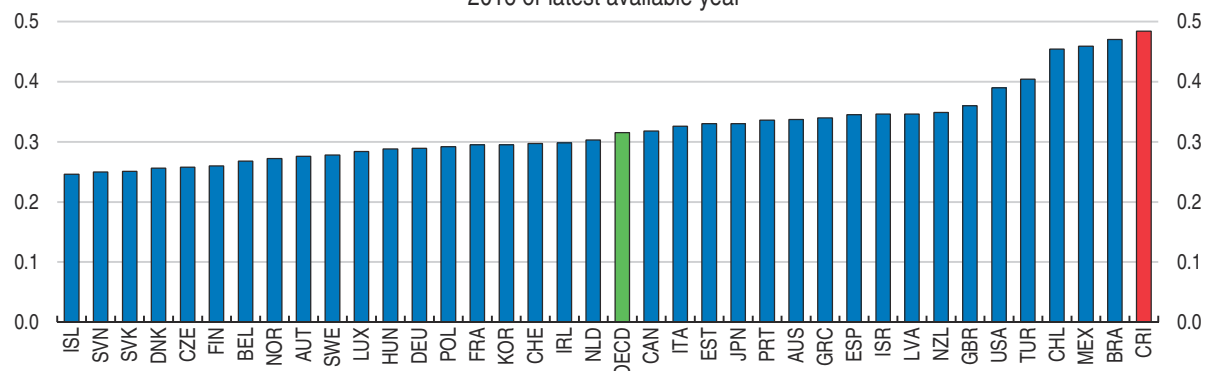
Note: LAC-5 is a weighted average of Argentina, Brazil, Chile, Colombia and Mexico.

Source: OECD Analytical Database; World Bank Development Indicators.

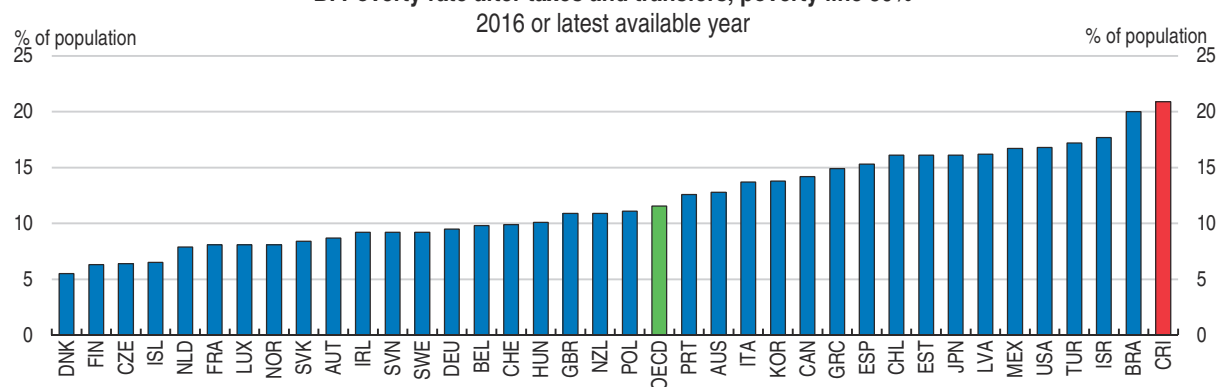
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Inequality and poverty indicators

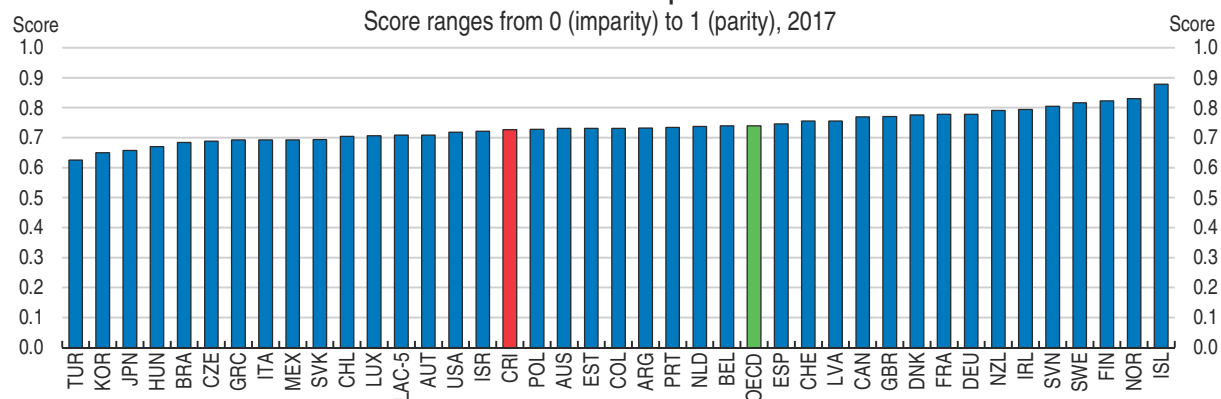
A. Gini of disposable income 2016 or latest available year



B. Poverty rate after taxes and transfers, poverty line 50% 2016 or latest available year




C. Global Gender Gap Index Score ranges from 0 (imparity) to 1 (parity), 2017

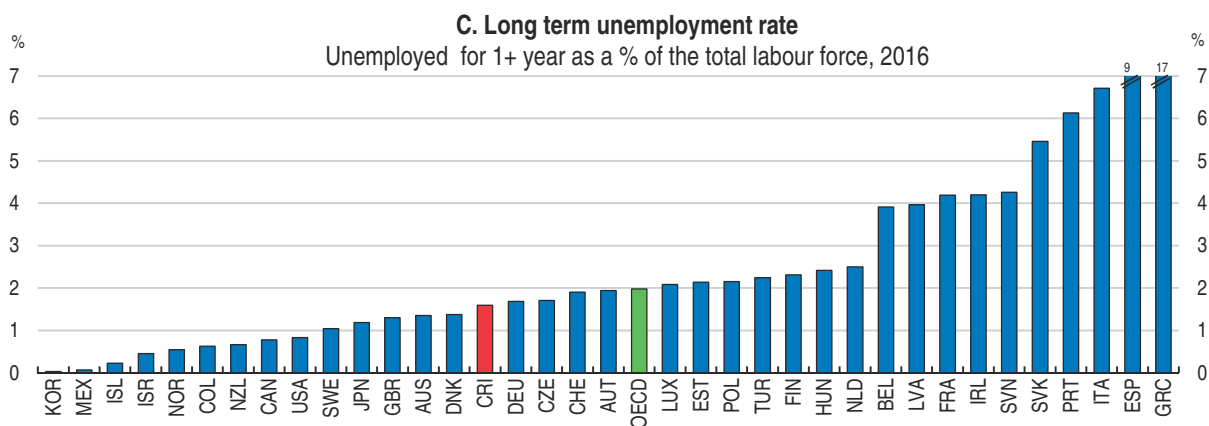
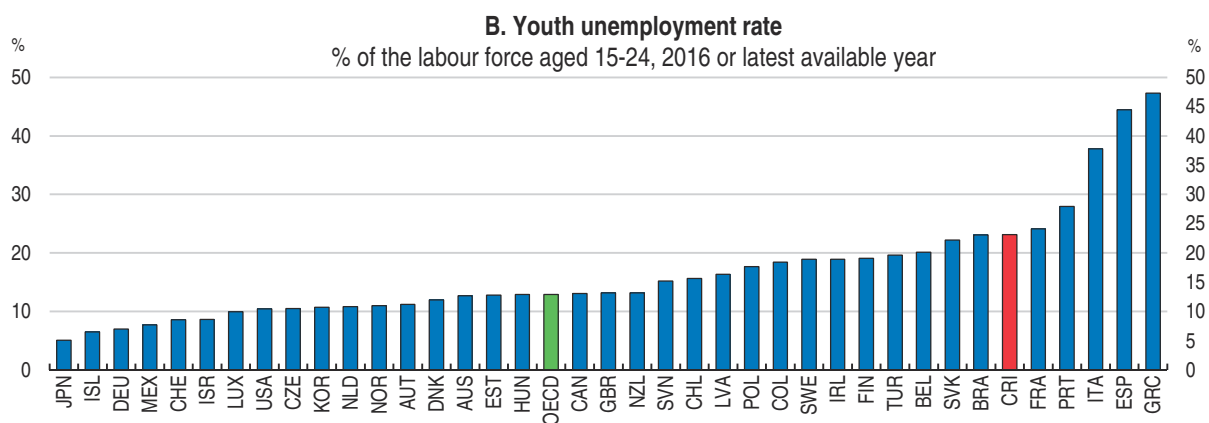
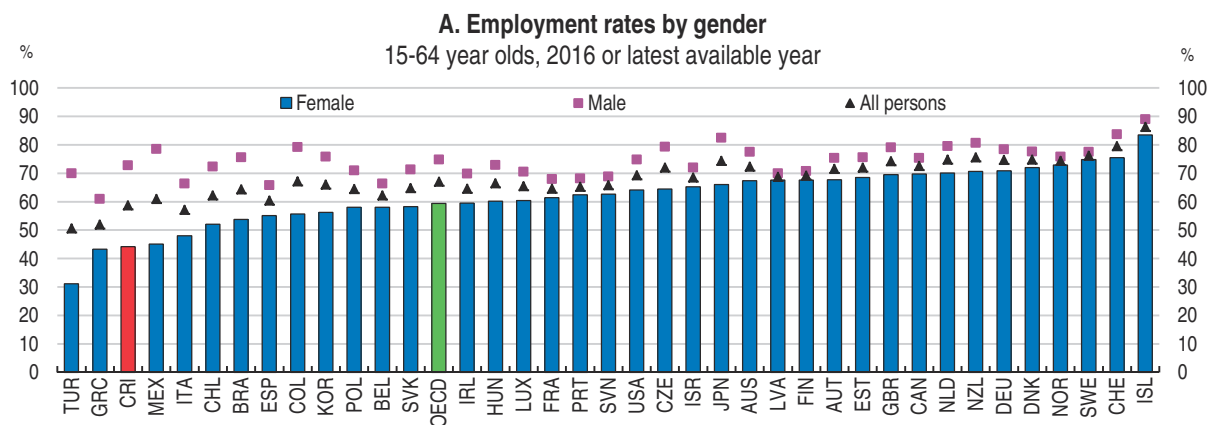


Note: LAC-5 is a simple average of Argentina, Brazil, Chile, Colombia and Mexico.

Source: OECD Income Distribution Database; the Global Gender Gap Report 2017 Dataset © 2017 World Economic Forum.

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Labour market inclusion indicators



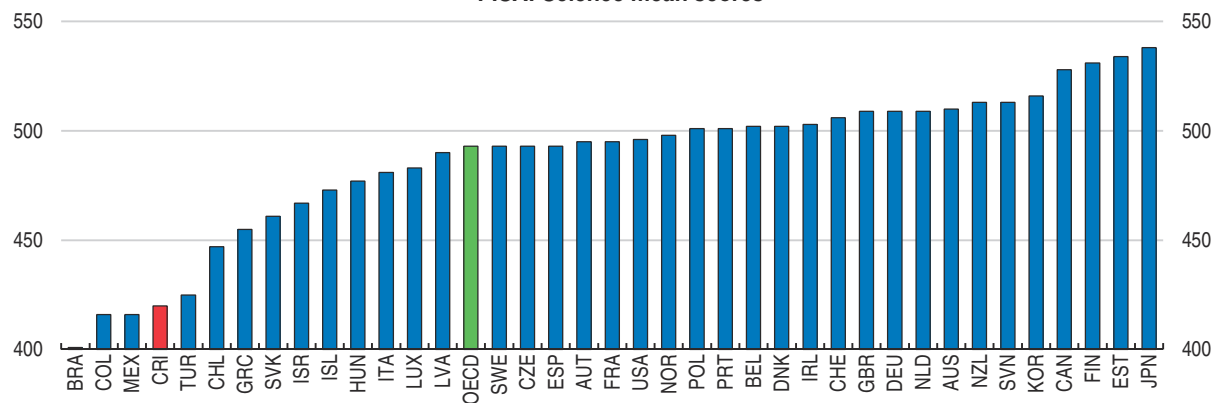
Source: OECD Labour Force Statistics.

StatLink <http://dx.doi.org/10.1787/888933701319>

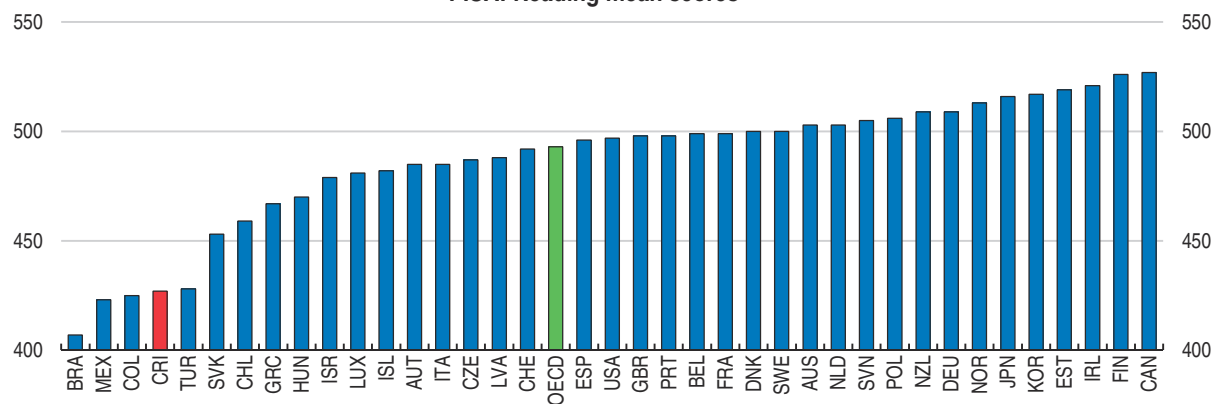
Education Indicators

Programme for International Student Assessment (PISA) results, 2015

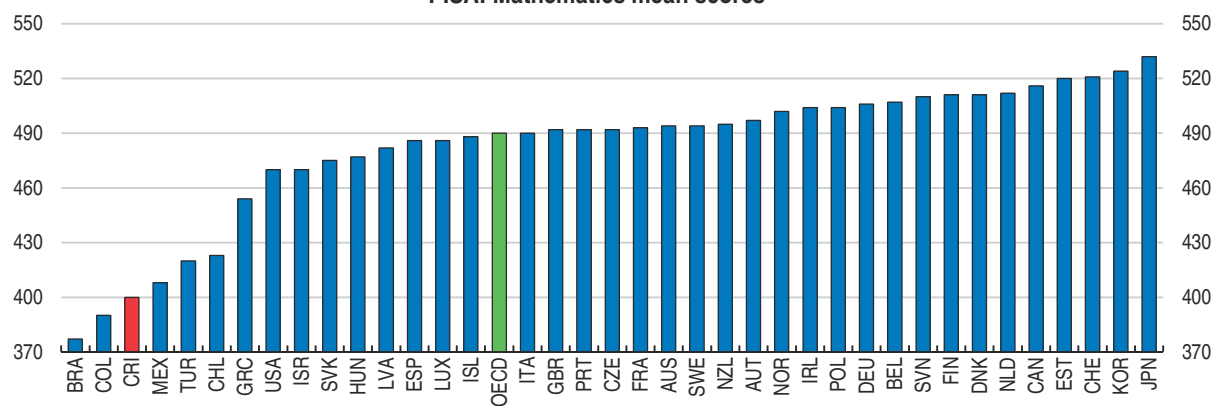
PISA: Science mean scores




PISA: Reading mean scores



PISA: Mathematics mean scores



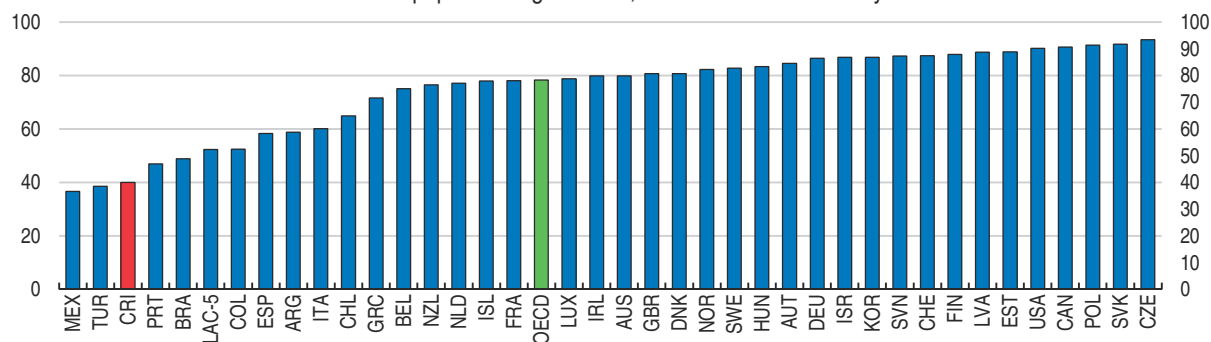
Source: OECD PISA 2015 Database.

StatLink  <http://dx.doi.org/10.1787/888933701338>

Educational Attainment and Spending

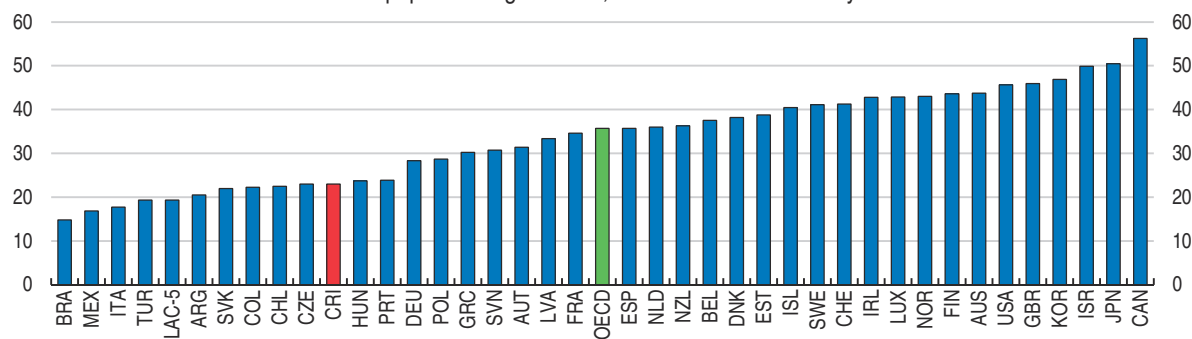
A. At least upper secondary education attainment

% of population aged 25-64, 2016 or latest available year



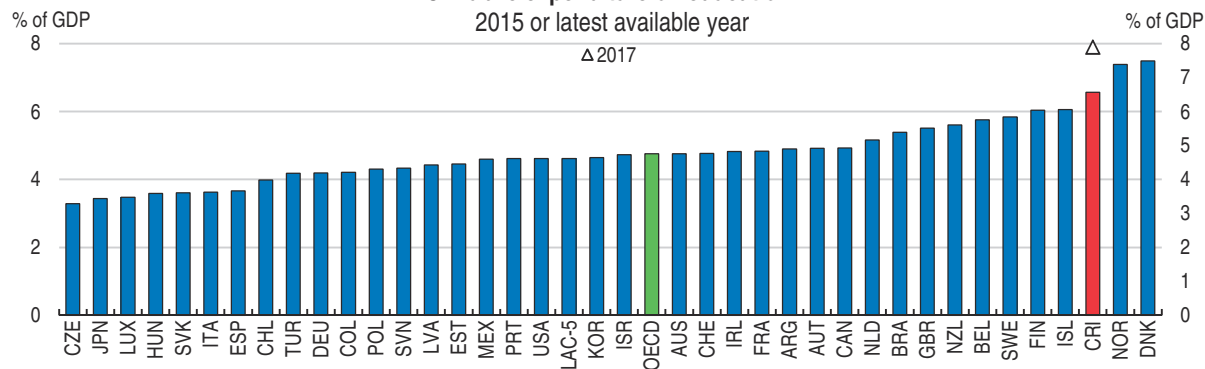
B. Tertiary education attainment

% of population aged 25-64, 2016 or latest available year



C. Public expenditure on education¹

2015 or latest available year



1. Expenditure on primary, secondary, post-secondary and tertiary education.

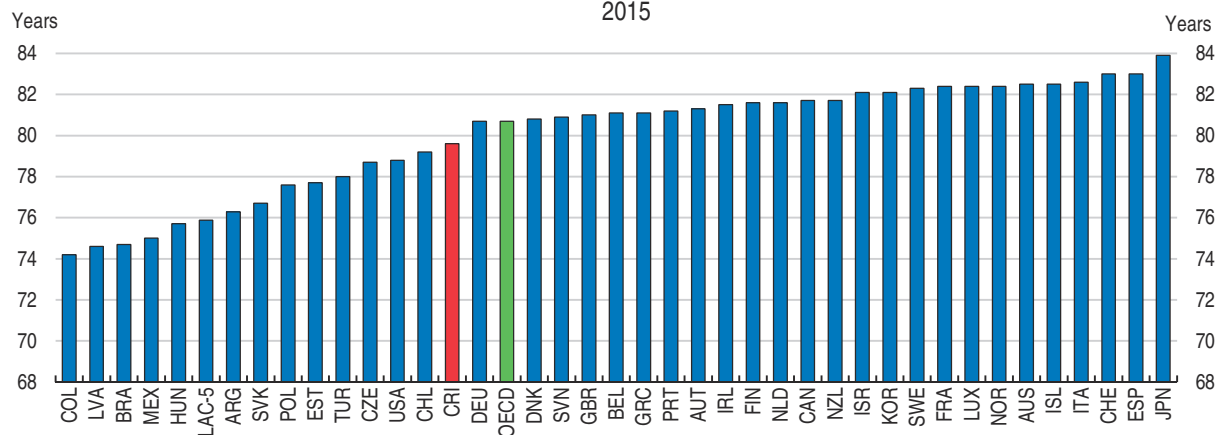
Note: LAC-5 is a simple average of Argentina, Brazil, Chile, Colombia and Mexico.

Source: OECD Education at a Glance; OECD Educational Finance Indicators; Ministerio de Hacienda.

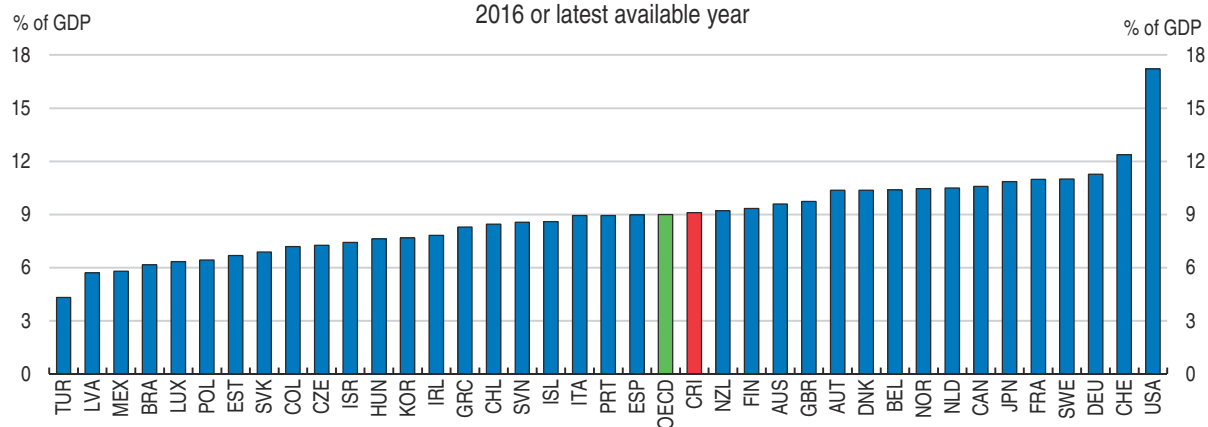
StatLink <http://dx.doi.org/10.1787/888933701357>

Health Indicators

A. Life expectancy at birth 2015




B. Total current expenditure on health care 2016 or latest available year



Note: LAC-5 is a simple average of Argentina, Brazil, Chile, Colombia and Mexico.

Source: OECD Health Statistics Database and World Bank Development Indicators.

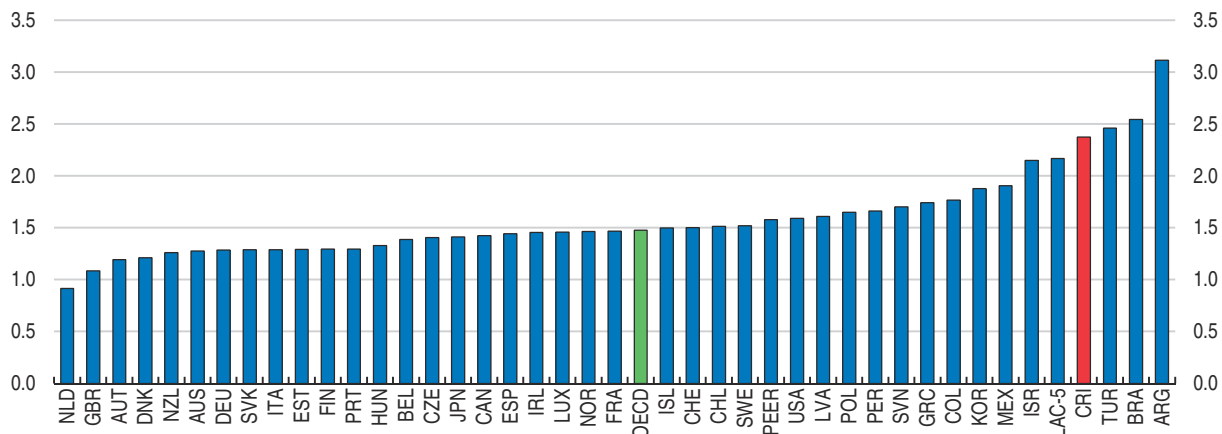
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OECD Regulation indicators

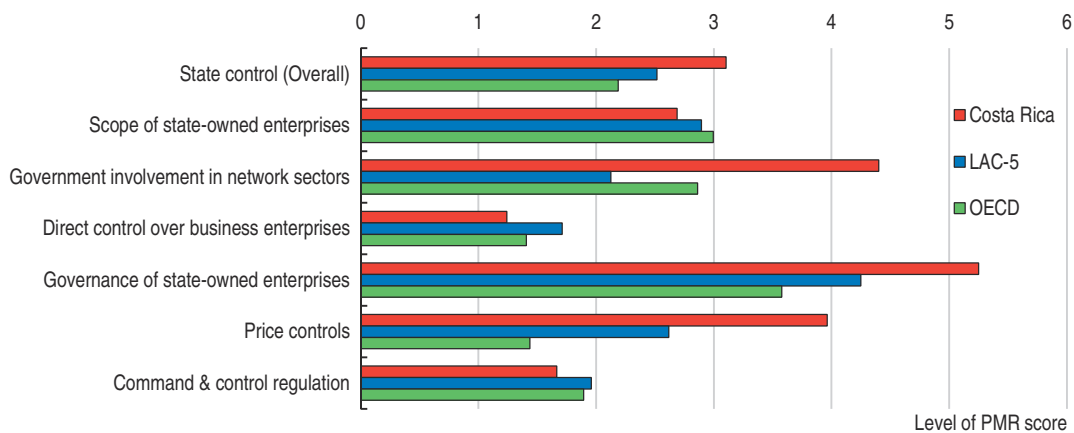
Product Market Regulation

Index scale of 0-6 from least to most restrictive, latest available year

A. Overall PMR score



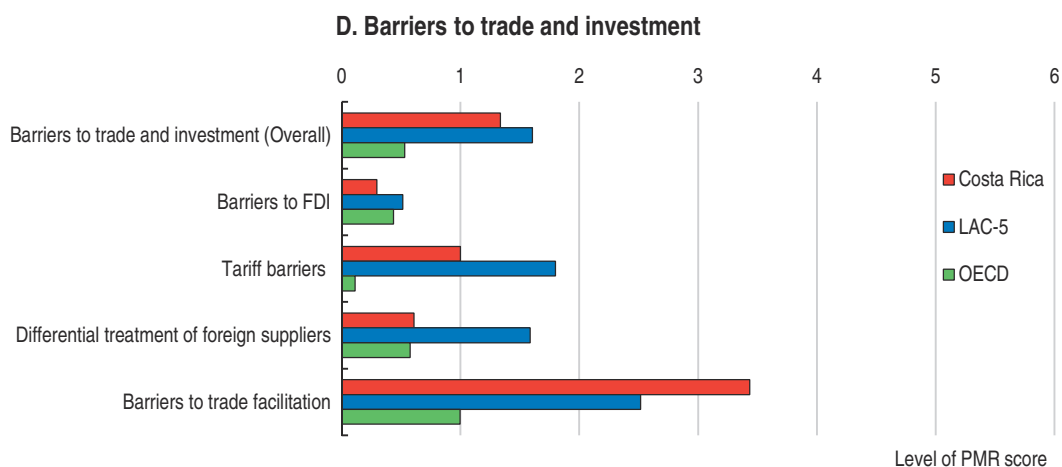
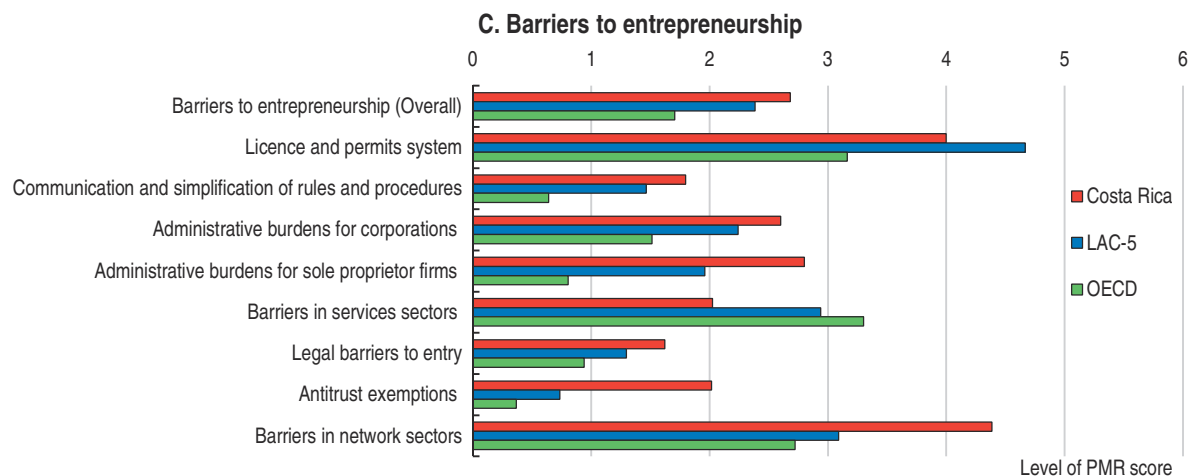
B. State control



OECD Regulation indicators (cont.)


Product Market Regulation

Index scale of 0-6 from least to most restrictive, latest available year



Note: LAC-5 is a simple average of Argentina, Brazil, Chile, Colombia and Mexico. Data refer to 2013.

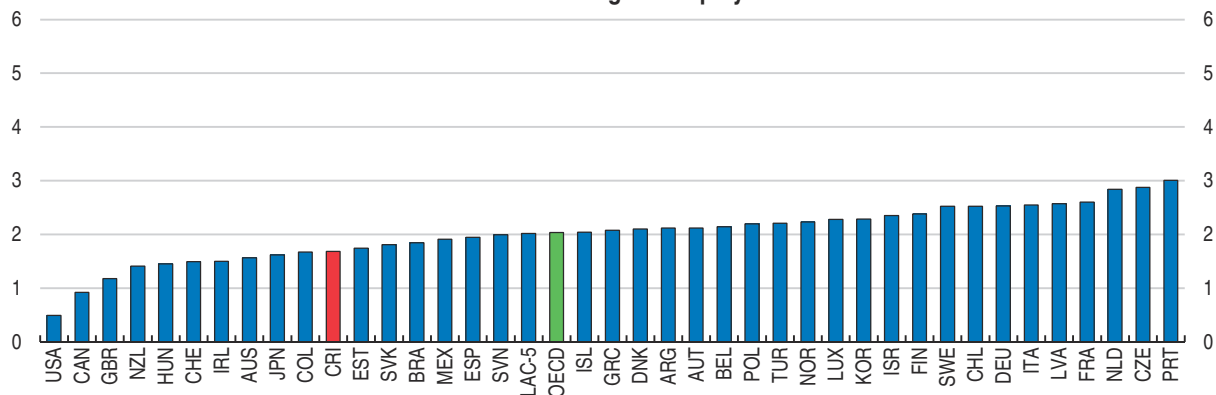
Source: OECD-WBG Product Market Regulation Database for all LAC countries except Brazil, Chile and Mexico, and OECD Product Market Regulation Database.

StatLink  <http://dx.doi.org/10.1787/888933701395>

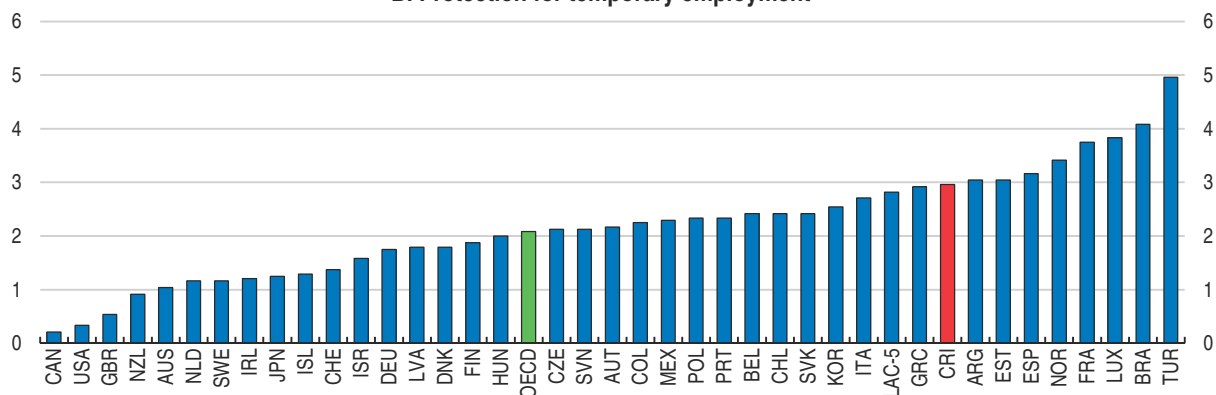
Employment Protection Legislation Indicators

Index scale of 0-6 from least to most restrictive, latest available year

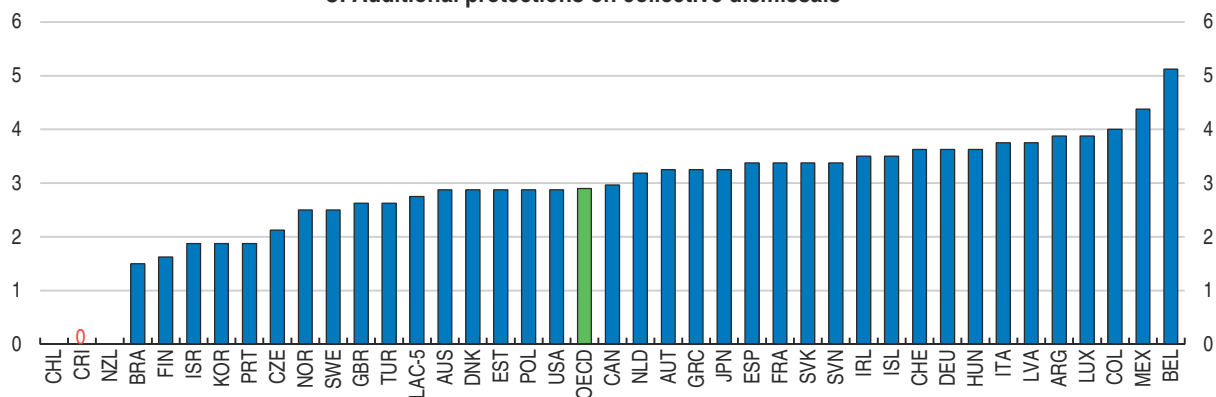
A. Protection for regular employment



B. Protection for temporary employment



C. Additional protections on collective dismissals



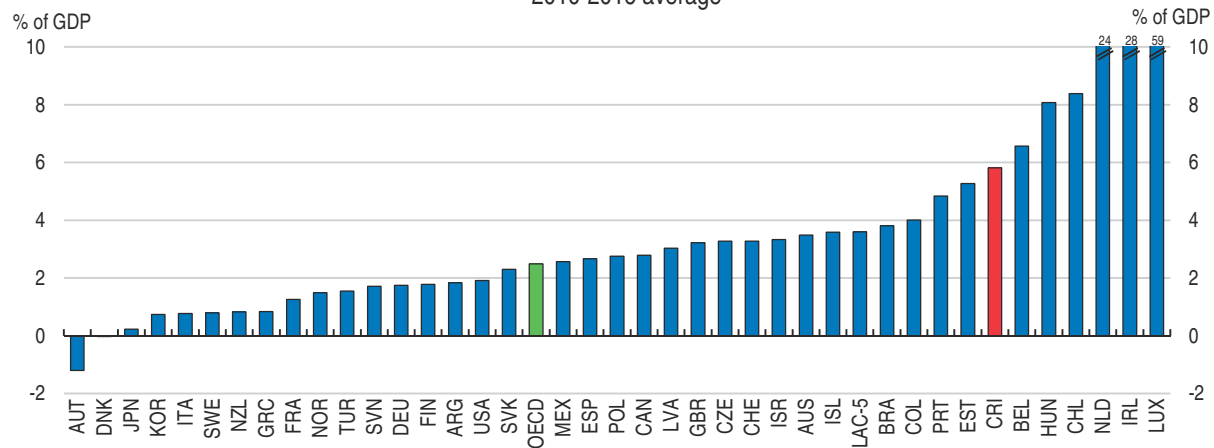
Note: Data refer to 2014 for Argentina, Colombia, Costa Rica, Slovenia and the United Kingdom; 2012 for Brazil; 2013 for others. LAC-5 is a simple average of Argentina, Brazil, Chile, Colombia and Mexico.

Source: OECD Indicators of Employment Protection.

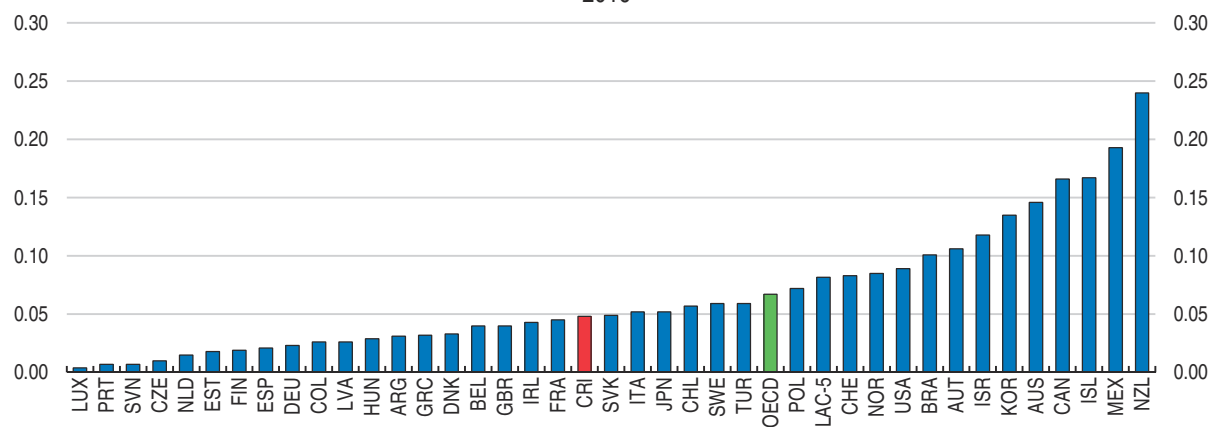
StatLink <http://dx.doi.org/10.1787/888933701414>

Foreign Direct Investment (FDI) Indicators

A. Net FDI inflows
2010-2016 average



B. FDI Restrictiveness Index
2016



Note: LAC-5 refers to a simple average of Argentina, Brazil, Chile, Colombia and Mexico.

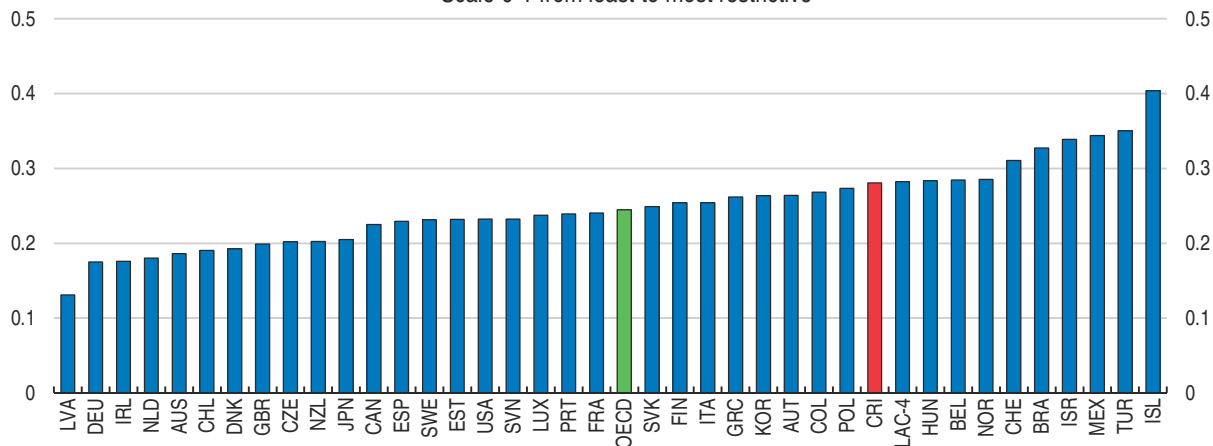
Source: World Bank World Development Indicators (WDI); and OECD FDI Restrictiveness Index.

StatLink <http://dx.doi.org/10.1787/888933701433>

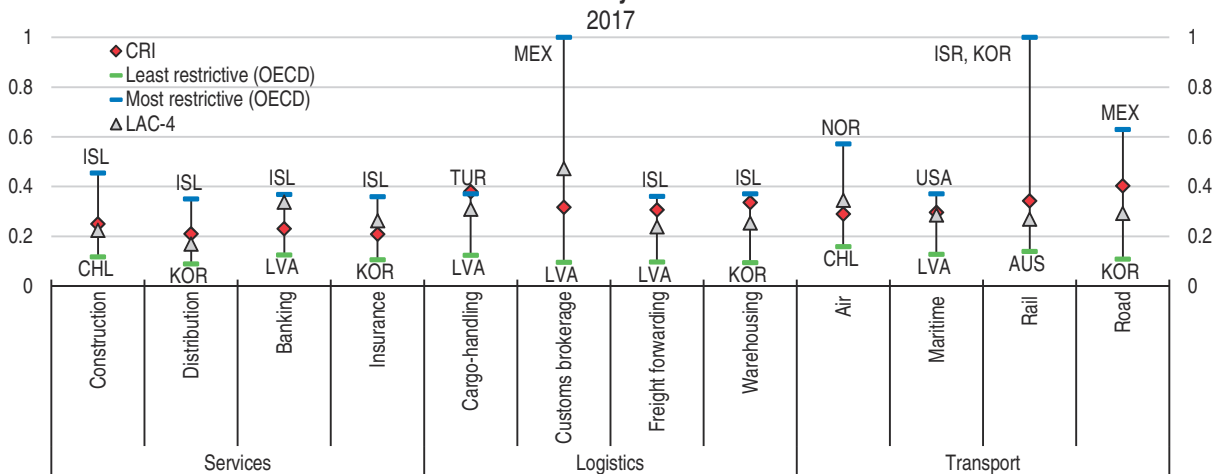
Services Trade Restrictiveness Index (STRI)

A. Overall STRI 2017

Scale 0-1 from least to most restrictive



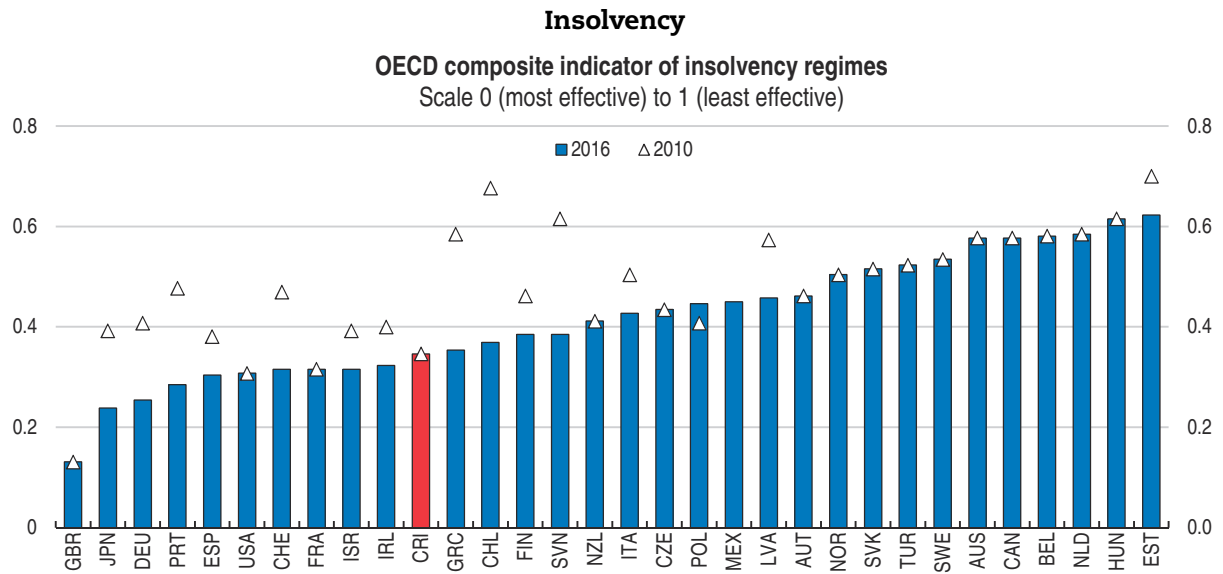
B. STRI by sector 2017




Note: LAC-4 refers to a simple average of Brazil, Chile, Colombia and Mexico.

Source: OECD Services Trade Restrictiveness Index (STRI).

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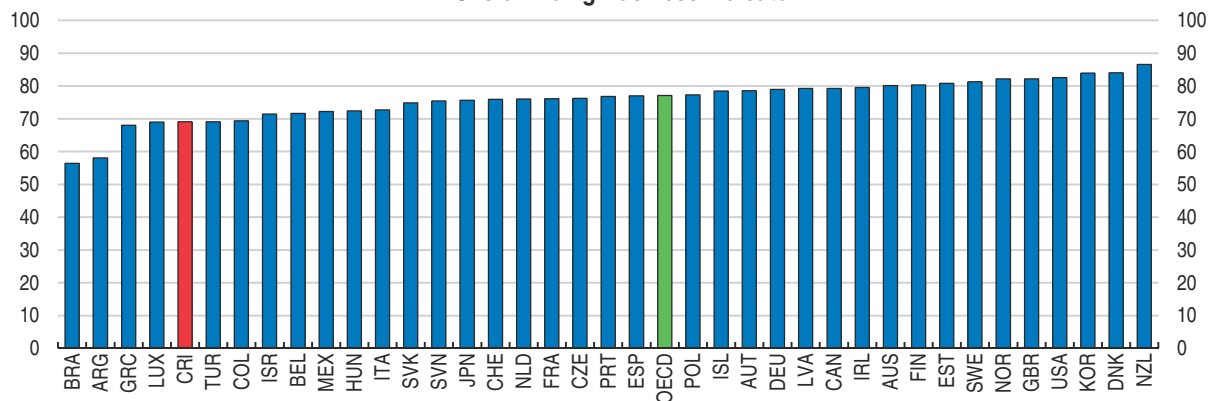
Source: Adalet McGowan, M., D. Andrews and V. Millot (2017), "Insolvency regimes, zombie firms and capital reallocation", OECD Economics Department Working Papers, No. 1399, OECD Publishing, Paris, <http://dx.doi.org/10.1787/5a16beda-en>.

StatLink  <http://dx.doi.org/10.1787/888933701471>

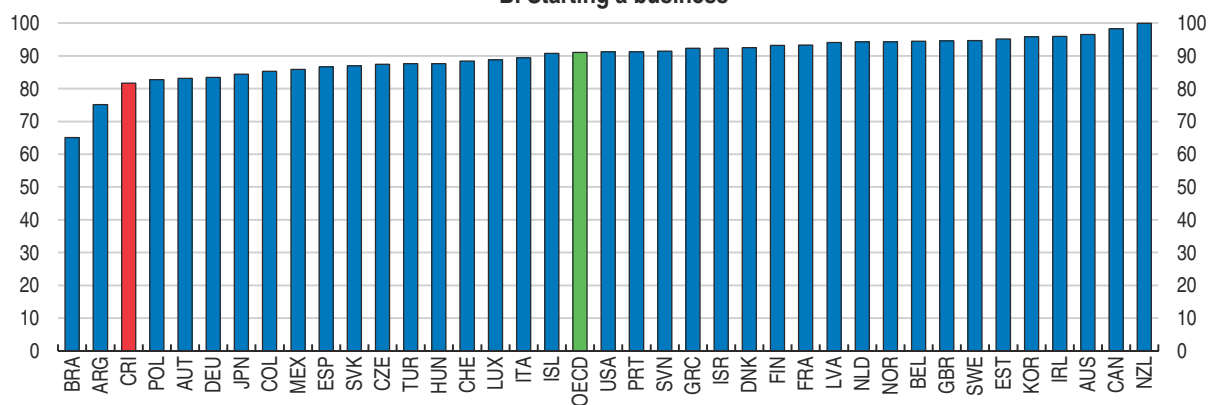
World Bank Doing Business Indicators

Distance to the frontier, 2017¹

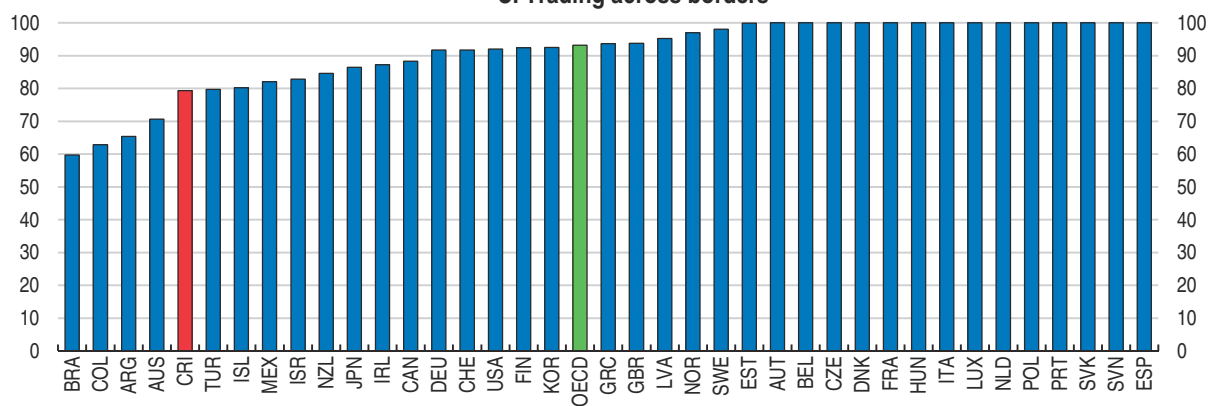
A. Overall Doing Business indicator



B. Starting a business



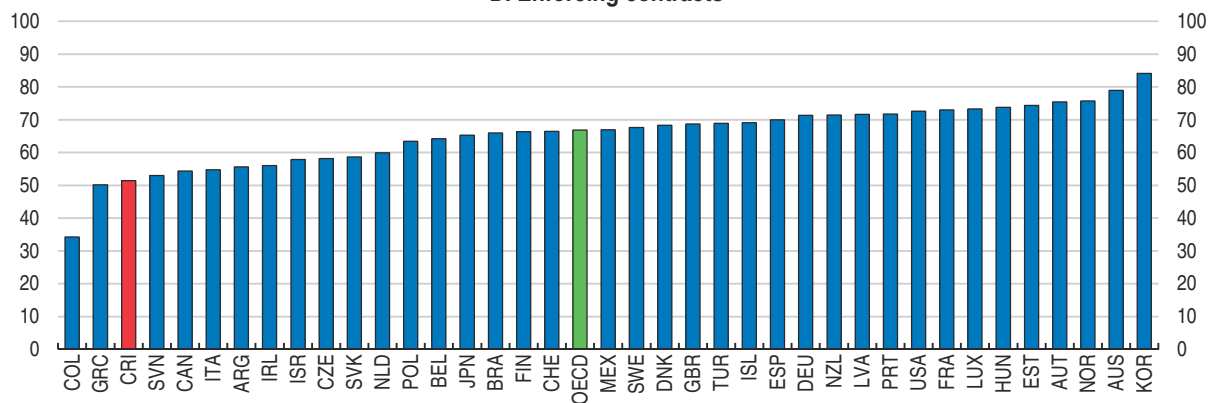
C. Trading across borders



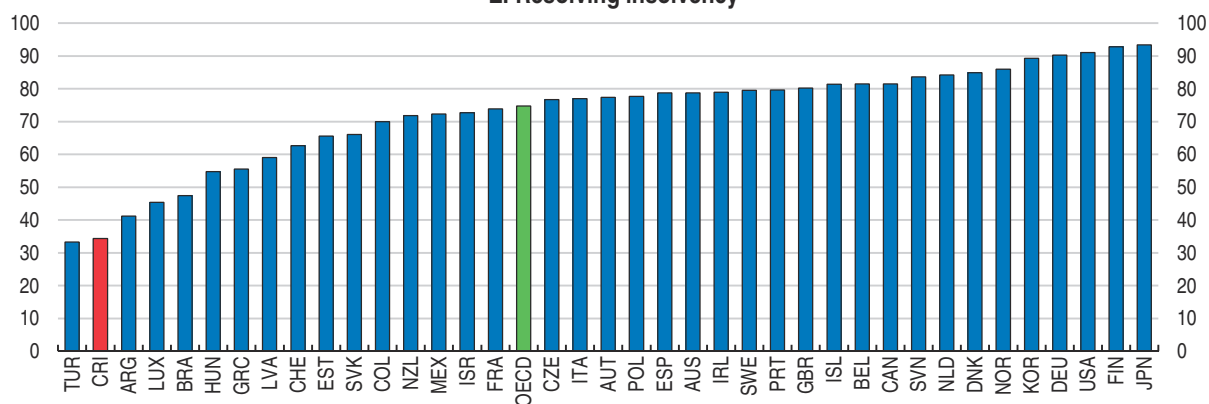
World Bank Doing Business Indicators (cont.)

Distance to the frontier, 2017¹

D. Enforcing contracts




E. Resolving insolvency



1. Distance to the frontier is a measure of how far a country is from best practice, on a scale of 0-100 where 100 is best practice.

Source: World Bank Doing Business 2018 database.

StatLink  <http://dx.doi.org/10.1787/888933701490>

Executive summary

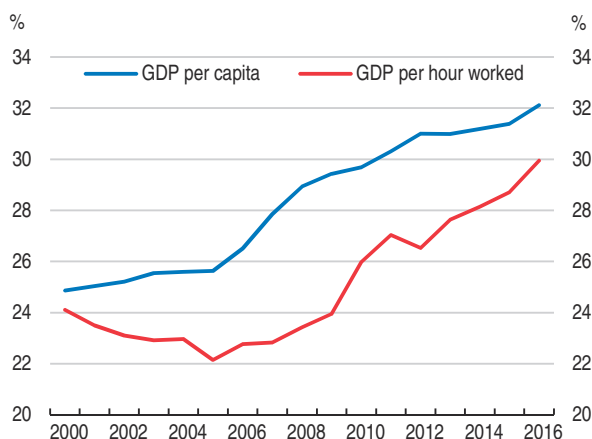
- *Economic and social progress has been impressive*
- *Restoring fiscal sustainability is a priority*
- *Strengthening monetary policy and financial stability*
- *Making growth more robust and more inclusive*
- *In spite of high education spending, outcomes are poor*
- *Overly complex regulations are holding back entrepreneurship*

Economic and social progress has been impressive

Costa Rica has achieved strong well-being and robust economic growth. Almost universal access to education, health care and pensions have contributed to high levels of life satisfaction. This has been facilitated by robust economic growth and continued convergence towards OECD living standards. Poverty, income inequality and gender gaps are low by Latin American standards, though high when compared to OECD countries. Shortcomings also exist in some well-being indicators such as work-life balance, safety and income. Costa Rica has established a world-renowned green trademark and eco-tourism industry by protecting its abundant biodiversity and developing renewable energy sources.

Convergence towards higher living standards is in progress

% of upper half OECD



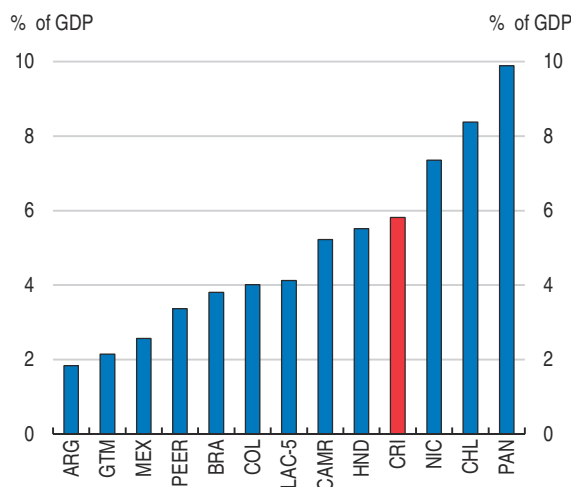
Source: OECD, Productivity Database.

StatLink <http://dx.doi.org/10.1787/888933701509>

Open trade and foreign direct investment are an integral part of Costa Rica's successful growth model. This has underpinned Costa Rica's structural transformation from an agricultural-based economy to one with a more diversified structure that is integrated into global-value chains. Building on these achievements, Costa Rica has the opportunity to increase its specialisation in medium- and high-technological intensive sectors. Robust growth of around 3.7% is projected for 2018 and 2019: a low inflation environment will protect household income and exports will benefit from the global economic

recovery. Public investment is also expected to strengthen from its historically-low levels owing to ongoing large infrastructure programmes.

Costa Rica is an open economy, benefiting from strong FDI inflows, 2010-16 average



Source: World Bank Development Indicators.

StatLink <http://dx.doi.org/10.1787/888933701528>

However, anti-competitive regulations and high labour market segmentation hinder the full realisation of opportunities to make growth more inclusive. Employment growth is also stagnant and unemployment remains above pre-crisis levels, hitting predominantly youth and the low skilled. As a result, and against the general trend in Latin America, informality and inequality are increasing.

The economy will continue to expand at a solid pace

	2017	2018	2019
Gross domestic product (GDP)	3.2	3.7	3.7
Private consumption	2.6	3.3	3.9
Government consumption	2.9	2.4	2.3
Gross fixed capital formation	-2.8	2.7	4.3
Exports	5.0	4.9	6.0
Imports	3.1	4.2	5.7
Unemployment rate	9.1	9.3	9.2
Consumer price index	1.6	3.1	3.1

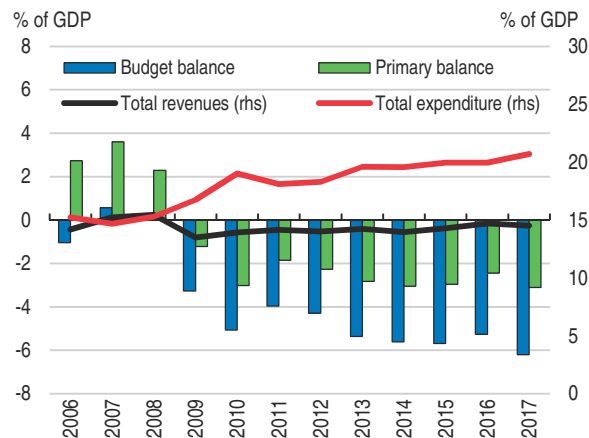
Source: OECD Economic Outlook Database.

Restoring fiscal sustainability is a priority


The fiscal stimulus imparted in 2009 to support the economy as the global crisis unfolded has not been reversed, in spite of a quick recovery and steady growth thereafter. The budget deficit has

exceeded 5% of GDP for the past five years. Recent efforts to increase tax collection have not reduced the budget deficit due to the extensive use of earmarking, public sector fragmentation into autonomous agencies and spending mandates. As a result, central government debt has soared, from less than 25% of GDP in 2008 to 49% in 2017.

The fiscal position continues to deteriorate



Source: Ministerio de Hacienda.

StatLink  <http://dx.doi.org/10.1787/888933701547>

A comprehensive fiscal reform package is needed to stabilise the debt-to-GDP ratio. There is ample room to raise additional revenue by broadening the tax base and continuing to fight tax evasion and avoidance. However, raising tax revenue will not help to contain the deficit unless strong earmarking is restricted. The government should also regain control of resource allocation, including by addressing institutional fragmentation. Reforming public-sector compensation, strengthening the budgetary framework with a new, operational fiscal rule and improving debt management would help to balance the budget.

Strengthening monetary policy and financial stability

Monetary policy has successfully achieved low inflation, but challenges remain to further reduce dollarization and strengthen the financial sector. Around 40% of deposits and credits are denominated in foreign currencies, and around 70% of such credits have been extended to unhedged borrowers. The Central Bank has raised the policy interest rate to

incentivise savings in local currency and prudential regulation measures have been taken to discourage borrowing in foreign currency. The impact of these measures needs to be carefully assessed and authorities should consider the possibility of also strengthening prudential regulation with a view to continuing to reduce dollarization. Institutional reforms to enhance the independence of the Central Bank should be approved.

While the banking sector appears to be healthy, recent difficulties in two state-owned banks highlight weaknesses in governance. The government should improve the selection of board appointees to state-owned banks and other public enterprises. Opening entry to FinTech start-ups, with appropriate regulation, would boost competition and reduce the high cost of financial intermediation.

Making growth more robust and more inclusive

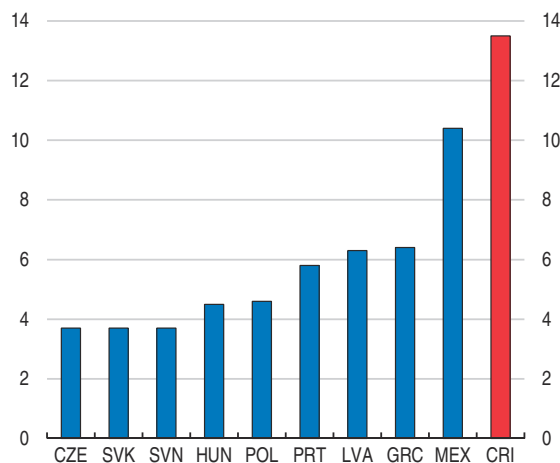
Productivity growth has gained some momentum over the past decade, but many institutional obstacles are hampering stronger growth and spreading of its gains more widely. Obstacles include labour market marginalisation, restrictions to competition and low outcomes and inequities in education. If Costa Rica does not address these challenges, it risks becoming stuck in a “vicious cycle” whereby individuals with low skills and poor access to opportunities are confined to low-productivity and low-wage jobs. Setting in motion a “virtuous cycle” will require reforms across several policy areas that present win-win opportunities to boost both productivity and inclusion.

Childcare provision is low and differs largely across income levels and geographical areas. These asymmetries impact negatively both on the future educational outcomes of children from disadvantaged backgrounds and on female labour market participation, also hampering equity. Expanding early childhood education and care for low-income groups and improving its quality should become a priority. To facilitate the improvement and expansion of services, all spending on early childcare education and care should be classified under the constitutionally-mandated spending on education and a single agency with clear responsibility for

delivering national ECEC policy across the entire sector should be appointed.

Inequality is high

Disposable income distribution (80/20 income ratio),
2016 or latest available data



Source: OECD Income Distribution Database.

StatLink <http://dx.doi.org/10.1787/888933701566>

About 43% of workers hold informal jobs. High informality is a source of persistent inequalities and is also a drag on productivity. The complex minimum wage structure increases firms' compliance costs, discouraging job formalisation. The government has reduced the high number of minimum wages from 25 to 23 and plans further reductions to 10 by the end of 2019. Moving to a smaller number of categories, based on geographical and age differentiation, rather than the current complex web of sectoral, occupation, education attainment and skill categories, would significantly reduce compliance costs.

In spite of high education spending, outcomes are poor

Costa Rica has a strong commitment to education as a social and economic development measure. At 7.9% of GDP, education spending is higher than in all OECD countries. However, spending is inefficient both in the learning process and in reducing inequality. PISA results reveal that one third of students lack core competencies and outcomes are strongly influenced by socio-economic background. Grade repetition and drop-out rates are high. Resources need to be channelled and even reallocated to secondary education and early

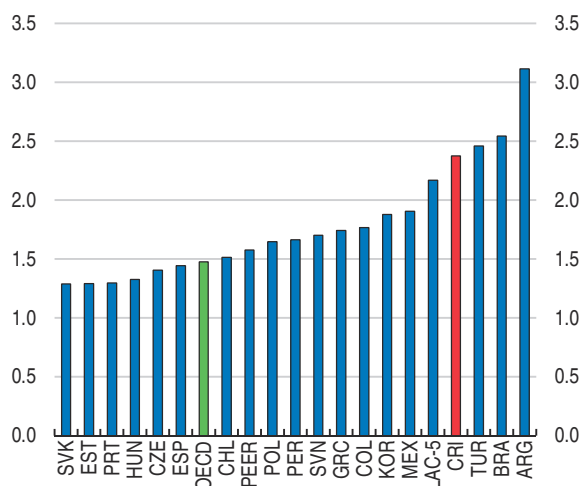
childhood education and care. More focused, targeted support should be given to students at risk early on. Resources should also focus on providing initial and on-the-job training to teachers as well as education materials, which are currently in shortage. Developing good quality dual vocational education and training in secondary education would offer young people strong skills and a close link to the labour market. Overall, the government should move from the current focus on resources and funding to outcomes, and should establish clear and verifiable performance-based targeting against which to measure the success of its education policies.

Overly complex regulations are holding back entrepreneurship

Product market regulations are stringent; there are large barriers to entrepreneurship, extensive anti-trust exemptions and high state control in many sectors. The potential productivity gains from reducing anti-competitive regulations are large. Improving state-owned enterprises' governance according to OECD standards, establishing one-stop shops for business registration and licensing, streamlining insolvency procedures, removing anti-trust exemptions and enhancing trade facilitation would bring large growth benefits.

Product Market Regulations are stringent

PMR score, 2013



Source: OECD-WBG Product Market Regulation Database for all LAC countries except Brazil, Chile and Mexico; OECD Product Market Regulation Database.

StatLink <http://dx.doi.org/10.1787/888933701585>

MAIN FINDINGS	KEY RECOMMENDATIONS
Improve macroeconomic stability	
<p>Fiscal performance is weak and continues to deteriorate.</p>	<p>Implement immediate measures to reduce the budget deficit by 3 percentage points of GDP during 2018-20 to stabilise the debt-to-GDP ratio, through a comprehensive package of measures to raise revenue, curb spending, and strengthen the fiscal rule. In the medium term take actions to reduce the debt-to-GDP ratio to prudent levels while building fiscal space to address contingencies.</p> <p>Reduce budget rigidities stemming from legally mandated spending and earmarking of government revenues.</p> <p>Streamline public sector employment to better control payroll costs.</p> <p>Assess contingent liabilities.</p> <p>Create a fiscal council and introduce a multi-year expenditure framework.</p> <p>Modernise debt management by reducing the number of benchmark securities and improving communication with the markets.</p>
<p>The central bank's independence in the conduct of monetary policy can be improved. Monetary policy transmission mechanisms are weak, dollarization and currency mismatches are high.</p>	<p>Adopt the draft bill that reforms the rules for appointing the President of the Central Bank; rule out that Ministers or their representatives can vote in Board decisions.</p> <p>Gradually reduce interventions in the foreign exchange market.</p>
<p>Financial systemic risks remain.</p>	<p>Strengthen prudential regulation on FX loans to unhedged borrowers.</p> <p>Create a bank resolution mechanism and a deposit insurance scheme for all banks.</p>
Make growth more inclusive	
<p>The system of multiple minimum wages exacerbates compliance costs, creating distortions and inequities.</p>	<p>Continue moving to a smaller number of minimum wages.</p>
<p>The share of informal employment is high by OECD standards and has failed to decrease.</p>	<p>Implement a comprehensive plan to reduce informality, including greater enforcement of obligations to pay contributions.</p>
<p>Labour-market gender gaps are high.</p>	<p>Increase the supply of publicly-funded childcare services. Classify all spending on early-childhood education and care under the constitutionally-mandated spending on education.</p>
<p>Spending on education is high, but outcomes are poor. Per student spending on basic education is low, while spending on tertiary education is high. Inequalities in educational outcomes are high; the school drop-out rate is high and teaching quality needs strengthening.</p>	<p>Establish better educational outcomes as the main policy target, instead of a focus on spending, and develop performance indicators.</p> <p>Rebalance education spending towards early childhood and secondary education. Strengthen targeted support for at-risk students, and teachers' training.</p>
Boost productivity growth	
<p>Competition is weak. In the banking sector, weak competition drives up intermediation costs.</p>	<p>Adopt and implement the bill reinforcing the powers, independence and funding of the competition commission.</p> <p>Continue the implementation of the action plan to increase consistency with the OECD Guidelines on Corporate Governance of State-Owned Enterprises.</p> <p>Continue with the planned 25 sector studies evaluating the exemption from competition and eliminate unjustified exemptions.</p> <p>Open entry to FinTech start-ups, with appropriate regulation.</p>
<p>Barriers to entrepreneurship are high.</p>	<p>Establish a one-stop-shop for business registration and licensing. Introduce performance targets. Continue to improve the insolvency regime and trade facilitation.</p>
<p>Transport infrastructure is deficient due to a complex institutional setting.</p>	<p>Improve co-ordination among the different public-works bodies by clarifying mandates and granting overall control to a single lead agency. Prioritise projects based on cost-benefit analysis.</p>

Key policy insights

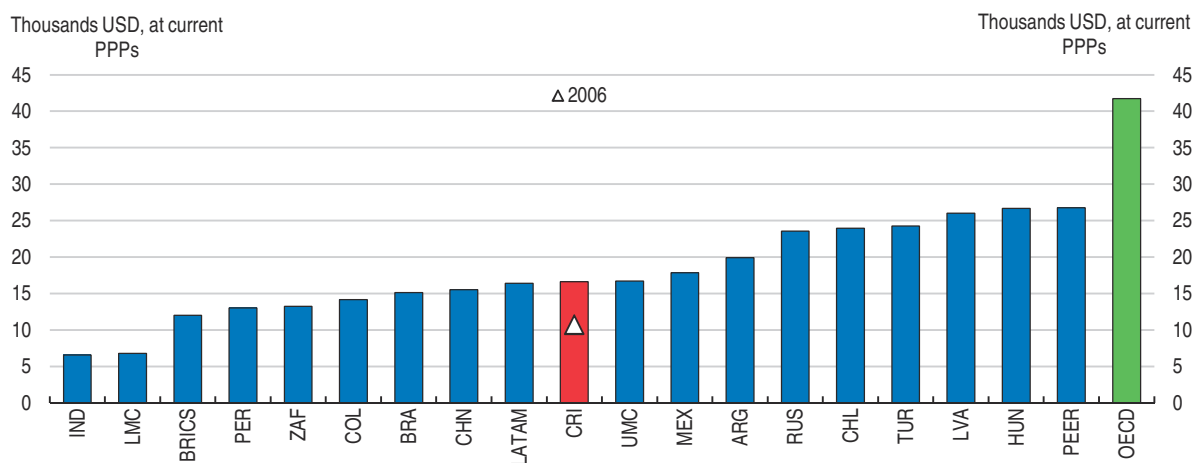
- *Costa Rica has achieved strong socio-economic progress*
- *Robust growth is set to continue*
- *Strengthening the monetary policy framework and ensuring financial stability*
- *Policies to restore fiscal sustainability*
- *Structural policies to boost productivity and inclusion*
- *Greening growth*

Costa Rica has achieved strong socio-economic progress

Costa Rica is one of the oldest democracies in Latin America. Its stable political system has supported steady economic, social and environmental progress over time. The country started progressing towards universal literacy by 1869, when primary education became compulsory and tuition free. The 1949 Constitution formally abolished armed forces, with savings being invested in health and education. GDP per capita has increased significantly over the last 30 years and the country has achieved upper-middle income levels according to the World Bank classification (Figure 1). Virtually universal healthcare, primary education and pension systems have underpinned Costa Rica's significant human development progress, with well-being benefits such as a sizeable middle class, low infant mortality and high life expectancy (Table 1). Poverty, income inequality and gender gaps are high compared to OECD countries, albeit low by Latin American standards.

Figure 1. **Costa Rica has converged towards higher income levels**

GDP per capita, 2016 or latest available year



Note: PEER refers to the 10 non-Latin American OECD countries with the lowest GDP per capita: Czech Republic, Estonia, Greece, Hungary, Latvia, Poland, Portugal, Slovak Republic, Slovenia and Turkey. For LMC and UMC, data refer to the Lower-middle-income and Upper-middle-income economies as classified by the World Bank. LATAM refers to Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico and Peru. BRICS refers to Brazil, Russian Federation, India, China and South Africa.

Source: World Bank Development Indicators.

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Costa Rica has also carefully managed its natural resources, including by protecting its forests and abundant biodiversity, and by developing renewable energy sources, reaping benefits for example in terms of a world-renowned green trademark and eco-tourism industry. All these achievements are reflected in Costa Rica's well-being indicators, which are comparable to or even above the OECD average on a number of dimensions, including the environment, community life, civil engagement and health. By contrast, there is a gap in well-being for work-life balance, safety, education and income. Costa Ricans also enjoy levels of life satisfaction that are similar to the best performing OECD countries.

Table 1. Costa Rica's social achievements are impressive
Key indicators, 2016 or latest available year

	Costa Rica	Chile	Mexico	Colombia	LAC	OECD
Share of the population in the middle class (%) ¹	47.0	44.0	27.0	27.0	34.0	..
Primary education net enrolment rate (%)	96.4	94.3	95.1	90.6	93.0	97.1
Life expectancy at birth (years)						
Total	79.6	79.2	75.0	74.2	75.2	80.6
Men	77.2	76.7	72.3	70.7	72.0	77.9
Women	82.1	81.8	77.7	77.8	78.5	83.2
Infant mortality (deaths per 1000 live births)	8.5	7.2	12.5	13.6	15.2	3.9
Perceived health status (%) ²	73.5	57.4	65.5	68.8
Life satisfaction (0-10 scale)	7.1	6.7	6.6	6.4	..	6.5
Relative poverty rate after taxes and transfers (%) ³	21.5	16.1	16.7	11.4
Absolute poverty measures (%) ⁴	1.6	1.3	3.0	5.5	4.9	..

1. The middle class is defined as the proportion of individuals with an income between USD 10 and USD 50 a day.

2. Perceived health status is the percentage of adults reporting "good" or "very good" health.

3. Relative poverty rate after taxes and transfers (threshold of 50% of median income).

4. Absolute poverty rate is based on an international poverty line of 2011 PPP USD 1.90 a day.

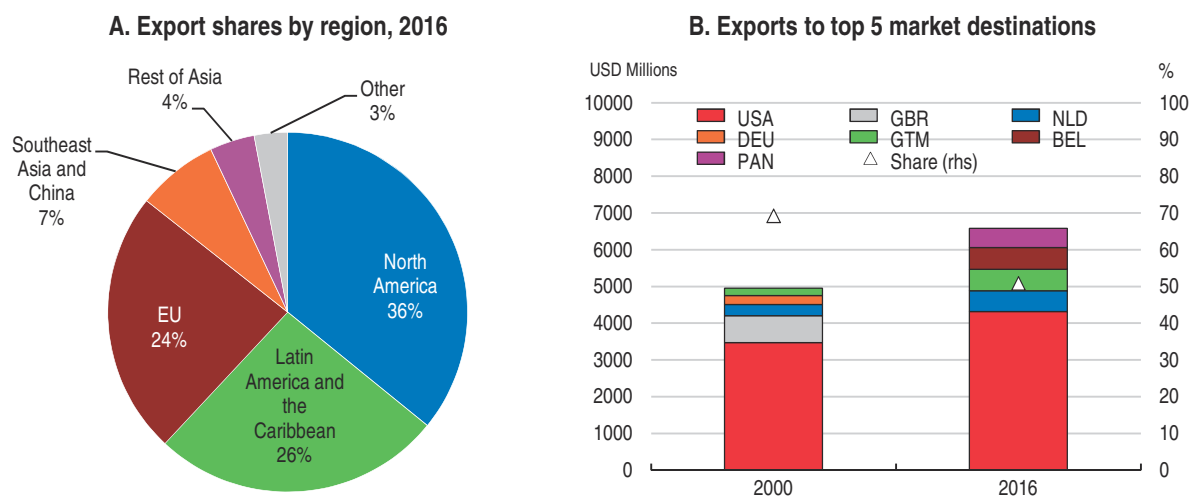
Note: LAC refers to Latin America and the Caribbean.

Source: OECD Better Life Index; OECD database on income distribution; OECD Health Statistics; World Bank Development Indicators; UNESCO Statistics; Oviedo et al. (2015).

Open trade and foreign direct investment (FDI) are an integral part of Costa Rica's successful growth model. Strong FDI inflows, favoured by an educated population and a friendly FDI regime, have supported Costa Rica's structural transformation from a rural and agricultural-based economy to one with a more diversified structure that is integrated into global-value chains (GVCs). This has allowed for a sustained expansion of production since the mid-1980s (Rodríguez-Clare, 2001; Araújo and Linares, 2018). Costa Rica's exports are geographically concentrated in North and Latin America, especially the United States, its main export destination market (Figure 2). This model continued to bear fruit and during the first decade of the 21st century Costa Rica's average growth rate exceeded that of Central American countries and of Latin America as a whole (Beverinotti et al., 2014).

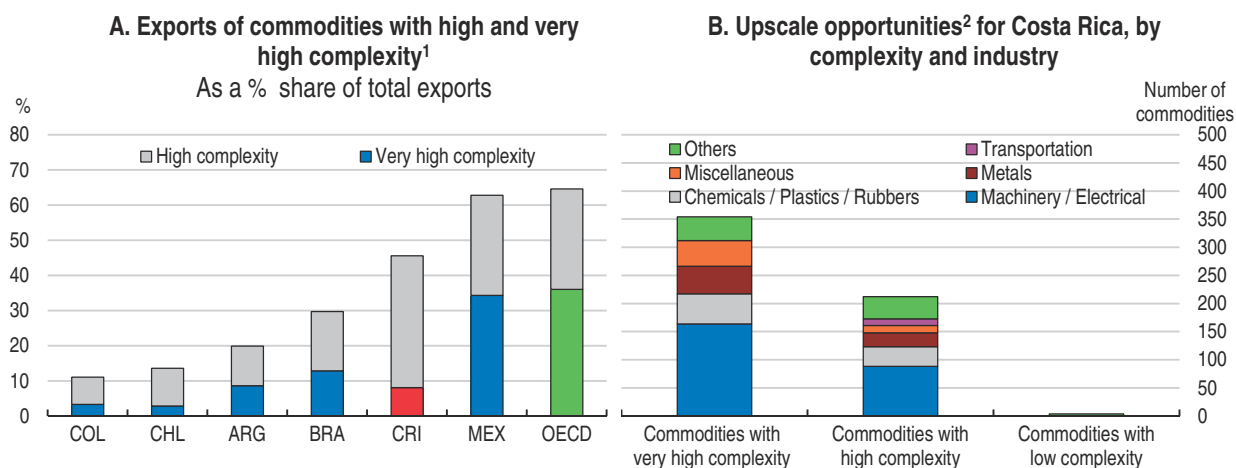
This pattern of production is mirrored in the country's comparative advantage, which points to an increasing level of sophistication of its exports and, similarly to advanced OECD economies, narrower product specialisation (OECD, 2017a; Figure 2). In spite of these positive developments, Costa Rica's export basket still shows a higher reliance on less sophisticated products relative to the OECD average. Harnessing on the existing productive experiences and specialisation patterns, Costa Rica could benefit from upscaling opportunities in a number of medium- and high-technological intensive industrial sectors (Araújo, Linares and Chalaux, 2018; Figure 3).

Costa Rica was severely hit by the global financial crisis in 2008-09. The unemployment rate, which stood at 4.4% in 2007, rapidly increased during the global financial crisis. The recession was however short lived as growth rebounded quickly to almost 5% in 2010-12, on the back of a supportive fiscal stance and strong FDI inflows, particularly in high-tech manufacturing and knowledge-intensive services (Figure 4). The services sector registered the fastest growth in the post-crisis period, accounting for more than 70% of GDP and employing about two-thirds of the workforce in 2016 (Figure 5). The overall performance of Costa Rica's economy depends crucially on its service sectors as they are also used intensively as inputs into exported goods (OECD, 2016a).

Figure 2. **Export destinations are increasingly diversified**

Source: OECD calculations using BACI database.

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Figure 3. **Costa Rica is specialising in complex products**

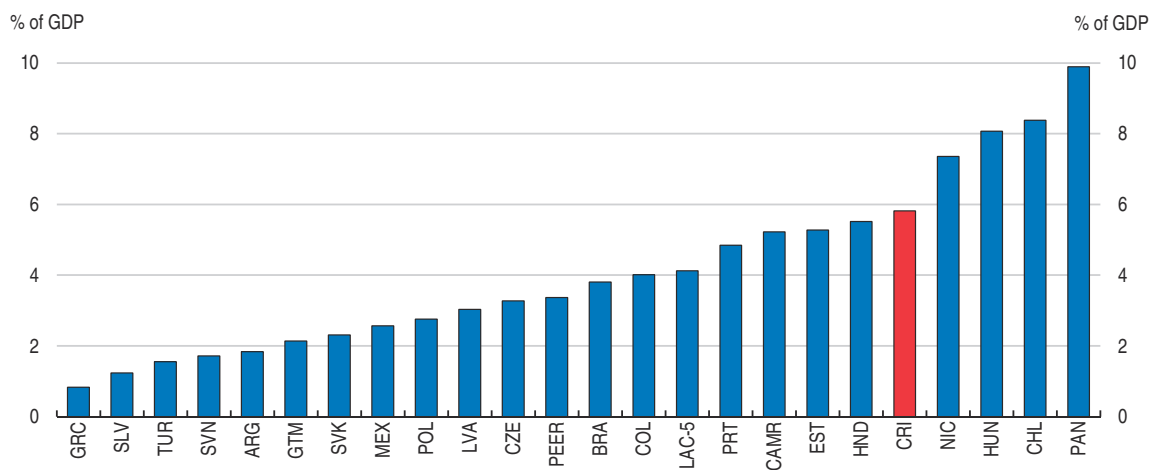
1. “High” and “very high” complexity commodities are those with complexity scores in the 3rd and 4th quartiles of the distribution of the total set of commodities traded worldwide. These are calculated on the basis of the Product Complexity Index (PCI) which is a measure of the relative knowledge intensity of a commodity. An example of a product in the 4th quartile is “Ethylene dichloride”, which ranked 10th in 2015 out of 4 214 products listed in the Harmonized System 6 classification. A product in the 1st (lowest) quartile is “Cocoa paste wholly or partly defatted” ranked 4 201st in 2015.

2. Upscale opportunities are those commodities currently exported with no comparative advantage, with a level of complexity (PCI) higher than the country’s complexity index and which are closer to the country’s specialisation pattern.

Source: Panel A: Araújo, Chalaux and Haugh (2018); Panel B: Araújo, Linares and Chalaux (2018).

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The rapid expansion of skill and knowledge-intensive sectors is contributing to robust growth. However, the economy retains a dual structure, with traditional, low-productivity sectors employing low-skilled and low-paid workers, while high-productivity exporting and FDI industries employ high-skilled individuals (OECD, 2016b). The education system and the labour market struggle to keep pace with the growing demand for skilled workers (see below). As a result, employment growth has been stagnant and unemployment has remained stubbornly high, hitting predominantly youth and the low skilled (Figure 6; Figure 23).

Figure 4. **Strong FDI inflows helped Costa Rica weather the recession**FDI inflows as % of GDP, 2010-16¹

1. Average yearly net inflows between 2010 and 2016, as a percentage of GDP.

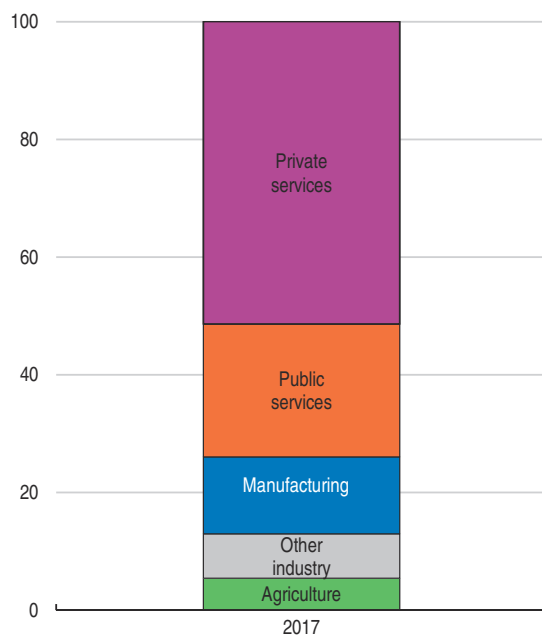
Note: LAC-5 refers to the unweighted average of Argentina, Brazil, Chile, Colombia and Mexico. CAMR refers to the unweighted average of Central American countries Guatemala, Honduras, Nicaragua, Panama and El Salvador. PEER refers to the 10 non-Latin American OECD countries with the lowest GDP per capita: Czech Republic, Estonia, Greece, Hungary, Latvia, Poland, Portugal, Slovak Republic, Slovenia and Turkey.

Source: World Bank Development Indicators.

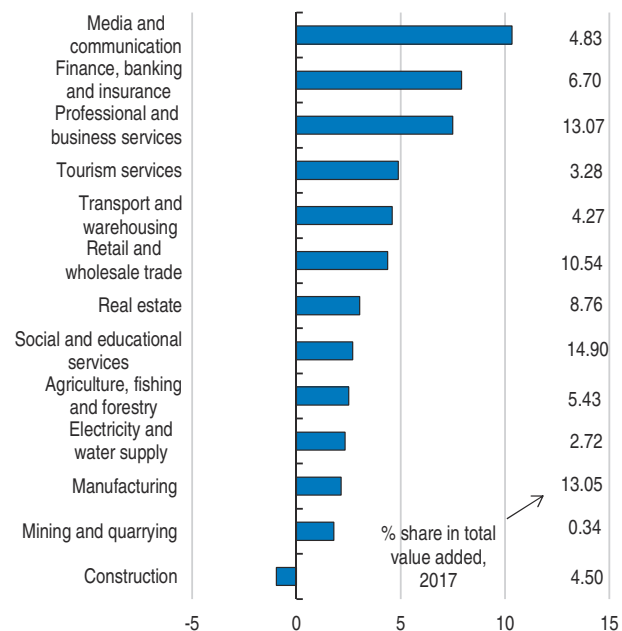
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Figure 5. **Services account for an increasing share of value added**

A. Composition of value added
As a % of total value added



B. Real annual value added growth by industry
Average yearly % change, 2010-17

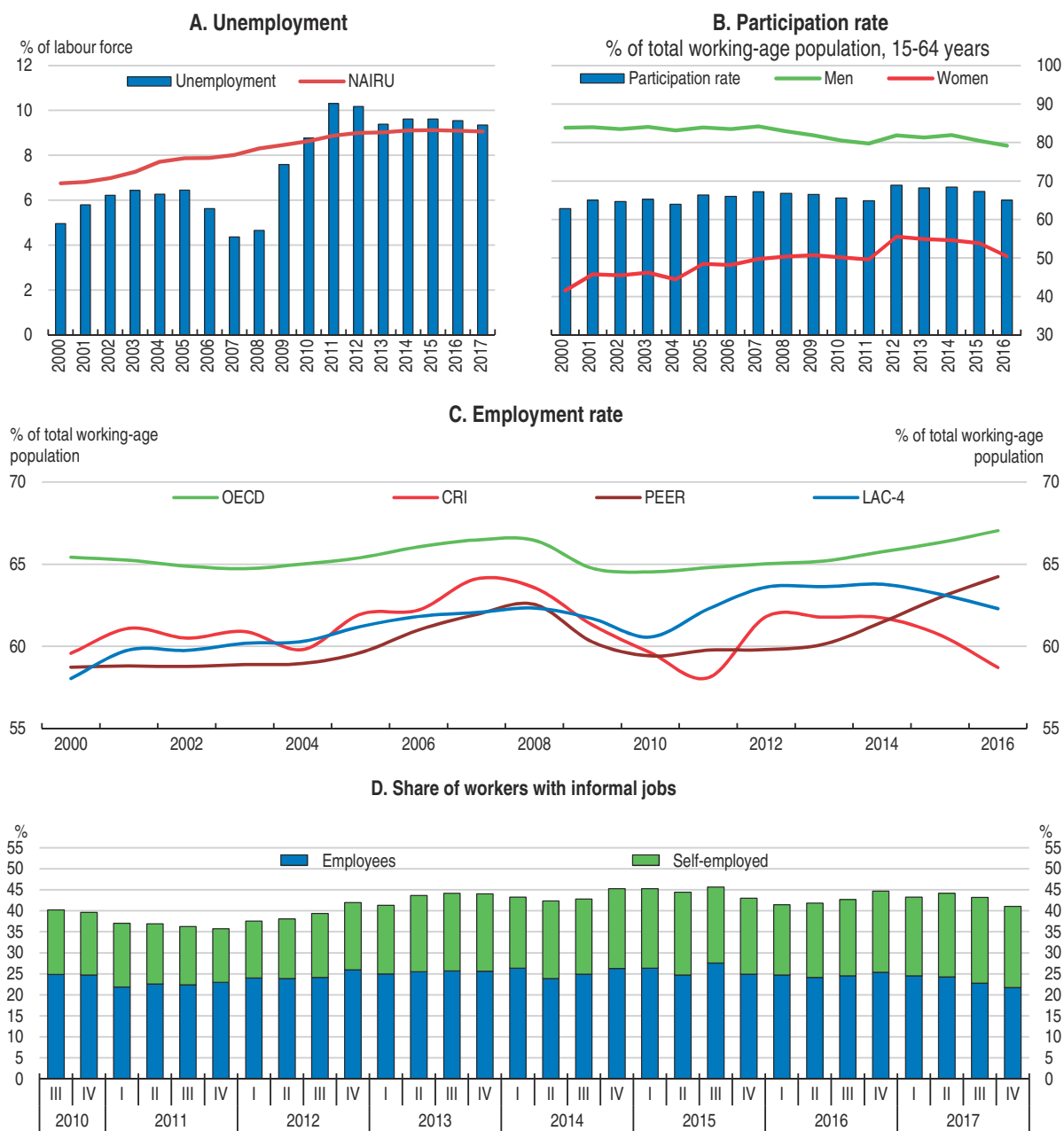


Note: In Panel A, the “public services” category comprises public administration and defence, education, health and social activities together with other activities included in ISIC Rev. 4 sectors R, S, T and U; In Panel B, the numbers after each sector indicates its contribution to value-added in 2017.

Source: OECD calculations using Banco Central de Costa Rica (BCCR) data.


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Figure 6. Labour market outcomes have deteriorated



Note: LAC-4 refers to Brazil, Chile, Colombia and Mexico. PEER refers to the 10 non-Latin American OECD countries with the lowest GDP per capita: Czech Republic, Estonia, Greece, Hungary, Latvia, Poland, Portugal, Slovak Republic, Slovenia and Turkey.

Source: OECD Analytical Database; OECD Labour Force Statistics Database; INEC Encuesta Continua de Empleo (ECE).

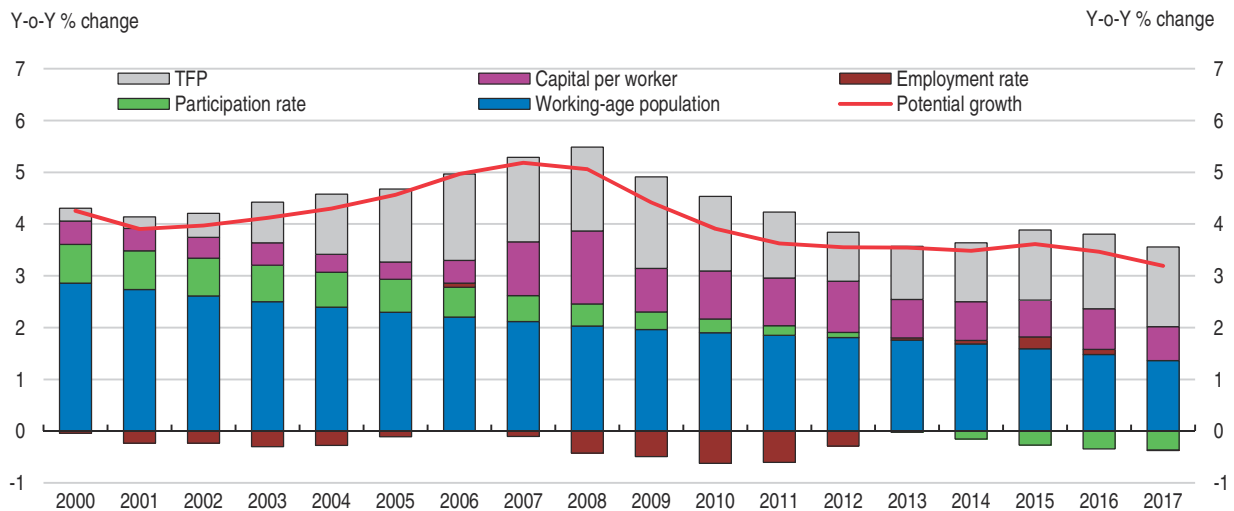
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At the same time, the wage premium for skilled workers has been increasing, which has contributed to higher inequality (González Pandiella and Gabriel, 2017). Against the general trend in Latin America, informality has remained stubbornly high (Figure 6, Panel C; Figure 22). Lower labour utilisation is also curbing potential growth (Figure 7).

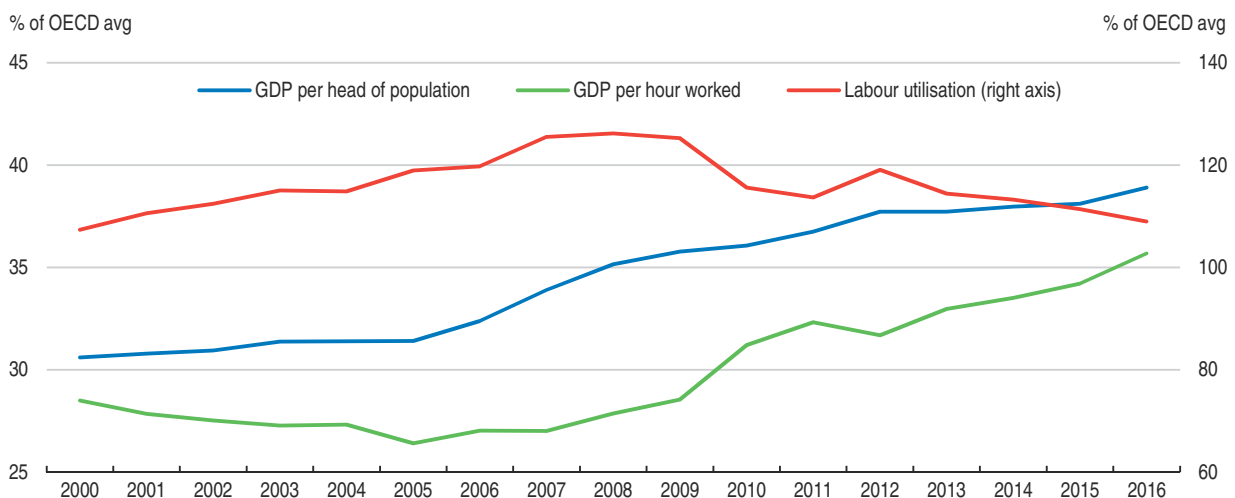
After decades of stagnation, productivity has gained some momentum since the mid-2000s (Figure 8). However, its sluggish pace is disappointing and a large gap relative to the OECD

Figure 7. **Growth remains robust but has declined after the crisis**

Decomposition of potential output growth



Source: OECD Economic Outlook Database.

StatLink <http://dx.doi.org/10.1787/888933701718>Figure 8. **GDP per capita and labour productivity are converging, but remain at low levels**

Source: OECD Productivity Database.

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persists, associated with poor education outcomes, labour market segmentation, anti-competitive regulation, infrastructure bottlenecks and limited spillovers from FDI into the domestic sector (Sandoval et al., 2018). Boosting sustainable economic growth will also require raising the skill set and making the most of existing human capital, including facilitating women's participation in the labour market, reducing youth unemployment and informality, and improving the labour market conditions and social integration of migrants.

Macroeconomic imbalances are rising as the budget deficit continues to deteriorate. The counter-cyclical measures implemented during the global crisis, mostly in the form of increased compensation of public sector workers and transfers to autonomous institutions, have not been reverted. Rigid earmarking rules, fragmentation of the public sector into

multiple deconcentrated and decentralised institutions combined with weak steering and co-ordination capacity by the central government, legislatively-mandated increases in public spending and political gridlock, which is preventing the adoption of reforms to overhaul the fiscal situation, are at the origin of the build-up of persistently large fiscal deficits. As a consequence, sovereign debt is rising fast and, if left unaddressed, will threaten macroeconomic stability, and ultimately Costa Rica's successful growth model.

Against this backdrop, this second *OECD Economic Survey of Costa Rica* sets a road map of policy reform priorities. To boost sustainable and equitable economic growth, the main areas for action are:

- Restoring the sustainability of public finances has become more urgent. A comprehensive package of reforms must be implemented immediately to stabilise the debt-to-GDP ratio, involving measures to curb government expenditure, raise tax revenues, strengthen the fiscal rule, and decrease legislatively-mandated spending and budgetary earmarking. Streamlining public sector employment and better controlling payroll costs, creating a multi-year expenditure framework, and modernising debt management would help to reduce the debt-to-GDP ratio to prudent levels while building fiscal space to address contingencies. Costa Rica should also assess fiscal risks linked to guarantees of deposits in state-owned banks, public-private partnerships and other contingent liabilities.
- Boosting productivity is key to achieving higher living standards. Reforms should focus on enhancing competition, including by adopting and implementing the bill reinforcing the powers, independence and funding of the competition commission. Other priorities include restricting the scope for anti-trust exemptions from competition, and reducing burdensome regulation that limits firm entry and exit and business formalisation. Shortcomings in public infrastructure should also be addressed.
- The benefits of growth should be more widely shared, which would also lay the foundations for more robust and sustainable growth. Policies should focus on reducing inequities in access and improving quality in education, facilitating women's access to the labour market and reducing informality. Priority actions include expanding early childhood education and care, refocusing spending to pre-tertiary education, further progressing towards a simpler minimum wage structure, and reducing businesses' compliance costs.

Costa Rica is actively engaged in the process of accession to the OECD (Box 1). Many initiatives aimed at adopting the 2016 OECD Economic Assessment recommendations are underway. This has been catalysed by the creation of a taskforce that encompasses all the institutions that have legal competencies in their implementation. The team includes high-level officials, meets regularly to assess progress and produces updates that are shared with the OECD Secretariat for feedback. This top-down approach has been effective in steering progress and has proved valuable in understanding the need for co-operation among the different public institutions to achieve results and facilitate implementation. It has also been very helpful for the OECD Secretariat to keep updated of advances in structural reform. A similar taskforce has also been established to address the recommendations of the OECD Committee on Financial Markets. Annex 1 summarises the state of play of many legislative initiatives to address OECD recommendations and set Costa Rica on a path of more robust growth and shared prosperity.

Box 1. **Costa Rica's accession to the OECD**

On 9 April 2015, OECD member countries agreed during a meeting of the OECD Council to open membership discussions with Costa Rica. The Accession Roadmap to the OECD Convention was adopted by the OECD Council on 8 July 2015, setting out the terms, conditions and process for the accession of Costa Rica [C(2015)93/FINAL]. In accordance with the Roadmap, 22 technical committees have been asked to evaluate Costa Rica's willingness and ability to implement OECD legal instruments within the Committee's competence, as well as Costa Rica's policies and practices as compared to OECD best policies and practices. For the delegates of the Economic and Development Review Committee (EDRC) this involves an evaluation of Costa Rica's policies and practices as compared to OECD best policies and practices with reference to the three Core Principles outlined in the Appendix to the Roadmap. Costa Rica next submitted its Initial Memorandum on 16 February 2016, in which a candidate country sets out its position on each of the OECD legal instruments in force, marking the start of the technical reviews which are now well under way.

Costa Rica's accession process has triggered an acceleration of reform momentum towards OECD best practices. In particular, concrete policy actions have been taken to limit base erosion and profit shifting (BEPS), fight tax evasion and avoidance, strengthen the role of the tax administration, improve cash management practices in the Ministry of Finance, align corporate governance of state-owned enterprises (SOEs) with the OECD Guidelines and simplify the complex minimum wage structure. Over time, moving towards OECD best practices will be a catalyst for more robust, sustainable and equitable growth and well-being.

Robust growth is set to continue

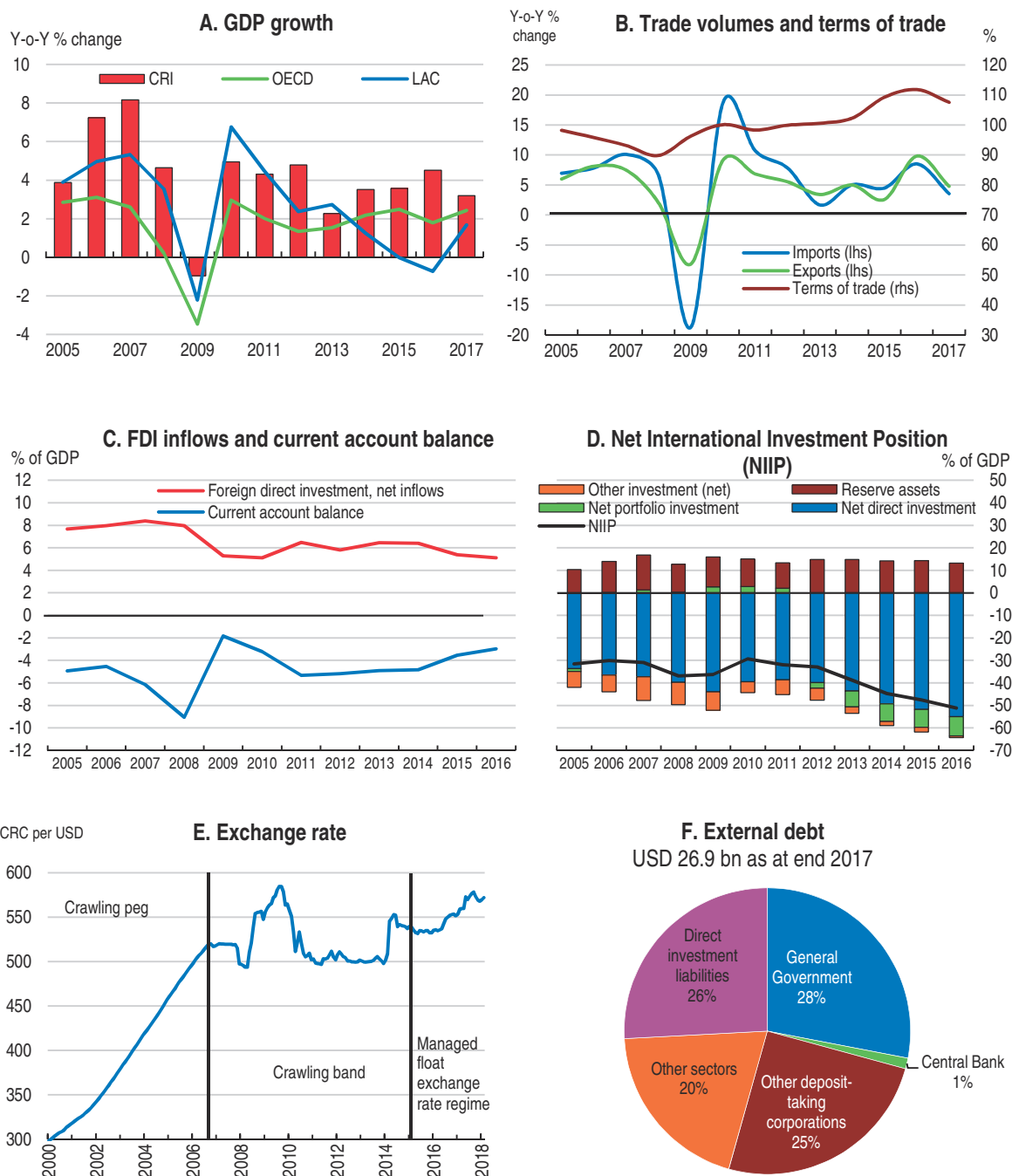
Growth will be broad-based

Growth remains solid at above 3%, supported by strong exports and inflows of foreign direct investment (Figure 9). Output was lower than expected in the second half of 2017 due to adverse weather conditions, including the tropical storm Nate. Nate caused major disruptions in agriculture production and construction, as well as widespread damage to transport infrastructure and damage to dwellings in Guanacaste. Private consumption growth has decelerated, owing to a deterioration in the terms of trade in 2017, weaker household credit growth and poor labour market conditions. In spite of strong output growth, labour participation has declined and informality has remained high. The unemployment rate has decreased from its peak of 10.3% in 2011 to 9.1%, but it is well above the pre-crisis low of 4.4% in 2007.

Strong growth in export volumes has contributed to the narrowing current account deficit, which continues to be entirely financed by FDI. Costa Rica enjoys a large trade surplus in services, due to the strong performance of tourism and professional services. Strong growth in exports is also associated with solid growth in imports, given that Costa Rica is well integrated into global value chains from a backward participation perspective (i.e. the share of foreign value added in Costa Rica's gross exports is significant) (Araújo and Linares, 2018). The negative net international investment position (NIIP), standing at just below 50% of GDP, does not present sustainability concerns, as FDI comprises more than 65% of total external liabilities and the share of short-term external debt is low (IMF, 2017a).

The central bank (BCCR) has intervened recurrently in the foreign exchange market to avoid large fluctuations of the colón (CRC). The BCCR's operations in the foreign exchange

Figure 9. Recent macroeconomic developments



Note: In Panel A, 2017 figures for OECD and LAC are forecasted; LAC refers to Argentina, Brazil, Chile, Colombia, Costa Rica and Mexico. In Panel F, “Direct Investment Liabilities” includes only inter-company lending; “General Government” comprises central government, local governments, and non-corporation decentralised institutions; “Other sectors” category comprises non-bank financial corporations, non-financial corporations, and households and non-profit institutions serving households subsectors, as defined by the IMF’s External Debt Statistics: Guide for Compilers and Users.

Source: OECD Economic Outlook Database and Banco Central de Costa Rica.

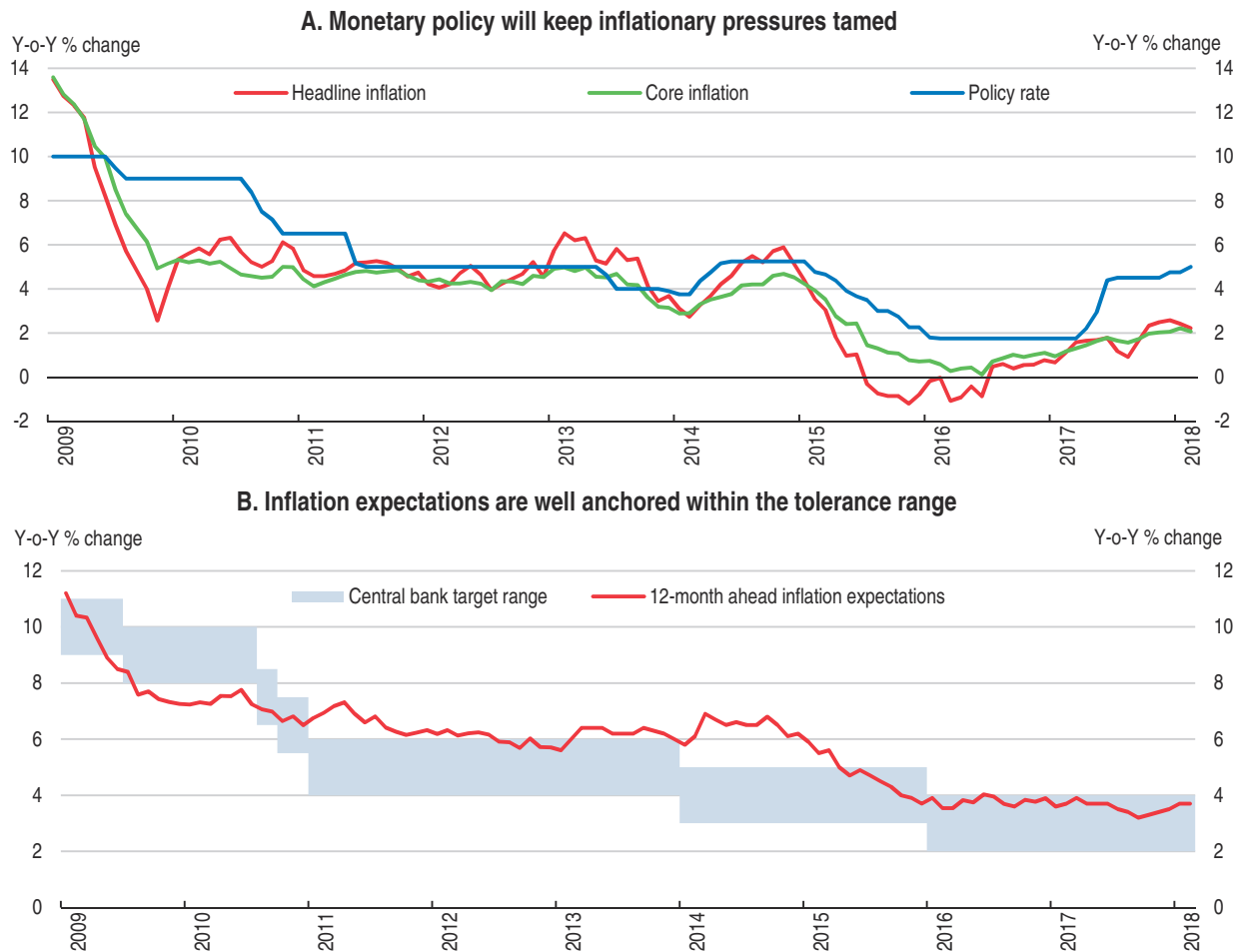
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market to reduce excessive currency volatility not linked to fundamentals resulted in a decline in international reserves in the first half of 2017. As a precautionary measure, the central bank signed a credit for USD 1 billion with the Latin American Reserve Fund. By

March 9th 2018, international reserves totalled USD 8.01 billion, representing 13.2% GDP and about 6.4 months of imports. Although this is a comfortable level, international reserves have declined by 5.7% relative to the end of December 2016.

After a period of decelerating, and even negative inflation, core and headline inflation have started to pick up to the 2-4% target range established by the BCCR (Figure 10). However, inflation remains very low by historical standards. Inflation expectations remain well anchored. In response to a sharp depreciation of the colón, and concerns of spillovers into inflation, but also to discourage savings in USD and borrowing in the domestic currency, the central bank started to withdraw its accommodative stance and hiked the policy interest rate in several steps, from 1.75% in March 2017 to 4.75% in November 2017. On February 1st 2018, monetary policy authorities raised again the policy rate by 25 basis points, to contain inflation expectations, which are moving towards the upper tolerance range. As monetary transmission mechanisms are weak, the hikes in the policy rate have only a limited effect on economic performance (see below).

Figure 10. **Monetary policy and inflation developments**



Note: The shaded area in Panel B represents the inflation target range.

Source: Banco Central de Costa Rica.

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Going forward, growth will accelerate to close to potential as improving external demand supports exports, including tourism services and skill-intensive professional services, also helping to contain the current account deficit (Table 2). The continuation of a low inflation environment will protect consumers' purchasing power. Public investment is also expected to strengthen, owing to ongoing public infrastructure programmes such as the Moín Container Terminal and reconstruction related to hurricane Otto and tropical storm Nate. However, the construction sector is unlikely to return to its pre-crisis growth rates, contributing to the higher unemployment rates among the lower-skilled.

Table 2. **Macroeconomic indicators and projections**

	2014	2015	2016	2017	2018	2019
	Current prices CRC trillion	Percentage changes, volume (2012 prices)				
GDP at market prices	27.2	3.6	4.2	3.2	3.7	3.7
Private consumption	18.0	4.6	3.5	2.6	3.3	3.9
Government consumption	4.8	2.3	2.4	2.9	2.4	2.3
Gross fixed capital formation	5.3	3.1	3.8	-2.8	2.7	4.3
Final domestic demand	28.1	3.8	3.3	1.7	3.1	3.6
Stockbuilding ¹	-0.2	0.3	0.0	0.8	0.2	0.0
Total domestic demand	27.9	4.2	3.5	2.5	3.4	3.7
Exports of goods and services	8.8	2.8	11.4	5.0	4.9	6.0
Imports of goods and services	9.5	4.4	8.7	3.1	4.2	5.7
Net exports ¹	-0.7	-0.7	0.5	0.6	0.2	0.0
<i>Memorandum items</i>						
GDP deflator	—	3.7	1.8	2.0	2.1	3.0
Consumer price index	—	0.8	0.0	1.6	3.1	3.1
Core inflation index ²	—	1.8	0.1	1.2	2.9	3.1
Unemployment rate (% of labour force)	—	9.6	9.5	9.1	9.3	9.2
Current account balance (% of GDP)	—	-3.5	-2.6	-3.0	-3.2	-3.4
Central government fiscal indicators ³						
Headline balance (% of GDP)	—	-5.7	-5.2	-6.2	-6.2	-6.3
Primary balance (% of GDP)	—	-2.9	-2.4	-3.1	-2.4	-2.1
Gross financial debt (% of GDP)	—	41.0	45.1	49.0	53.1	—

1. Contributions to changes in real GDP, actual amount in the first column.

2. Consumer price index excluding food and energy.

3. Ministry of Finance (Hacienda) official estimates.

Source: OECD Economic Outlook Database and Ministerio de Hacienda.

The major domestic risk to the outlook relates to the persistently high fiscal deficit and rapidly growing public debt (see below). Failure to pass the comprehensive package of reforms that is needed to improve fiscal performance would result in further loss of confidence and increases in the risk premium for public debt, which would spread to the private sector, hurting investment and growth and potentially also external stability. On international markets, disorderly corrections in asset prices, deleveraging in China that creates financial turbulence, tighter or faster than expected monetary policy normalisation in developed economies could trigger capital outflows that would lead to currency depreciation (OECD, 2017b). This would in turn weaken even more Costa Rica's fiscal position and threaten financial stability, as the Costa Rican banking sector is heavily dollarized and a high share of dollar-denominated credits has been extended to unhedged borrowers. Also, currency depreciation would reduce households' purchasing power, thereby hampering

growth (Box 2). On the positive side, the BCCR's adequate foreign reserves are a safeguard against negative shocks and the authorities consider that the banks are adequately capitalised. Also, sovereign debt has a favourable currency composition, tilted towards local currency, although foreign-currency denominated debt is increasing.

A continuation of political gridlock in Congress and weak institutional capacity to implement necessary structural reforms would dampen growth and inclusion. Costa Rica's good economic performance rests on open borders and a friendly FDI regime. An international retreat from globalisation could endanger Costa Rica's successful growth model, weakening growth, investment, employment and jeopardising the continuous progress to a more sophisticated production structure.

Box 2. Vulnerabilities and low probability events that could lead to major changes in the outlook

Vulnerabilities	Possible outcome
Financial turbulence	A disorderly adjustment in financial markets, stemming from sudden asset valuation corrections, financial stress in large emerging markets such as China, a higher than expected rise in interest rates in the US or faster than expected monetary policy normalisation in developed economies could lead to large capital outflows and exchange rate depreciation, creating volatility and dampening household's purchasing power. It would also create tensions in the banking system, as private sector debt is highly dollarized and largely unhedged.
Retreat from cross-border integration	Costa Rica's good economic performance rests on its successful integration into the world economy. Possible modifications of existing trade deals, or a more general globalisation backlash would hurt jobs and the possibility of continuing to climb up the value added chain, and ultimately deterring its convergence towards higher living standards.
Environmental risks and natural disasters	Costa Rica is subject to seasonal yet unpredictable unfavourable weather events, such as El Niño and La Niña, which lowers agriculture and agro-food production. Earthquakes and volcanos can harm tourism and also damage infrastructure which could cause supply disruptions.

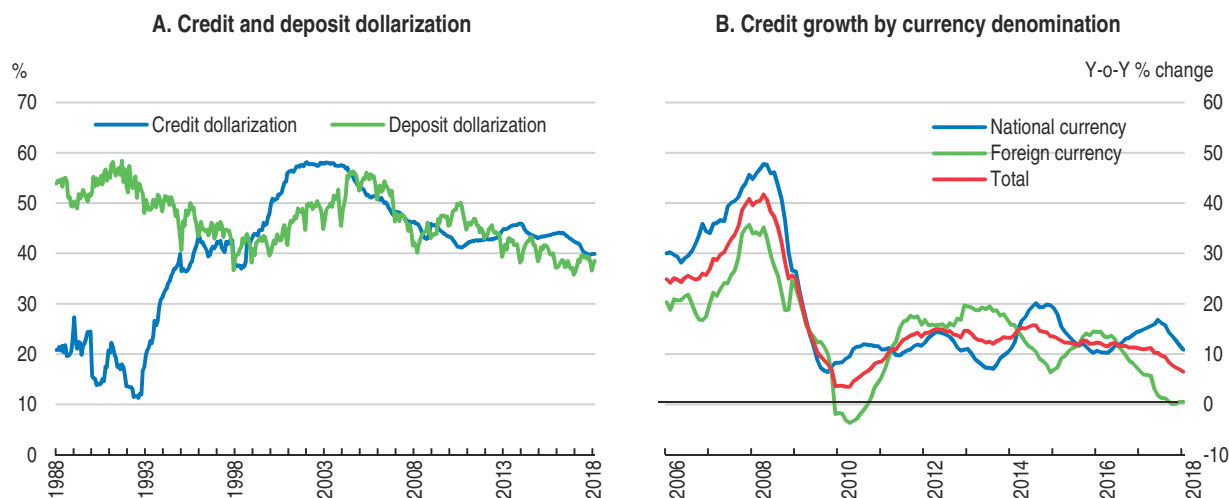
Strengthening the monetary policy framework and ensuring financial stability

Costa Rica has been moving towards an inflation-targeting framework since 2005, having officially adopted one on February 1st 2018. However, institutional shortcomings remain. The independence of monetary policy decisions should be strengthened by delinking the designation of the President of the central bank from the political cycle and by improving the clarity of dismissal rules and motives. A draft bill has been prepared which stipulates that the President of the Executive Board of the BCCR will be appointed a year after each new Government is sworn in, and also makes explicit the grounds for dismissal. Currently, the Minister of Finance of Costa Rica has a voting right in the BCCR's Board of Directors, an approach that is not aligned with international best practices. Going forward, the independence of the central bank could be strengthened further by not allowing Ministers or their representatives to vote in Board decisions.

The heavy dollarization of the monetary system impairs the ability of the central bank to control inflation and also endangers financial stability (OECD, 2017c). Deposit dollarization markedly increased in the aftermath of the 1980s balance of payments crisis, while credit dollarization grew in the 1990s as a result of a sharp reduction in reserve requirements on

dollar deposits. Credit dollarization was reinforced by the low exchange rate risk perceived by economic agents (households, firms, banks) stemming from the crawling peg regime and by the relatively low cost of dollar financing, especially after the 2008 global economic crisis. Credit dollarization peaked in the first part of the 2000s at close to 60%. Since then, dollarization has been on a downward trajectory. As of December 2017, around 40% of credits are denominated in foreign currencies, of which 70% have been extended to unhedged borrowers (Figure 11).

Figure 11. **Dollarization remains high**



Source: Banco Central de Costa Rica.

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Highly dollarized financial systems limit the effectiveness of monetary policy by weakening its transmission mechanism to market rates and by intensifying the impact of the exchange rate channel on the inflation rate. Financially-dollarized economies are also exposed to a vast number of risks, including more unstable demand for money, a greater propensity to suffer banking crises after a depreciation of the local currency, and slower and more volatile output growth (Levy Yeyati, 2006). Banks, firms and households could suffer severe financial losses in the event of a sharp real depreciation, which would drive up the costs of servicing foreign currency debt without necessarily raising debtors' income (Armas, Ize and Levy Yeyati, 2006; Ostry, Ghosh and Chamon, 2012).

Dollarization is a persistent phenomenon, even in countries that have implemented macroeconomic stabilisation policies and successfully reduced inflation (Ize and Levy Yeyati, 2005). Although there is no unique recipe for de-dollarization, international experience reveals that effective strategies involve credible monetary and exchange rate frameworks, low and stable inflation, and deep financial markets (Ben Naceur, Hosny and Hadjian, 2015).

Besides achieving a decline in inflation to low levels over the past decade, Costa Rica has implemented three kinds of measures to tackle high dollarization: i) increased flexibility of the exchange rate from 2006; ii) increased reserve requirements for dollar liabilities of financial intermediaries in 2012; and iii) enacted prudential regulations for dollar loans to unhedged borrowers in 2013 (differentiated capital-risk weights). In 2011 authorities initiated a gradual process to apply reserve requirements to external liabilities.

Reserve requirements have been broadened over time from 100% in 2013 to 125% in March 2015, applicable to foreign currency loans to unhedged borrowers. Since June 2016, risk weights for mortgage loans to unhedged borrowers have been defined as an increasing function of the loan-to-value ratio, for capital adequacy purposes. Technical assistance from the IMF to design additional measures to reduce dollarization is ongoing.

To counter the increased pressure to save in dollars and borrow in colones felt during the first half of 2017, the BCCR has re-opened the electronic platform “Central Directo”, which allows the public to deposit their savings in national currency directly with the central bank. By offering a higher return than commercial banks on short term deposits, the BCCR seeks to accelerate the transmission of monetary policy. However, besides being asymmetric, this policy may have unintended consequences as it puts pressure on commercial banks’ already low profitability. The ratio of credits in dollars to total credits in the financial system decreased 2.5 percentage points from December 2016 to December 2017 and it has been kept below 40% since August 2017, for the first time in 20 years. However, it is too soon to evaluate the individual impact of recent measures.

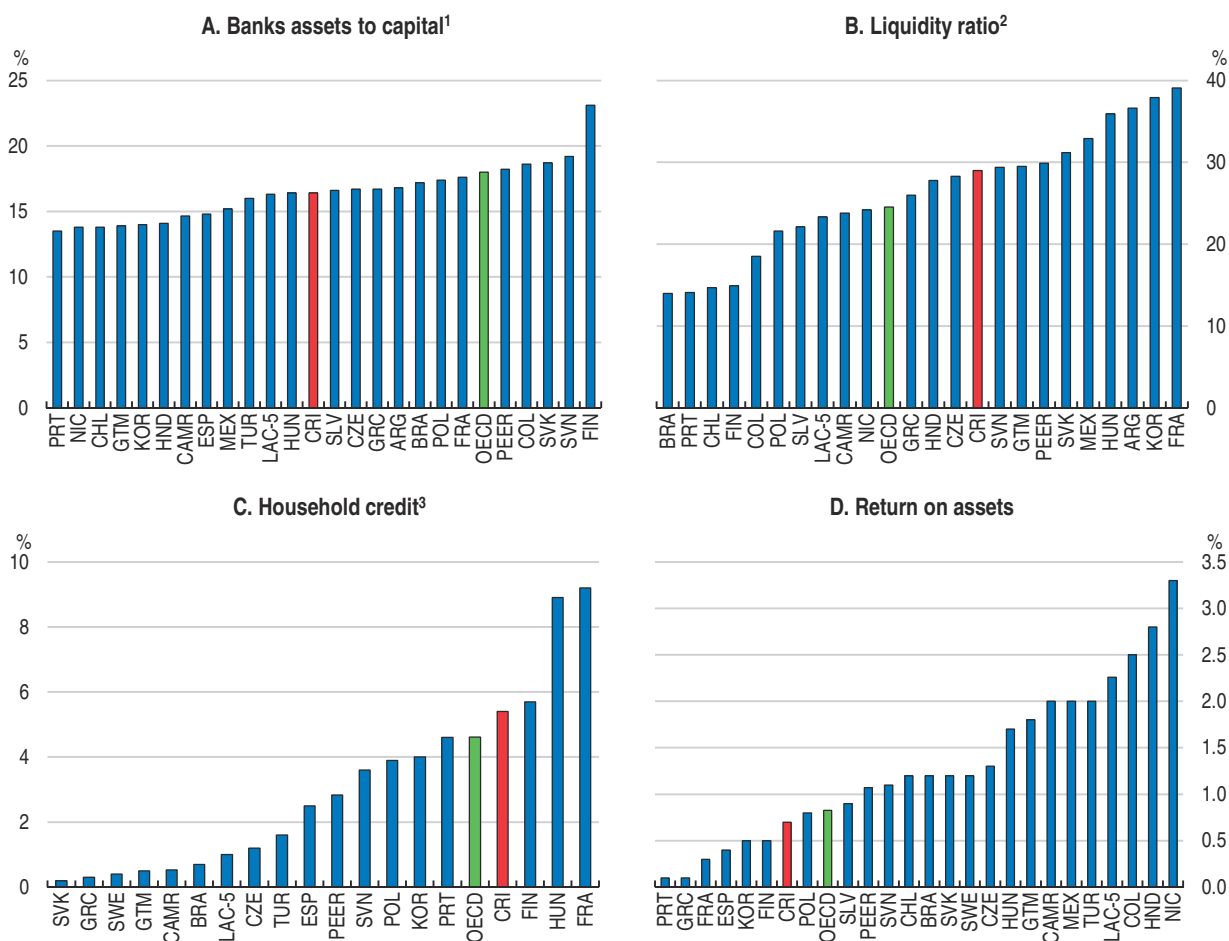
Strengthening the monetary policy framework will require further bringing down the level of dollarization. Lower inflation has played an important role in reducing dollarization but there are signs of hysteresis in the response of economic agents to more stable economic conditions (Mendez and Kikut, 2003; Esquivel Monge, 2008; Araújo and Montoya, 2018). Yet, the decline in the level of dollarization is associated with the move from the crawling peg to the crawling band late in 2006, indicating that the choice of foreign exchange regime plays a role in the level of dollarization (Araújo and Montoya, 2018; Figure 9, Panel E; Figure 11). This suggests in turn that the BCCR’s precautionary interventions in the foreign exchange market may be creating overconfidence and moral hazard, preventing economic agents from internalising exchange rate fluctuations, hampering de-dollarization and contributing to sustained large currency mismatches and unhedged positions.

Costa Rica should therefore assess the possibility of gradually moving to a more floating exchange rate regime, which would not only improve the effectiveness of monetary policy but also allow the exchange rate to act as a shock absorber. For this policy to succeed, some pre-conditions need to be met. These include a more liquid and deeper foreign-exchange market and the use of derivative instruments to hedge against foreign exchange risk should also be encouraged. Authorities should press for the issuance of more liquid standardised derivative contracts to be traded in organised markets, instead of over the counter, as is done presently, as the latter involves large transactions (Brunner and Esquivel, 2010). Finally, to address currency mismatches authorities should keep and step up, if necessary, legal reserve requirements differentiated by currency for banks and could consider imposing an additional margin on loans to unhedged borrowers whose main source of income is in colones, also for consumer protection concerns. Additional prudential measures would ensure that the costs associated with financial dollarization are fully internalised in financial contracts.

Apart from dollarization, the banking sector is considered by the authorities and the IMF to be solid and holding enough buffers to face negative shocks. Banks appear to be well capitalised and the liquidity profile seems to be strong, even though reliance on non-deposit liabilities has increased (Figure 12).

The main issue with Costa Rica’s banking sector is its lack of competition. The sector opened up to competition in 1995, when the state-owned banks’ monopoly on current and

Figure 12. Selected banking sector indicators, 2016



1. Regulatory Tier1 capital to risk-weighted assets.

2. Liquid assets as a % of total assets.

3. Loans distributed to deposit-takers, as a % of total loans.

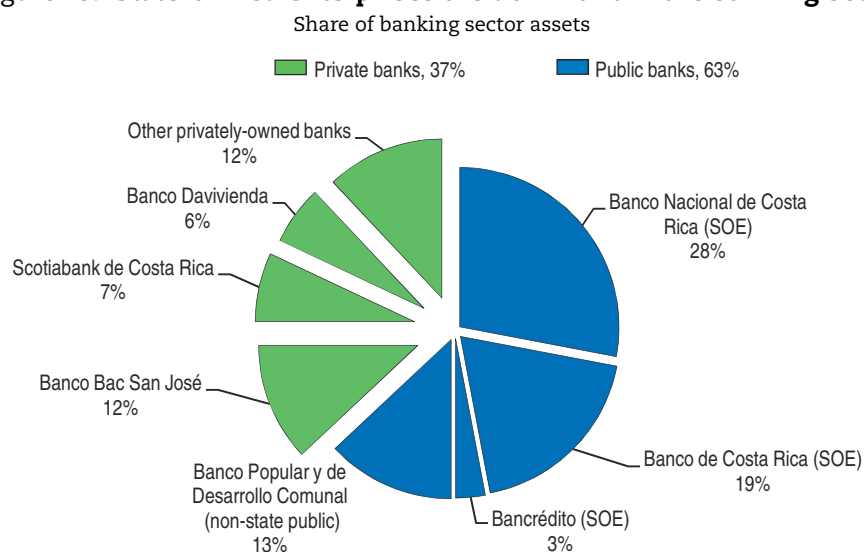
Note: PEER refers to the 10 non-Latin American OECD countries with the lowest GDP per capita: Czech Republic, Estonia, Greece, Hungary, Latvia, Poland, Portugal, Slovak Republic, Slovenia and Turkey. LAC-5 refers to Argentina, Brazil, Chile, Colombia and Mexico.

Source: IMF Financial Soundness Indicators.

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savings accounts was eliminated. However, state-owned banks still largely dominate the market. In 2017, the three state-owned banks and Banco Popular accounted for 63% of the total banking system assets and 60% of total banking system loans (Figure 13). Foreign-owned banks account for the lion's share of private banking activity, representing more than 90% of privately-held assets and loans extended by private banks in 2017 (a similar situation occurs with liabilities). The BCCR has mentioned in its Macroeconomic Programs as well as in research documents that the domestic banking sector shows reduced competition which has led to higher intermediation margins and a lack of responsiveness to movements of the monetary policy rate, impacting negatively on the country's economic performance. However, there is no specific BCCR policy related to competition in the financial sector (OECD, 2017d).

High intermediation margins by state-owned banks are a result of profit earmarking and regulatory burdens. Some operations of state-owned banks are motivated by public policy objectives, as stated in the National Development Plan (PND). This subjects them to

Figure 13. **State-owned enterprises are dominant in the banking sector**

Source: OECD, 2017d.

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directed lending to support policy goals such as affordable housing, agriculture and infrastructure, or SME development. State-owned banks are also required to contribute to a number of other state funds, with such contributions being expensed in the income statement (OECD, 2017d). Mandatory contributions to funds and taxes amount to 63% of state-owned banks' earnings (OECD, 2016c). Also, long-term deposits are taxed at 8% of the fees charged to the depositor. In addition, state-owned banks have been increasing their holdings of bonds issued by the Ministry of Finance (see below). These may be purchased either directly or through the market. State-owned banks are subject to closer control by inspectors, as they are considered too big to fail.

On the other hand, all public institutions are required by law to deposit their cash with one of the state-owned banks, ensuring easy access to funding for the latter. State-owned banks also enjoy an advantage relative to private banks as they have a guarantee against the totality of deposits (including those denominated in foreign currency). However, private banks can operate more flexibly both in their decision making, including in their capacity to select board members with relevant profiles, and the rules under which they operate (OECD, 2016c).

As a result of regulatory differences and business and corporate practices, profitability is lower in state-owned banks. Intermediation margins are lower for state-owned banks when compared to private banks. Moreover, while state-owned banks' intermediation margins show a declining trend, the opposite is occurring for private banks as a whole. However, state-owned banks' dominant position in the market results in the typical leader-follower market equilibrium, by which state-owned banks set the interest rate and private banks follow suit (Estado de la Nación, 2016).

Overall, levelling the playing field between private and state-owned banks would spur competition in the banking sector and also contribute to increased monetary policy effectiveness. It would also be a pre-condition for possible future bank privatisation. Although there is no political appetite towards privatisation and a social consensus seems to exist to maintain the status-quo, Costa Rica has embarked on administrative reforms to

increase the efficiency of SOEs and is currently working towards improving the governance of state-owned enterprises (OECD, 2016c).

Opening entry to FinTech start-ups and innovation would also be a way to boost competition and reduce the high costs of financial intermediation. Technology-driven innovation in financial services has the potential to increase competition in the financial sector, improve access to credit, financial inclusion and reduce the cost of cross-border transactions. Several governments have therefore implemented, or are considering options for, FinTech regulatory frameworks. By providing greater certainty to innovating businesses and allowing space for experimentation, these aim to facilitate the development of FinTech while ensuring consumer protection and financial stability. For example, the UK launched a regulatory sandbox in May 2016 to provide a testing ground for new FinTech services, allowing for innovation under equal conditions for all players, while containing any consequences of failure. Several other governments have since created regulatory sandboxes, such as Singapore and Hong Kong. Mexico has also recently approved a bill to create a regulatory framework for FinTech and the European Commission is considering regulatory options as well. In Costa Rica, to foster competition in the financial sector, where high transactions costs prevail, the Central Bank has updated its “Regulations for the Payments System” so that FinTech companies can register with and use the “National System of Electronic Payments”, managed by the central bank, and widely used by the population. Building on this positive step, to further facilitate the development of FinTech the Costa Rican authorities should explore options and implement an appropriate regulatory framework.

The 2016 OECD Economic Assessment made a number of recommendations to align banking practices and regulation with international best practices. Costa Rica should also create a deposit insurance scheme covering all banks in order to ensure competition and level the playing field between state-owned banks, which enjoy an unlimited state guarantee, and private banks, which do not. The OECD has also recommended designing a regulatory framework to deal with bank resolution, as currently there is none. The BCCR has prepared a bill that would introduce simultaneously a deposit-insurance fund for banks and non-financial entities (private and public) currently supervised by SUGEF (the banking sector superintendent) or that may come under its supervision in the future and a bank resolution mechanism. Furthermore, CONASSIF (the governing body of the financial sector supervisors) has established a calendar to adopt Basel III principles, which should be approved by the first quarter of 2019, although some of them will be implemented in a more gradual manner.

Stress tests reported by the IMF show that banks’ capital ratios would remain adequate in most situations, apart from a few small banks when exposed to extreme scenarios (IMF, 2017a). The OECD has recommended that regulatory authorities publish regularly the key results of the stress tests carried out by SUGEF, the banking superintendent, as is done in other jurisdictions to improve transparency and bolster credibility. The authorities think that better financial literacy is needed so that the public can grasp appropriately the results of the tests. Hence, they have developed an action plan leading to the publication of aggregate stress test results undertaken by SUGEF and BCCR.

This plan, which also includes actions to improve financial literacy of the media and general public as well as capacity building for supervised entities, is a step in the right direction. Following its successful implementation, authorities should consider publishing individual stress test results. This would strengthen public confidence of the soundness of the financial system and induce corrective measures early on. Research finds that the

disclosure of bank stress tests contributes to financial stability, although disclosure should be done carefully, to avoid possible inefficiencies at the level of individual banks (Petrella and Resti, 2013; Goldstein and Sapra, 2014).

The cessation of intermediation activities at one public bank and investigations into the business practices of another, highlight weaknesses in banking regulation and in the corporate governance of public banks. In September 2016 SUGEF identified a number of financial, risk management and corporate governance weaknesses in Bancrédito (Banco Crédito Agrícola de Cartago, a small state-owned commercial bank whose assets were worth about 2% of GDP in March 2017). The action plans proposed by the bank were deemed insufficient to correct the identified weaknesses. As a result, SUGEF requested a revision of the activities and deadlines proposed by the bank, and a revised plan was approved in April 2017. Financial assistance of CRC 2 billion was also agreed with Banco Nacional de Costa Rica, another state-owned bank, as an advance on expected revenue from the collection of airport exit taxes, paid directly by airlines to Bancrédito. During the first quarter of 2017 Bancrédito was unable to reverse the non-renewal of institutional investments, which increased its liquidity risk. The government encouraged other state-owned banks to take over the portfolio of loans of Bancrédito, which could potentially have spread losses to other banks. Bancrédito's portfolio acquisition did not occur to the extent intended by the government as state-owned banks applied their own risk assessment criteria, which discouraged acquisition. In May, the Government Council decided to cease any financial intermediation activities carried out by Bancrédito until the end of 2017, and to reconvert the bank into a development bank. It also agreed to inject CRC 118 billion, equivalent to about 0.4% of GDP, to address the bank's liquidity needs, potentially increasing fiscal costs. In December 2017, confronted with the deterioration of liquidity, profitability and asset quality indicators, CONASSIF decided for direct intervention in Bancrédito. By mid-2018, a final decision about the future of Bancrédito will be issued. Afterwards, the losses on Bancrédito's portfolio will be known, as well as whether the Ministry of Finance will recover the CRC 118 billion loan extended to the bank. The term of the intervention is six months, at which time the controller of the intervention must inform CONASSIF about the financial viability of this bank.

The draft legislation being prepared introduces new forms of bank resolution to the current alternatives of liquidation or voluntary purchase by another bank, including the transfer of assets and liabilities to a bridge entity or to a special purpose vehicle or trust; internal recapitalisation; or any other resolution mechanism proposed by the administrator of the resolution and approved by the Resolution Authority. It should be approved swiftly.

Table 3. Past OECD recommendations to enhance monetary credibility and strengthen financial stability

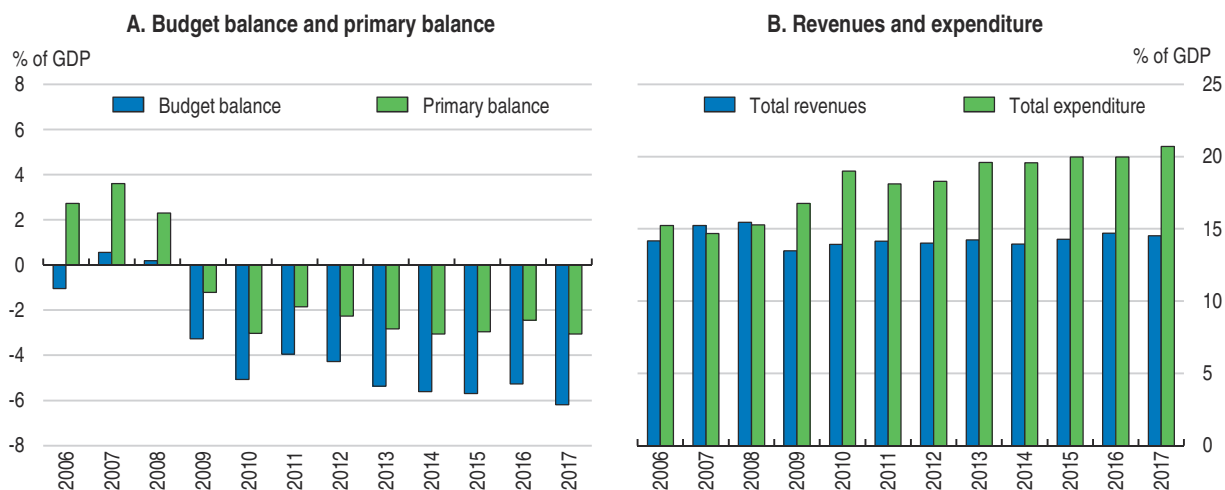
Recommendations in 2016 Economic Assessment	Actions taken
Strengthen the effectiveness of monetary policy to achieve price stability with appropriate institutional reforms, in particular by delinking the designation of the President of the Central Bank from the political cycle, and clarifying motives for dismissal.	A draft bill has been prepared by the BCCR but has not yet been submitted to the Legislative Assembly.
Establish a deposit-insurance scheme covering all banks to help level the playing field in the banking sector, accelerate the adoption of Basel III principles, and release publicly the results of banks' stress tests.	<p>A deposit insurance scheme and bank resolution mechanism has been drafted with participation of the BCCR and the regulatory authority overseeing the financial system.</p> <p>The authorities have prepared a phased plan to progressively disclose aggregate results of stress tests.</p> <p>Adoption of Basel III principles: authorities are on track with a calendar that foresees implementation of most principles by the first quarter of 2019.</p>

Policies to restore fiscal sustainability


The fiscal outlook has deteriorated

Fiscal sustainability has been a long-standing issue in Costa Rica but its recent deterioration requires urgent action. The country has run negative budget and primary balances for the past nine years, which is unprecedented in Costa Rica's recent history (Figure 14, Panel A). The government implemented counter-cyclical fiscal policy in response to the global financial crisis, consisting of increases in the compensation of public sector employees and current transfers, especially to the Costa Rican Social Security Agency (CCSS, which is the largest decentralised autonomous entity in the government), both of which are considered rigid components of expenditure, and not easily reversed. Recent efforts to increase tax collection have not reduced the budget deficit due to the extensive use of earmarking and legal spending requirements (Figure 14, Panel B). In 2017, the fiscal deficit deteriorated to 6.2% of GDP, the worst performance in three decades, and the primary deficit worsened to 3.1% of GDP, from 2.4% in 2016.

Figure 14. **Budgetary imbalances are mounting**

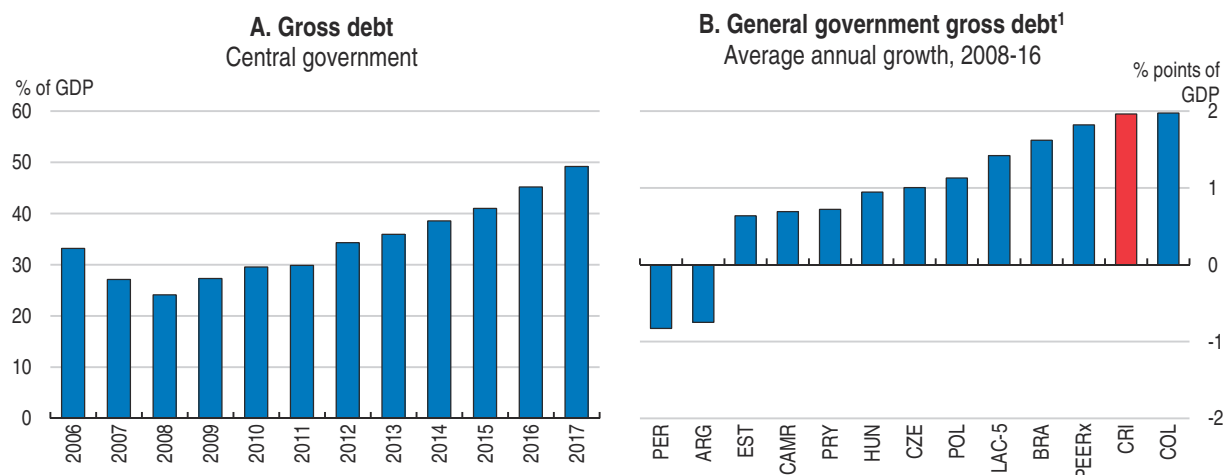


Note: Data refer to the central government only.
Source: Ministerio de Hacienda.

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Consecutive years of budgetary deficits increased the interest payment bill, which now accounts for almost half of the current deficit (3% of GDP). As a result, while local government debt has been kept stable at very low levels, central government debt has soared, from 24% of GDP in 2008 to 49% in 2017 (Figure 15, Panel A). Total public sector debt, consisting of the consolidated sum of general government plus financial and non-financial state-owned enterprises was already over 60% of GDP in 2016. State-owned enterprises have quadrupled their leverage in the past 10 years. As a share of tax revenue, total public debt stock increased to about 300%, illustrating an increasing pressure of the public debt stock on budgetary decisions (Figure 16, Panel A).

Unfortunately, Costa Rica has not taken advantage of favourable conditions to revert its fiscal situation. In spite of robust growth and an extended period of low interest rates, political fragmentation has prevented Congress from approving the various draft bills presented by the Government that would allow the budget deficit to be reined in. As a

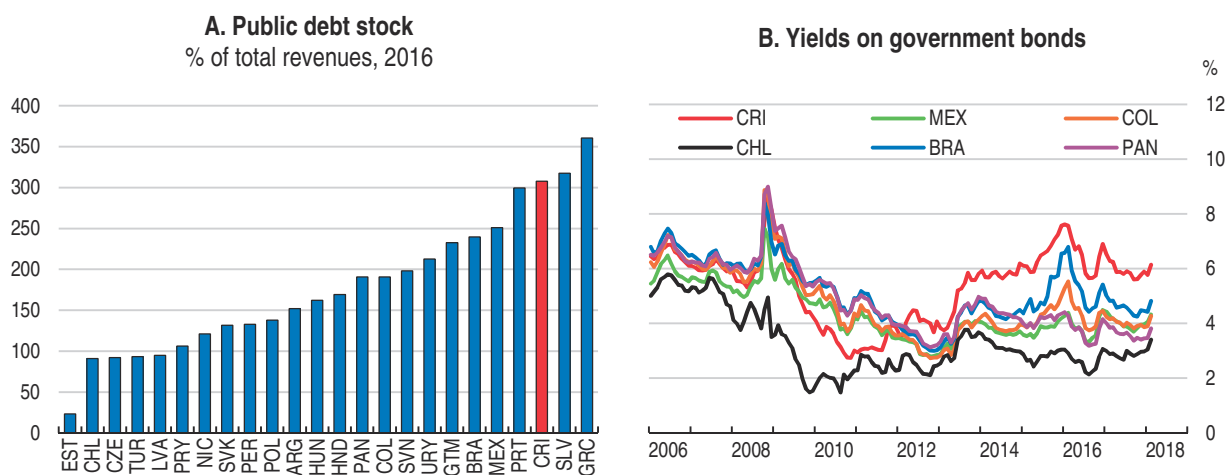
Figure 15. **Public debt is growing rapidly**

1. Includes only central government debt for Costa Rica.

Note: LAC-5 refers to the average value of Argentina, Brazil, Chile, Colombia and Mexico. CAMR refers to the average value of Guatemala, Honduras, Nicaragua, Panama, and El Salvador. PEERx refers to the average value of Czech Republic, Slovak Republic, Estonia, Latvia, Hungary, Slovenia, Poland and Turkey.

Source: Ministerio de Hacienda de Costa Rica; IMF World Economic Outlook database.

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Figure 16. **Fiscal performance has deteriorated**

Note: Data refer to central government.

Source: IMF World Economic Outlook Database; Thomson Reuters Datastream.

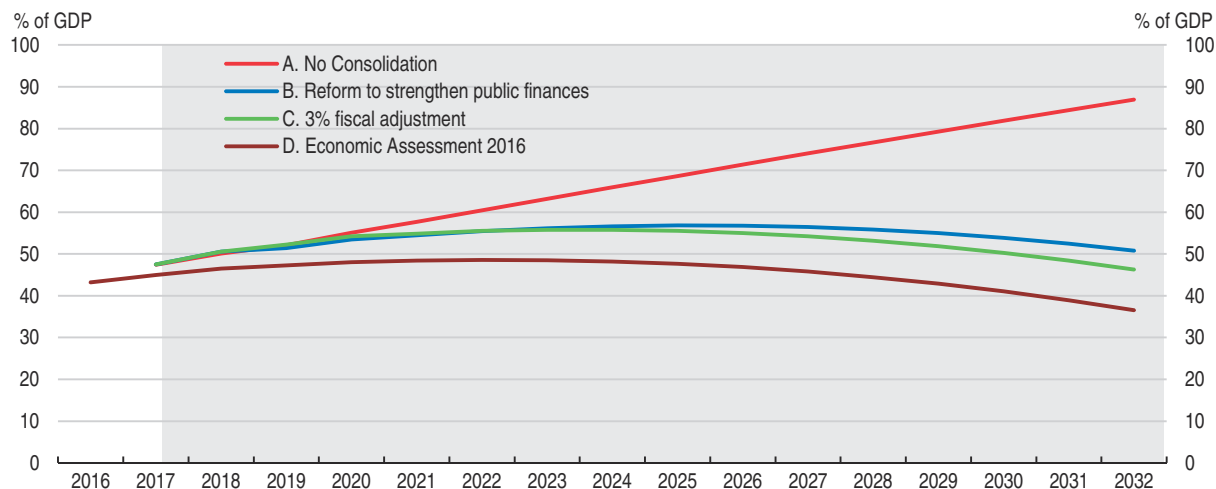
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result, major rating agencies have classified Costa Rica's sovereign bonds as below investment grade and its external sovereign bond yields are among the highest in Latin America (Figure 16, Panel B).

With a gridlocked Congress, authorities were only able to enact a number of piecemeal reforms, including measures to contain the public wage bill growth, a reduction in pension expenditures and transfers to decentralised institutions, as well as improving the effectiveness of tax revenue collection, by fighting tax evasion and strengthening the tax administration, which has led to an increase in the number of taxpayers (see Chapter 1). These measures contributed to a reduction of about 0.5 and 0.3 percentage points of GDP in the primary and


headline deficits in 2016, respectively. These reforms are welcome, albeit it is clear that they are insufficient to put debt on a sustainable trajectory as revenue collection is not able to meet the rise in current expenditures (Figure 17: A. No Consolidation).

Figure 17. **Debt sustainability scenarios**



Note: All estimates assume an annual GDP growth rate of 4%, inflation as projected in EO102 for the period 2017-19 and the central bank's 3% inflation target thereafter, and a fiscal multiplier of 0.3 (IMF, 2015). Alternative scenarios for public debt: "No Consolidation" refers to a scenario of projected debt equivalent to no additional fiscal reform, while "Reform to strengthen public finances" projects debt under the assumption that only reforms in the draft bill of Ley de Fortalecimiento de las Finanzas Públicas are enacted, while "3% fiscal adjustment" projects the debt path consistent with a phased 3 year fiscal consolidation of 1 percentage point of GDP each year. "Economic Assessment 2016" projects the debt path consistent with the fiscal adjustment proposed by the OECD in its 2016 Economic Assessment of Costa Rica. For more details, see Box 1.1.

Source: OECD calculations based on data from Ministerio de Hacienda.

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The deterioration of fiscal performance in 2017 is explained by constitutional court rulings mandating stricter enforcement of earmarking provisions for social and education expenditure. As a result, while tax revenues increased by 5.3%, spending increased by 9.1%, one of the largest increases since 2009. In particular, the wage bill and transfers to the institutionally-decentralised sector are rising fast, and so are capital expenditures, following many years of underinvestment in infrastructure, which is now choking competitiveness and harming sustainable growth (see below).

Without efforts to raise additional tax revenues and cut spending, the gap will be financed by issuing additional debt, which, under current trends, is projected to reach 65% of GDP by 2022, a level that is deemed excessive for an emerging economy such as Costa Rica with limited tax collection capacity. OECD analysis suggests that the threshold for debt to start exerting negative effects on the economy could be as low as 30 to 50% of GDP for emerging economies and therefore recommends prudent debt targets that are on average 15 percentage points lower than debt thresholds (OECD, 2015a). A prolonged weak fiscal position will leave very limited room for manoeuvre to deal with the consequences of external negative macroeconomic shocks or natural disasters. Costa Rica will also have to pay an even higher risk premium for investors to hold its debt, crowding out business investment (Demirci, Huang and Sialm, 2017).

Weak fiscal performance could hurt Costa Rica's successful development model. First, FDI inflows have been shown to be highly sensitive to domestic conditions (Koepke, 2015;

Eichengreen, Gupta and Masetti, 2017). Second, rising debt service payments will divert resources from investment in education, health, infrastructure and security. Costa Rica needs to increase growth-friendly spending, such as infrastructure, innovation, health care, and child care, while dealing adequately with the consequences of population ageing. According to UN projections, by 2050 the share of the population over 60 will more than double to over 30% (from 12.8% in 2015) and the share of population over 80 will reach 8% (less than 2% in 2015), which will put additional pressure on Costa Rica's near-universal health care and pension systems. Difficulties in financing large and increasing debt would also force Costa Rica to make damaging cuts to, or even freeze, the welfare system, potentially increasing poverty, inequality and ultimately social instability. It would also mean postponing again the much needed upgrade in public infrastructure (Chapter 2).

A comprehensive fiscal package comprising measures on both the expenditure as well as the revenue side is urgently needed to overhaul the ongoing deterioration of Costa Rica's fiscal position and stabilise the debt-to-GDP ratio. Growth alone will not stabilise the debt path, and each year of inaction adds to the level of fiscal consolidation that will be necessary to do so. In the 2016 Economic Assessment, the OECD recommended that the authorities adopt measures to curb expenditure growth and improve spending efficiency, increase tax revenues, and introduce a medium-term fiscal framework with a clear and verifiable expenditure rule. All these measures should be part of a single policy package to put public finances on track and ensure fiscal sustainability. At that time, a phased fiscal consolidation process of 3.5% of GDP would have allowed central government debt to stabilise at around 50% GDP by 2023 and abate thereafter (Figure 17: D. Economic Assessment 2016). Going forward, reducing the debt-to-GDP ratio to a prudent level (OECD, 2015a), will require additional consolidation measures in the medium term.

Under current plans, the measures to increase revenue and the fiscal rule put forward in the current draft bill to strengthen public finances (*Ley de Fortalecimiento de las Finanzas Públicas*) are worth 1.92% of GDP. This bill comprises i) a bill to transform the current sales tax into a fully-fledged value-added tax (VAT), also including the enlargement of the tax base by removing a number of exemptions, including in services, which now account for more than half of GDP; ii) an increase in the taxation of capital gains to 15%; iii) several bills to reform the remuneration schemes of public sector workers and iv) a fiscal rule bill, which imposes increasingly tighter spending limits as central government debt increases (Table 4). Rapid deterioration of public finances requires urgent action and the bill should be implemented already in 2018, in which case central government debt would increase until 2028, reaching 56% of GDP and slowly abating thereafter (Figure 17: B. Reform to strengthen public finances). Recently, the Legislative Assembly approved a fast-track approval procedure for this bill of law.

An additional consolidation effort of 1% of GDP in a third consecutive year, which would result in a total fiscal effort of almost 3 percentage points of GDP over 3 years, could stabilise debt four years earlier to below 50% of GDP (Figure 17: C. 3% fiscal adjustment). This strategy seems more appropriate to Costa Rica given the current context of worsening debt dynamics, sovereign ratings and increasing interest rates in global markets. Although there is considerable uncertainty regarding the size of the fiscal multiplier, it appears to be substantially less than unity, and low in international comparisons (Estevão and Samake, 2013). This suggests that the short-term costs of fiscal consolidation, measured by output losses, would be low and that the long-term benefits of putting the fiscal accounts back on track, thereby creating the conditions for sustainable growth, would largely outweigh those

short-term costs. By enacting fiscal consolidation measures already in 2018, Costa Rica would regain market confidence, which would in turn reduce spreads and the debt burden, also lightening the burden of future fiscal consolidation efforts to bring debt to a prudent level. Over time, Costa Rica could also regain its recently lost investment grade status of sovereign debt. Lower interest rates would also ease financial conditions for the private sector, therefore improving the investment climate.

There is ample space to increase tax revenue collection, by pursuing current efforts to fight tax avoidance and evasion, increase VAT and personal income tax (PIT) rates, and reduce informality via greater compliance enforcement. On the spending side, improving the efficiency of spending, by reducing high public sector fragmentation and revenue earmarking, and better controlling costs associated with public sector remuneration would produce long-lasting results. However, such a public sector reform would require time to implement. Against this backdrop, the most effective strategy in the short term would be to cut mandated expenditures by 1.08% of GDP (Table 4). One way of achieving this would be to adopt a broader definition of education services and classify all spending on early childhood education and care, the National Training Institute (INA) – providing vocational training – and civil service training, under constitutionally-mandated spending on education (equivalent to 8% of GDP).

Table 4. **Fiscal consolidation package**

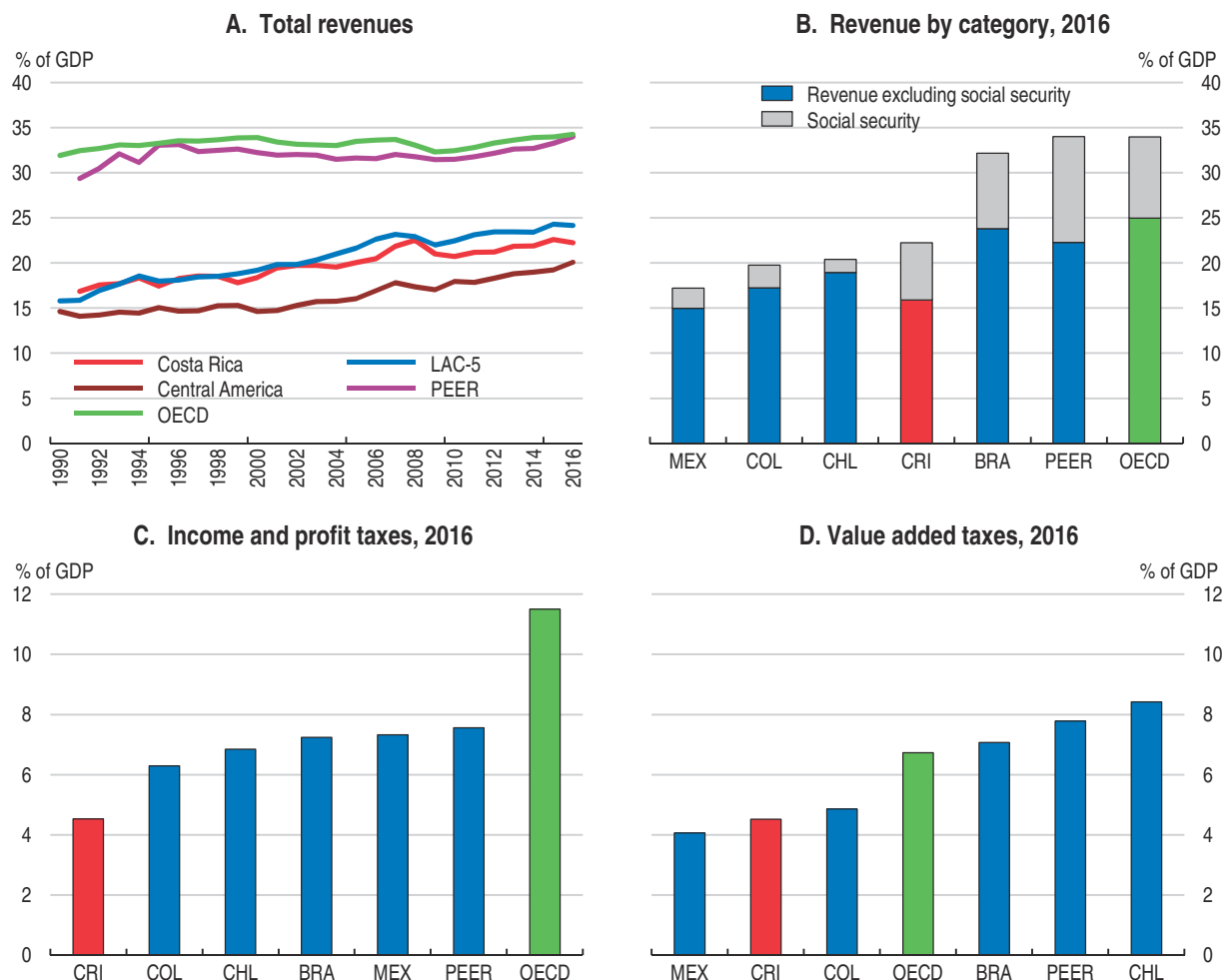
Fiscal Consolidation Measures	Estimated impact of the <i>Ley de Fortalecimiento de las Finanzas Públicas</i> (% of GDP)	OECD Recommendation (% of GDP)
Revenue Increase	1.40	1.40
VAT	0.90	0.90
Income Tax	0.50	0.50
Spending Cuts	0.52	1.60
Compensation of public sector workers	0.02	0.02
Fiscal Rule	0.50	0.50
Cut mandated spending	-	1.08
Total	1.92	3.00

Source: OECD calculations based on data from Ministerio de Hacienda.

Raising tax revenues and enhancing the redistributive power of tax policy


Tax revenue is close to the Latin American average but substantially lower than in OECD countries (Figure 18, Panel A). However, the tax mix differs substantially from both of these regions. The fiscal system is overly reliant on social security contributions (SSCs) paid by the formal sector (Figure 18, Panel B). Contributions of income taxes and VAT are low because of tax evasion, a narrow tax base and low marginal tax rates (Figure 18, Panels C and D). For instance, PIT raises little revenue as the tax-free threshold is around twice the average wage in the private sector – much higher than in most OECD countries (see Chapter 1).

To raise additional revenue, the Executive had submitted to Congress a bill which would introduce two new top brackets to PIT, with rates of 20% and 25%, at 5 and 10 times the average income, thereby also raising its progressivity. The Executive had also submitted a VAT tax reform, intending to increase the tax rate from 13% to 15% and enlarge the tax base by extending VAT collection to all service sectors. This measure would allow for a significant increase in revenue collection and would also improve tax neutrality (OECD, 2017e). Political gridlock has not allowed these reforms to go through. However, the current tax reform proposal that forms part of the comprehensive fiscal sustainability package (*Ley de*

Figure 18. **There is room to further increase revenues, especially VAT and income taxes**

Note: Data are expressed in percent of GDP at market prices for the general government. LAC-5 is an unweighted average of: Argentina, Brazil, Chile, Colombia and Mexico. Central America is an unweighted average of Belize, Guatemala, Honduras, Nicaragua, Panama, El Salvador. PEER is an unweighted average of the 10 non-Latin American OECD countries with the lowest GDP per capita and available information: Czech Republic, Estonia, Greece, Hungary, Latvia, Poland, Portugal, Slovak Republic, Slovenia and Turkey. For Panels B, C and D, OECD is an unweighted average of 2015 data.

Source: OECD Revenue Statistics; OECD/IDB/CIAT Revenue Statistics in Latin America (2018).

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Fortalecimiento de las Finanzas Públicas) still contemplates transforming the current sales tax into a fully-fledged VAT tax, extended to services, thereby increasing tax neutrality; it also increases the taxation of capital gains to 15%. These reforms will allow for an increase in tax revenue collection of 1.4% of GDP instead of the originally planned 2.03% of GDP (see Chapter 1).

Once the debt-to-GDP ratio is stabilised, Costa Rica could gradually move away from excessive reliance on SSCs which discourages job formalisation, thereby further enlarging the tax base. While this would be a growth- and equity-friendly policy, the uncertainty generated by such changes in tax revenues suggests it should not be pursued at the current juncture.

The potential to collect additional tax revenues by fighting tax evasion and avoidance is large, in particular within the corporate income tax (CIT) and the sales tax (OECD, 2017e). This is an area where there has been significant progress. Recent reforms that set

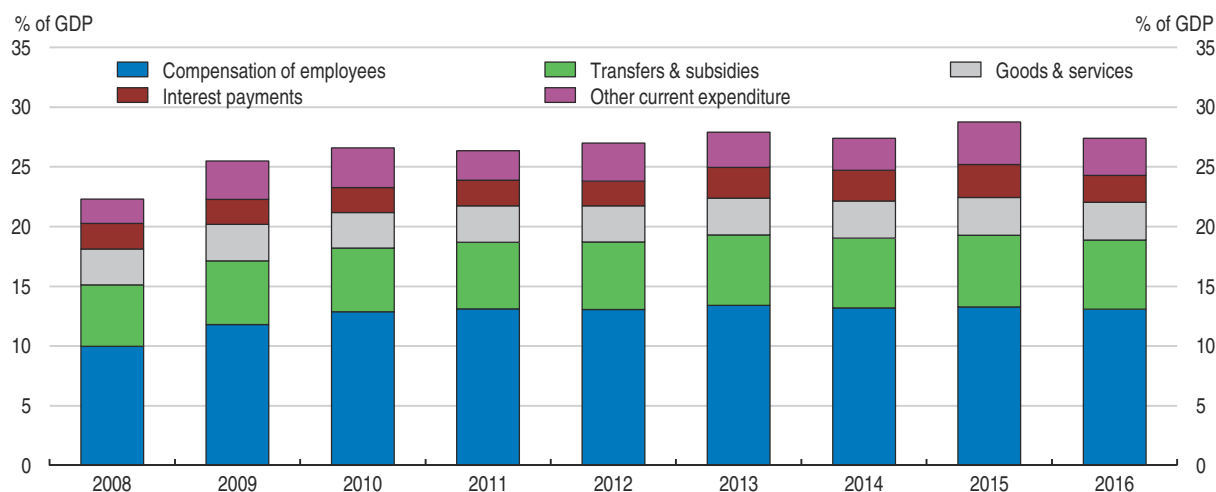
obligations on information disclosure and establish a tax on legal entities and domestic subsidiaries enrolled on the National Registry, and mandating the automatic liquidation of those that fail to pay the tax for three consecutive years, are a step in the right direction. Modernising tax administration with electronic detection of tax fraud, strengthening the tax authority's auditing capacities, and enhancing the co-operation between the social security and tax administrations, including via information sharing could also help reduce evasion, as firms tend to understate their labour costs to the social security system and overstate them to the tax administration (OECD, 2017e). Also, the phased introduction of electronic invoicing, starting with large enterprises on a voluntary basis in 2017 and extended to the entire health sector in 2018 and made compulsory, is a step in the right direction to further curb tax evasion and will raise additional tax revenue.

Improving the efficiency and quality of public spending to better support growth and equity


Costa Rica's public-sector wage bill as a share of tax revenues is higher than in most OECD countries, even though its public employment share is among the lowest, and public-sector wages account for a large share of total government expenditure (Figures 19 and 20). Besides creating distortions in the labour market and reducing employee mobility, increases in the public sector wage bill have also contributed to recent rises in inequality (González Pandiella and Gabriel, 2017). The Executive submitted to Congress a bill aimed at reforming public sector employment, establishing a new performance management system and limiting pay increases for the whole public sector. However, this was opposed by trade unions and has also been withdrawn.

Figure 19. Compensation of public-sector employees accounts for an increasing share of spending

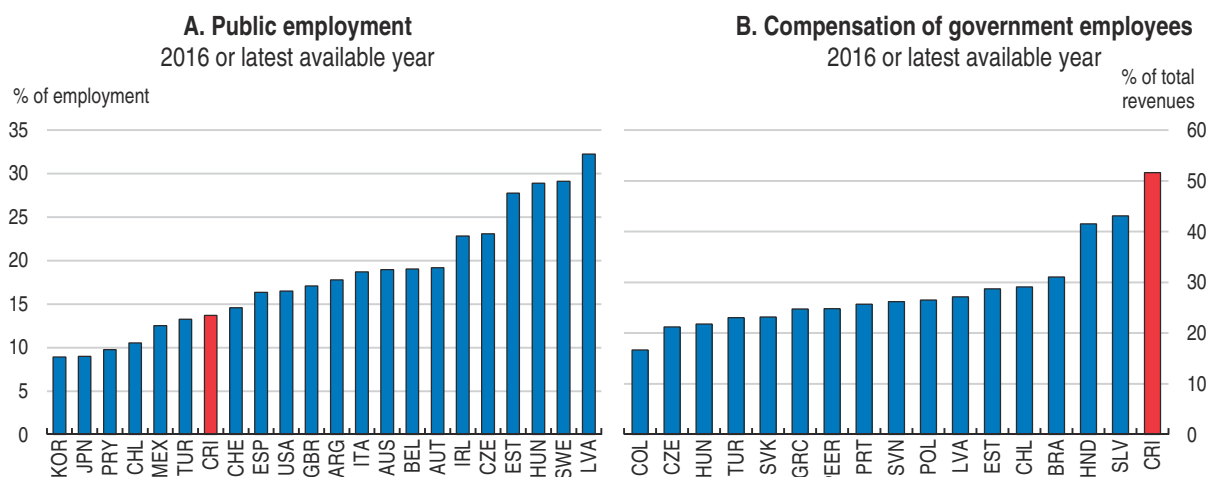
General government; decomposition of current expenditure



Source: IMF Government Finance Statistics database.


StatLink  <http://dx.doi.org/10.1787/888933701946>

Another problem is the budget's excessive rigidity, due to mandated transfers to a number of highly fragmented decentralised public sector institutions, and extremely high revenue earmarking, severely constraining the government's public finance options. The most important mandated spending and transfers are the constitutional mandate to allocate 8% of GDP to education spending, 6% of tax revenues paid to the judicial branch, 7% of

Figure 20. **Public employment is low but accounts for a large share of public expenditure**

Note: Data compiled on the basis of the guidelines of IMF's Government Finance Statistics Manual 2014.

Source: ILOSTAT; IMF Government Finance Statistics database.

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income tax collection paid to the National Child Welfare Agency (PANI) and 593 000 base salaries transferred to FODESAF (Fund for Social Development and Family Allowances). In 2018, more than 60% of central government expenditure is mandated by constitutional and other legal provisions which, added up to debt servicing, leaves only about 5% of the Central Government's budget for discretionary spending (Table 5).

Budget earmarking is defined as pre-assigned funding not stemming from operational expenditures such as debt servicing. Earmarks set aside a percentage of government funds, which can be estimated as a share of GDP for specific sectors such as health, education or defence, and are established by the constitution, or by primary or secondary legislation. Their purpose is to pre-commit a percentage of government spending to specific sectors. Costa Rica and Brazil are the countries in Latin America that use earmarking the most (OECD and IDB, 2014). Although earmarking of tax revenues can guarantee a stable source of funding to public programmes and independent public institutions, as well as improve transparency and trust in the government, ultimately encouraging tax compliance, it severely constrains the allocation of public funds, and does not allow spending to adjust to society's changing needs. Notably, public expenditure in infrastructure has not kept up with needed investments (Oviedo et al., 2015). This level of spending combined with poor prioritisation and management (discussed below) has resulted in the Costa Rica's deficient quality infrastructure stock, limiting the country's competitiveness and development plans (Estado de la Nación, 2016; OECD, 2016b; IMF 2017a).

The excessive use of earmarking in Costa Rica is also constraining fiscal consolidation, ultimately threatening macroeconomic stability, as an increase in tax revenues translates into increased transfers to earmarked programmes irrespective of whether they need additional funding or whether a cost-benefit analysis on the use of public money is undertaken. The OECD Principles of Good Budgetary Governance, in its Principle 7, stresses that earmarking should be kept to a minimum (see Chapter 1).

The "Ley Caja Única" (Law 9371), approved by the Legislative Assembly on August 2016, allows the government to reclaim mandated transfers to autonomous institutions that have

not been spent and is a step in the right direction. These funds should be used to abate debt. However, in August 2017 a bill was presented to the Legislative Assembly stipulating that all new public spending projects will have to designate the respective financing source, potentially increasing earmarking. In the near term this decision will help rein in the deficit. However, reducing budgetary rigidities to allocate public funds according to changing needs and to enhance the contribution of fiscal policy to stabilise the economy should be an integral part of a future fiscal reform. As a response, the government presented a bill of law to the Legislative Assembly in November 2017 (bill of law 20.595), aimed at reducing earmarking expenditures.

Table 5. **Costa Rica's central government budget is excessively rigid**

	2018
Total budget expenditure	100.0%
Constitutional and legal mandates	44.0%
Debt service, public sector remuneration and social security contributions	51.5%
Other	4.5%

Note: Constitutional and legal mandates include remunerations of workers in the Ministry of Education and civil servants working in the Judicial branch. Debt service includes principal repayments.

Source: OECD calculations based on Ministerio de Hacienda data.

The bill to strengthen public finances (*Ley de Fortalecimiento de las Finanzas Públicas*) would significantly contribute to stabilising the debt-to-GDP ratio and should be approved swiftly (Figure 17: B. Reform to strengthen public finances). Costa Rica is making considerable progress in curbing tax evasion and avoidance. However, there is scope to raise additional revenue while making the tax system more equitable and earlier versions of the VAT and PIT bills should be reconsidered. Raising additional tax revenue will only contribute to solving fiscal imbalances if Costa Rican authorities enact reforms to reduce public sector fragmentation, mandated spending and revenue earmarking. These measures will restore the Ministry of Finance's control of the budgetary process and spending allocation, thereby setting the basis for raising spending efficiency, to allocate resources according to evolving priorities, and for the budget to support growth and equity more effectively.

High public sector fragmentation into numerous deconcentrated and decentralised institutions also hinders the Ministry of Finance's ability to take control of the budget and allocate spending according to identified priorities and changing needs. Only half of the general government budget is under the budget process headed by the Ministry of Finance (OECD 2017f). The existence of a large institutionally decentralised sector is also not associated with strong co-operation mechanisms neither between the different institutions of the decentralised sector, nor with the relevant Ministries, which significantly dampens the effectiveness and quality of public services. To date, spending by deconcentrated and decentralised institutions and public corporations has been approved by the Office of the Comptroller General of the Republic, but mostly from a legal standpoint (see below). In addition, decentralised institutions' funding schemes are extremely rigid and funds cannot be re-allocated between the different institutions and the spending areas they represent according to emerging priorities.

As a result, while the decentralised/deconcentrated bodies generally have a balanced budget or even financial surpluses, they contribute to the overall deficit by absorbing a higher

share of revenues than they need. In 2017, a study carried out by the Ministry of Planning and Economic Policy (*Ministerio de Planificación Nacional y Política Económica – MIDEPLAN*) identified 22 non-functional institutions that could potentially be abolished. Based on the results of the study, a draft law to eliminate non-functional institutions and a draft decree to close non-functional commissions have been prepared as part of a strategy to gradually rationalise the institutionally decentralised sector. The bill should be approved swiftly but further efforts to identify non-functional institutions and specify the responsibilities of each government body, in order to avoid loopholes and duplication of responsibilities, enhance accountability, co-ordination and steering, should also proceed.

Reducing earmarking and public sector fragmentation will restore the Ministry of Finance's control of the budgetary process and spending allocation, thereby setting the basis for raising spending efficiency, to allocate resources according to evolving priorities, and for the budget to support growth and equity more effectively. Additionally, in February 2018 a law that strengthens the Ministry of Finance's control over the budgeting process, by including more than 50 decentralised institutions in the National Budget, was approved by Congress. In the past, these entities submitted their budget to the Comptroller's Office, which only checked its compliance to the legal framework.

Contingent liability realisations are a major source of fiscal distress. International experience reveals that a lack of transparency in disclosing and preparing for the materialisation of contingent liabilities has led to large increases in public debt, triggering fiscal crises (IMF, 2012). Therefore, determining a country's fiscal position needs to include an assessment of these sources of fiscal risk. In Costa Rica, they mainly stem from the unlimited state guarantee of deposits in state-owned banks (including deposits denominated in foreign currency) and increased exposure of state-owned enterprises and institutions to sovereign debt. In particular, the exposure of CCSS (which administers the contributory pension fund) and the state-owned insurance company (where insurances also benefit from a state guarantee) hold large amounts of public debt in their portfolios. As part of the process of strengthening Costa Rica's budgetary policy framework, authorities should identify all sources of exposure to fiscal risks and assess their potential future implications.

Even though the central government debt as a share of GDP soared by around 10 percentage points between 2013 and 2016, interest payments have remained stable until recently. This reflected the pass-through of domestic monetary loosening but also the use of floating rates and dollar-denominated bonds. Since 2012, the National Treasury has managed to increase the average maturity of sovereign debt from 9 to 15 years. However, this is also a source of medium-term vulnerability, especially in the current context of deterioration in public finances and sovereign rating, and domestic monetary policy tightening, which contributed to an increase in interest payments in 2017. Debt servicing costs could be reduced further by improving institutional quality and adopting more modern management tools. Policy options include introducing a fully-fledged multi-year expenditure framework and a fiscal council, and a focus on developing the local currency market. Authorities should also modernise debt management by merging the two debt management agencies, reducing the number of benchmark securities and improving communication with markets. Additionally, a high-level Chief Economist in the Ministry of Finance could be appointed to advise on the government's economic policies and improve communication with international investors. These reforms would bolster credibility and hence demonstrate the willingness of Costa Rica's authorities to tackle worrying fiscal trends.

Table 6. Past OECD recommendations to restore fiscal sustainability

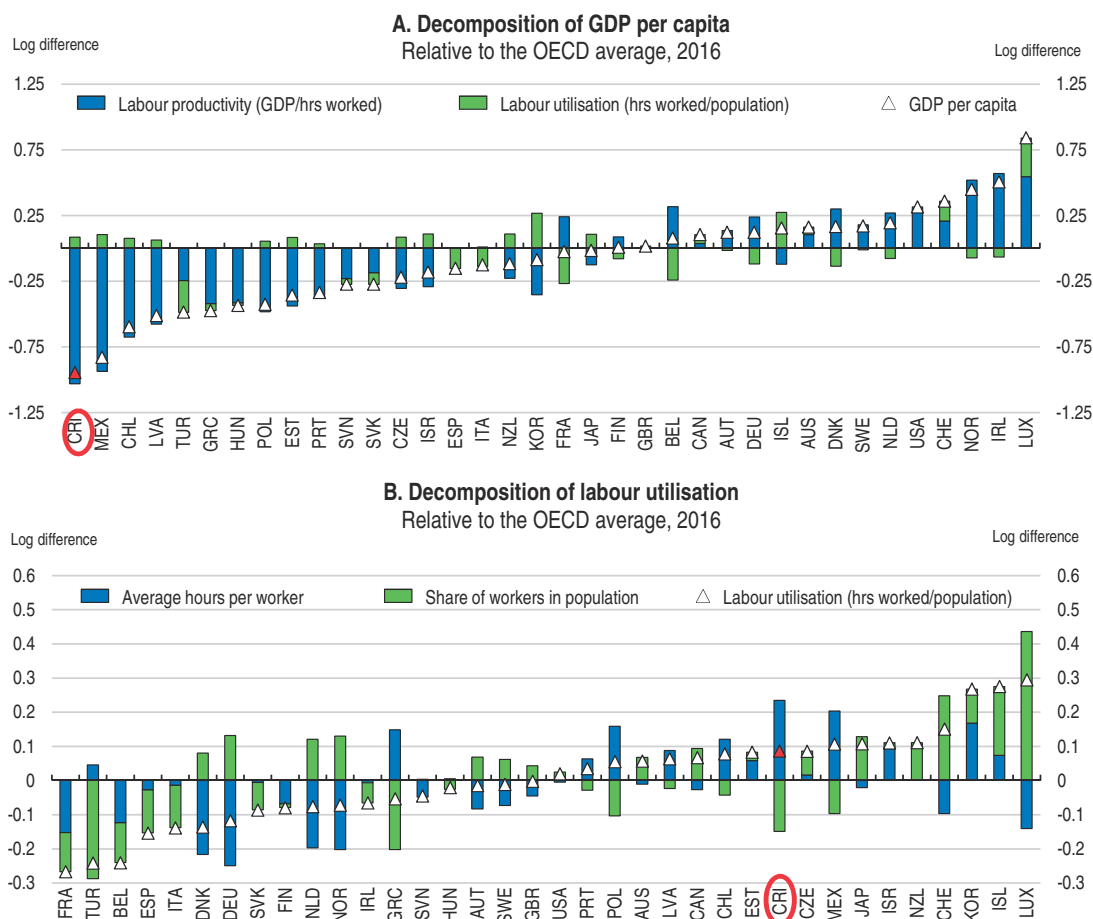
Recommendations in 2016 Economic Assessment	Actions taken
Cut the central government deficit by 2% of GDP in 2016-17 approving and implementing the proposed tax reform, combatting tax evasion, eliminating tax exemptions and curbing expenditure growth.	<p>The government has implemented a number of reforms aimed at reducing tax evasion: the introduction of electronic invoicing for large taxpayers, tightening the criteria to criminalise smuggling activities, enlarging the population of firms that pay corporate tax to all corporations in the National Registry, and easing the access of the tax administration to tax payer information filed by financial institutions.</p> <p>A reform of the pension regime has eliminated automatic increases, links pension adjustment to price developments, has increased contribution rates for special pension regimes, introduced tax on pensions exceeding 10 minimum wages and reduces the inheritance of pension benefits on some special pension regimes.</p> <p>The law on governmental efficiency (“Caja Única”) adopted in 2017 will allow the government to reclaim mandated transfers to autonomous institutions that were not spent. These funds will have to be used to abate debt.</p>
Introduce a medium-term fiscal framework with a clear and verifiable expenditure rule.	A bill has been submitted to the Legislative Assembly.
Improve spending efficiency by strengthening the authority of the Ministry of Finance to control overall public-sector expenditure and introducing performance-based budgeting.	<p>A bill has been submitted to the Legislative Assembly stipulating that all new projects with an impact on expenditures need to make explicit their source of financing. It is not clear whether this resolution will impact on automatic transfers to autonomous public institutions, or constitutionally mandated expenditure. Also, this decision has the potential to increase budgetary rigidity.</p> <p>A bill to introduce performance-based budgeting has been submitted to the Legislative Assembly.</p>

Structural policies to boost productivity and inclusion

Costa Rica faces the twin challenges of boosting productivity growth and inclusion. Since the mid-2000s, Costa Rica’s productivity performance has gained momentum, and is slowly converging towards OECD countries after many years of stagnation (Figure 8). This pick up in productivity has been broad based, with most industries experiencing a structural break towards higher growth rates (Escobar and Meehan, 2018). However, a large GDP per capita gap persists, driven by labour productivity that is 36% of the OECD average (Figure 8; Figure 21, Panel A). In addition, not everyone has benefited from robust output growth (Estado de la Nación 2017). While labour utilisation is above the OECD average, this reflects long working hours for those with jobs (Figure 21, Panel B). Employment rates are below average due to low labour market participation and high unemployment, particularly among women and youth (Figure 6; Figure 21, Panel B; Figure 23). Unemployment has been elevated since the global financial crisis, with much of the increase reflecting structural unemployment (Figure 6, Panel A). Furthermore, the already high labour market informality rate has increased in the recent past while labour participation has decreased (Figure 6, Panels A and B). These developments have worsened the already high levels of inequality as disadvantaged groups and those less able to adapt to the ongoing structural change are most affected, including those with low education levels and the young (Figures 22 and 23).

Structural policies reforms are needed to boost both productivity and inclusiveness. If it does not address these issues, Costa Rica risks becoming stuck in a “vicious cycle”, whereby individuals with low skills and poor access to opportunities are confined to low-productivity and low-wage jobs, reducing aggregate productivity and further worsening inequality (OECD, 2016d). Setting in motion a “virtuous cycle” will require reforms across several policy areas that present win-win opportunities (OECD, 2012a). There is no shortage of such policies, which underscores the importance of directing immediate reform efforts to areas that are likely to bring large gains and/or that set the framework conditions necessary to fully realise

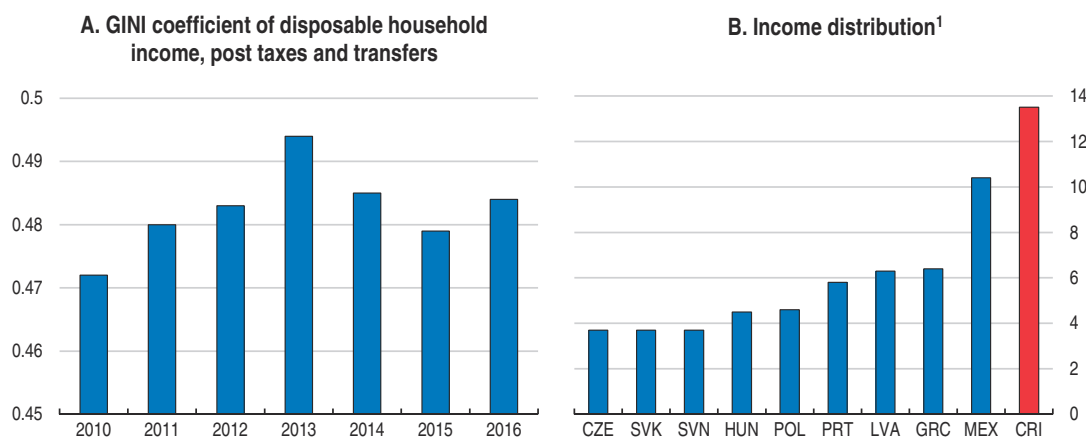
Figure 21. **The GDP per capita gap reflects low productivity and employment, but long working hours**



Source: OECD Productivity Database.

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Figure 22. **Inequality is high and increasing**



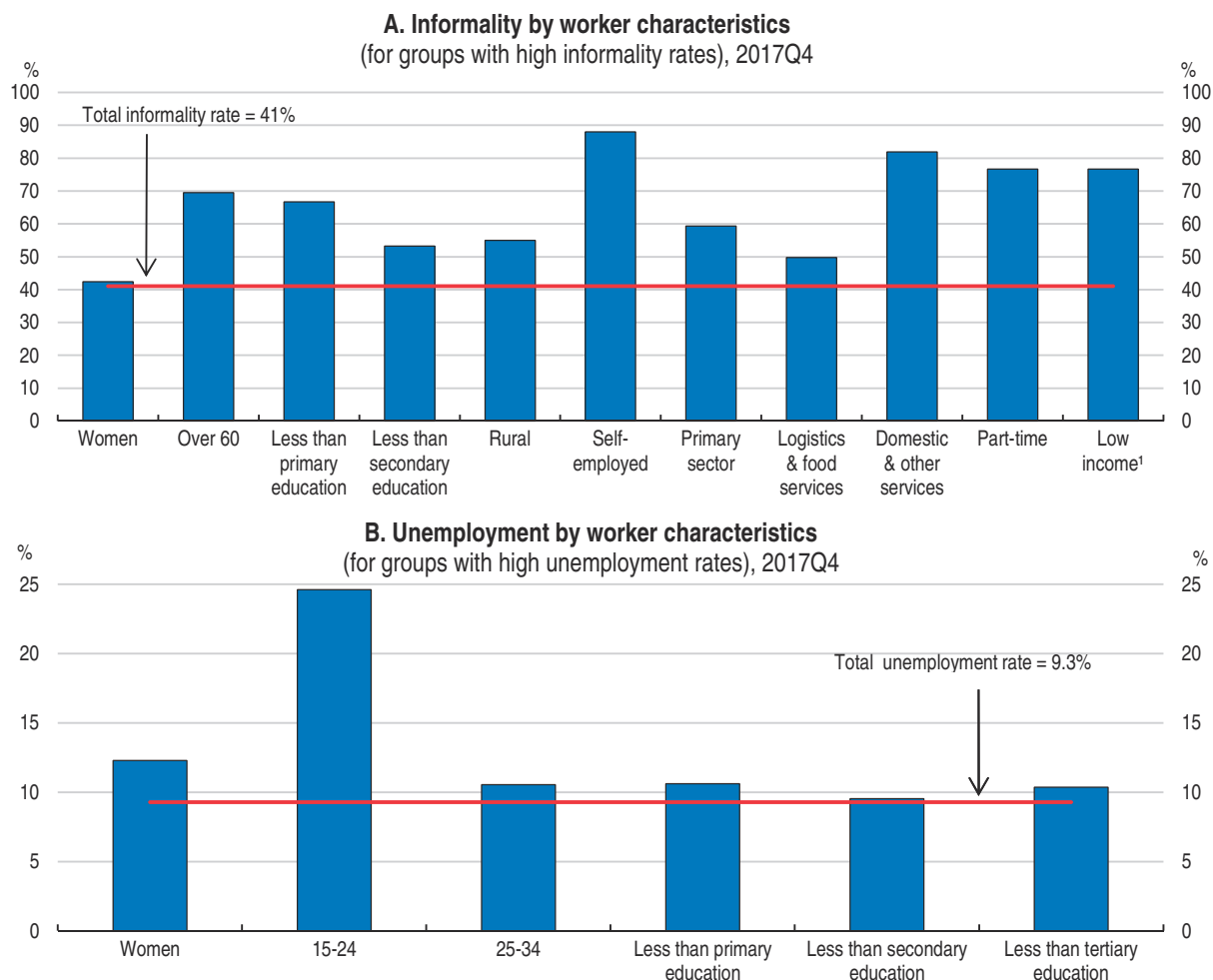
1. Income distribution is computed as S80/S20. This ratio represents the share of all income received by the top quintile divided by the share of the first, or the ratio of the average income of the top quintile to that of the first.

Note: Income distribution data refer to 2015 except for Hungary (2014), Mexico (2014) and Costa Rica (2016).

Source: OECD, Income Distribution Database (IDD).


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Figure 23. Labour market outcomes are particularly poor among disadvantaged groups



1. Panel A: Low income refers to hourly earnings of less than the lowest minimum wage.

Source: INEC, Encuesta Continua de Empleo.

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the benefits of future reforms. Based on existing research quantifying the potential gains of reforms (Box 3) and the experiences of other countries, reforms to reduce labour market informality, strengthen competition, lower regulatory burdens, improve outcomes and equality in education, and address transport infrastructure gaps are highlighted as priority areas to stimulate inclusive growth. Recognising these challenges, Costa Rica has accelerated its structural reform momentum, and significant policy improvements relating to several of these areas are underway or planned.

Box 3. Simulations of the potential impact of structural reforms

The quantification of the potential impact of reforms on GDP provides insights into the size of the payoff, which is a useful input into prioritisation decisions. Recent OECD research estimates the effects of structural reforms using simulations based on historical and cross-country relationships between reforms and growth in OECD and non-OECD countries. These simulations assume full implementation of the reforms detailed below, and focus on product market regulation and insolvency measures (Table 7).

Box 3. Simulations of the potential impact of structural reforms (cont.)

Table 7. Potential long-run impact of structural reforms on GDP per capita¹

Structural policy ²	Total effect on GDP per capita ³	Impact on supply side components		
		MFP	Capital deepening ⁴	Employment rate ⁴
<i>in percent</i>				
Product market regulation				
Improve the governance of SOEs	1.1	0.6	0.4	0.3
Streamline the licences and permits system	1.6	0.9	0.6	0.5
Reduce administrative burdens for firms	0.9	0.5	0.3	0.3
Remove anti-trust exemptions	0.5	0.3	0.2	0.2
Improve trade facilitation through better communication of regulations	0.9	0.5	0.3	0.3
<i>Total for PMRs</i>	<i>5.1</i>	<i>2.8</i>	<i>1.9</i>	<i>1.4</i>
World Bank Doing Business				
Time to insolvency procedures ⁵	5.4	4.4	0	1.1

1. Based on Égert (2017) and Égert and Gal (2017).
2. Refer to Table 8 for details of the measures.
3. The change of GDP per capita is calculated using Equation 5 of Égert and Gal (2017) and assumes a labour force to working-age population ratio in 2013 of 56.4% for Costa Rica.
4. Capital deepening is measured as capital stock/output and the employment rate as employment/working-age population.
5. Due to estimation differences, the magnitude of the World Bank Doing Business insolvency measure is not directly comparable to the OECD Product Market Regulation results.

The proposed measures relating to product market regulations (PMRs) (outlined in Table 8) could boost GDP per capita by 5.1% in the long term. These gains are sizeable despite the fact that even if all of these product market reforms were implemented, the stringency of regulations in Costa Rica would remain significantly above the OECD average, and be at a similar level to Greece or Slovenia and slightly better than Colombia. Reducing the time it takes to resolve corporate insolvency from the current 3 to 2.5 years could boost GDP per capita by 5.4%. However, it is important to note that the magnitude of the insolvency and PMR results are not directly comparable due to methodological differences. In particular, the PMR estimates are based on average time (within) effects, whereas the insolvency estimates use cross-country (between) effects. This makes a large difference to the results – for example, using PMR estimates based on cross-country effects would yield much larger estimates, in the range of a 24% boost to GDP per capita.

Table 8. Reforms used in the simulations

Structural policy	Structural policy changes
Product market regulation	
Improve the governance of SOEs	SOEs no longer have access to financing that is not available to private companies. Establish an ownership unit within the Ministry of the Presidency to manage the government's equity in SOEs.
Streamline the licences and permits system	Establish one-stop shops for getting information, issuing and accepting notifications and licences, which are implemented at the local level and information available via the internet.
Reduce administrative barriers for businesses	Procedures that are currently done by the entrepreneur (e.g. seeking registration from the local municipality, notifying CCSS etc.) are done by a one-stop shop. The number of days to register a firm reduces to 20, and the number of bodies to contact in order to register reduces to 1.
Remove anti-trust exemptions	Anti-trust exemptions are removed.
Improve trade facilitation	Regulations are communicated in an accessible manner at the international level.
World Bank Doing Business	
Time to insolvency	Reduce the time to resolve insolvency from 3 years to 2.5 years.

Box 3. Simulations of the potential impact of structural reforms (cont.)

Reducing labour market gender gaps could also have a large impact on productivity and incomes. For example, it is estimated that the long-run income loss due to gender gaps in Costa Rica is 22%, compared to an average of 15.4% for OECD countries (Cuberes and Teignier, 2016).

While estimates of the efficiency gains from reducing informality for Costa Rica are not available, for Mexico, resource misallocation is much higher among informal firms and every Mexican peso of capital and labour allocated to an informal firm would be worth 28% more if allocated to a formal firm, suggesting that informality has a large negative impact on aggregate productivity and GDP (Busso, Fazio and Levy, 2012; IMF, 2017b).

Improving educational outcomes would also have a significant positive effect. OECD research estimates that achieving universal basic skills (i.e. universal secondary school enrolment for 15 year olds and PISA scores of 420 or above) could increase GDP growth by 0.65 percentage points a year in Costa Rica, versus the OECD average of 0.27 (OECD, 2015b).

Addressing skill mismatches can also have a large impact. Although estimates based on OECD Survey of Adult Skills data are not available for Costa Rica, eliminating skill mismatches in a country where about a third of workers are either under- or over-skilled for their jobs (such as in Italy) could increase productivity by 10% (Adalet McGowan and Andrews, 2015).

Making labour markets more inclusive

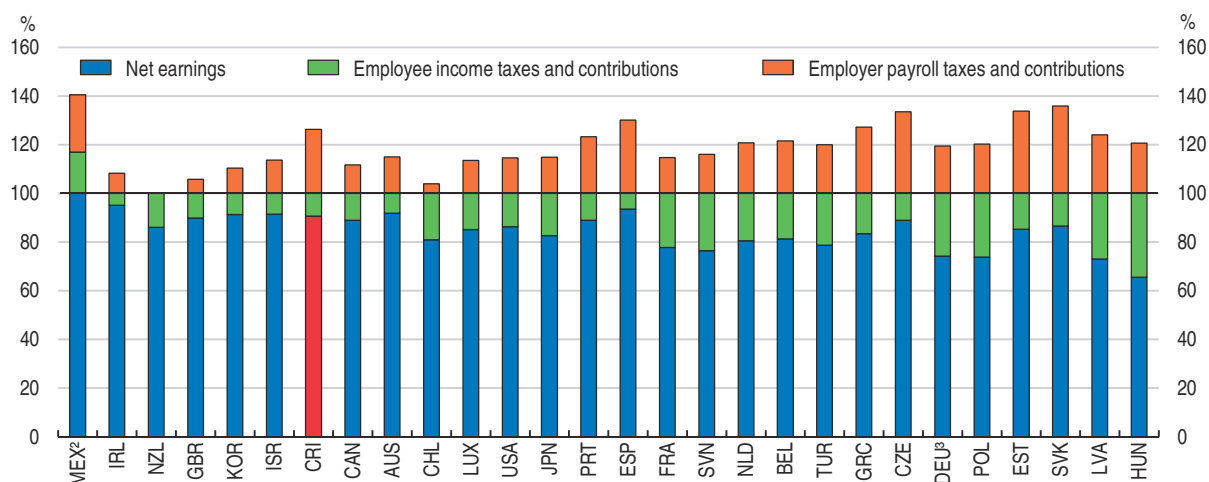
To tackle informality, which has reached 41% of workers, the OECD has recommended adopting a comprehensive strategy, including actions to reduce non-wage labour costs, simplify the minimum wage structure, strengthen enforcement, and reduce barriers to entrepreneurship and improve training and education (OECD, 2016b; OECD, 2017f).

In response, a National Strategy to Transition to a Formal Economy was approved via a tripartite agreement in February 2018, with high-level actions in each of the recommended areas and an overall goal of reducing informality to 33% by 2025. A tripartite council will oversee the implementation of the strategy, and technical councils will be formed to establish detailed action plans in each of the areas. While still in its early stages, this strategy is a positive step. Incorporating the strategy and associated action plans in the National Development Plan 2018-2022 would solidify it as a priority area going forward.

High social security contributions are a barrier to formality in Costa Rica (Ramírez Alfaro, 2010; ILO, 2014; OECD, 2017e; OECD, 2017f). Social security contributions amount to approximately 36.5% of gross payroll, compared with the OECD average of 27.2%, of which about 26.33 percentage points are borne by the employer, 9.34 by the employee and 0.82 by the government (OECD, 2017e; OECD, 2017f). The large portion payable by employers drives Costa Rica's non-wage labour costs towards the top of the OECD rankings (Figure 24). While the poor state of public finances does not allow for a significant reduction in social security contributions, the government is investigating options to increase coverage in selected sectors with high levels of informality. Since July 2017, the minimum base contribution for domestic service workers has been lowered, and payments can now be spread across multiple employers. In addition, a pilot scheme for coffee pickers involving a reduced rate to cover health insurance during the harvesting season will begin in 2018.

The Transition Strategy also includes plans to establish similar schemes for at least two additional groups of workers. Furthermore, the government is considering lowering the employer contribution rate for new, small businesses for the first four years of operation from approximately 25% of gross payroll to between 13.33% and 15.33%. It is

Figure 24. **High non-wage labour costs discourage formality**
Percentage of gross earnings for a single individual earning the minimum wage, 2013¹



1. Tax burdens are calculated for a full-time worker in a single-person household earning a minimum wage at the standard (adult) rate. Full time refers to usual full-time hours in each country. Employer and employee social contributions also include any mandatory payments to private insurance for health, retirement pensions, etc.
2. Mexican low-wage earnings have negative income taxes because they receive a wage supplement in the form of a tax credit.
3. Minimum wage levels refer to 2015 for Germany.

Source: OECD (2017f).

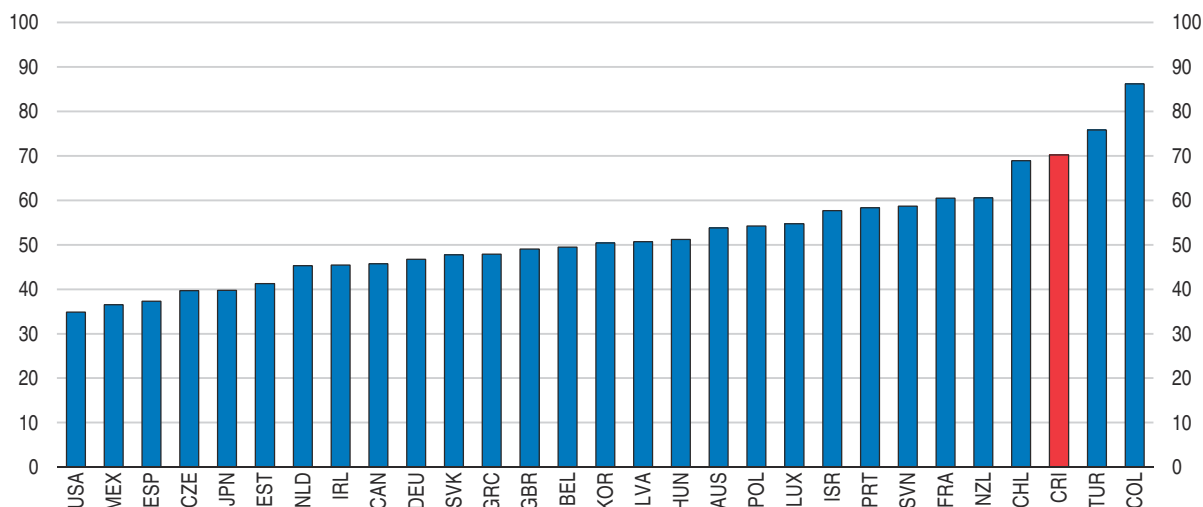
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expected that an agreement will be reached with the Costa Rican Social Security Agency (GCSS, *Caja Costarricense de Seguro Social*) during 2018 to allow the employer contributions to be reduced to between 18.83% and 20.83%, with a proposed bill to reduce the rate by an additional 5.05 percentage points also being considered. While the design details of this proposal will be important, including consideration of the fiscal impact and the potential for firm-size distortions, evidence from other countries suggests that this could contribute to increasing formalisation (European Commission and OECD, 2015; OECD, 2017g). When public finances are back on track, the government should consider a broad-based reduction in social security contributions, to avoid distortions that might arise from targeted cuts.

The minimum wage in Costa Rica varies by skill, occupation and educational attainment. The number of minimum wage categories has decreased significantly over time, from 520 in 1987 to 23 currently. The most recent reduction from 25 to 23 categories came into effect in January 2018. In addition, market studies are currently underway to investigate options to further reduce the number of categories, with the intention of gradually moving to 10 categories by the end of 2019. While this reduction is positive, the system remains complex and the minimum wage for unskilled workers is 70% of the median wage, which is higher than in all OECD countries except Turkey (Figure 25). These features contribute to low levels of compliance, with about a third of workers paid below the relevant minimum wage and about a quarter of workers paid below the lowest minimum wage (Estado de la Nación 2014; OECD, 2017f). A more modest minimum wage differentiated on the basis of age and/or location would serve to better protect the most vulnerable workers while curtailing the negative effects on formal employment and business compliance costs. Differentiating on this basis should be informed by analysis of relevant factors such as regional economic conditions and the impact of the minimum wage on formal employment opportunities and

Figure 25. **Costa Rica's minimum wage is high**

Minimum wage as a percentage of the median wages of full-time workers, 2016



Note: For Costa Rica, the calculations use the minimum wage for unskilled workers.

Source: OECD Labour Force Statistics Database.

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education decisions of young people. But, as an example, it could involve a higher minimum wage in San José to account for higher living costs and a lower rate for young workers to recognise that the minimum wage is a greater hurdle to employment for those with less experience.

More rigorous enforcement of labour regulations would also increase minimum wage compliance and deter informality. Several improvements have already been made, including increasing the resources of the labour inspectorate and streamlining the judicial process for labour tribunal complaints. The current proposal to grant labour inspectors the right to impose sanctions directly on employers without going through the labour courts would also help accelerate the process and increase the deterrent effects. Going forward, the authorities should ensure that penalties imposed for breaches of labour regulations are high enough to act as a deterrent (OECD, 2017f).

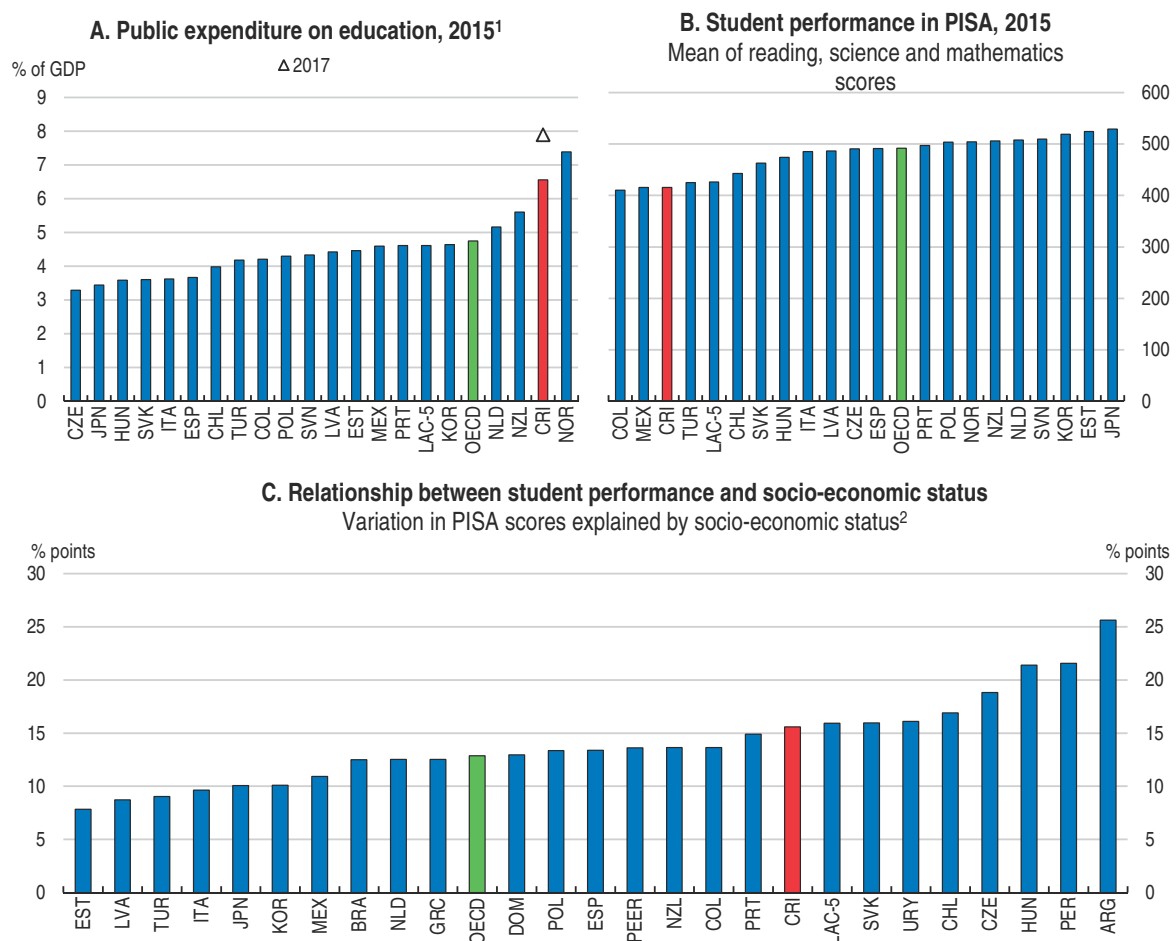
In Costa Rica, immigrants account for about 11% of the adult population, which is a higher share than other countries in the region and similar to the OECD average (OECD, 2017f). Most migrants come from Nicaragua, are of working age, have lower education levels than the native population and are over-represented in low-skilled occupations and sectors with high rates of informality, such as construction, domestic services and agriculture (OECD, 2017f). The 2010 Migration Law and the subsequent Comprehensive Migration Policy provide a solid regulatory framework, but the take-up of provisions for immigrants with irregular status to acquire legal residence has been lower than expected, partly due to the requirement to provide a formal employment contract. Greater access to formal jobs with social security benefits would improve immigrant integration. Programmes such as the pilot health insurance scheme for coffee pickers, 60% of whom are immigrants, should support greater inclusion. In addition, work on a new IT system is expected to begin in 2018 which will not only reduce visa processing times, but will also include linkages to relevant government services, which should improve current low coverage rates among immigrants

for programmes such as conditional cash transfers aimed at encouraging participation in education (OECD/FUNDEVI, 2017).

Enhancing the quality and efficiency of the education system

Costa Rica has a strong commitment to education and at 7.9% in 2017, government spending as a percentage of GDP is higher than all OECD countries. However, spending could be more efficient, as PISA results are low and strongly influenced by socio-economic background (Figure 26). This may partly reflect the spending mix as spending per student for basic education remains relatively low. Cumulative spending by the age of 15 is around half of the OECD average. In contrast, public spending per tertiary student is one of the highest among OECD and Latin American countries (OECD, 2017h).


Figure 26. **Low outcomes and inequities in education persist despite high levels of spending**



1. Data refer to expenditure on primary, secondary, post-secondary and tertiary education. Year of reference is 2015 or latest available year.
2. Measured as the average change in PISA scores associated with a one-unit change of the PISA index of economic, social and cultural status.

Note: OECD is a simple average of OECD member countries. LAC-5 is a simple average of Argentina, Brazil, Colombia, Chile and Mexico. PEER is a simple average of the 10 OECD countries with the lowest GDP per capita (excluding Latin American members): Czech Republic, Estonia, Greece, Hungary, Latvia, Poland, Portugal, Slovak Republic, Slovenia and Turkey. For Argentina, PISA data refer to Ciudad Autónoma de Buenos Aires only.

Source: OECD Educational Finance Indicators and Ministerio de Hacienda; OECD PISA 2015 Database; OECD (2016e).

StatLink  <http://dx.doi.org/10.1787/888933702079>

There is a constitutional mandate to increase public education spending to 8% of GDP in 2018. There is no underlying reason for this specific target. To increase efficiency and incentives to improve outcomes, the main policy objectives should focus on educational outcomes, with clear and verifiable performance-based targets (OECD, 2016b). To further improve outcomes and equity, the spending mix should be re-balanced away from tertiary education and towards early childhood education and care (ECEC) and secondary school (where there are growing demographic pressures and a need to increase access). This could be achieved through more effective and equitable cost sharing between government and the students who benefit from tertiary education, including by targeting financial support to students on the basis of need and their ability to benefit (OECD, 2017h). While the need to shift the focus to outcomes is recognised, measurable performance targets have not been developed. Moreover, the spending mix has not materially changed.

While enrolments have increased significantly over the 2000s, ECEC in Costa Rica remains underdeveloped (OECD, 2017h). Expanding ECEC services would facilitate increases in the currently low levels of female labour market participation, reduce the impact of socio-economic background, and improve skills and employment prospects later in life (Cunha et al., 2006; OECD, 2007; Almond and Currie, 2011; OECD, 2016b). In recognition of these issues, a new early childhood policy for 0-8 year olds has been established and is currently being implemented, which envisages an expansion of community-based care centres. The National Development Plan also includes a goal to increase coverage of the first grade of preschool (age 4) from 63% to 69.5% between 2015 and 2018, with a focus on 75 target districts with low enrolment and high poverty rates. In the first half of 2017, enrolment rates stood at 66.1%. A geo-referenced database of centres and child identifiers is currently being developed to improve planning and targeting. Preliminary terms of reference for the project have been defined and authorities are currently exploring options to secure the necessary resources. While these initiatives are very positive, more clearly defined goals, milestones, timelines for implementation and performance assessment criteria should be established.

Promising steps have also been taken in recent years to strengthen ECEC governance and reduce fragmentation, including the establishment of the National Network for Childcare and Development (REDCUDI) in 2014 to improve co-ordination between the different public and private providers. However, these steps fall short of the needed governance improvements (OECD, 2017h). While preschool services are currently funded out of the substantial public education budget and fall under the responsibility of the Ministry of Education, childcare services fall under the responsibility of REDCUDI, which is funded from several sources (OECD, 2017h). Classifying all spending on early childhood education and care under the constitutionally-mandated spending on education would facilitate the expansion of services. Appointing one agency with clear authority and responsibility for delivering national ECEC policy across the entire sector (care and preschool) would strengthen sector leadership and create a clear champion for reform, facilitating co-ordination and improvements in and expansion of services.

With a view to improve outcomes, a major initiative to modernise the school curriculum will be completed in 2018 and guidelines for school self-evaluations have been introduced. A welcome proposal is also being discussed to make accreditation mandatory for all teacher training programmes in private universities. The OECD has also recommended several additional reforms to strengthen teaching quality and school leadership and evaluation. These include improving initial teacher selection and training, the introduction of an effective teacher evaluation system, stronger leadership development programmes,

establishing peer-learning schemes, creating instructional leadership positions within schools, and setting clearer standards for the evaluation of school quality and criteria to focus supervision efforts on the schools that are most in need (OECD, 2016b; OECD, 2017h).

Reducing student drop-out rates would increase the country's human capital and productivity potential as well as reduce inequalities. While drop-out rates have decreased in recent years, they remain high by OECD standards (OECD, 2017h). About 30% of Costa Rican students have dropped out of school by the time they are 15, with drop-out rates particularly high among those from disadvantaged backgrounds (OECD, 2017f). A greater focus on early education, particularly among disadvantaged children, would improve performance and retention at higher levels of education (OECD, 2007). Furthermore, the OECD has commended the targeted approach of the *Yo me Apunto* programme. High schools in the programme have reduced drop-out rates from 14.4% in 2013 to 9.2% in 2017. The OECD has recommended scaling up early detection and interventions for disadvantaged students who are at risk of leaving the education system (OECD, 2016b; OECD, 2017h).

The development of a vocational education track in close consultation with employers to ensure that training matches labour market needs could also curb drop-out rates (OECD, 2010). A very small-scale dual education pilot programme in the automotive sector for upper-secondary students started in February 2017. In addition, tripartite discussions are underway to formally introduce a dual apprenticeship system and regulate the contractual situation of students in the workplace, with a proposed legislative reform currently being analysed by sector representatives and issues relating to the remuneration of apprentices, including social security contributions, being negotiated. The pilot programme should be monitored and evaluated, and efforts to further develop vocational education should continue.

Fostering competition and reducing barriers to firm entry and exit

Competition in Costa Rica is weak. Product market regulations are stringent, there are extensive anti-trust exemptions, state control in many sectors is high and barriers to entrepreneurship are large. The potential gains in productivity and growth are substantial – improving product market regulations in Costa Rica could increase GDP per capita by 5.3% (Box 3) and would also reduce inequalities (Ennis, Gonzaga and Pike, 2017).

There are considerable weaknesses in the institutional arrangements for the enforcement of competition law in Costa Rica (OECD, 2016e). To address this, a bill to create a new competition authority with greater independence and resourcing is being considered by Congress and may be adopted in 2018. While this will involve greater financial commitment at a time of fiscal difficulties, it represents good value-for-money given the accompanied payoffs in terms of strengthened competition. This reform should be made and implemented in a timely manner.

Many sectors in Costa Rica are exempt, in whole or part, from competition law, including electricity, fuel transportation and distribution, alcohol distillation, sugar, rice, professional services and maritime transport. The OECD has recommended eliminating unjustified exemptions. In response, in-depth studies of 25 sectors that have some degree of exemption will be completed by 2020. This is a positive first step, but how these studies will lead to concrete action to eliminate exemptions should be clarified.

State-owned enterprises (SOEs) play a dominant role in many key sectors, such as electricity, transport infrastructure, banking, insurance and petroleum products. For example, public banks are dominant in the financial sector (discussed above). The

Table 9. Past OECD recommendations to boost inclusion

Recommendations in 2016 Economic Assessment	Actions taken
Increase the supply of publicly-funded childcare services to facilitate women participation in the labour market.	<p>The National Development Plan includes a goal to expand coverage of the first grade of preschool (age 4) to 69.5% by 2018, with the expansion targeting 75 districts with low enrolment and high poverty rates. Enrolment rates stood at 66.1% in the first half of 2017.</p> <p>With the aim of achieving universal preschool enrolment, the Higher Council for Education, established a new policy to make preschool mandatory and a requisite for children enrolling in primary school.</p> <p>A geo-referenced database of care centres and child identifiers is being developed to improve planning and targeting. Roll-out is expected to begin in the first quarter of 2018.</p> <p>A feasibility study of alternative mechanisms of financing childcare is currently being undertaken.</p> <p>Improved articulation processes between the Ministry of Public Education (MEP) and the Child Care and Development Network (REDCUDI) are being implemented in order to leverage on existing resources to expand childcare provision and its quality.</p>
Simplify the minimum wage structure and enforce compliance with the law.	<p>The number of minimum wage categories has been reduced from 520 in 1987 to the current 23. Most recently, this involved the reduction from 25 to 23 categories from January 2018.</p> <p>Market studies are being undertaken with the aim to further simplify the minimum wage structure, with an intention of reducing the number of categories to 10 by 2019.</p> <p>The budget for labour inspections has been increased and processes to improve targeting have been implemented. While this has increased the number of workers covered by inspections, it is not yet clear whether it has increased the number of breaches identified nor whether it is having an additional deterrent effect. A bill has been drafted to increase the powers of labour inspectors by allowing them to impose sanctions on employers directly without needing to go through the labour courts.</p>
Adopt a comprehensive strategy to reduce high labour market informality by strengthening enforcement, reducing administrative burdens to entrepreneurship, and enabling the poor to become formal workers.	<p>A National Strategy to Transition to a Formal Economy was launched in February 2018, with the goal of reducing informality to 33% by 2025. The minimum base social security contribution rate for domestic service workers was reduced from July 2017. A pilot scheme for coffee pickers involving a reduced contribution rate to cover health insurance during the harvesting season will start in 2018. Consideration is being given to lowering the employer social security contribution rate for new, small businesses for the first four years of operation.</p>
Establish better educational outcomes as the main policy target, with special emphasis on improving the performance of disadvantaged students and schools.	<p>No substantial actions taken to establish measurable performance targets. However, there are several individual initiatives to improve outcomes and reduce inequalities in the education system which are not being subject to impact evaluation.</p> <p>A bill has been submitted to Congress requiring the accreditation of teacher training programmes delivered by private universities.</p> <p>The continued implementation of <i>Yo me Apunto</i> program to reduce secondary education dropout rates is proving successful in reducing dropout rates in the targeted secondary schools</p>
Develop an apprenticeship system that closely involves employers.	<p>A small-scale dual education pilot programme in the automotive sector started in 2017. Tripartite discussions are also underway to formally introduce a dual apprentice system and regulate the contractual situation of students in the workplace, with a proposed legislative reform currently being analysed and issues relating to the remuneration and social security of apprentices being negotiated.</p>

electricity sector is dominated by a vertically-integrated SOE, and private-sector participation is limited to 15% of generation. Two SOEs dominate maritime transport, with each having exclusive rights to manage all ports on respective coasts.

Despite their importance, most SOEs lack a clear mandate and adequate oversight. Since many were created by specific laws, consistent operational and reporting standards have not been established. Governance issues have been highlighted by recent cases involving two public banks: the cessation of intermediation activities at Bancrédito (discussed above) and investigations into the business practices of Banco de Costa Rica. Several months before the government implemented a change to the technical regulations relating to cement in order to increase competition in the market, Banco de Costa Rica extended a loan to a company to import cement from China. Irregularities relating to the loan and allegations of undue political influence have, to date, led to the arrest of the importer and six senior bank executives, the dismissal of the bank's board, the suspension of

a judge and Prosecutor General, and an ongoing investigation by a committee of the Legislative Assembly.

The OECD has made a number of recommendations for alignment with the OECD *Guidelines on Corporate Governance of State-Owned Enterprises* (OECD, 2015c). In response, an SOE Action Plan was launched in July 2017 and is expected to be fully rolled out by the end of 2018. If successfully implemented, it will represent significant progress. As a priority, authorities are currently working to get the newly-created ownership unit operational and to establish regulations for board member nominations ahead of the next round of appointments that will occur after the new administration takes office in May 2018. From June 2017, a new corporate governance regime applicable to all financial institutions came into effect under CONASSIF's revised Corporate Governance Regulations. In line with international benchmarks, it is based on a principles-based model and covers a comprehensive set of governance issues.

Costa Rica's high barriers to entrepreneurship are reflected in low business start-up rates and high informality. While the time and cost involved in starting a business has reduced over the last decade, according to the World Bank's *Doing Business* indicators, Costa Rica's distance-to-the-frontier score is 81.7 out of a possible 100, which is lower than all OECD countries. The government has several positive initiatives in this area. The majority of the 22.5 days it takes to start a business according to the World Bank measure is accounted for by the issuing of a business licence by the local municipality. Therefore, the Ministry of Economy, Industry and Commerce (MEIC) is working with several municipalities to reduce the time and paperwork involved, including by establishing one-stop shops in the Brunca, Central Pacific and Chorotega regions. In addition, MEIC and the Costa Rican Export Promotion Agency (PROCOMER) have started a joint project to extend the sub-national initiatives to simplify and digitalise business processes, including not only the business registration phase, but also obtaining other licenses and permits (such as construction, health and environmental permits). The digital platform has now been rolled out to firms within free trade zones, and is currently being extended to all firms. Authorities should continue these positive initiatives, with a view to establishing one-stop shops implemented at the local level, with clear and measurable objectives against which performance is benchmarked. As an example of what could be achieved, the number of procedures that an entrepreneur needs to undertake to start a business could be reduced from nine to one if these tasks were instead performed by a one-stop shop, as is the case in the best performing countries according to *Doing Business*, such as New Zealand.

At the other end of the firm lifecycle, facilitating the exit of unviable businesses frees resources to flow to more productive uses. According to the resolving insolvency dimension of the World Bank's *Doing Business* indicators, Costa Rica's distance-to-the-frontier score is 34.4, which is lower than all OECD countries except Turkey and significantly below the OECD average of 74.8. This reflects the lengthy time to insolvency (3 years) and the low debt recovery rate (31 cents on the dollar). However, significant progress is also being made to modernise the insolvency regulations in line with international best practice. All cases will be handled by a specialised insolvency court from February 2018. Additionally, a draft bill which establishes a unified regulatory framework for insolvency and which expedites processes (for example, by curtailing excessive appeals) is close to completion.

Despite its shift into more knowledge-intensive goods and services, Costa Rica does not score well on innovation input and outcome measures (OECD, 2017i). In addition, innovation

and technology use is concentrated among firms in free-trade zones. These high-productivity firms co-exist with low-productivity domestic (including informal) firms and there is limited integration of local firms into the supply chains of multi-national firms due to a mismatch between what foreign firms demand and the competencies of the local business sector (OECD, 2017i). However, there is evidence of modest positive spillovers from foreign firms to domestic suppliers (Sandoval et al., 2018). There is also evidence that government business assistance programmes in Costa Rica aimed at promoting innovation and linkages between domestic and foreign firms improve business performance (Monge González, Rivera and Rosales-Tijerino, 2010; Monge-González and Rodríguez-Álvarez, 2013). In line with OECD recommendations to establish a one-stop agency to further improve the effectiveness of these business assistance programmes, a bill to create the agency FOMPRODUCE to concentrate funds and responsibilities relating to firm innovation and development in one entity has been proposed, but has not progressed due to a lack of support.

In addition, in recognition of the potential to boost intra-regional trade in Latin America, a law to create a National Council of Trade Facilitation (CONAFAC) was passed in April 2017. The Council has 12 members: seven vice-ministers and five private-sector representatives. In order to improve co-ordination among the agencies involved in trade facilitation, CONAFAC's decisions are binding on the relevant government agencies. The Council will be responsible for the implementation of free trade agreements as well as the modernisation and continuous improvement of all infrastructure relating to the cross-border movement of goods and people.

Addressing transport infrastructure gaps

Costa Rica's significant transport infrastructure gaps are hindering productivity, environmentally-sustainable growth and regional development, as well as negatively affecting the population's well-being (Estado de la Nación, 2016; OECD and IDB, 2016; OECD, 2017j). Transport infrastructure spending has been lower than OECD countries due to weak fiscal management and there is a lack of strategic planning and coherence, weak accountability and poor project management and execution due to the high degree of public sector fragmentation (Pisu and Villalobos, 2016).

The OECD has recommended streamlining the institutional and legal framework of public-work agencies as well as adopting a more strategic approach to long-term planning. Co-ordination and accountability would be greatly improved by clarifying the mandates of the different agencies and granting authority and control of infrastructure management to a single institution. This lead agency should also be charged with conducting cost-benefit analyses to select and prioritise projects. Currently, this step is overlooked, with more emphasis placed on concessions and project financing, which, while important, are secondary considerations to systematic prioritisation.

Indeed, the OECD *Principles for the Public Governance of Public-Private Partnerships* (OECD, 2012b) highlight the importance of separating the decision about whether to invest in a project from the decision about how to procure and finance the investment. While there are a number of legitimate reasons for seeking the involvement of the private sector in the provision of infrastructure investment, PPPs are sometimes used inappropriately to disguise pressure on public finances. In such cases, investment decisions – by precluding appropriate alternative investment arrangements – will lead to suboptimal outcomes. This underscores that the use of PPPs should be accompanied by proper and transparent assessment of their expected long-term impact on public finances. A stark example

occurred in Hungary with major PPPs for motorways recorded off-budget in 2005 and 2006, despite the partnership involving a state-owned enterprise (Araújo and Sutherland, 2010).

Costa Rica's National Transport Plan 2011-35 envisages that a third of transport infrastructure spending will come from private sector investment (MOPT, 2011). However, Costa Rica has relatively little experience with PPPs. There have been only four PPP projects since the General Concession Law regulating private participation was passed in 1998, and these suffered from delays of up to 11 years before construction even began (OECD 2016b; Pisu and Villalobos, 2016; OECD, 2017k).

Private participation in infrastructure is governed by a fragmented legal framework and Costa Rica is in the process of developing a new framework (OECD, 2017q). Given the complexity of PPPs, the OECD guidelines highlight the importance of a robust governance structure where relevant agencies have a clear mandate and accountability (OECD, 2012b). In 2016, a public policy for PPPs was formulated and a decree was issued to regulate PPP projects. While positive, greater clarity is needed about how this new framework will be implemented within the current institutional and legal settings (OECD, 2017j). It is also positive that a PPP unit has been created within the Ministry of Finance to manage the public financing issues relating to the PPPs and it will be important for this unit to properly assess and account for the contingent liabilities arising from PPPs. It is envisaged that the National Concession Council (CNC) will continue to be responsible for contract management and technical considerations. However, additional efforts are needed to clarify the roles of the two entities and to establish mechanisms to align and co-ordinate their work (OECD, 2017j). More generally, these arrangements should continue to be monitored as they remain untested in practice as no PPP has taken place under the new regulatory and institutional arrangements.

Table 10. Past OECD recommendations to boost productivity growth

Recommendations in 2016 Economic Assessment	Actions taken
Give the competition commission more independence and eliminate anti-trust exemptions. Improve the corporate governance of state-owned banks and enterprises by adopting the OECD Guidelines on the Corporate Governance of State-Owned Enterprises.	A bill to create a new competition authority with greater independence and resourcing is being considered by the Legislative Assembly. An SOE Action Plan was launched in July 2017. An ownership entity was created in October 2017 and is expected to be operational before the next round of board nominations takes place after the new administration takes office in May 2018. A decree to align board member nomination processes with the OECD Guidelines on Corporate Governance of State-Owned Enterprises is expected to be in place before the next round of appointments in May 2018. From June 2017, a new corporate governance regime applicable to all financial institutions came into effect under CONASSIF's revised Corporate Governance Regulations. In line with international benchmarks, it is based on a principles-based model and covers a comprehensive set of governance issues.
Strengthen the institutional design to align policies to boost productivity, improve the business environment and reduce barriers to entrepreneurship.	To strengthen the Presidential Council on Competitiveness, Innovation and Human Talent (Costa Rica's productivity commission), a technical committee to establish an agenda of work priorities has been created. A productivity commission was established by Executive Decree in February 2017. A bill has been submitted to Congress to institutionalise the productivity commission, unify its three sub-councils and strengthen the technical unit.
Streamline the institutional and legal framework of public-work agencies, to achieve better policy design and execution in transport and other infrastructure sectors.	No significant action taken to date to improve the overall institutional and legal framework of public-works agencies. A PPP unit within the Ministry of Finance will manage the contingent liabilities generated by PPPs. The unit has developed a number of guidelines and project assessment criteria consistent with the OECD <i>Principles for the Public Governance of Public-Private Partnerships</i> . A decree to clarify the regulation of PPP projects was issued in December 2016.

Greening growth

Costa Rica's per capita emissions of greenhouse gases (GHG) are well below half of Chile's, which has the lowest per capita emissions among current OECD member countries. This is mainly because almost 100% of electricity is supplied from renewables, which account for half of total energy supply, but also because of relatively low incomes. Hydro power accounts for most electricity production but wind power capacity is also significant. Carbon intensity of production is very low, and has been declining slightly in recent years, while rising incomes have led to a slight increase in per capita emissions, associated in particular with rising use of motor vehicles.

Costa Rica has had much success in reversing deforestation following rampant tree clearing for agriculture and livestock production that occurred between the 1950s and the 1980s. Forest cover has more than doubled since the low reached in 1987. Costa Rica is also world-renowned for its rich biodiversity: while representing only 0.03% of the world's land surface, the country hosts 3.6% of the world's biodiversity (OECD, 2017i). Over the years the government managed to strengthen biodiversity protection, which underpins Costa Rica's green tourism trademark and has contributed to the performance of its agriculture sector (OECD, 2017i). However, more general environmental indicators show a more mixed picture.

Urbanisation and greater energy needs are putting pressure on Costa Rica's natural resources. Due to limited use of local timber in the construction sector, new houses are often built with cement and metal, which are associated with a high carbon footprint. Air quality is generally very good although, as for other environmental indicators, more comprehensive data would be useful. Low levels of pollution follow from the small amount of heavy industry and absence of thermal power stations. Rising levels of car ownership and use have nevertheless been creating local problems, in combination with congestion, in San José. Reducing carbon emissions stemming from private car use will require combining improvements in transport infrastructure with an expansion of the public transport network.

While water availability is generally good (though shortages are a problem in certain areas), water quality is likely to be an issue: until 2015, less than 10% of wastewater was subject to treatment of any kind and, according to the World Bank (Oviedo et al., 2015), only four of 16 wastewater treatment plants in San José satisfied national standards. A new treatment plant (Los Tajos), opened in 2015, brought the share receiving treatment to nearly 12%, but even in the latest facilities only primary treatment is provided. Nearly all of the population not connected to the sewage system have their own septic tank. The OECD has therefore recommended that wastewater management be improved (OECD, 2016b). A national policy on waste water sanitation was released in 2016. This establishes goals to increase the coverage of sanitation infrastructure by 2045 and provides guidelines for the management of waste water (AyA-MINAE-MS, 2016). While this is a positive initiative, given the issues with the execution of infrastructure projects in Costa Rica, it will be important to monitor progress. The extensive use of often obsolete agrochemicals is a potential source of soil contamination and acts as a significant barrier to sustainable productivity growth (OECD, 2017f). Although there are indications that the intensity of usage has been declining, official limits to the use of pesticides are not monitored and long registration processes limit access to new agrochemicals (Oviedo et al., 2015; OECD, 2017i).

Direct indicators of water quality are not collected systematically, but past reports have shown that water quality in more than half of Costa Rica's estuaries and many urban rivers is unsuitable for consumption, recreation or irrigation (AyA-MINAE-MS, 2016). A

number of beaches have been declared unsafe for swimming due to pollution in the recent past (Estado de la Nación, 2014). As an indirect indicator, the Ministry of Environment estimates that the number of deaths likely to be directly related to water quality was nearly halved between 2000 and 2014.

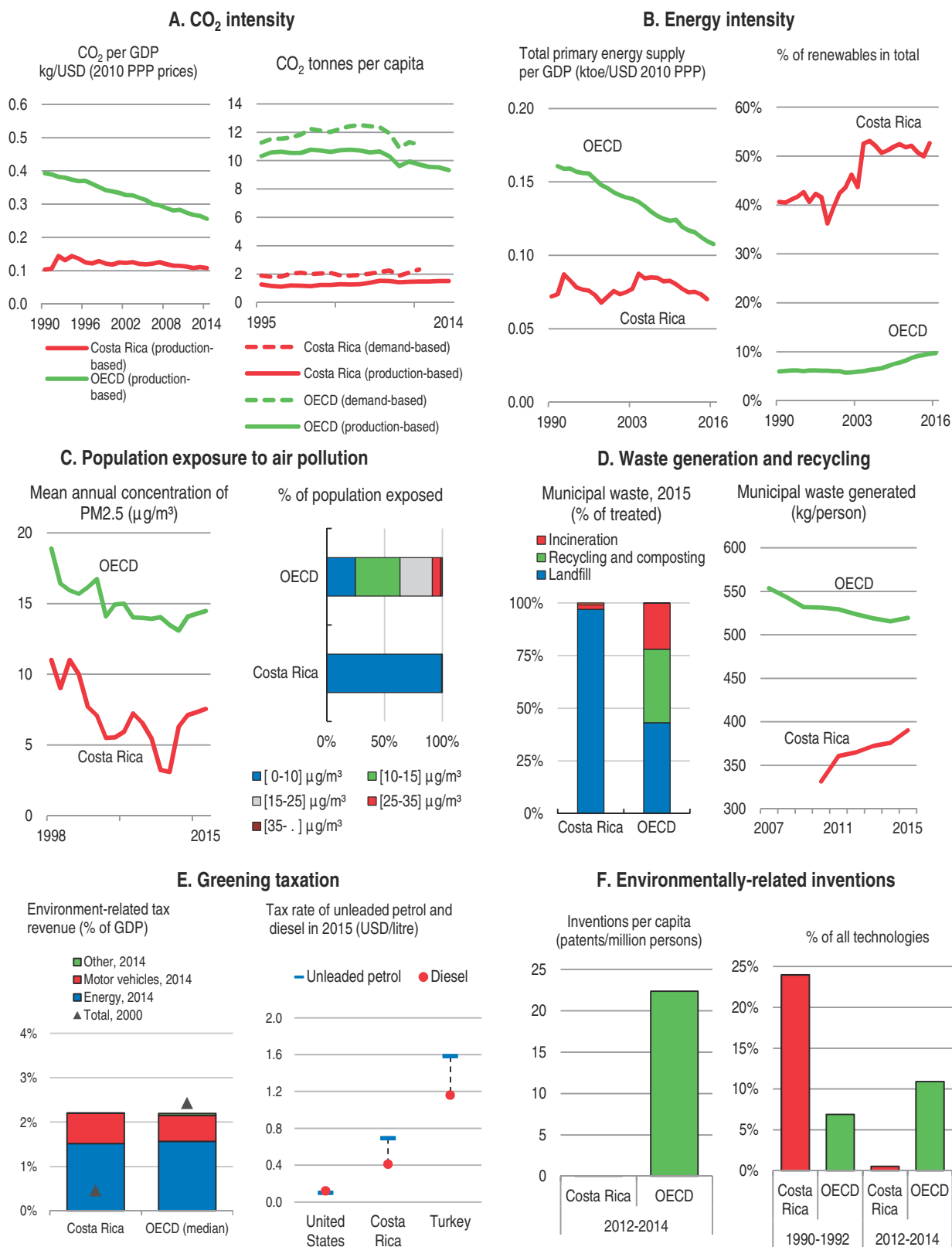
In its treatment of municipal waste, Costa Rica is well behind OECD countries in developing recycling or re-use, sending nearly all waste to landfill. Per capita waste generation has been growing towards OECD levels, despite Costa Rica's relatively low incomes.

Costa Rica's use of taxation for environmental objectives is not as well-developed as in some OECD countries, especially measured in terms of total revenue. Revenue raised is not always a good indicator of such incentives, however; for example Costa Rica has been a pioneer of pricing environmental services and paying farmers for good land management, one of the reasons for the strong recovery in forest cover. The OECD has recommended that Costa Rica continues efforts to develop the carbon market and other climate-change mitigation schemes. Consistent with this recommendation, the authorities are considering introducing a GHG emission levy scheme. It is early days for this initiative, which is currently in the planning and design phase. As such, it is unclear at this stage whether (and when) a levy will be introduced and what form it might take.

Table 11. Past OECD recommendations on green growth

Recommendations in 2016 Economic Assessment	Actions taken
Improve public urban transport and wastewater management facilities.	<p>A committee has been created to develop a strategic plan to improve public transport in the Great Metropolitan Area of San José. However, there is a lack of concrete progress.</p> <p>A national policy on wastewater sanitation was issued in 2017, which includes sanitation infrastructure expansion goals to 2045.</p> <p>Ongoing work to further expand the wastewater treatment network in the Great Metropolitan Area of San José is expected to be completed in 2021.</p>
Continue efforts to develop the carbon market and other climate-change mitigation schemes.	Authorities are considering introducing a GHG emission levy, and are in the early planning and design phase.

Figure 27. Green growth indicators: Costa Rica



Source: OECD Green Growth Indicators Database.

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ANNEX 1

Legislative initiatives

Table A1. **Recent and ongoing legislative initiatives of relevance to the 2018 Economic Survey of Costa Rica**

Policy area	Bill/Law description	Status
Fiscal	Bill 20.580 to strengthen public finances, comprising: i) a bill to transform the current sales tax into a fully-fledged value-added tax, including the removal of a number of exemptions; ii) increase capital gains tax to 15%; iii) several bills to reform the remuneration schemes of public sector workers; iv) a fiscal rule bill.	Presented to the Legislative Assembly on 9 November 2017. Allocated to the Commission for Fiscal Affairs. Fast track procedure was approved on 28 February 2018.
Fiscal	Bill 20.595 to reduce earmarking by delinking certain spending categories from revenues.	Presented to the Legislative Assembly on 17 November 2017. Allocated to the Commission for Fiscal Affairs.
Fiscal	Bill 20.203 to include deconcentrated agencies in the national budget and increase the Ministry of Finance's control of the budget.	Presented to the Legislative Assembly on 13 December 2016; affirmative vote of the Special Commission on 3 August 2017; affirmative vote after the first debate (7 February 2018) and second debate (22 February 2018). Enactment of the Law is pending.
Fiscal	Bill 20.649 to reduce public sector fragmentation by eliminating non-functional institutions.	Presented to the Legislative Assembly on 13 December 2017, allocated to the Commission on Legal Affairs.
Fiscal	Law 9371 allowing the Ministry of Finance to reclaim mandated transfers to autonomous institutions that have not been spent within 2 years.	Adopted in 2016 and effective from 2018.
Fiscal	Bill 19.787 to reform public sector employment by establishing a new performance management system and limiting pay increases.	Bill 19.787 was withdrawn following opposition from trade unions. However, components have been included in Bill 20.580 to strengthen public finances.
Fiscal	Law 9428 re-introducing a tax on all legal entities on the National Registry, not just those registered with the tax administration.	Approved in 2017.
Fiscal	Law 9416 to fight against fiscal fraud allows the tax administration to access information on taxpayers through a centralised registry of ultimate beneficiary owners.	Approved in 2016 and came into force in 2017.
Fiscal	Law 9328 to enhance the fight against smuggling, which strengthens the enforcement of and penalties for customs tax fraud.	Approved in 2015 and came into force in 2016.
Fiscal	Laws 9388, 9380, 9381 and 9383 to reform the pension regime to limit pension inheritance and curb excessive increases.	Approved in 2016 and came into force in 2017.
Monetary	Bill amending Art. 17 of Law 7558 (Organic Law of the Central Bank) seeking to strengthen the independence of the Central Bank by delinking the appointing of the President of the Central Bank from the political cycle.	Draft bill is ready to be sent to Congress. It has been consulted and agreed internally by the Central Bank and the Ministry of Finance.
Financial stability	Bill 17.776 establishing a deposit insurance scheme and bank resolution regime covering all financial entities supervised by SUGEF.	A new text that incorporates the recommendations and best practices of the OECD is ready to be sent to Congress.
Competition	Bill 19.996 establishing the National Competition Council (CONACOM) to provide a strengthened competition authority with greater independence and resourcing.	A substitute text was presented to the Legislative Assembly on 25 April 2017; and designated by the Executive as a priority bill. A second round of consultations was conducted and finalised. Hearings were also held during 2017. As part of the process, there have been negotiations with the sectors involved. A new substitutive text is being negotiated with the sectors in order to be presented to the Legislative Commission of Government and Administration for discussion and approval.
Informality	Bill 19.805 proposes a 5.05 percentage point of gross payroll decrease in employer social security contributions related to IMAS and Asignaciones Familiares for new, small businesses for the first four years of operation.	Presented to the Legislative Assembly in November 2015.
Labour	Law 9343 to modernise labour legislation, including reforms to individual labour law governing the employer-employee relationship, collective bargaining and labour dispute procedures, and strengthening of the labour inspectorate.	Approved by the Legislative Assembly in December 2015 and came into force in July 2017.
Labour	Bill 19.130 to grant labour inspectors the right to impose sanctions directly on employers.	Initiated in 2014 and presented to the Legislative Assembly in 2015.
Social	Bill 19.960 to transform the current Ministry of Human Development and Social Inclusion by granting it resources and staff to enable it to fulfil its current mandate as the social sector co-ordinator.	Presented to the Legislative Assembly in May 2016.

Table A1. **Recent and ongoing legislative initiatives of relevance to the 2018 Economic Survey of Costa Rica** (cont.)

Policy area	Bill/Law description	Status
Education	Bill 19.378 to establish an apprenticeship educational track and regulate the contractual situation of students in the workplace.	Presented to the Legislative Assembly in October 2014.
Education	Bill 19.549 to make accreditation of all teaching programmes in private universities mandatory.	Presented to the Legislative Assembly in April 2015.
Corporate governance of SOEs	Draft bill to strengthen the corporate governance of SOEs.	Bill is currently being drafted.
Innovation	Bill 19.822 to concentrate funds and responsibilities relating to firm innovation and development in one entity (FOMPRODUCE).	Presented to the Legislative Assembly in November 2015 but subsequently withdrawn in April 2016. This proposal has stalled.
Insolvency	Draft bill to create a unified regulatory framework and streamlined procedures for insolvency.	Bill has been drafted but has not yet been submitted to the Legislative Assembly.
Productivity	Bill 20.331 to institutionalise the Presidential Council on Competitiveness and Innovation, including the Productivity Commission.	Presented to the Legislative Assembly in April 2017, under the revision of the Commission of Economic Affairs. In the meantime, the Commission has been put in place through Executive Decree 40.227.