

Exchange rate in Costa Rica

A structural reading of the phenomenon

The exchange rate in Costa Rica has shown a sustained trend of appreciation of the colón against the dollar. Beyond the specific level, this behavior responds to forces that have been taking shape over time and that now require a more structured reading.

This analysis is developed from the conversation held in the most recent episode of Code of the Market, where the causes and their implications for wealth decision-making are addressed.

A recurring behavior

Since the adoption of the managed float regime in 2006, the exchange rate has shown a recurring trend: episodes of depreciation associated with crises, followed by a correction that brings it back to levels close to its historical average.

More than isolated movements, there is a kind of “return force” that has kept the colón on a path of appreciation over the long term.

Two forces that explain the Dynamic

The appreciation of the colón does not respond to a single factor. It is the result of the interaction between two main forces.

On one hand, the dynamism of the export sector. Companies under this regime continue to grow, even in an environment where the exchange rate is not necessarily favorable to them. This suggests that their decision to operate in the country does not depend exclusively on the level of the dollar.

Tourism reinforces this trend. Despite the fact that the country becomes relatively more expensive, visitor spending remains solid, continuing to fuel the inflow of foreign currency.

On the other hand, the behavior of the public sector introduces an additional element. When analyzing the foreign exchange market by separating private sector and public sector flows, it can be observed that, in the absence of external borrowing, the market would be relatively balanced.

The incorporation of foreign currency debt generates an oversupply of dollars that intensifies the pressure toward the appreciation of the colón.

“The exchange rate does not respond to a single factor, but to the convergence of forces that are reinforcing one another.”

— Carlos Chotocruz CEO & Founder Chotocruz&Co.

Expectations that do not adjust to behavior

Despite this dynamic, depreciation expectations remain present.

Central Bank surveys show that economic agents continue to anticipate an increase in the exchange rate, even when recent evidence has shown the opposite.

This disconnect has historical roots. The crisis of the 1980s and the subsequent period of mini-devaluations shaped the way many agents interpret the behavior of the colón.

With the transition to a managed float regime, the factors that influence the exchange rate became more complex, but that reading has not adjusted at the same speed.

Winners, losers and risks

As with any economic phenomenon, the effects are not homogeneous.

Salaried workers in colones have seen an improvement in their purchasing power. Access to imported goods expands and international consumption becomes more accessible.

The government also benefits in certain indicators, when expressed in dollars.

In contrast, traditional exporters face a more demanding environment. Their income in dollars, when converted into colones, loses relative value, affecting their competitiveness against economies with weaker currencies.

Beyond these effects, a structural risk emerges: the country’s growing dependence on a limited number of sources of foreign currency generation.

Implications for decision-making

This environment has direct consequences for those who manage their wealth.

Maintaining positions in dollars, in a context of colón appreciation, may translate into lower real returns in terms of local purchasing power.

In contrast, assets in colones may incorporate both the financial return and the exchange rate effect, generating relevant differences in the final outcome.

“The investor has to recognize that this is a structural phenomenon and adjust their position accordingly.”

— Ignacio Mondal, Wealth Advisor Chotocruz&Co.

This does not imply a total substitution, but rather the need to review the composition of the portfolio based on current conditions.

A reading that requires judgment

The behavior of the exchange rate cannot be understood only from the day’s data or from inherited expectations.

It requires a deeper reading of the context, of the forces that are operating and of how they affect concrete decisions.

In an environment like the current one, wealth decision-making requires going beyond inertia and building a vision that incorporates these changes in a structured way.

Listen to the full conversation

This analysis is based on the conversation developed in the most recent episode of Code of the Market.

You can listen to the full episode here: <https://chotocruzco.com/php/podcast.php>