

Country Insight Snapshot

Costa Rica

October 2017



Written 03 October 2017

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OVERVIEW

OVERALL COUNTRY RISK RATING: DB4b

Moderate risk: Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

A

Rating Outlook: Deteriorating 

CORE OUTLOOK

- + The services sector is expected to remain among the most dynamic, driving solid growth over the medium term.
- + The country's democratic stability and technically competent and bilingual workforce help provide a good platform for investment.
- The fiscal position is very weak and a comprehensive tax reform that would raise revenue remains a distant prospect.
- A heavy regulatory burden weighs on operations in Costa Rica.

KEY DEVELOPMENT

Advances in technology and telecommunications raise Costa Rica's global competitiveness, boosted by reforms and innovation over the past decade.

CREDIT ENVIRONMENT OUTLOOK


A

Trend: Deteriorating 

Key Development has had a neutral impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Trend: Stable 

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK


A

Trend: Deteriorating 

Key Development has had a positive impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

A

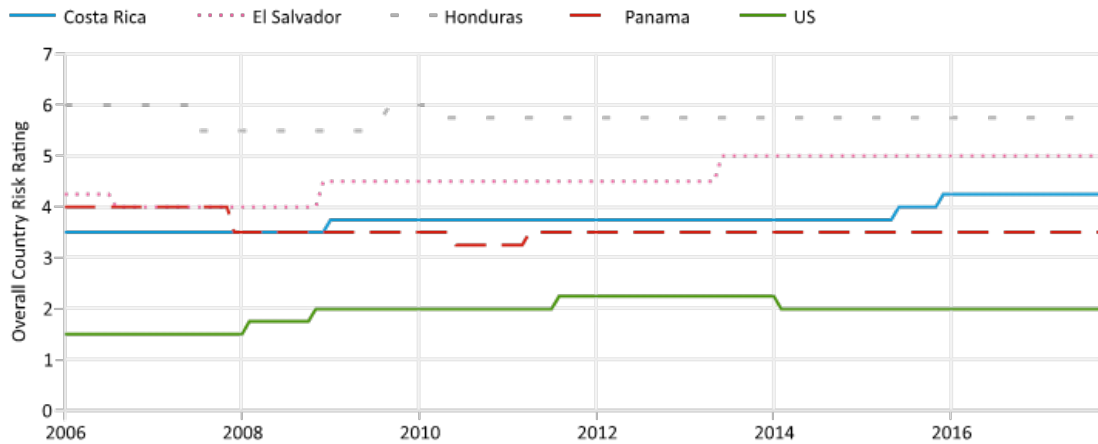
Trend: Stable 

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

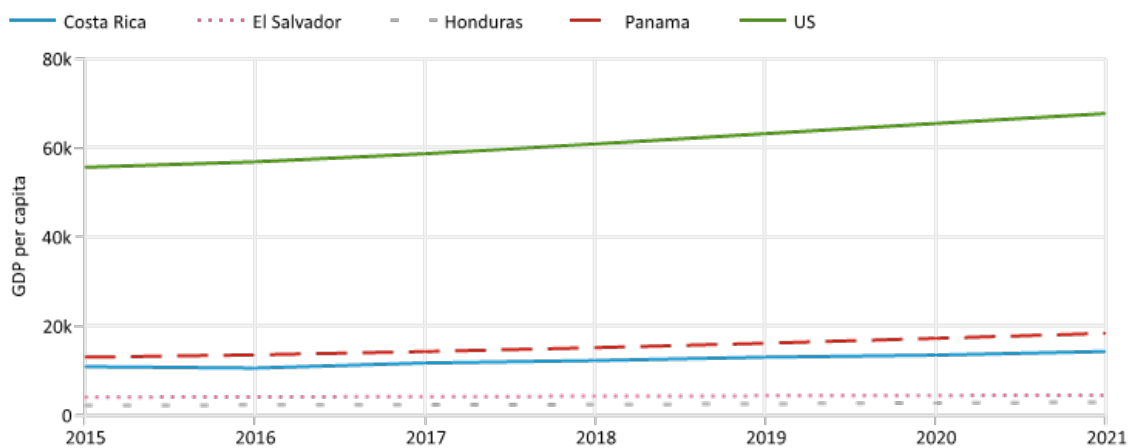
Rating History and Comparison



Source : Dun & Bradstreet

Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Foreign Reserves (Excluding Gold)



Source : International Monetary Fund/Haver Analytics



Economic Indicators

Indicator	2014	2015	2016	2017f	2018f	2019f	2020f	2021f
C/A balance % GDP	-5.0	-4.5	-3.6	-3.4	-2.8	-2.2	-1.7	-1.3
Govt balance, % GDP	-5.7	-5.9	-5.8	-6.0	-5.8	-5.6	-5.5	-5.3
Inflation, annual avge %	4.5	0.8	0.0	2.8	3.5	4.0	4.0	4.0
Real GDP Growth, %	3.7	4.7	4.3	3.9	3.9	4.0	4.0	3.8
Trade Balance, % GDP	-10.5	-9.1	-7.8	-8.7	-8.9	-9.0	-9.3	-9.4

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

Costa Rica held USD6.9bn in international reserves in late September, sufficient to cover around five months of imports and USD700m below the end-2016 level. After being broadly stable at CRC535-540:USD since the Central Bank moved to a managed float in February 2015, in Q2 the exchange rate slipped to CRC575:USD, a level it maintained into end-September. In order to manage a gentle depreciation and guard against a return to above-target inflation, the Central Bank raised its reference interest rate five times between April and June, from 1.75% to 4.5% (where it still stands), the first changes since January 2016. The government's weak fiscal position will maintain pressure on the currency, and medium-term currency risk is rising. Our recommended terms are CLC.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: LC

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: CLC

Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 30-60 days

Normal period of credit associated with transactions with companies in the stated country.

Local Delays: 0-1 month

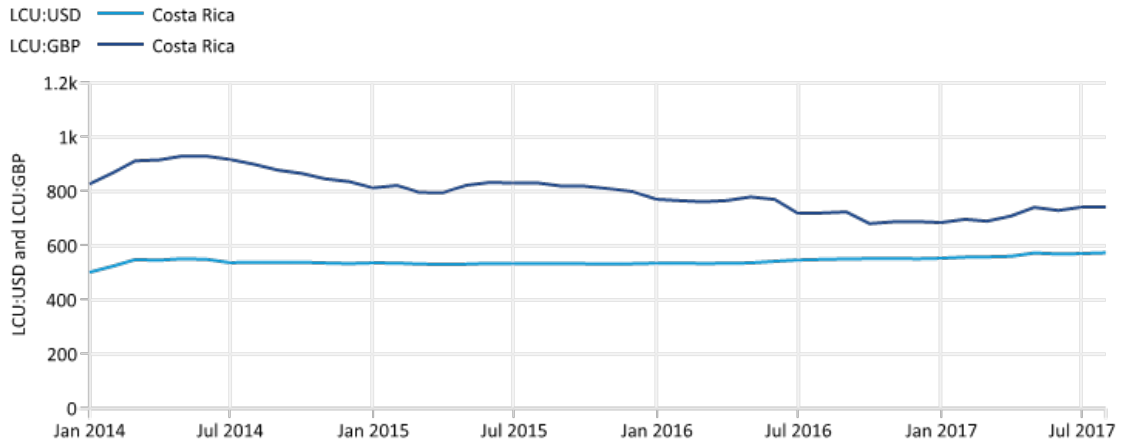
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-1 month

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.



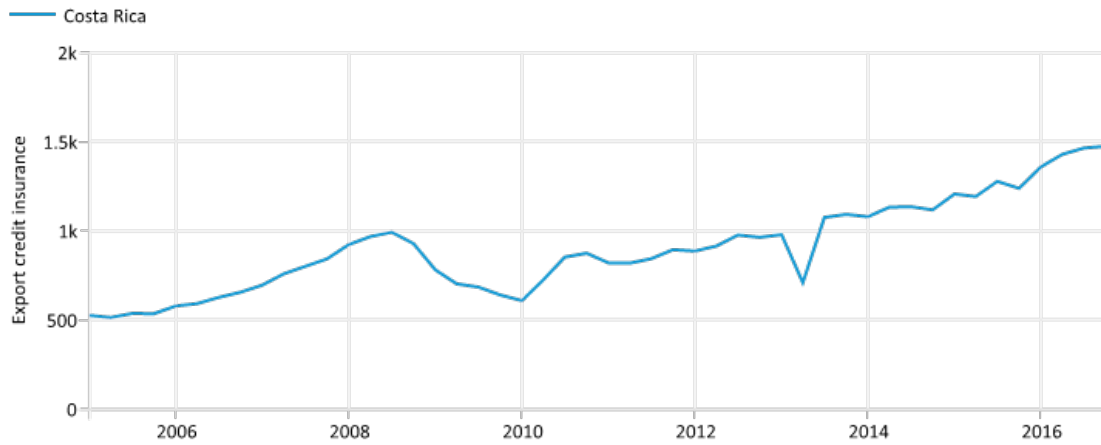
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Costa Rican colón

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, USDm



RISKS AND OPPORTUNITIES

Long-Term Economic Potential

Costa Rica rises in Global Competitiveness Report

In late September, the World Economic Forum published its *Global Competitiveness Report 2017-18*, an annual publication ranking 137 economies. Costa Rica has risen by seven places in the latest report, to 47th place, behind only Chile (33rd) in Latin America. Costa Rica scores best in categories covering health and primary education (35th), higher education (31st), business sophistication (35th) and technological readiness (45th), and worst in macroeconomic environment (79th), infrastructure (65th) and market size (80th). The inefficiency of the public sector and public institutions was also criticised in the report. Technological and telecommunications advances were the main drivers behind Costa Rica's rise in the rankings, boosted by reforms over the past decade, which have brought competition and enabled innovation in telecommunications and technology.

Political/Insecurity Risk

Violent crime continues to be a major concern

Criminal gangs fighting for control of the drug trafficking trade, as well as increases in illegal drug consumption, have been cited as the main reasons behind continued concerning statistics for violent crime and murder. There were 278 murders recorded in Costa Rica in H1 2017, a similar rate to 2016, when 578 murders were recorded for the year as a whole. The Atlantic state of Limón, which contains the main port serving the US and Caribbean, has the worst per capita rate. While the government is focusing on targeting organised crime groups, such as Mexican cartels which are reported to have set up operations in the country, civil society groups have also warned of increases in drug consumption in poorer areas of urban Costa Rica, which is having a further deleterious effect on security.

Short-Term Economic Outlook

Growth remains firm into H2

The economy has continued to grow at a firm rate, with the monthly index of economic activity strengthening by 4.4% y/y on a cyclical basis, a good proxy for GDP growth. This brought the rolling 12-month aggregate growth in the index up to 4.5%, above our forecast that GDP growth will reach 3.9% for the year as a whole, but within an acceptable margin of error. It brings with it the possibility that our forecast will be revised up following the publication of the full Q2 demand-side GDP data. Disaggregated output data shows services sectors recording the strongest growth, including information and communications (7.1% y/y), finance and insurance (7.8%) and professional services (9.5%). Given a still low rate of inflation (0.9% in August, still well below the 3-7% target range), there is scope for the Central Bank to relax monetary policy, having tightened it in H1 to guard against currency depreciation, which would provide a further boost to demand. The public finances remain the greatest medium-term economic risk.



COUNTRY PROFILE AND STATISTICS

Overview

Costa Rica is situated in Central America, between the Pacific Ocean and the Caribbean Sea. It has land borders with Nicaragua to the north and Panama to the east. The country abolished its military in 1948 and has no recent history of the type of authoritarianism that afflicted the region in past decades.

Costa Ricans enjoy a relatively high standard of living and are well educated, which has been an essential factor underpinning the development of its successful high-technology export industry. Its tropical climate also supports thriving agricultural and tourism sectors.

Costa Rica has a healthy democratic environment with a robust system of checks and balances. While this often results in legislative paralysis and slow progress in implementing government policy, the model (and the country's comparatively egalitarian society) grants Costa Rica a degree of political stability that is uncharacteristic of many other Latin American countries.

Key Facts

Key Fact	Detail
Head of state	President Luis Guillermo SOLIS
Capital	San Jose
Timezone	GMT -06-00
Official language	Spanish
Population (millions)	4.9
GDP (USD billions)	51.9
GDP per capita (USD)	10,688
Life expectancy (years)	79.4
Literacy (% of adult pop.)	97.6
Surface area (sq km)	51,100

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2012	2013	2014	2015	2016
Real GDP growth (%)	5.2	2.3	3.7	4.7	4.3
Nominal GDP in USDbn	46	50	50	53	52
Nominal GDP in local currency (bn)	23,371	24,781	26,703	28,279	28,279
GDP per Capita in USD	9,985	10,536	10,426	11,003	10,688
Population (year-end, m)	4.7	4.7	4.8	4.8	4.9
Exchange rate (yr avge, USD-LCU)	502.9	499.8	538.3	534.6	544.7
Current Account in USDbn	-2.4	-2.4	-2.5	-2.4	-1.9
Current Account (% of GDP)	-5.2	-4.9	-5.0	-4.5	-3.6
FX reserves (year-end, USDbn)	6.9	7.3	7.2	7.8	7.6
Import Cover (months)	5.0	5.2	5.0	5.4	5.1
Inflation (annual avge, %)	4.5	5.2	4.5	0.8	0.0
Govt Balance (% GDP)	-4.3	-5.4	-5.7	-5.9	-5.8

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2017f	2018f	2019f	2020f	2021f
Real GDP growth (%)	3.9	3.9	4.0	4.0	3.8
Nominal GDP in USDbn	58	61	66	69	73
Nominal GDP in local currency (bn)	33,374	35,849	38,716	41,821	45,103
GDP per Capita in USD	11,831	12,372	13,126	13,592	14,415
Population (year-end, m)	4.9	5.0	5.0	5.0	5.1
Exchange rate (yr avge, USD-LCU)	575.0	585.0	590.0	610.0	615.0
Current Account in USDbn	-2.0	-1.7	-1.5	-1.2	-0.9
Current Account (% of GDP)	-3.4	-2.8	-2.2	-1.7	-1.3
FX reserves (year-end, USDbn)	7.0	7.1	7.2	7.3	7.4
Import Cover (months)	4.4	4.1	3.8	3.6	3.4
Inflation (annual avge, %)	2.8	3.5	4.0	4.0	4.0
Govt Balance (% GDP)	-6.0	-5.8	-5.6	-5.5	-5.3

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Costa Rica	El Salvador	Honduras	Panama	US
Income per Capita (USD)	11,831	4,290	2,431	14,399	58,786
Country Population (m)	4.9	6.4	9.3	4.1	324.5
Internet users (% of population)	66.0	29.0	30.0	54.0	76.2
Real GDP Growth (% p.a., 2017 - 2026)	3.4 - 6.0	1.9 - 5.3	2.8 - 6.6	3.5 - 6.9	1.8 - 2.5

Source : Various sources/Dun & Bradstreet



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