

BEST'S COUNTRY RISK REPORT

Costa Rica

CRT-4

August 22, 2018

Region: Latin America

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Costa Rica, a CRT-4 country, has high levels of economic and financial system risk, with moderate levels of political risk. Real GDP is expected to remain stable, at 3.8% in 2018, supported by public investment. Inflation is expected to remain close to target. Long-term growth will be constrained by the growing fiscal deficit, which is expected to reach 7.2% of GDP in 2018.
- The map depicts the countries A.M. Best evaluates in Central America, South America, and the Caribbean. The majority of Latin American countries are categorized as CRT-4 or CRT-5, with the exceptions of Chile (CRT-2), Mexico (CRT-3), and Peru (CRT-3).



Economic Risk



Political Risk



Financial System Risk

- Country Risk Tier 1 (CRT-1)** Very Low Level of Country Risk
- Country Risk Tier 2 (CRT-2)** Low Level of Country Risk
- Country Risk Tier 3 (CRT-3)** Moderate Level of Country Risk
- Country Risk Tier 4 (CRT-4)** High Level of Country Risk
- Country Risk Tier 5 (CRT-5)** Very High Level of Country Risk

Regional Summary: Latin America

- Growth in the region is likely to continue in 2018 due to expanding global growth, rebounding commodity prices, and strengthening domestic demand. However, risks are tilted to the downside owing to rising domestic political uncertainty, currency volatility, growing trade protectionism, rising fiscal deficits, and negative spillover effects from international financial markets.
- Conditions are largely positive, but several countries in the region are experiencing heightened risk. Years of unsustainable social programs, higher spending, and growing corruption have led to significant challenges for Venezuela, as well as Brazil and Argentina, albeit to a lesser extent.
- So far this year, there have been several presidential elections in Colombia, Mexico, and Venezuela; Brazil's is scheduled for later this year. The election environment is complex owing to mounting social conflicts, corruptions scandals, and policy uncertainty. According to the IMF's 2017 estimates, four countries are responsible for the largest proportion of the region's economic output: Brazil at USD2,055 billion, Mexico at USD1,149 billion, Colombia at USD309 billion, and Venezuela at USD210 billion.

Vital Statistics 2017

| | | |
|-----------------|--------|--------|
| Nominal GDP | USD bn | 58.06 |
| Population | mil | 5.0 |
| GDP Per Capita | USD | 11,685 |
| Real GDP Growth | % | 3.2 |
| Inflation Rate | % | 1.6 |

United Nations Estimates

| | | |
|------------------|-------|------|
| Literacy Rate | % | 97.8 |
| Urbanization | % | 78.5 |
| Dependency Ratio | % | 45.4 |
| Life Expectancy | Years | 78.7 |
| Median Age | Years | 31.3 |

Insurance Statistics

| | | |
|-------------------------------|--------------------------------------|-------|
| Insurance Regulator | General Superintendency of Insurance | |
| Premiums Written (Life) | USD mil | 198 |
| Premiums Written (Non-Life) | USD mil | 1,134 |
| Premiums Growth (2016 - 2017) | % | 12.6 |

Regional Comparison

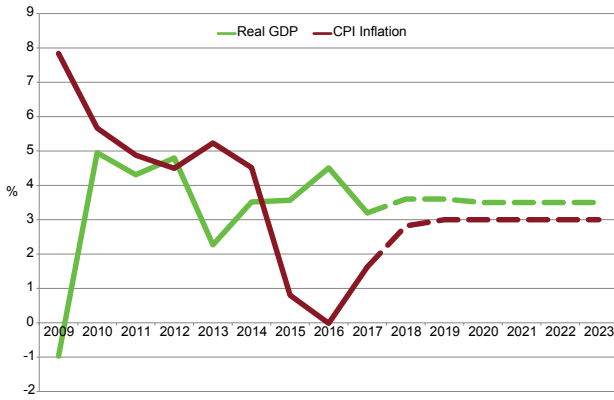
| | Country Risk Tier |
|-------------|-------------------|
| Costa Rica | CRT-4 |
| El Salvador | CRT-4 |
| Guatemala | CRT-4 |
| Honduras | CRT-5 |
| Nicaragua | CRT-5 |
| Panama | CRT-4 |

Source: IMF, UN, Swiss Re, Axco and A.M. Best



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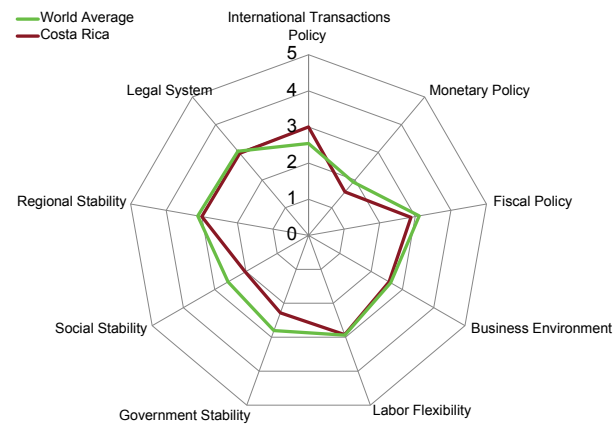
Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

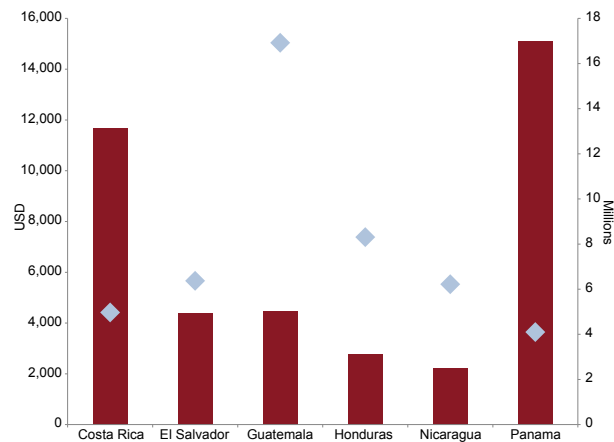
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: High

- Costa Rica's economy is led by export-oriented agriculture, relatively low-cost technology services, and tourism. Although it is the most popular destination in Central America, tourism faces rising competition and slowing growth.
- The recent global economic expansion has supported growth. The reliance on foreign visitors and imported energy-related commodities, and changes in global demand expose the economy to external shocks over the medium term.
- Costa Rica has an educated population and a well-defined, business friendly taxation system. Rising crime and drug-related activities, however, increase risks to public security and business operations. The fiscal deficit has been rising, and the IMF has recommended cuts to inefficient expenditures and reduction tax evasion. Tax revenue in Costa Rica accounts for 14% of GDP.
- Costa Rica has many trade agreements, including the Dominican Republic-Central American Free Trade Agreement (DR-CAFTA) which promote growth.

Political Risk: Moderate

- President Carlos Alvarado took office in May 2018. Politics in Costa Rica are broadly stable and the transfer of power is peaceful. Alvarado's policy priorities include enhancing infrastructure and restoring fiscal stability.
- The legislative body is highly divided, causing deadlocks, which means that crucial fiscal reform is unlikely to be approved. Lack of efficient coordination among parties is a major obstacle to tackling the issue effectively.
- Persistently high fiscal deficits and the authorities' failure to resolve the issue may dampen public confidence in the government. The recent *cementazo* corruption scandal has damaged the government's image.
- The legal framework is generally stable, independent, and transparent by regional standards, with competition laws and intellectual property protections. The judiciary process can be long and costly, taking on average nearly three years and a quarter of the awarded settlement amount. The country is ranked 61 out of 191 countries by the World Bank Ease of Doing Business Index.
- Demonstrations over public spending cuts, privatization, and environmental concerns are peaceful but can pose risks to timely implementation of certain projects.

Financial System Risk: High

- The General Superintendency of Insurance, was established by law in 2008, concurrent with the abolition of the monopoly of INS, the National Insurance Institute.
- Banking in Costa Rica is highly concentrated with a market share of about 80% of the financial system.
- Government debt has been growing, an issues the authorities have failed to address. Fiscal reform is imperative for the country to return to a healthy fiscal position.