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DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

COSTA RICA

EMERGENCY PROGRAM FOR MACROECONOMIC SUSTAINABILITY

(CR-L1143)

LOAN PROPOSAL

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Required

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2. RFI: Costa Rica – Staff Report and Letter of Intent

Optional

1. BIDeconomics: Essential Costa Rica: More prosperous, more inclusive, more sustainable
2. Impact of COVID-19 on the region's economies (Central America)
3. Public Finance Indicators 2007-2019

ABBREVIATIONS

AFD	Agence Française de Développement [French Development Agency]
BCCR	Central Bank of Costa Rica
CABEI	Central American Bank for Economic Integration
CAF	Development Bank of Latin America
COVID-19	Coronavirus disease 2019
GDP	Gross domestic product
IMF	International Monetary Fund
LIBOR	London Interbank Offered Rate
NIR	Net international reserves
OECD	Organisation for Economic Co-operation and Development
RFI	Rapid Financing Instrument
SARS-CoV-2	Severe acute respiratory syndrome coronavirus 2
SDL	Special Development Lending
SDR	Special drawing rights
VAT	Value-added tax
WHO	World Health Organization

PROJECT SUMMARY

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<table>
<tr><th colspan="5">Financial Terms and Conditions</th></tr>
<tr><th colspan="3">Borrower</th><th colspan="2">Special Development Lending[a]</th></tr>
<tr><td colspan="3">Republic of Costa Rica</td><td>Amortization period:</td><td>7 years</td></tr>
<tr><th colspan="3">Executing agency</th><td>Disbursement period:</td><td>1 year</td></tr>
<tr><td colspan="3">Ministry of Finance</td><td>Grace period:</td><td>3 years</td></tr>
<tr><th>Source</th><th>Amount (US$)</th><th>%</th><td>Interest rate:</td><td>3-month LIBOR in U.S. dollars, plus/minus the IDB funding margin, plus the variable lending spread for Ordinary Capital resources, plus the fixed premium loan spread of 115 basis points.</td></tr>
<tr><td rowspan="2">IDB (Ordinary Capital):</td><td rowspan="2">250 million</td><td rowspan="2">100%</td><td>Front-end fee:</td><td>1% of the principal amount of the loan, payable within 30 days of entry into effect of the contract.</td></tr>
<tr><td>Credit fee:</td><td>0.75%</td></tr>
<tr><td rowspan="2">Total:</td><td rowspan="2">250 million</td><td rowspan="2">100%</td><td>Weighted average life:</td><td>5 years</td></tr>
<tr><td>Approval currency:</td><td>U.S. dollar</td></tr>
<tr><th colspan="5">Project at a Glance</th></tr>
<tr><td colspan="5">Project objective/description: The general objective of the program is to support the measures being taken by the Government of Costa Rica to address the COVID-19 pandemic, with a view to preserving macroeconomic stability. The specific objectives are to: (i) reduce the fiscal deficit to achieve public debt sustainability; (ii) promote economic recovery and safeguard the stability of the financial system and the balance of payments; and (iii) foster economic competitiveness and improve the business climate.
The program is aligned with the Rapid Financing Instrument (RFI) of the International Monetary Fund (IMF), approved on 29 April 2020. The Special Development Lending (SDL) budgetary support will help finance efforts to contain the health crisis and mitigate its effects on the economy through countercyclical spending policies. The program is structured as a single operation to be disbursed in a single tranche.</td></tr>
<tr><td colspan="5">Commitments and disbursements of the loan proceeds: The sole disbursement of the loan proceeds will be made in accordance with the terms established in the loan contract to be signed between the borrower and the Bank, including the provision requiring that proceeds under the RFI financing arrangement approved by the IMF are being or have been disbursed. The Commitments Matrix (Annex II) identifies the measured agreed on with the Government of Costa Rica and set forth in its Letter of Intent to the IMF, dated 22 April 2020, which forms an integral part of the IMF report “Request for Purchase Under the Rapid Financing Instrument,” approved by the IMF Executive Board. Those measures are also stated in the Policy Letter sent by the Government of Costa Rica to the Bank on 29 May 2020 and will be reflected in the abovementioned loan contract (see paragraph 4.2).</td></tr>
<tr><td colspan="5">Exceptions to Bank policies: None.</td></tr>
<tr><th colspan="5">Strategic Alignment</th></tr>
<tr><td colspan="5">Challenges:[b] SI ☐ PI ☐ EI ☐</td></tr>
<tr><td colspan="5">Crosscutting themes:[c] GD ☐ CC ☐ IC ☒</td></tr>
</table>

[a] Under the Special Development Lending category (document AB-3134) and its Operational Guidelines (document GN-2031-17), this operation will be documented under the Flexible Financing Facility with limited debt management options. The borrower has the option of requesting currency and interest rate conversions. The Bank will take operational and risk management considerations into account when reviewing such requests. The applicable amortization schedule for this loan will consist of equal, six-monthly installments that begin to accrue at the end of the grace period.

[b] SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

[c] GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

1.1 **Macroeconomic performance.** Costa Rica's macroeconomic performance has been relatively solid for the past decade. From 2010 to 2019, the economy grew 3.9%, above the average rate for Latin America and the Caribbean (2.1%), as a result of a growth model based on trade openness and integration and on attracting foreign direct investment. This model has enabled the country to increase and diversify its exports and make them more sophisticated, create better-paid job opportunities, train human resources, and incorporate new technologies. Costa Rica is now positioned as the leading exporter of high-tech products in Latin America and the Caribbean, as well as the region's leading exporter, per capita, of goods and services. One of the key pillars of its growth model has been the maintenance of a solid macroeconomic framework, based on a system of inflation targets that has anchored economic agents' expectations, while export dynamism, especially for services, has kept the current account deficit down to a moderate level, comfortably financed by foreign direct investment (see Table 1). Furthermore, since 2015, the country has made significant progress in the process of joining the Organisation for Economic Co-operation and Development (OECD).[1]

Table 1. Principal macroeconomic indicators 2014-2019

	2014	2015	2016	2017	2018	2019
Growth rates (%)						
Real gross domestic product (GDP)	3.5%	3.6%	4.2%	3.9%	2.7%	2.1%
Unemployment rate	9.7%	9.6%	9.5%	9.4%	12.0%	12.4%
Inflation (year-on-year target)	5.1%	-0.8%	0.8%	2.6%	2.0%	1.5%
Current account (% GDP)	-4.9%	-3.5%	-3.0%	-3.0%	-3.1%	-2.5%
Foreign direct investment (% GDP)	5.7%	5.7%	4.7%	4.9%	4.6%	4.1%
Net international reserves (NIR)						
NIR balance (billions of US$)	7.211	7.834	7.574	7.150	7.495	8.912
NIR balance (% GDP)	14.3%	14.3%	13.3%	12.3%	12.5%	14.5%
Central government public finances (% GDP)						
Primary balance	-3.1%	-3.0%	-2.4%	-3.0%	-2.3%	-2.8%
Fiscal balance	-5.6%	-5.7%	-5.3%	-6.1%	-5.9%	-7.0%
Tax revenue	12.9%	13.2%	13.4%	13.2%	13.1%	13.5%
Current expenditure (primary)	15.3%	15,4%	15.3%	15.3%	15.1%	15.5%
- Remunerations	7.2%	7.2%	7.0%	6.9%	6.9%	6.8%
- Current transfers	7.4%	7.5%	7.6%	7.8%	7.6%	8.0%
Interest	2.6%	2.7%	2.8%	3.1%	3.5%	4.2%
Public investment	1.7%	1.8%	1.8%	2.0%	1.4%	2.0%
Public debt	38.5%	41.0%	45.2%	49.2%	53.6%	58.5%

* Sources: Central Bank of Costa Rica and Ministry of Finance.

[1] On 31 March 2020, Costa Rica completed the 22 evaluations required under the roadmap for completing the technical work for joining the OECD. The OECD Council will decide in the next few months whether to formally invite the country to become a member of the organization.

1.2 **Fiscal situation.** Despite this progress, the country's fiscal sustainability—a necessary condition for higher, more stable economic growth and social well-being—has been compromised in the past few years by relatively low levels of tax revenue and fast growth in current spending, especially on salaries and transfers, restricting the scope of productive public investment.[2] This combination of factors explains the sustained deterioration of the government's financial balance over the past decade, from a surplus of 0.2% of GDP in 2008 to a deficit of 5.9% of GDP in 2018, leading to a high level of public debt, whose weight in the economy has more than doubled, from 24% of GDP in 2008 to 54% in 2018 (see Public Finance Indicators 2007-2019).

1.3 To correct these imbalances, in December 2018 the country approved the Law to Strengthen Public Finances. Successful implementation of this law would shrink the central government deficit and stabilize the debt trajectory in the medium term. The reform has three major components: on the revenue side, of note are the transformation of the sales tax into a value-added tax (VAT) and the improved progressiveness of the personal income tax. On the spending side, the reform included consolidation measures in categories like salaries and current transfers. At the institutional level, a fiscal rule was introduced to limit future increases in government current expenditure, with compliance to be monitored by an independent fiscal council.

1.4 The reform is gradually being implemented and begun to yield some results. In 2019, central government revenue rose to 14.8% of GDP from 14.2% in 2018, increasing 8.1% over the 2018 value, thanks to the introduction of the VAT (growth of 23% vs. 3.2% in 2018 with the sales tax), the new income brackets (9.2% in 2019 vs. 8.8% in 2018), and the effect of the tax amnesty (0.3% of GDP). In turn, primary current expenditure slowed due to restrictions on remunerations, which grew only 3.1% (compared to an average of 9% over the past decade), while public investment increased 0.61 percentage points of GDP (to 2% of GDP).

1.5 Despite implementation of the tax reform, the central government balance worsened compared to 2018, partially due to the economic slowdown in 2019 resulting from increased debt interest payments—debt rose to 4.2% of GDP— and a number of extraordinary expenses.[3] The primary and financial deficits reached 2.8% and 6.9% of GDP in 2019, respectively, while public debt is on track to surpass 60% of GDP in 2020. Short- and medium-term financing needs surpassed 10% of GDP, with over 37% of the total debt to mature in 2023. Because of this situation, the country's sovereign credit rating was recently downgraded,[4] which will increase its financing costs and refinancing risk in the short and medium terms.

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2 While tax revenue as a percentage of GDP fell between 2008 and 2018, government current expenditure rose more than five percentage points, bringing public investment to historically low levels (1.4% of GDP in 2018).

3 Including: transfers to the port authority—the Board of Port Administration and Economic Development of the Atlantic Coast of Costa Rica—for restructuring (0.1% of GDP), the closing of Banco Crédito Agrícola (0.1% of GDP), and the US$100 million capital subscription to the CAF (0.2% of GDP).

4 In March 2020, Moody's downgraded Costa Rica's sovereign rating from B1 to B2 with a stable outlook.

1.6 In the first quarter of 2020, the country's fiscal performance showed clear signs of improvement. In March, the cumulative primary deficit reached its lowest level since 2009 (0.1% of GDP vs. 0.7% of GDP in 2010-2019). This result was associated with 12.2% growth in total revenue (compared to 3.2% in the same period of 2019) and reduced expenditure without interest (-9.6% vs. 12.9% in 2019), mainly in the category of transfers, as well as a cutback on spending on remunerations.[5] However, this trend towards improvement in public finances is being interrupted by the impact of the coronavirus disease 2019 (COVID-19) pandemic, as explained below.

1.7 **The COVID-19 pandemic and health emergency.** The severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2), which causes the disease COVID-19, was first detected in China in late 2019 and spread rapidly to the rest of the world.[6] Although the spread of SARS-CoV-2 in Latin America and the Caribbean began later than in Asia and Europe, the number of cases in the region has also been increasing rapidly. By late April 2020, the number of confirmed infections in Latin America and the Caribbean had reached 179,077, while the number of deaths exceeded 9000. COVID-19 is a highly contagious disease. This has meant that, on average, recorded cases in a country rise daily by 33%.[7] These high infection rates lead to spikes that can overwhelm the capacity of health systems. To keep this from happening, social distancing and isolation have become essential measures in the public health response, since they slow the transmission of COVID-19[8] and stave off demand for medical services.[9] Implementing these types of measures is particularly important in the region, considering that a recent World Health Organization (WHO) analysis showed that most countries in the region are unprepared to manage pandemics.[10]

1.8 In Costa Rica, the first case of COVID-19 appeared in early March. By late April, there were already 705 cases, with 6 deaths. Early on, the authorities decreed a state of national emergency,[11] which streamlines administrative, operational, and budgetary regulations for responding to the situation. In turn, the executive branch has requested support from international organizations to mitigate the economic effects, based on the country's limited fiscal space for reacting to the emergency.

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5 However, spending on interest increased 42% (vs. 12% in 2019).

6 The World Health Organization declared the pandemic on 11 March 2020. By late April 2020, there were more than 3 million confirmed cases around the world, with more than 207,000 deaths from COVID-19 (World Health Organization, Situation Report).

7 This means that the number of new infections more than doubles approximately every three days, if public health measures are not taken to contain the spread.

8 Eichenbaum, M. S., Rebelo, S., & Trabandt, M. (2020). The Macroeconomics of Epidemics (No. w26882). National Bureau of Economic Research.

9 Hellewell J., Abbott S., Gimma A., Bosse N.I., Jarvis C.I., Russell T.W., et al. Feasibility of controlling COVID-19 outbreaks by isolation of cases and contacts. Lancet 2020; 8(4):488-496.

10 Operational capacity was assessed according to the percentage of fulfillment of the 13 core capacity requirements to manage public health events established in the International Health Regulations (2005), which is an agreement among 196 countries to develop their capacities to manage such events.

11 Executive decree 42227-MP-S of 16 March 2020.

1.9 **Macroeconomic repercussions.** COVID-19 will affect Costa Rica's economy through several channels, and preliminary estimates show it will drive growth down by -3.3% to -3.6% for 2020.[12] The principal channels are:

(a) **Decreased exchange of goods with the United States and other trade partners.** In all, 41.2% of Costa Rican export goods go to the United States, followed by Europe (22.1%), Central America (15.2%), and China (1.8%). Costa Rica's main export products for these markets are semiconductor devices, medical instruments, and electrical parts, as well as primary products like tropical fruits and coffee. According to the Costa Rica Chamber of Exporters, exports to Europe have fallen 20%, mainly in agricultural products. Conversely, 38.3% of the country's imported goods come from the United States, and almost 14% from China. The products that Costa Rica most imports include oil, electrical equipment and machinery, and vehicles. Decreased growth in the United States and China could compromise the supply of these products, affecting the performance of value chains, especially advanced manufacturing.

(b) **Drop in tourism.** In Costa Rica, the tourism sector generates 9% of total employment and accounts for 6.3% of GDP and 40.0% of service exports, producing nearly US$3 billion annually. Revenue principally comes from North America (53.1% of the total), mainly from the United States; Central America (22.3%); and Europe (15.9%). Tourist activity is expected to fall by almost in half in 2020, causing a 52% reduction in employment, with the number of jobs falling from 211,000 in 2019 to 101,280 this year.

(c) **Decreased revenue in the creative and entertainment industries.** This sector accounts for 2.2% of GDP and employs 2.1% of the labor force. Sales in the food service sector are reported to have fallen up to 80%, with 450 bars and 30 restaurants closing, putting an estimated 5,760 people out of work. Around 95% of workers in this sector are informal and earn less than minimum wage.

(d) **Increased financial market volatility.** Uncertainty about the extent of the virus's spread and its effects is driving the reallocation of financial portfolios to "safe" assets, increasing emerging countries' refinancing risks.[13] Although the government announced this year that it will not seek to issue Eurobonds to cover its financing needs, if other external financing sources do not materialize, it will have to turn to the domestic market, which will lead to higher interest rates and hamper private-sector borrowing.

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[12] See World Economic Outlook April 2020 and the Central Bank of Costa Rica.

[13] For Costa Rica, the emerging markets bond index spread increased 500 basis points from the beginning of the year—a relatively larger spread than in most Central American peer countries.

(e) **Lower domestic demand and higher poverty and unemployment.** Private spending by families amounts to 63.9% of GDP; of this, 65% is consumption expenditure. Social distancing, the suspension of work contracts, and the reduction of working hours will negatively impact household consumption. On the other hand, the sharp drop in the price of oil[14] will improve the terms of trade and increase household disposable income. Lower oil prices will contribute to reducing inflation, which is already on the low side of the 3.0%+/-1.0% range established by the Central Bank of Costa Rica (BCCR); this will afford the monetary policy more leeway to support economic recovery through a lower interest rate, which will be brought down one percentage point to 1.25% (17 March 2020). The decline in economic activity will affect unemployment, which could increase from 12% to 19% while poverty and vulnerability could increase from 14% and 35% to 19% and 36%, respectively.[15]

1.10 **Pandemic response actions.** Overall, the country is well prepared, since it has a relatively robust healthcare system[16] and has taken appropriate measures[17] to contain the spread of the virus, supported by actions to mitigate the economic effects, protect jobs, and ensure the liquidity of the most vulnerable households and companies. The principal objectives and measures are detailed below:

a. **To limit the spread.** The following guidelines have been established: (i) suspension of all mass-gathering events until September; (ii) telework for employees of public institutions; (iii) suspension of public and private school classes; (iv) closing of bars, nightclubs, casinos, national parks, beaches, houses of worship, and religious services; (v) restriction on foreigners' entry into the country; (vi) state regulation of the prices of hygiene products; and (viii) restrictions on daytime and nightime vehicle use.

b. **To mitigate the economic impact.** The fiscal, monetary, and financial measures implemented include: (i) moratorium on the payment of taxes (VAT, income tax, excise taxes, and customs tariffs) for three months, payable by 31 December of the current year; (ii) VAT exemption on rent paid by merchants, provided that the lessor and lessee have taxpayer identification numbers; (iii) freeze on raises for government employees for 2020 (except the police force);[18] (iv) targeted suspension of the fiscal rule on current spending for the Inter-Agency Institute for Social Assistance, the Ministry of Labor, the Costa Rican Institute for Research and Teaching in Nutrition and Health, and the fire service;[19] (v) reduction of the monetary

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14 Costa Rica is a net importer of oil (the oil bill accounts for 34% of total imports).

15 Calculations based on the Continuous Household Survey.

16 Costa Rica scores 45.1 (out of a maximum of 100) on the Global Health Security Index, which measures the capacity of countries to prevent, detect, and respond to a pandemic, as well as the strength of the health system, compliance with international health standards, and other risks that could affect the health sector. This is in line with the global average (40.2) and above the averages for Latin America and the Caribbean (38.1) and other medium-high income countries (37.4). John Hopkins Center for Health Security, 2019.

17 For a list of the measures taken by the government to address the emergency, see link.

18 Executive decree 42286-MTSS-H-MIDEPLAN.

19 DM-0392-2020.

policy rate to 1.25% to bring down financial system borrowing costs, and BCCR participation in liquidity markets; (vi) National Council for Supervision of the Financial System approval to allow banks to renegotiate lending operations with clients without downgrading their debtor rating, for one year; (vii) Office of the Superintendent of Financial Institutions elimination of countercyclical provisions until June 2021, to expand lending during this situation; and (viii) adoption of a law that will limit the fees businesses pay banks to use credit card terminals.

c. **To protect jobs and ensure the liquidity of the most affected households and companies.** The measures include: (i) Legislative Assembly adoption of a law to increase workday flexibility, under which employers may reduce their employees' workdays by 50%-75% for up to three months (renewable for up to two equal periods) if their incomes drop by 20%-60%, respectively;[20] (ii) Legislative Assembly adoption of the partial or full transfer of Labor Capitalization Fund sums to employees whose working hours have been reduced or whose employment contracts have been suspended;[21] (iii) announcement of the Plan Proteger [Protection Plan],[22] which could cost up to US$1.955 billion, to be financed with multilateral loan proceeds, the sale of assets, and other sources, to cover the so-called Bono Proteger [Protection Payment] (iv) maintenance of the Avancemos y Crecemos transfer programs, the economic assistance from the National Learning Institute, the delivery of packages of food to at-risk students, and continuation of care networks; and (v) flexible electricity payments, meaning 50% of the electricity bill will be covered for three months and the remainder must be paid in the second half of 2020.

1.11 **Fiscal effects and increased financing needs.** The macroeconomic program presented in January 2020 provided for an improvement in the primary balance this year of 1.5% of GDP, as a result of implementing the main components of the fiscal reform, including an increase in online tax revenue with the expected yields from the tax reform (0.4%) accompanied by a decrease in public spending (1.1%) and in particular, current spending. However, due to the COVID-19 shock, the primary (and global) deficits are expected to increase temporarily, from 2.8% (6.9%) of GDP in 2019 to at least 3.7% (8.7%) in 2020. Consequently, central government debt will rise to 67% of GDP, seven percentage points above the level expected early this year.[23] The increase in the deficit reflects the temporary rise in spending on certain items to address the emergency (purchase of goods and services) and current transfers to protect vulnerable households' incomes and employment. This higher spending is partially offset by spending reallocations, thanks to the restriction of public salaries in nominal values

[20] Legislative decree 9832.

[21] In late April around 55,000 workers had requested withdrawals from the Fund.

[22] Executive decree 42305-MTSS-MDHIS.

[23] Source: RFI: Costa Rica–Staff Report and Ministry of Finance.

and the cancelation of salary raises, as well as income-based measures to counteract the fall in tax revenue resulting from the economic downturn.[24]

1.12 The expected increase in the deficit in 2020 will mean financing needs will remain high in the short term (near 13% of GDP between 2020 and 2021).[25] Due to restrictions on the international financial market, the Ministry of Finance does not plan to issue new Eurobonds until 2021.[26] Accordingly, a significant portion of the funds—US$2.734 billion—will come from multilateral financing institutions, including the World Bank, Central American Bank for Economic Integration (CABEI), Development Bank of Latin America (CAF), and IMF, supplementing the Bank's response.

Table 2. Emergency multilateral financing (budget support)

Institution	Amount (US$ millions)	Status
CAF	1,050*	Approved
IDB-AFD	380	Approved
IDB (SDL)	250	In preparation**
IMF	504	Approved
World Bank	300	In preparation
CABEI	250	Approved
Total	**2,734**	

* Of which US$500 million are already available.
** This operation is being processed independently from other complementary IDB programs in preparation.

B. Program for macroeconomic sustainability

1.13 On 29 April 2020, the IMF approved use of the Rapid Financing Instrument (RFI) for Costa Rica in the amount of US$504 million, equivalent to 100% of its quota of special drawing rights (SDR). The RFI provides rapid and low-access financial assistance to member countries facing an urgent balance of payments need. The member country requesting RFI assistance is required to cooperate with the IMF to make efforts to solve its balance of payments difficulties and describe the general economic policies it proposes to follow. The instrument may provide support for a broad range of urgent needs, including those arriving from commodity price shocks, natural disasters, and conflict and postconflict situations, etc. Unlike other IMF instruments, the RFI does not require fulfillment of conditions to trigger the disbursement of funds, but rather involves a series of measures agreed on by the country to address the crisis and restore fiscal and financial sustainability in the medium term. These measures are set forth in a Letter of Intent, which is included in the package sent for IMF approval. The IMF approval includes a technical report that provides a rationale for the decision based on an analysis of urgent balance of payment needs, as well as a public debt sustainability analysis. If the debt is deemed to be unsustainable, the borrower should also undertake to adopt

[24] For example, the government submitted the "Payment Act" to the Assembly, which would make one-time use of State funds and the autonomous institutions' surplus to service the debt and address the crisis.

[25] Amortizations account for more than a third of the financing needs.

[26] In November 2019, Costa Rica managed to place US$1.5 billion in Eurobonds on the international markets at rates of 6.25% and 7.25%. The previous issue was in 2014.

subsequent measures to return the country to a path of fiscal sustainability.[27] The following IMF estimates support the approval of the RFI in Costa Rica:

a. **Economic contraction.** GDP is expected to fall 3.3% in 2020, followed by a 3% recovery in 2021.

b. **Impact on the balance of payments.** The deterioration of the current account as a result of the tightening of external demand (fewer exports and the drop in tourism), as well as reduced capital flow, will produce a shortfall in the balance of payments of at least 2.5% of GDP (US$1.6 billion) in 2020.

c. **Impact on the public sector's financing needs.** The estimated fiscal cost of addressing the crisis will lead to deterioration of the fiscal balance by at least 1.7% of GDP in 2020, largely due to the increase in government current expenditure and drop in tax revenue below the target expected at the beginning of the year. These factors will bring the deficit up to 8.7% and lead to an additional COVID-19-associated financing shortfall estimated at US$1.74 billion for the rest of the year, bringing total financing needs to US$7.8 billion (12.5% of GDP) for 2020. Of that total, multilateral lenders represent around 45% of the financing through budget support and investment projects.

1.14 **Measures to restore fiscal sustainability and inclusive growth.** The authorities reaffirmed the short- and medium-term measures to restore the sustainability of public finances and inclusive growth in the Letter of Intent.[28] At the fiscal level, the primary component is a commitment to resume the process of fiscal consolidation in the 2021-2024 period, and implement the fiscal rule on current expenditure. The consolidation process should lead to a primary surplus of 2.2% of GDP in 2024, making it possible to anchor public debt at levels of 50% of GDP around 2034. At the monetary and financial policy level, the country has a notable commitment to maintain exchange-rate flexibility and to continue providing due liquidity to the financial system, while not introducing measures that would exacerbate the balance of payment issues. Lastly, in the context of the process of Costa Rica joining the OECD, the government's commitment to make progress on structural reforms geared towards improving competitiveness and the business climate will help lift medium-term growth prospects.

II. ELIGIBILITY CRITERIA

2.1 **Eligibility criteria for Special Development Lending (SDL).** The SDL category, established in the Proposal to Create a Special Development Lending Category (document AB-3134), approved by the Board of Governors on 30 June 2017 pursuant to Resolution AG-9/16 and its Special Development Lending Operational Guidelines (document GN-2031-17), is a budgetary support lending instrument for

[27] For further details on the IMF instrument, see the following link: RFI.

[28] The measures and actions that Costa Rican authorities are taking to restore fiscal sustainability and inclusive growth, set forth in the Letter of Intent that was part of the package approved by the IMF, for the Bank's purposes constitute the authorities' commitments, which are reflected in the Commitments Matrix and confirmed by the country in the policy letter.

dealing with macroeconomic crises[29] and preserving social gains and economic growth in countries of the region. The Government of Costa Rica meets the eligibility criteria for this loan (document AB-3134), inasmuch as the country: (i) is experiencing a macroeconomic crisis[30] (see paragraphs 1.9, 1.12 and 1.13); and (ii) has a lending arrangement approved by the IMF. The RFI arrangement was approved by the IMF on 29 April 2020 for US$504 million, equivalent to 100% of the country's SDR quota. The SDL operation amount (US$250 million) falls within the established ceiling of 2% of the country's GDP or a maximum of US$500 million.[31]

2.2 The IMF's RFI does not include a matrix of policies or conditions to be fulfilled prior to disbursement. However, in addition to the IMF analysis certifying the need for urgent balance of payment support, it requires a Letter of Intent from the country describing the proposed steps to restore macroeconomic and fiscal stability. To ensure consistency with the IMF instrument, this program incorporates a Commitments Matrix that reflects the country commitments contained in the abovementioned RFI Letter of Intent.[32]

2.3 The operation also contributes to the SDL instrument's objective of protecting social gains and economic growth. The proceeds, despite being for budgetary support and thus unrestricted, will contribute to financing measures to protect incomes in the most vulnerable populations in the short term. The instrument also supports the government's actions to implement structural reforms geared towards improving competitiveness and the business climate, with the aim of raising medium-term growth prospects.

2.4 **The Bank's operational work and technical support in the country.** The Bank, in coordination with other multilateral organizations, has been supporting the government in the diagnostic assessment, design, and implementation of structural reforms aimed at strengthening fiscal sustainability. First, it has spearheaded support for the diagnostic assessment and preparation of proposals to strengthen the macrofiscal management framework (independent fiscal council and the fiscal rule), including studies and seminars with the Ministry of Finance, Legislative Assembly, academia, and local experts. Second, the Bank has led the technical assistance for the ongoing modernization of the tax system, with financing from technical-cooperation operations ATN/FI-12917-CR (2011) and ATN/FI-14553-CR (2014). Specifically, the Bank has proposed implementing the VAT and increasing the tax base, as well as modernizing the income tax through increased rates on personal income and capital gains. Third, in public employment, the Bank has prepared various studies on wage policy, in particular the first work to propose the

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[29] Defined as a situation in which the country lacks or potentially lacks sufficient financing on affordable terms to meet its net international obligations, such as paying for imports or amortizing external debt, while maintaining prudential reserve buffers (document GN-2031-17).

[30] The economy will shrink significantly in 2020 and at the same time, financial market conditions are prohibitive for the sale of bonds on the international market.

[31] Whichever amount is less. This limit applies to new funds per country (see paragraph 4.6 of document AB-3134).

[32] See footnote 28.

single salary methodology for Costa Rica,[33] in the context of regional technical-cooperation operations on the subject, and has provided technical assistance to the country on various occasions. With all this assistance as a foundation, the Bank is financing the Fiscal Sustainability Support Program programmatic series, whose first operation for US$350 million was approved and disbursed in 2019 (loan 4819/OC-CR).

2.5 The Bank is currently supporting the process of approving and implementing public employment reform, improving institutional capacity for using information from electronic invoicing, taxing digital services, and launching the administrative-reform process (re-engineering public spending) through technical-cooperation operation ATN/OC-17557-CR.[34] In addition, operation ATN/OC-16528-CR is supporting the government's efforts to improve the link between budget and outcomes in selected sectors. Lastly, through a technical-cooperation operation currently in preparation, the Bank plans to support the Ministry of Finance in developing capacity for improving medium-term fiscal planning, public spending efficiency, and tax compliance, and to support the design and implementation of fiscal policies for the postpandemic period.

2.6 **The Bank's experience in the region and lessons learned.** The Bank has experience assisting the countries of the region in overcoming macroeconomic crises. Through its SDL instrument, the Bank recently supported the Government of Ecuador in its efforts to reestablish macroeconomic stability, restore fiscal sustainability, and protect social spending to support the vulnerable population, through the Emergency Program for Macroeconomic Sustainability and Prosperity (loan 4771/OC-EC). Likewise, in Barbados, the Macroeconomic Emergency Programme to Protect Economic and Social Progress (loan 4656/OC-BA) provided support for the government to reestablish macroeconomic stability and foster a sustainable fiscal balance in the short and medium terms, protecting social spending to safeguard the social gains made. Both operations were approved in conjunction with IMF macrofiscal support.

2.7 The many lessons learned from this experience have been incorporated into the design of this operation: (i) the Bank's SDL instrument is an effective vehicle for channeling budgetary support resources swiftly in crisis situations; (ii) its main value added, other than financial, is that it leverages and strengthens the IMF program and adds a layer of technical support to help the government carry out the agreed measures; and (iii) the technical-cooperation assistance and ongoing dialogue with the authorities to support fulfillment of the commitments with the IMF play an important role. In particular, to provide close technical support to the Ministry of Finance, the Bank has planned a set of regional technical-cooperation operations in support of the client that will encourage fulfillment of the policy commitments geared towards strengthening public finances and returning to the path of growth in the postpandemic period (paragraph 2.9).

[33] Green, M. and M. Lafuente. (2013). Costa Rica: *Estudio de Empleo Público y Política Salarial*. IDB.

[34] These technical-cooperation processes are being executed in coordination with the World Bank and the Inter-American Center of Tax Administrations.

2.8 **Coordination with other donors.** Since the SDL instrument requires that an IMF program be approved and disbursing funds, coordination with the IMF Mission Chief for Costa Rica was necessary to prepare this operation. The Bank is also coordinating actively with other donors to the emergency financing, including CABEI, the World Bank, and CAF (see paragraph 1.12). Specifically, these three institutions have already approved or are preparing budgetary support loans to be disbursed in 2020, in support of the policy reforms contained in the Bank's two ongoing programmatic series in Costa Rica: the Fiscal Sustainability Support Program and Support for Costa Rica's Decarbonization Plan (loan 4988/OC-CR). All together, multilateral support covers a significant share of the extraordinary financing gap arising from the COVID-19 crisis in a context of high uncertainty in international financial markets that has prompted capital flight in emerging markets.

2.9 **Complementarity with other Bank operations.** In the context of the Bank's immediate response to the COVID-19 pandemic in the region, in addition to the SDL financing, the Government of Costa Rica asked the Bank to prepare an investment loan focused on vulnerable populations and employment. The latter focuses on protecting the income levels of workers living in poverty or extreme poverty in the informal sector and those working in the formal sector that were not covered by existing transfer programs. It also seeks to reduce job losses in key sectors of the economy, by providing job training to improve skills and faciliate job placement for vulnerable persons in the informal sector or those who are unemployed because of the crisis. These two operations offer complementary support to the country during the emergency, since they both provide financing for social protection and employment policies prioritized by the government to aid vulnerable populations. To ensure medium-term support for the commitments that are part of this operation, the Bank is helping the country in the process of comprehensive fiscal reform through the Fiscal Sustainability Support Program programmatic series (loan 4819/OC-CR). Specifically, the country's commitment to return to the path of fiscal consolidation once it has overcome the crisis reflects its determination to implement the fiscal policy reforms called for in the Bank's current series, such as strict enforcement of the fiscal rule, operational launch of the Independent Fiscal Council, public employment reform, and implementation of the tax reform, progress on which has been significant thus far.[35] The Bank is also preparing a set of regional technical-cooperation operations to support the countries in their postpandemic economic and fiscal recoveries. These technical-cooperation operations, each with a subregional focus, will help member countries leverage each other's solutions and will offer specific technical assistance to strengthen fiscal management. A client-support technical-cooperation operation, currently being prepared, will provide direct support to help the Ministry of Finance strengthen its capacity for improving fiscal planning, public spending efficiency, and voluntary tax compliance. This set of technical-cooperation operations and the ongoing programmatic series will

[35] Regulations for the tax reform have been fully in place since 2019. The 2020 budget was formulated based on the spending limits established by the fiscal rule. In March 2020, the Independent Fiscal Council was formed, and in May 2020 the executive branch presented to Congress a bill entitled "Public Employment Framework Law" aimed at promoting efficiency, transparency, and equity in wage policy.

contribute to implementation of the commitments underlying this operation and fulfillment of the medium-term outcome targets.

2.10 **Strategic alignment.** The program is consistent with the Update to the Institutional Strategy (document AB-3190-2) and strategically aligned with the crosscutting area of institutional capacity and rule of law by helping to improve the government's capacity to respond to the current crisis. The program will also contribute to the Corporate Results Framework 2020-2023 (document GN-2727-12) by supporting the strengthening of taxation and spending policy and management. The program is aligned with the fiscal management area of the Social Strategy: Institutions for Growth and Social Welfare (document GN-2587-8) and is consistent with the Fiscal Policy and Management Sector Framework Document (document GN-2831-8), by promoting actions to promote medium-term fiscal sustainability. The program is aligned with the IDB Group Country Strategy with Costa Rica 2019-2022 (document GN-2977), through the priority area of strengthening of public finance. The operation's expected results directly respond to the strategic objective of strengthening public expenditure control institutions once the pandemic has been overcome.

A. Objectives, components, and cost

2.11 **Program objective.** The general objective of the program is to support the measures being implemented by the Government of Costa Rica to address the COVID-19 pandemic, with a view to preserving macroeconomic stability. The specific objectives are to: (i) reduce the fiscal deficit to achieve public debt sustainability; (ii) promote economic recovery and protect the stability of the financial system and the balance of payments; and (iii) foster economic competitiveness and improve the business climate.

2.12 The program is aligned with the IMF's RFI, approved on 29 April 2020. The SDL budgetary support will help finance efforts to contain the health crisis and mitigate its effects on the economy through countercyclical spending policies. The program is structured as a single operation to be disbursed in a single tranche.

2.13 In line with the IMF's RFI, the paragraphs below describe the specific measures taken by the Government of Costa Rica under the components of the proposed program, as reflected in the Policy Letter for this operation and the Letter of Intent sent to the IMF.

2.14 **Component 1. Reduce the fiscal deficit to achieve public debt sustainability.** (i) resume the fiscal consolidation process in the 2021-2024 period, to achieve a primary fiscal surplus of 2.2% of GDP in 2024, which will put the debt-to-GDP ratio on a declining path towards reaching the target of 50% in 2034; (ii) resume implementation of the fiscal rule starting in 2021 once the economy has recovered from the pandemic; and (iii) ensure transparency in the use of the emergency resources, through established governance mechanisms, including controls and ex post accountability.

2.15 **Component 2. Promote economic recovery and protect the stability of the financial system and the balance of payments.** (i) maintain exchange-rate flexibility and an accommodative monetary policy; (ii) continue to provide liquidity to the financial system as necessary, while keeping up efforts to strengthen monetary policy transmission mechanisms and continuing to bolster the financial system's resilience to future shocks; and (iii) continue policy dialogue to explore future solutions to balance of payment difficulties and avoid adopting measures or policies that would worsen the debt sustainability position or exacerbate balance of payment difficulties.

2.16 **Component 3. Promote competitiveness and improve the business climate.** (i) implement structural reforms in line with the process of accession to the OECD in the spheres of environmental, fiscal, health, and education policies; governance; labor and social policies; and financial sector reforms; and (ii) simplify business and labor-market regulations, close infrastructure gaps, and make the electricity and financial sectors more competitive.

B. Key results indicators and program beneficiaries

2.17 The expected impact is to contribute to preserving macroeconomic stability via the recovery of economic growth, increased net international reserves, and a reduction of the central government debt-to-GDP ratio towards 50% in 2034. The expected outcomes are: (i) improvement in the primary fiscal balance, reaching a surplus of 2.2% of GDP in 2024; (ii) reduction of primary current spending as a percentage of GDP; (iii) increased lending to the private sector; (iv) decrease in the current account deficit as a percentage of GDP; and (v) improvement on the World Economic Forum Global Competitiveness Index.

2.18 The program will benefit:

a. The Government of Costa Rica, in two ways: (i) obtaining fast-disbursing resources to finance pandemic-response and economic-recovery actions; and (ii) having a medium-term fiscal policy strategic framework for restoring fiscal sustainability.

b. The population at large, by supporting the countercyclical policies put forward by the government to mitigate the effects of the crisis on poor and vulnerable households and companies, and in the medium term, by promoting actions to preserve macroeconomic stability through measures designed to achieve public debt sustainability and protect the stability of the financial system and balance of payments.

c. The private sector, by promoting measures that foster competitiveness and a better business climate, as well as due to the medium-term benefits for business planning and operation that accompany macroeconomic stability.

III. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

3.1 This SDL loan will be financed with the Bank's Ordinary Capital resources. However, since it is not part of the Bank's regular lending program approved in the Long-term Financial Plan, use of the Bank's enhanced lending capacity is proposed to finance it. The operation has been prepared in coordination with the RFI approved by the IMF. The single-tranche structure and complementary financing arrangements with the IMF provide a flexible and effective mechanism for supporting the government's measures to mitigate the health and economic effects of the pandemic. The SDL resources will be disbursed to the government in a single tranche into the bank account designated for such purpose by the Ministry of Finance.

3.2 The program amount is US$250 million, in addition to the US$504 million from the RFI to be disbursed in 2020. The following were taken into account to determine the loan amount: (i) the size of the package of measures required to address the macroeconomic crisis; (ii) the US$504 million available from the IMF; and (iii) the short-term government financing and balance of payment shortfalls, the country's debt sustainability, risk factors, and the threshold for funds per country (see paragraphs 3.3 and 4.1 of the SDL guidelines, document GN-2031-17). The program will help cover the additional financing needed by the country as a result of COVID-19, estimated at US$1.74 billion for the remainder of 2020, US$250 million of which will be provided by the Bank through the SDL loan.

B. Environmental and social safeguard risks

3.3 Based on Directive B.13 of the Environment and Safeguards Compliance Policy (operational policy OP-703), this program does not require the ex ante classification of impacts. The operation supports the definition of policies, regulations, management instruments, and other institutional strengthening actions, and therefore no significant direct effects on the environment and natural resources are anticipated.

C. Fiduciary risks

3.4 No fiduciary risks have been identified for this program. The proceeds will be disbursed directly into the single treasury account, which the Ministry of Finance will access to cover financing needs. The executing agency has the necessary financial management instruments and control systems for such purpose. The proceeds will be disbursed once the conditions defined in the Commitments Matrix and established in the loan contract have been fulfilled.

D. Other key issues and risks

3.5 **Macroeconomic and fiscal sustainability (high).** The economic outlook is subject to a high level of uncertainty regarding the severity of the pandemic's impact on the global and Costa Rican economies. The expected fiscal effects are projections that may vary significantly if the pandemic lingers, with consequent impacts on the productive infrastructure and a delayed start to economic recovery. To mitigate this risk, the Bank will offer technical assistance through its regional pandemic response technical-cooperation and client-support operations (paragraph 2.9) to identify measures for restoring fiscal sustainability while protecting the most vulnerable populations.

3.6 **Public management and governance (medium).** There is a risk associated with the resistance of certain public and private sector actors to undertaking structural reforms in various public policy spheres. This risk will be mitigated with the Bank's technical assistance through its technical-cooperation operations, including regional and specific client-support operations (operation ATN/OC-17557-CR), with the execution of activities to build consensus and promote technical dialogue regarding priority structural issues. In addition, the government has made significant progress on the process of joining the OECD, having completed the 22 evaluations required to become a full member in 2020. This translates into stronger public management, which will facilitate implementation of the program commitments.

IV. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

4.1 **Borrower and executing agency.** The borrower will be the Republic of Costa Rica. The executing agency will be the Ministry of Finance, which will be responsible for: (i) providing evidence that the commitments for disbursement of the loan agreed upon by the government and the Bank have been met (paragraph 4.2); (ii) promoting measures to achieve the objectives set in the program; and (iii) compiling, maintaining, and providing to the Bank the necessary information, indicators, and parameters for monitoring and evaluating program outcomes.

4.2 **Commitments and disbursements of the loan proceeds. The sole disbursement of the loan proceeds will be made in accordance with the terms established in the loan contract to be signed by the borrower and the Bank, including the provision requiring that proceeds under the RFI financing arrangement approved by the IMF are being or have been disbursed. The Commitments Matrix (Annex II) identifies the measured agreed on with the Government of Costa Rica and set forth in its Letter of Intent to the IMF, dated 22 April 2020, which forms an integral part of the IMF report "Request for Purchase Under the Rapid Financing Instrument," approved by the IMF Executive Board. Those measures are also stated in the Policy Letter sent by the Government of Costa Rica to the Bank on 29 May 2020 and will be reflected in the abovementioned loan contract.**

4.3 The Bank financing will be disbursed to, and executed by, the Ministry of Finance. The expected expenditures are aligned with the areas of support envisaged for SDL in the respective operational guidelines (document GN-2031-17), especially supporting efforts to mitigate the impact of the crisis on poor and vulnerable segments and facilitating access to credit for small- and medium-sized enterprises.

B. Summary of arrangements for monitoring results

4.4 **Monitoring.** The borrower and the Bank will meet regularly to monitor the commitments described in the Commitments Matrix. The Bank will also maintain regular contact with the Costa Rica IMF mission and take note of any IMF decision related to the RFI and/or any potential new arrangement with the country. The executing agency will compile and process all data necessary for program monitoring and evaluation. Consulting engagements to verify Results Matrix and Commitments Matrix indicators will be financed with IDB administrative funds.

4.5 **Evaluation.** After the close of fiscal year 2024, when the medium-term commitments reflected in the Results Matrix have concluded, the Bank will prepare an evaluation of the agreed indicators and respective targets for this operation, as input for an assessment of the SDL instrument's overall effectiveness.

4.6 **Policy letter.** The policy letter of the Government of Costa Rica, which reaffirms its commitment to the macroeconomic framework measures agreed upon with the Bank, is aligned with the program's Commitments Matrix and Results Matrix.

RESULTS MATRIX

Objective: The general objective of the program is to support the measures being implemented by the Government of Costa Rica to address the COVID-19 pandemic, with a view to preserving macroeconomic stability. The specific objectives are to: (i) reduce the fiscal deficit to achieve public debt sustainability; (ii) promote economic recovery and protect the stability of the financial system and the balance of payments; and (iii) foster economic competitiveness and improve the business climate.

EXPECTED IMPACT

Indicators	Unit	Baseline 2020[1]	2021	2022	2023	2024	Final target (year)	Means of verification	Observations
General objective: Preserve macroeconomic stability									
GDP growth	%	-3.3	3.0	3.1	3.2	3.3	3.3 (2024)	BCCR	Source: Baselines and targets from RFI: Costa Rica-Staff Report
Net international reserves (billions of dollars)	US$	7.016	8.016	8.816	8.716	9.416	9.416 (2024)	BCCR	Source: Baselines and targets from RFI: Costa Rica-Staff Report
Central government public debt, no greater than 50% of GDP in 2034	%	67.2	69.1	69.9	70	68.9	50 (2034)	Ministry of Finance	Source: Baselines and targets from RFI: Costa Rica-Staff Report

EXPECTED OUTCOMES

Indicators	Unit	Baseline 2020	2021	2022	2023	Target 2024	Means of verification	Observations
Specific objective 1: Reduce the fiscal deficit to achieve public debt sustainability								
Primary fiscal balance as % of GDP	%	-3.7	-1.4	0	1.2	2.2	Ministry of Finance Budget Execution Report	Source: Baselines and targets from RFI: Costa Rica-Staff Report
Primary current expenditure as % of GDP	%	16.4	15.9	14.9	14.1	13.4	Ministry of Finance Budget Execution Report	Source: Baselines and targets from RFI: Costa Rica-Staff Report

[1] The baseline is the estimated indicator for 2020 found in the IMF's RFI: Costa Rica-Staff Report. For evaluation purposes, this value will be updated once final official figures are available.

Indicators	Unit	Baseline 2020	2021	2022	2023	Target 2024	Means of verification	Observations
Specific objective 2: Promote economic recovery and protect the stability of the financial system and the balance of payments								
Private sector lending (year-on-year variation)	%	-8.1	5.2	6.7	7.4	8.7	BCCR	Source: Baselines and targets from RFI: Costa Rica-Staff Report
Current account deficit as % of GDP	%	-4.8	-2.9	-3.0	-3.1	-3.2	BCCR	Source: Baselines and targets from RFI: Costa Rica-Staff Report
Specific objective 3: Promote competitiveness and improve the business climate								
Global Competitiveness Index	Index (0-100)	62	63	65	69	71	World Economic Forum Global Competitiveness Reports	Source: WEF Baseline corresponds to the year 2019.

COMMITMENTS MATRIX[1]

Objective:	The general objective of the program is to support the measures being implemented by the Government of Costa Rica to address the COVID-19 pandemic, with a view to preserving macroeconomic stability. The specific objectives are to: (i) reduce the fiscal deficit to achieve public debt sustainability; (ii) promote economic recovery and protect the stability of the financial system and the balance of payments; and (iii) foster economic competitiveness and improve the business climate.

Objective of the areas of action	Commitments
Reduce the fiscal deficit to achieve public debt sustainability	I. Resume the fiscal consolidation process in the 2021-2024 period, to achieve a primary fiscal surplus of 2.2% of GDP in 2024, which will put the debt-to-GDP ratio on a downward path to reach the target of 50% in 2034. II. Resume implementation of the fiscal rule starting in 2021, once the economy has recovered from the pandemic. III. Ensure transparency in the use of the emergency resources, through established governance mechanisms, including controls and ex post accountability.
Promote economic recovery and protect the stability of the financial system and the balance of payments	I. Maintain exchange-rate flexibility and an accommodative monetary policy. II. Continue providing liquidity to the financial system as necessary, while maintaining efforts to strengthen monetary policy transmission mechanisms and continuing to bolster the financial system's resilience to future shocks. III. Continue policy dialogue to explore future solutions to balance of payment difficulties and avoid adopting measures or policies that would worsen the debt sustainability position or exacerbate balance of payment difficulties.
Promote competitiveness and improve the business climate	I. Implement structural reforms in line with the process of joining the OECD in the spheres of environmental, fiscal, health, and education policies; governance; labor and social policies; and financial sector reform. II. Simplify business and labor-market regulations, close infrastructure gaps, and make the electricity and financial sectors more competitive.

[1] The measures reflected in this Commitments Matrix are consistent with those set forth in the Letter of Intent dated 22 April 2020, sent by the Government of Costa Rica to the IMF. That letter forms an integral part of the IMF report "Request for Purchase Under the Rapid Financing Instrument," approved by the IMF Executive Board on 29 April 2020.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/20

Costa Rica. Loan ____/OC-CR to the Republic of Costa Rica
Emergency Program for Macroeconomic
Sustainability

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Costa Rica, as borrower, for the purpose of granting it a financing to cooperate in the execution of the "Emergency Program for Macroeconomic Sustainability". Such financing will be for the amount of up to US$250,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on __ ____________ 2020)

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