COSTA RICA

NOVEMBER 2023

COUNTRY REPORT

COSTA RICA
ISSN: 1054-5352

PUBLISHED BY THE PRS GROUP, INC.
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Puerto
Limón
San José
Caldera
Puerto Quepos
COSTA RICA
San Isidro
Golfito
Panama
Pacific Ocean

KEY TAKEAWAYS

MOST LIKELY REGIMES & THEIR PROBABILITIES	
18-MONTH	Divided Government 70%
FIVE-YEAR	Divided Government 60%

FORECASTS OF RISK TO INTERNATIONAL BUSINESS				
	TURMOIL	**FINANCIAL TRANSFER**	**DIRECT INVESTMENT**	**EXPORT MARKET**
18-MONTH	Moderate (Low)	B (B-)	A-	B+
FIVE-YEAR	Moderate (Low)	B	B+	B

( ) Indicates change in rating
* Indicates forecast of a new regime

KEY ECONOMIC FORECASTS			
	REAL GDP GROWTH (%)	**INFLATION (%)**	**CURRENT ACCOUNT ($bn)**
2018-2022(AVG)	2.6	3.0	-1.48
2023(F)	4.5	0.7	-1.50
2024-2028(F)	3.0	3.2	-2.30

CHAVES LOSING HIS LUSTER

Rodrigo Chaves took office in May 2022 with a long list of promises to fulfill and uncertain support in the 57-member National Assembly, where the fledgling PPSD that backed his candidacy claimed just 10 seats. Now 18 months into his four-year term, Chaves has compiled a solid record of accomplishment in some areas, most notably his government's efforts to improve the country's fiscal position and create a strong basis for long-term debt sustainability.

However, he has proven less equal to the challenge posed by a surge in violent crime that has undermined Costa Rica's reputation as the most secure destination in Central America for foreign investment and tourists. Chaves has also drawn negative attention for frequent populist diatribes against the press that have raised questions about his commitment to democratic principles

Chaves' very high approval rating, which rose above 70% immediately after he took office and remained above 60% through mid-2023, has been a key factor in his ability to secure the cooperation of the legislature. Crucially, the National Assembly granted approval late last year for the government to take on an additional $5 billion in foreign debt through the issuance of Eurobonds in 2023–2025, thereby eliminating much of the uncertainty created by from the need to obtain the legislature's permission for budget-related borrowing on an annual basis.

However, recent polls reveal a significant erosion of the president's popularity and there are already signs of greater willingness on the part of lawmakers to push back against the administration. The ongoing effort to establish a new pro-Chaves party is evidence that the president and his allies have longer-term political ambitions that could become a distraction at a time when polling data points to strengthening headwinds for the administration. Chaves is ineligible to stand for re-election in 2026, but he could make a comeback in 2030 if the ACRM develops into a political force in the interim. That objective could influence the government's priorities over the second half of the current term, including its commitment to fiscal probity.

The markets have also responded favorably to the fiscal progress, as is evident from the strength of the colón, which appreciated by 30% against the dollar from mid-June 2022 to mid-April 2023, and has traded within a band of CRC530.0-540.0 over the past six months. Earlier this month, the government placed $1.5 billion of 30.5-year bonds, at a very favorable yield of 7.75%. The move came on the heels of credit-rating upgrades from both Moody's and Standard & Poor's. Fitch announced a two-notch upgrade back in March, to BB−, which is three notches below investment grade. Standard & Poor's recent revision similarly lifted its rating to BB−, while Moody's current rating of B1 is one notch lower.

The central government debt has begun to fall, but Costa Rica will need to produce consistent primary surpluses amounting to 2% of GDP over the medium term to reduce the debt ratio to 50% by 2035. The IMF has expressed concerns that recent revisions to the fiscal rule lack a clear rationale, and the Fund's most recent review noted that tax revenues remain quite low as a share of GDP. With economic growth expected to moderate next year and stabilize at slightly more than 3% over the medium term, authorities cannot count on rapid expansion of the GDP to facilitate fiscal consolidation going forward.

The pace of year-on-year real GDP growth picked up slightly in the first half of 2023, averaging 4.6%, compared to 3.75% in the second half of last year, as a combination of easing inflation and monetary loosening by the central bank contributed to increased household spending and private investment. The monthly economic indicator points to similarly robust expansion in the third quarter, but deflationary conditions since mid-year could discourage big-ticket purchases by households in the closing weeks of the year. The strength of the colón will reinforce the dampening effect of weaker external demand on export activity, holding the annual growth rate to 4.5% in 2023.

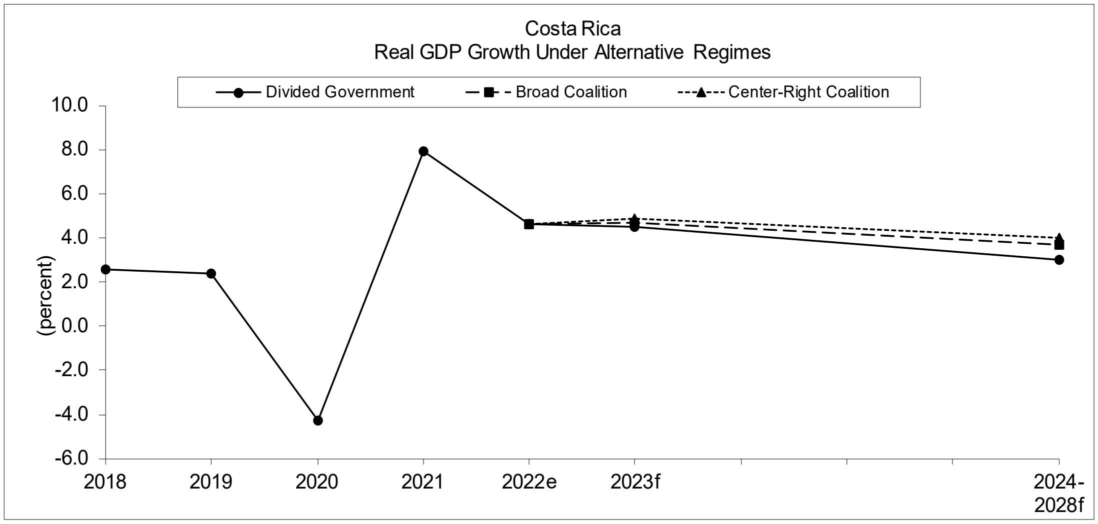
ECONOMIC FORECASTS FOR THE THREE ALTERNATIVE REGIMES									
	Divided Government			Broad Coalition			Center-Right Coalition		
	GROWTH (%)	INFLATION (%)	CACC ($bn)	GROWTH (%)	INFLATION (%)	CACC ($bn)	GROWTH (%)	INFLATION (%)	CACC ($bn)
2023	4.5	0.7	-1.50	4.7	0.8	-1.30	4.9	0.9	-1.00
2024-2028	3.0	3.2	-2.30	3.7	3.1	-1.90	4.0	2.9	-1.70

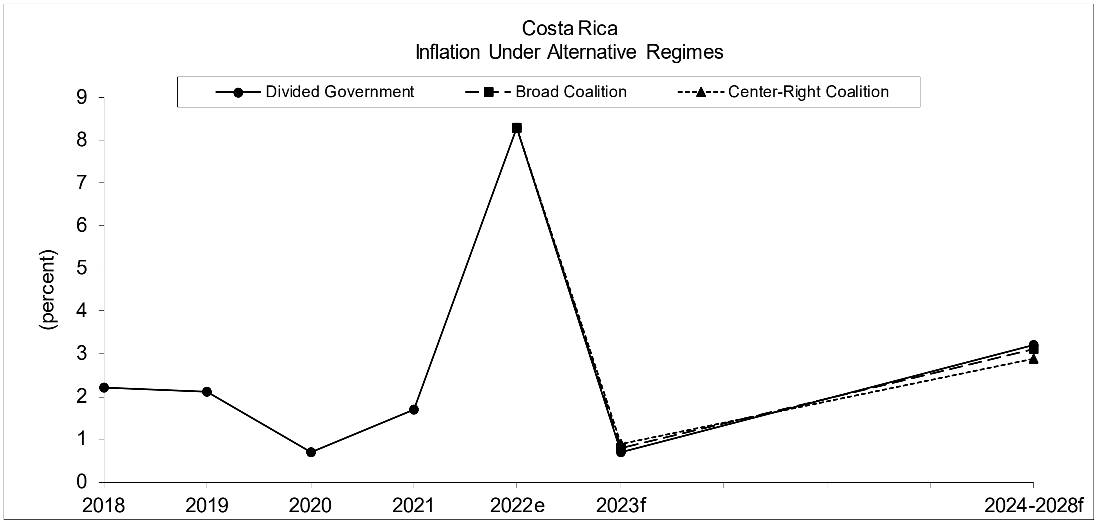
4.7

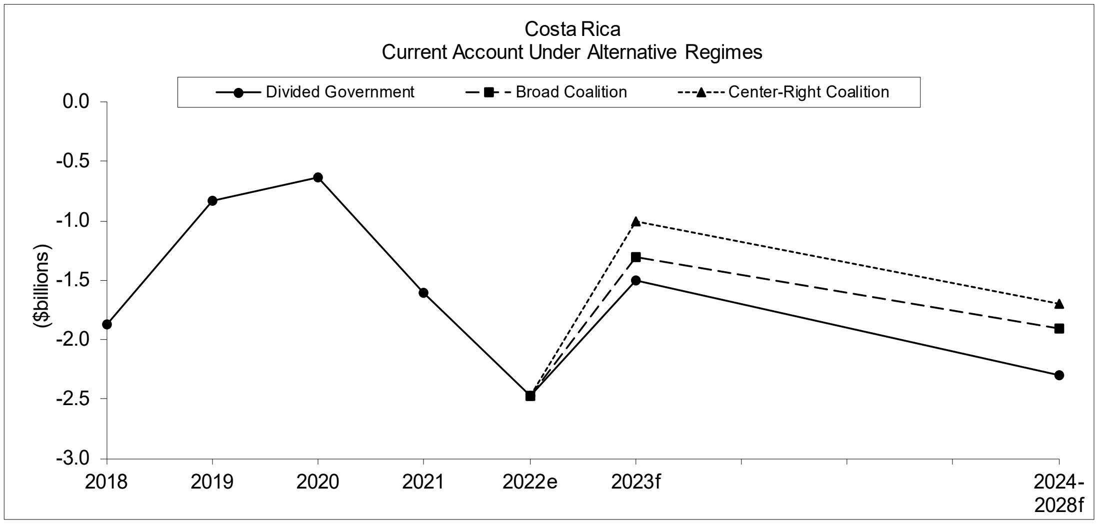
REGIME, BUSINESS & INVESTMENT FORECASTS

SUMMARY OF 18-MONTH FORECAST				
REGIMES & PROBABILITIES		Divided Government 70%	Broad Coalition 20%	Center-Right Coalition 10%
RISK FACTORS	**CURRENT**			
Turmoil	Low	SLIGHTLY MORE	SLIGHTLY MORE	SLIGHTLY MORE
Investment				
Equity	Moderate	Same	Same	Same
Operations	Moderate	Same	Same	Same
Taxation	Moderate	Same	Same	SLIGHTLY MORE
Repatriation	Low	Same	Same	Same
Exchange	Low	Same	Same	Same
Trade				
Tariffs	Moderate	Same	Same	Same
Other Barriers	Moderate	Same	Same	Same
Payment Delays	Moderate	Same	Same	Same
Economic Policy				
Expansion	High	Same	SLIGHTLY LESS	SLIGHTLY LESS
Labor Costs	Moderate	Same	Same	Same
Foreign Debt	High	Same	Same	Same
SUMMARY OF FIVE-YEAR FORECAST				
REGIMES & PROBABILITIES		Divided Government 60%	Broad Coalition 25%	Center-Right Coalition 15%
RISK FACTORS	**BASE**			
Turmoil	Low	SLIGHTLY MORE	SLIGHTLY MORE	SLIGHTLY MORE
Restrictions				
Investment	Moderate	Same	SLIGHTLY LESS	Same
Trade	Moderate	SLIGHTLY LESS	SLIGHTLY LESS	Same
Economic Problems				
Domestic	High	Same	SLIGHTLY LESS	SLIGHTLY LESS
International	High	Same	SLIGHTLY LESS	SLIGHTLY LESS

* When present, indicates forecast of a new regime


Costa Rica
Real GDP Growth Under Alternative Regimes
Divided Government
Broad Coalition
Center-Right Coalition
(percent)
10.0
8.0
6.0
4.0
2.0
0.0
-2.0
-4.0
-6.0
2018
2019
2020
2021
2022e
2023f
2024-2028f


Costa Rica
Inflation Under Alternative Regimes
Divided Government
Broad Coalition
Center-Right Coalition
(percent)
9
8
7
6
5
4
3
2
1
0
2018
2019
2020
2021
2022e
2023f
2024-2028f


Costa Rica
Current Account Under Alternative Regimes
Divided Government
Broad Coalition
Center-Right Coalition
($billions)
0.0
-0.5
-1.0
-1.5
-2.0
-2.5
-3.0
2018
2019
2020
2021
2022e
2023f
2024-2028f

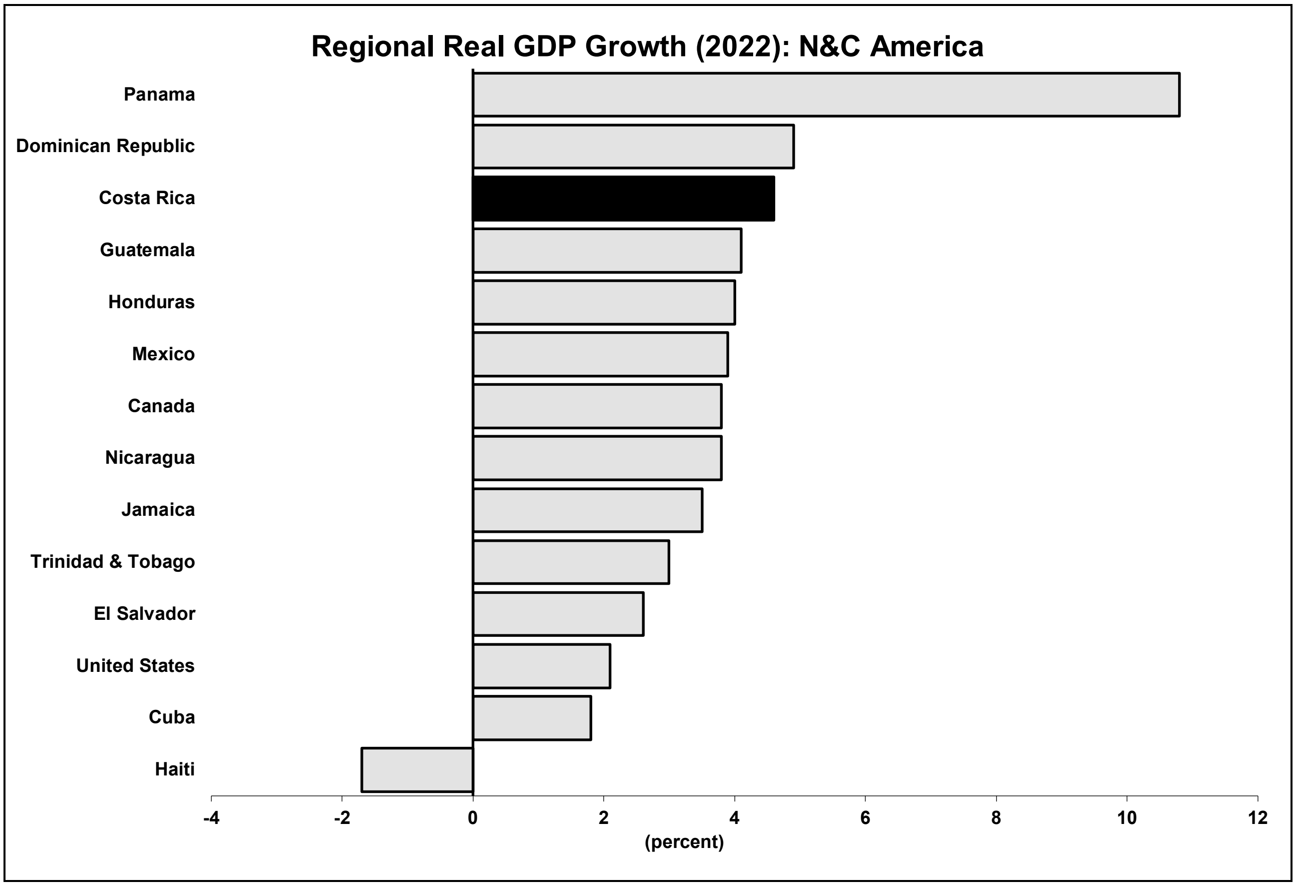
Costa Rica
Econometric Data

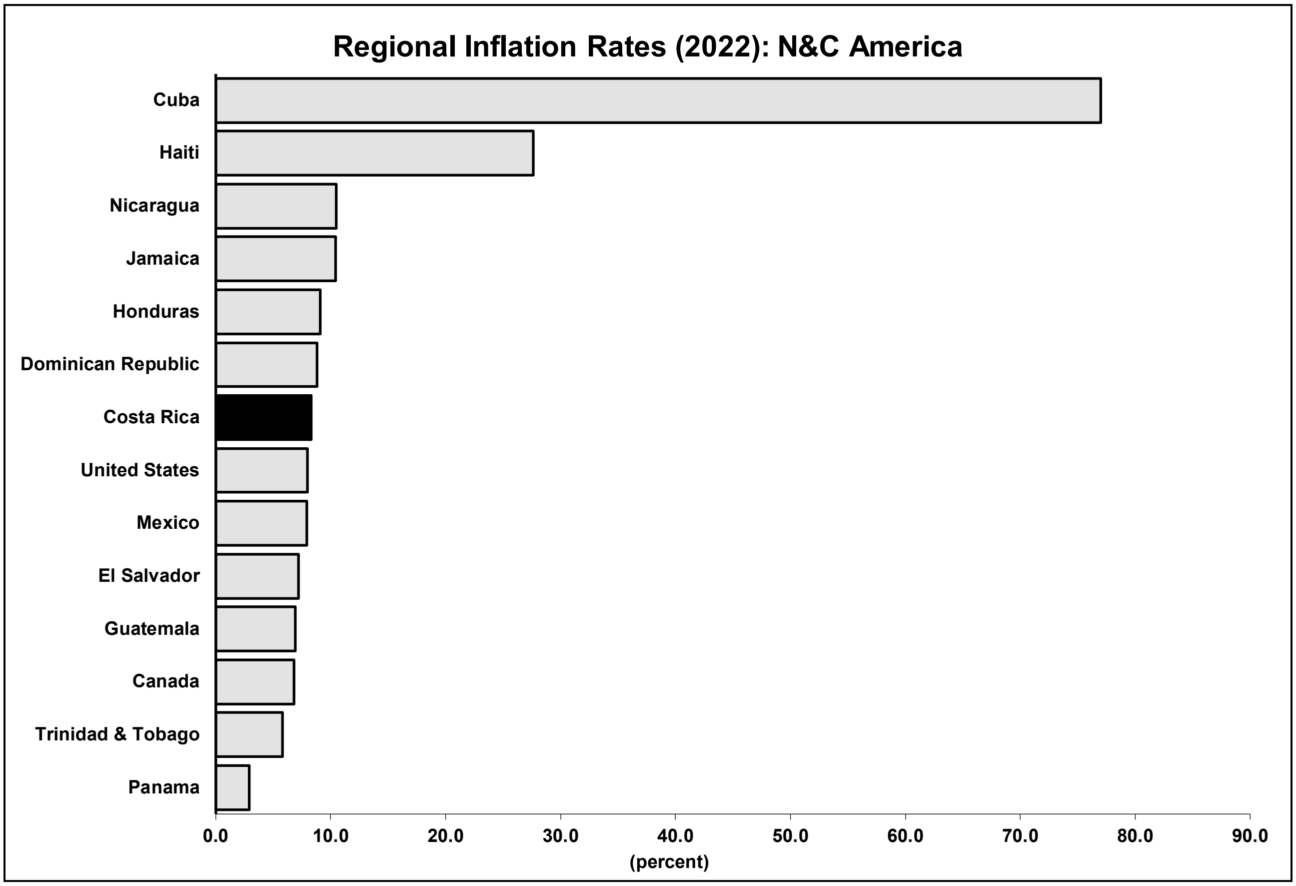
	2013-2017 Average	2018-2022 Average	2013	2014	2015	2016	2017
Domestic Economic Indicators							
GDP (Nominal, $bn)	55.82	64.74	50.83	52.15	56.44	58.98	60.69
Per Capita GDP ($)	11596	12736	10792	10956	11734	12136	12360
Real GDP Growth Rate (%)	3.6	2.6	2.5	3.5	3.7	4.2	4.2
Inflation Rate (%)	2.4	3.0	5.2	4.5	0.8	0.0	1.6
Capital Investment ($bn)	10.49	10.93	9.50	10.12	10.43	11.35	11.03
Capital Investment/GDP (%)	18.8	16.9	18.7	19.4	18.5	19.2	18.2
Budget Revenues ($bn)	7.75	9.49	7.04	7.08	7.82	8.40	8.39
Budget Revenues/GDP (%)	13.9	14.6	13.9	13.6	13.9	14.2	13.8
Budget Expenditures ($bn)	10.75	13.05	9.73	9.74	10.94	11.41	11.95
Budget Expenditures/GDP (%)	19.3	20.2	19.1	18.7	19.4	19.4	19.7
Budget Balance ($bn)	-3.01	-3.55	-2.69	-2.66	-3.12	-3.01	-3.56
Budget Balance/GDP (%)	-5.4	-5.6	-5.3	-5.1	-5.5	-5.1	-5.9
Money Supply (M1, $bn)	5.18	7.33	4.67	4.74	5.38	5.74	5.39
Change in Real Wages (%)	2.7	0.8	1.6	2.3	1.8	6.2	1.5
Unemployment Rate (%)	9.4	14.1	9.4	9.6	9.6	9.5	9.1
International Economic Indicators							
Foreign Direct Investment ($bn)	2.99	3.02	3.21	3.24	2.96	2.62	2.92
Forex Reserves ($bn)	7.20	7.42	7.10	6.99	7.62	7.36	6.93
Gross Reserves (ex gold, $bn)	7.42	7.83	7.33	7.21	7.83	7.57	7.15
Gold Reserves ($bn)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gross reserves (inc gold, $bn)	7.42	7.83	7.33	7.21	7.83	7.57	7.15
Total Foreign Debt ($bn)	23.44	31.51	19.50	21.63	23.58	25.57	26.92
Total Foreign Debt/GDP (%)	41.9	48.7	38.4	41.5	41.8	43.4	44.4
Debt Service ($bn)	1.17	1.86	1.39	1.14	1.14	1.04	1.12
Debt Service/XGS (%)	6.3	7.5	8.2	6.4	6.2	5.2	5.4
Current Account ($bn)	-2.05	-1.48	-2.43	-2.45	-1.92	-1.26	-2.19
Current Account/GDP (%)	-3.7	-2.3	-4.8	-4.7	-3.4	-2.1	-3.6
Current Account/XGS (%)	-11.1	-5.8	-14.4	-13.8	-10.5	-6.3	-10.5
Exports ($bn)	9.74	13.44	8.87	9.46	9.45	10.10	10.81
Imports ($bn)	14.60	17.02	14.43	14.78	14.06	14.53	15.18
Trade Balance ($bn)	-4.86	-3.58	-5.56	-5.32	-4.61	-4.43	-4.37
Exports of Services ($bn)	7.78	9.95	6.95	7.11	7.69	8.54	8.60
Income, credit ($bn)	0.33	0.43	0.25	0.34	0.32	0.37	0.38
Transfers, credit ($bn)	0.91	1.05	0.85	0.89	0.86	0.93	1.02
Exports G&S ($bn)	18.76	24.87	16.92	17.80	18.32	19.94	20.81
Liabilities ($bn)	0.25	1.49	0.28	0.26	0.24	0.23	0.24
Net Reserves ($bn)	7.17	6.34	7.05	6.95	7.59	7.34	6.91
Liquidity (months import cover)	5.9	4.6	5.9	5.6	6.5	6.1	5.5
Currency Exchange Rate	536.369	602.921	500.965	536.913	534.580	543.533	565.854
Currency Change (%)	-2.3	-2.6	0.4	-6.7	0.4	-1.6	-3.9
Social Indicators							
Population (million)	4.81	5.08	4.71	4.76	4.81	4.86	4.91
Population Growth (%)	1.1	1.2	1.3	1.1	1.1	1.0	1.0
Infant Deaths/1000	8	7	8	8	8	8	8
Persons under Age 15 (%)	23	21	23	23	23	22	22
Urban Population (%)	77	80	75	76	77	78	79
Urban Growth (%)	2.4	1.7	2.7	2.4	2.4	2.4	2.3
Literacy % pop.	98	98	96	98	98	98	98
Agricultural Work Force (%)	14	17	14	14	14	15	15
Industry-Commerce Work Force (%)	22	17	22	22	22	21	21
Services Work Force (%)	64	66	64	64	64	64	64
Unionized Work Force (%)	10	10	10	10	10	10	10
Energy - total consumption (10^{15} Btu)	0.20	0.21	0.19	0.19	0.20	0.21	0.21
Energy - consumption/head (10^{9} Btu)	0.04	0.04	0.04	0.04	0.04	0.04	0.04

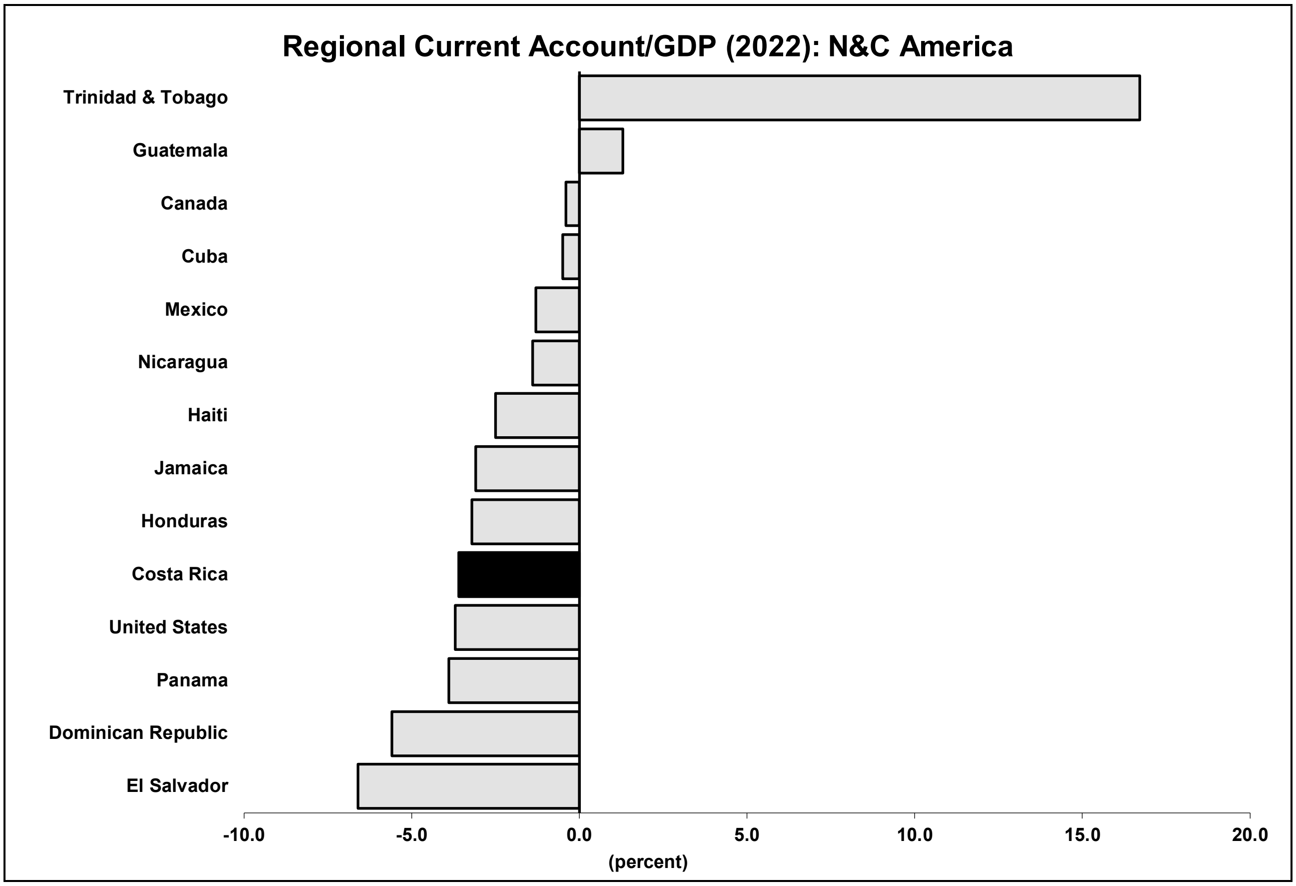
Costa Rica
Econometric Data

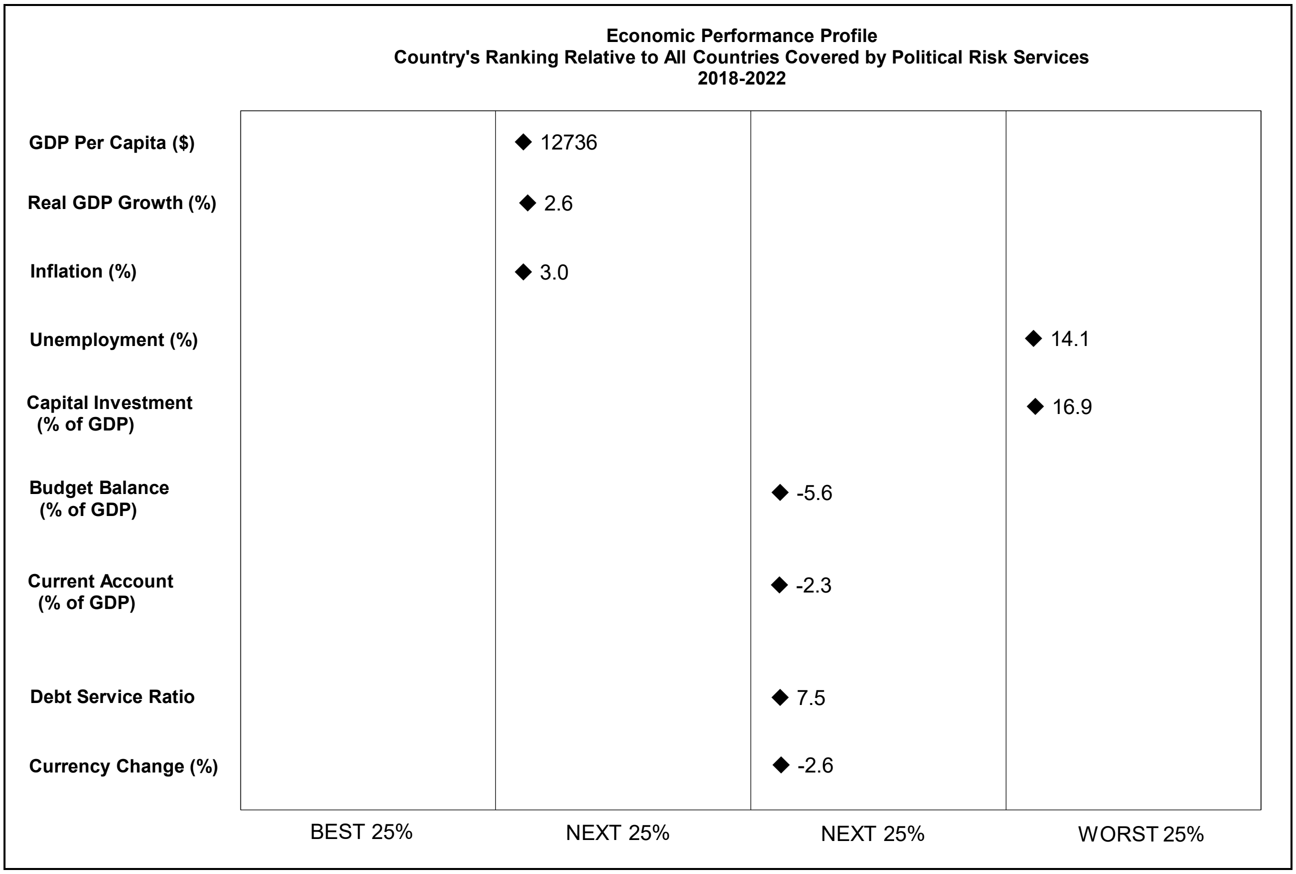
	2013-2017 Average	2018-2022 Average	2018	2019	2020	2021	2022
Domestic Economic Indicators							
GDP (Nominal, $bn)	55.82	64.74	62.45	64.45	62.45	64.90	69.45
Per Capita GDP ($)	11596	12736	12591	12864	12269	12626	13330
Real GDP Growth Rate (%)	3.6	2.6	2.6	2.4	-4.3	7.9	4.6
Inflation Rate (%)	2.4	3.0	2.2	2.1	0.7	1.7	8.3
Capital Investment ($bn)	10.49	10.93	11.37	10.48	10.10	10.95	11.77
Capital Investment/GDP (%)	18.8	16.9	18.2	16.3	16.2	16.9	17.0
Budget Revenues ($bn)	7.75	9.49	8.60	9.14	8.17	10.18	11.38
Budget Revenues/GDP (%)	13.9	14.6	13.8	14.2	13.1	15.7	16.4
Budget Expenditures ($bn)	10.75	13.05	12.13	13.43	13.14	13.42	13.11
Budget Expenditures/GDP (%)	19.3	20.2	19.4	20.8	21.0	20.7	18.9
Budget Balance ($bn)	-3.01	-3.55	-3.53	-4.29	-4.97	-3.24	-1.73
Budget Balance/GDP (%)	-5.4	-5.6	-5.7	-6.7	-8.0	-5.0	-2.5
Money Supply (M1, $bn)	5.18	7.33	5.64	6.47	8.49	8.58	7.45
Change in Real Wages (%)	2.7	0.8	0.3	1.7	0.5	1.9	-0.4
Unemployment Rate (%)	9.4	14.1	10.3	11.8	19.6	16.4	12.2
International Economic Indicators							
Foreign Direct Investment ($bn)	2.99	3.02	3.01	2.72	2.10	3.59	3.67
Forex Reserves ($bn)	7.20	7.42	7.28	8.72	7.01	6.21	7.87
Gross Reserves (ex gold, $bn)	7.42	7.83	7.50	8.94	7.23	6.92	8.55
Gold Reserves ($bn)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gross reserves (inc gold, $bn)	7.42	7.83	7.50	8.94	7.23	6.92	8.55
Total Foreign Debt ($bn)	23.44	31.51	29.14	30.80	30.93	31.64	35.05
Total Foreign Debt/GDP (%)	41.9	48.7	46.7	47.8	49.5	48.8	50.5
Debt Service ($bn)	1.17	1.86	1.64	1.88	1.81	1.83	2.12
Debt Service/XGS (%)	6.3	7.5	7.1	7.7	8.5	7.2	7.0
Current Account ($bn)	-2.05	-1.48	-1.87	-0.83	-0.63	-1.60	-2.47
Current Account/GDP (%)	-3.7	-2.3	-3.0	-1.3	-1.0	-2.5	-3.6
Current Account/XGS (%)	-11.1	-5.8	-8.1	-3.4	-3.0	-6.3	-8.2
Exports ($bn)	9.74	13.44	11.73	11.83	12.07	14.87	16.71
Imports ($bn)	14.60	17.02	16.35	15.70	14.09	17.67	21.30
Trade Balance ($bn)	-4.86	-3.58	-4.62	-3.87	-2.02	-2.80	-4.59
Exports of Services ($bn)	7.78	9.95	9.75	10.91	7.93	9.17	11.99
Income, credit ($bn)	0.33	0.43	0.55	0.57	0.35	0.27	0.42
Transfers, credit ($bn)	0.91	1.05	1.03	1.07	0.97	1.06	1.11
Exports G&S ($bn)	18.76	24.87	23.06	24.38	21.32	25.37	30.23
Liabilities ($bn)	0.25	1.49	1.30	0.85	0.82	1.59	2.90
Net Reserves ($bn)	7.17	6.34	6.20	8.09	6.41	5.33	5.65
Liquidity (months import cover)	5.9	4.6	4.6	6.2	5.5	3.6	3.2
Currency Exchange Rate	536.369	602.921	576.674	586.973	584.435	621.333	645.191
Currency Change (%)	-2.3	-2.6	-1.9	-1.8	0.4	-5.9	-3.7
Social Indicators							
Population (million)	4.81	5.08	4.96	5.01	5.09	5.14	5.21
Population Growth (%)	1.1	1.2	1.0	1.0	1.6	1.0	1.4
Infant Deaths/1000	8	7	8	7	7	7	6
Persons under Age 15 (%)	23	21	22	21	21	21	20
Urban Population (%)	77	80	79	80	80	81	81
Urban Growth (%)	2.4	1.7	1.0	2.3	1.6	2.2	1.4
Literacy % pop.	98	98	98	98	98	98	98
Agricultural Work Force (%)	14	17	16	16	18	17	17
Industry-Commerce Work Force (%)	22	17	19	18	16	17	17
Services Work Force (%)	64	66	65	66	66	66	66
Unionized Work Force (%)	10	10	10	10	10	10	10
Energy - total consumption (10^{15} Btu)	0.20	0.21	0.21	0.21	0.21	0.21	0.21
Energy - consumption/head (10^{9} Btu)	0.04	0.04	0.04	0.04	0.04	0.04	0.04

INTRA-REGIONAL COMPARISONS






Regional Current Account/GDP (2022): N&C America
Trinidad & Tobago
Guatemala
Canada
Cuba
Mexico
Nicaragua
Haiti
Jamaica
Honduras
Costa Rica
United States
Panama
Dominican Republic
El Salvador
-10.0
-5.0
0.0
5.0
10.0
15.0
20.0
(percent)


Economic Performance Profile
Country's Ranking Relative to All Countries Covered by Political Risk Services
2018-2022
GDP Per Capita ($)
12736
Real GDP Growth (%)
2.6
Inflation (%)
3.0
Unemployment (%)
14.1
Capital Investment (% of GDP)
16.9
Budget Balance (% of GDP)
-5.6
Current Account (% of GDP)
-2.3
Debt Service Ratio
7.5
Currency Change (%)
-2.6
BEST 25%
NEXT 25%
NEXT 25%
WORST 25%

GEOPOLITICAL & ECONOMIC ANALYSIS

CHAVES FACES CHALLENGES AS APPROVAL DIPS

Coming off his surprise victory in the two-stage president election held in early 2022, Rodrigo Chaves took office last May with a long list of promises to fulfill and uncertain support in the 57-member National Assembly, where the fledgling Social Democratic Progress Party (PPSD) that backed his candidacy won just 10 seats at the February elections held concurrently with the first round of presidential voting. Now 18 months into his four-year term, Chaves has compiled a solid record of accomplishment in some areas, most notably his government's efforts to improve the country's fiscal position and create a strong basis for long-term debt sustainability.

However, he has proven less equal to the challenge posed by a surge in violent crime that has undermined Costa Rica's reputation as the most secure destination in Central America for foreign investment and tourists. Fueled mostly by turf wars between rival drug gangs that have partnered with international drug cartels, the number of homicides soared to a record-high of 654 last year, and the figure for 2023 had already passed that mark before the end of September.

On the current trajectory, the homicide rate will top 16 per 100,000 this year, compared to just 8.3 in 2012. Chaves initially deflected blame to the previous administration, declaring last year that it would not be possible to judge his government's performance on security until 2023. Subsequently confronted by evidence that the situation is worsening of his watch, he has cited the deficiencies of the judicial system as the cause of the problem. Minister of Public Security Jorge Torres caused a stir earlier this year when he suggested in an interview that crime was flourishing because residents were unwilling to confront the gangs disturbing the peace in their neighborhoods.

Chaves has also drawn negative attention for frequent populist diatribes against the press that have raised questions about his commitment to democratic principles, a concern that arose early on in his tenure when he announced that he would rely on executive decrees to implement his agenda if he encountered resistance from the legislature. The president's attacks on his critics in the media have not gone unnoticed in the international arena, as indicated by Costa Rica's 18-place drop (from 5th to 23rd) in the latest annual World Press Freedom Index compiled by Reporters Without Borders.

Chaves' very high approval rating, which rose above 70% immediately after he took office and remained above 60% through mid-2023, has been a key factor in his ability to secure the cooperation of the legislature. Crucially, the National Assembly granted approval late last year for the government to take on an additional $5 billion in foreign debt through the issuance of Eurobonds in 2023–2025, thereby eliminating much of the uncertainty created by from the need to obtain the legislature's permission for budget-related borrowing on an annual basis.

However, recent polls reveal a significant erosion of the president's popularity, with a survey by the Center for Research and Political Studies (CIEP) at the University of Costa Rica showing Chaves' approval rating falling to 53% in September, down from 60% in April. An October poll by the university's Development Observatory Research Center (CIOdD) put the president's approval rating at less than 40%.

The latter poll coincided with mass protests in the capital, San Jose, to demand increased funding for the health and education sectors. Chaves blames the deficiency of public services on bloated state payrolls and poor administration. Under the guidance of the IMF, the previous administration approved a public employment law that takes aim at those shortcomings. However, implementation has been slow and the reform push has met stiff resistance from health workers and university staff (and students) fearful that the restructuring is the first step toward privatization of public services.

There are already signs of greater willingness on the part of lawmakers to push back against the administration. The National Assembly recently overrode Chaves' veto of amendments to the tax code that clarified provisions related to the tax liability of passive foreign-source income, fulfilling a requirement to secure the country's removal from the EU's grey list of non-cooperative tax jurisdictions. The president cited a projected loss of revenues totaling $67.8 million from changes that would mostly benefit wealthy investors as justification for blocking the reform.

The ongoing effort to establish a new pro-Chaves party, Costa Rica Rules (ACRM), is evidence that the president and his allies (including nine of the 10 sitting lawmakers for the PPSD) have longer-term political ambitions that could become a distraction at a time when polling data points to strengthening headwinds for the administration. Chaves is ineligible to stand for re-election in 2026, but he could make a comeback in 2030 if the ACRM develops into a political force in the interim. That objective could influence the government's priorities over the second half of the current term, including its commitment to fiscal probity.

SIGNIFICANT PROGRESS ON FISCAL FRONT

The economic damage caused by the COVID-19 pandemic compounded the risks posed by the failure of successive administrations to reverse the steady and rapid accumulation of public-sector debt. The combination of a deep economic downturn and the need for emergency spending to deal with the health crisis swelled the budget deficit to more than 8% of GDP in 2020 and forced the previous government headed by Carlos Alvarado to seek help from the IMF.

Chaves indicated during the 2022 campaign that he would press the IMF to revise the terms of a $1.8 billion extended fund facility (EFF) arrangement that was extended by five months (to July 2024) following completion of the first and second reviews under the agreement shortly before the run-off presidential election. The main bone of contention for the president is the heavy reliance on tax measures to boost revenues, rather than the specific targets.

Thus far, circumstances have enabled Chaves to avoid controversy on the fiscal front. A highly unpopular public-employment law was approved and enacted in the closing weeks of the previous term, delivering a fait accompli to the incoming government that has facilitated compliance with spending restraint imposed by the Fiscal Responsibility Law (FRL).

Solid real GDP growth in 2022 reinforced the positive impact of revenue-enhancing tax measures approved by previous administrations, enabling Costa Rica to exceed the budget targets under the EFF, despite Chaves' resistance to implementing additional tax measures. The government recorded a primary surplus equivalent to 2.3% of GDP, well above the 1% of GDP target, and the general government budget deficit came in below 1% of GDP.

The IMF has confirmed that the government is on track to exceed the targets again this year, with the cumulative primary surplus estimated at 1.7% of GDP to the end of September. The conclusion of the IMF's most recent review in October clears the way for the release of an additional $271 million under the EFF and an additional disbursement of $485 million from Resilience and Sustainability Trust, pending board approval.

The markets have also responded favorably to the fiscal progress, as is evident from the strength of the colón, which appreciated by 30% against the dollar from mid-June 2022 to mid-April 2023, and has traded within a band of CRC530.0-540.0 over the past six months. Earlier this month, the government placed $1.5 billion of 30.5-year bonds, at a very favorable yield of 7.75%. The move came on the heels of credit-rating upgrades from both Moody's and Standard & Poor's. Fitch announced a two-notch upgrade back in March, to BB−, which is three notches below investment grade. Standard & Poor's recent revision similarly lifted its rating to BB−, while Moody's current rating of B1 is one notch lower.

The central government debt has begun to fall, but there are no assurances that the progress will be sustained. The Chaves administration is targeting a primary surplus of 1.85% of GDP in 2024, but the IMF projects that Costa Rica will need to produce consistent primary surpluses amounting to 2% of GDP over the medium term to reduce the debt ratio to 50% by 2035.

The IMF has expressed concerns that recent revisions to the fiscal rule lack a clear rationale, and the Fund's most recent review noted that tax revenues remain quite low as a share of GDP. With economic growth expected to moderate next year and stabilize at slightly more than 3% over the medium term, authorities will not be able to depend quite so heavily on rapid expansion of the GDP to facilitate fiscal consolidation and debt reduction going forward. The risk of fiscal slippage with the approach of the next election cycle would be heightened if the government opts against a new agreement with the IMF following the expiration of the EFF next year.

FISCAL RESTRAINT UNDERPINS ECONOMIC STABILITY

The pace of year-on-year real GDP growth picked up slightly in the first half of 2023, averaging 4.6%, compared to 3.75% in the second half of last year, as a combination of easing inflation and monetary loosening by the central bank contributed to increased household spending and private investment. The monthly economic indicator points to similarly robust expansion in the third quarter, but deflationary conditions since mid-year could discourage big-ticket purchases by households in the closing weeks of the year. The strength of the colón will reinforce the dampening effect of weaker external demand on export activity, holding the annual growth rate to 4.5% in 2023.

Currency strength and falling global prices for energy and food imports contributed to a steep deceleration of inflation, and the consumer price index has registered year-on-year declines since June, with the 3.3% increase in August representing a record low. Monetary authorities have slowed the pace of policy loosening, and inflation is forecast to return in the first half of 2024. Ample reserves will limit the risk of currency volatility and the anticipated moderation of real GDP growth to 3.5% next year and the government's continued fiscal restraint will abet the BCCR's efforts to contain inflation risks in the event of a renewed surge in global prices for staple imports

The current account deficit narrowed significantly in the first half of 2023, as the continued recovery of the tourism sector underpinned a large increase in the services surplus. Lower prices for energy and food imports helped to narrow the goods deficit, but a base effect and a strong colón will restrain the growth of exports in the final months of the year, limiting the room for a further reduction of the trade shortfall.

On balance, the current account deficit is forecast to narrow to less than 2% of GDP this year. Surging crime has potentially negative implications for tourism performance in 2024, but the recent votes of confidence from the IMF and debt-rating agencies will help to keep the cost of international borrowing low enough to avert any serious balance-of-payments difficulties in the near term.

INTERNATIONAL COUNTRY RISK GUIDE (ICRG) RATINGS

PRS' Country Reports and Economic Forecasts (CREF) and the International Country Risk Guide (ICRG) have been independently back-tested for accuracy and relevance for over 40 years.

In a landmark 2014 study published in the International Journal of Business Studies* – using data on political risk clams and a unique textual-based database of risk realizations – both CREF and ICRG forecasts were found to have "predictive power for both political risk insurance claims as well as political risk events measured by news coverage."

It is therefore instructive to present the scores from Table 1 of the ICRG for a complimentary look at the composite risk scores – calculated by using a combination of the overall political, financial, and economic risk metrics – for the 141+ countries covered each month. Please contact custserv@prsgroup.com for more information.

TABLE 1
COUNTRY RISK, RANKED BY COMPOSITE RISK RATING
NOVEMBER 2023 VERSUS DECEMBER 2022

RANK IN 11/23	COUNTRY	COMPOSITE RISK RATING 11/23	COMPOSITE RISK RATING 12/22	11/23 VERSUS 12/22	RANK IN 12/22
	Very Low Risk				
1	Norway	86.3	87.0	-0.8	2
2	Switzerland	86.0	87.3	-1.3	1
3	Denmark	85.0	84.8	0.3	6
4	Taiwan	84.8	84.3	0.5	7
5	Singapore	84.3	86.0	-1.8	3
6	Luxembourg	84.0	86.0	-2.0	3
7	Ireland	83.8	82.3	1.5	7
8	Saudi Arabia	82.5	85.5	-3.0	5
9	Brunei	81.5	81.8	-0.3	10
10	Qatar	80.8	80.0	0.8	17
11	Canada	80.5	81.8	-1.3	10
11	Iceland	80.5	80.5	0.0	15

* C Harvey, et al., "Political Risk Spreads," Journal of International Business Studies, (2014), 471-493.

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING NOVEMBER 2023 VERSUS DECEMBER 2022					
RANK IN 11/23	**COUNTRY**	**COMPOSITE RISK RATING 11/23**	**COMPOSITE RISK RATING 12/22**	**11/23 VERSUS 12/22**	**RANK IN 12/22**
11	United Arab Emirates	80.5	82.3	-1.8	7
14	Netherlands	80.3	80.5	-0.3	15
15	Kuwait	80.0	81.0	-1.0	13
	Low Risk				
16	Australia	79.5	81.8	-2.3	10
17	Botswana	79.3	77.3	2.0	24
17	Japan	79.3	76.5	2.8	26
19	Sweden	79.0	81.0	-2.0	13
20	New Zealand	78.8	76.0	2.8	28
21	Germany	78.5	79.0	-0.5	18
21	Hong Kong	78.5	74.3	4.3	35
21	Korea, Republic	78.5	78.3	0.3	20
24	Finland	77.5	78.3	-0.8	20
25	Bahamas	76.8	74.3	2.5	35
25	Trinidad & Tobago	76.8	77.5	-0.8	23
27	Austria	76.5	78.3	-1.8	20
27	Costa Rica	76.5	72.3	4.3	47
27	Oman	76.5	78.5	-2.0	19
27	Portugal	76.5	75.3	1.3	32
31	Czech Republic	76.0	76.0	0.0	28
32	Guyana	75.5	75.5	0.0	31
32	Kazakhstan	75.5	76.5	-1.0	26
34	Uzbekistan	74.8	73	2.3	43
35	Belgium	74.5	74.5	0.0	34
36	Italy	74.3	73.3	1.0	41
37	Latvia	74.0	71.8	2.3	51
37	Malaysia	74.0	74.0	0.0	39
37	Slovenia	74.0	73.0	1.0	42

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING NOVEMBER 2023 VERSUS DECEMBER 2022					
RANK IN 11/23	COUNTRY	COMPOSITE RISK RATING 11/23	COMPOSITE RISK RATING 12/22	11/23 VERSUS 12/22	RANK IN 12/22
40	Azerbaijan	73.8	72.5	1.3	43
40	Libya	73.8	70.8	3.0	58
40	Panama	73.8	73.5	0.3	40
40	Uruguay	73.8	75.3	-1.5	32
44	Croatia	73.5	74.3	-0.8	35
44	Israel	73.5	76.0	-2.5	28
44	Malta	73.5	74.3	-0.8	35
44	United Kingdom	73.5	76.8	-3.3	25
48	Jamaica	72.5	72.3	0.3	47
48	Poland	72.5	71.3	1.3	54
48	Spain	72.5	72.5	0.0	43
51	Dominican Republic	72.0	72.3	-0.3	47
52	Chile	71.8	71.5	0.3	52
52	France	71.8	72.5	-0.8	43
52	Philippines	71.8	70.8	1.0	58
55	Brazil	71.5	70.0	1.5	64
55	Vietnam	71.5	71.3	0.3	54
57	India	71.3	70.5	0.8	61
58	Bulgaria	71.0	70.8	0.3	58
58	China, Peoples' Rep.	71.0	69.3	1.8	66
58	Hungary	71.0	71.3	-0.3	54
58	Paraguay	71.0	64.3	6.8	93
58	Thailand	71.0	65.5	5.5	87
63	Guatemala	70.5	71.0	-0.5	57
63	United States	70.5	72.3	-1.8	47
Moderate Risk					
65	Gabon	69.8	66.8	3.0	82
65	Lithuania	69.8	70.5	-0.8	61

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING NOVEMBER 2023 VERSUS DECEMBER 2022					
RANK IN 11/23	COUNTRY	COMPOSITE RISK RATING 11/23	COMPOSITE RISK RATING 12/22	11/23 VERSUS 12/22	RANK IN 12/22
67	Cyprus	69.3	70.0	-0.8	64
68	Bahrain	69.0	68.8	0.3	71
68	Indonesia	69.0	68.3	0.8	75
68	Papua New Guinea	69.0	69.3	-0.3	66
71	Greece	68.8	68.5	0.3	73
72	Congo, Republic	68.5	64.3	4.3	93
72	Iraq	68.5	70.5	-2.0	61
72	Mexico	68.5	68.0	0.5	77
72	Peru	68.5	68.0	0.5	77
72	Slovakia	68.5	68.8	-0.3	71
77	Estonia	68.3	71.5	-3.3	52
77	Namibia	68.3	69.3	-1.0	66
79	Algeria	68.0	69.3	-1.3	66
79	Russia	68.0	66.0	2.0	86
81	Ecuador	67.5	68.5	-1.0	73
81	El Salvador	67.5	63.3	4.3	99
81	Romania	67.5	66.8	0.8	82
84	Armenia	66.8	60.0	6.8	111
84	Gambia	66.8	65.3	1.5	88
84	Honduras	66.8	66.8	0.0	82
84	Morocco	66.8	64.5	2.3	90
88	Mongolia	66.5	64.5	2.0	90
88	South Africa	66.5	67.8	-1.3	79
90	Tanzania	66.3	65.0	1.3	89
91	Serbia	65.8	67.0	-1.3	80
92	Guinea-Bissau	65.3	64.0	1.3	95
93	Zambia	65.0	62.8	2.3	100
94	Albania	64.5	63.8	0.8	98

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING NOVEMBER 2023 VERSUS DECEMBER 2022					
RANK IN 11/23	COUNTRY	COMPOSITE RISK RATING 11/23	COMPOSITE RISK RATING 12/22	11/23 VERSUS 12/22	RANK IN 12/22
95	Iran	64.3	66.8	-2.5	82
96	Bangladesh	64.0	62.5	1.5	102
96	Bolivia	64.0	67.0	-3.0	80
96	Cote d'Ivoire	64.0	62.3	1.8	104
99	Jordan	63.8	64.5	-0.8	90
99	Nicaragua	63.8	62.8	1.0	100
101	Togo	63.5	62.3	1.3	104
102	Colombia	63.3	64.0	-0.8	95
103	Madagascar	63.0	62.5	0.5	102
104	Suriname	62.5	58.5	4.0	116
105	Moldova	62.3	59.0	3.3	114
106	Cuba	61.8	69.0	-7.3	70
107	Cameroon	61.3	61.0	0.3	107
108	Ukraine	61.0	51.8	9.3	132
109	Ghana	60.5	58.5	2.0	116
110	Angola	60.3	68.3	-8.0	75
111	Mozambique	60.0	54.5	5.5	127
111	Uganda	60.0	59.5	0.5	112
High Risk					
113	Guinea	59.8	57.5	2.3	123
113	Tunisia	59.8	61.0	-1.3	107
115	Liberia	59.5	58.0	1.5	121
115	Sri Lanka	59.5	48.8	10.8	137
117	Belarus	59.3	57.0	2.3	125
118	Mali	58.8	58.8	0.0	115
118	Senegal	58.8	58.3	0.5	120
120	Burkina Faso	58.5	59.5	-1.0	112
121	Myanmar	58.3	56.0	2.3	126

TABLE 1 COUNTRY RISK, RANKED BY COMPOSITE RISK RATING NOVEMBER 2023 VERSUS DECEMBER 2022					
RANK IN 11/23	COUNTRY	COMPOSITE RISK RATING 11/23	COMPOSITE RISK RATING 12/22	11/23 VERSUS 12/22	RANK IN 12/22
122	Zimbabwe	58.0	61.5	-3.5	106
123	Argentina	57.5	64.0	-6.5	95
123	Ethiopia	57.5	58.5	-1.0	116
125	Egypt	57.3	57.5	-0.3	123
126	Kenya	57.0	58.5	-1.5	116
127	Haiti	56.8	54.0	2.8	129
127	Sierra Leone	56.8	53.5	3.3	130
129	Congo, Dem. Republic	56.3	60.3	-4.0	109
130	Nigeria	55.8	60.3	-4.5	109
130	Yemen, Republic	55.8	48.3	7.5	138
132	Turkey	55.5	54.3	1.3	128
133	Venezuela	55.0	58.0	-3.0	121
134	Somalia	51.8	52.0	-0.3	131
Very High Risk					
135	Pakistan	49.8	51.3	-1.5	134
136	Korea, D.P.R.	49.3	51.0	-1.8	135
137	Malawi	49.0	51.0	-2.0	135
138	Niger	47.8	51.8	-4.0	132
139	Syria	44.5	44.0	0.5	139
140	Sudan	43.5	43.3	0.3	140
141	Lebanon	34.5	41.3	-6.8	141