Decide with Confidence

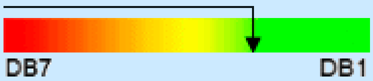
D&B Country RiskLine Report

COSTA RICA

Region : The Americas
Edition : May 2014

D&B Country Risk Indicator

DB3d



This "DB" Rating Indicates:

Slight risk

Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

Trend

Stable

The country's overall risk profile has not changed appreciably, even though some minor changes to its political, commercial, economic and/or external risk environment may have occurred

The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

Political risk - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

Commercial risk - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

External risk - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

Macroeconomic risk - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

Key Facts

Population:	4.7m
Surface area (sq km):	51,100
Capital:	San Jose
Timezone:	GMT -06:00
Official language:	Spanish
Head of state:	President Laura CHINCHILLA
GDP (USD):	44.9bn
GDP per capita (USD):	8,696
Life expectancy (years):	79
Literacy (% of adult pop.):	94.9

Country Overview:

Costa Rica is situated in Central America, between the Pacific Ocean and the Caribbean Sea. It has land borders with Nicaragua in the north and Panama in the south.

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 consensus-based 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.

Trade & Commercial Environment

Trade Terms

Minimum Terms:	LC

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

Recommended Terms:	CLC

D&B'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.

Transfer Situation

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.

Trade & Commercial Environment

Costa Rica held USD7.8bn in international reserves in early April 2014, up from USD6.8bn a month earlier; the bank had sold reserves in March to dampen a sharp currency correction. Reserves are sufficient to provide a solid 4.5 months of import cover. The country's external position is set to strengthen in 2014 given weak domestic demand and a more competitive currency, but medium-term prospects are a concern given the weak public finance position. The exchange rate has weakened by 10% since end-2013, to CRC550:USD1, which will help to bolster export volumes but will also raise some payment concerns as companies readjust to the new currency value. Inflation is also set to rise given the currency correction. Our recommended terms remain CLC, with LC as minimum terms.

Export Credit Agencies

US Eximbank	Full cover available
Atradius	Full ST cover available
ECGD	Full cover available
Euler Hermes UK	Full ST cover available

Economic Indicators

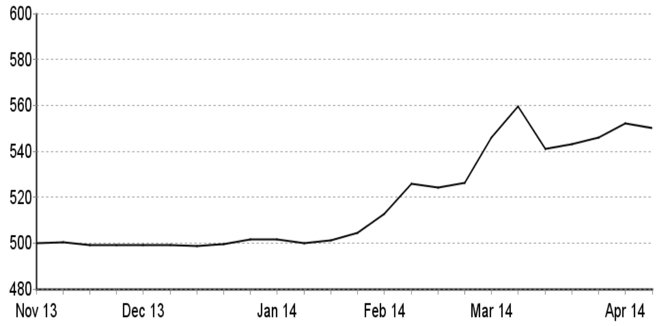
	2011	2012	2013	2014f	2015f
Real GDP growth, %	4.5	5.1	3.5	3.0	3.4
Inflation, annual ave, %	4.9	4.5	4.7	5.0	5.0
Govt balance, % GDP	-4.3	-4.6	-5.1	-5.7	-6.1
Trade balance, % GDP	-12.6	-12.6	-12.8	-12.8	-12.9
C/A balance, % GDP	-5.3	-5.2	-5.1	-4.4	-4.7

Currency Information

Exchange Rates (London, 10 Apr 14)	
EUR	753.264
GBP	900.245
JPY*	532.19
USD	540.865
*(x 100)	

Local Currency

(Colon [CRC]: USD)



Local Currency

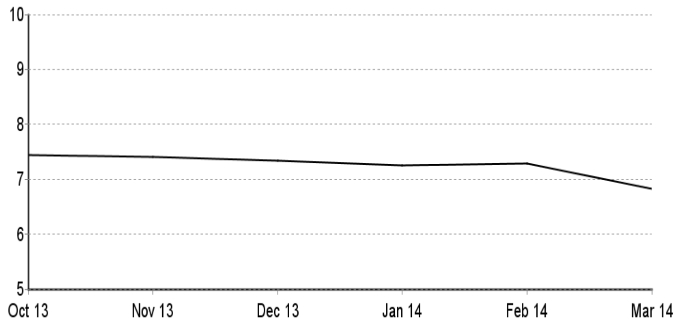
(Colon [CRC]: USD)

	Nov 13	Dec 13	Jan 14	Feb 14	Mar 14	Apr 14
Week 1	499.870	499.020	501.420	512.510	546.060	551.945
Week 2	500.535	498.995	499.960	525.880	559.690	550.210
Week 3	499.185	498.750	501.205	524.215	540.865	
Week 4	498.945	499.535	504.345	526.285	543.130	
Week 5		501.410			545.985	

Foreign Reserves (excluding Gold)

Foreign Reserves (excluding Gold)

(USDbn)



Data Table

Oct 13	Nov 13	Dec 13	Jan 14	Feb 14	Mar 14
7.44	7.4	7.33	7.26	7.28	6.82

Risk Factor

Costa Rica’s risk profile remains stable even as it embarks on a new political period. For the first time since a brief civil war in 1948, neither of the two traditional parties holds power. On April 6th the electorate overwhelmingly voted in Luis Guillermo Solis of the centre-left Partido Accion Ciudadana (PAC) as president in a second round run-off. His cause was helped when his opponent, Johnny Araya of the Partido Liberacion Nacional (PLN) halted campaigning in March given Araya’s strong polling numbers. Solis will take office in May for a four-year term and faces a challenging political environment. Although he has a very strong public mandate as president, his party will only have 14 of 57 seats in the 2014-18 national assembly, meaning that he will need to rely heavily on cooperation from other parties to advance legislation. The PLN, the party of the outgoing president, will be the largest party with 18 seats, and although it has promised to be responsible and not to enter into unnecessary party politicking, Solis is expected to struggle to break free of the almost inevitable legislative paralysis that he will encounter at some point. The PAC was formed only 13 years ago, mostly from disgruntled members of the PLN, and shares a broadly similar political perspective to the PLN. While deviating little from the current economic model, Solis will focus more on domestic issues than foreign trade agreements, and has also promised to offer greater transparency in government.

Solis enters office at a time of various economic challenges. GDP slowed to 3.5% in 2013 (from 5.1% in 2012) and is set to slow further in 2014 as domestic demand struggles to adjust to a weaker currency and investment decisions are delayed as investors assess the position of the new government. In addition the government’s financial position is very weak (the deficit topped 5% of GDP in 2013) meaning that it cannot rely on counter-cyclical spending to support demand, and its weak congressional position means that it is unlikely to be able to enact a long-overdue comprehensive fiscal reform to raise the tax take. Thus exports are set to become the main driver of growth this year; the weaker exchange rate will help to support export volume growth and Costa Rica will seek to take advantage to preferential access to its most important export markets, notably the US and Central America. The EU and China are growing export markets for the country.

After slipping to C565:USD in mid-March the exchange rate has rallied to C550:USD in early April, still 10% weaker than at end-2013. This rally followed Central Bank intervention via reserves sales. The exchange rate is likely to weaken slightly further over the course of the year, but we consider another sharp correction unlikely. The weaker rate will bring inflationary pressures from Q2 as import costs rise.

Glossary & Definitions

DEFINITIONS

Minimum Terms:

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

Recommended Terms:

D&B'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:

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

Local Delays:

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

F/X Bank Delays:

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.

C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:
Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:
The balance of government expenditure and receipts.

Real GDP growth, %:
GDP adjusted for inflation.

Inflation, %:
The increase in prices over a given period.

GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

Customer Service & Support

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