

BEST'S COUNTRY RISK REPORT

Costa Rica

CRT-4

August 22, 2017

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 financial system risk, with moderate levels of economic and political risk. Real gross domestic product (GDP) grew 4.3% in 2016 and is expected to remain stable, at around 4% in the medium term, supported by public investment. Long-term growth will be constrained by rising inequality. Inflation, which was 0% in 2016, is expected to rise to 3% by 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 and Mexico.



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

- Two of the region's largest economies, Brazil and Venezuela, remain under pressure. Although Brazil's economy is likely to return to growth in 2017, the country continues to face high levels of political instability. Venezuela is in the midst of an economic and political crisis that is due largely to prolonged low commodity prices and unsustainable social programs.
- Macroeconomic challenges affecting the region include volatility in external and domestic demand, exchange rates, currencies, and inflation. Growing income inequality and tightening financial conditions bear watching.
- Corruption scandals and high levels of political uncertainty in many countries have resulted in a deterioration of trust in public institutions and government. Much-needed economic reform and policy-making have been interrupted as resources are redirected to resolve these issues. Greater transparency and declining corruption could boost long-term growth.
- Credit growth has decelerated in many of the region's countries owing to weaker domestic demand. Non-performing loans have been increasing somewhat, and the accompanying lower growth environment warrants monitoring.

Vital Statistics 2016		
Nominal GDP	USD bn	58.11
Population	mil	4.9
GDP Per Capita	USD	11,835
Real GDP Growth	%	4.3
Inflation Rate	%	0.0
United Nations Estimates		
Literacy Rate	%	99.2
Urbanization	%	76.8
Dependency Ratio	%	45.4
Life Expectancy	Years	79.6
Median Age	Years	31.4
Insurance Statistics		
Insurance Regulator	General Superintendency of Insurance	
Premiums Written (Life)	USD mil	189
Premiums Written (Non-Life)	USD mil	1,027
Premiums Growth (2015 - 2016)	%	16.1

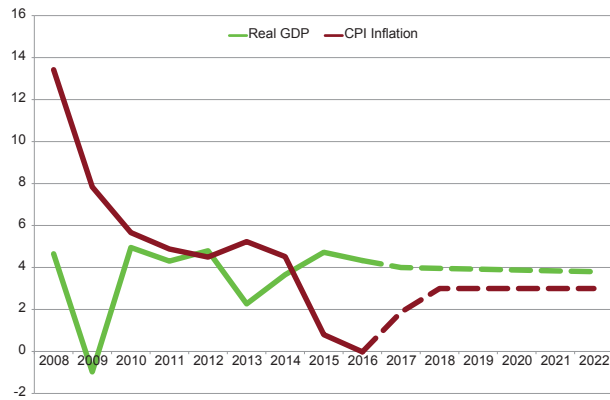
Regional Comparison	
	Country Risk Tier
Costa Rica	CRT-4
El Salvador	CRT-4
Guatemala	CRT-4
Honduras	CRT-5
Nicaragua	CRT-5
Panama	CRT-4

Source: IMF, UN (2015 figures), Swiss Re, Axco and A.M. Best



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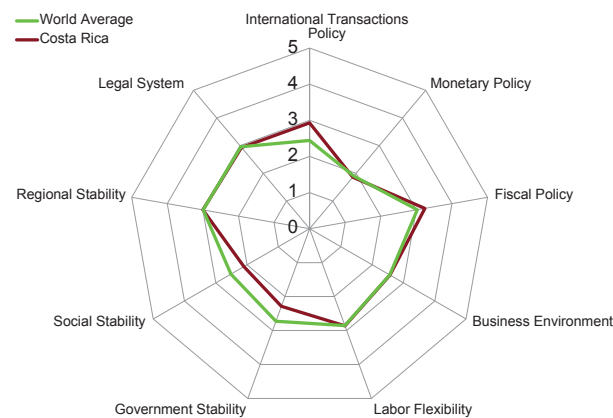
Economic Growth (%)



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

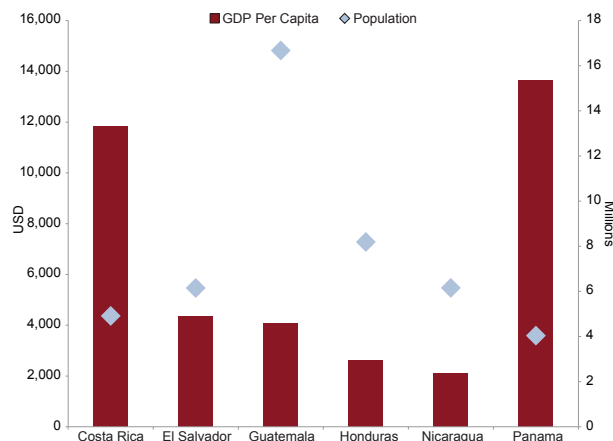
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: Moderate

- Costa Rica's economy is diversified, with a developed manufacturing, service and tourism sector. However, rising levels of violent crime could dampen tourism arrivals, if not reversed.
- An improving external environment should have positive spillover effects in the form of increased demand for exports, foreign investment, and tourist visits. The United States is Costa Rica's main trading partner. However, the country's small domestic market exposes its economy to changes in global demand.
- The country has a well educated work force and enjoys comparatively high incomes for the region.

Political Risk: Moderate

- President Luis Guillermo Solís, a member of the PAC party, was elected in 2014 on a platform of improving public governance, ousting the opposition party (the PLN), which held the presidency for eight years. Elections were peaceful and transparent. The next presidential election is scheduled for February 2018. Due to constitutional limits, Solís can not run for a second presidential term.
- Public trust in Costa Rica's government institutions plummeted following the previous government's scandals and corruption allegations. Solís has pledged to decrease corruption and focus on improving social services.
- Environmental activism is prominent, particularly in the extractive sectors, which has the potential to curtail foreign direct investment. There have also been protests due to planned public spending cuts and industry privatization.
- There are no active terrorist groups in Costa Rica, but there has been a recent increase in crime rates, particularly with respect to drug and human trafficking.
- Needed tax reforms to decrease the fiscal deficit, including increasing the VAT and income tax on high wage earners, have largely been derailed and are unlikely to pass prior to the 2018 presidential elections.

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.
- A key vulnerability in the financial sector is banking, which is highly concentrated, with about 80% market share of the financial system.
- Government debt has been increasing in recent years, having risen every year since 2008. Rising debt levels have expanded the country's interest debt burden and pressured its sovereign creditworthiness. As a result, the country's financial flexibility has been increasingly constrained.