



Republic of Costa Rica

US\$200,000,000 6.914% Notes due 2008

Interest payable January 31 and July 31
Issue price: 100%

US\$250,000,000 8.05% Notes due 2013

Interest payable January 31 and July 31
Issue price: 100%

The US\$200,000,000 aggregate principal amount of 6.914% Notes due 2008 (the "2008 Notes") of the Republic of Costa Rica ("Costa Rica" or the "Republic") will mature and will be repaid at par on January 31, 2008. The US\$250,000,000 aggregate principal amount of 8.05% Notes due 2013 (the "2013 Notes", and together with the 2008 Notes, the "Notes") will mature and will be repaid at par on January 31, 2013. Interest on the Notes will be payable semi-annually in arrears in US dollars on January 31 and July 31 of each year, commencing on July 31, 2003, at a rate of 6.914% per annum for the 2008 Notes and 8.05% per annum for the 2013 Notes. Payments in respect of the Notes will be made without deduction or withholding for or on account of withholding taxes imposed by the Republic to the extent set forth under "Description of the Notes — Additional Amounts".

The Notes will constitute general, direct, unsecured and unconditional obligations of the Republic and will rank *pari passu* without any preference among themselves. The payment obligations of the Republic under the Notes will at all times rank at least equally with all other unsecured and unsubordinated obligations of the Republic relating to Foreign Currency Denominated Public Indebtedness (as defined under "Description of the Notes — Definitions") of the Republic.

Application has been made to list the Notes on the Luxembourg Stock Exchange. The Notes are expected to be designated for quotation on the PORTAL System ("PORTAL") of the National Association of Securities Dealers, Inc.

For a description of certain restrictions on resale, see "Transfer Restrictions".

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS, AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATIONS UNDER THE SECURITIES ACT), EXCEPT TO (A) "QUALIFIED INSTITUTIONAL BUYERS" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) AND (B) CERTAIN NON-U.S. PERSONS IN OFFSHORE TRANSACTIONS (AS DEFINED IN REGULATIONS UNDER THE SECURITIES ACT). SEE "TRANSFER RESTRICTIONS".

The Notes are offered by the Lead Manager subject to receipt and acceptance by the Lead Manager and subject to various conditions, including the right to reject orders in whole or in part. It is expected that delivery of the Notes will be made in New York, New York, on or about January 31, 2003.

Lead Manager

Deutsche Bank Securities

January 24, 2003

No person has been authorized to give any information or to make any representation not contained in this Offering Circular and, if given or made, such information or representation must not be relied upon as having been authorized by the Republic or by Deutsche Bank Securities Inc. (the “Lead Manager”). This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy any of the Notes offered hereby in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. Neither the delivery of this Offering Circular nor any sale made hereunder shall, under any circumstances, create any implication that the information herein is correct as of any time subsequent to the date hereof or that there has been no change in the affairs of the Republic since that date.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN, OR OTHERWISE AFFECT THE PRICE OF THE SECURITIES OFFERED HEREBY, INCLUDING OVER ALLOTMENT, STABILIZING TRANSACTIONS, SHORT COVERING TRANSACTIONS AND PENALTY BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE “SUBSCRIPTION AND SALE.”

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE REPUBLIC AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS OR THE RISKS INVOLVED.

The Notes may not be initially offered or sold in the Republic.

You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

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Because the Republic or its affiliates may purchase and resell the Notes in certain transactions exempt from registration under the Securities Act, the ability of any subsequent holder of Notes to reoffer, resell, pledge or otherwise transfer the Notes pursuant to the exemption provided by Rule 144 under the Securities Act (“Rule 144”) may be limited.

It is expected that delivery of the Notes will be made against payment therefor on or about the date specified in the last paragraph of the cover page of this Offering Circular, which is the fifth business day following the date hereof (this settlement cycle being referred to as “T+5”). Under Rule 15c6-1 under the U.S. Securities Exchange Act of 1934, as amended, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, U.S. purchasers who wish to trade Notes on the date hereof or the next succeeding business day will be required, by virtue of the fact that the Notes initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of Notes in other countries who wish to trade the Notes on the date hereof or the next succeeding business day should consult their own advisor.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

The Notes will constitute general, direct, unconditional and unsecured Public External Indebtedness (as defined herein) of the Republic and will rank *pari passu*, without preference among themselves, with all unsecured and unsubordinated obligations of the Republic, present and future, relating to Foreign Currency Denominated Public Indebtedness (as defined herein) of the Republic.

The Notes will be issued in registered form only. Notes sold in offshore transactions in reliance on Regulation S under the Securities Act (“Regulation S”) will be represented by a permanent Global Note (which may be subdivided) in fully registered form without coupons (each, a “Regulation S Global Note”) deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company (“DTC”) for the accounts of Euroclear Bank S.A./N.A., as operator of the Euroclear System (“Euroclear”), and Clearstream International (“Clearstream, Luxembourg”). On or prior to the 40th day after the later of commencement of the offering and January 31, 2003 (the “Closing Date”), beneficial interests in a Regulation S Global Note may be held only through Euroclear or Clearstream, Luxembourg. Notes sold in the United States to qualified institutional buyers (each a “qualified institutional buyer”) as defined in, and in reliance on, Rule 144A, will be represented by a permanent Global Note

(which may be subdivided) in fully registered form without coupons (each, a “Restricted Global Note” and, together with the Regulation S Global Notes, the “Global Notes”) deposited with a custodian for, and registered in the name of a nominee of, DTC. Beneficial interests of DTC Participants (as defined under “Clearance and Settlement”) in the Global Notes will be shown on, and transfers thereof between DTC Participants will be effected only through, records maintained by DTC and its direct and indirect participants, including Euroclear and Clearstream, Luxembourg. See “Clearance and Settlement.” Except as described herein, definitive Notes will not be issued in exchange for beneficial interests in the Global Notes. See “Description of the Notes — Global Notes.” For restrictions on transfer applicable to the Notes, see “Transfer Restrictions” and “Subscription and Sale.”

The Republic has taken reasonable care to ensure that the information contained in this Offering Circular is true and correct in all material respects and is not misleading in any material respect as of the date of this Offering Circular, and that there has been no omission of information which, in the context of the issuance of the Notes, would make any statement of material fact herein misleading in any material respect. The Republic accepts responsibility accordingly.

This Offering Circular does not constitute an offer by, or an invitation by or on behalf of, the Republic or the Lead Manager to subscribe for or purchase any of the Notes. The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Republic and the Lead Manager to inform themselves about, and to observe any, such restrictions.

Each purchaser of Notes pursuant to Rule 144A will be deemed to have made certain acknowledgments, representations and agreements regarding the Notes and the offer, sale, reoffer, pledge or other transfer of the Notes. See “Transfer Restrictions.”

ENFORCEMENT OF CIVIL LIABILITIES

The Republic is a sovereign state. Consequently, it may be difficult for investors to obtain or realize in the United States or elsewhere upon judgments in the courts of the United States or foreign courts against the Republic. To the fullest extent permitted by applicable law, the Republic will irrevocably submit to the nonexclusive jurisdiction of any New York State or federal court sitting in The City of New York, and any appellate court thereof, in any suit, action or proceeding arising out of or relating to the Notes or the Republic's failure or alleged failure to perform any obligations thereunder (a “Related Proceeding,” which term shall exclude claims or causes of action arising under the federal securities laws of the United States or any state securities laws) and the Republic will irrevocably agree that all claims in respect of any Related Proceeding may be heard and determined in such New York State or federal court. The Republic will irrevocably waive, to the fullest extent it may effectively do so, the defense of an inconvenient forum to the maintenance of any Related Proceeding and any objection to any Related Proceeding whether on the grounds of venue, residence or domicile. To the extent that the Republic has or hereafter may acquire any immunity (sovereign or otherwise) from jurisdiction of such courts with respect to a Related Proceeding (whether through service or notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise), the Republic has, to the fullest extent permitted under applicable law, including the Foreign Sovereign Immunities Act of 1976 of the United States (the “Foreign Sovereign Immunities Act”), irrevocably waived such immunity in respect of any such Related Proceeding; *provided, however*, that under the Foreign Sovereign Immunities Act, it may not be possible to enforce in

the Republic a judgment based on such a United States judgment, and that under the laws of the Republic, the property and revenues of the Republic are exempt from attachment or other form of execution before or after judgment. See “Description of the Notes — Governing Law and Jurisdiction.”

The Republic has not consented to service or waived sovereign immunity with respect to actions brought against it under United States federal securities laws or any state securities laws. In the absence of a waiver of immunity by the Republic with respect to such actions, it would not be possible to obtain a judgment in such an action brought in a court in the United States against the Republic unless such court were to determine that the Republic is not entitled under the Foreign Sovereign Immunities Act to sovereign immunity with respect to such action. Further, even if a United States judgment could be obtained in any such action under the Foreign Sovereign Immunities Act, it may not be possible to enforce in the Republic a judgment based on such a United States judgment. Execution upon property of the Republic located in the United States to enforce a United States judgment may not be possible except under the limited circumstances specified in the Foreign Sovereign Immunities Act.

CHANGE IN METHODOLOGY OF MEASURING REAL GDP AND IN REFERENCE PERIOD FOR DETERMINING CONSTANT PRICES

During 2000, the *Banco Central de Costa Rica* (the “Central Bank”) completed the implementation of the 1993 version of the System of National Accounts (“SNA”), which is the international standard for the compilation of national accounts statistics. Prior to such implementation, the Republic’s national accounts were compiled and calculated according to the 1968 SNA, the methodology and coverage of which differ from those of the 1993 SNA. Another important development in 2000 was the replacement by the Central Bank of the 1966 reference period with the 1991 reference period for purposes of estimating real gross domestic product (“GDP”) and calculating constant prices. Each of these two reference periods has a different relative price structure. The introduction of new concepts, expansion of coverage and revision of estimation methodologies in the ongoing implementation of the 1993 SNA, and the introduction of the new reference period by the Central Bank, resulted in the revision of previously released national account aggregates. As a result, GDP and other statistical information included herein may differ from that released in prior years.

CURRENCY OF PRESENTATION

Unless otherwise specified or the context requires, references to “dollars,” “U.S. dollars,” “US\$” and “\$” are to United States dollars. References herein to “colones” and “¢” are to Costa Rican colones. Translations of colones to dollars have been made only for the convenience of the reader at various exchange rates and should not be construed as a representation that the amounts in question have been, could have been or could be converted into U.S. dollars at any particular rate or at all. Historical amounts translated into U.S. dollars or colones have been converted at historical average rates of exchange for the periods indicated, unless otherwise stated. References herein to “real GDP” and to “constant colones” are to constant 1991 colones. The average interbank rate for the sale of U.S. dollars for colones at the close of business on January 13, 2003 was ¢379.35 = US\$1.00.

References to “billions” are to thousands of millions.

The following table sets forth the average and period end colón/dollar exchange rates for the dates and periods indicated.

**Nominal Exchange Rate
(colones per U.S. dollar)**

	Nominal Exchange Rate	
	Average⁽¹⁾	At December 31,
1998.....	257.2	271.4
1999.....	285.7	298.2
2000.....	308.2	318.0
2001.....	328.9	341.4
2002.....	358.1	373.5
2003.....	378.8 ⁽²⁾	379.3 ⁽³⁾

(1) Annual average of daily interbank end-of-day bid rates.

(2) Represents the average rate for the period from January 1, 2003 to January 13, 2003.

(3) Represents the exchange rate at January 13, 2003.

Source: Central Bank.

CERTAIN DEFINED TERMS AND CONVENTIONS

All references in this Offering Circular to “Costa Rica” or the “Republic” are to the Republic of Costa Rica and to the “Government” are to the Central Government of Costa Rica.

Certain amounts included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

“Consolidated public sector deficit” means the aggregate of the Government fiscal deficit, the Central Bank’s deficit, and the financial results of other non-financial public sector institutions.

“Government fiscal deficit” means the difference between the total expenses incurred by the Government and the legislative and judicial branches of the Republic and the total revenues received by the Government.

“Value added” in respect to exports means the difference between the value of final goods exported and the value of the raw materials and intermediate goods used to produce the final goods exported.

“Non-traditional products” are products other than coffee, bananas, sugar and beef, and include non-traditional agricultural products such as vegetables, fruits, roots, medicinal and decorative plants as well as manufacturing, including light manufacturing and textiles.

Measures of distance herein are stated in miles, each of which is equal to approximately 1.609 kilometers. Measures of area herein are stated in square miles, each of which is equal to approximately 2.59 square kilometers, or in hectares, each of which is equal to approximately 2.47 acres.

The fiscal year of the Government commences on January 1 and ends on December 31 of each year.

The Republic's official financial and economic statistics are subject to a two-year review process by the Central Bank and the *Ministerio de Hacienda* (the "Ministry of Finance"), during which time such information may be adjusted or revised. As a result, the information and data contained in this Offering Circular for 2001 and 2002, and any estimated figures for 2003, must be considered preliminary and subject to further revision. The Government believes that this process is substantially similar to that undertaken by industrialized nations. The Government does not expect revisions to be material, although there is no assurance that material changes will not be made.

Certain statistical information reported herein has been derived from official publications of, and information supplied by, among others, the Central Bank, the Ministry of Finance, the *Instituto Nacional de Estadística y Censos* (the "National Institute of Statistics"), the *Superintendencia General de Entidades Financieras* (the "Superintendency of Financial Entities") and the *Superintendencia General de Valores* (the "Superintendency of Securities").

FORWARD LOOKING STATEMENTS

This Offering Circular contains certain forward-looking statements (as such term is defined in the Securities Act) concerning the Republic. These statements are based upon beliefs of certain government officials and others as well as a number of assumptions and estimates which are inherently subject to significant uncertainties, many of which are beyond the control of the Republic. Future events may differ materially from those expressed or implied by such forward-looking statements. In addition, in this Offering Circular, the words "anticipates," "believes," "estimates," "expects," "plans," "intends," "projections" and similar expressions, as they relate to the Republic, are intended to identify forward-looking statements. Such statements reflect the current views of the Republic with respect to future events and are subject to certain risks, uncertainties and assumptions. The Republic undertakes no obligation publicly to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks and uncertainties, there can be no assurances that the events described or implied in the forward-looking statements contained in this Offering Circular will in fact occur.

OFFERING CIRCULAR SUMMARY

The following summary highlights information contained elsewhere in this Offering Circular and is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this Offering Circular.

The Republic

General

Costa Rica, which is located in Central America, is a stable constitutional democracy whose standard of living ranks among the highest in Latin America. Costa Rica has had uninterrupted democratically elected governments since 1949. Costa Rica had a GDP of US\$16,381.9 million and a GDP per capita of approximately US\$4,065.0 in 2001. Costa Rica's 2002 GDP was approximately US\$16,886.5 million with a per capita income of approximately US\$4,120.3 in 2002. Over the past two decades, the Government has invested significant resources in health care and education. According to the United Nations Development Program's 2002 Human Development Report, the Republic is ranked fourth in Latin America on the Human Development Index, a measure of quality of life based on longevity, educational attainment, economic index, and standard of living.

The current President of Costa Rica, Abel Pacheco, is serving a four-year term which began on May 8, 2002. Mr. Pacheco was elected by popular vote in a run-off election in April 2002. See "Republic of Costa Rica — Government and Political Parties."

Costa Rica hosts a large diversity of animal and plant species, and approximately one-quarter of its territory consists of public or private reserves dedicated to environmental conservation and preservation of this biological diversity.

In the last 30 years, Costa Rica has adopted legislation regarding the protection of the environment and created a system of national parks and protected areas. The *Ley Organica del Ambiente* (Environmental Organic Law), the *Ley de Creacion del Ministerio del Ambiente y Energia* (Environmental and Energy Ministry Law), the *Ley de Vida Silvestre* (Wildlife Law), the constitutional right for a balanced environment, and various international treaties comprise Costa Rica's system of environmental regulations.

Economy

History and Background

Since the mid-1980s, Costa Rica has expanded the scope of its economic activity, which historically has been dependent on the production of agricultural goods for export. It has sought to diversify its exports, attract investment in high value added manufacturing, and promote tourism based primarily on the country's environmental diversity. Principally due to this diversification strategy, the composition of Costa Rica's exports has changed substantially during the last eight years, with industrial exports increasing significantly. For the year ended December 31, 2001 and for the nine-month period ended September 30, 2002, industrial exports (including exports from Free Trade Zone and In-bond industries) represented approximately 74.5% and 74.8%, respectively, of Costa Rica's total exports, while agricultural exports represented approximately 25.4% and 25.2%, respectively, of total exports. Free Trade Zone and In-Bond industries are commercial and industrial businesses that are located in designated "free trade" zones and that are entitled to certain tax, fiscal, tariff and other benefits. In-Bond industries are entitled to receive greater benefits than Free Trade Zone industries.

Based on preliminary data, the principal sectors of the Costa Rican economy in 2002 were industrial manufacturing; wholesale and retail commerce, restaurants and hotels; transportation, warehousing and telecommunications; community, social and personal services; and agriculture, forestry and fishing. Based on preliminary data, the fastest growing sectors of the Costa Rican economy in 2002 were transportation; financial intermediation and insurance; transportation, warehousing and telecommunications (which includes cellular phone services); and electricity and water.

During the late 1980s and early 1990s, Costa Rica suffered from a persistent Government fiscal deficit, which led the Central Bank to adopt restrictive monetary policies in order to maintain the internal and external stability of the economy. The issuance of domestic debt to finance the Government fiscal deficit generally led to increased domestic interest rates, hindering private investment.

Beginning in the second half of 1996, the Central Bank relaxed its monetary policy which contributed to a return to economic growth beginning in 1997, when GDP grew by 5.6%, which strengthened in 1998, when GDP grew by 8.4%. Real GDP grew by 8.2%, 1.8%, and 1.1% in 1999, 2000 and 2001, respectively, and by an estimated 2.8% in 2002.

Current Economic Trends

Costa Rica's budget for the 2003 fiscal year became effective on January 1, 2003. The *Ley de Presupuesto* (Budgetary Law) establishes maximum expenditure levels for the Government. In practice, the Government utilizes an average of approximately 92.0% of the authorized expenditure levels. The 2003 budget assumes total revenues of approximately US\$2,441.3 million and total expenditures of approximately US\$4,651.8 million, including debt service (principal and interest) in an amount of approximately US\$2,293.7 million. The 2003 budget also authorizes the issuance of up to approximately US\$2,190.1 million of domestic bonds to finance expenditures provided in the budget, including debt service. See "Public Sector Finances."

The budget assumes that Costa Rica's real GDP will grow by 2.2% in 2003 and that the deficit in the current account of the balance of payments will be approximately 4.7% of GDP, below the projected deficit for 2002. In addition, it is estimated that the fiscal deficit in 2003 will be approximately 3.1% of GDP, below the estimated deficit for 2002.

Costa Rica's real GDP is estimated to have increased by 2.8% in 2002, compared to a 1.1% increase in 2001. The growth in 2002 was principally due to an estimated 11.0% increase in the transportation, warehousing and telecommunications sector and a 5.3% increase in the financial intermediation and insurance sector. The relatively low increase in real GDP growth in 2001 was mainly due to a decrease of 8.4% in the industrial manufacturing sector, which, in turn, was principally the result of a decrease in electronic component manufacturing by Intel Corp. as a result of global market conditions. This decrease offset an 8.7% increase in the transportation, warehousing and telecommunications sector, a 4.1% increase in the electricity sector, an 11.4% increase in the construction sector, and an 18.4% increase in the other business services sector.

The Government fiscal deficit for 2002 is estimated to have been 4.3% of GDP, as compared to 2.9% of GDP for 2001. The consolidated public sector deficit is estimated to have increased to 5.5% of GDP for the year ended December 31, 2002, as compared to 3.1% of GDP for the year ended December 31, 2001, primarily as a result of an increased Central Bank deficit and non-financial public sector institutional deficits.

In 2002, the unemployment rate increased to 6.4%, compared to a 6.1% unemployment rate in 2001. The colón was devalued by approximately 10.7% in 2002, compared to a 7.4% devaluation in 2001.

Inflation for the eleven months ended November 30, 2002 was 8.9%. Inflation for the year ended December 31, 2001 was 11.0%, as compared to 10.2% for the year ended December 31, 2000. The Central Bank's inflation target for 2002 was 10.0%.

Based on preliminary data, net international reserves of the banking system at November 30, 2002 were US\$1,212.6 million, compared to US\$1,137.4 million at December 31, 2001. In 2002, estimated inflows of gross foreign direct investment increased to US\$641.7 million (3.8% of GDP) from US\$453.6 million (2.8% of GDP) in 2001, primarily as a result of an increased number of investments in industries producing non-traditional products. As of November 30, 2002, net international reserves of the banking system represented the equivalent of approximately 2.7 months of imports (c.i.f.), including imports from Free Trade Zone and In-bond industries, and 4.0 months of imports (c.i.f.), excluding imports from Free Trade Zone and In-bond industries.

In the nine-month period ended September 30, 2002, exports increased by 2.5%, as compared to the same period in 2001. The increase in total exports was primarily due to increased exports of Free Trade Zone goods, which increased by 9.1% in 2002, compared to the same period in 2001. Nonetheless, with the exception of coffee, sales of which increased by approximately 5.0%, the external sales of Costa Rica's traditional products decreased in 2002.

Imports (c.i.f.) increased by 9.8% during the nine-month period ended September 30, 2002, as compared to the same period in 2001, principally due to a 9.6% increase in raw materials imports, a 9.9% increase in consumer goods imports, a 24.5% increase in capital goods imports, and a 9.0% increase in construction materials imports.

As of September 30, 2002, the Republic's merchandise trade balance showed a deficit of US\$1,466.4 million and, as of December 31, 2001, this deficit was approximately US\$1,547.3 million.

Fiscal Policy and Public Debt

In December 2002, the Legislative Assembly enacted the *Ley de Contingencia Fiscal* (Fiscal Contingency Law), effective January 1, 2003, which is designed to reduce the fiscal deficit by approximately 1.5% of GDP (approximately 90,000.0 million colones or US\$240.9 million). The Law is intended to increase revenues by increasing the maximum corporate income tax rate from 30% to 35% and by increasing the rates of certain taxes on the tobacco and alcoholic beverage industries and the annual tax on automobile use. The law is also intended to reduce Government expenditures by adding measures including the imposition of a hiring freeze on certain governmental positions and restrictions on the level of compensation paid to certain governmental employees.

By presidential decree, and by a policy issued by the *Consejo de Gobierno* (Government Council), the Government has imposed restrictions on nominal growth of governmental expenditures. The expected impact of these restrictions, once implemented, is 2.0% of GDP.

At September 30, 2002, gross public sector external debt had increased by 3.6% to US\$3,360.4 million (76.4% of exports (f.o.b.)) from US\$3,242.5 million (or 66.9% of exports

(f.o.b.)) at December 31, 2001. This increase was largely due to the issuance of the 2002 Notes.

At October 31, 2002, gross public sector domestic debt was 2,306.1 billion colones (US\$6,174.4 million), an increase of approximately 14.8% from 2001. The domestic debt has increased over the last several years, primarily as a result of the issuance of domestic debt to finance the Government's fiscal deficit.

On February 1, 2002, the Government issued its 8.11% Notes due 2012 in the aggregate principal amount of US\$250.0 million (the "2002 Notes"), using the net proceeds thereof to replace domestic debt. The substitution of external debt for domestic debt resulted in a decreased Government need for funds in the domestic financial sector in 2002, and reduced the Government's debt service payments relative to the debt service payments that would have been required absent such substitution.

In late 2001, the Legislative Assembly authorized the Ministry of Finance to use financial management techniques with respect to the public debt.

Monetary Policy

The principal objectives of Costa Rica's monetary policy have traditionally been consistent with its targets of reducing inflation rates and increasing net international reserves. Costa Rica's monetary policy has been paired with the absence of controls on foreign exchange convertibility or remittances from Costa Rica as well as the Central Bank's targeted inflation-based crawling peg exchange rate policy.

In 2002, the Central Bank adopted a monetary policy consistent with its target of a 10.0% inflation rate. The Central Bank maintained an open market operations policy in order to control liquidity in the banking system. Based on information available as of September 30, 2002, domestic credit to the private sector grew at a rate of 24.9% during the first nine months of September 30, 2002, compared to 26.9% in 2001.

The principal mechanisms the Central Bank uses in implementing monetary policy are (i) open-market operations in *Bonos de Estabilización Monetaria* (Monetary Stabilization Bonds) ("BEMs"), which have been conducted through an auction mechanism since April 1996, (ii) short-term deposit facilities at the Central Bank, (iii) an interbank market which initiated operations in 1997, and (iv) the establishment of reserve requirements for commercial banks. The Central Bank has conducted auctions of debt securities denominated in dollars since October 1998.

In January 2001, in order to strengthen the financial condition of the Central Bank and contain inflation and domestic interest rates, the Government prepaid certain obligations payable to the Central Bank which the Government had assumed in 1998. This prepayment eliminated a deficit incurred by the Central Bank as a result of (i) the Central Bank's assumption of exchange rate losses incurred by state-owned banks, (ii) obligations resulting from the restructuring of commercial bank debt in 1990, (iii) the Central Bank's losses from its open-market operations, and (iv) the reimbursement of losses by CODESA (as defined herein) which were funded by the Central Bank. The total amount paid to the Central Bank was 294,000.0 million colones (US\$924.5 million).

The Central Bank has proposed amendments to the Organic Law of the Central Bank. The Government expects these amendments to enhance the Central Bank's autonomy by replacing the Minister of Finance on the board of directors of the Central Bank with an outside

director to be appointed under the same procedures established for appointing other board members for a period of ninety months. The Minister of Finance would be permitted to attend board meetings but would not be entitled to vote. The Executive Branch would appoint the Chairman of the Board, but the Legislative Assembly would have to ratify the appointment. In addition, the Central Bank's dividend distribution policy would be amended to provide the Central Bank with further economic autonomy and enhance its capacity to implement its policies by requiring that, apart from certain reserves, the net revenues of the Central Bank be distributed as follows:

- half to increase the legal reserves, to the extent such reserves are not at least twice the size of its capital; and
- half to asset amortization, accumulated deficit amortization and debt amortization.

Under the proposed amendments, the Government will assume any losses the Central Bank incurs in implementing these goals. There is no assurance that the proposed amendments will pass or, if passed, what their effect will be.

Selected Economic Indicators⁽¹⁾

	For the Year Ended and at December 31,				
	1998	1999	2000	2001 ⁽²⁾	2002 ⁽²⁾
	(in millions of U.S. dollars, except where noted)				
Economic Data:					
GDP					
Real GDP % change from prior year	8.4%	8.2%	1.8%	1.1%	2.8%
Nominal GDP	\$14,095.4	\$15,795.5	\$15,956.9	\$16,381.9	\$16,886.5
Consumer Price Index (% change)					
End of period	12.4%	10.1%	10.2%	11.0%	10.0%
Industrial production price index (% change)					
End of period	8.8%	11.3%	10.2%	8.6%	6.2%
Unemployment Rate	5.6% ⁽³⁾	6.0%	5.2%	6.1%	6.4%
Balance of Payments Data⁽⁴⁾:					
Merchandise trade					
Exports (f.o.b.) ⁽⁵⁾	\$5,525.6	\$6,662.4	\$5,849.7	\$5,021.4	\$3,919.7 ⁽¹¹⁾
Imports (c.i.f.)	(6,238.7)	(6,354.6)	(6,388.5)	(6,568.6)	(5,386.1) ⁽¹¹⁾
Merchandise trade balance (deficit)/surplus	(713.2)	307.8	(538.8)	(1,547.3)	(1,466.4) ⁽¹¹⁾
Service trade balance, net	233.6	407.8	614.8	729.5	708.5
Current account balance (deficit)/surplus	(519.4)	(675.3)	(750.7)	(736.6)	(931.0)
Capital account balance ⁽⁶⁾	552.3	961.7	384.9	645.8	959.0
Change in Central Bank's international reserves					
(increase)/decrease	149.6	(480.1)	153.7	13.5	28.0
Net international reserves of the banking system	1,044.0	1,467.3	1,281.9	1,137.4	1,212.6 ⁽¹²⁾
Net international reserves of the Central Bank	991.3	1,471.4	1,317.7	1,329.7	1,378.5 ⁽¹²⁾
Import coverage reserves (months of imports) ⁽⁷⁾	2.0	2.8	2.4	2.9	4.0
Public Finance:					
Fiscal accounts ⁽⁸⁾					
Current income	\$1,694.0	\$1,889.0	\$1,919.0	\$2,124.0	\$2,186.0
Expenditure	2,023.0	2,224.0	2,394.0	2,583.0	2,890.0
Fiscal (deficit)/surplus	(329.0)	(335.0)	(475.0)	(459.0)	(704.0)
% of GDP	(2.3)%	(2.1)%	(3.0)%	(2.9)%	(4.3)
Primary balance (deficit)/surplus ⁽⁹⁾	\$99.0	\$216.0	\$77.0	\$167.0	\$30.0
% of GDP	0.7%	1.4%	0.5%	1.1%	0.2%
Consolidated public sector (deficit)/surplus ⁽¹⁰⁾	\$(267.8)	\$(473.9)	\$(568.6)	\$(506.4)	\$(928.7)
% of GDP	(1.9)%	(3.0)%	(3.7)%	(3.1)%	(5.5)%
Public Debt					
External debt	\$2,872.4	\$3,056.5	\$3,150.6	\$3,242.5	\$3,360.4 ⁽¹¹⁾
% of GDP	20.4%	19.5%	19.7%	19.8%	19.9% ⁽¹¹⁾
External debt service	\$405.3	\$533.6	\$591.0	\$708.5	\$549.2
External debt service (as a % of exports and tourism earnings)	6.5%	6.8%	8.3%	11.6%	11.5%
Domestic debt	\$3,776.0	\$5,287.0 ⁽¹⁴⁾	\$5,358.7	\$5,812.3	\$6,174.4 ⁽¹³⁾
% of GDP	26.7%	33.5%	33.6%	35.5%	36.6% ⁽¹³⁾
Other Data:					
Tourism					
Total visitor arrivals (thousands of persons)	942.9	1,031.6	1,088.1	1,131.4	911.2 ⁽¹³⁾
Foreign exchange earnings	\$883.5	\$1,036.1	\$1,229.2	\$1,095.5	\$891.1 ⁽¹³⁾
Exchange rate					
(end of period, ₪/\$)	₪271.4	₪298.2	₪318.0	₪341.8	₪373.5
(average, ₪/\$)	257.2	285.7	308.2	328.9	358.1

(1) See "Change in Methodology of Measuring Real GDP and in Reference Period for Determining Constant Prices."

(2) Preliminary data.

(3) Not comparable to subsequent years because of a change in methodology instituted in 1999 by the National Institute of Statistics in compiling data.

(4) These figures were calculated in accordance with the methodology set forth in the IMF's Fifth Manual of Balance of Payments.

(5) Includes exports from Free Trade Zone and In-bond (as defined herein) industries. See "Balance of Payments and Foreign Trade — Balance of Payments" and "— Foreign Trade."

(6) Includes errors, omissions and unspecified capital.

(7) When calculated by dividing net international reserves of the Central Bank by average monthly imports (excluding Free Trade Zone and In-bond), import coverage reserves are 2.6, 4.0, 3.4, 4.3 and 4.0 months, respectively, for 1998, 1999, 2000, 2001 and 2002.

(8) Represents Government fiscal accounts from January to December.

(9) Fiscal balance plus interest on the public debt.

(10) Central Government and decentralized public sector institutions.

(11) As of September 30, 2002.

(12) As of November 30, 2002.

(13) As of October 31, 2002.

(14) Includes US\$848.5 million the Government owes to the Central Bank. See "Public Sector Debt — Domestic Debt."

Sources: Central Bank; Ministry of Finance.

The Offering

Issuer.....	The Republic of Costa Rica.
Issue Amount.....	US\$200,000,000 aggregate principal amount of the 2008 Notes and US\$250,000,000 aggregate principal amount of the 2013 Notes being offered (i) outside the United States in reliance on Regulation S and (ii) in the United States to qualified institutional buyers in reliance on Rule 144A.
Issue Price.....	100% of the principal amount of the 2008 Notes and 100% of the principal amount of the 2013 Notes.
Maturity Dates	January 31, 2008 with respect to the 2008 Notes. January 31, 2013 with respect to the 2013 Notes.
Interest	The 2008 Notes will bear interest from January 31, 2003 at a rate of 6.914% per annum, payable semi-annually in arrears on each January 31 and July 31 commencing on July 31, 2003. The 2013 Notes will bear interest from January 31, 2003 at a rate of 8.05% per annum, payable semi-annually in arrears on each January 31 and July 31 commencing on July 31, 2003. Interest will be paid in U.S. dollars and will be paid without any withholding or deduction for, or on account of, taxes imposed by the Republic to the extent set forth in "Description of the Notes — Additional Amounts."
Form and Settlement	Notes sold in offshore transactions in reliance on Regulation S will be represented by a Regulation S Global Note (which may be subdivided) in fully registered form without coupons, which will be deposited with a custodian for, and registered in the name of a nominee of, DTC for the accounts of Euroclear and Clearstream, Luxembourg. On or prior to the 40th day after the later of commencement of the offering and the Closing Date, beneficial interests in a Regulation S Global Note may be held only through Euroclear or Clearstream, Luxembourg. Notes sold in reliance on Rule 144A will be represented by a Restricted Global Note (which may be subdivided) in fully registered form without coupons, which will be deposited with a custodian for, and registered in the name of a nominee of, DTC. See "Description of the Notes — Status of the Notes — Form and Denomination." Beneficial interests in Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including Euroclear and Clearstream, Luxembourg. See "Clearance and Settlement." Except as described herein, definitive Notes will not be issued in exchange for beneficial interests in the Global Notes. See "Description of the Notes — Global Notes."

Status	The Notes will constitute general, direct, unconditional and unsecured Public External Indebtedness (as defined herein) of the Republic and will rank <i>pari passu</i> , without preference among themselves, with all unsecured and unsubordinated obligations of the Republic, present and future, relating to Foreign Currency Denominated Public Indebtedness (as defined herein) of the Republic. See “Description of the Notes — Status of the Notes.”
Certain Covenants	The terms of the Notes will contain certain covenants, including, without limitation, restrictions on the incurrence of certain Liens (as defined herein). See “Description of the Notes — Certain Covenants of the Republic.”
Events of Default	The terms of the Notes will contain Events of Default (as defined herein), the occurrence of which may result in the acceleration of the Republic's obligations under the Notes of the relevant series prior to maturity. See “Description of the Notes — Events of Default.”
Listing	Application has been made to list the Notes on the Luxembourg Stock Exchange. Application has been made to have the Notes designated for quotation on the PORTAL System. See “Subscription and Sale.”
Transfer Restrictions.....	A transfer of a beneficial interest in a Restricted Global Note to a person that takes delivery in the form of an interest in a Regulation S Global Note is subject to certain certification requirements as set forth in the Fiscal Agency Agreement (as defined herein). On or prior to the 40th day after the later of the commencement of the offering and the Closing Date, a transfer of a beneficial interest in a Regulation S Global Note to a person that takes delivery in the form of an interest in a Restricted Global Note is also subject to certain certification requirements as set forth in the Fiscal Agency Agreement. See “Transfer Restrictions.”
Selling Restrictions	The Notes have not been, and will not be, registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Notes may not be initially offered or sold in the Republic. The offer and sale of the Notes may also be restricted in other jurisdictions. See “Subscription and Sale” and “Transfer Restrictions.”
Taxation.....	For a discussion of the Costa Rican and United States tax consequences associated with the Notes, see “Taxation.” Investors should consult their own tax advisors in determining the foreign, U.S. federal, state, local and any other tax consequences to them of the purchase, ownership and disposition of the Notes.
Use of Proceeds	To replace Public Domestic Indebtedness with Public External Indebtedness (as defined herein) of the Government.

Governing Law The Notes will be governed by and interpreted in accordance with the laws of the State of New York, except with respect to their authorization and execution, which will be governed by the laws of Costa Rica.

Further Issues..... The Republic may, from time to time, without the consent of the holders of the Notes, create and issue further notes having the same terms and conditions as either series of Notes in all respects (or in all respects except for the first payment of interest thereon) so as to form a single issue with the related Notes.

DESCRIPTION OF THE NOTES

The Notes will be issued by the Republic pursuant to a Fiscal Agency Agreement (the "Fiscal Agency Agreement"), to be dated as of January 31, 2003, among the Republic, The Bank of New York, as fiscal agent, principal paying agent, registrar and transfer agent (the "Fiscal Agent," the "Paying Agent," the "Registrar," and the "Transfer Agent," and collectively, the "Agents," which terms shall include its respective successors and permitted assigns), The Bank of New York (Luxembourg), S.A., as paying and transfer agent and The Bank of New York, London Branch as paying agent. Capitalized terms used in this section but not defined herein shall have the meanings given to them in the Fiscal Agency Agreement.

The following summary of certain provisions of the Notes and the Fiscal Agency Agreement is subject to, and is qualified in its entirety by reference to, the terms and conditions of the Notes and the Fiscal Agency Agreement, including the definitions therein of certain terms. The holders of the Notes will be entitled to the benefits of, be bound by, and be deemed to have notice of, all the provisions of the Fiscal Agency Agreement. Copies of the Fiscal Agency Agreement are on file and may be inspected at the corporate trust office of the Fiscal Agent in the City of New York and at the offices of the paying agents specified on the back cover of this Offering Circular.

Principal and Interest

The 2008 Notes will be limited to the aggregate principal amount of US\$200,000,000 (except as otherwise provided under "Replacement, Exchange and Transfer" and "Further Issues" below). The 2008 Notes will mature, and will be repaid at par (unless previously repaid), on January 31, 2008. The 2008 Notes will bear interest from January 31, 2003 at a rate of 6.914% per annum, payable semi-annually in arrears on each January 31 and July 31 commencing on July 31, 2003.

The 2013 Notes will be limited to the aggregate principal amount of US\$250,000,000 (except as otherwise provided under "Replacement, Exchange and Transfer" and "Further Issues" below). The 2013 Notes will mature, and will be repaid at par (unless previously repaid), on January 31, 2013. The 2013 Notes will bear interest from January 31, 2003 at a rate of 8.05% per annum, payable semi-annually in arrears on each January 31 and July 31 commencing on July 31, 2003.

Interest on the Notes will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

Status of the Notes

The Notes will constitute general, direct, unconditional and unsecured Public External Indebtedness of the Republic and will rank *pari passu*, without any preference among themselves, with all unsecured and unsubordinated obligations of the Republic, present and future, relating to Foreign Currency Denominated Public Indebtedness of the Republic. The Republic has pledged its full faith and credit for the due and punctual payment of all amounts due in respect of the Notes.

Form and Denomination

The Notes are issuable in fully registered form, without coupons, in denominations of US\$1,000 or any integral multiple of US\$1,000 in excess thereof (an "Authorized Denomination").

Notes sold in offshore transactions in reliance on Regulation S will be represented by a Regulation S Global Note (which may be subdivided), in fully registered form without coupons, which will be deposited with the Fiscal Agent as custodian for DTC and registered in the name of Cede & Co. ("Cede") as nominee of DTC for the accounts of Euroclear and Clearstream, Luxembourg. On or prior to the 40th day after the later of the commencement of the offering and the Closing Date, beneficial interests in the Regulation S Global Notes may be held only through Euroclear or Clearstream, Luxembourg. Following the 40th day after the later of the commencement of the offering and the Closing Date (but not earlier), beneficial interests in the Regulation S Global Notes may be held through organizations other than Euroclear and Clearstream, Luxembourg that are DTC Participants.

Notes sold in reliance on Rule 144A will be represented by a Restricted Global Note (which may be subdivided), in fully registered form without coupons, which will be deposited with the Fiscal Agent as custodian for DTC and registered in the name of Cede as nominee of DTC. Each Restricted Global Note (and any definitive Notes issued in exchange therefor) will be subject to certain restrictions on transfer set forth therein and in the Fiscal Agency Agreement, and will bear the legend regarding such restrictions set forth below under "Transfer Restrictions."

On or prior to the 40th day after the later of the commencement of the offering and the Closing Date, a beneficial interest in a Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in the corresponding Restricted Global Note only upon receipt by the Fiscal Agent of a written certification from the transferor (in the applicable form provided in the Fiscal Agency Agreement) to the effect that such transfer is being made to a person whom the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A and in a transaction otherwise meeting the requirements of Rule 144A and any applicable securities laws of any state of the United States or any other jurisdiction. After such 40th day, such certification requirement will no longer apply to such transfers. In accordance with the provisions of Chapter VI, Article 3, Point A/II/2 of the Rules and Regulations of the Luxembourg Stock Exchange, the Notes are freely transferable (subject to certain conditions) and no transfer made on the Luxembourg Stock Exchange may be revoked.

Beneficial interests in a Restricted Global Note may be transferred to a person who takes delivery in the form of an interest in the corresponding Regulation S Global Note whether before, on, or after such 40th day, only upon receipt by the Fiscal Agent of a written certification from the transferor (in the applicable form provided in the Fiscal Agency Agreement) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 under the Securities Act (if available) and that, if such transfer occurs on or prior to such 40th day, the interest transferred will be held immediately thereafter through Euroclear or Clearstream, Luxembourg.

Any beneficial interest in one of the Global Notes that is transferred to a person who takes delivery in the form of an interest in the corresponding Global Note will, upon transfer, cease to be an interest in such Global Note and become an interest in the other related Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such corresponding Global Note for as long as it remains such an interest.

Global Notes

So long as DTC, or its nominee, is the registered owner or holder of a Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Fiscal Agency Agreement and the Notes (except with respect to the determination of Additional Amounts (as defined below) due and payable). Payments of the principal of, and interest and Additional Amounts, if any, on, the Global

Notes will be made to DTC or its nominee, as the registered owner thereof. Neither the Republic, the Fiscal Agent nor any paying agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Republic expects that DTC or its nominee, upon receipt of any payment of principal, interest or Additional Amounts, if any, in respect of a Global Note representing any Notes held by it or its nominee, will immediately credit DTC Participants' accounts with payments in amounts proportionate (except with respect to Additional Amounts) to their respective beneficial interests in the principal amount of such Global Note as shown on the records of DTC or its nominee. The Republic also expects that payments by DTC Participants, including Euroclear and Clearstream, Luxembourg, to owners of beneficial interests in such Global Note held through such DTC Participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC Participants.

Unless DTC notifies the Republic that it is unwilling or unable to continue as depository for a Global Note or ceases to be a "clearing agency" registered under the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"), or an Event of Default has occurred and is continuing, owners of beneficial interests in a Global Note will not be entitled to have any portion of such Global Note registered in their names, will not receive or be entitled to receive physical delivery of Notes in certificated form and will not be considered to be the owners or holders of any Notes under the Fiscal Agency Agreement or the Notes. In addition, no beneficial owner of an interest in a Global Note will be able to transfer that interest except in accordance with DTC's applicable procedures (in addition to those under the Fiscal Agency Agreement referred to herein and, if applicable, those of Euroclear and Clearstream, Luxembourg).

Certificated Notes

If DTC is at any time unwilling or unable to continue as a depository or ceases to be a "clearing agency" as described in the preceding paragraph, and a successor depository is not appointed by the Republic within 90 days thereafter, or an Event of Default has occurred and is continuing, the Republic will issue certificates for the Notes in definitive registered form in exchange for interests in the Regulation S Global Notes and Restricted Global Notes, as the case may be. The Notes are not issuable in bearer form. In the case of certificates for Notes issued in exchange for the Restricted Global Notes, such certificates will bear, and be subject to, the legend referred to below under "Transfer Restrictions." The holder of a definitive registered Note may transfer such Note as described under "— Replacement, Exchange and Transfer." Upon the transfer, exchange or replacement of definitive Notes bearing the legend referred to below under "Transfer Restrictions," or upon specific request for removal of the legend on a definitive Note, the Republic will deliver only definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Republic and the Fiscal Agent such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Republic that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act. The cost of preparing, printing, packaging and delivering the Notes shall be borne by the Republic.

Neither the Registrar nor any other transfer agent shall register the exchange of interests in a Global Note for definitive Notes for a period of 15 days preceding the due date for any payment of principal of or interest on the Notes.

Replacement, Exchange and Transfer

If any Note shall become mutilated or defaced or be destroyed, lost or stolen, the Fiscal Agent shall authenticate and deliver a new Note on such terms as the Republic and the Fiscal Agent may require, in exchange and substitution for the mutilated or defaced Note or, in lieu of and in substitution for the destroyed, lost or stolen Note. In every case of mutilation, defacement, destruction, loss or theft, the applicant for a substitute Note shall furnish the Republic and the Fiscal Agent such indemnity as the Republic and the Fiscal Agent may require and evidence to their satisfaction of the destruction, loss or theft of such Note and of the ownership thereof. In every case of mutilation or defacement of a Note, the holder shall surrender to the Fiscal Agent or the Paying Agent located in Luxembourg, the Note so mutilated or defaced. In addition, prior to the issuance of any substitute Note, the Republic may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Fiscal Agent) connected therewith. If any Note which has matured or is about to mature shall become mutilated or defaced or be apparently destroyed, lost or stolen, the Republic may pay or authorize payment of the same without issuing a substitute Note.

Upon the terms and subject to the conditions set forth in the Fiscal Agency Agreement and subject to the last paragraph of “— Replacement, Exchange and Transfer,” a Note or Notes may be exchanged for a Note or Notes of equal aggregate principal amount in the same or different authorized denominations as may be requested by the holder by surrender of such Note or Notes at the office of the Registrar, or at the office of any transfer agent, together with a written request for the exchange.

Upon the terms and subject to the conditions set forth in the Fiscal Agency Agreement and subject to the last paragraph of “— Replacement, Exchange and Transfer” and to the restrictions on transfer described below under “Transfer Restrictions,” a Note may be transferred in whole or in part in an authorized denomination by the holder or holders surrendering the Note for registration of transfer at the office of the Registrar or at the office of any transfer agent, duly endorsed by, or accompanied by a written instrument of transfer, a copy of which may be obtained at the office of any transfer agent, in lieu of endorsement in form satisfactory to the Republic and the Registrar or any such transfer agent, as the case may be, duly executed by the holder or holders thereof or its or their attorney-in-fact or attorneys-in-fact duly authorized in writing.

The costs and expenses of effecting any exchange or registration of transfer pursuant to the foregoing provisions, except for the expenses of delivery by other than regular mail (if any) and except, if the Republic shall so require, the payment of a sum sufficient to cover any tax or other governmental charge or insurance charges that may be imposed in relation thereto, will be borne by the Republic.

Notwithstanding the foregoing, the Registrar or the Fiscal Agent, as the case may be, shall not register the transfer or exchange of Notes for a period of 15 days preceding the due date for any payment of principal of or interest on the Notes.

Certain Covenants of the Republic

So long as any Note remains outstanding, the Republic has agreed as follows:

1. The Republic will not create or permit to subsist any Lien upon the whole or any part of its present or future revenues, properties or assets to secure the Public Indebtedness of any Person unless, at the same time or prior thereto, the Republic's obligations under the Notes either

(x) are secured equally and ratably therewith, or (y) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by the holders of the Notes. Notwithstanding the foregoing, the Republic may create or permit to subsist the following (each a "Permitted Lien"):

(i) any Lien upon property to secure Public Indebtedness incurred for the purpose of financing the acquisition of property over which such Lien has been created and any renewal or extension of any such Lien which is limited to the original property covered thereby and which secures only the renewal or extension of the original secured financing;

(ii) any Lien existing in respect of an asset at the time of its acquisition and any renewal or extension of any such Lien which is limited to the original asset covered thereby and which secures only the renewal or extension of the original secured financing;

(iii) any Lien in existence on the date of the Fiscal Agency Agreement, including any renewal or extension thereof which secures only the renewal or extension of the original secured financing;

(iv) any Lien securing Public Indebtedness incurred for the purpose of financing all or part of the costs of the acquisition, construction or development of a project and any renewal or extension of any such Lien; *provided* that (a) the holders of such Public Indebtedness agree to limit their recourse to the assets and revenues of such project as the principal source of repayment of such Public Indebtedness and (b) the property over which such Lien is granted consists solely of such assets and revenues or claims that arise from the operation, failure to meet specifications, failure to complete, exploitation, sale or loss of, or damage to, such assets;

(v) any Lien created pursuant to the Costa Rica Brady Plan or the Paris Club Agreements, both as defined herein;

(vi) any Lien securing Public Indebtedness arising in the ordinary course of business to finance export, import or other trade transactions, with a maturity of not more than one year; and

(vii) Liens in addition to those permitted by clauses (i) through (vi) above, and any renewal or extension thereof; *provided* that at any time the aggregate amount of Public Indebtedness secured by such additional Liens shall not exceed the equivalent of US\$25,000,000.

2. The Republic will (i) obtain and maintain in full force and effect all approvals, authorizations, permits, consents, exemptions and licenses and will take all other actions (including any notice to, or filing or registration with, any agency, department, ministry, authority, statutory corporation or other body or juridical entity of the Republic or regulatory or administrative body of the Republic) which are necessary for the continued validity and enforceability of the Notes and (ii) take all necessary and appropriate governmental and administrative action in order for the Republic to be able to make all payments to be made by it under the Notes.

3. The Republic will maintain its membership in, and eligibility to use the general resources of, the International Monetary Fund (the "IMF").

4. The Republic will use its reasonable best efforts to list the Notes, and thereafter to maintain the listing of the Notes, on the Luxembourg Stock Exchange.

Events of Default

If any of the following events (each an “Event of Default”) shall have occurred and be continuing with respect to either series of Notes:

1. Default in any payment of principal on any of the Notes of such series and the continuance of such default for a period of 30 calendar days; or
2. Default in any payment of interest on any of the Notes of such series and the continuance of such default for a period of 30 calendar days; or
3. Default in the performance of any other obligation under the Notes of such series and the continuance of such default for a period of 60 calendar days after written notice requiring the same to be remedied shall have been given to the Republic (with a copy to the Fiscal Agent) by the holder of any Note of such series; or
4. Failure to make any payment in respect of Foreign Currency Denominated Public Indebtedness in an aggregate principal amount in excess of US\$25,000,000 (or its equivalent in any other currency) when payable (whether upon maturity, acceleration or otherwise, as such time may be extended by any applicable grace period or waiver) and the continuance of such failure for a period of 15 calendar days after written notice requiring the same to be remedied shall have been given to the Republic (with a copy to the Fiscal Agent) by the holder of any Note of such series; or
5. Declaration by the Republic of a moratorium with respect to the payment of principal of or interest on Foreign Currency Denominated Public Indebtedness, which moratorium does not expressly exclude the Notes; or
6. The validity of the Notes of such series shall be contested by the Republic in a formal administrative, legislative or judicial proceeding, or any legislative, executive or judicial body or official of the Republic which is authorized in each case by law to do so shall declare the Notes of such series invalid or unenforceable, or the Republic shall deny any of its obligations thereunder, or any constitutional provision, treaty, convention, law, regulation, official communiqué, decree, ordinance or policy of the Republic, or any final decision by any court in the Republic having jurisdiction, shall purport to render any material provision of the Notes of such series invalid or unenforceable or shall purport to prevent or delay the performance or observance by the Republic of any of its material obligations thereunder; or
7. Any constitutional provision, treaty, convention, law, regulation, ordinance, decree, consent, approval, license or other authority necessary to enable the Republic to make or perform its material obligations under the Notes of such series, or the validity or enforceability thereof, shall expire, be withheld, revoked, terminated or otherwise cease to remain in full force and effect, or shall be modified in a manner which adversely affects any rights or claims of any of the holders of the Notes of such series;

then in any such event each holder of Notes of such series, so long as such Event of Default is continuing, may by written demand given to the Republic (with a copy to the Fiscal Agent) declare the principal of and any accrued interest on the Notes held by it to be, and such principal and any interest shall thereupon become, immediately due and payable, unless prior to receipt of such demand by the Republic all such defaults shall have been cured; *provided, however*, that in the case of any event described in clause (3) or (4) above, any notice declaring the Notes of such series due and payable shall (unless at the time such notice is received any Event of Default

described in clause (1), (2) or (5) entitling holders to declare their Notes due has occurred and is continuing) become effective only when the Republic (with a copy to the Fiscal Agent) has received such notices from the holders of at least 25% in principal amount of all Notes of such series then Outstanding (as defined in the Fiscal Agency Agreement). Notes held by or on behalf of the Republic shall not be considered "Outstanding" for purposes of the preceding sentence and "Modifications, Amendments and Waivers" below. If any Event of Default above shall give rise to a declaration which shall be effective and such Event of Default shall cease to continue following such declaration, then such declaration may, in the case of any Event of Default described in clause (1), (2), (5), (6) or (7) above, be rescinded and annulled by each holder of the Notes of such series that has made such declaration, and, in the case of any Event of Default described in clause (3) or (4) (unless at the time any Event of Default described in clause (1), (2), (5), (6) or (7) has occurred and is continuing), be rescinded and annulled by the affirmative vote of the holders of the Notes of such series in accordance with the procedures set forth in "Modifications, Amendments and Waivers."

Definitions

As used herein under "Use of Proceeds," "Certain Covenants of the Republic," "Status of the Notes" and "Events of Default":

"Domestic" with reference to any Indebtedness means any Indebtedness issued and placed within the territory of the Republic, notwithstanding the currency; *provided* that no more than 20% of the outstanding Domestic Indebtedness of the Government may be denominated in any currency other than the colón;

"External" with reference to any Indebtedness means any Indebtedness issued and placed outside of the territory of the Republic;

"Foreign Currency Denominated" with reference to any Public Indebtedness means any Public Indebtedness denominated in any currency other than the colón;

"Indebtedness" means a person's actual or contingent payment obligations for borrowed money together with such person's actual or contingent liabilities under guarantee or similar arrangements to secure the payment of any other party's obligations for borrowed money;

"Lien" means any lien, pledge, mortgage, security interest, deed of trust, charge or other encumbrance whether in effect on the date of the Fiscal Agency Agreement or at any time thereafter, including, without limitation, any equivalent claim or interest created or arising under the laws of Costa Rica;

"Public Domestic Indebtedness" means Public Indebtedness that is Domestic;

"Public External Indebtedness" means Public Indebtedness that is External;

"Public Indebtedness" means, with respect to any person, any Indebtedness of, or guaranteed by, such person which (i) is publicly offered or privately placed in securities markets, (ii) is in the form of, or represented by, bonds, notes or other securities or any guarantees thereof, (iii) is, or was expressly intended at the time of issue to be, quoted, listed or traded on any stock exchange, automated trading system or over-the-counter or other securities market (including, without prejudice to the generality of the foregoing, securities that are issued against cash consideration and that are eligible for sale pursuant to Rule 144A or Regulation S (or any

successor law or regulation of similar effect)), or (iv) is represented by loan agreements with international financial institutions; and

“person” and “party” include the Republic.

Modifications, Amendments and Waivers

A meeting of holders of the 2008 Notes or the 2013 Notes may be called at any time and from time to time to make, give or take any request, demand, authorization, direction, notice, consent, waiver or other action provided by the Fiscal Agency Agreement or such Notes to be made, given or taken by holders of the relevant series of Notes or to modify, amend or supplement the terms of the relevant series of Notes or the Fiscal Agency Agreement as hereinafter provided. The Republic may at any time call a meeting of holders of the 2008 Notes or the 2013 Notes for any such purpose to be held at such time and at such place as the Republic shall determine. Notice of every such meeting, setting forth the time and the place of such meeting and in reasonable detail the action proposed to be taken at such meeting, shall be given as provided in the terms of the Notes, not less than 30 nor more than 60 calendar days prior to the date fixed for the meeting. In case at any time the Republic or the holders of at least 10% in aggregate principal amount of the Outstanding Notes of the relevant series, shall, after the occurrence and during the continuance of any Event of Default or any event that with notice or lapse of time or both could constitute an Event of Default under the Notes of such series, have requested the Fiscal Agent to call a meeting of the holders of such Notes for any such purpose, by written request setting forth the time and place of, and in reasonable detail the action proposed to be taken at, the meeting, the Fiscal Agent shall call such meeting for such purposes by giving notice thereof as provided in the terms of such Notes.

To be entitled to vote at any meeting of holders of either series of Notes, a person must be a holder of Outstanding Notes of such series or a person duly appointed by an instrument in writing as proxy for such holder. The persons entitled to vote a majority in principal amount of such Outstanding Notes shall constitute a quorum. In the absence of a quorum within 30 minutes of the time appointed for any such meeting, the meeting shall, if convened at the request of the holders, be dissolved. In any other case, the meeting may be adjourned for a period of not less than 10 calendar days as determined by the chairman of the meeting prior to the adjournment of such meeting. In the absence of a quorum at any such adjourned meeting, such adjourned meeting may be further adjourned for a period of not less than 10 calendar days as determined by the chairman of the meeting prior to the adjournment of such adjourned meeting. Notice of the reconvening of any adjourned meeting shall be given in the same manner as provided in the preceding paragraph. Notice of the reconvening of an adjourned meeting shall state expressly that, at the reconvening of any meeting adjourned for a lack of a quorum, the persons entitled to vote 25% in principal amount of the Outstanding Notes of the relevant series shall constitute a quorum for the taking of any action set forth in the notice of the original meeting. Any meeting of holders of Notes at which a quorum is present may be adjourned from time to time by a vote of a majority in principal amount of the Outstanding Notes of the relevant series represented at the meeting, and the meeting may be held as so adjourned without further notice. At a meeting or an adjourned meeting duly reconvened and at which a quorum is present as aforesaid, any resolution and all matters shall be effectively passed or decided by the persons entitled to vote not less than 66 2/3% in principal amount of the Outstanding Notes of the relevant series represented and voting.

With respect to either series of Notes, with (i) the affirmative vote, in person or by proxy thereunto duly authorized in writing, of the holders of not less than 66 2/3% in aggregate principal amount of such Notes then Outstanding represented at a meeting duly called and held as specified

above, or (ii) the written consent of the owners of 66 2/3% in aggregate principal amount of such Outstanding Notes, the Republic and the Fiscal Agent may modify, amend or supplement the terms of such Notes or, insofar as affects such Notes, the Fiscal Agency Agreement, in any way, and such holders may make, take or give any request, demand, authorization, direction, notice, consent, waiver or other action provided by the Fiscal Agency Agreement or such Notes to be made, given or taken by holders of such Notes; *provided, however*, that no such action may, without the consent or affirmative vote of the holder of each Note of that series affected thereby: (A) change the due date for the payment of the principal of, or any installment of interest on, any Note, (B) reduce the principal amount of any Note, or the portion of such principal amount which is payable upon acceleration of the maturity of such Note, or the interest rate thereon, (C) change the currency in which any payment in respect of any Note is payable, (D) permit the Republic to redeem the Notes, (E) reduce the proportion of the principal amount of the Notes the vote or consent of the holders of which is necessary to modify, amend or supplement the Fiscal Agency Agreement or the terms and conditions of the Notes or to make, take or give any request, demand, authorization, direction, notice, consent, waiver or other action provided thereby to be made, taken or given, or (F) change the obligation of the Republic to pay Additional Amounts. Any such modification, amendment or supplement shall be binding on the holders of Notes.

The Republic and the Fiscal Agent may, upon agreement between themselves, without the vote or consent of any holder of Notes, modify, amend or supplement the Fiscal Agency Agreement or the Notes for the purpose of (i) adding to the covenants of the Republic for the benefit of the holders of Notes, (ii) surrendering any rights or power conferred upon the Republic, (iii) securing the Notes pursuant to the requirements of the Notes or otherwise, (iv) correcting any defective provision contained in the Fiscal Agency Agreement or in the Notes or (v) amending the Fiscal Agency Agreement or the Notes in any manner which shall not adversely affect the interest of any holder of Notes in any material respect.

Payments and Agents

The principal of the Notes and interest due thereon at maturity will be payable in immediately available funds against surrender of such Notes at the office of the Paying Agent in The City of New York or, subject to applicable laws and regulations, at the office of any other paying agent by United States dollar check drawn on, or by transfer to a United States dollar account maintained by the holder with, a bank located in The City of New York. Payments of interest on the Global Notes to be made other than at maturity will be made to DTC or its nominee as the registered owner thereof in immediately available funds. Upon receipt of any payment of principal of or interest on the Notes, DTC will credit its participants' accounts with payment in amounts proportionate to their respective beneficial interests in the principal amount of the Global Notes as shown on its records. Payments by such participants to owners of beneficial interests in such Global Notes held through such participants will be the responsibility of such participants, as is now the case with securities held for the accounts of customers registered in "street name." Distributions with respect to Notes held through Euroclear or Clearstream, Luxembourg will be credited to the cash accounts of Euroclear participants or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures. Neither the Republic nor the Fiscal Agent will have any responsibility or liability for any aspect of the records of DTC relating to payments made by DTC on account of beneficial interests in the Global Notes or for maintaining, supervising or reviewing any records of DTC relating to such beneficial interests.

If any date for payment in respect of any Note is not a business day, the holder thereof shall not be entitled to payment until the next following business day. As used in this Offering Circular under the headings "Description of the Notes" and "Clearance and Settlement," "business day" means a day on which banking institutions in The City of New York and at the applicable place of

payment are not authorized or obligated by law or executive order to be closed. No further interest shall be paid in respect of any such delay in payment.

If any Notes are issued in certificated form, payments of interest thereon to be made other than at maturity will be made to the person in whose name such Note is registered at the close of business on the Regular Record Date (as defined below) immediately preceding the related Interest Payment Date (as defined on the face of the Notes), by a United States dollar check drawn on a bank in The City of New York mailed to the holder at such holder's registered address or upon application of any holder of at least US\$1,000,000 principal amount of Notes to the Paying Agent in The City of New York not later than the relevant Regular Record Date, by transfer of immediately available funds to a United States dollar account maintained by such holder with a bank in The City of New York. "Regular Record Date" means, with respect to any Interest Payment Date, the fifteenth day prior to such Interest Payment Date (whether or not a business day).

All moneys paid by or on behalf of the Republic to the Paying Agent or any other paying agent for the payments of the principal of or interest on any Note which remain unclaimed at the end of two years after such principal or interest shall have become due and payable will be repaid to the Republic (including all interest accrued, if any, with respect to any such amounts), and the holder of such Note will thereafter look only to the Republic for payment. Upon such repayment all liability of the Paying Agent and any other paying agent with respect thereto shall cease, without, however, limiting in any way the obligation of the Republic in respect of the amount so repaid, subject to the provisions set forth in "Prescription" below.

The Republic has agreed that so long as any Note remains outstanding, it will maintain a paying agent in a western European city for payments on Notes (which will be Luxembourg, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require), a registrar having a specified office in The City of New York, a paying agent having a specified office in The City of New York and a transfer agent in Luxembourg (so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require). The Republic has initially appointed The Bank of New York as fiscal agent, registrar, principal paying agent and transfer agent for the Notes, The Bank of New York (Luxembourg), S.A., as paying and transfer agent, The Bank of New York, London Branch, as paying agent and The Bank of New York (Luxembourg), S.A., as listing agent. Subject to the foregoing, the Republic shall have the right at any time to terminate any such appointment and to appoint any other agents in such other places as it may deem appropriate upon notice in accordance with "Notices" below and in accordance with the terms and conditions set forth in the Fiscal Agency Agreement.

Payments in respect of the Notes shall be made in such currency of the United States as at the time of payment shall be legal tender for the payment of public and private debts.

In acting under the Fiscal Agency Agreement and in connection with the Notes, each of the Agents and each other paying agent and transfer agent is acting solely as agent of the Republic and does not assume any obligation toward or relationship of agency or trust for or with the owner or holder of any Note, except that any funds held by any such agent for payment of principal of or interest on the Notes shall be held in trust by it and applied as set forth in the Notes and Fiscal Agency Agreement. For a description of the duties and the immunities and rights of each of the Agents under the Fiscal Agency Agreement, reference is made to the Fiscal Agency Agreement, and the obligations of each of the Agents to the owners or holders of Notes are subject to such immunities and rights.

Redemption, Purchase and Cancellation

The Notes will not be redeemable prior to maturity at the option of the Republic or (except on acceleration following an Event of Default) the holders thereof. The Republic may at any time purchase Notes at any price in the open market or otherwise. The Notes so purchased by the Republic may, at the Republic's discretion, be held, resold or surrendered to the Fiscal Agent for cancellation.

Additional Amounts

All payments by the Republic in respect of the Notes shall be made without withholding or deduction for or on account of any present or future taxes, duties, assessments, or other governmental charges of whatever nature imposed or levied by the Republic or any political subdivision or authority thereof or therein having power to tax ("Taxes"), unless such taxing jurisdiction is compelled by law to deduct or withhold such taxes, duties, assessments, or governmental charges. In such event, the Republic shall make such withholding, make payment of the amount so withheld to the appropriate governmental authority and forthwith pay such additional amounts ("Additional Amounts") as may be necessary to ensure that the net amounts receivable by the holders of the Notes after such withholding or deduction shall equal the payment which would have been receivable in respect of the Notes in the absence of such withholding or deduction. No such Additional Amounts shall be payable:

1. In respect of any Note held by or on behalf of a holder who is liable for such Taxes by reason of such holder having some connection with the Republic otherwise than merely by the holding of such Note or by the receipt of principal or interest in respect thereof;

2. In respect of any Note held by or on behalf of a holder who is liable for such Taxes by reason of such holder's failure to comply with any reasonable certification, identification or other reporting requirement concerning the nationality, residence, identity or connection with the Republic, or any political subdivision or taxing authority thereof or therein, of such holder or the holder of any interest in such Note or rights in respect thereof, if compliance is required by the Republic, or any political subdivision or taxing authority thereof or therein, as a precondition to exemption from such deduction or withholding; *provided, however*, that the limitations on the Republic's obligations to pay Additional Amounts set forth in this clause (2) shall not apply if such certification, identification, or other reporting requirement would be materially more onerous, in form, in procedure, or in substance of information disclosed by the relevant holders or beneficial owners than comparable information or other reporting requirements imposed under U.S. tax law, regulation and administrative practice; or

3. In respect of any Note held by or on behalf of a holder who is liable for such Taxes by reason of the failure of such holder to present such holder's Note for payment (where such presentation is required) within 30 calendar days after the date on which such payment thereof became due and payable or is duly provided for and notice thereof is given to the holder, whichever occurs later.

Whenever there is mentioned, in any context, the payment of the principal of or interest on, or any amounts in respect of, a Note, such mention shall be deemed to include mention of the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof, and express mention of the payment of Additional Amounts (if applicable) shall not be construed as excluding Additional Amounts where such express mention is not made.

Currency

If for the purpose of obtaining judgment in any court it is necessary to convert a sum due hereunder to the holder of a Note in one currency into another currency, the Republic and each holder will be deemed to have agreed that the rate of exchange used shall be that at which, in accordance with normal banking procedures, such holder could purchase the first currency with such other currency in the city which is the principal financial center of the country of issue of the first currency on the date two business days preceding the day on which final judgment is given.

The obligation of the Republic in respect of any sum payable by it to the holder of a Note shall, notwithstanding any judgment in a currency (the "Judgment Currency") other than that in which such sum is denominated in accordance with the applicable provisions of the relevant series of Notes (the "Note Currency"), be discharged only to the extent that on the business day following receipt by such holder of the Note of any sum adjudged to be so due in the Judgment Currency, such holder of the Note may, in accordance with normal banking procedures, purchase the Note Currency with the Judgment Currency. If the amount of the Note Currency so purchased is less than the sum originally due to the holder of the Note in the Note Currency (determined in the manner set forth in the preceding paragraph), the Republic will agree, as a separate obligation and notwithstanding any such judgment, to indemnify the holder of the Note against such loss, and if the amount of the Note Currency so purchased exceeds the sum originally due to the holder of the Note such holder will agree to remit to the Republic such excess; *provided* that such holder shall have no obligation to remit any such excess as long as the Republic shall have failed to pay such holder any obligations due and payable under the Note, in which case such excess may be applied to such obligations of the Republic thereunder in accordance with the terms thereof.

Claims Proscribed

All claims against the Republic for payment of principal of or interest (including Additional Amounts) on or in respect of the Notes shall be proscribed unless made within five years from the date on which the relevant payment first became due.

Notices

Notices will be mailed to holders of Notes at their registered addresses and shall be deemed to have been given on the date of such mailing. DTC, Euroclear and Clearstream, Luxembourg will communicate such notices to their participants in accordance with their standard practices. In addition, all notices to holders of the Notes will be published, if and so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, in a daily newspaper of general circulation in Luxembourg. It is expected that such publication will be made in the *Luxemburger Wort*. If publication in accordance with the preceding sentence is not practicable, notice will be validly given if made in accordance with the requirements of the rules of the Luxembourg Stock Exchange.

Further Issues

The Republic may from time to time without the consent of the holders of the Notes create and issue further notes having the same terms and conditions as either series of Notes in all respects (or in all respects except for the first payment of interest thereon) so as to form a single issue with the related Notes.

Governing Law and Jurisdiction

The Notes and the Fiscal Agency Agreement shall be governed by, and interpreted in accordance with, the laws of the State of New York; *provided, however*, that the due authorization and execution of the Fiscal Agency Agreement and the Notes by the Republic shall be governed by the laws of the Republic.

To the fullest extent permitted by applicable law, the Republic will irrevocably submit to the non-exclusive jurisdiction of any New York State or federal court sitting in The City of New York, and any appellate court from any thereof, in any Related Proceeding and the Republic will irrevocably agree that all claims in respect of any Related Proceeding may be heard and determined in such New York State or federal court. The Republic will irrevocably waive, to the fullest extent it may effectively do so, the defense of an inconvenient forum to the maintenance of any Related Proceeding and any objection to any Related Proceeding whether on the grounds of venue, residence or domicile. The Republic will agree that a final judgment in any Related Proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. The Republic agrees to cause an appearance to be filed on its behalf and to defend itself in connection with any legal action instituted against it. However, a default judgment obtained in the United States against the Republic, resulting from the Republic's failure to appear and defend itself in any suit filed against the Republic, or from the Republic's deemed absence at the proceedings, may not be enforceable in the Republic.

The Republic will appoint the person for the time being acting as, or discharging the function of, Consul General of the Republic in The City of New York (currently with an office at 80 Wall Street, Suite 718, New York, New York 10005), and agrees that for so long as any Note remains Outstanding the person from time to time so acting, or discharging such functions, shall be deemed to have been appointed as Costa Rica's agent (the "Process Agent") to receive on behalf of the Republic and its property service of copies of the summons and complaint and any other process which may be served in any Related Proceeding in such New York State or federal court sitting in The City of New York. The Republic will agree that such service may be made by U.S. registered mail or by delivering by hand a copy of such process to the Republic in care of the Process Agent at the address specified above for the Process Agent and the Republic will agree that such service will be effective ten days after the mailing or delivery by hand of such process to the office of the Process Agent, and the Republic will authorize and direct the Process Agent to accept on its behalf such service. The Republic will agree that failure of the Process Agent to give notice to the Republic, or failure of the Republic to receive notice, of such service of process shall not affect in any way the validity of such service on the Process Agent or the Republic. The Republic will also irrevocably consent to the service of any and all process in any Related Proceeding in a New York State or federal court sitting in The City of New York by sending by U.S. registered mail, copies of such process addressed to the Republic at the Ministry of Finance, and the Republic will agree that such service will be effective ten days after mailing thereof. The Republic will covenant and agree that it shall take any and all reasonable action that may be necessary to continue the designation of the Process Agent in full force and effect, and to cause the Process Agent to continue to act as such. In addition, the Republic will agree that none of its agreements described in this or the preceding paragraph shall affect the right of any party to serve legal process in any other manner permitted by law or affect the right of any party to bring any suit, action or proceeding against any other party or its property in the courts of other jurisdictions.

To the extent that the Republic has or hereafter may acquire any immunity (sovereign or otherwise) from jurisdiction of any New York State or federal court sitting in the Borough of Manhattan with respect to a Related Proceeding (whether through service or notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise), the Republic has, to the

fullest extent permitted under applicable law, including the Foreign Sovereign Immunities Act, irrevocably waived such immunity in respect of any such Related Proceeding; *provided, however*, that under the Foreign Sovereign Immunities Act, it may not be possible to enforce in the Republic a judgment based on such a United States judgment, and that under the laws of the Republic, the property and revenues of the Republic are exempt from attachment or other form of execution, whether before or after judgment. The Republic's consent to service and waiver of sovereign immunity does not extend to actions brought under the United States federal securities laws or any state securities laws.

USE OF PROCEEDS

The gross proceeds from the sale of the Notes will amount to approximately US\$450,000,000 and will be used to replace Public Domestic Indebtedness with Public External Indebtedness of the Government.

REPUBLIC OF COSTA RICA

Costa Rica, which is located in Central America, has a stable constitutional democracy whose standard of living ranks among the highest in Latin America. Costa Rica has had uninterrupted democratically elected governments since 1949. Costa Rica had a GDP of US\$16,381.9 million and a GDP per capita of approximately US\$4,065.0 in 2001. Costa Rica's estimated 2002 GDP was US\$16,886.5 million with a per capita income of US\$4,102.3. Over the past two decades, the Government has invested significant resources in health care and education. According to the United Nations Development Program's 2002 Human Development Report, the Republic is ranked fourth in Latin America on the Human Development Index, a measure of quality of life based on longevity, educational attainment, and standard of living.

Costa Rica hosts a large diversity of animal and plant species, and approximately one quarter of its territory consists of public or private reserves dedicated to environmental conservation and preservation of this biological diversity. This diversity, in conjunction with the Government's investment in environmental conservation, has led to the development of a significant tourism industry and to innovative environmental policies in Costa Rica.

Territory and Population

The Costa Rican territory consists of approximately 19,691 square miles, largely covered by high, rugged mountains and hills, drained by numerous streams and rivers. A volcanic mountain system composed of three ranges extends the length of the country, with elevations in the Southern Talamanca range reaching approximately 13,000 feet above sea level. A relatively wide coastal plain is found in the east and northeast and a narrower plain is found along the Pacific coast. The climate varies according to topography, from semi-tropical in the mountains to tropical on the coastal plains. According to a study conducted by the National Meteorological Institute using satellite digital imagery, approximately 38.0% of Costa Rica's land was used for agricultural and livestock production in 1997, the latest year for which data is available. Costa Rica has coastlines which border both the Caribbean Sea and the Pacific Ocean. At the country's narrowest point, the coastlines are 74 miles apart. The northern border with Nicaragua is 186 miles long and the southeastern border with Panama is 225 miles long.

The results of Costa Rica's national census taken in 2000 estimates the population of Costa Rica to be approximately 3.8 million people. Population growth increased to an annual rate of 2.8% between 1984 and 2000, compared to average growth rates of 2.3% between 1973 and 1984. The majority of the country's population lives in an area commonly referred to as the "Central Valley" where, in addition to the capital city, San José, the principal cities of the provinces of Alajuela, Heredia and Cartago are located. According to the 2000 census, approximately 74.8% of the population of Costa Rica lives in the Central Valley. The province of San José, which includes the capital, accounted for approximately 35.3% of the total population. Based on Costa Rica's 2001 *Encuesta de Hogares* (Annual Household Survey) ("Annual Household Survey"), approximately 30.6% of the population was under the age of 15, approximately 41.5% was between the ages of 15 and 40, approximately 23.7% was between the ages of 40 and 70, and approximately 4.2% was over the age of 70.

Social Indicators

Historically, Costa Rica has invested a significant portion of its public sector budget in social services. In 2001 and 2002, investments in education, health services and social assistance and housing represented approximately 49.8% and 49.4%, respectively, of Government expenditures. In 1997, the *Constitución Política de la República de Costa Rica* (Political Constitution of the

Republic) of November 7, 1949 (the “Constitution”) was amended to require the investment of not less than 6.0% of GDP in education annually.

President Pacheco has identified competitiveness, social assistance, education, health care and domestic security as priorities of his administration. Costa Rica's budget for the 2003 fiscal year provides for an investment of 27.3% of the Republic's budget, excluding scheduled debt amortization, in education. In the Republic's 2003 budget, the Ministry of Education added 4,368 new positions in and related to high school, pre-school, kindergarten and elementary school education, schools for gifted children, foreign language study, and other educational services.

According to the 2002 Human Development Report issued by the United Nations Development Program, Costa Rica has reduced the level of poverty in the country to 4.0% as measured by the Human Poverty Index based on income, life expectancy, literacy, access to health services, potable water and adequate nutrition. As of July 2002, Costa Rica was classified by the World Bank as an upper middle-income developing country.

Historically, Costa Rica has provided social assistance and housing to poor families through the *Fondo de Desarrollo Social y Asignaciones Familiares* (Fund for Social Development and Family Assistance) (“FODESAF”) which is funded primarily with payroll tax revenues. The Government has undertaken initiatives to restructure FODESAF in order to further strengthen FODESAF's operations and empower it to reduce poverty levels. The Government's initiatives include program evaluations, financial auditing and cost controls designed to improve the efficiency of its anti-poverty efforts through decentralization and specialization of certain programs and monitor and evaluate the social programs supported by FODESAF. See “The Costa Rican Economy — Poverty.”

The following table sets forth selected 2000 comparative social statistics, the most recent available data for the region, as reported in the United Nations Development Program's 2002 Human Development Report.

Selected Comparative Social Statistics

	<u>Costa Rica</u>	<u>Guatemala</u>	<u>Honduras</u>	<u>El Salvador</u>	<u>Nicaragua</u>	<u>Panama</u>	<u>Mexico</u>
Per capita GDP (in US\$) ⁽¹⁾ .	\$8,650.0	\$3,821.0	\$2,453.0	\$4,497.0	\$2,366.0	\$6,000.0	\$9,023.0
Life expectancy (in years) ..	76.4	64.8	65.7	69.7	68.4	74.0	72.6
Adult literacy rate	95.6	68.6	74.6	78.7	66.5	91.9	91.4

(1) Adjusted for purchasing power parity.

Source: 2002 Human Development Report (United Nations Development Program).

Government and Political Parties

The Republic achieved independence from Spain in 1821 and has had uninterrupted democratically elected governments since 1949. The present form of the Government was established by the Constitution. Among the most important reforms enacted by the Constitution were the ratification of the abolition of the army, the institution of a national program of social services, including health services and a pension system, and guarantees of Government support

for higher education. In addition, the Constitution ratified Costa Rica's support for primary and secondary education.

Pursuant to the Constitution, Costa Rica is a democratic republic, with separate executive, judicial and legislative branches. The President and the members of the unicameral *Asamblea Legislativa* (Legislative Assembly) (the "Legislative Assembly") are elected by popular vote. Under Costa Rica's electoral system, voters elect a ticket including one presidential and two vice-presidential candidates, and vote for a political party with respect to the Legislative Assembly and municipal representatives, which party selects candidates at its political convention. Organization and supervision of the electoral process is the responsibility of the *Tribunal Supremo de Elecciones* (Supreme Electoral Tribunal) (the "Supreme Electoral Tribunal"), which is composed of three permanent members. In addition, two temporary members, selected from a list of six candidates chosen by the *Corte Suprema de Justicia* (Supreme Court of Justice) (the "Supreme Court"), are appointed one year prior to an election and serve for up to six months after an election. The Supreme Electoral Tribunal has the same degree of independence as the three branches of Government.

Executive authority is vested in the President and two Vice Presidents, who are directly elected for concurrent four-year terms, and in the Ministers of the Government, whose terms cannot exceed that of the President. In the presidential elections on February 2, 2002, the *Partido Accion Ciudadana* (the PAC Party), a new political party, received 26.2% of the vote, and neither the *Partido Unidad Social Cristiana* nor the *Partido Liberacion Nacional* (PLN Party) won the required votes for election (40.0%) pursuant to Costa Rica's Constitution. As a result, for the first time in Costa Rica's existence, there was a second round of elections. The term of the current President, Abel Pacheco of the *Partido Unidad Social Cristiana*, expires on May 8, 2006. The Constitution provides that the President may not be re-elected. The President has the power to appoint the Ministers of the Government, and together the President, the Vice Presidents and the Ministers form the *Consejo de Gobierno* (Government Council) (the "Government Council").

Legislative authority is vested in the Legislative Assembly, which is comprised of 57 deputies. Deputies serve four-year terms and, although they may be re-elected, they may not serve consecutive terms. The election of deputies for the Legislative Assembly is held concurrently with presidential elections.

National judicial authority is vested in the Supreme Court, which is composed of four appellate divisions, as well as criminal courts, civil courts and other specialized courts. The Supreme Court has 22 justices, elected by the Legislative Assembly for eight-year terms. The term of each justice is renewed automatically unless two-thirds or more of the Legislative Assembly vote against reappointment.

For administrative purposes, the national territory is divided into provinces, which are subdivided into cantons and districts. There are seven provinces (San José, Alajuela, Cartago, Heredia, Guanacaste, Limón and Puntarenas), 81 cantons and 463 districts. Elected officials form the municipal governments, which preside over each canton.

The dominant political parties in Costa Rica are the *Partido Unidad Social Cristiana*, the party represented by President Pacheco, and the *Partido Liberación Nacional*. Members of these parties or their predecessors have won the presidential elections and have controlled the Legislative Assembly since 1949.

The *Partido Unidad Social Cristiana* is aligned with Christian social principles. The *Partido Liberación Nacional* is the political and ideological heir to social democratic traditions. Both of

these parties have moved to the center of the political spectrum, favoring a market-oriented economy while preserving access to social services. Currently, members of the *Partido Unidad Social Cristiana* hold 19 of the 57 seats in the Legislative Assembly, members of the *Partido Liberación Nacional* hold 17 seats, *el Partido Acción Ciudadana* has 14 deputies, and the remainder are held by members of minority parties.

Foreign Affairs and Membership in International and Regional Organizations

Costa Rica maintains diplomatic relations with approximately 100 countries. It is a member of the United Nations (and certain of its specialized agencies such as the Food and Agriculture Organization, the International Labor Organization and the United Nations Education, Scientific and Cultural Organization), the Organization of American States, the IMF, the World Bank, the Inter-American Development Bank (the "IADB"), and the World Trade Organization (the "WTO").

Over the last twenty years, Costa Rica has followed a trade policy meant to integrate Costa Rica into the global economy. This trade policy is evident in Costa Rica's participation in multilateral negotiations in the WTO and Costa Rica's negotiations of bilateral trade agreements and free trade agreements with strategic trade partners.

One of the main objectives of Costa Rica's trade policy is to strengthen the Central American Common Market ("CACM"). Costa Rica has also supported the implementation of rules that are designed to strengthen the CACM. To this end, in June 2002, Costa Rica announced its decision to join the initiative of El Salvador, Guatemala, Honduras and Nicaragua to form a centralized Central American customs union in the next few years.

In January 1997, Costa Rica became the first Latin American country to enter into arrangements to develop information technology under the Agreement on Information Technology Products (ITA). These arrangements are consistent with the country's ten-year-old policy of developing the information technology industry. Recently, Costa Rica supported the launch of the Doha Development Round (the "Doha Development Round"), which is the current round of multilateral trade negotiations by and among the 144 countries that are members of the WTO.

Regionally, since 1994, Costa Rica has been an active participant in the efforts to establish the Free Trade Area of the Americas (the "FTAA") and remains committed to the establishment of the FTAA by 2005. Costa Rica has supported new negotiation initiatives and currently chairs the Government Procurement Negotiating Group, the goal of which is to increase market access to North America, Latin America and South America.

Currently, Costa Rica has bilateral agreements in force with Mexico, the Dominican Republic, Chile, and Canada, and is in the process of negotiating free trade agreements with Panama and several Caribbean countries. Furthermore, the Central American countries, including Costa Rica, recently began negotiating a free trade agreement with the United States, Costa Rica's main trading partner, which is expected to improve Costa Rica's ability to attract foreign investment and help Costa Rica pursue and consolidate economic reforms.

Since the free trade agreement with Mexico was entered into in 1995, Costa Rican exports to Mexico have increased more than 500.0%, while Mexican imports into Costa Rica have tripled. Beginning in 1998, Costa Rica has replaced Guatemala as the main Central American supplier to the Mexican market. Similarly, Mexico has become the second largest exporter of goods to Costa Rica, after the United States.

The free trade agreement with the Dominican Republic became effective in 2002. Costa Rican exports to the Dominican Republic increased approximately 38.0% during the first 10 months of 2002, compared to the same period in 2001.

The free trade agreement between Costa Rica and Canada, which became effective in November 2002, represents the first agreement signed by a smaller country and a G-7 country. Market access provisions in the agreement grant certain Costa Rican products, most notably refined sugar and textiles, preferential access to the Canadian market.

Environmental Policy

In 1994, Costa Rica adopted a policy of pursuing economic and social development in an ecologically sound environment. Accordingly, at the same time that it has established a nationwide health system and social support programs to fight poverty and improve education, Costa Rica has created the national park system and protected areas and passed environmental legislation. In addition to 159 national parks and equivalent reserves, covering 25.5% of the total area of Costa Rica, more than 100 private reserves have been created. As a result of Costa Rica's continuing commitment to the environment, since 1993 the area reforested has exceeded the area deforested in each year. The Government's efforts have assisted the development of Costa Rica's tourism industry, with the result that eco-tourism is currently one of the most important aspects of Costa Rica's tourism industry.

Costa Rica's environmental policy has led to various endeavors that support the rehabilitation and conservation of forests. For instance, Costa Rica's "Payment of Environmental Services Program" compensates landowners for environmental services provided by their forest lands, such as carbon fixation, watershed protection and biodiversity among others. In 2001, the Legislative Assembly approved a US\$32.6 million loan from the World Bank and a US\$8.0 million grant from the Global Environmental Facility to fund this national environmental program. A US\$10.0 million grant from the KWF, a German development bank, will help fund the program's ongoing operations.

The efforts of the Government in this regard have been complemented by a variety of non-governmental initiatives. In 1989, for example, the *Instituto Nacional de Biodiversidad* (National Biodiversity Institute) was created, with support from the Government, as a private non-profit organization to promote research of Costa Rica's tropical biodiversity as well as environmental conservation. Since its inception, the National Biodiversity Institute has entered into agreements relating to the transfer of technology and capacity building efforts with private and educational institutions and multilateral agencies including Merck, Divaudan Roure, Diversa, Massachusetts University, Cornell University, and Bristol Myers Squibb.

Costa Rica, like other Central American countries, is vulnerable to the impact of climate variability and change. It has therefore been an advocate of the United Nations Framework Convention on Climate Change and its Kyoto Protocol, and Costa Rica is involved in the development of market-oriented instruments to reduce emissions of greenhouse gases in an effort to mitigate global warming.

In 1996, the governments of Costa Rica and Norway signed an agreement pursuant to which Costa Rica received US\$2.0 million in exchange for 200 thousand metric tons of carbon, which resulted from forestry activities. A similar agreement has been reached with the Government of The Netherlands pursuant to which Costa Rica received US\$4.5 million in exchange for emission reductions of greenhouse gases, US\$0.5 million for the establishment of

waste water treatment plants in 4 coffee mills, and US\$0.5 million for the reforestation of abandoned banana plantations.

The Prototype Carbon Fund (the “PCF”) of the World Bank has agreed to grant Costa Rica US\$10.0 million in connection with renewable energy projects, such as hydro and wind power projects, which reduce greenhouse gas emissions. Two certified emission reduction purchase agreements have been signed between local utilities and the PCF for a total of US\$2.0 million. Additionally, under the Certified Emissions Reductions Procurement Tender (CERUPT) of the Dutch Government, the Dutch Government has pre-qualified four projects in Costa Rica to receive an aggregate of US\$6.0 million as part of Costa Rica’s development of renewable and alternative energy projects, such as hydroelectric and landfill gas power projects and Costa Rica’s study of energy efficiency in cement factories.

The Government has signed brokerage agreements with the governments of The Netherlands and Canada in an effort to further develop the global market for greenhouse gas emission offsets. The Government considers proceeds from the certified emissions reductions as a potential source of funding for the Payment of Environmental Services Program and for the promotion of the local generation of electricity from renewable sources.

THE COSTA RICAN ECONOMY

General

Since the mid-1980s, Costa Rica has expanded its economic activity from its historical dependence on the production of agricultural goods for export. It has sought to diversify its exports, attract investment in high value added manufacturing and promote tourism based primarily on the country's environmental diversity. Principally due to this diversification strategy, the composition of Costa Rica's exports has changed substantially during the last eight years, with industrial exports increasing significantly. For the year ended December 31, 2001 and for the nine-month period ended September 30, 2002, industrial exports (including exports from Free Trade Zone and In-bond industries) represented approximately 74.5% and 74.8%, respectively, of Costa Rica's total exports, while agricultural exports represented approximately 25.4% and 25.2%, respectively, of total exports.

During the late 1980s and early 1990s, Costa Rica undertook certain structural reforms. These reforms were primarily: (i) the liberalization of trade, capital flows and the foreign exchange market; (ii) the development of a non-traditional export sector; and (iii) reforms in the financial sector. During the same period, Costa Rica suffered from a persistent Government fiscal deficit, which led the Central Bank to adopt restrictive monetary policies in order to maintain the internal and external stability of the economy. The issuance of domestic debt to finance the Government fiscal deficit generally led to increased domestic interest rates, hindering private investment. See "Public Sector Finances," "Monetary System — Monetary Policy" and " — Inflation and Interest Rates" and "Balance of Payments and Foreign Trade."

History and Background

Historically, the Costa Rican economy has relied on agricultural production for export. The production and export of coffee, and, subsequently, bananas, drove economic growth in Costa Rica through the 1960s. In the 1960s, Costa Rica followed an import substitution industrialization strategy. This industrial process generated economic growth, permitting the modernization of the economy, and created the conditions for improvements in Government-provided social services as well as in income levels of the population. Nonetheless, the dependence of the domestic industrial manufacturing sector on imported primary materials and the relatively small size of the Central American market, together with the growing public external debt, became the main weaknesses of this economic model.

The economic crisis experienced during the early 1980s demonstrated the weaknesses of the import substitution industrialization model for development. The magnitude of the economic imbalance registered between 1981 and 1982 led to the implementation of a successful stabilization program by the Government, which reduced the rate of inflation from more than 80.0% in 1982 to 10.7% in 1983. During the latter half of the 1980s, the Government implemented structural adjustment programs under the auspices of the World Bank and the IADB. These structural adjustment programs aimed to liberalize the Costa Rican economy by reducing protective trade barriers, creating incentives for the export of non-traditional products, and reforming the financial system and public sector.

During the late 1980s and early 1990s, Costa Rica suffered from a persistent Government fiscal deficit which led the Central Bank to adopt restrictive monetary policies in order to maintain the internal and external stability of the economy. The issuance of domestic debt to finance the Government fiscal deficit generally led to increased domestic interest rates, hindering private investment.

The Government fiscal deficit substantially increased when the Government assumed the liabilities of state-owned Banco Anglo Costarricense (“Banco Anglo”) following its 1994 collapse. In addition, the economic crisis caused by the devaluation of the Mexican peso beginning in December 1994, and the subsequent decline in foreign cash inflows into emerging markets such as Latin America, led to higher interest rates on domestic debt.

In an effort to curb the inflationary pressures caused by the increasing Government fiscal deficit, the Central Bank further restricted its monetary policy, beginning in the second half of 1995. At that time, the Government and the Central Bank implemented a program to counter the internal and external economic imbalances caused by the Government fiscal deficit of 1994. This program continued through the first half of 1996 and caused a deceleration of economic activity. The reduction of credit caused by the Central Bank’s tight monetary policies, combined with the high interest rates caused by the domestic financing of the Government deficit, led to an increase in real GDP of only 0.7% in 1996. See “Monetary System.”

Beginning in the second half of 1996, the Central Bank relaxed its monetary policy, which contributed to a return to economic growth beginning in 1997, when GDP grew by 5.6%, which strengthened in 1998, when GDP grew by 8.4%. Real GDP grew by 8.2%, 1.8% and 1.1% in 1999, 2000 and 2001, respectively, and it is estimated to have grown by 2.8% in 2002.

In the first half of 1998, the Costa Rican economy experienced increasing inflationary pressures primarily as a result of rapid growth of credit to the private sector due to increased economic activity, relatively low lending rates and the scheduled reduction of reserve requirements for banks by the Central Bank which accelerated the growth of the monetary base.

In 1998, the Costa Rican economy also experienced the effects of the economic crises in Asia and Russia, but to a significantly lesser extent than other Latin American countries. Costa Rica’s international reserves declined in 1998 primarily due to increased imports reflecting increased economic growth and net outflows related to repatriation of profits from Free Trade Zones. The decline in world commodity prices in connection with the economic crises in Asia and Russia affected Costa Rica primarily through lower revenues from coffee exports due to a decrease in the price of coffee. These effects were more than offset by an increase in the price of bananas.

In the last quarter of 1998, the Central Bank adopted a more restrictive monetary policy, including the postponement of the scheduled reduction of minimum reserve requirements for banks, and measures to reduce inflationary pressures and prevent the loss of foreign capital, including an increase in open-market operations in BEMs, with the objective of reducing monetary aggregates and increasing interest rates.

Current Economic Trends and Monetary Policy

From 1999 through 2002, the Central Bank implemented a monetary policy consistent with its target of achieving an inflation rate not in excess of 10.0%. The Central Bank’s inflation and real GDP growth targets for 2002 were 10.0% and 2.8%, respectively. The cumulative rate of inflation for the first eleven months of 2002 was 8.9%.

From 1998 through 2002, the primary balance, defined as current income minus non-interest expenditures, remained positive at an average of approximately 0.7% of GDP. The primary balance was 0.7%, 1.4%, 0.5%, 1.1% and 0.2%, for 1998, 1999, 2000, 2001 and 2002, respectively.

Based on preliminary data, as of September 30, 2002, the trade balance deficit was US\$1,466.4 million, and the net international reserves of the banking system as of November 30, 2002 were US\$1,212.6 million. As of December 31, 2001, the trade balance deficit was US\$1,547.3 million, and the net international reserves of the banking system were US\$1,137.4 million.

In September 1998, the Central Bank established a goal of limiting the expansion of private sector credit by the Costa Rican banks to a maximum of 26.0% over the following 15 months. The *Consejo Nacional de Supervisión del Sistema Financiero* (National Supervisory Board of the Financial System) (“CONASSIF”) was given the authority to increase loss reserve requirements for financial institutions that did not comply with this goal. In mid-1999, the Central Bank relaxed its goal to permit private credit expansion to a maximum of 30.0%. On December 1, 1999, the Central Bank made a request to limit private sector credit expansion to a maximum of 26.0% over the following 13 months. The Central Bank did not make a similar request with respect to credit expansion for the private sector in 2001 or 2002. Currently, if private credit expansion of any financial institution grows at a rate exceeding 1.5 times the rate of growth of GDP, the *Superintendencia General de Entidades Financieras* (Superintendency of Financial Entities) (“SUGEF”) has the authority to apply a stricter level of supervision to that financial institution.

In December 2001, the minimum legal bank reserve was 7.0% for deposits in colones and 5.0% for deposits in dollars. In February 2002, the minimum legal reserve for deposits in colones was reduced to 5.0%, the same level required for deposits in dollars. The minimum legal bank reserve requirements for deposits in dollars and colones is expected to be increased to 6.5% in January 2003, 8.0% in February 2003, and 10.0% in March 2003. The increase in the minimum reserve requirement is intended to assist Costa Rica to achieve short-term stability.

Although the Central Bank maintained an open market operations policy in order to control liquidity in the banking system, domestic credit to the private sector is estimated to have grown 24.9% during the first nine months of September 2002, and 26.9% and 29.7.% in 2001 and 2000, respectively. The rate of growth of domestic credit to the private sector in 2002, 2001, 2000 and 1999, however, was considerably lower than the 51.2% rate of growth in 1998.

Real GDP grew by 8.4%, 8.2%, 1.8%, 1.1% and an estimated 2.8%, respectively, in 1998, 1999, 2000, 2001 and 2002. The following table sets forth the annual rate of growth for the periods indicated as measured by the Index of Monthly Economic Activity.

**Annual Rate of Growth as Measured by Index of Monthly Economic Activity
(seasonally adjusted rate of growth)**

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
January	8.2%	11.3%	5.6%	(0.3)%	1.2%
February	7.8%	12.5%	4.0%	(0.2)%	1.7%
March	7.5%	12.5%	3.7%	(0.8)%	2.8%
April	7.5%	11.7%	3.6%	(0.9)%	3.3%
May	7.5%	11.4%	3.1%	(0.2)%	3.0%
June	7.5%	11.6%	2.2%	0.4%	2.7%
July	7.7%	11.6%	1.2%	0.9%	2.6%
August	8.3%	10.9%	0.3%	1.5%	2.4%
September	9.2%	9.7%	(0.4)%	2.0%	2.1%
October	10.0%	8.8%	(1.0)%	2.2%	N.A.
November	10.0%	8.2%	(1.1)%	1.9%	N.A.
December	10.2%	7.3%	(0.9)%	1.4%	N.A.

N.A. Not Available.

Source: Central Bank.

Year 2002

Costa Rica's real GDP is expected to have increased by 2.8% in 2002, compared to a 1.1% increase in 2001. The increase was principally due to the effect of an 11.0% increase in the transportation, warehousing and telecommunications sectors and a 5.3% increase in the financial intermediation and insurance sector.

The unemployment rate increased to 6.4% from 6.1% in 2001. The devaluation of the colón during 2002 was approximately 10.7%, compared to 7.4% for 2001.

As of September 30, 2002, exports increased by 2.5% compared to the same period in 2001. The increase of total exports was primarily due to increased exports of Free Trade Zone goods, which increased 9.1% in 2002, compared to the same period in 2001. Nonetheless, with the exception of coffee, sales of which increased approximately by 5.0%, the external sales of Costa Rica's traditional products decreased in 2002.

Imports (c.i.f.) increased by 9.8% during the nine-month period ended September 30, 2002, as compared to the same period in 2001, principally due to a 9.6% increase in raw materials

imports, a 9.9% increase in consumer goods imports, a 24.5% increase in capital goods imports, and a 9.0% increase in construction materials imports.

Inflation for the year ended December 31, 2001 was 11.0%, as compared to 10.2% for the year ended December 31, 2000. Inflation as of November 30, 2002 was 8.9%. The Central Bank's inflation and real GDP growth targets for 2003 are 10.0% and 2.2%, respectively. See "Inflation and Interest Rates."

Based on preliminary data, net international reserves of the Central Bank at November 30, 2002 were US\$1,378.5 million, compared to US\$1,329.7 million at December 31, 2001. In 2002, inflows of gross foreign direct investments are estimated to have increased to US\$641.7 million (3.8% of GDP), from US\$453.6 million (2.8% of GDP) in 2001, primarily as a result of increased investments in industries producing non-traditional products. For example, in 2002, Heineken N.V. and Florida Ice and Farm Company made investments in the aggregate amount of US\$218.0 million. Investment in the agricultural sector also increased by US\$225.0 million as a result of a loan to Chiquita Brands from its United States parent. As of November 30, 2002, net international reserves of the banking system represented the equivalent of approximately 2.7 months of imports (c.i.f.), including imports from Free Trade Zone and In-bond industries, and 4.0 months of imports (c.i.f.), excluding imports from Free Trade Zone and In-bond industries.

The Government fiscal deficit for 2002 is estimated to have been 4.3% of GDP, as compared to 2.9% of GDP for 2001. The consolidated public sector deficit is estimated to have increased to 5.5% of GDP for the year ended December 31, 2002, as compared to 3.1% of GDP for the year ended December 31, 2001, primarily as a result of an increased Central Bank deficit and non-financial public sector institutional deficits.

In 2002, the Government continued implementing its plan to reduce domestic debt, increase taxes and reduce expenditures. On February 1, 2002, Costa Rica issued the 2002 Notes, using the proceeds thereof to replace domestic debt. The substitution of external debt for domestic debt resulted in a decreased Government need for funds in the domestic financial sector in 2002, and reduced domestic debt service payments of the Government relative to the domestic debt service payments that would have been required absent such substitution.

Year 2001

Costa Rica's real GDP increased by 1.1% in 2001, compared to a 1.8% increase in 2000. The relatively low 2001 increase was principally due to the effect of an 8.4% decrease in industrial manufacturing, which in turn was principally the result of a decrease in electronic component manufacturing by Intel Corp. due to global market conditions. This decrease offset growth of 8.7% in the transportation, warehousing and telecommunications sector, 4.1% in the electricity sector, 11.4% in the construction sector, and 18.4% in the other business services sector.

In 2001, the unemployment rate increased to 6.1% from 5.2% in 2000. In 2001, the colón was devalued by 7.4%, compared to 6.7% for 2000, the second lowest level of devaluation of the colón since 1992.

Total exports (f.o.b.), including In-bond and Free Trade Zone value added, declined to US\$5,021.4 million for 2001, a decrease of 14.2% from 2000. The decrease in total exports of goods and services was principally due to a 27.7% decrease in the revenues related to Free Trade Zone and In-bond industries, particularly value added exports of electronic components from Intel Corp.'s microprocessor assembly and testing facilities, as well as a decrease of 5.4% in the volume of banana exports and a decrease of 35.5% in coffee prices. In 2001, total exports of electronic

components from Intel Corp.'s facilities accounted for approximately 18.2% of Costa Rica's total exports as compared to 28.3% in 2000.

Imports (c.i.f.) increased by 2.8% for 2001, as compared to 2000, principally due to an 8.0% increase in imports of consumer goods and a 30.0% increase in imports relating to Intel Corp., which were partially offset by a 13.0% decrease in imports of fuels and lubricants and a 4.9% decrease in imports of capital goods.

Inflation for the year ended December 31, 2001 was 11.0%, equal to the target rate set by the Central Bank. See "Monetary System — Inflation and Interest Rates."

Net international reserves of the Central Bank at December 31, 2001 were approximately US\$1,329.7 million, compared to US\$1,317.7 million at December 31, 2000. In 2001, inflows of gross foreign direct investment increased to US\$453.6 million (2.8% of GDP), from US\$408.6 million (2.6% of GDP) in 2000, primarily as a result of the growth of investment in industries producing non-traditional products. In 2001, Intel Corp. accounted for approximately 7.1% of foreign direct investment in Costa Rica, compared to 4.4% in 2000. See "Balance of Payments and Foreign Trade — Foreign Investment."

The Government fiscal deficit for 2001 was 2.9% of GDP, as compared to 3.0% of GDP for 2000. The consolidated public sector deficit was 3.1% of GDP for the year ended December 31, 2001, as compared to 3.7% of GDP for the year ended December 31, 2000, primarily as a result of the decreased Central Bank deficit and the increase in the surplus in non-financial public sector institutions.

In 2001, the Government continued implementation of its plan to reduce domestic debt. In March 2001, Costa Rica issued US\$250.0 million of 9.0% Notes due 2011 (the "2001 Notes"), using the proceeds thereof to replace domestic debt.

In January 2001, in order to strengthen the financial condition of the Central Bank, and contain inflation and domestic interest rates, the Government prepaid certain obligations assumed by it in 1998 and payable to the Central Bank. This prepayment reduced a deficit incurred by the Central Bank as a result of (i) the assumption by the Central Bank of certain exchange rate losses incurred by state-owned banks, (ii) certain obligations resulting from the restructuring of commercial bank debt in 1990, (iii) the losses of the Central Bank incurred in its open-market operations, and (iv) the reimbursement of losses by CODESA which were funded by the Central Bank. The total amount paid to the Central Bank was 294,000.0 million colones (US\$924.5 million).

Year 2000

Costa Rica's real GDP increased by 1.8% in 2000 to 4,917.7 billion colones (US\$15,956.9 million). The relatively low increase over 1999 was principally due to a 2.9% decrease in industrial manufacturing, largely due to a decrease in electronic component manufacturing by Intel Corp., resulting partially from its need to improve its plant for the production of a new generation of products. Exports of electronic components from Intel Corp.'s facilities decreased by 34.0% as compared to 1999.

In spite of the foregoing, the unemployment rate declined to 5.2% in 2000, while the inflation rate was 10.2%.

Other sectors of the economy evidenced a more dynamic growth in 2000. For instance, the transportation, warehousing and telecommunications sector grew by 10.2%, the electricity and water sector grew by 6.4%, and the other business services sector grew by 16.2%.

Total exports (f.o.b.), including In-bond and Free Trade Zone, declined to US\$5,849.7 million for the year ended December 31, 2000, a decrease of 12.2% from the year ended December 31, 1999. The decrease in total exports of goods and services was principally due to a 12.2% decrease in non-traditional exports, primarily as a result of a decrease in the revenues related to the Free Trade Zone and In-bond industries, particularly value added exports of electronic components from Intel Corp.'s microprocessor assembly and testing facilities, as well as a decrease of 5.4% in the volume of banana exports and a decrease of 6.9% in banana prices. In 2000, exports of electronic components from Intel Corp.'s facilities accounted for approximately 28.3% of Costa Rica's total exports as compared to 38.4% in 1999.

Imports (c.i.f.) increased by 0.5% in 2000 as compared to 1999, principally due to a 47.4% increase in imports of fuels and lubricants and, a 3.2% increase in imports of consumer goods, partially offset by a 6.6% decrease in imports of capital goods. The merchandise trade balance, measured as the difference between exports (f.o.b.) and imports (c.i.f.), showed a deficit of approximately US\$538.8 million at December 31, 2000 as compared to a surplus of US\$307.8 million at December 31, 1999. See "Balance of Payments and Foreign Trade — Foreign Trade."

The inflation rate for the year ended December 31, 2000 was 10.2%, as compared to 10.1% for the year ended December 31, 1999. See "Monetary System — Monetary Policy" and "— Inflation and Interest Rates."

The nominal depreciation of the colón for the year ended 2000 was 6.7%, compared to 9.9% for the year ended 1999, the lowest level of depreciation since 1992.

Net international reserves of the Central Bank at December 31, 2000 were approximately US\$1,317.7 million, compared to US\$1,471.4 million at December 31, 1999. The net private and official capital inflows in 2000 were exceeded by the current account deficit, resulting in a decrease of reserves. In 2000, inflows of gross foreign direct investment decreased to US\$408.6 million (2.6% of GDP), from US\$619.5 million in 1999, primarily as a result of lower growth of investment in industries producing non-traditional products. In 2000, Intel Corp. accounted for approximately 11.0% of foreign direct investment in Costa Rica. See "Balance of Payments and Foreign Trade — Foreign Investment."

The Government fiscal deficit increased to 3.0% of GDP for the year ended December 31, 2000 from 2.1% of GDP for the year ended December 31, 1999. The increase was primarily a result of a reduced rate in growth of income tax collections. The consolidated public sector deficit increased to 3.7% of GDP for the year ended December 31, 2000 as compared to 3.0% of GDP for the year ended December 31, 1999, primarily as a result of the increased deficit of the Government and the Central Bank, partially offset by a surplus in the non-financial industries of the public sector.

In 2000, the Government continued implementation of its plan to reduce domestic debt. In July 2000, Costa Rica issued an aggregate amount of US\$250.0 million of its 9.995% Notes due 2020 (the "2000 Notes"), using the proceeds thereof to replace domestic debt.

In 2000, the Central Bank conducted monetary policy consistent with its monetary targets of achieving a target 10.0% inflation rate. The Central Bank maintained an open market operations policy in order to control liquidity in the banking system. Domestic credit to the private sector grew

at 29.7% in 2000 compared to 18.3% in 1999, as a result of reduced domestic interest rates as well as stabilization of the currency and increased direct foreign investment.

Year 1999

Costa Rica's real GDP increased by 8.2% in 1999 to 4,512.7 billion colones (US\$15,795.5 million). The increase was principally due to a 24.7% increase in the industrial manufacturing sector, led by exports from Intel Corp.'s two plants in Costa Rica, and a 6.2% increase in the electricity and water sectors. In 1999, the unemployment rate was 6.0% and the inflation rate declined to 10.1%.

Total exports (f.o.b.), including In-bond and Free Trade Zone exports, reached US\$6,662.4 million for the year ended December 31, 1999, an increase of 20.6% from the year ended December 31, 1998. The increase in exports of goods and services was principally due to revenues related to the Free Trade Zone and In-bond industries, particularly value added exports of electronic components from Intel Corp.'s microprocessor assembly and testing facilities, which commenced operations in March 1998 and January 1999. In 1999, exports of electronic components from Intel Corp.'s facilities accounted for approximately 38.4% of Costa Rica's total exports. In 1999, Intel Corp. accounted for approximately 14.5% of foreign direct investment in Costa Rica. Value added by Free Trade Zone exports grew by 85.4% as compared to 1998. The impact of the increase in exports of electronic components was partially offset by decreases in other traditional exports, particularly a decrease in the volume of coffee and banana exports. The decrease in these traditional exports was primarily due to crop damage caused by Hurricane Mitch and other natural disasters, the effects of the international banana market, and a decline in international coffee prices.

Imports (c.i.f.) increased by 1.9% in 1999 as compared to 1998, principally due to an 8.3% increase of raw material imports in nominal terms due to an increase in exports of electronic parts, partially offset by a decrease in imports of consumer goods and a decline in imports of capital goods. The merchandise trade balance showed a surplus of US\$307.8 million at December 31, 1999, as compared to a deficit of US\$713.2 million at December 31, 1998, representing Costa Rica's first merchandise trade balance surplus since 1954. See "Balance of Payments and Foreign Trade — Foreign Trade."

The inflation rate for the year ended December 31, 1999 was 10.1%, as compared to 12.4% for the year ended December 31, 1998. See "Monetary System — Monetary Policy" and "— Inflation and Interest Rates."

The nominal depreciation of the colón for the year ended 1999 was 9.9%, compared to 11.1% for the year ended 1998.

Net international reserves of the Central Bank at December 31, 1999 were US\$1,471.4 million, compared to US\$991.3 million at December 31, 1998. The current account deficit was exceeded by net private and official capital inflows, allowing for the accumulation of reserves. In 1999, inflows of gross foreign direct investment increased to US\$619.5 million (4.0% of GDP) from US\$611.7 million in 1998 (4.3% of GDP), primarily as a result of an increase of growth of investment in industries producing non-traditional products. In 1999, Intel Corp. accounted for approximately 14.4% of foreign direct investment in Costa Rica. See "Balance of Payments and Foreign Trade — Foreign Investment."

The Government fiscal deficit decreased to 2.1% of GDP for the year ended December 31, 1999, from 2.3% of GDP for the year ended December 31, 1998. The reduction was primarily a

result of a reduced rate in the growth of governmental expenditures and increased total governmental revenue due to an increase in fuel consumption tax revenues, additional income taxes received from public enterprises and the implementation of new tax enforcement legislation. The consolidated public sector deficit increased to 3.0% of GDP for the year ended December 31, 1999, as compared to 1.9% of GDP for the year ended December 31, 1998. The increase was primarily a result of increased capital expenditures in connection with the final stages of the Angostura hydroelectric plant and increased expenses derived from the high level of international reserves of the Central Bank resulting from the issuance of BEMs as a component of Costa Rica's monetary policy.

In 1999, the Government continued implementation of its plan to reduce domestic debt. In May 1999, Costa Rica issued the 1999 Notes, using the proceeds thereof to replace domestic debt. The substitution of external debt for domestic debt resulted in a decreased Government need for funds in the domestic financial sector in 1999 and reduced debt service payments of the Government relative to the debt service payments that would have been required absent such substitution.

In 1999, the Central Bank conducted monetary policy consistent with its monetary targets of achieving a 10.0% inflation rate. The Central Bank maintained a very active policy of open market operations to reduce liquidity in the banking system. These policies contributed to a decline in the growth of domestic credit to the private sector which grew at 18.3% in 1999 compared to 51.2% in 1998.

In mid-1999, the Central Bank relaxed the credit expansion goals established in September 1998 to allow private credit to expand a maximum of 30.0%. On December 1, 1999, the Central Bank established as its goal that private sector credit expansion of the Costa Rican banks be limited to a maximum of 26.0% over the following 13 months. If private credit expansion of any financial institution grew at a rate exceeding 1.5 times the rate of growth of GDP, SUGEF was given the authority to apply stricter supervision to that financial institution.

Year 1998

Costa Rica's economic recovery, which began in the second half of 1996, strengthened in 1998. Costa Rica's GDP in 1998 was 3,625.3 billion colones (US\$14,095.4 million). Costa Rica's growth in 1998 was primarily due to an increase in the economic activity of the industrial sector. This increase was primarily driven by growth in the manufacturing industry, particularly the production of high technology goods for export, increased revenues from tourism, and increased agricultural and commercial activity.

Costa Rica's real GDP increased by 8.4% in 1998 as compared to 1997 principally due to a 17.4% increase in the construction sector, an 11.4% increase in the domestic manufacturing sector and a 8.5% increase in the wholesale and retail commerce, restaurant and hotel sectors.

The increase in exports of goods and services was principally due to revenues related to the Free Trade Zone and In-bond industries, particularly due to value added by exports of electronic components from Intel Corp.'s first microprocessor assembly and testing facility, which commenced operations in March 1998, and an increase in exports of bananas. In 1998, exports of electronic components from Intel Corp.'s facility accounted for approximately 17.3% of Costa Rica's total exports. Value added by the exports from Free Trade Zones grew by 117.2%, as compared to 1997.

Imports (c.i.f.) increased by 25.5% in 1998 as compared to 1997, principally due to an increase in imports of raw materials for the In-bond and Free Trade Zone industries, particularly the Intel Corp. facility. In 1998, the Intel Corp. facility generated net sales of US\$959.1 million. In addition, imports other than those for the In-bond and Free Trade Zone industries increased as a result of reductions in import tariffs during 1998, increased domestic demand and the relatively lower prices of imported goods, particularly fuels and lubricants, during this period.

Total exports (f.o.b.), including In-bond and Free Trade Zone value added, reached US\$5,525.6 million for the year ended December 31, 1998, an increase of 31.4% from the year ended December 31, 1997. This increase was principally due to an increase of 117.2% in the value from exports of Free Trade Zone industries which represented 35.0% of total exports in 1998, increased exports of other non-traditional products, and an increase in exports of bananas. The merchandise trade balance, showed a deficit of US\$713.2 million at December 31, 1998 as compared to a US\$764.2 million deficit at December 31, 1997. See "Balance of Payments and Foreign Trade — Foreign Trade."

The inflation rate for the year ended December 31, 1998 was 12.4% as compared to 11.2% for the year ended December 31, 1997. The factors that helped keep inflation relatively low in 1998 were primarily low inflation in the United States of America, Costa Rica's principal trading partner, the lower price of oil and lubricants in international markets and improved fiscal conditions. The factors that contributed to an increase in inflation in 1998 as compared to 1997 were primarily increases in the costs of certain public services and the negative effects of adverse weather conditions, particularly crop damage caused by Hurricane Mitch, which resulted in a decrease in production for domestic consumption and increased prices for agricultural products. The inflation rate in 1998 was influenced by these factors in addition to the inflationary pressures described above. See "Monetary System — Monetary Policy." The depreciation of the colón for the year ended 1998 was 11.1%, compared to 11.0% for the year ended 1997.

Net international reserves of the Central Bank at December 31, 1998 were US\$991.3 million, as compared to US\$1,140.4 million at December 31, 1997. The decrease of reserves was primarily due to increased imports reflecting increased economic growth and net outflows of short-term private financial capital mainly as a result of the economic crises in Asia and Russia.

The Government fiscal deficit decreased to 2.3% of GDP for the year ended December 31, 1998 from 2.8% of GDP for the year ended December 31, 1997, primarily due to a reduction in interest payments on domestic public debt of 0.6% of GDP resulting from lower domestic interest rates and a reduction of capital expenditures of 0.3% of GDP. The consolidated public sector deficit decreased to 1.9% of GDP for the year ended December 31, 1998, as compared to 2.4% of GDP for the year ended December 31, 1997.

In 1998, the Government continued implementation of its plan to reduce domestic debt. In April 1998, Costa Rica issued the 1998 Notes, using the proceeds thereof to replace domestic debt. The substitution of external debt for domestic debt resulted in a decreased need by the Government for funds in the domestic financial sector in the first half of 1998, leading to a lessening of inflationary pressures and lower interest rates.

Economic conditions changed in the second half of 1998, as credit to the private sector grew at a rapid rate, and the economic crises of Asia and Russia resulted in a net outflow of short-term private financial capital translating into inflationary pressures. In response to these developments, in the last quarter of 1998 the Central Bank adopted a more restrictive monetary policy, including the postponement of the scheduled reduction of minimum reserve requirements for banks, and measures to reduce inflationary pressures and prevent the loss of foreign capital,

including an increase in open-market operations in BEMs, with the objective of reducing monetary aggregates and increasing interest rates. Additionally, in September 1998, the Central Bank established its goal of limiting private sector credit expansion of the Costa Rican banks to a maximum of 26.0% over the following 15 months. CONASSIF was given the authority to increase loss reserve requirements for financial institutions that did not comply with this goal.

Foreign direct investment increased to US\$611.7 million for the year ended December 31, 1998 from US\$406.9 million for the year ended December 31, 1997, primarily as a result of investment in industries producing non-traditional products. In 1998, Intel Corp. accounted for approximately 26.7% of foreign direct investment in Costa Rica. See “Balance of Payments and Foreign Trade — Foreign Investment.”

Gross Domestic Product

Costa Rica's real GDP grew at a compounded annual rate of approximately 4.6% between 1998 and 2002. The following table sets forth information regarding the respective growth rates for real GDP expenditures for the periods indicated.

Rates of Growth of Real GDP Expenditures

	For the Year Ended December 31,				
	1998	1999	2000	2001 ⁽¹⁾	2002 ⁽¹⁾
Private expenditures on final consumption.....	5.4%	2.2%	1.0%	1.3%	2.5%
General Government expenditures on final consumption.....	2.2	1.8	1.4	3.5	4.5
Gross fixed capital formation.....	25.5	(4.1)	(0.9)	1.5	7.9
Domestic demand.....	9.1	(1.8)	0.6	6.2	3.7
Exports of goods and services.....	26.7	21.3	(0.3)	(9.2)	2.8
Aggregate demand.....	14.0	5.4	0.3	0.7	3.4
Less: Imports of goods and services	25.2	0.4	(2.6)	0.0	4.6
Gross Domestic Product	8.4%	8.2%	1.8%	1.1%	2.8%

(1) Preliminary data.

Source: Central Bank.

The following table sets forth Costa Rica's per capita GDP for the periods indicated.

Per Capita GDP⁽¹⁾

1998	\$ 3,740.1
1999	\$ 4,096.4
2000	\$ 4,046.7
2001 ⁽²⁾	\$ 4,065.0
2002 ⁽²⁾	\$ 4,102.3

(1) Figures are not adjusted for purchasing power.

(2) Preliminary data.

Source: Central Bank. Population data from Programa Centroamericano de Poblacion (Central American Population Program) of the Universidad de Costa Rica (University of Costa Rica).

Costa Rica has one of the highest gross investment rates in Latin America. Gross investment is financed by domestic and external savings, either in the form of foreign direct investment (see "Balance of Payments and Foreign Trade — Foreign Investment") or cash inflows to the financial system (see "Balance of Payments and Foreign Trade — Balance of Payments"). The gross investment rate fell from 20.5% of GDP in 1998 to 17.1% in 1999, principally due to the growth in GDP in 1999, paired with a slowdown in the growth of foreign investment. The gross investment rate was 17.1% in 2000. In 2001 and 2002, the gross investment rate increased to 20.1% and 21.0%, respectively, largely due to the impact of Government policies designed to attract foreign direct investment.

The following table sets forth the gross investment and national savings rates for the periods indicated.

Gross Investment and Savings Rates (% of total GDP)

	Gross Investment	Domestic Savings	External Savings ⁽¹⁾
1998	20.5%	15.3%	5.3%
1999	17.1%	12.0%	5.2%
2000	17.1%	12.6%	4.5%
2001 ⁽²⁾	20.1%	13.2%	6.9%
2002 ⁽²⁾	21.0%	12.7%	8.3%

(1) Not equivalent to current account deficit due to differences between the accounting method used in determining the balance of payments and national accounting methodologies.

(2) Preliminary data.

Source: Central Bank.

Principal Sectors of the Economy

Based on preliminary data, the principal sectors of the Costa Rican economy in 2002 were industrial manufacturing; wholesale and retail commerce, restaurants and hotels; transportation, warehousing and telecommunications; community, social and personal services; and agriculture, forestry and fishing. Based on preliminary data, the fastest growing sectors of the Costa Rican economy in 2002 were transportation; financial intermediation and insurance, warehousing and telecommunications (which includes cellular phone services); and electricity and water.

In the last eight years, industrial manufacturing has been, and continues to be, one of the most rapidly growing of Costa Rica's major economic sectors. From 1998 to 2002, the industrial manufacturing sector grew at an average rate of approximately 5.4%, while the wholesale and retail commerce and hotel and restaurant sectors grew at an average rate of approximately 3.3%, community, social and other personal services grew at an average rate of approximately 3.1%, and the agriculture, forestry and fishing sector grew at an average rate of approximately 2.6%.

In 2002, industrial manufacturing was the largest sector of the economy, accounting for approximately 21.7% of real GDP. The principal manufactured goods produced in Costa Rica in 2002 were processed food and beverages, chemicals, textiles, wood and leather products and electronic component products. In 2002, the wholesale and retail commerce and hotels and restaurants sector, Costa Rica's second largest sector, accounted for approximately 17.9% of real GDP. In 2002, the transportation, warehousing and telecommunications sector was Costa Rica's third largest sector and accounted for 11.3% of real GDP. The community, social and other personal services accounted for approximately 10.5% of real GDP, and the agriculture, forestry and fishing sector accounted for approximately 10.2% of real GDP in 2002. The principal agricultural products in 2002 were bananas, coffee, beef, dairy products and sugar cane.

Rates of Growth of Gross Domestic Product by Sector

	For the Year Ended December 31,				
	1998	1999	2000	2001 ⁽¹⁾	2002 ⁽¹⁾
Agriculture, forestry and fishing	8.2%	4.5%	0.7%	0.7%	(1.0)%
Mining	9.3	(6.1)	6.3	6.0	0.4
Industrial manufacturing	11.4	24.7	(2.9)	(8.4)	2.2
Electricity and water	8.7	6.2	6.4	4.1	5.2
Construction.....	17.4	(1.6)	4.4	11.4	(1.0)
Wholesale and retail commerce, restaurants and hotels.....	8.5	2.4	1.5	2.1	2.2
Transportation, warehousing and telecommunications	8.1	6.9	10.2	8.7	11.0
Financial intermediation and insurance.....	6.5	9.4	10.4	4.4	5.3
Real estate	2.9	3.4	2.3	3.1	2.0
Other business services	6.0	14.5	16.2	18.4	6.4
Public administration	0.0	1.0	2.5	3.5	1.9
Community, social and personal services (excluding public administration)	5.8	3.4	2.6	1.8	1.9
Less: Financial intermediation services indirectly measured.....	8.9	11.9	14.3	3.2	12.9
Value added at basic prices	8.4	9.0	1.9	0.9	2.7
Less: Taxes (net of subsidies)	8.7	1.3	0.5	2.7	3.1
GDP.....	<u>8.4%</u>	<u>8.2%</u>	<u>1.8%</u>	<u>1.1%</u>	<u>2.8%</u>

(1) Preliminary data.

Source: Central Bank.

The following table sets forth the relative contribution to real GDP of each of the sectors of the Costa Rican economy for the years 1998 through 2002.

Percentage of Real GDP by Sector

	For the Year Ended December 31,				
	1998	1999	2000	2001 ⁽¹⁾	2002 ⁽¹⁾
Agriculture, forestry and fishing	11.2%	10.8%	10.7%	10.6%	10.2%
Mining	0.1	0.1	0.1	0.1	0.1
Industrial manufacturing	21.9	25.3	24.1	21.9	21.7
Electricity and water	2.7	2.7	2.8	2.9	3.0
Construction.....	3.8	3.5	3.6	3.9	3.8
Wholesale and retail commerce, hotels and restaurants	18.9	17.8	17.8	18.0	17.9
Transportation, warehousing and telecommunications	9.1	9.0	9.7	10.5	11.3
Financial intermediation and insurance.....	3.5	3.5	3.8	4.0	4.1
Real estate	5.1	4.9	4.9	5.0	5.0
Other business services	2.3	2.4	2.8	3.3	3.4
Public administration	2.5	2.4	2.4	2.5	2.4
Community, social and personal services (excluding public administration)	10.9	10.4	10.5	10.6	10.5
Less: Financial intermediation services indirectly measured (FISIM)	2.1	2.1	2.4	2.4	2.7
Value added at basic prices	90.0	90.7	90.8	90.6	90.6
Less: Taxes (net of subsidies).....	10.0	9.3	9.2	9.4	9.4
GDP.....	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

(1) Preliminary data.

Source: Central Bank.

Industrial Manufacturing

Industrial manufacturing is a key sector of Costa Rica's economy, generating on average approximately 23.0% of real GDP since 1998 and accounting for approximately 73.7% of total exports and 19.3% of domestic employment in 2002. The most important manufacturing sub-sectors are food processing and beverage production, chemicals, textiles and the manufacture of wood and leather products. The rubber, processed foods and dairy products industries are also

significant exporters. The manufacturing sector absorbs a large share of agricultural and livestock production as raw material.

The industrial manufacturing sector grew by 2.2% in 2002 as compared to 2001, primarily due to an increase in electronic manufacturing and growth in production in Free-Trade Zones.

Exports from Free Trade Zone industries have experienced rapid growth in recent years. Value added exports from Free Trade Zones represented 35.0%, 53.9%, 50.5%, 46.7% and 48.2%, of Costa Rica's total exports in 1998, 1999, 2000, 2001 and 2002, respectively. Exports from Free Trade Zones increased by 9.12% in the first nine months of 2002 as compared to the same period in 2001. For the nine-month period ended September 30, 2002, exports of electronic components represented 16.0% of Costa Rica's exports.

The industrial manufacturing sector contracted by 8.4% in 2001 as compared to 2000, and by 2.9% in 2000 as compared to 1999, primarily due to a decrease in electronic component manufacturing by Intel Corp. resulting partially from its need to improve plant and equipment for the production of a new generation of products. In 2001, exports of electronic components from Intel Corp.'s facilities decreased 44.9% as compared to 2000 and by 35.3% in 2000 as compared to 1999.

The industrial manufacturing sector grew by 24.7% in 1999, primarily due to the 85.4% growth in production for exports in the Free Trade Zone industries. This sector grew by 11.4% in 1998, primarily due to an increase of 31.4% in production for export, particularly in the Free Trade Zone industries. The compounded annual growth rate of this sector between 1998 and 2002 was approximately 4.8%.

The following tables set forth information regarding manufacturing production for the periods indicated.

Manufacturing Sector Production Growth Index

	For the Year Ended December 31,				
	1998	1999	2000	2001 ⁽¹⁾	2002 ⁽¹⁾
Consumer goods					
Food, beverages and tobacco	148.2	151.8	150.0	151.6	139.0
Coffee	82.6	93.0	91.1	92.2	71.3
Beef	120.1	130.9	134.1	133.6	135.1
Sugar	137.7	138.7	137.9	134.1	133.5
Other foodstuffs	158.8	160.7	158.0	160.3	160.3
Textiles, clothing and leather	103.7	94.2	84.1	76.1	63.5
Wood, wood products and furniture	159.6	134.9	130.7	106.8	104.9
Paper, printing and publishing	124.1	133.2	135.5	121.0	120.1
Other	85.1	94.7	79.9	79.2	52.5
Intermediate goods					
Paper products	143.8	144.1	143.0	145.8	151.2
Chemicals, rubber and plastics.....	146.4	148.1	152.8	141.1	141.4
Petroleum refineries	16.6	(0.2)	(0.5)	152.8	566.3
Non-metallic minerals.....	153.6	156.9	168.6	181.9	178.6
Metals and machinery	156.6	154.0	148.3	137.6	148.0
Small manufacturing industries.....	102.3	98.6	100.5	103.5	103.5
In-bond	117.8	99.2	94.3	79.1	73.3
Free Trade Zones	1,054.6	2,754.6	2,561.4	1,936.3	1,995.0
Total output	153.9	191.9	186.3	170.6	172.1

(1) Preliminary data.

Source: *The Comisión Económica para América Latina (Economic Commission for Latin America) ("CEPAL"), based on Central Bank data and the Encuesta de Coyuntura Industrial (the "Industrial Opportunity Survey") of the Instituto de Investigaciones de Ciencias Económicas (the "Institute of Economic Research") of the University of Costa Rica.*

Rates of Real Growth of Manufacturing Production⁽¹⁾
(percentage change from previous year)

	For the Year Ended December 31,				
	1998	1999	2000	2001 ⁽²⁾	2002 ⁽²⁾
Food, beverages and tobacco	6.0%	2.4%	(1.2)%	(1.1)%	(8.3)%
Coffee	7.7	12.7	(2.1)	(1.2)	(22.7)
Beef	2.1	9.0	2.4	(0.4)	1.1
Sugar	11.7	0.7	0.6	(2.7)	(0.5)
Other foodstuffs	6.9	1.2	1.7	1.5	0.0
Textiles, clothing and leather	4.6	(9.2)	10.7	(9.5)	(16.6)
Wood, wood products and furniture	8.4	15.5	3.1	18.2	(1.8)
Paper, printing and publishing	3.8	7.4	1.7	10.7	(0.7)
Other	(30.4)	11.3	15.6	0.9	(33.7)
Intermediate goods					
Paper products	3.8	0.2	(0.8)	1.9	3.7
Chemicals, rubber and plastics	2.0	1.1	3.1	(7.7)	0.2
Petroleum refineries	89.6	N.A.	N.A.	N.A.	270.7
Non-metallic minerals	2.8	2.2	7.4	7.9	(1.8)
Metals and machinery	1.3	(1.6)	(3.7)	(7.2)	7.5
Small manufacturing industries	4.8	(3.6)	1.9	3.0	0.1
In-bond	0.8	(15.8)	(4.9)	(16.1)	(7.4)
Free Trade Zones	121.8	161.2	(7.0)	(24.4)	3.0
Total output Manufacturing Sector	<u>11.4%</u>	<u>24.7%</u>	<u>(2.9)%</u>	<u>(8.4)%</u>	<u>0.9%</u>

(1) See "Change in Methodology of Measuring Real GDP and in Reference Period for Determining Constant Prices."

(2) Preliminary data.

N.A. Not Available.

Source: CEPAL, based on Central Bank data and the Industrial Opportunity Survey of the Institute of Economic Research of the University of Costa Rica.

Wholesale and Retail Commerce, Hotels and Restaurants

The wholesale and retail commerce and hotels and restaurants sector, which captures a substantial portion of Costa Rica's gross tourism receipts, was the second largest sector of Costa Rica's economy from 1998 through 2002, generating on average approximately 18.6% of real GDP since 1998 and accounting for approximately 24.3% of domestic sector employment in 2002.

The wholesale and retail commerce and hotels and restaurants sector grew by 2.2% in 2002, as compared to 2001, and by 2.1% in 2001, as compared to 2000, primarily due to the sustained growth of the tourism sector since 1997. This sector grew by 1.5% in 2000, primarily due to an increase in tourism receipts. This sector grew by 2.4% in 1999 and by 8.5% in 1998, primarily due to an increase in receipts generated by tourism and an increase in retail sales resulting from the general increase in economic activity. The compounded annual growth rate of this sector between 1998 and 2002 was approximately 3.3%.

The Government has developed a number of initiatives to promote tourism over the past 17 years, and the tourism industry has expanded rapidly during this period. In 1985, Costa Rica enacted a law to encourage the growth of the tourism industry by granting this industry special tax exemptions, permitting accelerated depreciation on certain items and allowing duty-free imports of capital goods. As part of its objective to further reduce its fiscal deficit, the Government, after discussions with the tourism sector, eliminated certain incentives it had given to the tourism industry as of March 31, 1999.

Notwithstanding the elimination of these incentives, new investments in the sector are projected for the next three to five years. These projects include the US\$105.0 million investment by Four Seasons Hotels and Resorts in the Papagayo's tourist region, the US\$38.0 million, 350 room expansion of Hotel Costa Smeralda, the inauguration of the US\$21.0 million Alegro Papagayo Hotel, and the proposed US\$10.0 million Hilton Airport Hotel. During 2000, investments in tourism projects totaled approximately US\$204.0 million, compared with US\$24.2 million during 1999.

In 2002, investments in the tourism sector reached approximately US\$47.7 million, including an investment of US\$10.5 million in the Hotel Comfort Santa Ana, an investment of US\$9.1 million in the Hotel Courtyard Escazú, and an investment of US\$6.4 million in the Hotel Hampton Inn & Suites.

Between January 1 and October 31, 2002, Costa Rica hosted approximately 911,200 foreign tourists arriving by all ports, excluding excursionists arriving by cruise ship, a decrease of approximately 2.8% from the number of foreign tourists, excluding excursionists arriving by cruise ship, arriving by similar transportation for the same period in 2001. During the 10 months ended October 31, 2001, the tourists visiting Costa Rica originated primarily in North America (45.7%), Europe (13.6%), Central America (28.9%) and Asia (2.0%).

In 2001, Costa Rica hosted approximately 1,131.4 million foreign tourists, an increase of approximately 3.4% over 2000. In 2000, Costa Rica hosted approximately 1,088.1 million foreign tourists as compared with approximately 1,031.6 million in 1999, an increase of approximately 5.5%. The total amount of tourism receipts increased by approximately 18.6% during the same period. In 2000, the average stay of foreign tourists was 10.8 days and each tourist spent an average of US\$1,129.0 per visit.

Tourism was the major source of foreign exchange for Costa Rica in 1996 through 2002, surpassing exports of bananas in 1996 and exports of all traditional products (bananas, coffee, beef and sugar) in 1999. The *Instituto Costarricense de Turismo* (Costa Rican Institute of Tourism) is the principal governmental entity responsible for the promotion and regulation of the tourism industry.

The following table sets forth certain information with respect to the number of tourists and excursionists and the amount of tourism and excursion receipts for the periods indicated.

	Tourism Receipts ⁽¹⁾		Excursion Receipts ⁽²⁾	
	Amount (in millions)	Tourists (in thousands)	Amount (in millions)	Excursionists (in thousands)
1998	883.5	942.9	21.4	213.6
1999	1,036.1	1,031.6	21.5	236.5
2000	1,229.2	1,088.1	18.7	189.8
2001	1,095.5	1,131.4	17.9	188.6
Jan-Oct 2001	907.4	937.1	13.4	141.4
Jan-Oct 2002	891.9	911.2	N.A.	N.A.

(1) Does not include excursionists on cruise ships disembarking at Costa Rican ports.

(2) Includes excursionists on cruise ships disembarking at Costa Rican ports.

N.A. Not Available.

Source: Central Bank.

Transportation, Warehousing and Telecommunications

The telecommunications segment of the transportation, warehousing and telecommunications industry in Costa Rica is controlled by *Instituto Costarricense de Electricidad* (“ICE”), the sole provider of telecommunications services in Costa Rica, and its subsidiaries. The transportation, warehousing and telecommunications sector was the third largest sector in 2002 and grew by 11.0% in 2002 as compared to 2001, primarily due to an increase in demand for telecommunications and cellular communication services of ICE and *Radiografica Costarricense Sociedad Anonima* (“RACSA”). The transportation, warehousing and telecommunications sector grew by 8.7% in 2001 as compared to 2000, primarily due to a rise in cellular telephone and internet services. In 2000, the transportation, warehousing and telecommunications sector grew by 10.2% as compared to 1999, primarily due to an increase in the volume of international trade and an increase in the demand for long-distance and data telecommunications services principally associated with the growth in call-center services, such as those related to logistics, technical support and similar services.

This sector grew by 6.9% in 1999, primarily due to an increase in the volume of international trade and an increase in the demand for long-distance and data telecommunications services. This sector grew by 8.1% in 1998, primarily due to an increase in the volume of international trade and an increase in the demand for long-distance and data telecommunication services. The compounded annual growth rate of this sector between 1998 and 2002 was approximately 9.0%.

Telecommunications. The installation of the “Maya” underwater cable was completed in October 2000 and began operations in December 2000. The underwater cable is used to connect with other underwater telecommunications cable systems and has terminal points in Costa Rica, the United States, Mexico, the Cayman Islands, Honduras, Panama and Colombia. The total cost of the “Maya” project was approximately US\$200.0 million, of which ICE contributed US\$10.0

million. In April 2002, ICE completed a project for the installation of Arcos underwater cable for the transmission of data and voice at a faster rate than fiber optic.

Currently, ICE is working on the “Demanda Cero” project, which seeks to address the demand for domestic telephone lines. ICE's short-term plan to meet the country's demand includes the creation of projects to satisfy such demand within one year by, among other things, the installation of a fiber optic network between the borders of Nicaragua and Panama and the upgrading of the telecommunications network through the introduction of ATM technology. This project is expected to be completed in 2004.

ICE is authorized to sell 400,000 new cellular phone lines, and it has executed a contract with Alcatel which will allow ICE to acquire 400,000 GSM (Global System Mobil) cellular lines for US\$151.0 million, payable in six years. ICE expects that the services will satisfy domestic demand and expects to open 15,000 cellular lines per month, beginning on December 15, 2002. This expansion is expected to double ICE's current cellular phone capacity.

Airports. In 2000, *Gestión Aeroportuaria AGI de Costa Rica, S.A.* (“Gestión AGI”), a company formed by the international firms Airport Group International, Bechtel Enterprises and Bechtel Corporation and local firms Motorola de Costa Rica, S.A., EDICA Ltda., CORMAR and Agencias Datsun, was awarded a 20-year contract for the operation, administration, maintenance, restoration, financing, construction and promotion of the Juan Santamaría International Airport in San José. Pursuant to the contract, the airport remains the property of the Government. Gestión AGI is responsible for the administration of the airport and is required to make capital improvements to the airport over the life of the contract at an estimated cost of US\$180.0 million, of which improvements estimated at US\$100.0 million must be made within the first three years of the concession. During 2002, it is estimated that Gestion AGI spent US\$24.8 million on construction of the airport and that it will spend US\$23.0 million in 2003 on additional airport construction.

Highways. There are a number of projects, both proposed and underway, related to the construction, maintenance and repair of the Costa Rican highway system. In 1999, the government of Taiwan granted Costa Rica the funds for construction of a bridge over the Tempisque River in Guanacaste Province. The funds were granted pursuant to a reciprocal foreign investment promotion and protection treaty between Costa Rica and the Republic of China (Taiwan), under which Taiwan may grant loans to Costa Rica in an amount of up to US\$82.0 million for public infrastructure and other projects. Construction of the Tempisque bridge is expected to be completed in the first quarter of 2003, for a total cost of US\$27.0 million. The access road to this bridge is expected to be completed in March 2003 at a cost of US\$7.0 million.

In September 2000, the National Concessions Board canceled the US\$25.0 million Bernardo Soto Highway contract previously awarded to Mariscal Hermanos, S.A. de C.V. (“Marhnos”) after Marhnos was unable to close financing and complete work on the project. The Government has exercised its right to retain the US\$1.0 million guarantee provided by Marhnos. Marhnos has filed a claim against the Republic with the *Tribunal Contencioso Administrativo* (Administrative Tribunal for Disputes) challenging the validity of the cancellation of the concession. The trial is scheduled to begin in March 2003.

The contract for the construction of the San Jose-Caldera Highway corridor, valued at US\$150.0 million, was awarded to the Costa Rica-Argentinean company, Cartelone-Acosol, in December 2001. Construction of the highway is expected to begin in August 2003.

In April 2002, the Government signed a contract for the US\$125.0 million San José-Puerto Caldera highway concession with Cartelone-Acosol, a Honduran-Argentine consortium, which was

the sole bidder for the concession. The National Concessions Board also expects to auction two concessions to construct two expressways through the outskirts of San José requiring an aggregate investment of approximately US\$250.0 million. Currently, the project is on hold due to a legal action commenced by ACOSOL commenced in 2001. See “— Government Participation in the Economy; Privatization and Deregulation — *Privatization and Deregulation.*”

The Government plans to award concessions to private entities for the construction, maintenance and repair of highways. The *Consejo Nacional de Concesiones* (National Concessions Board) (the “National Concessions Board”) has created a US\$168.0 million concession for the upgrade and operation of the San José-San Ramon Highway corridor. This concession is a merger of existing concession projects, bringing together the General Cañas Highway and the Bernardo Soto Highway projects, as well as a project to construct an east-west highway in San José. Work on the highway is expected to start in 2003.

Costa Rica also plans to expand the roads on the Florencio del Castillo highway for a total cost of US\$83.0 million. The bidding process is scheduled to begin in June 2003.

Additionally, Taiwan has donated US\$2.0 million to Costa Rica for the design of the Naranjo-Florencia highway, which is estimated to cost a total of US\$5.0 million. Construction is expected to begin during the first quarter of 2003 and is expected to be completed in 2008.

Costa Rica expects to begin construction of Baru-Quepos Highway at the end of 2003 for a total cost of approximately US\$82.0 million. The project is expected to be financed by IECB.

Port and Rail Facilities. In 2001, a concession to upgrade and operate the country's railroad network was not awarded since the only bid submitted did not meet the terms of the concession. The concession was to upgrade, manage, operate and expand the national railroad network, which ceased operations in June 1995. The required investment is estimated to be approximately US\$65.0 million for the 25 year concession. See “— Government Participation in the Economy; Privatization and Deregulation — *Privatization and Deregulation.*”

In 2001, the National Concessions Board and the *Instituto Costarricense de Puertos del Pacífico* (Costa Rican Institute of Pacific Ports) solicited bids for five concessions for the modernization of the grain and tuna terminal facilities located in ports on the Pacific Ocean. Two concessions did not receive any bids, one was awarded to the sole bidder, and the remaining two sought but lost appeals. Written agreements with each of the prevailing bidders are expected to be finalized in June 2003. See “— Government Participation in the Economy; Privatization and Deregulation — *Privatization and Deregulation.*”

Taiwan's Development and Cooperation Fund is also financing a project relating to the expansion and equipment of the Dock of Moin in Puerto Limón with a US\$15.0 million loan.

Other. In 2002, Costa Rica authorized Consorcio M.T.C. – Hale Mirrs Morris Architects to build a penitentiary at a total cost of approximately US\$70.0 million. Construction has not yet begun, pending the outcome of an action brought by the public against the Republic with respect to the proposed cost of the construction.

Community, Social and Personal Services

The community, social and personal services sector of the economy is the fourth largest sector and consists of all health, education, entertainment, cleaning and domestic and professional association services. This sector grew by 5.8%, 3.4%, 2.6%, 1.8% and 1.9% in 1998, 1999, 2000,

2001 and 2002, respectively. The rate of growth has been decreasing as a result of a slowdown in economic activity. The compounded annual growth rate of this sector between 1998 and 2002 was approximately 3.1%.

Agriculture, Forestry and Fishing

Agriculture, forestry and fishing is the fifth largest sector of Costa Rica's economy, generating approximately 10.2% of real GDP in 2002. In 2002, the agriculture, forestry and fishing sector contracted by 1.0% as compared to 2001, principally due to a reduction in market prices for the country's traditional export products. In 2001, this sector accounted for approximately 10.6% of real GDP, approximately 25.4% of total exports and approximately 15.7% of domestic employment. The compounded annual growth rate of this sector between 1998 and 2002 was approximately 2.6%. During the last 11 years, Costa Rica has maintained a surplus trade balance with respect to agricultural products. Costa Rica's principal cash crops are coffee, bananas and sugar cane, the majority of which are grown for export.

In 2001, the agriculture, forestry and fishing sector increased by 0.7% as compared to 2000, principally due to an increase in the value of coffee and poultry, partially offset by a decrease in world-wide coffee prices. In 2000, the agriculture, forestry and fishing sector grew by 0.7% as compared to 1999, principally due to a 10.7% increase in the fishing sector, partially offset by a decline in the volume of banana exports as well as decreases in international banana and coffee prices. During 2000, traditional agricultural exports declined to an estimated US\$877.8 million and imports declined to an estimated US\$141.7 million.

This sector grew by 4.5% in 1999, in spite of adverse weather conditions including the effects of *El Niño* and *La Niña*. During 1999, traditional agricultural exports reached an estimated US\$969.4 million and imports reached an estimated US\$151.7 million. This sector grew by 8.2% in 1998 in spite of the adverse effects on the coffee, banana and sugar cane crops caused by Hurricane Mitch and other adverse weather conditions including *El Niño* and *La Niña*. The growth in this sector in 1998 was primarily due to increases in banana and sugar cane production.

Costa Rica signed a free trade agreement with Mexico in April 1994, which became effective January 1, 1995. During 1998, 1999 and 2000, pursuant to the free trade agreement, Mexico granted Costa Rica quotas to export beef, milk, powdered cocoa and processed sweeteners for soft drinks to Mexico. Export quotas were increased in 2001 for all these products, except powdered cocoa. See "Balance of Payments and Foreign Trade—Foreign Trade."

Coffee. For the nine months ended September 30, 2002, Costa Rica produced the third largest coffee harvest in Central America and the fourteenth largest harvest in the world. The highest quality Costa Rican coffee is produced in the Central Valley region and the nearby highlands known as the *Zona de los Santos* (Zone of the Saints), which together cover approximately 253,000 acres. Costa Rica's coffee producers have obtained the highest yield per acre in the world since the 1989-90 harvest. The average price of Costa Rican coffee exports (measured per 100-pound bag) was US\$140.3, US\$103.1, US\$95.3, US\$61.5 and US\$66.0 in 1998, 1999, 2000, 2001 and 2002 respectively.

Historically, coffee exports have been subject to volatile prices in the international markets. On October 1, 1992, Costa Rica, Brazil, Colombia, Mexico and the other Central America nations formed the *Asociación de Países Productores de Café* (Association of Coffee Producing Countries) (the "Association of Coffee Producing Countries") with the objective of acting jointly on issues related to coffee, including joint actions to withhold specified quantities of exportable coffee during periods of low commodity prices. Costa Rica is also a member of the *Organización Internacional*

del Café (International Coffee Organization) (the “International Coffee Organization”). All restrictions on the quantity of coffee that can be exported by a member of the International Coffee Organization were eliminated in July 1992. However, in an effort to boost coffee prices, each member of the Association of Coffee Producing Countries agreed to withhold 20.0% of its exportable coffee, effective as of October 1, 2000. Currently, there is no plan to withhold exportable coffee and there are no coffee exportation quotas.

The downturn in international market conditions and the resulting decrease in international prices of coffee have prompted a number of countries, including Costa Rica, to destroy 5.0% of their lowest-quality exportable coffee. Costa Rica implemented this practice on October 1, 2001. The intent is to reduce the world's coffee supply by withholding quantities of inferior-quality coffee from the market, which Costa Rica plans to use for purposes other than consumption.

The volume of exported coffee production in 2002 reached approximately 2.7 million 100-pound bags of coffee. For 2001, the volume of exported coffee production was 2.8 million 100-pound bags of coffee, which was a decrease from the approximately 3.1 million 100-pound bags of exported coffee production in 2000. The United States and Germany have historically been the biggest importers of Costa Rican coffee, together purchasing approximately 56.3% of the coffee exported by Costa Rica in 2002. Italy, The Netherlands and Japan also imported significant quantities of Costa Rican coffee during 2002.

For the nine months ended September 30, 2002, coffee export earnings increased 4.8% as compared to the same period in 2001, to US\$142.3 million, primarily due to a 7.1% increase in international coffee prices, partially offset by a 2.1% decline in the volume of coffee exports. In 2001, coffee export earnings decreased by 4.9% as compared to 2000 to US\$161.8 million, representing 3.2% of total value of exports (f.o.b.). This decrease was primarily due to a 38.8% decline in international coffee prices. In 2000, coffee export earnings decreased by 5.8% as compared to 1999 to US\$272.0 million, representing 4.6% of total value of exports (f.o.b.), primarily due to an 8.1% decline in international coffee prices, partially offset by a 7.0% increase in the volume of coffee exports. In 1999, coffee export earnings decreased by 29.5% to US\$288.7 million, representing 4.3% of total value of exports (f.o.b.), primarily due to a 26.5% decline in international coffee prices and a 4.0% decline in the volume of coffee exports.

In 1998, coffee export earnings increased by only 1.8% to US\$409.4 million (representing 7.4% of total value of exports (f.o.b.)), primarily due to significant crop damage caused by Hurricane Mitch and other adverse weather conditions including *El Niño* and *La Niña* as well as a 3.1% decrease in international coffee prices.

Bananas. For the past 11 years, Costa Rica has been the second largest exporter of bananas in the world. Costa Rica's banana plantations are situated on the Caribbean plain and the southern Pacific coast. The banana industry is the country's largest employer. Historically, banana exports have been subject to fluctuating prices in the international markets. The average price per metric ton of exported Costa Rican bananas was US\$310.5, US\$298.7, US\$276.7, US\$280.7 and US\$280.9 in 1998, 1999, 2000, 2001 and 2002, respectively.

In 1994, Costa Rica, Colombia, Venezuela and Nicaragua signed the *Acuerdo Marco del Banano* (Framework Agreement) (the “Framework Agreement”) with the European Union (the “EU”) pursuant to which Costa Rica received the right to supply 23.4% of the EU quota of 2.2 million metric tons of bananas assigned to Latin American nations, which quota was subsequently increased to 2.5 million metric tons. In May of 1996, the WTO initiated an investigation based on a petition filed by Ecuador, Guatemala, Honduras, Mexico and the United States, requesting a review of the EU banana importing regime including the Framework Agreement, and in May 1997,

the WTO found certain elements of the system to be inconsistent with WTO principles. The EU then introduced some changes to this system including a reallocation of quotas to banana exporters. Costa Rica was allocated 25.6% of the European banana market quota. In response to appeals by the EU of the WTO's finding, the WTO upheld its decision in March 1998 and April 1999. On December 19, 2000, the European Union approved a proposal for a new banana regime based on a "first come, first served" basis. In April 2001, the European Union established that 83.0% of banana exports to the European Union are to be allocated to traditional operators, such as Chiquita, Dole and Del Monte, who produce most of the bananas exported from Costa Rica. The remainder are to be allocated to non-traditional operators. Costa Rica continues to export under the Framework Agreement and expects to do so until the new allocations are adopted.

For the nine-month period ended September 30, 2002, the value of exports (f.o.b.) of bananas decreased by 5.3% to US\$371.4 million (representing 9.5% of total value of exports (f.o.b.)) as compared to the same period in 2001, principally due to a 5.3% decline in the volume of banana exports, partially offset by a 0.1% increase in international banana prices. The value of exports (f.o.b.) of bananas decreased by 5.6% to US\$516.0 million in 2001 (representing 10.3% of total value of exports (f.o.b.)) as compared to 2000, principally due to a 0.1% increase in international banana prices and a 5.3% decline in the volume of banana exports.

The value of exports (f.o.b.) of bananas decreased by 12.4% to US\$546.5 million in 2000 (representing 9.4% of total value of exports (f.o.b.)) as compared to 1999, principally due to a 7.1% decline in international banana prices and a 6.1% decline in the volume of banana exports.

The value of exports (f.o.b.) of bananas decreased by 6.6% to US\$623.5 million in 1999, representing 9.4% of total value of exports (f.o.b.), principally due to a 3.7% decline in international banana prices and a 2.1% decline in the volume of banana exports.

The value of exports (f.o.b.) of bananas increased by 15.6% to US\$667.5 million in 1998, representing 12.1% of total value of exports (f.o.b.), primarily due to a 6.5% increase in the volume of bananas exported and an increase of approximately 8.6% in the international market price of bananas.

The following table sets forth Costa Rica's percentage of output from farming production represented by selected primary products for the periods indicated.

Percentage of Output From Farming Production by Product⁽¹⁾
(with base in real amount)

	For the Year Ended December 31,				
	1998	1999	2000	2001	2002
Crops					
Bananas	21.9%	20.3%	18.6%	17.4%	16.7%
Coffee	11.9	12.3	12.3	11.7	10.0
Sugar Cane	4.9	4.7	4.4	4.4	4.5
Rice	2.8	3.3	3.3	2.2	2.1
Potatoes	1.5	1.2	1.2	1.4	1.4
Beans	0.3	0.4	0.4	0.4	0.3
Plantains	0.7	0.5	0.5	0.5	0.6
Other	28.1	28.9	30.6	33.2	35.2
Crop total	72.3	71.6	71.2	71.2	70.7
Livestock					
Beef	6.2	6.6	6.7	5.7	5.2
Milk	9.2	9.5	9.6	9.7	10.2
Pork	1.3	1.4	1.5	1.8	1.9
Poultry	2.6	2.9	3.1	3.3	3.6
Eggs	0.8	0.8	0.8	0.9	0.9
Livestock total	20.1	21.1	21.8	21.4	21.9
Agricultural improvements	2.5	2.3	1.7	1.5	1.5
Wood	2.5	2.4	2.5	2.8	2.9
Fishing	2.7	2.5	2.8	3.0	3.1
Total output	100.0%	100.0%	100.0%	100.0%	100.0%

(1) See "Change in Methodology of Measuring Real GDP and in Reference Period for Determining Constant Prices."

Source: Central Bank.

The following table sets forth the rates of real growth of farming production of selected primary products for the periods indicated.

Rates of Real Growth of Farming Production by Primary Products⁽¹⁾
(percentage change from previous year)

	For the Year Ended December 31,				
	1998	1999	2000	2001	2002
Crops					
Bananas.....	22.1%	(3.2)%	(7.8)%	(5.4)%	(5.1)%
Coffee.....	(0.6)	8.3	0.1	(4.0)	(15.2)
Sugar Cane.....	9.5	(1.4)	(4.3)	(1.2)	1.8
Rice.....	12.7	22.0	(8.3)	(25.3)	(8.9)
Potatoes.....	1.0	(18.9)	3.0	12.1	0.0
Beans.....	(27.9)	37.0	(1.9)	(0.9)	(22.8)
Plantains.....	17.2	(23.4)	(14.2)	17.5	3.2
Cocoa.....	(35.2)	(21.4)	(29.0)	4.1	0.0
Corn.....	(5.3)	(2.4)	(29.3)	(31.2)	(11.9)
Tobacco.....	19.1	(46.4)	(26.6)	(40.8)	(40.0)
Manioc.....	8.1	16.3	(3.8)	2.0	6.2
Onion.....	(28.4)	10.6	(3.1)	36.3	(6.8)
Other.....	2.4	7.3	6.6	9.1	4.8
Crop total.....	7.9	3.5	(0.2)	1.0	(1.8)
Livestock					
Beef.....	11.5	10.5	2.8	(15.3)	(9.0)
Milk.....	9.9	8.0	2.2	2.1	4.0
Pork.....	17.4	16.1	10.8	18.8	5.0
Poultry.....	8.9	15.1	8.9	5.4	10.0
Eggs.....	(11.2)	3.5	7.4	9.4	0.8
Livestock total.....	9.7	10.0	4.0	(1.3)	(1.4)
Agricultural improvements.....	14.0	(1.9)	(26.7)	(8.0)	(5.7)
Wood.....	8.6	1.3	6.6	12.8	0.2
Fishing.....	0.0	(0.9)	17.0	4.6	0.0
Total output.....	<u>8.2%</u>	<u>4.5%</u>	<u>0.7%</u>	<u>(0.5)%</u>	<u>(1.0)%</u>

(1) See "Change in Methodology of Measuring Real GDP and in Reference Period for Determining Constant Prices."

Source: Central Bank.

Electricity and Water

As of October 31, 2002, 89.6% of the electric power utilized in Costa Rica was generated by ICE. The remainder of Costa Rica's electric power was generated by other public sector entities and private power producers. As of October 31, 2002, the total electric power generation capacity of the Costa Rican electricity sector was 1,945.8 megawatts. In 2002, the electricity and water sector grew by 5.2%, which was greater than the rate of growth in 2001, due to a slowdown in the economy.

In 2001, the electricity and water sector grew by 4.1%, which was lower than the rate of growth in 2000, due to a slowdown in the economy. The electricity and water sector grew by 6.4% in 2000 as compared to 1999, principally due to an increase in residential consumption and the demand generated by electronic component manufacturing. This sector grew by 6.2% in 1999, principally due to an increase in residential consumption, an increase in public lighting services and the demand generated from Intel Corp.'s two plants. This sector grew by 8.7% in 1998, primarily due to the general increase in industrial manufacturing. Residential demand has been increasing steadily for the past several years. The compounded annual growth rate of this sector between 1998 and 2002 was approximately 6.1%.

The Angostura hydroelectric plant began operations on December 3, 2000. The Angostura hydroelectric plant has a generation capacity of 177 megawatts, and has increased the national interconnected system's energy capacity by more than 12.0%. The Peñas Blancas hydroelectric project began operations in September 2002 with a generation capacity of 37 megawatts. The project cost approximately US\$70.0 million.

In 2002, the Legislative Assembly approved a loan to be made by the Inter-American Development Bank to finance a project called the *Sistema de Interconexion Eléctrico* (the Electric Interconnection System) ("SIEPAC"). The entire project is estimated to cost US\$320.0 million and the bank has agreed to lend an aggregate of US\$240.0 million to Costa Rica, Guatemala, Panama and other Central American countries to implement this system. The Electric Interconnection System is expected to run between Panama and Guatemala and to begin operations in 2006.

During 2001, ICE obtained a US\$154.0 million credit from the Japan Bank for International Cooperation ("JBIC") for the financing of the Pirris Hydroelectric Plant. ICE began construction of the plant in 2001. This plant is expected to open in 2007 with a generation capacity of 128 MW. In 2002, the project was funded by individual funds and by *Banco Centroamericano de Integración Económica* ("BCIE").

ICE is also building a plant in Moín, which is expected to open in 2003, with a generation capacity of 72 MW, and a plant in Boruca, which is expected to open in 2012, with a generation capacity of 832 MW.

Costa Rica's National Concessions Board and *Instituto Costarricense de Acueductos y Alcantarillados* (Costa Rican Institute of Aqueducts and Sewers) expect to award a 20-25 year concession to upgrade, construct and operate sewerage infrastructure in the San José metropolitan region.

Construction

The construction sector decreased by 1.0% in 2002 as compared to 2001, primarily due to a slowdown in construction demand. The construction sector grew 11.4% in 2001 as compared to 2000, primarily due to the low prices of raw materials and stable interest rates. The increase in

public investment also contributed to the sector's growth. The construction sector experienced 4.4% growth in 2000 as compared to 1999, primarily due to growth in highway construction. In 1999, this sector contracted by 1.6% primarily due to an increase in domestic interest rates in late 1998 which rate increases slowed the growth of construction in the private sector as a result of the contraction in the availability of credit.

This sector grew by 17.4% in 1998, primarily due to an increase in private construction, particularly residential, industrial and commercial construction, resulting from the overall growth of the economy. The compounded annual growth rate of this sector between 1998 and 2002 was approximately 5.9%.

Real Estate

The real estate sector, which consists of sales and rentals of real property, grew by 2.9%, 3.4%, 2.3%, 3.1% and 2.0% in 1998, 1999, 2000, 2001 and 2002, respectively, primarily due to a decrease in the construction sector. The compounded annual growth rate of this sector between 1998 and 2002 was 2.7%.

The Legislative Assembly enacted legislation in November 2001 approving a US\$65.0 million loan from the IADB to finance the studies required to develop a program to update the official real estate registry. The Government expects to contribute US\$27.0 million to this project. The program's objective is to (i) improve and modernize the official real estate registry, (ii) resolve any conflicts, and prevent any future conflicts, regarding legal rights in real estate, and (iii) strengthen the municipal governments' authority through the use of the official real estate registry. The Government anticipates that private investment in real estate will increase as a result of the establishment of a reliable real estate registry. Work on this project commenced in November 2002.

Financial Intermediation and Insurance

In 2002, the financial intermediation and insurance sector grew by 5.3% due to a reduction in the minimum reserve requirements for commercial banks, which increased the industry's ability to make loans. In 2001, the financial intermediation and insurance sector grew by 4.4% due to an increase of deposits in the banking system and an increase in revenues from financial services. This sector grew by 10.4% in 2000 and 9.4% in 1999, principally due to an increase in revenues from financial services. This sector grew by 6.5% in 1998, primarily due to an increase in the domestic demand for credit. The compounded annual growth rate of this sector between 1998 and 2002 was 7.2%. For a more detailed discussion of the activities of this sector, see "Monetary System — Financial Sector."

The Legislative Assembly is considering legislation to reform Costa Rica's insurance law by creating an Insurance Superintendency, establishing capital requirements for the insurance and reinsurance industry, regulating all types of insurance activities and regulating all participants in the insurance sector. There is no assurance that this legislation will pass, or what the effect of such proposed legislation, if passed, will be.

To improve supervision of the banking system, the Central Bank promulgated regulations, which became effective in January 1999, requiring Costa Rican banks to present financial information on a consolidated basis, including their offshore operations, which were not previously subject to supervision. Under these regulations, financial groups are required to file with CONASSIF quarterly financial information on a consolidated basis, including their offshore subsidiaries. Additionally, CONASSIF has authorized SUGEF to require each Costa Rican

financial group to disclose the identity of its direct and indirect shareholders and has established measures to reduce the total credit risk of such financial groups.

Government Participation in the Economy; Privatization and Deregulation

The Costa Rican Government has worked to promote competition in the economy by opening various industries, including energy, telecommunications and insurance, which have been historically controlled by the Government, to private participation and supporting private sector participation in the economy generally. Over the last five years, the Government has:

- improved registration procedures for businesses, particularly in the tourism and export sector;
- improved procedures for the storage and transport of dangerous materials;
- added generic labeling of non-edible products that provides more information to the user; and
- passed legislation to protect against excessive administrative procedures and requirements.

Government Participation in the Economy

Costa Rica's economic policy generally seeks to adhere to market-oriented principles. An important element of the Government's economic policy is the promotion of competitive domestic markets. Costa Rican competition and consumer protection laws (i) regulate and proscribe large- and small-scale anti-competitive economic behavior, (ii) promote consumer protection and education, and (iii) from 1995 on, have lifted onerous regulatory restrictions on commercial activity, including licensing requirements for imports and exports.

As part of its program to promote competition in domestic markets, the Government has implemented an initiative to streamline regulation of commercial activity, including registration and licensing requirements. This initiative has been implemented pursuant to Costa Rica's competition laws, which provide that regulatory requirements should not impede the flow of commerce. Since October 1998, the *Comisión Nacional de Desregulación* (National Deregulation Commission) (the "National Deregulation Commission") has coordinated this initiative.

The goal of the National Deregulation Commission is to replace any unnecessary or burdensome regulations with simpler and more efficient ones and to prevent enactment of any unnecessary regulations. The program is designed to establish clear, objective and simple rules, eliminate confusion and complexity with respect to laws concerning commercial activity and establish basic, efficient and balanced rules and regulations. Among the 34 initiatives taken since January 1999 to streamline the regulation of commercial activity, the Government has taken measures to:

- simplify procedures to obtain concessions in the *Zona Marítima Terrestre* (Maritime Zone);
- modify technical and legal requirements to qualify for the Free Trade Zones;
- simplify registration of animal medications;

- simplify the requirements for obtaining construction permits;
- simplify the requirements and reduce the length of time required to receive business permits;
- reduce costly regulations in the agricultural sector;
- simplify labeling requirements on non-food products;
- simplify the requirements for the registration of fertilizers and obtaining operational permits;
- simplify the registration of agricultural products;
- modify the technical and legal requirements for constructing tourist projects; and
- modify the registration of dangerous products.

The Republic supports the participation of private enterprise in most sectors of the economy, but historically has retained control of certain strategic and other important sectors through state-owned companies. The Government controls, directly or indirectly, energy generation, transmission, distribution and commercialization, rail transportation, postal service, telecommunications, oil refining, water and sewage services, insurance and the production of alcohol (other than beer and wine).

Telecommunications and Electricity. ICE, the state-owned telecommunications and electric power company, is the largest commercial electricity enterprise in Central America, with total revenues equivalent to approximately 4.8% of Costa Rica's GDP in each of 2001 and 2002. ICE is an integrated power utility, generating, transmitting, distributing and commercializing electricity throughout Costa Rica. ICE also provides all telecommunications services (fixed land line and cellular) in Costa Rica.

Beginning in 1992, the Government has permitted the generation of power by the private sector from hydroelectric and non-conventional facilities, so long as the amount generated does not exceed 30.0% of the total capacity of the national power system.

In December 1998, the Government introduced legislation in the Legislative Assembly to restructure ICE and to liberalize the energy and telecommunications sectors. On March 20, 2000, the Legislative Assembly approved the legislation on a preliminary basis. Demonstrations and public protests against the legislation followed this approval. Subsequently, the Constitutional Branch found a series of procedural flaws with the legislation which, in the opinion of various deputies of the Legislative Assembly, were insurmountable. As a result, the legislation was removed from the legislative agenda.

Petroleum. RECOPE, the state-owned and sole petroleum refinery in Costa Rica, imports and refines combustible fuels. Although the refinery has the capacity to refine approximately 15,000 barrels of crude oil per day, the refinery did not operate in 1999 or 2000 because imported refined products were less expensive than products produced by RECOPE. RECOPE's revenues represented approximately 5.2% of GDP in 2002.

RECOPE is developing a project named "Polioducto Limón-La Garita," which is expected to begin operation in 2006 and provide sufficient fuel transportation capacity for the following 15

years. This project entails the installation of an underground pipeline, and the construction of two pumping stations in Limón and Turrialba. The first stage of construction of the 13 Km of new line linked to three pumping stations already in existence (Limón, Siquirres and Turrialba) was constructed by RECOPE in 1998 and 1999. The second stage, consisting of the construction of 22.2 Km of line in the section of Limón-Siquirres and 5.6 Km in the section of Siquirres-Turrialba as a continuation to the 13 Km constructed in the first stage, was completed in September 2002 at an approximate cost of US\$5.5 million. The third and final stage of the project will consist of laying approximately 135 Km of pipeline and the construction of two new pumping stations in Limón and Turrialba at a cost of approximately US\$65.0 million. The pipeline is expected to start operations in 2006.

Hydrocarbons. This government agency is responsible for the development and supervision of the Costa Rican petroleum sector. It initiated two bidding processes for the exploration and exploitation of certain specified geographic areas. The first concession was granted to MKJ Xploration Inc. and the second concession was granted to Mallon Oil Company. Subsequently, MKJ Xploration Inc. assigned 80.0% of its rights and obligations under the concession to Harken Oil Company. The Government approved the assignment of the concession granted to MKJ Xploration to Harken Oil Company, in accordance with the requirements of Hydrocarbons Law No. 7399. The Government has decided not to proceed with these projects due to the possible environmental risk involved.

Insurance. All insurance activities (insurance and reinsurance) are conducted by INS, which had revenues representing approximately 2.5% of GDP in 2001 and 1.9% of GDP in 2002. The reduction in 2002 was due to changes in INS' accounting methodologies. The Commission on Economic Affairs of the Legislative Assembly has drafted legislation to reform the insurance laws. There is no assurance that this legislation will pass, or what the effect of such proposed legislation, if passed, will be. See “— Principal Sectors of the Economy — *Financial Intermediation and Insurance.*”

Commercial Banking. The Government also participates in the financial sector, in competition with the private sector, through three independent commercial banks whose combined total revenues represented approximately 3.7% of GDP in 2002 and 2.2% of GDP in 2001. This increase in 2002 was primarily due to a decrease in the minimum reserve requirements, because such reduction increases the amount of money banks have available to lend. See “Monetary System — Financial Sector.”

Postal Services. In 1998, the Government legally restructured the Government postal agency into a state-owned corporation, *Correos de Costa Rica S.A.*, thereby removing certain regulatory restrictions on its operations.

The following table sets forth certain information with respect to the principal entities controlled by the Government and their revenues and expenditures for 2002.

Principal State-Owned Corporations and Autonomous Institutions⁽¹⁾
(in millions of U.S. dollars and as a percentage of GDP)

Company	Acronym	Activity	For the Year Ended December 31, 2002					
			Total Revenues		Total Expenses		Net Income	
Instituto Costarricense de Electricidad.....	ICE	Electricity and telecommunications	\$814.8	4.8%	\$842.8	5.0%	\$27.9	(0.2)%
Refinadora Costarricense de Petróleo.....	RECOPE	Refining and importation of petroleum	879.5	5.2	876.6	5.2	2.9	0.0
Instituto Nacional de Seguros ⁽²⁾	INS	Insurance	422.6	2.5	358.1	2.1	64.6	0.4
Banco Nacional de Costa Rica ⁽²⁾ ..	BNCR	Commercial Bank	344.6	2.0	333.9	2.0	10.7	0.0
Banco de Costa Rica ⁽²⁾	BCR	Commercial Bank	224.3	1.3	193.7	1.1	30.6	0.2
Banco de Crédito Agrícola de Cartago ⁽²⁾	BCAC	Commercial Bank	67.7	0.4	63.6	0.4	4.0	0.0
Junta de Protección Social de San José.....	JPS	Lotteries and social services	117.1	0.7	111.6	0.7	5.4	0.0
Instituto Costarricense de Acueductos y Alcantarillados .	ICAA	Water and sewage services	80.3	0.5	80.5	0.5	(0.2)	0.0
Consejo Nacional de la Producción.....	CNP	Marketing of agricultural products	45.0	0.3	42.3	0.3	2.7	0.0
Fábrica Nacional de Licores.....	FANAL	Production of alcohol	19.2	0.1	19.3	0.1	(0.1)	0.0
Instituto de Puertos del Pacífico.....	INCOP	Ports	19.1	0.1	14.8	0.1	2.3	0.0
			<u>\$3,034.1</u>	<u>17.9%</u>	<u>\$2,937.2</u>	<u>17.3%</u>	<u>\$96.9</u>	<u>0.6%</u>

(1) See "Change in Methodology of Measuring Real GDP and in Reference Period for Determining Constant Prices."

(2) Financial intermediation. At October 31, 2002.

Source: SUGEF.

Privatization and Deregulation

In 1972, the Government established an industrial development entity, the *Corporación Costarricense de Desarrollo* (Costa Rican Development Corporation) (“CODESA”), designed to create new enterprises considered vital to the expansion and diversification of Costa Rica's economic base. CODESA financed or invested in a wide variety of sectors, including agriculture, industry, mining, oil exploration and transportation. However, operating losses at a majority of the 40 firms controlled by CODESA, combined with the economic crises of the 1980s, led the Government to reassess the role of the state in the economy.

With technical support and financial assistance from the U.S. Agency for International Development, the Government privatized *Atunes de Costa Rica S.A.*, a tuna packing plant, and *Aluminios Nacionales, S.A.*, the national aluminum producing company, in 1987; *Central Azucarera del Tempisque, S.A.*, a state-owned sugar refinery, and *Algodones de Costa Rica, S.A.*, a cotton producer, in 1988; and *Fertilizantes de Centroamérica, S.A.*, the state-owned fertilizer company, and *Cementos del Pacífico, S.A.*, the state-owned cement company, in 1994. These six companies represented approximately 90.0% of the assets and losses of CODESA. Most of the companies which CODESA created or participated in had been dissolved or sold to the private sector by 1992. CODESA itself was dissolved in July 1997.

In April 1998, the Legislative Assembly approved a new *Ley General de Concesión de Obras Públicas con Servicios Públicos* (General Law of Public Works Concessions and Public Services), creating the National Concessions Board to administer the awarding of concessions for public infrastructure projects. The National Concession Board has developed a *Plan Nacional de Concesiones* (National Concession Plan) (the “National Concession Plan”) that includes concessions for highways, airports, ports, water and sewer systems, prisons, railroads and hospitals. The National Concessions Board has identified several concessions with an estimated aggregate value of approximately US\$1.5 billion which it would like to grant within the next four years.

In connection with the National Concession Plan, the Government has solicited bids for the construction, maintenance and repair of highways. The National Concessions Board has created a US\$168.0 million concession for the upgrade and operation of the San José-San Ramon Highway corridor. The National Concessions Board is concluding the technical studies for the concession before commencing an international auction. See “— Principal Sectors of the Economy — *Transportation, Warehousing and Telecommunications.*”

In May 2002, a concession to upgrade and operate the country's railroad network was not awarded, since the only bid submitted did not meet the terms of the concession. The concession was to upgrade, manage, operate and expand the national railroad network, which ceased operations in June 1995. The required investment is estimated to be approximately US\$65.0 million for the 25 year concession.

In 2001, the National Concessions Board and the Costa Rican Institute of Pacific Ports solicited bids for five concessions relating to the modernization of the grain and tuna terminal facilities located in ports on the Pacific Ocean. Two concessions did not receive any bids, one was awarded to the sole bidder, while the other two were appealed and lost. See “— Principal Sectors of the Economy — *Transportation, Warehousing and Telecommunications.*”

The Government has also considered, and in some cases implemented, options for increasing private sector involvement in activities previously carried out solely by the state.

Mechanisms under review include subcontracting, leasing, joint ventures, and permitting private sector investment in turnkey projects, especially in the telecommunications and electricity sectors.

The Commission on Economic Affairs has drafted legislation to reform the insurance laws. There is no assurance that this legislation will pass, or what the effect of such proposed legislation, if passed, will be. See “— Principal Sectors of the Economy — *Financial Intermediation and Insurance.*”

In addition, the Legislative Assembly approved significant reforms to the pension system in 1998, 1999 and 2000. See “Public Sector Finances — Social Security and Pension Reform.”

Employment, Labor and Wages

According to the July 2002 Annual Household Survey, as of July 31, 2002, the Costa Rican labor force consisted of approximately 1.7 million persons, representing approximately 42.4% of the total population.

In 2002, the unemployment rate increased to 6.4% as compared to 6.1% in 2001, due to an economic decline, primarily in the manufacturing sector of the economy. In 2001, the unemployment rate increased to 6.1% as compared to 5.2% in 2000, again due to an economic decline, primarily in the manufacturing sector of the economy. In 2000, the unemployment rate decreased to 5.2% as compared to 6.0% in 1999.

In 1999, the National Institute of Statistics modified the method used in calculating unemployment, underemployment and poverty. In its 1999 and 2000 Annual Household Surveys, the National Institute of Statistics used a revised classification of the Costa Rican regions. This revision, which had been under development since 1995, revised which geographic locations are classified as localities and reclassified various locations that were previously categorized as rural as urban. This reclassification of the different areas affected the measure of unemployment. As a result of this change, the data presented herein for 1999, 2000, 2001 and 2002 with respect to unemployment, underemployment and poverty are not comparable to the data presented for 1998.

Labor Force and Employment
(thousands of persons, except percentages)

	At July 31,				
	1998	1999	2000	2001	2002
Labor force	1,376.5	1,383.5	1,390.6	1,653.3	1,695.0
Employed ⁽¹⁾	1,300.0	1,300.1	1,318.6	1,552.9	1,586.5
Unemployed.....	76.5	83.3	71.9	100.3	108.5
Unemployment rate ⁽²⁾	5.6%	6.0% ⁽³⁾	5.2% ⁽³⁾	6.1% ⁽³⁾	6.4% ⁽³⁾
Underemployment rate ⁽⁴⁾	7.5%	7.8% ⁽³⁾	7.3% ⁽³⁾	N.A.	N.A.

(1) To be considered employed, a person above the minimum age requirement must have worked at least one hour with remuneration or 15 hours without remuneration during the preceding week.

(2) Unemployed population as percentage of the labor force.

(3) Not comparable to prior years because of a change in methodology instituted in 1999 by the National Institute of Statistics in compiling data.

(4) Underemployed population as a percentage of the labor force. Workers are defined as underemployed if they work fewer than 47 hours per week and are actively seeking additional employment or if they work more than 47 hours per week, but earn less than the minimum wage.

N.A. Not Available.

Source: National Institute of Statistics.

Because the Government's employment survey is only taken once per year in the month of July, it may not reflect the impact of cyclical employment trends, such as those that may occur among coffee growers and other cyclical industries, and may lag behind current conditions.

According to Costa Rica's 2002 Annual Household Survey, private economic activity employed approximately 1,586.5 thousand people in 2002, representing 93.6% of total employed persons in 2002, compared to 1,552.9 thousand people in 2001, representing 93.9% of total employed persons in 2001.

Despite the significant migration from Nicaragua to Costa Rica, the Costa Rican labor market has been able to maintain low unemployment rates. The majority of these immigrants find work in labor-intensive seasonal agricultural activities, in the construction sector and in the domestic services sector.

The following table sets forth the labor force in each economic sector for the periods indicated.

**Labor Force by Economic Sector and Percentage of Total
(number of persons, except percentages)**

	At July 31,									
	1998		1999 ⁽¹⁾		2000 ⁽¹⁾		2001 ⁽¹⁾		2002 ⁽¹⁾	
Agriculture, forestry and fishing	270,781	19.7%	270,843	19.6%	280,643	20.4%	241,896	15.6%	251,508	14.9%
Mining.....	1,646	0.1	2,299	0.2	2,878	0.2	1,795	0.1	2,305	0.1
Industrial manufacturing.....	216,005	15.7	217,024	15.7	198,840	14.4	232,907	15.0	226,277	19.3
Electricity and water.....	13,278	1.0	13,562	1.0	11,136	0.8	19,557	1.3	21,859	1.4
Construction.....	89,151	6.5	89,514	6.5	96,426	7.0	107,886	6.9	106,580	6.7
Wholesale and retail commerce, restaurants and hotels	267,062	19.4	286,558	20.7	281,692	20.4	378,814	24.4	385,814	24.3
Transportation, warehousing and telecommunications.....	75,217	5.5	77,004	5.6	80,610	5.8	86,043	5.5	90,238	5.7
Financial institutions, insurance and other services	73,695	5.4	68,580	5.0	67,122	4.8	121,983	7.9	135,374	8.5
Social services ⁽²⁾	346,403	25.2	338,731	24.5	349,516	25.3	354,245	22.8	358,704	22.6
Other	23,305	1.7	19,337	1.4	9,948	1.6	7,798	0.5	8,003	0.5
Total	<u>1,376,543</u>	<u>100.0%</u>	<u>1,383,452</u>	<u>100.0%</u>	<u>1,390,560</u>	<u>100.0%</u>	<u>1,552,924</u>	<u>100.0%</u>	<u>1,586,49</u>	<u>100.0%</u>

(1) Not comparable to prior years because of a change in methodology instituted by the National Institute of Statistics in compiling data.

(2) Includes Government employees, teachers, workers in the informal sector (i.e., workers that do not earn enough to be taxed) and pensioners.

Source: National Institute of Statistics.

Employment in the private sector is generally at-will, although employers must compensate employees terminated without just cause. Such compensation includes a notice of dismissal and a severance payment bonus based on the number of years of service. On January 24, 2000, the Legislative Assembly approved legislation designed to replace the existing severance arrangements. See “Public Sector Finances — Social Security and Pension Reform.” The Constitution requires that minimum wages be fixed in each sector. Subject to this limitation, employers and employees are free to set wages and salaries. Employees may enter into collective agreement mechanisms and direct arrangements for collective bargaining of their salaries or may make use of wages and salary arbitration mechanisms. Costa Rican law provides protection against the dismissal of pregnant women and provides additional employment benefits to the disabled.

Public sector employees may be terminated only for just cause. Wages and salaries of public sector employees are subject to two annual cost of living adjustments. Since 1978, Costa Rican law has prohibited collective bargaining by public sector employees, except in specific institutions which had collective bargaining agreements in effect prior to 1978. In addition, the Supreme Court eliminated arbitration of public-sector employment disputes in 1993.

Membership in labor organizations is limited. Membership in unions as a percentage of the total number of employed persons decreased from 15.5% (160,166 persons) in 1992 to 11.9% (185,075 persons) in 2001. More Costa Ricans participate in *Asociaciones Solidaristas* (Solidarity Associations) (“Solidarity Associations”). Membership in Solidarity Associations as a percentage of the total number of employed persons increased from approximately 14.9% (170,406 persons) in 1996 to 15.9% (251,833 persons) in 2002. This increase in membership in Solidarity Associations

is primarily because Solidarity Associations are permitted by law to collect in advance certain amounts of money related to severance payments from employers to be administered for the benefit of workers, who also contribute a percentage of their wages on a monthly basis to the Solidarity Associations.

In 1996, in reaction to pension reforms which required teachers to make increased contributions to the pension system, the teachers union engaged in a strike which lasted for six weeks. There has been no other significant labor dispute since 1982. Some members of the unions representing the employees of ICE and certain other public sector unions demonstrated in reaction to the preliminary approval of legislation regarding the restructuring of ICE. There can be no assurance that significant labor disputes will not arise in the future. See “— Government Participation in the Economy; Privatization and Deregulation.”

The following table sets forth the evolution of nominal wages for the periods indicated.

**Average Monthly Wages
(in U.S. dollars)**

	As of June 30,				
	1998	1999	2000	2001	2002
Private sector.....	\$342.8	\$359.6	\$373.0	\$384.1	\$386.1
Agriculture	285.8	294.4	288.0	280.7	275.7
Industrial manufacturing	\$384.7	\$410.1	\$430.7	\$451.0	\$467.1

Source: Central Bank, based on information of the Caja Costarricense del Seguro Social (“CCSS”).

Poverty

Costa Rica has one of the lowest poverty rates in Latin America, primarily as a result of its investment in social programs since the 1950s as well as the economic growth it experienced from the 1950s to the 1970s and during the 1990s. From 1992 to 1995, poverty levels decreased significantly in Costa Rica primarily due to the economic growth experienced during the period. In 1996, the poverty rate increased slightly, primarily as a result of the contraction of the economy. In 1997, the poverty rate decreased to 20.7% from 21.6% in 1996, principally as a result of economic growth, particularly in the industrial manufacturing and services sector. In 1998, the poverty rate decreased further, to 19.7%, principally due to a decrease in the unemployment rate and an increase in wages in real terms as a result of increased economic activity.

In 1999, the National Institute of Statistics modified the methodology it uses in conducting its Annual Household Survey. The change altered the income imputed to persons living in each area of Costa Rica, and accordingly, affected the measure of poverty. As a result of this change in methodology, the data presented herein for 1999, 2000, and 2001 with respect to poverty and job creation and loss are not comparable to the data presented for prior years. In 2002, the estimated poverty rate was 20.6%, as compared to 20.3% in 2001. In 2000, the poverty rate was 20.6%, the same level as in 1999.

Historically, Costa Rica has provided social assistance and housing to poor families through FODESAF which is funded primarily with sales tax revenues. The Government has undertaken initiatives to restructure FODESAF with the goal of further strengthening FODESAF's operations. These initiatives are designed to improve the efficiency of its anti-poverty efforts through decentralization and specialization of certain programs and monitoring and evaluating the social programs supported by FODESAF, and include program evaluations, financial auditing and cost controls.

Poverty Rates

	As of July 31,				
	1998	1999 ⁽¹⁾	2000 ⁽¹⁾	2001 ⁽¹⁾	2002 ⁽¹⁾
Extreme poverty ⁽²⁾	5.3%	6.7%	6.1%	5.9%	5.7%
Unsatisfied basic needs ⁽³⁾	14.4	13.9	14.5	14.4	14.9
Poor households	19.7	20.6	20.6	20.3	20.6
Non-poor households	80.3	79.4	74.4	79.7	79.4
Total households.....	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Not comparable to prior years because of a change in methodology instituted in 1999 by the National Institute of Statistics in compiling data.

(2) Households with income levels less than the cost of a basket of basic nutritional goods.

(3) Households with income levels less than the cost of a basket which includes other basic needs such as education, health and recreation.

Source: National Institute of Statistics.

BALANCE OF PAYMENTS AND FOREIGN TRADE

Balance of Payments

Costa Rica's current account deficits in recent years have resulted primarily from deficits in its merchandise trade balance and increases in net outflows due to increased profit repatriation, as a result of increased foreign direct investment. These factors have been partially offset since 1997 by strong growth in its service balance surplus. The growth in the Republic's service balance surplus has largely been a result of growth in the tourism industry.

Costa Rica's capital account surplus in recent years has been principally the result of inflows of direct foreign investment, primarily in the Free Trade Zones, with significant net investment in Costa Rican securities in 1999, 2001 and 2002, and significant increases in net commercial bank credits in 2000. Long-term private sector capital has increased since 1998, principally due to improvements in the investment climate and greater private sector confidence.

For the first eleven months of 2002, Costa Rica's capital account surplus exceeded its current account deficit, resulting in a US\$28.0 million increase in the Central Bank's net international reserves. Net international reserves of the banking system stood at US\$1,212.6 million at November 30, 2002, representing the equivalent of approximately 2.7 months of imports (c.i.f.), including imports from Free Trade Zone and In-bond industries, and 4.0 months of imports (c.i.f.), excluding imports from Free Trade Zone and In-bond industries.

In 2001, Costa Rica's capital account surplus exceeded its current account deficit, resulting in a US\$13.5 million increase in net international reserves of the Central Bank. Net international reserves of the banking system stood at US\$1,137.4 million at December 31, 2001, representing the equivalent of approximately 2.1 months of imports (c.i.f.), including imports from Free Trade Zone and In-bond industries, and 3.0 months of imports (c.i.f.), excluding imports from Free Trade Zone and In-bond industries.

In 2000, Costa Rica's current account deficit exceeded its capital account surplus, resulting in a US\$153.7 million decrease in net international reserves. Net international reserves of the banking system stood at US\$1,281.9 million at December 31, 2000, representing the equivalent of approximately 2.4 months of imports (c.i.f.), including imports from Free Trade Zone and In-bond industries, and 3.4 months of imports (c.i.f.), excluding imports from Free Trade Zone and In-bond industries.

In 1999, Costa Rica's capital account surplus exceeded its current account deficit, resulting in a US\$480.1 million increase in the Central Bank's net international reserves. Net international reserves of the banking system stood at US\$1,467.3 million at December 31, 1999, representing the equivalent of approximately 2.8 months of imports (c.i.f.).

In 1998, net international reserves of the Central Bank decreased by US\$149.6 million principally due to a net outflow of short-term private capital as a result of the economic crises in Asia and Russia. Accordingly, the net international reserves of the banking system decreased to US\$1,044.0 million at December 31, 1998, representing the equivalent of approximately 2.0 months of imports (c.i.f.).

Current Account

In 2002, the slowdown in Costa Rican international commercial transactions was principally due to a slowdown in economic activity in the United States and other industrialized countries, the

low economic growth rate in Latin America, and the reduced prices for Costa Rica's principal export goods.

In 2002, the current account deficit widened to US\$931.0 million (5.5% of GDP), from US\$736.6 million (4.5% of GDP) in 2001, primarily due to a 15.1% increase in imports, partially offset by a 6.1% increase in exports and a 70.0% reduction in outflows of income from direct investments.

In 2001, the current account deficit declined to US\$736.6 million (4.5% of GDP), from US\$750.7 million (4.7% of GDP) in 2000, principally due to a decrease in the level of exports from Free Trade Zone industries and a reduction in outflows of income from direct investments. The decrease in exports from Free Trade Zone industries resulted principally from a decrease in levels of electronic component manufacturing by Intel Corp., due to global market conditions. Additionally, exports of traditional products decreased, principally due to the reduction of export volumes to the United States market, the decrease of international coffee prices and the decreased volume of banana exports.

In 2000, the current account deficit widened to US\$750.7 million (4.7% of GDP), from US\$675.3 million (4.3% of GDP) in 1999, principally due to a decrease in exports from Free Trade Zone industries. The decrease in exports from Free Trade Zone industries resulted principally from a decrease in levels of electronic component manufacturing by Intel Corp. Additionally, exports of traditional products decreased by 9.4%, principally due to a decline in international market prices of bananas and poor market conditions affecting the volume of banana exports.

In 1999, the current account deficit widened to US\$675.3 million (4.3% of GDP), from US\$519.4 million (3.7% of GDP) in 1998, notwithstanding a US\$626.3 million surplus in the merchandise trade balance. This surplus was offset by a decline of US\$1,354.5 million in investment income, resulting primarily from the repatriation of approximately US\$1,346.8 million of profits from the Free Trade Zone industries.

In 1998, the current account deficit widened to US\$519.4 million (3.7% of GDP), from US\$479.6 million (3.7% of GDP) in 1997, principally due to a decline of US\$219.4 million in investment income resulting primarily from the repatriation of profits from the Free Trade Zone industries. This factor was partially offset by an increase of US\$93.4 million in the service trade balance.

Capital Account

Beginning in the 1990s, the Republic's current account deficit has been primarily financed by large private sector capital inflows. A majority of such financing came from direct foreign investment, capital repatriation and short-term capital inflows, including commercial bank credits. Net inflows from multilateral financial institutions and bilateral creditors have been negative since 1994, except in 1997, indicating that net disbursements to the Government were less than amortizations on official loans. Long-term private sector capital has increased since 1995, principally due to improvements in the investment climate and a greater degree of private sector confidence.

In 2002, the capital account surplus was US\$959.0 million (5.7% of GDP), as compared to US\$645.8 million (3.9% of GDP) in 2001, principally due to the Republic's issuance of its 2002 Notes as well as foreign direct investment of US\$641.7 million in 2002.

In 2001, the capital account surplus was US\$645.8 million (3.9% of GDP), as compared to US\$384.9 million (2.4% of GDP) in 2000, principally due to the Republic's issuance of its 2001 Notes as well as an increase of foreign direct investment to US\$453.6 million in 2001, compared to US\$408.6 million for 2000.

In 2000, the capital account surplus was US\$384.9 million (2.4% of GDP), as compared to US\$961.7 million (6.1% of GDP) in 1999, principally due to a decrease in foreign direct investment to US\$408.6 in 2000 compared to US\$619.5 for 1999 and by a net decrease of US\$32.3 million in securities investment.

In 1999, the capital account surplus increased by 74.0% to US\$961.7 million (6.1% of GDP) from US\$552.3 million (3.9% of GDP) in 1998, principally due to an increase of US\$274.14 million in currency and deposits. This factor was offset by a net decrease of US\$117.3 million in public loans.

In 1998, the capital account surplus increased by 2.7% to US\$552.3 million (3.9% of GDP) from US\$537.5 million (4.2% of GDP) in 1997, principally due to an increase of US\$204.4 million in net direct investment.

The following table sets forth Costa Rica's balance of payments for the five years ended December 31, 2002.

Balance of Payments⁽¹⁾⁽²⁾
(in millions of U.S. dollars)

	For the Year Ended December 31,				
	1998	1999	2000	2001	2002 ⁽³⁾
Current account	\$(519.4)	\$(675.3)	\$(750.7)	\$(736.6)	\$(931.0)
Merchandise trade balance	(399.0)	626.3	(204.8)	(821.3)	(1,387.4)
Exports (f.o.b.)	5,538.3	6,632.4	5,818.6	4,923.2	5,224.4
Imports (f.o.b.)	(5,937.3)	(5,996.1)	(6,023.4)	(5,744.5)	(6,611.8)
Service balance	233.6	407.8	614.8	729.5	708.6
Transportation	(213.6)	(192.5)	(208.8)	(179.9)	(201.9)
Tourism, net	504.6	648.6	816.1	808.9	835.8
Other services	(57.4)	(48.3)	7.5	100.5	74.7
Investment income	(467.1)	(1,821.6)	(1,253.0)	(792.7)	(407.3)
Income from direct investments	(370.0)	(1,716.8)	(1,130.4)	(587.6)	(176.9)
Other investment income	(97.1)	(104.8)	(122.6)	(205.1)	(230.4)
Unilateral transfers	113.2	102.2	92.2	147.9	155.2
Official	39.8	54.1	49.0	41.5	52.7
Private	73.4	48.1	43.2	106.4	102.5
Capital accounts (net)	552.3	961.7	384.9	645.8	959.0
Capital account	0.0	0.0	0.0	13.6	0.0
Transferred capital	0.0	0.0	0.0	13.6	0.0
Financial account	552.3	961.7	384.9	632.2	959.0
Direct investment, net	606.9	614.5	404.1	445.0	641.7
Investment in Costa Rican securities	(79.8)	85.2	(32.3)	8.6	190.2
Stock	(33.9)	(28.1)	(4.0)	(22.0)	N.A.
Debt	(46.0)	113.3	(28.2)	30.6	190.2
Other	25.2	262.0	13.1	178.6	127.1
Commercial credits	1.0	(54.2)	266.8	129.4	N.A.
Loans	9.2	31.4	5.8	(110.9)	127.1
Public	22.5	(117.3)	(94.8)	(224.4)	30.3
Long-term	15.0	(117.3)	(94.8)	(252.3)	30.3
Amortization	(262.7)	(315.3)	(383.9)	(328.1)	(268.8)
Others	30.0	30.0	105.0	0.0	0.0
Short-term	7.5	0.0	0.0	28.0	0.0
Debt service unpaid and in arrears	7.5	0.0	0.0	28.0	0.0
Private	(13.3)	148.7	100.6	113.5	96.8
Long-term	70.9	90.3	22.0	45.6	N.A.
Short-term	(84.2)	58.4	78.6	67.9	N.A.
Currency and deposits	21.3	295.4	(282.3)	152.5	N.A.
Others	(6.3)	(10.6)	22.8	7.6	N.A.
Decrease/(increase) in international monetary reserves	149.6	(480.1)	153.7	(13.5)	(28.0)
Errors and omissions	\$(182.5)	\$193.7	\$212.2	\$104.3	N.A.

(1) See "Change in Methodology of Measuring Real GDP and in Reference Period for Determining Constant Prices."

(2) These figures were calculated in accordance with the methodology set forth in the IMF's Fifth Manual of Balance of Payments.

(3) Preliminary data.

N.A. Not Available.

Source: Central Bank.

Foreign Trade

Costa Rica has adopted a trade policy that is designed to integrate Costa Rica into the global economy. The implementation of this policy is reflected largely in the increase in Costa Rica's exports, the diversification of its products and markets, the increase in foreign direct investment, and the generation of employment by the export sector.

Three decades ago, Costa Rica was significantly dependent on four traditional agricultural goods (coffee, bananas, sugar and beef). Today, the country exports approximately 3,000 products. The number of agricultural goods sold abroad, such as watermelons, pineapples, melons, tubers and ornamental plants, has increased. In addition, Costa Rica is exporting high-technology products, such as computers, medicines, and medical equipment. As a result, the four traditional products accounted for only 14.3% of Costa Rica's total exports for the nine-month period ended September 30, 2002.

Costa Rica has also increased its market diversification during the last decade. Costa Rica exports are directed to approximately 130 different destinations around the world. Approximately 53.0% of Costa Rica's exports are sent to the United States, 16.5% to the European Union, 13.1% to Central America, 5.5% to Asia, and 2.9% and 2.1% are directed to countries in the Caribbean and South America, respectively.

The foreign trade sector depends largely on the economies of the other Central American countries as well as the economies of the United States and the European Union. Together, Costa Rica exports approximately 82.6% of its export products to these areas. The economic slowdown in those countries, together with the uncertainty regarding the magnitude, duration and impact of the economic slowdown on the world's economic growth, are important causes for the slowdown in demand for the Republic's exports and therefore the slowdown of the Republic's production of goods for export.

During the first nine months of 2002, Costa Rica recorded a trade deficit (exports (f.o.b.) (including In-bond value added and Free Trade Zone value added) less imports (c.i.f.)) of US\$1,466.4 million (8.7% of GDP), principally as a result of a 9.1% increase in Free Trade Zone exports, a 5.0% increase in coffee exports, a 9.6% increase in raw materials imports, a 9.9% increase in consumer goods imports, a 24.5% increase in capital goods imports and a 9.0% increase in construction materials imports, compared to the same period in 2001. Non-traditional products accounted for approximately 85.7% of total exports in the first nine months of 2002.

In 2001, Costa Rica recorded a trade deficit of US\$1,547.3 million (9.5% of GDP), principally as a result of a 44.9% decrease in the value of exports of electric components, a 40.5% decrease of coffee exports and, to a lesser extent, a 5.6% decrease of banana exports, an 8.0% increase in imports of consumer goods and a 5.3% increase in imports of raw materials, in each case from 2000. Non-traditional products accounted for approximately 85.3% of total exports in 2001.

In 2000, Costa Rica recorded a trade deficit of US\$538.8 million (3.4% of GDP) as compared with a trade surplus of US\$307.8 million (1.9% of GDP) in 1999. Non-traditional products, primarily electronic components, accounted for approximately 85.0% of total exports in 2000.

In 1999, Costa Rica recorded a trade surplus of US\$307.8 million (1.9% of GDP) as compared with a trade deficit of US\$713.2 million (5.0% of GDP) in 1998. Non-traditional products, primarily electronic components, accounted for approximately 85.4% of total exports in 1999.

The trade deficit decreased by 8.3% in 1998 to US\$713.2 million (5.0% of GDP) from US\$568.3 million (4.8% of GDP) in 1997.

The following table sets forth information about the value of Costa Rican imports and exports for the periods indicated.

Merchandise Trade Balance⁽¹⁾⁽²⁾
(in millions of U.S. dollars)

As of December 31,	Exports⁽³⁾ (f.o.b.)	Imports (c.i.f.)	Merchandise Trade Balance
1998	\$5,525.6	\$6,238.7	\$(713.2)
1999	\$6,662.4	\$6,354.6	\$307.8
2000	\$5,849.7	\$6,388.5	\$(538.8)
2001	\$5,021.4	\$6,568.6	\$(1,547.3)
2002 ⁽⁴⁾	\$3,919.7	\$5,386.1 ⁽⁴⁾	\$(1,466.4)

(1) See "Change in Methodology of Measuring Real GDP and in Reference Period for Determining Constant Prices."

(2) Based on calculations derived from customs declarations.

(3) Includes In-bond and Free Trade Zones value added.

(4) As of September 30, 2002.

Source: Central Bank.

Exports

In recent years, Costa Rica's foreign trade has become increasingly important to the overall growth of the economy. Changes in Costa Rica's export model and the increased aggregate value of Costa Rica's national production have encouraged export growth at a rate of 11.2% over the last twelve years. The expansion of high-tech manufacturing in Costa Rica has been enhanced by the arrival of Intel and other companies, including Lucent Technologies and Abbott Laboratories, which have assisted in the expansion and diversification of the country's production for the local and the export market.

In the nine months ended September 30, 2002, total exports (f.o.b.), including In-bond and Free Trade Zone exports, reached US\$3,919.7 million, an increase of 2.5% compared to total exports of US\$3,823.3 million for the same period in 2001. This increase was principally due to increased exports of Free Trade Zone goods, which increased 9.1% in 2002, compared to the same period in 2001. Nonetheless, with the exception of coffee, sales of which increased by approximately 5.0%, exports of traditional products decreased in 2002.

In 2001, total exports (f.o.b.), including In-bond and Free Trade Zone exports, reached US\$5,021.4 million, a decrease of 14.2% compared to total exports of US\$5,849.7 million in 2000. This decrease was principally due to a decrease in non-traditional exports, which represented 85.3% of total exports, primarily as a result of a decline in exports from Free Trade Zone industries. This in turn was principally due to a decrease in electronic component manufacturing by Intel Corp. Exports of traditional products also decreased, principally due to a decline in international coffee prices and lower volume of exports of bananas.

Total exports (f.o.b.), including In-bond and Free Trade Zone exports, declined to US\$5,849.7 million for the year ended December 31, 2000, a decrease of 12.2% from the year ended December 31, 1999. This decrease was principally due to a 12.7% decrease in non-traditional exports. This in turn was primarily a result of a 17.6% decrease in exports from Free Trade Zone industries. The decrease in exports from Free Trade Zone industries resulted principally from a decrease in electronic component manufacturing by Intel Corp., which was partially a result of its shutdown of production for improvements to its plant and equipment for the production of a new generation of products. Additionally, exports of traditional products decreased by 9.4%, principally due to a decline in international bananas prices and a lower volume of banana exports.

Total exports increased by 20.6% to US\$6,662.4 million in 1999 from US\$5,525.6 million due to an 85.3% increase in value added by exports from Free Trade Zone industries, which represented 53.9% of total exports in 1999, partially offset by lower exports of traditional and other non-traditional products.

Total exports increased by 31.4% to US\$5,525.6 million in 1998 from US\$4,205.5 in 1997, principally due to a 117.2% increase in value added by exports from Free Trade Zone industries, which represented 35.0% of total exports in 1998, as well as an 11.0% increase in other industrial exports and an 8.9% increase in traditional exports, attributable to an increase of approximately 15.6% in the value of exports of bananas.

Value added exports from Free Trade Zone industries has increased from US\$891.3 million (or 21.1% of total exports) in 1997 to US\$1,891.1 million (or 48.2% of total exports) in the first nine months of 2002. The increase was primarily due to foreign direct investment in the sector, particularly in the electronics manufacturing and pharmaceutical areas.

Value added exports from In-bond industries (principally apparel and textile plants) has declined as a percentage of total exports from 10.2% of total exports (or US\$427.2 million) in 1997 to 6.9% of total exports (or US\$269.8 million) in the first nine months of 2002, primarily due to a shift in foreign investment in this area from Costa Rica to other countries in the region with lower labor costs.

**Value of Exports (f.o.b.) by Principal Products and Percentages of Total
(in millions of U.S. dollars)**

	For the Year Ended December 31,								For the Nine-Month Period Ended September 30,	
	1998		1999		2000		2001		2002	
Traditional										
Bananas.....	\$667.5	12.1%	\$623.5	9.4%	\$546.5	9.4%	\$516.0	10.3%	\$371.4	9.5%
Coffee	409.4	7.4	288.7	4.3	272.0	4.6	161.8	3.2	146.1	3.7
Sugar cane	41.8	0.8	30.0	0.5	28.6	0.5	35.5	0.7	26.9	0.7
Beef	24.0	0.4	27.2	0.4	30.7	0.5	25.5	0.5	15.4	0.4
Traditional total.....	1,142.6	20.7	969.4	14.6	877.8	15.0	738.8	14.7	559.8	14.3
Non-traditional										
Industry.....	1,244.4	22.5	1,134.7	17.0	1,090.2	18.7	1,029.3	20.5	773.4	19.7
Agricultural.....	757.8	13.7	573.5	8.6	526.6	9.0	539.6	10.7	425.5	10.9
Free Trade Zones.....	1,936.2	35.0	3,588.8	53.9	2,956.3	50.5	2,347.4	46.7	1,891.1	48.2
In-bond.....	444.5	8.0	396.1	5.9	398.9	6.8	366.4	7.3	269.8	6.9
Non-traditional total.....	4,382.9	79.3	5,693.0	85.4	4,972.0	85.0	4,282.6	85.3	3,359.9	85.7
Total.....	\$5,525.6	100.0%	\$6,662.4	100.0%	\$5,849.7	100.0%	\$5,021.4	100.0%	\$3,919.7	100.0%

Source: Central Bank.

Prior to the 1980s, like most Latin American nations, Costa Rica followed an import substitution model for economic development, which promoted industrialization through the protection of local industries. In the mid-1980s, Costa Rica began a process of economic adjustment which was based in part on the liberalization of its economy. The promotion of exports as well as export diversification became the focus of Costa Rica's foreign trade policy. Moreover, Costa Rica's exchange rate policy has aimed to adjust nominal exchange rates in accordance with the inflation rate differentials between Costa Rica and its principal trading partners in order to maintain the competitiveness of Costa Rican exports.

Since 1984, the Government has coordinated all incentives granted to exporters through the *Programa de Contrato de Exportación* (Export Contract Program) which, among other things, permits tax exemptions, duty-free import of machinery and raw materials used in the production of exported goods, and the right to accelerate depreciation on certain capital goods.

Between 1984 and 1992, *Certificados de Abono Tributario* (Tax Credit Certificates) ("CATs") issued under the regulations of the Export Contract Program were the principal incentive for exporters. CATs were negotiable, most commonly through the securities exchanges, and allowed holders to claim a tax credit in accordance with the f.o.b. price of non-traditional exports sold in non-traditional markets, typically averaging 15.0% of such prices. In 1992, the Government eliminated CATs from the group of incentives included in the Export Contract Program. Because CATs continued to be granted to the businesses that had received them prior to 1992 and were valid until December 31, 1999, with an 18-month maturity, their fiscal impact continued through July 2001. In 1998, as part of the Government's program to reduce the fiscal deficit, the

Government made CATs subject to income tax beginning as of October 1, 1998. Expenditures on CATs represented 37.6 billion colones in 1999, 25 billion colones in 2000, and 13 billion colones in 2001, approximately 0.8%, 0.5% and 0.2% of GDP, respectively. Based on preliminary data, the Ministry of Finance estimates that expenditures on CATs awarded in 2002 were approximately 1.1 billion colones, representing approximately 0.02% of GDP.

Pursuant to Law 7683, effective November 13, 1996, the *Promotora de Comercio Exterior de Costa Rica* (Promoter of Costa Rican Foreign Trade) was organized. This organization is charged with designing and coordinating programs with respect to exports and investments and has opened offices in Mexico, Chile and the Dominican Republic, and plans to open a commercial office in Canada in early 2003.

Imports

Over the past five years, the levels of Costa Rican imports have increased while their composition has changed. Imports (c.i.f) increased approximately 25.5%, 1.9%, 0.5%, and 2.8% in 1998, 1999, 2000, and 2001, respectively. During the first nine months of 2002, imports increased 9.8%, compared with the same period in 2001. The principal factors influencing the growth in imports have been the reduction in tariffs and the general growth of the economy.

Imports of raw materials and capital goods have accounted for most of this growth, reflecting increased growth of the industrial manufacturing sector which in turn has contributed to the overall expansion of the economy. Imports of capital goods and raw materials, primarily for the industrial manufacturing and construction sectors, accounted for 72.4%, 74.2%, 71.4%, 71.4% and 73.8% of total imports in 1998, 1999, 2000, 2001 and the first nine months of 2002, respectively.

Imports (c.i.f.) increased by 9.8% to US\$5,386.1 million in the nine-month period ending September 30, 2002 from US\$4,903.7 million for the same period ending September 30, 2001. This was principally due to a 24.5% increase in imports of capital goods (principally in the industrial sector) and a 9.9% increase in imports of consumer goods (principally durable goods), partially offset by a 19.4% decrease in imports of fuels and lubricants.

Imports (c.i.f.) increased by 2.8% to US\$6,568.6 million in 2001 from US\$6,388.5 million in 2000. This increase was principally due to an increase of 9.5% in imports of construction materials resulting from increased activity in the construction sector, which was largely due to a credit program for the construction of housing by public and private banks, and an 8.0% increase in the import of consumer goods (principally non-durable goods). These increases were partially offset by a decrease of 13.0% in imports of fuels and lubricants and a 5.0% decrease in imports of capital goods, principally in the industrial, transportation and agricultural sectors, due to the reduction in the average petroleum price and reduced domestic economic activity.

Imports (c.i.f.) increased by 0.5% to US\$6,388.5 million in 2000 from US\$6,354.6 million in 1999, principally due to an increase of 47.4% in imports of fuels and lubricants resulting from an increase in the international market prices of hydrocarbons and, to a lesser extent, a 3.2% increase in consumer goods, partially offset by a decrease of 2.4% in imports of raw materials and 6.1% in imports of capital goods, principally in the industrial and electricity sectors.

Imports (c.i.f.) increased by 1.9% to US\$6,354.6 million in 1999 from US\$6,238.7 million in 1998, principally due to an 8.3% increase in imports of raw materials for the industrial manufacturing sector, particularly the Free Trade Zone industries including the Intel Corp. plants, and, to a lesser extent, a 22.8% increase in imports of fuels and lubricants. The growth in imports

in these areas was offset by a 31.1% decline in imports of durable consumer goods and a 6.3% decline in imports of capital goods, principally in the industrial and electricity sectors.

Imports (c.i.f.) increased by 25.5% to US\$6,238.7 million in 1998 from US\$4,969.7 million in 1997, principally due to an increase of 23.6% in imports of raw materials for the industrial manufacturing sector, particularly the Free Trade Zone industries including the first Intel Corp. plant, an increase of 39.5% in imports of capital goods, particularly in the industrial and electricity sectors, and an increase of 19.0% in imports of consumer durable and non-durable goods.

As part of Costa Rica's commercial policy since 1995, Costa Rica has been unilaterally eliminating import taxes, both in the agricultural and industrial sector. As a result, the average simple tax rate has decreased from 11.7% in 1995 to 6.0% in 2002. The average weighted tax on imports declined from 9.9% to 4.2%.

Costa Rica has no domestic sources of hydrocarbon fuels. The importation of crude oil and other fuels, as well as all refining activities, is under the control of RECOPE, a state monopoly. In 1980, Costa Rica entered into the *Acuerdo de San José* (San Jose Agreement) (the "San José Agreement") with Panama, Venezuela, Mexico, and other Central American and Caribbean nations. Pursuant to the San José Agreement, Costa Rica has the right to make preferential purchases of crude oil from Venezuela and Mexico. The San José Agreement also provides for the financing of such purchases pursuant to credit facilities provided by Venezuela and Mexico. In addition, the San José Agreement states that 20.0% of the amount invoiced for petroleum will be utilized for the financing of an investment fund for the region. All of Costa Rica's crude oil requirements are purchased under the San José Agreement.

On August 31, 2001, the Legislative Assembly enacted *Ley No. 8116*, approving the *Acuerdo Energético de Caracas* (Caracas Energy Agreement) (the "Caracas Energy Agreement"), an incentive plan pursuant to which Venezuela provides financing to Costa Rica in connection with the importation of hydrocarbon fuels by Costa Rica. Costa Rica may use the proceeds of such loans pursuant to the terms and conditions of the Caracas Energy Agreement.

Imports of hydrocarbon fuels from January 1, 2002 to October 31, 2002 was 6.9% lower than purchases in the same period in 2001. This decrease was due to decreased volumes of imports and a reduction in the price per barrel. The average price per barrel remained stable at \$30.57 in 2001 and \$27.13 in 2002.

In compliance with agreements under CACM, import tariffs were reduced:

- on capital goods, from 5.0% to 3.0% in January 1996 to 2.0% in January 1998 to 1.0% in July 1998, and to 0.0% in January 1999;
- on raw materials, from 5.0% to 1.0% in July 1996, and to 0.0% in July 1998;
- on intermediate goods, from a range of 9.0% to 14.0% in January 1998 to a range of 7.0% to 12.0% in January 1999, and to a range of 5.0% to 10.0% in January 2000; and
- on finished goods, from 20.0% to 19.0% in January 1998 to 17.0% in January 1999, and to 15.0% in January 2000.

The following table sets forth the value of imports (c.i.f.) by principal products for the four years ended December 31, 2001 and the nine-month period ended September 30, 2002.

**Value of Imports (c.i.f.) by Economic Sectors and Percentages of Total
(in millions of U.S. dollars, except percentages)**

	For the Year Ended December 31,								For the Nine-Month Period Ended September 30,	
	1998		1999		2000		2001		2002	
Raw materials	\$3,294.7	52.8%	\$3,567.4	56.1%	\$3,482.9	54.5%	\$3,667.2	55.8%	\$3,051.1	56.6%
Industry and mining ..	3,137.8	50.3	3,415.7	53.8	3,341.3	52.4	3,512.2	53.5	2,920.4	54.2
Agriculture.....	156.9	2.5	151.7	2.4	141.7	2.2	155.0	2.4	130.7	2.4
Consumer goods	1,283.3	20.6	1,142.6	18.0	1,179.5	18.5	1,273.7	19.4	978.1	18.2
Non-durable goods ...	743.3	11.9	770.7	12.1	807.7	12.7	854.2	13.0	643.7	12.0
Durable goods	540.0	8.7	371.9	5.9	371.8	5.8	419.4	6.4	334.4	6.2
Capital goods	1,225.9	19.6	1,148.9	18.1	1,078.5	16.9	1,026.0	15.6	926.1	17.2
Industry and electricity.....	963.9	15.4	900.5	14.2	854.1	13.4	825.7	12.6	764.2	14.2
Agriculture.....	56.5	0.9	52.6	0.8	45.7	0.7	39.9	0.6	31.8	0.6
Transportation.....	205.4	3.3	195.5	3.1	178.7	2.8	160.3	2.4	130.0	2.4
Construction.....	172.6	2.8	174.1	2.7	173.4	2.7	189.8	2.9	151.7	2.8
Fuels and lubricants .	260.8	4.2	320.2	5.0	472.1	7.4	410.5	6.3	278.1	5.2
Others	1.4	0.0	1.7	0.0	2.1	0.0	1.5	0.0	1.1	0.0
Total	<u>\$6,238.7</u>	<u>100.0%</u>	<u>\$6,354.6</u>	<u>100.0%</u>	<u>\$6,388.5</u>	<u>100.0%</u>	<u>\$6,568.6</u>	<u>100.0%</u>	<u>\$5,386.1</u>	<u>100.0%</u>

Source: Central Bank.

Direction of Trade

The United States of America is Costa Rica's most important trading partner. For the nine month period ended September 30, 2002, trade with the United States accounted for approximately US\$599.0 million, or 15.3% of total exports, and approximately US\$1,161.0 million, or 21.6% of total imports.

Trade with members of the CACM has increased over the past five years as the economies of these countries have become more stable. Exports to CACM countries increased to US\$388.5 million during the first nine months of September 2002 from US\$354.9 million for the same period in 1998. Imports from CACM countries remained constant at US\$228.8 million for the first nine months of 2002 when compared with the same period in 1998. In the first nine months of 2002, Costa Rica maintained a positive trade balance with each member of the CACM.

The devaluation of the Mexican peso in December 1994, together with a free trade agreement with Mexico that became effective January 1, 1995, led to a significant increase of Costa Rican imports from Mexico during 1995 and 1996. Imports from Mexico continued to

increase in 1998, 1999 and 2000 at approximately the same pace as imports generally. However, imports from Mexico decreased by 2.6% in 2001 and 4.1% in the nine-month period ended September 30, 2002. Following the enactment of the bilateral free trade agreement, Costa Rica's exports to Mexico increased significantly in 1996 and continued to grow in 1997. Costa Rica's exports to Mexico declined sharply in 1998, grew at the same pace as exports generally in 1999, decreased by 6.6% in 2000, and decreased by 30.8% in 2001 from its level in 2000.

During the first nine months of 2002, exports to Mexico represented 1.2% of total exports, a proportion that has been generally maintained since 1998; while imports for the same period represented 4.8% of total imports. In previous years, this percentage has remained between 5% and 6% of total imports.

Value of Exports (f.o.b.) by Countries and Percentage of Total⁽¹⁾
(in millions of U.S. dollars)

	For the Year Ended December 31,								For the Nine-Month Period Ended September 30,	
	1998		1999		2000		2001		2002 ⁽¹⁾	
Central America										
Guatemala	\$156.9	2.8%	\$160.9	2.4%	\$168.7	2.9%	\$175.7	3.5%	\$126.2	3.2%
El Salvador	101.6	1.8	105.1	1.6	118.7	2.0	131.4	2.6	83.2	2.1
Honduras	85.2	1.5	92.5	1.4	97.4	1.7	99.4	2.0	72.4	1.8
Nicaragua	138.4	2.5	173.4	2.6	172.7	3.0	152.2	3.0	106.7	2.7
North America										
Canada	78.2	1.4	29.7	0.4	21.2	0.4	22.1	0.4	21.8	0.6
Mexico	55.2	1.0	63.9	1.0	59.7	1.0	41.3	0.8	45.4	1.2
United States	1,052.0	19.0	927.3	13.9	845.4	14.5	757.4	15.1	599.0	15.3
South America										
Colombia.....	32.2	0.6	14.4	0.2	15.5	0.3	13.2	0.3	11.3	0.3
Panama	91.2	1.7	105.6	1.6	105.7	1.8	117.0	2.3	81.6	2.1
Venezuela.....	20.9	0.4	13.6	0.2	20.3	0.4	20.8	0.4	11.8	0.3
Europe										
Belgium and Luxembourg.....	94.4	1.7	62.4	0.9	110.2	1.9	86.8	1.7	62.4	1.6
Germany.....	188.2	3.4	174.0	2.6	131.7	2.3	106.3	2.1	100.1	2.6
Great Britain	119.6	2.2	62.3	0.9	48.4	0.8	41.0	0.8	41.6	1.1
Italy	120.6	2.2	99.1	1.5	98.1	1.7	93.1	1.9	56.5	1.4
The Netherlands....	135.1	2.4	116.7	1.7	94.9	1.6	84.1	1.7	67.6	1.7
Sweden	49.6	0.9	34.7	0.5	41.3	0.7	45.4	0.9	40.4	1.0
Asia										
Japan	30.6	0.6	20.7	0.3	21.7	0.4	15.1	0.3	12.2	0.3
Others	594.8	10.8	421.3	6.3	323.0	5.5	305.3	6.1	218.6	5.6
In-bond ⁽¹⁾	444.5	8.0	396.1	6.0	398.9	6.8	366.4	7.3	269.8	6.9
Free Trade Zones ⁽¹⁾ ...	1,936.2	35.1	3,588.8	53.9	2,956.3	50.5	2,347.4	46.7	1,891.1	48.2
Total	\$5,525.6	100.0%	\$6,662.4	100.0%	\$5,849.7	100.0%	\$5,021.4	100.0%	\$3,919.7	100.0%

(1) Not categorized by country.

Source: Central Bank.

**Value of Imports (c.i.f.) by Country and Percentage of Total
(in millions of U.S. dollars)**

	For the Year Ended December 31,								For the Nine-Month Period Ended September 30,	
	1998		1999		2000		2001		2002 ⁽¹⁾⁽²⁾	
Central America										
Guatemala	\$144.4	2.3%	\$141.1	2.2%	\$137.8	2.2%	\$138.1	2.1%	\$107.7	2.0%
El Salvador	114.8	1.8	99.2	1.6	86.5	1.4	78.2	1.2	62.1	1.2
Honduras	26.0	0.4	29.0	0.5	31.4	0.5	36.9	0.6	23.2	0.4
Nicaragua	24.6	0.4	26.2	0.4	33.4	0.5	38.1	0.6	35.8	0.7
North America										
Canada	75.6	1.2	65.9	1.0	66.3	1.0	69.0	1.1	52.0	1.0
Mexico	318.8	5.1	333.7	5.3	375.2	5.9	365.4	5.6	258.3	4.8
United States	1,785.0	28.6	1,627.3	25.6	1,499.3	23.5	1,497.1	22.8	1,161.0	21.6
South America										
Colombia.....	96.6	1.5	94.5	1.5	114.1	1.8	143.4	2.2	107.9	2.0
Panama	88.8	1.4	82.3	1.3	87.6	1.4	109.2	1.7	84.2	1.6
Venezuela.....	176.0	2.8	237.0	3.7	323.7	5.1	284.5	4.3	212.6	3.9
Europe										
Belgium and Luxembourg.....	29.9	0.5	32.9	0.5	37.1	0.6	36.5	0.6	29.0	0.5
Germany	122.0	2.0	117.8	1.9	117.2	1.8	126.7	1.9	100.2	1.9
Great Britain	50.2	0.8	51.2	0.8	42.0	0.7	47.0	0.7	49.3	0.9
Italy	74.9	1.2	74.0	1.2	69.4	1.1	67.0	1.0	55.7	1.0
Netherlands	36.5	0.6	36.7	0.6	78.7	1.2	101.9	1.6	87.6	1.6
Sweden	24.4	0.4	13.2	0.2	15.7	0.2	10.1	0.2	9.4	0.2
Asia										
Japan	351.1	5.6	249.7	3.9	200.3	3.1	214.6	3.3	223.4	4.1
Others ⁽¹⁾	1,070.0	17.2	1,072.4	16.9	1,166.1	18.3	1,144.9	17.4	989.9	18.4
In-bond ⁽²⁾	348.1	5.6	328.3	5.2	342.4	5.4	272.5	4.1	211.1	3.9
Free Trade Zones ⁽²⁾ ...	1,281.0	20.5	1,642.3	25.8	1,564.2	24.5	1,787.6	27.2	1,525.7	28.3
Total	\$6,238.7	100.0%	\$6,354.6	100.0%	\$6,388.5	100.0%	\$6,568.6	100.0%	\$5,386.1	100.0%

(1) Includes capital goods of Free Trade Zones, not classified by country.

(2) Not categorized by country.

Source: Central Bank.

Foreign Investment

The main objective of Costa Rica's foreign trade policy has been to attract foreign direct investment in the country to help increase levels of employment, acquire technology, and

encourage economic development. According to the Ministry of Foreign Trade, during the last decade, Costa Rica received US\$4,213.0 million in foreign direct investment. In 2002, the estimated aggregate foreign direct investment was approximately US\$641.7 million. Foreign direct investment has contributed to the increase in Costa Rican trade, and has led to a significant upgrade in the nature and variety of Costa Rican exports.

The regulatory framework governing foreign investment in Costa Rica currently imposes limited foreign investment restrictions, including a prohibition on investment in certain border areas, such as Costa Rica's coastline. This prohibition also applies to domestic investments. The Constitution provides for equal treatment of foreigners and Costa Rican citizens.

During the period from 1994 to 1996, foreign direct investment shifted from the agricultural sector to the industrial sector principally as a result of increased domestic demand for locally produced goods as well as increased investment in Free Trade Zone industries. This shift continued during the period from 1997 to 2002 and the Government believes it will continue in the future. Foreign direct investment in the industrial sector accounted for 69.2%, 57.4%, 72.5%, 51.0% and 75.0% of all such investment in 1998, 1999, 2000, 2001 and 2002, respectively. Foreign direct investment in the agricultural sector accounted for 6.9%, 8.1%, (2.8%), 0.2% and 4.0% of all such investment in 1998, 1999, 2000, 2001 and 2002, respectively.

The following table sets forth gross foreign direct investment by economic sector for the five years ended December 31, 2002.

Gross Foreign Direct Investment by Economic Sector⁽¹⁾
(in millions of U.S. dollars and percentages of total)

	For the Year Ended December 31,									
	1998		1999		2000 ⁽²⁾		2001 ⁽²⁾		2002 ⁽²⁾	
Agriculture.....	\$41.9	6.9%	\$49.9	8.1%	\$(11.2)	(2.8)%	\$1.0	0.2%	\$23.5	4.0%
Industry	423.5	69.2	355.9	57.4	296.2	72.5	231.4	51.0	483.7	75.0
Commerce	39.3	6.4	9.2	1.5	17.4	4.3	8.3	1.8	4.0	1.0
Others	106.9	17.5	204.5	33.0	106.2	26.0	212.9	46.9	130.4	20.0
Total	<u>\$611.7</u>	<u>100.0%</u>	<u>\$619.5</u>	<u>100.0%</u>	<u>\$408.6</u>	<u>100.0%</u>	<u>\$453.6</u>	<u>100.0%</u>	<u>\$641.7</u>	<u>100.0%</u>
% of real GDP....	4.3%		4.0%		2.6%		2.8%		3.8%	

(1) See "Changes in Methodology of Measuring Real GDP and in Reference Period for Determining Constant Prices."

(2) Central Bank estimate.

Source: Central Bank.

Between 1990 and 2001, approximately 70.0% of the foreign direct investment received by Costa Rica originated in the United States. After signing a free trade agreement with Costa Rica in 1994, Mexico increased its investments in the country and accounted for 5.1% of total foreign direct investment received in 2002.

The United States accounted for 37.9% of the total amount of foreign direct investment received during 2002, compared to 53.5% in 2001. The Netherlands was the second largest source of foreign direct investment in 2002, accounting for 34.0% of the total amount received in

2002, compared to 0.5% in 2001, of which most was directed towards the industrial sector. Canada accounted for 12.3% of the foreign direct investment in 2002, compared to 11.7% in 2001, of which most was directed to the tourism sector. Other Central American countries collectively were the source of \$20.6 million of investment in 2002. The industrial sector absorbed US\$483.7 million of foreign direct investment in 2002 and the tourism sector absorbed US\$85.2 million of foreign direct investment in 2002.

Currently, foreign investment treaties are in effect between Costa Rica and Germany, Chile, France, the United Kingdom, Spain, Canada, the Republic of China (Taiwan), Argentina, The Netherlands, Paraguay, the Czech Republic, Venezuela, Belgium, Luxembourg, Bolivia, Korea and Switzerland. In addition, foreign investment treaties between Costa Rica and each of Finland and Ecuador have been introduced in the Legislative Assembly for approval, and Costa Rica has initiated negotiations with Sweden, Portugal, Italy, Turkey, Belize, Colombia and Peru.

Costa Rica has a reciprocal foreign investment promotion and protection treaty with the Republic of China (Taiwan). This agreement provides for a sharing of technical support and know-how. In 1990, Costa Rica adopted the *Ley de Zonas Francas* (Free Trade Zone Law) to provide exporting companies, located in Free Trade Zones, with certain incentives and benefits, including, among others, tax exemptions and duty-free importation of machinery and raw materials. This legislation was amended in 1998 to limit the benefits accorded to Free Trade Zones to new investments.

Several infrastructure projects are being financed by foreign investments. See “— Principal Sectors of the Economy — *Transportation, Warehousing and Telecommunications.*”

Foreign Direct Investment Inflows

From 1990 to 2001, foreign direct investment in Costa Rica increased at a compounded annual rate of 9.7%. Costa Rica has adopted policies intended to reduce custom duties, eliminate non-tariff barriers, negotiate free trade agreements and generally improve business conditions. As a result of these policies, foreign direct investment in Costa Rica grew from US\$70.0 million in 1985 to US\$641.7 million in 2002.

Foreign direct investment was at its highest levels in 1998 and 1999, largely as a result of Intel's establishment of a new assembly and testing facility for microprocessors. The original Intel investment of US\$115.0 million in 1997 has increased over the last few years to a total investment of US\$439.0 million. In 1998, 1999, 2000, 2001 and the first nine months of 2002, Intel accounted for approximately 35.3%, 14.5%, 4.4%, 7.1% and 0.8%, respectively, of foreign direct investment in Costa Rica. Mainly as a result of this investment, electronic micro components have become Costa Rica's most important export product. In 1998, 1999, 2000, 2001 and the first nine months of 2002, exports of electronic components from Intel's facilities accounted for approximately 17.9%, 38.4%, 28.3%, 18.2% and 16.5%, respectively, of Costa Rica's total exports. In addition to Intel, other foreign electronics companies doing business in Costa Rica include Remec Costa Rica, S.A., Teradyne Costa Rica, S.A., Grupo Conair, and Babylliss Costa Rica, S.A.

Although Intel products dominate Costa Rican industrial exports, the country's exports are becoming increasingly diverse and other products such as medical devices are reaching significant export levels. Two affiliates of foreign enterprises, Abbott Laboratories and Baxter Healthcare, account for virtually all Costa Rican exports of medical devices, which represented 6.0% of total exports in 2001. Abbott Laboratories established its operations in Costa Rica in 1999 with a US\$60.0 million investment, and after three expansions, it currently has an estimated total of US\$120.0 million invested in Costa Rica. Baxter Healthcare has operated in Costa Rica since

1987 and has a current investment in the country of approximately US\$50.0 million. Other medical devices companies that currently operate in Costa Rica include Inamed Costa Rica, S.A. and ArthroCare Costa Rica, S.A.

In the services sector, in 2001 Procter & Gamble selected Costa Rica for the site of its global business center for the Americas to service both its English and Spanish speaking operations in the hemisphere. Procter & Gamble's operations in Costa Rica have been initiated with an investment of US\$8.3 million with a projected total investment of US\$60.0 million by the end of 2004. Western Union, which has operated in Costa Rica since 1998, also established a technical customer care center in Costa Rica in October 2002 and has made an investment in Costa Rica of US\$5.1 million.

In 2001, Microsoft Corp. and ArtinSoft, a Costa Rican company engaged in upgrade technologies, announced a strategic alliance. The alliance is intended to help developers interested in building XML web services with Microsoft® Visual Studio® .NET and the .NET Framework. Microsoft named ArtinSoft as its preferred supplier of worldwide upgrade services for its customers.

MONETARY SYSTEM

Central Bank

The Central Bank is the monetary authority of Costa Rica, and its primary purpose is to maintain the internal and external stability of the economy and the soundness of the financial system. The Central Bank is the sole issuer of Costa Rican currency and acts as lender of last resort to the banking system. The Central Bank enacts monetary policy through the use of discount facilities and open-market operations and through the establishment of reserve requirements for financial institutions. In addition, the Central Bank manages international reserves and is responsible for the supervision of foreign exchange regulations applicable to financial institutions.

The Organic Law of the Central Bank, enacted in 1995, provides a high level of autonomy for the Central Bank. The Central Bank is prohibited from financing the activities of the Government, except that in extraordinary cases it can purchase Government securities up to an amount equal to 5.0% of the amount of the Government budget on an annual basis, which securities must be redeemed within the same fiscal year. In addition, with the exception of the President of the Central Bank and the Minister of Finance, the seven members of the board of the Central Bank are appointed by the Government Council for terms of 90 months (effective upon the replacement of the members of such board in office on November 3, 1995, the date of enactment of the Organic Law of the Central Bank). Such appointments must be ratified by the Legislative Assembly and members may not be removed except under certain limited circumstances. The President of the Central Bank is appointed by the Government Council for a term concurrent with that of the President of Costa Rica and may only be removed by the Government Council.

The Central Bank has proposed amendments to the Organic Law of the Central Bank. These amendments would enhance the Central Bank's autonomy by replacing the Minister of Finance on the board of directors of the Central Bank with another person appointed under the same procedures established for appointing other board members for a period of 90 months. The Minister of Finance would be permitted to attend board meetings but would not be entitled to vote. The Executive Branch would appoint the Chairman of the Board, but the Legislative Assembly would have to ratify the appointment. In addition, the Central Bank's dividend distribution policy would be amended to provide the Central Bank with further economic autonomy and enhance its capacity to implement its policies by requiring that, apart from certain reserves, the net revenues of the Central Bank are distributed as follows:

- half to increase the legal reserves, to the extent such reserves are not at least twice the size of its capital; and
- half to asset amortization, accumulated deficit amortization and debt amortization.

In 2001, the Central Bank approved reforms to the National Banking System Law designed to improve the efficiency of state-owned banks by increasing flexibility in recruiting, compensation, contracting with third parties and disposal of assets. The General Superintendency of Financial Institutions evaluates the operation of each of the state-owned banks yearly.

The principal legislative change in 2002 was the enactment of the *Valoración a Precios de Mercado* (Valuation of Market Prices), which requires the use of mark-to-market valuation for securities. In addition, CONASSIF approved regulations governing the custody of securities. These regulations set forth the standards for the creation of custody partnerships. Furthermore, the legislature is currently considering a reform to eliminate the stock exchange monopoly enjoyed

by the *Bolsa Nacional de Valores* (the National Securities Exchange) by allowing private banks, investment funds and other financial institutions to act as exchange agents in the sale of securities.

**Summary Balance Sheet of the Central Bank
(in millions of current colones)**

	As of December 31,				As of September 30,
	1998	1999	2000	2001	2002
Net international reserves	¢268,912	¢438,627	¢418,654	¢453,994	¢516,588
External debt.....	(274,409)	(279,012)	(275,321)	(244,041)	(238,596)
Net external assets	(5,497)	159,615	143,334	209,953	277,992
Net credit to the Government ⁽¹⁾ ..	363,801	243,439	214,962	5,616	29,034
Net credit to public institutions...	(22,764)	(23,319)	(41,165)	(10,142)	(1,504)
Net credit to the non-financial public sector	341,036	220,120	173,797	(4,525)	27,530
Gross credit	12,447	11,434	7,229	6,192	5,242
Obligations.....	(138,072)	(196,593)	(266,266)	(115,146)	(153,045)
Net credit to the financial sector	(125,625)	(185,159)	(259,037)	(108,954)	(147,802)
Credit to the private sector ⁽²⁾	12,181	12,181	12,181	12,181	12,181
Private sector BEMs.....	(88,749)	(170,128)	(135,843)	(132,017)	(209,795)
Private sector short-term investments	(2,127)	(2,475)	(412)	(4,629)	(621)
Obligations to the private sector	(90,876)	(172,603)	(136,255)	(136,646)	(210,416)
Other assets, net.....	(7,053)	110,109	209,008	186,081	181,427
Net internal assets	129,664	(15,351)	(306)	(51,863)	(137,079)
Money in circulation	124,167	144,264	143,027	158,090	140,912

(1) Includes an estimate by the Central Bank of the outstanding debt of the Government to the Central Bank pursuant to Article 175 of the Organic Law of the Central Bank, which requires the Government to pay outstanding obligations to the Central Bank.

(2) Represents credit given by the Central Bank for the liquidation of Banco Anglo.

Source: Central Bank.

Supervision of the Financial Sector

Law 7732, which became effective on March 27, 1998, created the CONASSIF, which is charged with supervising the financial system through the use of its regulatory authority, including its powers to authorize entities subject to its review to participate in the financial markets, to suspend or revoke such authorizations and to intervene in such entities' activities. The CONASSIF is composed of seven members: the President of the Central Bank (or, in his absence, the

Manager of the Central Bank), the Minister of Finance (or, in his absence, one of the Vice-Ministers of Finance), and five members appointed by the board of directors of the Central Bank.

The CONASSIF also has the authority to promulgate rules and regulations for, and appoint the Superintendent and the Deputy Superintendent of, SUGEF, which regulates and supervises banks and other financial intermediaries and regulates foreign exchange operators, the *Superintendencia General de Pensiones* (Superintendency of Pensions), which regulates and supervises the pension fund system, and the *Superintendencia General de Valores* (Superintendency of Securities) ("SUGEVAL"), which regulates and supervises securities exchanges and issuances of securities.

To improve supervision of the banking system, the Central Bank promulgated regulations, which became effective in January 1999, requiring Costa Rican financial groups to present financial information on a consolidated basis, including their offshore operations, which were not previously subject to supervision. Under these regulations, financial groups are required to file with CONASSIF quarterly financial information on a consolidated basis on their offshore subsidiaries. Additionally, CONASSIF has authorized SUGEF to require each Costa Rican financial group to disclose the identities of its direct and indirect shareholders and has established measures to reduce the total credit risk of such financial groups.

The *Superintendencia General de Entidades Financieras* (General Superintendency of Financial Institutions) is authorized to release information to analogous regulatory entities from other countries, thus promoting the transparency of the Costa Rican financial system at an international level.

Monetary Policy

The principal objectives of Costa Rica's monetary policy have traditionally been consistent with its targets of reducing inflation rates and increasing net international reserves. Costa Rica's monetary policy has been complimented by the absence of controls on foreign exchange convertibility or remittances from Costa Rica as well as the Central Bank's targeted inflation-based crawling peg rate policy.

The principal mechanisms the Central Bank uses in implementing monetary policy are (i) open-market operations in BEMs, which have been conducted through an auction mechanism since April 1996, (ii) short-term deposit facilities at the Central Bank, (iii) an interbank market which initiated operations in 1997, and (iv) the establishment of reserve requirements for commercial banks. The Central Bank has conducted auctions of debt securities denominated in dollars since October 1998.

Open Market Operations and Interbank Market

In open-market operations, the Central Bank issues BEMs, which are placed pursuant to weekly joint auctions by the Ministry of Finance and the Central Bank. The Central Bank has participated in the development of more competitive joint auctions through the use of standardized financial instruments. The issuance of BEMs by the Central Bank and the payment of interest thereon have generated the majority of the operational losses of the Central Bank, averaging approximately 1.4% of GDP from 1998 to 2002.

In November 1996, regulations were promulgated for the functioning of an interbank market with the intention that the Central Bank would switch gradually to this market as the main instrument for controlling liquidity and as a complement to the open market operations conducted

through the weekly auction of BEMs. The interbank market operates through Costa Rica's stock exchange, the *Bolsa Nacional de Valores* (National Stock Exchange), through securities held at the central securities depository. Currently, the competitive joint auctions of the Ministry of Finance and the Central Bank are placed bimonthly and the uncompetitive joint collections are placed weekly. The securities offered by both issuers are standard zero coupon securities due on or before 360 days from the date of issue.

Article 175 of the Organic Law of the Central Bank requires the Ministry of Finance to issue domestic bonds in order to satisfy the outstanding debts of the Government with the Central Bank. In October 1999, the Government issued bonds with a term of 25 years and in an aggregate principal amount of approximately US\$848.5 million (7.3% of GDP) to the Central Bank to satisfy the obligations of the Government to the Central Bank relating to:

- the assumption by the Central Bank of certain exchange rate losses incurred by the state-owned banks;
- certain obligations resulting from the restructuring of commercial bank debt in 1990;
- the losses of the Central Bank incurred in its open-market operations; and
- the reimbursement of losses by CODESA which were funded by the Central Bank.

The Central Bank included the amount of the obligation represented by such bonds in its monetary accounts from December 1996 through 2001. The inclusion of such amount in the Central Bank's monetary accounts caused fluctuations in the public sector credit accounts.

In January 2001, the Government prepaid all of the outstanding bonds issued by the Ministry of Finance resulting in a payment to the Central Bank of 294,000.0 million colones (US\$924.5 million). By doing so, the Government sought to strengthen the financial condition of the Central Bank and to contain inflation and domestic interest rates.

Reserve Requirements

The Organic Law of the Central Bank authorizes the board of directors of the Central Bank to set the reserve requirements applicable to deposits and other obligations in the financial system. The reserve requirement applies generally to all types of deposits within the financial system notwithstanding the type of financial institution. Different reserve requirements apply to deposits in colones and those denominated in foreign currencies.

Since July 1996, the minimum reserve requirements with respect to time deposits and time obligations denominated in foreign currencies has been 5.0%. These reductions in the reserve requirements, together with the low demand for credit and the generally improving fiscal condition of the Government, contributed to an overall reduction in domestic interest rates since 1996, notwithstanding the continuing restrictive monetary policy of the Central Bank.

In 1997, the Central Bank reduced the minimum legal reserve requirement with respect to (i) demand deposits denominated in colones with terms of less than 180 days from 17.0% to 15.0%; and (ii) demand obligations denominated in colones with terms equal to or greater than 180 days from 10.0% to 15.0%. The reserve requirements with respect to demand deposits denominated in colones was reduced from 15.0% in 1998 to 14.0% in 1999, and was further reduced to 12.0% in March 2000. As of December 31, 2001, the minimum reserve requirement with respect to demand deposits denominated in colones was 7.0% and 5.0% with respect to

demand deposits denominated in dollars. In February 2002, the minimum legal reserve requirement for deposits denominated in colones was reduced to 5.0%, thereby establishing the same reserve requirements as those for deposits in dollars.

Recent Policy

After the first six months of 1998, the Central Bank estimated that the economy would not meet its monetary policy goals for 1998 due to increasing inflationary pressures and declining international reserves. The rate of inflation was rising primarily as a result of rapid growth of credit to the private sector due to increased economic activity, relatively low lending rates and the scheduled reduction of reserve requirements for banks which accelerated the growth of the monetary base. The decrease of international reserves was primarily due to increased imports reflecting increased economic growth and net outflows related to repatriation of profits from In-bond and Free Trade Zone industries.

The Central Bank announced a revision of goals under the monetary program, including the target inflation rate and level of international reserves, and the adoption of a more restrictive monetary policy to reduce inflationary pressures in the remainder of 1998. In the last quarter of 1998, the Central Bank increased open-market operations in BEMs (including auctions in dollar-denominated debt securities), with the goal of reducing monetary aggregates and increasing interest rates and postponed the reduction of minimum reserve requirements for banks.

In September 1998, the Central Bank established a goal of limiting the expansion of private sector credit by Costa Rican banks to a maximum of 26.0% over the following 15 months. CONASSIF was given the authority to increase loss reserve requirements for financial institutions that did not comply with this goal. In mid-1999, the Central Bank relaxed its goal to permit private sector credit expansion to a maximum of 30.0%. On December 1, 1999, the Central Bank made a similar request to limit private sector credit expansion to a maximum of 26.0% over the following 13 months. The Central Bank did not make a similar request with respect to credit expansion for the private sector in 2001. Currently, if private sector credit expansion of any financial institution grows at a rate exceeding 1.5 times the rate of growth of GDP, the *Superintendencia General de Entidades Financieras* (Superintendency of Financial Entities) ("SUGEF") has the authority to apply a stricter level of supervision to that financial institution.

In 1999, the Central Bank conducted monetary policy consistent with its monetary target of a 10.0% annual inflation rate. The Central Bank maintained an open market operations policy in order to reduce liquidity in the banking system. These policies contributed to a decline in the growth of domestic credit to the private sector, which grew by 18.3% in 1999 compared to 51.2% in 1998.

In 2000, the Central Bank conducted monetary policy consistent with its monetary target of a 10.0% annual inflation rate. The Central Bank maintained an open market operations policy in order to control liquidity in the banking system. Nonetheless, domestic credit to the private sector grew by 29.7% in 2000, as a result of reduced domestic interest rates and the Government's objective of spurring economic activity.

In January 2001, in order to strengthen the financial condition of the Central Bank and contain inflation and domestic interest rates, the Government prepaid certain obligations assumed by it in 1998 and payable to the Central Bank. This payment reduced a deficit incurred by the Central Bank as a result of (i) the assumption by the Central Bank of certain exchange rate losses incurred by state-owned banks, (ii) certain obligations resulting from the restructuring of commercial bank debt in 1990, (iii) the losses of the Central Bank incurred in its open-market

operations, and (iv) the reimbursement of losses by CODESA which were funded by the Central Bank. The total amount paid to the Central Bank was 294,000.0 million colones (US\$924.5 million).

In 2002, the Central Bank conducted monetary policy consistent with its monetary target of a 10.0% annual inflation rate. The Central Bank maintained an open market operations policy consistent with controlling liquidity in the banking system.

Inflation and Interest Rates

At November 30, 2002, the accumulated inflation rate was 8.9% with an estimated annual inflation rate for 2002 of 10.0%. The accumulated inflation as of December 31, 2001 was 11.0%, although it had initially estimated a 2001 inflation rate of 10.0%. Inflation for the year ended December 31, 2000 was 10.2%. Inflation decreased to 10.1% in 1999 primarily due to effects of the Central Bank monetary policy in controlling monetary aggregates, stable fiscal conditions as a result of the reduction in the Government's fiscal deficit and low inflation in the United States, Costa Rica's principal trading partner.

Inflation increased to 12.4% in 1998 primarily due to increases in the costs of certain public services and the negative effects of adverse weather conditions, particularly crop damage caused by Hurricane Mitch, which resulted in a decrease in production for domestic consumption and increased prices for agricultural products. However, inflation remained relatively low, primarily as a result of low inflation in the United States, Costa Rica's principal trading partner, the lower price of oil and lubricants in international markets and improved fiscal conditions.

The following table sets forth changes in the consumer price index ("CPI") and the industrial producer price index ("IPPI") for the periods indicated.

Inflation (percent change from previous year at period end)

	<u>Consumer Prices</u>	<u>Industrial Producer Prices</u>
1998	12.4%	8.8%
1999	10.1%	11.3%
2000	10.2%	10.2%
2001	11.0%	8.6%
2002 ⁽¹⁾	8.9%	6.2%

(1) As of November 30, 2002.

Source: Central Bank; National Institute of Statistics.

No price controls have been in place on any products since 1992, with the exception of rice, gray cement, coffee, milk and vegetable oil. As of December 31, 2001, the only product subject to price control was rice. In addition, rates for public services such as water, electricity,

telecommunications, combustible fuel and public transportation are set based on certain cost formulae.

Interest rates increased in 1998, primarily due to an increase in placement of BEMs to control monetary expansion as well as net outflows of short-term private capital as a result of the economic crises in Asia and Russia. Interest rates for six-month bank deposits averaged 24.5% at December 31, 1998, while interest rates on Government bonds averaged 24.0%.

Interest rates decreased in 1999, primarily due to reduced Government borrowing from the domestic market as a result of its issuance of US\$300.0 million in bonds in external markets, as well as the decrease in inflation and in the Government's deficit. Interest rates for six-month bank deposits averaged 18.3% at December 31, 1999, while interest rates on Government bonds averaged 17.5%.

In 2000, interest rates decreased, primarily due to the Government's substitution of external debt for domestic debt and reduced participation in the domestic financial market, as well as favorable inflation and devaluation rates. Interest rates for six-month bank deposits averaged 15.5% at December 31, 2000, while interest rates on Government bonds averaged 15.0%, the lowest recorded interest rates since 1992.

The passive interest rate for colones-denominated six month Government securities and the Basic Passive Rate, as calculated by the Central Bank, were both 15.0% in 2001, until the Central Bank increased them in November 2001. The increase was meant to adjust the investment premium in colones, which had been reduced in recent years. The investment premium had fallen largely because of the increasing pace of devaluation, which increased from ¢0.10 to ¢0.12 per day in October 2001. As of December 15, 2001, the six-month Government securities rate and the Basic Passive Rate were 17.0% and 16.0%, respectively.

In 2002, the average interest rate paid by Government bonds for the last six months of 2002 was 18.0%, and the Basic Passive Rate was 17.5%. The issuance of the 2002 Notes reduced pressure on domestic interest rates because it decreased the Government's need to place securities in the local market. The reference rate was 17.5% as of the same date.

**Six-Month Interest Rates
(in percent, annual basis)**

	Government Bonds	Reference Rate⁽¹⁾
1998⁽²⁾		
March	17.6%	18.3%
June	18.8%	19.0%
September.....	22.6%	21.3%
December.....	24.0%	24.5%
1999		
March	24.0%	24.5%
June	20.8%	22.0%
September.....	19.5%	20.0%
December.....	17.5%	18.3%
2000		
March	16.5%	17.2%
June	17.0%	17.8%
September.....	16.0%	16.3%
December.....	15.0%	15.5%
2001		
March	15.0%	15.0%
June	14.5%	14.8%
September.....	14.5%	15.0%
December.....	17.0%	16.0%
2002		
March	18.0%	16.8%
June	18.0%	17.3%
September.....	18.0%	17.5%
December.....	18.0%	17.5%

(1) Represents nominal interest rates. Represents weighted average six-month deposit rate for deposits in the Central Bank, the Government, public and private banks and non-bank financial entities.

(2) Overall auction rate.

Source: Central Bank.

Liquidity and Credit Aggregates

The following table sets forth the composition of Costa Rica's monetary base (expressed in terms of the Central Bank's monetary liabilities) and net international reserves for the periods indicated.

Monetary Base and the Central Bank's International Reserves⁽¹⁾ (in millions of U.S. dollars)

	As of December 31,				As of
	1998	1999	2000	2001	November 30, 2002
Currency, including cash held in vaults.....	\$602.0	\$610.0	\$771.0	\$653.0	\$509.0
Other ⁽²⁾	308.0	286.0	241.0	212.0	177.0
Monetary base.....	909.0	896.0	1,012.0	865.0	686.0
Net international reserves of Central Bank.....	\$991.3	\$1,471.4	\$1,317.7	\$1,329.7	\$1,378.5

(1) All figures are at market value as of the date indicated.

(2) Bank deposits in the Central Bank.

Source: Central Bank.

The total outstanding credits of the domestic component of the national banking system amounted to US\$3,494.5 million at September 30, 2001, an increase of US\$474.7 million from the level of outstanding credits at September 30, 2000. At September 30, 2001, deposits in the financial system, including deposits in checking accounts, amounted to US\$4,856.7 million, an increase of US\$45.7 million from the level of deposits as of September 30, 2000.

At September 30, 2002, the net public sector credit was US\$3,954.8 million, an increase of US\$460.3 million in comparison to September 30, 2001, and bank deposits reached US\$5,395.2 million, an increase of US\$538.5 million in comparison to 2001.

The following table sets forth selected monetary indicators for the periods indicated.

Selected Monetary Indicators
(percent change, except as indicated)

	As of December 31,				As of September 30,
	1998	1999	2000	2001	2002 ⁽¹⁾
M1 ⁽²⁾	12.3%	20.6%	16.2%	9.7%	(2.0)%
Quasi-money ⁽³⁾	31.1	17.9	23.4	9.6	18.5
In foreign currencies.....	39.7	22.0	23.6	17.6	20.2
In domestic currency.....	22.5	13.2	23.1	(0.0)	16.1
Internal credit from national banking system ⁽⁴⁾	36.1	1.7	20.3	5.3	15.3
Average annual colones deposit interest rate ⁽⁵⁾	20.2%	22.0%	17.1%	15.1%	17.0%

(1) Percentage change from December 2001.

(2) Currency in circulation plus demand deposits. In 1997, Banco de Costa Rica reclassified certain liabilities as demand deposits.

(3) Consists of demand deposits in foreign currencies, time deposits in colones or foreign currencies, deposits in colones or foreign currencies, cashier's checks, certified checks, BEMs and other short-term and other unclassified deposits (principally in foreign currencies).

(4) Includes credit for renegotiation.

(5) Corresponds to the basic rate.

Source: Central Bank.

The following table sets forth liquidity and credit aggregates as of the dates indicated.

**Liquidity and Credit Aggregates
(in millions of current colones)**

	As of December 31,				As of September 30,
	1998	1999	2000	2001	2002
Liquidity aggregates					
Monetary base	¢242,908	¢301,650	¢304,431	¢295,245	¢252,729
NPP	124,167	144,264	143,027	158,090	140,912
M1	316,310	381,577	443,481	486,585	476,649
Quasi-money ⁽¹⁾	873,518	1,029,445	1,269,903	1,394,370	1,652,768
In foreign currencies	462,569	564,187	697,153	819,794	985,423
In domestic currency	410,949	465,258	572,750	574,576	667,345
Total liquidity	1,189,828	1,411,022	1,713,385	1,880,955	2,129,417
Credit aggregates					
Non-financial private sector credit	669,814	792,507	1,030,787	1,269,947	1,457,638
Private sector short-term Investments	201,341	290,668	478,573	646,078	765,144
In domestic currency	468,474	501,839	552,214	623,869	692,494
Public sector credit ⁽²⁾⁽³⁾	475,589	372,446	370,820	205,361	243,262
Suggested adjustment to the public sector credit	(89,167)	—	—	—	8,362
Total domestic credit ⁽²⁾⁽³⁾	<u>¢1,145,403</u>	<u>¢1,164,953</u>	<u>¢1,401,607</u>	<u>¢1,452,621</u>	<u>¢1,709,262</u>

(1) The category of "quasi-money" in domestic currency has been broadened, and a new category called "Financial Private Sector Credit" has been added which refers to the credit given by the banks to the non-financial private sector (mutual funds and cooperatives). This "quasi-money" category consists of demand deposits in foreign currencies, time deposits in colones or foreign currencies, savings deposits in colones and foreign currencies, cashier's checks, certified checks and other unclassified deposits (principally in foreign currencies).

(2) Includes credit for renegotiation.

(3) Includes outstanding debt of the Government to the Central Bank pursuant to art. 175 of the Organic Law of the Central Bank. This debt was repaid in full in 2001.

Source: Central Bank.

The Government is currently investigating several schemes involving unregulated financial institutions. One of the schemes being examined by Costa Rican authorities was allegedly perpetrated by Luis Milanés, who reportedly defrauded investors out of an estimated US\$200.0 million deposited with Milanés' company, Savings Unlimited, an unregulated financial institution. Another scheme, which is being investigated by the *Fiscalía de Narcotráfico del Ministerio Público* (the Drug Trafficking Department of the Costa Rican District Attorney's Office), was allegedly

perpetrated by Osvaldo Villalobos Camacho and Enrique Villalobos Camacho, two Costa Rican brothers, who reportedly embezzled and laundered funds deposited with their company, an unregulated financial institution, by Costa Rican and foreign individuals in an estimated aggregate amount of \$60.0 million. The aggregate number of foreign and Costa Rican investors affected by these schemes is approximately 6,300.

Financial Sector

As of December 31, 2002, the banking system in Costa Rica was comprised of three state-owned commercial banks, 15 private banks (nine of which have at least one subsidiary abroad that performs offshore operations), 11 non-bank financial firms, three savings and loan associations, 26 credit cooperatives and three institutions created by special laws (*Banco Popular y de Desarrollo Comunal*, a full service commercial bank; the *Caja de Ahorro y Préstamo de ANDE*, a credit union for the national association of teachers; and *Banco Hipotecario de la Vivienda*, which only provides mortgage loans and is responsible for managing and distributing the Government's housing loans and subsidies).

Other important participants in the financial sector include the state insurance company, INS, which operates private retail commercial firms; the social security agency, CCSS; self-regulated complementary pensions funds operating through trust accounts and investment funds; and a stock exchange as well as related brokerage firms.

Pursuant to the structural adjustment programs begun in the 1980s, the Costa Rican financial system has been modernized to promote greater private participation and to improve supervision and control mechanisms. The Government has encouraged private participation in the financial sector by terminating the monopoly of state-owned banks over checking accounts and short-term deposits in September 1996.

Historically, the participation of foreign banks in the financial system has been concentrated in corporate banking and services tied to foreign trade. Since 1994, foreign banks, including Canadian, Mexican and certain Central American banks, have entered the market for personal and corporate banking services in Costa Rica among others. The operations of these financial entities in Costa Rica are subject to the same regulatory regime applicable to Costa Rican banks. Similarly, other foreign non-bank institutions have begun operations in Costa Rica. As the Costa Rican banking industry has become more competitive and sophisticated in recent years, several private Costa Rican banks have merged with other national or foreign institutions in an effort to increase their capital and draw upon the experience of their strategic partners.

Certain Costa Rican banks have offshore subsidiaries, which were not subject to domestic regulation prior to 1997. To improve supervision of the banking system, the Central Bank promulgated regulations, which became effective in January 1999, requiring Costa Rican financial groups to present quarterly financial information on a consolidated basis including their offshore operations and subsidiaries to CONASSIF. SUGEF requires offshore bank members of groups registered with SUGEF to meet a minimum capital requirement of US\$3.0 million. Additionally, CONASSIF authorized SUGEF to require each Costa Rican financial group to disclose the identities of its direct and indirect shareholders and established measures to reduce the total credit risk of such financial groups. In 2002, the minimum capital requirement for private local banks was US\$6.3 million.

In accordance with the principles of the Basle Committee on Banking Supervision, financial institutions in Costa Rica are required to maintain a ratio of total capital to risk-weighted assets equivalent to 10.0%, higher than the Basle Committee's requirement of 8.0%.

The Organic Law of the Central Bank introduced certain changes in the financial supervisory system as a response to a crisis which arose in 1994 in connection with Banco Anglo, one of the then four state-owned banks. In 1994, Banco Anglo's losses amounted to approximately US\$150.0 million (approximately 1.5% of GDP). In the same year, the Government dissolved and liquidated Banco Anglo. The Organic Law of the Central Bank transformed the *Auditoria General de Entidades Financieras* (Comptroller General of Financial Entities), which previously had regulated Costa Rican banks, into SUGEF and granted it greater regulatory, supervisory and sanctioning powers. CONASSIF has been granted the authority since March 27, 1998 to promulgate rules and regulations for, and appoint the Superintendent and Deputy Superintendent of SUGEF.

The goals of SUGEF are to prevent financial and banking crises and to give information to depositors to aid in the depositors decisions regarding incurrence of financial risk. In furtherance of these goals, SUGEF has promulgated regulations establishing capital adequacy requirements for the entities under its supervision to ensure their financial soundness and has established means of recovery or correction for such entities. SUGEF supervises the banking system and other financial entities and requires filings of balance sheets, income statements and statements of stockholders equity every three months as well as regularly scheduled reports on foreign exchange exposure and other information from the banks operating in the Costa Rican financial system. From time to time, SUGEF conducts a full audit of the activities of each entity under its supervision. The Organic Law of the Central Bank provides SUGEF with the power to sanction financial intermediaries which do not comply with its regulations, including the powers of suspension and intervention.

As part of its supervision of the financial system, in 1998 and 1999, SUGEF intervened in the operations of four financial institutions, each of which is currently in the process of, or has finalized, liquidation. These financial institutions, whose combined assets are not material to the overall financial system, had incurred important losses primarily due to liquidity problems, low quality loan portfolios and overall mismanagement. These interventions were part of a program carried out by SUGEF to consolidate the soundness of the financial system. SUGEF also intervened in the operations of three relatively small financial firms in 1999 and 2000 for reasons unrelated to the problems in the cooperative sector. In 2002, SUGEF intervened and closed the operations of one financial institution for fraudulent operations.

The following table sets forth the amounts of assets and liabilities corresponding to each category of financial institutions (excluding offshore activity) as of October 31, 2002.

**Structure of the Regulated Financial System
(as of October 31, 2002)⁽¹⁾**

	Assets						Liabilities					
	Total		Loans		Investments		Total ⁽²⁾		Cost Liabilities		Non Cost Liabilities	
	Millions US\$	% of total	Millions US\$ ⁽³⁾	% of total	Millions US\$	% of total	Millions US\$	% of total	Millions US\$	% of total	Millions US\$	% of total
Banco Nacional de Costa Rica....	\$1,954.65	24.5%	\$815.19	18.9%	\$741.55	33.7%	\$1,844.13	27.1%	\$1,464.58	28.0%	\$379.56	24.2%
Banco de Costa Rica	1,272.08	16.0	655.17	15.2	442.80	20.1	1,107.16	16.3	644.80	12.3	462.36	29.4
Banco Crédito Agrícola de Cartago	458.66	5.8	117.83	2.7	202.42	9.2	432.62	6.4	253.61	4.8	179.01	11.4
Commercial state banks total.....	3,685.39	46.2	1,588.18	36.9	1,386.77	63.1	3,383.91	49.7	2,362.99	45.1	1,020.92	65.0
Banco Hipotecario de la Vivienda....	122.41	1.5	19.11	0.4	18.52	0.8	73.95	1.1	33.17	0.6	40.78	2.6
Banco Popular y de Desarrollo Comunal	871.09	10.9	523.29	12.1	276.74	12.6	659.84	9.7	575.85	11.0	83.99	5.3
Caja de Ahorro y Préstamo de ANDE	189.32	2.4	140.06	3.3	39.99	1.8	8.89	0.1	6.67	0.1	2.22	0.1
Banks created by special law total.....	1,182.82	14.8	682.47	15.8	335.25	15.2	742.68	10.9	615.69	11.8	126.99	8.1
Private banks	2,641.37	33.1	1,735.12	40.3	369.35	16.8	2,372.21	34.9	1,977.12	37.8	395.10	25.2
Nonbank financial institutions.....	159.75	2.0	90.58	2.1	42.36	1.9	93.32	1.4	83.11	1.6	10.22	0.7
Savings and loan associations	303.45	3.8	211.70	4.9	65.24	3.0	213.96	3.1	196.34	3.8	17.62	1.1
Total regulated financial system	<u>\$7,972.77</u>	<u>100.0%</u>	<u>\$4,308.05</u>	<u>100.0%</u>	<u>\$2,198.97</u>	<u>100.0%</u>	<u>\$6,806.09</u>	<u>100.0%</u>	<u>\$5,235.24</u>	<u>100.0%</u>	<u>\$1,570.84</u>	<u>100.0%</u>

(1) The asset totals include assets not mentioned in this chart. Accordingly, the sum of the assets (loans and investments) do not add up.

(2) Excludes net worth.

(3) This column does not include contingent liabilities (i.e. bad debt).

Source: SUGEF, *Financial Bulletin*.

As of June 30, 2001, approximately 49.4% of all bank credit provided in Costa Rica in 2001 (excluding credit transactions of offshore subsidiaries of Costa Rican private banks) was denominated in colones. The remainder was denominated in foreign currencies, primarily in U.S. dollars.

As of September 30, 2002, 46.2% of all bank credit provided in Costa Rica was denominated in colones, and 53.8% was denominated in foreign currencies, primarily in U.S. dollars. As of September 30, 2002, the portfolio of the regulated banking system represented 85.6% of total bank credit, excluding the offshore financial sector.

The quality of the loan portfolio of the regulated banking system has improved since 1995, when it was already affected by a combination of high interest rates and the slump in economic activity. Past due loans (defined as any loan not paid in full beyond its maturity date) decreased from approximately 28.0% of the total portfolio at June 30, 1995 to approximately 11.8% at June 30, 2001. Over this period, the state-owned commercial banks reduced their past due loans from approximately 34.0% to approximately 13.4%, while private banks lowered their past due loans from approximately 14.0% to approximately 5.5% over this period. Historically, the quality of the loan portfolio of the state-owned commercial banks has been lower than that of the private banks.

As of June 2001, according to SUGEF, the total amount of loans for the regulated financial system was US\$3,825.0 million and as of October 31, 2002, the total amount of loans was US\$4,301.0 million (an increase of US\$1,051.0 million). As of June 30, 2001, the total amount of loans for commercial state banks was US\$1,478.0 million and US\$1,373.8 for the private banks. As October 31, 2002, the total for the commercial state banks was US\$1,909.0 million and US\$1,846.0 million for the private banks.

Past Due Loan Portfolio of the Financial System (as of October 31, 2002)

	Past Due Loans																
	Total Loans		Current Loans			1-30 days		31-60 days		61-90 days		91-180 days		More than 180 days		Judicial Collection ⁽¹⁾	
	millions US\$	% of total system loans	millions US\$	% of total loans	millions US\$	% of total loans	millions US\$	% of total loans	millions US\$	% of total loans	millions US\$	% of total loans	millions US\$	% of total loans	millions US\$	% of total loans	
Banco Nacional de Costa Rica	\$973.0	22.6%	\$913.0	23.9%	\$27.0	10.1%	\$1.0	1.4%	\$0.0	0.3%	\$0.0	0.6%	\$8.0	48.3%	\$24.0	28.3%	
Banco de Costa Rica	778.0	18.1	619.0	16.2	75.0	28.1	26.0	45.6	24.0	77.9	51.4	7.0	41.5	17.0	19.9		
Banco Crédito Agrícola de Cartago	158.0	3.7	131.0	3.4	19.0	7.0	3.0	5.2	1.0	4.0	1.1	0.0	0.0	4.0	4.1		
Total commercial state banks	1,909.0	44.4	1,663.0	43.5	121.0	45.2	30.0	52.2	25.0	82.2	53.1	15.0	89.8	45.0	52.3		
Banco Hipotecario de la Vivienda	19.0	0.5	19.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Banco Popular y de Desarrollo Comunal	527.0	12.2	416.0	10.9	77.0	28.8	12.0	20.3	1.0	4.5	15.5	1.0	4.9	17.0	19.6		
Banks created by special law	546.0	12.7	436.0	11.4	77.0	28.8	12.0	20.4	1.0	4.5	15.6	1.0	4.9	17.0	19.6		
Private banks ⁽²⁾	1,846.0	42.9	1,726.0	45.1	69.0	25.9	16.0	27.4	4.0	13.3	31.3	1.0	5.3	24.0	28.1		
Total regulated financial system ⁽³⁾	\$4,301.0	100.0%	\$3,825.0	100.0%	\$267.0	100.0%	\$57.0	100.0%	\$31.0	100.0%	\$19.0	100.0%	\$17.0	100.0%	\$85.0	100.0%	

(1) The amount under judicial collection was included in different categories of past due loans.

(2) Includes cooperatives and credit unions.

(3) Excluding other non-bank financial institutions, savings and loan associations and Caja de Ahorro y Préstamo de ANDE.

Source: SUGEF.

Foreign Exchange and International Reserves

Foreign Exchange

Costa Rica has followed a real exchange rate policy since the mid-1980s, within a crawling-peg regimen, without adhering to any publicly announced formula. The devaluation rate has followed closely the inflation differential between Costa Rica and its principal trading partners. The Central Bank intervenes in the exchange market by buying or selling at a set rate. Participants in the exchange market are authorized to maintain a net position in foreign exchange of up to 100.0% of capital, with daily changes restricted to 1.0% of the previous day's position. See "Currency of Presentation" for additional information.

Since 1992, there have been no controls on foreign exchange convertibility or remittance in Costa Rica. Costa Rican residents are permitted to buy or sell foreign currency without restriction, and there are no restrictions on the repatriation in foreign currency of capital or dividends by foreign investors. The Central Bank abolished its exchange control regulations in order to accelerate the process of structural adjustment, increase export competitiveness, promote the inflow of capital into Costa Rica and stabilize the balance of payments. In addition, the Central Bank authorized state-owned and private commercial banks to participate freely in the foreign exchange market, with the Central Bank intervening only to prevent wide fluctuations.

Participation in the foreign exchange market is unrestricted. However, the Central Bank periodically intervenes in the market to maintain a constant real exchange rate. The rate of the Central Bank mini-devaluations is a function of the inflation differential with Costa Rica's most important trading partners. The basket of 13 currencies used by Costa Rica in order to calculate its nominal dollar exchange rate includes the currencies of Costa Rica's three principal trading partners: the United States, Germany and Japan.

International Reserves

Following declines in 1996 and 1998, international reserves increased in 1999. The increase was due primarily to the increase of net private and official capital inflows.

Net international reserves of the banking system were US\$1,281.9 million and US\$1,137.4 million at December 31, 2000 and December 31, 2001, respectively. As of November 30, 2002, the net international reserves of the banking system were US\$1,212.6 million.

As of November 30, 2002, net international reserves of the Central Bank represented the equivalent of approximately 3.1 months of imports (c.i.f.), including imports from Free Trade Zone and In-bond industries, and 4.6 months of imports (c.i.f.), excluding imports from Free Trade Zone and In-bond industries. As of December 31, 2001, net international reserves of the banking system represented the equivalent of approximately 2.4 months of imports (c.i.f.), including imports from Free Trade Zone and In-bond industries, and 3.5 months of imports (c.i.f.), excluding imports from Free Trade Zone and In-bond industries. The ratio of reserves to the monetary base was approximately 1.6 as of December 31, 2001. Costa Rica's net international reserves are held primarily in the form of time and demand deposits denominated in U.S. dollars held in U.S. money center banks.

The following table sets forth the composition of international reserves at each of the dates indicated.

Net International Reserves of the Banking System
(in millions of U.S. dollars)

	As of December 31,				As of
	1998	1999	2000	2001	November 30, 2002
Monetary gold.....	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Special Drawing Rights holdings.	0.1	0.0	0.4	0.1	0.1
IMF reserves position	12.0	27.4	26.0	25.2	26.5
Foreign currency	3.8	8.4	7.3	12.6	3.1
Deposits	961.6	1,423.3	1,233.4	936.0	618.9
Demand	67.9	251.9	80.4	36.9	31.9
Time.....	893.7	1,171.4	1,153.0	899.1	587.0
Securities	0.3	0.5	1.2	294.6	564.7
Budgetary financing fund	4.0	4.0	4.0	4.0	4.0
Other assets and liabilities	9.5	7.8	45.3	107.2	161.2
Central Bank	991.3	1,471.4	1,317.7	1,329.7	1,378.5
Deposits abroad	245.2	198.6	274.9	220.6	219.8
Securities	0.0	0.0	0.0	0.0	0.0
Other assets and liabilities	192.5	202.6	310.7	412.9	385.6
Commercial banks ⁽²⁾	52.7	(4.0)	(35.8)	(192.3)	(165.0) ⁽¹⁾
Total.....	<u>\$1,044.0</u>	<u>\$1,467.3</u>	<u>\$1,281.9</u>	<u>\$1,137.4</u>	<u>\$1,212.6</u>

(1) As of September 30, 2002.

(2) Converted to U.S. dollars at the rate of SDRs per US\$1.00 as of December 31 of each year, as established by the IMF.

Source: Central Bank.

Securities Markets

Costa Rica has one securities exchange, the National Securities Exchange. A second securities exchange, the Electronic Securities Exchange, was in operation until January 1999, when it was merged into the National Securities Exchange. As of December 31, 2001, private sector debt securities accounted for approximately 10.4% of the total volume of securities traded on the National Securities Exchange. In December of 2001, the total volume traded on the National Securities Exchange was US\$24,825.5 million, and for November 30, 2002 the total volume traded was US\$23,777.1 million. The public sector accounted for approximately

89.6% and 89.4% of the total volume of securities traded on the National Securities Exchange in 2001 and 2002, respectively.

Laws regulating the securities market were enacted in 1990 and 1998, the first of which was designed to stimulate the development of the securities market, in part through the creation of the *Comisión Nacional de Valores* (National Securities Commission), an entity under the authority of the Central Bank with supervisory authority over the securities market in Costa Rica. The second of such laws, which became effective on March 27, 1998, restructured the *Comisión Nacional de Valores* as SUGEVAL.

SUGEVAL is responsible for promoting and regulating the Costa Rican securities markets. Its functions include licensing brokerage firms, authorizing public offerings of securities, issuing securities regulations and supervising the operation of securities exchanges. SUGEVAL regulates and supervises the securities markets, including setting professional ethics standards, requiring information such as annual reports from listed companies, setting controls and penalties and regulating the relationship between issuers and investors in the securities market. The securities market is currently dominated by trading in debt securities (principally Government bonds), while trading in equity securities is limited.

The following table sets forth trading volume for the two securities exchanges for the periods indicated.

Securities Exchange Trading Volume
(in millions of U.S. dollars and percentages, unless otherwise indicated)

	For the Year Ended December 31,								For the 11-Month Period Ended November 30, 2002	
	1998		1999		2000		2001		Amount	% of Total
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total		
Government	\$2,201.2	8.1%	\$2,901.0	11.5%	\$3,122.9	11.7%	\$4,166.2	16.8%	\$3,520.3	14.8%
BEMs	621.0	2.3	2,436.0	9.7	2,798.2	10.4	1,554.7	7.5	1,789.8	7.5
CATs	250.0	0.9	190.0	0.8	131.1	0.5	41.7	0.2	1.9	0.0
Time deposit (denominated in colones) ..	1,132.3	4.2	1,271.0	5.0	111.3	0.4	0.4	0.0	0.1	0.0
Time deposit (denominated in dollars)	2,973.8	11.0	3,629.0	14.4	258.5	1.0	650.4	2.6	689.4	2.9
Short-term deposit facilities at the Central Bank	3,461.2	12.8	667.0	2.6	890.7	3.3	1,055.1	4.3	1,379.1	5.8
Other	5,371.9	19.8	4,027.0	16.0	2,901.8	10.8	17.9	0.1	19.1	0.1
National banking system	13,810.2	50.9	12,218.0	48.5	3,231.7	12.1	2,633.4	10.6	1,306.1	5.5
Public sector repos	6,266.0	23.1	8,090.0	32.1	11,113.5	41.5	12,127.8	48.9	12,559.9	52.8
Public sector total	22,277.4	82.1	23,209.0	92.1	24,559.7	91.6	22,247.6	89.6	21,265.6	89.4
Stocks	32.4	0.1	208.0	0.8	64.5	0.2	86.0	0.3	69.2	0.3
Debt (denominated in colones)	299.1	1.1	119.0	0.5	278.2	1.0	417.8	1.7	384.2	1.6
Debt (denominated in dollars)	127.4	0.5	92.0	0.4	264.1	1.0	313.1	1.3	379.7	1.6
Other	327.4	1.2	352.0	1.4	134.3	0.5	86.6	0.3	99.4	0.4
Firms	786.3	2.9	772.0	3.1	741.1	2.8	903.5	3.6	932.4	3.9
Private sector repos	859.6	3.2	908.0	3.6	1,500.7	5.6	1,674.4	6.7	1,579.1	6.6
Private sector total	1,645.9	6.1	1,680.0	6.7	2,241.8	8.4	2,577.9	10.4	2,511.5	10.6
National Securities Exchange total	<u>23,923.3</u>	<u>88.2</u>	<u>24,889.0</u>	<u>98.8</u>	<u>26,801.5</u>	<u>100.0</u>	<u>24,825.5</u>	<u>100.0</u>	<u>23,777.1</u>	<u>100.0</u>
Electronic Securities Exchange ⁽¹⁾										
Government	999.4	3.7	54.0	0.2						
Central Bank	770.2	2.9	104.0	0.4						
Other	273.7	1.0	37.0	0.1	—	—	—	—	—	—
National banking system	1,043.9	3.9	142.0	0.6						
Public sector repos	991.5	3.7	94.0	0.4	—	—	—	—	—	—
Public sector total	3,034.8	11.2	289.0	1.1	—	—	—	—	—	—
Stocks	27.9	0.1	0.0	0.0						
Debt	89.7	0.3	2.0	0.0						
Other	38.5	0.1	1.0	0.0	—	—	—	—	—	—
Firms	156.1	0.6	4.0	0.0						
Private sector repos	0.0	0.0	5.0	0.0	—	—	—	—	—	—
Private sector total	156.1	0.6	5.0	0.0	—	—	—	—	—	—
Electronic Securities Exchange total	<u>3,190.9</u>	<u>11.8</u>	<u>198.0</u>	<u>1.2</u>	—	—	—	—	—	—
Total	<u>\$27,114.2</u>	<u>100.0%</u>	<u>\$25,187.0</u>	<u>100.0%</u>	<u>\$26,801.5</u>	<u>100.0%</u>	<u>\$24,825.5</u>	<u>100.0%</u>	<u>\$23,777.1</u>	<u>100.0%</u>
Number of listed companies ⁽²⁾		117.0		118.0		74.0		75.0		39.0

(1) This exchange closed on January 31, 1999.

(2) Issuers authorized by the SUGEVAL to list securities (stock and debt) on the securities exchanges.

Source: SUGEVAL.

PUBLIC SECTOR FINANCES

The Costa Rican public sector is composed of the Government, non-financial public sector institutions (including state-owned companies), and financial public sector institutions (including the Central Bank and the state-owned banks). Government expenditures are financed through the collection of tariffs, income taxes, sales taxes and other minor taxes, as well as through domestic and external borrowings. In recent years, Government expenditures have consisted primarily of wages and salaries, interest on domestic public debt, pension payments, CATs, social security payments and transfers to a state fund for higher education.

In 1998, the fiscal deficit of the Government narrowed to 2.3% of GDP, primarily due to a reduction in interest payments on domestic public debt of 0.6% of GDP and a reduction of capital expenditures of 0.3% of GDP.

In 1999, the Government deficit decreased to US\$335.0 million (2.1% of GDP), principally due to an increase in capital revenue in an amount equal to 0.4% of GDP and a decrease in transfer payments of 0.6% of GDP, offset by an increase in interest on the public debt of 0.5% of GDP and a decrease in current income of 0.5% of GDP.

In 1999, the Government enacted several important pieces of legislation implementing its major policy objectives. Most importantly, the legislation covered pension fund reform and more effective tax enforcement and changes to excise taxes. Additionally, on December 20, 1999, the Legislative Assembly approved Law 7970, a five-year public debt law authorizing US\$1.45 billion in foreign debt issuance over the following five years in order to reduce domestic debt. The Legislative Assembly also approved significant reforms to the pension system in 1998, 1999 and 2000. See “— Social Security and Pension Reform.”

In 2000, the Government deficit widened to 3.0% of GDP, principally due to a reduced rate in growth of income tax collections. In 2000, the Government continued implementation of its plan to reduce domestic debt. In July 2000, Costa Rica issued the 2000 Notes, using the proceeds thereof to replace domestic debt. The substitution of external debt for domestic debt resulted in a decreased Government need for funds in the domestic financial sector in 2000 and reduced debt service payments of the Government relative to the debt service payments that would have been required absent such substitution.

In 2001, the Government deficit decreased to US\$459.0 million (2.9% of GDP), principally due to an increase in salaries from 4.5% of GDP in 2000 to 5.0% of GDP in 2001, as well as an increase in interest payments on the public debt from 3.5% of GDP in 2000 to 4.0% of GDP in 2001. These factors were partially offset by the growth in fiscal revenues from 12.0% of GDP in 2000 to 13.5% of GDP in 2001.

The Government deficit for 2002 increased to an estimated 4.3% of GDP, principally due to an increase in salaries from 5.0% of GDP in 2001 to 5.2% of GDP in 2002, as well as an increase in interest payments on the public debt from 4.0% of GDP in 2001 to 4.5% of GDP in 2002. On the other hand, fiscal revenues decreased from 13.5% in 2001 to an estimated 13.4% in 2002.

In accordance with Law No. 8116 of August 31, 2001, and under the Addendum to the Energy Cooperation Agreement of Caracas (the “Agreement”), the Ministry of Finance is required to transfer to the Central Bank the funds the Ministry obtains from placing BEMS through open market operations. Under the law, the Ministry transfers the funds in order to finance the Central Bank’s quasi-fiscal operations, thus contributing to the reduction of the

deficit incurred by the Central Bank. The Ministry is obligated to pay to the Central Bank 180,000 million colones in installments. The amount of each payment and the dates on which the Ministry makes them will be determined by mutual agreement. The timing and amount of the payments may take into account the amounts and dates of the contractual maturities of the balance of BEMS. As of the date hereof, no payments have been made to the Central Bank.

In the event the price of crude oil exceeds the price specified in the Agreement, the Republic is permitted to finance a portion of the purchase price payable by the Republic to the Bolivarian Republic of Venezuela for a term of up to 15 years, with a grace period for payments to principal of up to one year, and an annual interest rate of 2.0%.

The following table sets forth a summary of Government accounts and their percentage of GDP for the periods indicated.

Government Finances
(in millions of U.S. dollars and percentage of total GDP)

	For the Year Ended December 31,									
	1998		1999		2000		2001		2002 ⁽¹⁾	
Total revenue	\$1,694.0	12.0%	\$1,889.0	12.0%	\$1,919.0	12.0%	\$2,124.0	13.5%	\$2,186.0	13.4%
Current income	1,694.0	12.0	1,889.0	11.5	1,919.0	12.0	2,124.0	13.4	2,186.0	13.4
Direct taxes	393.0	2.8	510.0	3.2	487.0	3.1	551.0	3.5	557.0	3.4
Income tax	326.0	2.3	442.0	2.8	419.0	2.6	477.0	3.0	481.0	3.0
Payroll tax	57.0	0.4	59.0	0.4	59.0	0.4	62.0	0.4	63.0	0.4
Tax on property transfers	10.0	0.1	8.0	0.1	9.0	0.1	12.0	0.1	13.0	0.1
Property tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indirect taxes	1,285.0	9.1	1,297.0	8.2	1,409.0	8.8	1,536.0	9.7	1,600.0	9.8
On imports	778.0	5.5	767.0	4.9	825.0	5.2	728.0	4.6	649.0	4.0
On exports	29.0	0.2	26.0	0.2	15.0	0.1	6.0	0.0	6.0	0.0
Sales (domestic)	287.0	2.0	288.0	1.8	290.0	1.8	382.0	2.4	399.0	2.5
Consumption (domestic) ..	107.0	0.8	97.0	0.6	83.0	0.5	83.0	0.5	37.0	0.2
Other indirect taxes	85.0	0.6	120.0	0.8	196.0	1.2	337.0	2.1	509.0	3.1
Other income	15.0	0.1	14.0	0.1	18.0	0.1	27.0	0.2	24.0	0.1
Capital revenue	0.0	0.0	68.0	0.4	5.0	0.0	10.0	0.1	6.0	0.0
Total expenditures	2,023.0	14.3	2,224.0	14.1	2,394.0	15.0	2,583.0	16.4	2,890.0	17.8
Current expenditures	1,841.0	13.1	2,019.0	12.8	2,157.0	13.5	2,369.0	15.0	2,651.0	16.3
Wages and salaries	573.0	4.1	641.0	4.1	710.0	4.5	782.0	5.0	842.0	5.2
Goods and services	78.0	0.6	73.0	0.5	72.0	0.5	78.0	0.5	89.0	0.5
Interest on the public debt	428.0	3.0	551.0	3.5	552.0	3.5	626.0	4.0	734.0	4.5
Domestic	382.0	2.7	479.0	3.0	470.0	2.9	510.0	3.2	595.0	3.7
External	46.0	0.3	72.0	0.5	82.0	0.5	117.0	0.7	139.0	0.9
Current transfers	763.0	5.4	754.0	4.8	823.0	5.2	883.0	5.6	987.0	6.1
Public sector	334.0	2.4	301.0	1.9	356.0	2.2	380.0	2.4	418.0	2.6
Private sector	423.0	3.0	452.0	2.9	463.0	2.9	499.0	3.2	561.0	3.5
External sector	6.0	0.0	1.0	0.0	4.0	0.0	4.0	0.0	7.0	0.0
Capital expenditures	181.0	1.3	204.0	1.3	237.0	1.5	214.0	1.4	239.0	1.5
Fixed investment	71.0	0.5	74.0	0.5	58.0	0.4	47.0	0.3	59.0	0.4
Capital transfers	106.0	0.8	122.0	0.8	163.0	1.0	167.0	1.1	179.0	1.1
Other	5.0	0.0	8.0	0.1	16.0	0.1	0.0	0.0	1.0	0.0
Fiscal balance (deficit) /surplus	(329.0)	(2.3)	(335.0)	(2.1)	(475.0)	(3.0)	(459.0)	(2.9)	(704.0)	(4.3)
Current balance (deficit) /surplus ⁽²⁾	(148.0)	(1.0)	(198.0)	(1.3)	(243.0)	(1.5)	(255.0)	(1.6)	(471.0)	(2.9)
Primary balance (deficit) /surplus ⁽³⁾	\$99.0	0.7%	\$216.0	1.4%	\$77.0	0.5%	\$167.0	1.1%	\$30.0	0.2%

(1) Preliminary data.

(2) Current income less current expenditures.

(3) Fiscal balance plus interest on the public debt.

Source: Ministry of Finance.

The consolidated public sector, which includes the Government, the Central Bank and public and decentralized entities, accumulated an estimated consolidated deficit of 5.5% of GDP in 2002 compared with 2.9% of GDP in 2001, 3.7% of GDP in 2000, 3.0% of GDP in 1999, and 1.9% of GDP in 1998.

The following table sets forth the consolidated public sector deficit as a percentage of GDP for the five years ended 2002.

**Consolidated Public Sector Deficit⁽¹⁾
(percentage of GDP)**

	For the Year Ended December 31,				
	1998	1999	2000	2001	2002 ⁽²⁾
Government	(2.3)%	(2.1)%	(3.0)%	(2.9)%	(4.3)%
Central Bank	(1.1)	(1.5)	(1.7)	(1.2)	(1.5)
Remainder of non-financial public sector...	1.5	0.6	1.0	1.2	0.3
Total.....	(1.9)%	(3.0)%	(3.7)%	(2.9)%	(5.5)%

(1) See "Change in Methodology of Measuring Real GDP and in Reference Period for Determining Constant Prices."

(2) Preliminary data.

Source: Ministry of Finance.

The overall surplus of the state-owned institutions, principally ICE and CCSS, improved in 1998, mainly as a result of an overall increase in economic activity, together with strengthened expenditure controls. The surplus of the non-financial public sector declined in 1999, principally because ICE reported a loss due to stagnant electricity rates and its investment in the Angostura Project.

In 2001, the non-financial public sector surplus grew, primarily due to ICE and CCSS surpluses. The primary reason for the ICE surplus was an increase in ICE's income as a result of rate increases introduced at the beginning of 2001. The other non-financial public sector industries also generated a surplus, which exceeded their 2000 surplus by 0.2% of GDP. In 2002, the non-financial public sector industries had less of a surplus, mainly as a result of decreases in the surpluses reported by ICE and RECOPE. In the case of ICE, the decreased surplus resulted from an increase in capital expenses associated with several hydroelectric projects and cellular phone communications as well as increased expenses related to salaries and the purchase of goods and services. In the case of RECOPE, the decreased surplus resulted from an increase in oil prices.

The following table sets forth the composition of the Government's tax revenues for the periods indicated.

**Composition of Tax Revenues
(percentage of total)**

	For the Year Ended December 31,				
	1998	1999	2000	2001	2002 ⁽¹⁾
Direct taxes					
Income tax	19.3%	24.3%	21.9%	22.6%	22.0%
Payroll tax	3.4	3.3	3.1	2.9	2.9
Tax on property transfers.....	0.6	0.4	0.5	0.6	0.6
Property tax.....	0.0	0.0	0.0	0.0	0.0
Total.....	23.2	28.0	25.4	26.1	25.5
Indirect taxes					
On imports ⁽²⁾	45.9	42.1	43.1	34.4	29.8
On exports	1.7	1.4	0.8	0.3	0.3
Sales (domestic)	17.0	15.8	15.1	18.1	18.3
Consumption (domestic).....	6.3	5.3	4.4	3.9	1.7
Other indirect taxes	5.0	6.6	10.2	16.0	23.3
Total.....	75.9	71.2	73.6	72.7	73.4
Other income.....	0.9	0.8	1.0	1.3	1.1
Current income.....	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

(1) Preliminary data.

(2) Includes tariffs, sales tax and consumption tax on imports.

Source: Ministry of Finance.

In December 2002, the Legislative Assembly enacted the *Ley de Contingencia Fiscal* (Fiscal Contingency Law), effective January 1, 2003, which is designed to reduce the fiscal deficit by approximately 1.5% of GDP (approximately 90,000.0 million colones or US\$240.9 million). The Law is intended to increase revenues by increasing the maximum corporate income tax rate from 30% to 35% and by increasing the rates of certain taxes on the tobacco and alcoholic beverage industries and the annual tax on automobile use. The law is also intended to reduce Government expenditures by adding measures including the imposition of a hiring freeze on certain governmental positions and restrictions on the level of compensation paid to certain governmental employees.

By presidential decree, and by a policy issued by the *Consejo de Gobierno* (Government Council), the Government has imposed a restriction on nominal growth of governmental expenditures. The expected impact of these restrictions, once implemented, is 2.0% of GDP.

In August 2002, the Government presented to the Legislative Assembly a series of laws to help reduce the fiscal deficit. The most important reforms presented under the legislation as proposed are the following:

- increasing the basis on which income tax is calculated by aggregating all sources of an individual's or a tax-paying entity's income, regardless of the source, including whether the income is earned domestically or internationally;
- proposing changes to the existing value added tax ("VAT") designed to make the tax more efficient and neutral in its application from an economic perspective. In addition, the VAT would be extended to forms of economic activity which are not currently subject to VAT, such as medical and professional services; and
- reforming the Tax Rule and Procedures Code to introduce a structure of minimum and maximum tax ranges and criteria to provide guidelines for the enforcement of sanctions, taking into consideration subjective elements, such as degree of fault or negligence, economic capacity, recurrence of offenses, resistance or obstruction of the administrative sanctions, and amount of damages.

In addition, the proposed law generally seeks to clarify the treatment of certain sanctions, such as sanctions on legal entities, audits and participation, exemptions and penalties. Further, it proposes to clarify specific language that has led to interpretative difficulties and to broaden the definition of tax fraud to include certain abuses of the fiscal incentives (such as exemptions and deductions made available by the Government.)

The proposed legislation is subject to amendment by the Legislative Assembly and there is no assurance that the proposed legislation will be passed as drafted or as amended.

On July 4, 2001, the Legislative Assembly enacted the *Ley de Simplificación y Eficiencia Tributaria* (Law of Tax Simplification and Efficiency). This legislation consolidated the tax on fuel, eliminated certain tax exemptions, broadened the tax base, substantially eliminated excise taxes, simplified the tax structure in order to improve the efficiency of tax collection, and allowed the electronic payment of taxes.

In July 1999, the Legislative Assembly introduced a series of modifications to the Tax Rules and Procedures Code, in conjunction with Costa Rica's efforts to modernize its tax system. These reforms sought to strengthen the punitive nature of the tax system in order to induce taxpayers to comply with the Tax Rules and Procedures Code and to convert the system into a more efficient and streamlined system.

In December 1999, the Legislative Assembly approved legislation which increased the tax imposed on liquor, beer and cigarettes. This law reduced the consumption tax on alcoholic beverages by 10.0% while imposing a new tax of 20.81 colones per unit of consumption on alcoholic beverages, and increased the consumption tax on cigarettes from 70.0% to 95.0%.

**Composition of Government Expenditures
(percentage of total expenditures)**

	For the Year Ended December 31,				
	1998	1999	2000	2001	2002⁽¹⁾
Wages and salaries	28.3%	28.8%	29.7%	30.3%	29.1%
Goods and services	3.8	3.3	3.3	3.0	3.1
Interest on public debt	21.1	24.8	23.1	24.2	25.4
Domestic.....	18.9	21.5	19.7	19.7	20.6
External.....	2.3	3.2	3.4	4.5	4.8
Current transfers	37.7	33.9	33.6	34.2	34.1
Private sector	16.5	13.6	16.0	14.7	14.5
Private sector	20.9	20.3	17.5	19.3	19.4
External sector	0.3	0.0	0.2	0.2	0.2
Current expenditures	91.0	90.8	89.7	91.7	91.7
Capital expenditures.....	9.0	9.2	10.3	8.3	8.3
Fixed investment.....	3.5	3.3	2.9	1.8	2.0
Capital transfers.....	5.2	5.5	7.1	6.5	6.2
Other.....	0.2	0.4	0.3	0.0	0.0
Total.....	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

(1) Preliminary data.

Source: Ministry of Finance.

The Government has traditionally financed its deficit primarily by issuing bonds in the domestic market. See "Public Sector Debt — Domestic Debt." The following table sets forth Government borrowings for the periods indicated.

Government Financings⁽¹⁾
(in millions of U.S. dollars and percentage of total GDP)

	For the Year Ended December 31,									
	1998		1999		2000		2001		2002 ⁽²⁾	
Financings.....	\$328.8	2.3%	\$334.8	2.1%	\$460.9	2.9%	\$458.8	2.9%	\$704.1	4.3%
Net external borrowing	182.8	1.3	216.2	1.4	221.9	1.4	154.8	1.0	186.8	1.1
Net internal borrowing	146.0	1.0	118.6	0.8	239.0	1.5	304.0	1.9	517.3	3.2
Government bonds, net	508.9	3.6	241.9	1.5	294.4	1.8	304.0	1.9	517.3	3.2
Other.....	\$(362.9)	(2.6)%	\$(123.3)	(0.8)%	\$(55.4)	(0.3)%	\$0.0	0.0%	\$0.0	0.0%

(1) See "Change in Methodology of Measuring Real GDP and in Reference Period for Determining Constant Prices."

(2) Preliminary data.

Source: Ministry of Finance.

2003 Budget

Costa Rica's budget for the 2003 fiscal year became effective on January 1, 2003. The *Ley de Presupuesto* (Budgetary Law) establishes maximum expenditure levels for the Government. In practice, an average of approximately 92.0% of the authorized expenditure levels are utilized by the Government. The 2003 budget assumes total revenues of 951,945.8 million colones (US\$2,441.3 million) and total expenditures of 1,813,939.6 million colones (US\$4,651.8 million), including debt service (principal and interest) in an amount of 894,397.9 million colones (US\$2,293.7 million). The 2003 budget also authorizes 854,017.4 million colones (US\$2,190.1 million) of domestic bonds to finance expenditures provided in the budget, including debt service. The President has identified education, infrastructure, social security and health care as priorities of his administration. The priorities reflected in the 2003 budget are education, welfare, justice and internal security.

The following sets forth the principal assumptions utilized in the 2003 budget.

Assumptions Underlying 2003 Budget⁽¹⁾
(percentages, except as indicated)

Mean inflation	9.0%
Mean devaluation.....	9.0
Real growth in GDP	4.0
Nominal growth in GDP.....	14.0
Growth in imports of goods (c.i.f.).....	3.7
Average six-month interest rate.....	17.4
Growth in Government salaries per semester	3.5
Tariffs – DAI⁽²⁾	
Raw materials.....	0.0
Final goods.....	15.0
Capital goods.....	0.0
Intermediate goods	
With domestic competition	10.0
Without domestic competition	5.0%

(1) Reflects estimates as of June 30, 2002.

(2) As of December 31, 2002.

Source: Ministry of Finance.

Social Security and Pension Reform

The Constitution established a general social security system, composed of health and pension benefits, administered by the *Caja Costarricense de Seguro Social* (CCSS). The CCSS is an autonomous entity governed by a board of directors composed of nine members: the Executive President, two members representing the Government, three members representing employers, and three members representing employees. The members of the board of directors are appointed by the Government Council from a list provided by each represented group. The Executive President of the CCSS serves for a period concurrent with that of the President of Costa Rica. The other members serve staggered eight-year terms.

The CCSS provides pension benefits through the *Regimen de Invalidez, Vejez y Muerte* (“RIVM”). The benefits provided by the RIVM are disability, retirement and death benefits, which are funded by contributions from employees, employers and the Government.

In addition to the RIVM, a number of special pension programs, which cover public employees in specific occupations and Government agencies, were established by the legislature. Historically, each of such special pension programs was based on a “pay as you go” program and operated at a deficit.

Beginning in the 1990s, the Government and the CCSS, with the support of the World Bank, implemented a general reform of the pension system in an effort to maintain the long-term stability of the pension system. The objectives of the reform were the standardization of the pension system and the assurance of the actuarial and financial viability of the pension system.

In 1992, the Legislative Assembly enacted legislation reforming the special pension programs and transferring the obligations of such programs to a single program providing reduced and uniform benefits in an effort to standardize the pension system and reduce pension expenditures. Since the enactment of this legislation, all newly hired employees of the public sector have been required to participate in the RIVM. The only special pension programs that were not terminated were the pension plans for teachers and the judicial branch. In 1995, legislation was passed to reduce the benefits given by the special pension program for teachers, and in 1996, legislation was passed to reduce the benefits of the special pension program of the judicial branch.

In 1998, the Legislative Assembly enacted legislation establishing certain requirements that employees who participate in the special pension programs must meet in order to receive benefits under such programs rather than under the uniform system. In addition, the Legislative Assembly enacted legislation providing for a cap on benefits under the special pension programs and the RIVM. The CCSS is considering several reforms designed to assure the financial soundness of the RIVM, including an increase in the retirement age and a decrease in replacement rates.

The *Ley de Protección al Trabajador* (“Worker Protection Law”), enacted in January 2000, established a pension system with four components. The first component is based on the system currently administered by the CCSS, providing basic pension benefits and other basic pension systems that compliment the RIVM. The second component addresses the reallocation of certain contributions that were paid by employers and employees to fund other programs. The third component is based on the development of private pension funds to which employers and employees can contribute on a voluntary basis. The fourth and final component is a non-contributory pension system, funded by general taxes, designed to give basic pension benefits to people in impoverished conditions.

The second component of the legislation has two goals. First, to replace the mandatory severance plan that existed for all employees prior to the implementation of the legislation, and second, to create a supplementary mandatory pension fund to complement the pensions paid by the RIVM.

On January 24, 2000, the Legislative Assembly approved legislation which requires employers and employees to contribute an amount equal to a portion of each private or public employee's salary to a pension fund chosen by the employee. 3.0% of each employee's salary paid by the employer is withheld, with half of the amount withheld being deposited in a pension fund that provides benefits to the employee upon retirement, and the remainder being deposited into a severance fund that provides benefits to the employee upon termination of employment. In addition to the 3.0% of each employee's salary that is withheld, the employer is required to deposit an amount equal to 1.75% of each employee's salary into such funds, and the employee is required to pay 1.0%. The establishment of these funds is designed to increase employees' pension benefits and to prevent the eventual insolvency of the pension system administered by the CCSS.

The contributions to the RIVM began on March 2001 and are collected by *Sistema Centralizado de Recaudación* (SICERE), a department of the CCSS. At October 31, 2002,

SICERE managed individual accounts for approximately 1.2 million employees and resources equal to US\$133.0 million.

Legislation was enacted in 1992 to authorize the establishment of *Operadoras de Fondos de Pensiones Complementarias* (Operators of Complementary Pension Plan Funds). The Worker Protection Law provided for fiscal incentives which permit the voluntary contribution of up to 10.0% of an individual's income to accounts established by such individual. Employers may provide matching support to employees and deduct amounts of their contributions to such plans equal to the percentage which they are required to contribute to pension plans administered by the CCSS. On January 24, 2000, the Legislative Assembly approved legislation increasing monetary penalties to be paid if an employee withdraws funds from his or her account prior to their retirement. Each employee is permitted to choose the administrator of his or her pension fund and change the administrator in the future. The voluntary pension funds are insured against any insolvency of the administrator.

In 2002, the Worker Protection Law was amended to incorporate a *Régimen de Pensiones Complimentarias* (Complimentary Pension Regime) in order to increase the amount of contributions made by employees to their pension funds, thereby increasing employees' long-term pension benefits.

It is estimated that by 2010 both voluntary pension contributions and increased contributions will each total US\$1,200.0 million. These funds are currently managed by nine private and public entities. As of September 30, 2002, these managers oversaw approximately US\$860.0 million, of which 75.6% correspond to voluntary contributions, 15.0% correspond to required contributions, and 9.4% corresponds to the funds of the *Fondo de Capitalización Laboral* (the Labor Capitalization Fund).

PUBLIC SECTOR DEBT

During the 1980s, the Government relied primarily on foreign loans from multilateral institutions, bilateral creditors and commercial banks to finance its fiscal deficits. Since the late 1980s, the Government has relied more heavily on domestically issued debt to finance its fiscal deficits. In 1998, domestic public debt represented 56.7% of the total public sector debt. At October 31, 2002, domestic public debt represented 64.8% of the total public sector debt.

Despite the shift in the composition of public debt from external public debt to domestic public debt, the overall public sector debt burden measured as a percentage of GDP represented 47.2% and 56.5% of GDP at December 31, 1998 and September 30, 2002, respectively. As of October 31, 2002, domestic public debt had increased by 6.2% from December 31, 2001.

At the end of 1996, Costa Rica adopted a plan to reduce public sector domestic debt through measures including the substitution of external debt for domestic debt. As part of this plan, Costa Rica issued the 1998 Notes and the 1999 Notes, using the proceeds thereof to retire domestic debt.

Costa Rica's total domestic public debt consists of colón-denominated debt and foreign-currency denominated debt issued in Costa Rica by the Government, the Central Bank and public sector institutions and enterprises. Costa Rica's total gross public sector external debt consists of loans from foreign creditors to the Government, the Central Bank, autonomous agencies of the Government and public sector institutions and enterprises as well as bonds of these entities issued outside of Costa Rica.

In December 1999, the Legislative Assembly approved Law 7970, a five-year public debt law authorizing US\$1.45 billion in foreign debt issuance over the next five years in order to reduce domestic debt. This amount is expected to be reduced by an amount equivalent to any disbursements of future loans from multilateral or bilateral organizations. In July 2000, Costa Rica issued the 2000 Notes, utilizing the external debt to replace domestic debt. In March 2001, Costa Rica issued the 2001 Notes and in February 2002, Costa Rica issued the 2002 Notes, in each case utilizing the debt to replace domestic debt.

Domestic Debt

As of October 31, 2002, gross public sector domestic debt was US\$6,174.4 million, an increase of 6.2% from US\$5,812.3 million as of December 31, 2001.

All of Costa Rica's public sector domestic debt is issued in the form of bonds. Costa Rica's public sector deficits are financed primarily through the issuance of *Títulos de Propiedad de la Deuda Interna* ("Treasury Bonds") by the Government. These instruments are sold primarily through public auction with a portion being placed with state-owned institutions and enterprises.

In October 1999, the Government issued bonds with a term of 25 years in an aggregate principal amount of approximately US\$848.5 million (5.4% of GDP) to the Central Bank to satisfy the obligations of the Government to the Central Bank relating to:

- the assumption by the Central Bank of certain exchange rate losses incurred by the state-owned banks;

- certain obligations resulting from the restructuring of commercial bank debt in 1990;
- the losses of the Central Bank incurred in its open-market operations; and
- the reimbursement of losses by CODESA which were funded by the Central Bank.

The Central Bank included the amount of the obligation represented by such bonds in its monetary accounts from December 1996 through 2001. The inclusion of such amount in the Central Bank's monetary accounts caused fluctuations in the public sector credit accounts. In 1999, the Government prepaid 20,000.0 million colones (US\$67.1 million) as debt to the Central Bank. In January 2001, the Government prepaid all of the outstanding bonds resulting in a payment to the Central Bank of 294,000.0 colones (US\$924.5 million).

In addition, at December 31, 2002, the Government had obligations in the amount of approximately 50.0 billion colones (approximately US\$190.0 million) in unpaid pension contributions, not including interest payments, to the CCSS.

Prior to April 1996, the Government placed short-term Treasury Bonds and the Central Bank placed BEMs in the retail market. In April 1996, the Central Bank and the Government instituted a program of joint auctions of Treasury Bonds, and the Central Bank discontinued the issuance of BEMs. In April 1997, the Central Bank resumed issuing BEMs pursuant to a joint auction program with the Government.

Pursuant to law, no more than 20.0% of the outstanding domestic debt of the Government may be denominated in foreign currencies. The foreign currency limitation does not apply to debt of the Central Bank, which has auctioned debt securities denominated in dollars since October 1998. As of September 30, 2002, dollar denominated obligations of the Central Bank accounted for US\$970.0 million, or 59.5%, of the Central Bank's total US\$1,630.5 million domestic debt.

The Central Bank and the Government hold auctions of BEMs and Treasury Bonds twice a month, at which time stock exchange brokers submit their bids as to amount and interest rates. The aggregate amount of BEMs and Treasury Bonds offered in each weekly auction is based on the financial needs of the Government and the liquidity of the financial system compared to the Central Bank's monetary targets.

The aggregate principal amount of outstanding Government domestic bonds as of October 31, 2002 was equivalent to approximately 26.7% of GDP, and interest payments in 2002 were equivalent to approximately 3.1% of GDP and approximately 23.3% of tax revenues.

The following table sets forth the gross public sector domestic debt of the Government and Central Bank as at December 31 for each of the years 1998 through 2001 and for the nine-month period ended September 30, 2002.

**Domestic Public Debt
(in millions of U.S. dollars)**

	For the Year Ended December 31,				For the 10-Month Period Ended October 31,
	1998	1999	2000	2001	2002 ⁽¹⁾
Total.....	\$3,775.9	\$5,287.1	\$5,358.7	\$5,812.3	\$6,174.4
Government Bonds ⁽²⁾	3,102.9	4,024.9	4,087.1	4,371.3	4,523.6
Central Bank ⁽³⁾	637.4	1,232.2	1,243.6	1,415.3	1,630.5
Other public institution bonds.....	\$35.6	\$29.9	\$28.0	\$25.8	\$20.3

(1) Preliminary data.

(2) As determined by the National Treasury.

(3) Includes domestic and dollar-denominated domestic debt of the Central Bank.

Source: Monetary Department, Central Bank.

The following table sets forth the holdings of gross public sector domestic debt at the date indicated for each of the years 1998 through 2002.

**Holdings of Gross Domestic Debt
(percentage of total gross domestic debt)**

	As of December 31,				As of September 30,
	1998	1999	2000	2001	2002
Government bonds					
Central Bank	4.4%	19.3%	13.2%	2.6%	2.2%
Commercial banks	12.0	8.9	9.2	11.2	13.2
Public institutions	37.6	27.7	29.5	43.1	37.8
Internal private sector	25.1	19.4	23.6	29.4	28.6
External sector	3.4	2.5	2.5	2.0	1.3
Government bonds total	82.5	77.8	78.0	88.3	83.2
Central Bank bonds (BEMs)					
National banking system.....	1.8	4.0	6.3	1.6	4.2
Public institutions	5.4	5.5	5.9	0.5	0.3
Internal private sector	9.2	12.1	9.2	9.0	11.8
Central Bank bonds total	16.5	21.6	21.4	11.1	16.3
Other public institution bonds					
Central Bank	0.4	0.3	0.2	0.2	0.2
Commercial banks	0.0	0.0	0.0	0.0	0.0
Placements between institutions	0.1	0.1	0.1	0.1	0.1
Internal private sector	0.0	0.0	0.0	0.0	0.0
Non-financial public sector bonds total	0.5	0.4	0.3	0.3	0.3
Commercial bank bonds					
Placements between banks.....	0.4	0.2	0.2	0.2	0.2
Public institutions	0.0	0.0	0.0	0.0	0.0
Internal private sector	0.0	0.0	0.0	0.0	0.0
Commercial bank bonds total	0.4	0.2	0.2	0.2	0.2
Total.....	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Central Bank.

The following table sets forth the aggregate principal amount of Government bonds in circulation as of the dates indicated.

Government Bonds in Circulation
(in millions of U.S. dollars at year end book value, except percentages)

	Total		Colón Denominated Bonds		U.S. Denominated Debt	
As of December 31,						
1998	\$3,102.9	100.0%	\$2,609.5	84.1%	\$493.4	15.9%
1999	4,024.9	100.0	3,236.0	80.4	788.9	19.6
2000	4,087.1	100.0	3,617.1	88.5	470.0	11.5
2001	4,371.3	100.0	3,866.4	88.4	504.9	11.6
As of October 31,						
2002	\$4,424.6	100.0%	\$3,718.4	84.1%	\$706.2	15.9%

Source: Ministry of Finance.

Historically, the Government and the Central Bank issued debt with maturities of six months or less. Beginning in 1999, the Government and the Central Bank developed more competitive joint auctions through the use of standardized financial instruments and issued a greater amount of debt with terms of one, three, 10 and 15 years. The following table sets forth the maturities for Government bonds in circulation for the periods indicated.

Government Bonds in Circulation, by Maturity
(percentage of total)

	For the Year Ended December 31,				For the 10-month Period Ended October 31,
	1998	1999	2000	2001	2002
From 8 to 30 days	0.4%	0.2%	0.0%	0.0%	0.0%
From 31 to 90 days	8.4	2.9	3.7	2.2	1.3
From 91 to 180 days	15.3	8.3	1.6	6.5	7.2
From 181 to 360 days	18.5	11.7	14.9	12.3	16.6
From 361 to 720 days	5.9	9.7	3.5	2.3	1.8
From 721 to 1440 days	10.2	9.9	11.5	11.7	11.7
More than 1441 days	41.3	57.3	64.8	65.0	61.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Ministry of Finance.

External Debt

Gross public sector external debt increased by 3.6% to US\$3,360.4 million at September 30, 2002 from US\$3,242.5 million at December 31, 2001. This increase was primarily due to the issuance of the 2000 Notes as part of Costa Rica's plan to reduce domestic debt and to substitute external debt for domestic debt, partially offset by the reduction of external debt to multilateral and bilateral creditors.

At September 30, 2002, Costa Rica's public sector external debt was composed principally of bonds and floating rate notes in an outstanding aggregate amount of US\$1,644.7 million (primarily consisting of the 1998 Notes, the 1999 Notes, the 2000 Notes, the 2001 Notes, the 2002 Notes and Brady bonds), obligations to multilateral organizations in the amount of approximately US\$1,241.2 million, and bilateral debt in the amount of US\$399.6 million. Approximately 22.8% of the public sector external debt is floating-rate debt. Approximately 75.6% of the public sector external debt was denominated in U.S. dollars at September 30, 2002.

In addition, as of September 30, 2002, approximately 18.6% of the public sector external debt was denominated in the IADB unit of account and approximately 3.8% was denominated in Japanese yen.

The following table sets forth the total gross public sector external debt, net of gross international reserves of the Central Bank, as of December 31 of each year from 1998 through 2001 and as of September 30, 2002.

Total Gross Public External Debt, Net of Reserves (in millions of U.S. dollars)

	As of December 31,				For the Nine-Month Period Ended September 30,
	1998	1999	2000	2001	2002 ⁽¹⁾
Total gross public external debt	\$2,872.4	\$3,056.5	\$3,150.6	\$3,242.5	\$3,360.4
Less: gross international reserves ⁽²⁾	991.3	1,471.4	1,317.7	1,329.7	1,378.5 ⁽³⁾
Other assets of the Central Bank	210.9	273.0	266.8	263.8	279.1
Total public external debt, net of reserves	<u>\$1,880.8</u>	<u>\$1,585.2</u>	<u>\$1,833.0</u>	<u>\$1,864.8</u>	<u>\$1,891.8</u>

(1) Preliminary data.

(2) Represents international reserves of the Central Bank.

(3) As of November 30, 2002.

Source: Central Bank.

Costa Rica's public external debt is held by a variety of multilateral, bilateral and private commercial bank creditors, as well as a large number of non-resident financial institutions. Commercial bank creditors, holders of bonds and floating rate notes and multilateral organizations accounted for 89.9% of total gross public sector external debt outstanding as of September 30, 2002. The IADB and the Central American Bank for Economic Integration

("CABEI") are Costa Rica's principal creditors, as of September 30, 2002 accounting for 23.4% and 9.4%, respectively, of the gross public external debt.

The following table sets forth the total gross public sector external debt, by creditor and percentage of total, as of the dates indicated.

Gross Public External Debt, By Creditor and Percentage of Total
(in millions of U.S. dollars, except percentages)

	As of December 31,								As of September 30,	
	1998		1999		2000		2001		2002	
Multilateral Creditors										
World Bank	\$173.2	6.0%	\$150.7	4.7%	\$122.7	3.9%	\$103.8	3.2%	\$92.9	2.8%
IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IADB	933.5	32.6	902.1	30.0	870.2	28.0	791.0	24.4	787.5	23.4
CABEI	206.9	7.2	211.2	6.8	217.3	6.9	372.2	11.5	316.0	9.4
Other	41.5	1.4	51.6	1.7	49.0	1.6	46.3	1.4	44.8	1.3
Total	1,355.1	47.2	1,315.6	43.2	1,259.2	40.4	1,313.3	40.5	1,241.2	36.9
Bilateral Creditors										
Paris Club	514.5	17.9	484.9	15.9	435.2	13.8	367.2	11.3	341.0	10.1
Other	284.3	9.9	255.7	8.4	219.7	6.9	109.7	3.4	58.6	1.7
Total	798.8	27.8	740.6	24.3	654.9	20.7	476.9	14.7	399.6	11.9
Commercial Banks										
Commercial Banks	33.1	1.2	39.7	1.3	44.9	1.4	39.9	1.4	73.4	2.2
Bonds and floating rate notes⁽¹⁾										
Bonds and floating rate notes ⁽¹⁾	679.0	23.6	955.9	31.2	1,188.3	37.5	1,410.4	43.3	1,644.7	48.9
Account payable..	6.4	0.2	4.7	0.2	3.3	0.0	2.0	0.1	1.5	0.0
Total	<u>\$2,872.4</u>	<u>100.0%</u>	<u>\$3,056.5</u>	<u>100.0%</u>	<u>\$3,150.6</u>	<u>100.0%</u>	<u>\$3,242.5</u>	<u>100.0%</u>	<u>\$3,360.4</u>	<u>100.0%</u>

(1) Includes Brady bonds.

Source: Central Bank.

The following table sets forth the amortization schedule of Costa Rica's consolidated public sector external debt for the five years ending December 31, 2007, excluding interest payments on such debt.

Amortization of Gross Public External Debt⁽¹⁾
(in millions of U.S. dollars)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Multilateral organizations					
IADB	\$85.3	\$82.2	\$94.7	\$83.7	\$75.9
World Bank	18.5	17.2	17.4	10.0	8.3
CABEI	118.7	56.8	27.4	25.7	24.5
Others	4.8	3.4	3.5	3.6	3.7
Total	<u>227.3</u>	<u>159.6</u>	<u>143.0</u>	<u>123.0</u>	<u>112.4</u>
Bilateral creditors					
Paris Club	41.8	34.6	28.6	25.3	24.7
Others	16.1	17.1	10.8	1.3	1.3
Total	<u>57.9</u>	<u>51.7</u>	<u>39.4</u>	<u>26.6</u>	<u>26.0</u>
Commercial banks	32.6	4.5	3.5	2.6	0.0
Bonds and floating rate	227.9	26.1	31.5	42.2	42.2
Account payable	0.3	0.3	0.3	0.3	0.1
Total	<u>546.0</u>	<u>242.2</u>	<u>217.7</u>	<u>194.7</u>	<u>180.7</u>
Other bonds	0.0	0.0	0.0	0.0	0.0
Total	<u>\$546.0</u>	<u>\$242.2</u>	<u>\$217.7</u>	<u>\$194.7</u>	<u>\$180.7</u>

(1) Data for 2003-2007 were projected using spot exchange rates of September 30, 2002.

Source: Central Bank.

The following table sets forth Costa Rica's total public sector external debt service for the dates indicated.

Total Public External Debt Service⁽¹⁾⁽²⁾
(in millions of U.S. dollars, except percentages)

	For the Year Ended December 31,				For the Nine-Month Period Ended September 30,
	1998	1999	2000	2001	2002
Interest payments ⁽³⁾	\$127.8	\$190.4	\$204.9	\$232.8	\$176.9
Amortization	277.5	337.5	386.1	475.7	372.8
Total	<u>\$405.3</u>	<u>\$527.9</u>	<u>\$591.0</u>	<u>\$708.5</u>	<u>\$549.7</u>
Total external debt service/exports of good and tourism earnings(%) ⁽⁴⁾	6.5	6.8	8.3	11.6	11.5
Total external debt services/ GDP(%)	2.8	3.3	3.7	4.3	3.2

(1) See "Change in Methodology of Measuring Real GDP and in Reference Period for Determining Constant Prices."

(2) Excluding interest on non-resident banking deposits.

(3) Interests for 2000, 2001 and 2002 including payment of commissions. Calculated in accordance with the methodology set forth in the IMF's Fifth Manual of Balance of Payments.

(4) Includes exports of goods (general merchandise plus intermediate goods) and net tourism income. Calculated in accordance with the methodology set forth in the IMF's Fifth Manual of Balance of Payments.

Source: Central Bank.

The following table sets forth public external debt denominated in foreign currency, by currency, as of September 30, 2002.

**Summary of Public External Debt Denominated in Foreign Currency, by Currency
(in millions of U.S. dollars, except percentages)**

	As of September 30, 2002	
	Amount⁽¹⁾	Percentage
U.S. dollar	\$2,542.0	75.6%
IADB unit of account	625.0	18.6
Japanese yen	126.8	3.8
Swiss franc	9.7	0.3
Pound sterling	5.5	0.4
Canadian dollar	6.1	0.4
Euro	31.2	0.9
Dutch guilder	6.8	0.2
Special drawing rights	1.2	0.0
Other currencies	6.1	0.2
Total	\$3,360.4	100.0%

(1) In currencies converted as of September 30, 2002.

Source: Central Bank.

Description of Debt and Debt Restructuring

Costa Rica, like most Latin American nations, experienced a major external payment crisis in the early 1980s, reflecting, among other things, adverse changes in terms of trade, a relatively large debt burden and the failure of the economy to adjust to international events such as the rapid rise in interest rates experienced at the beginning of the 1980s and the increase in the price of petroleum products. In 1981, Costa Rica suspended payment on most of its external debt.

Costa Rica has been current in all of its payments on public external debt since 1996. Set forth below is a brief description of the restructuring process undertaken with Costa Rica's commercial bank creditors and Paris Club creditors.

Commercial Banks

Concerted debt restructuring efforts (Paris Club agreements and a Brady-type agreement) and new financing from multilateral agencies have changed the profile of Costa Rican external debt, which is currently concentrated in long-term debt with official creditors at below—market interest rates. Over the eight years following 1981, Costa Rica and its commercial bank creditors concluded two debt restructurings. In 1983 and 1985, Costa Rica

and its commercial bank creditors agreed to extend the maturities of outstanding public sector debt and reschedule interest payments in arrears. In connection with such restructurings, Costa Rica obtained approximately US\$325.0 million in additional financing for the payment of interest.

The 1989 Financing Package for Costa Rica (the “Costa Rican Brady Plan”), implemented in 1990, was intended to reduce the principal amount of, and the debt service burden associated with, Costa Rica’s commercial bank debt and to secure sufficient financing to permit Costa Rica to resume and maintain economic growth. It was the second financing in Latin America, after Mexico, to follow the voluntary debt reduction mechanism conceived by the so-called “Brady Plan.” The Costa Rican Brady Plan offered holders the option to either sell all of their Costa Rican debt to the Government at US\$0.16 for every U.S. dollar of debt or sell a percentage of their debt for the same price and exchange the remaining debt for one of two types of bonds. For holders that chose to sell 60.0% or more of their debt, the Government exchanged the remaining debt for bonds which included collateral for certain interest payments (“Series A”). For holders that sold less than 60.0% of their debt, the Government exchanged the remaining debt for unsecured bonds (“Series B”). Principal indebtedness was exchanged for, in the case of Series A bonds, 20-year bonds, and in the case of Series B bonds, 25-year bonds, that both bear interest at a fixed rate of 6.25% per annum. Interest indebtedness was exchanged for 15-year Series A and Series B claims that bear interest at a rate of three-month LIBOR plus 13/16%. Cash and short term investments under the control of the Federal Reserve Bank of New York, as collateral agent, have been pledged by Costa Rica and secure the payment of 18 months of interest for the 20-year Series A bonds and 36 months of interest for the 15-year Series A interest claims.

The repurchases carried out by Costa Rica under the Costa Rican Brady Plan were funded principally by financing obtained from the IMF, the World Bank and bilateral sources. Of the approximately US\$1.6 billion of external debt held by Costa Rica’s commercial bank creditors in 1989, approximately US\$839.7 million was purchased outright, approximately US\$300.0 million was exchanged for Series A bonds and approximately US\$303.0 million was exchanged for Series B bonds.

In 1985, Costa Rica was unable to meet its principal obligations under certain Floating Rate Notes (the “Floating Rate Notes”) in an aggregate principal amount then outstanding of approximately US\$85.0 million which had been issued by the Republic and the Central Bank between 1978 and 1980. Costa Rica made an exchange offer to the holders of such notes pursuant to which holders could exchange the Floating Rate Notes for new notes issued by the Central Bank and guaranteed by the Republic in the principal amount of the notes for which they were exchanged. The new notes provided for interest at the rate of six-month LIBOR plus 1.25% (with a 6.50% interest rate floor) and escalating amortizations. Commercial bank holders of the Floating Rate Notes were permitted to elect to treat the outstanding principal amount of the notes they held as commercial bank debt for purposes of the commercial bank debt restructuring of 1985. Of the aggregate US\$85.0 million principal amount of such Floating Rate Notes, US\$58.2 million were exchanged for new notes and US\$23.6 million were included in the commercial bank restructuring. No event of default was called by any of the holders. The total of such obligations have now been paid in full.

Paris Club and Official Creditors

In addition to the restructuring of its commercial bank debt, Costa Rica entered into agreements with its Paris Club creditors commencing in 1983, and thereafter in 1985, 1989, 1991 and 1993 to reschedule payments on outstanding loans made or guaranteed by official creditors to the Costa Rican public sector (the “Paris Club Agreements”). The Paris Club

Agreements rescheduled payments of principal and interest by extending maturity dates for loans contracted prior to July 1, 1982 and set schedules for the payment of arrears and further payments on such loans. The 1989, 1991 and 1993 agreements also rescheduled previously restructured debt. At the end of 1996, debt with the Paris Club amounted to approximately US\$42.0 million. In 1995, Costa Rica sought further restructuring of its debt. The IMF determined that Costa Rica was not eligible for further restructuring. Costa Rica is current on all of its payments under the Paris Club Agreements.

IMF, World Bank and IADB Financial Support

During the 1980s, the IMF, the World Bank and the IADB provided financial support, and in the 1990s, these multilateral organizations continue to provide financial and technical support conditioned on the Government's compliance with stabilization and reform policies. Generally, the World Bank and the IADB have also made the availability of their funds subject to compliance with IMF conditions, although additional conditions in support of structural reforms or project lending have been applied for loans to certain investors. Since 1980, the Government has executed six stand-by agreements with the IMF oriented towards improving the balance of payments, reducing the fiscal deficit, containing inflation, normalizing foreign exchange and easing the external debt service. The IMF reviews compliance with loan facilities on a voluntary quarterly basis. As of December 31, 2002, no stand-by facility was in place.

The Government and the Central Bank entered into an agreement with the IMF for the establishment of a staff-monitored program (the "Staff-Monitored Program") in October 1997. This program did not involve the disbursement of funds. Instead, it required technical analysis, monitoring and evaluation of Costa Rica's macroeconomic situation by IMF economists. Under the Staff-Monitored Program, the Government agreed to reduce the public sector deficit to 4.0% of GDP and to contain the current account deficit at 2.7% of GDP in 1997 excluding imports by Intel Corp. and at 3.9% of GDP including such imports. The Staff-Monitored Program also required the Central Bank to maintain a monetary policy consistent with an inflation goal of 10.5% for 1998 and an increase in net international reserves of US\$275.0 million by December 31, 1998. See "Monetary System — Monetary Policy." The Staff-Monitored Program, which expired on December 31, 1998, was intended to facilitate continuity of economic policy during the transition to the new administration which took office in May 1998.

World Bank lending to Costa Rica was modest during the early 1980s, consisting of disbursements from existing project loans. World Bank operations expanded substantially after 1982 with the implementation of the first of three *Programas de Ajuste Estructural* (Structural Adjustment Programs) ("SAPs"). In 1995, Costa Rica entered into an agreement with the IMF in order to receive a loan to support the SAPs.

The current focus of the World Bank's support is on lending to assist in various areas of reform, such as:

- public enterprises, mainly assisting in the deregulation process and providing technical assistance in reforming regulatory frameworks;
- administrative reforms in the Government and the Central Bank;
- continued liberalization of the foreign trade regime;
- social programs; and

- urban planning.

In addition, the World Bank has continued to approve project loans, including projects to develop the agricultural sector and the transportation sector. As of December 31, 2002, Costa Rica is current on all of its payments to the World Bank. On May 17, 2002, the Legislative Assembly approved a US\$17.0 million loan that the World Bank had previously agreed to make to finance the health sector.

The World Bank approved a US\$32.6 million loan and a Global Environmental Fund grant of US\$8.0 million to finance environmental service payments in Costa Rica. The World Bank loan was approved by the Legislative Assembly on January 8, 2001 pursuant to Law 8058.

The IADB has made loans to Costa Rica since 1982, both for specific projects and sectoral reform. Certain of these loans were extended in support of the SAPs. The energy sector accounted for more than 42.0% of the IADB's outstanding loans to Costa Rica at December 31, 2002. The remainder was concentrated in infrastructure, health and education.

The Legislative Assembly enacted legislation on December 10, 2001, approving a loan from the IADB of US\$65.0 million to finance the studies required to develop a program to update the official real estate registry. The Government will contribute US\$27.0 million to this project. The program's objectives are (i) to improve and modernize the official real estate registry pursuant to the Law 8154, (ii) to resolve any conflicts, and prevent any future conflicts, regarding legal rights in real estate, and (iii) to strengthen the municipal governments' authority through the use of the official real estate registry. The Government anticipates that, as a result of the establishment of a reliable real estate registry, private investment in real estate will increase. On May 23, 2002, the Legislative Assembly approved a loan from the IADB for US\$22.4 million to finance a project related to the modernization of the justice system.

CLEARANCE AND SETTLEMENT

Arrangements have been made with each of DTC, Euroclear and Clearstream and are being made with Luxembourg to facilitate initial issuance of the Global Notes. See “Description of the Notes — Global Notes.” Transfers within DTC, Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant system. Cross-market transfers between investors who hold or who will hold Notes through DTC and investors who hold or will hold Notes through Euroclear and/or Clearstream, Luxembourg will be effected in DTC through the respective depositaries of Euroclear and Clearstream, Luxembourg.

Upon the issuance of the Regulation S Global Notes and Restricted Global Notes, DTC or its custodian will credit, on its internal system, the respective principal amount of the individual beneficial interests represented by each such Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the Lead Manager. Ownership of beneficial interests in a Global Note will be limited to persons who have accounts with DTC (“DTC Participants”), including Euroclear and Clearstream, Luxembourg, or indirect DTC Participants. Ownership of beneficial interests in the Global Notes will be shown on, and the transfer thereof will be effected only through, records maintained by DTC or its nominee (with respect to interests of DTC Participants) and the records of DTC Participants (with respect to interests of indirect DTC Participants).

Euroclear and Clearstream, Luxembourg will hold omnibus positions on behalf of their participants through customers' securities accounts for Euroclear and Clearstream, Luxembourg on the books of their respective depositaries, which in turn will hold such positions in customers' securities accounts in such depositaries' names on the books of DTC. JP Morgan Chase & Co. Bank will act as depositary for Euroclear and Citibank, N.A., will act as depositary for Clearstream, Luxembourg.

Since the purchaser determines the place of delivery, it is important to establish at the time of the trade where both the purchaser's and seller's accounts are located to ensure that settlement can be on the desired value date. Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the following procedures in order to facilitate transfers of interests in the Regulation S Global Notes and in the Restricted Global Notes among participants of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Republic nor the Fiscal Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream, Luxembourg or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Trading Between Clearstream, Luxembourg and/or Euroclear Participants

Secondary market trading between Clearstream, Luxembourg participants and/or Euroclear participants will be settled using the procedures applicable to conventional eurobonds in same-day funds.

Trading Between DTC Seller and Clearstream, Luxembourg or Euroclear Purchaser

When interests are to be transferred from the account of a DTC Participant to the account of a Clearstream, Luxembourg participant or a Euroclear participant, the purchaser will send instructions to Clearstream, Luxembourg or Euroclear through a Clearstream, Luxembourg or Euroclear participant, as the case may be, at least one business day prior to settlement. Clearstream, Luxembourg or Euroclear will instruct its respective depositary to receive such

interest against payment. Payment will include interest accrued on such beneficial interest in a Global Note from and including the last interest payment date to and excluding the settlement date. Payment will then be made by the depository to the DTC Participant's account against delivery of the interest in a Global Note. After settlement has been completed, the interest will be credited to the respective clearing system, and by the clearing system, in accordance with its usual procedures, to the Clearstream, Luxembourg participant's or Euroclear participant's account. The securities credit will appear the next day (European time) and the cash debit will be back-valued to, and the interest on a Global Note will accrue from, the value date (which would be the preceding day when settlement occurred in New York). If settlement is not completed on the intended value date (*i.e.*, the trade fails), the Clearstream, Luxembourg or Euroclear cash debit will be valued instead as of the actual settlement date.

Clearstream, Luxembourg participants and Euroclear participants will need to make available to the respective clearing system the funds necessary to process same-day funds settlement. The most direct means of doing so is to preposition funds for settlement either from cash on-hand or existing lines of credit, as such participants would for any settlement occurring within Clearstream, Luxembourg or Euroclear. Under this approach, such participants may take on credit exposure to Clearstream, Luxembourg or Euroclear until the interests in a Global Note are credited to their accounts one day later.

As an alternative, if Clearstream, Luxembourg or Euroclear has extended a line of credit to a Clearstream, Luxembourg or Euroclear participant, as the case may be, such participant may elect not to preposition funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, Clearstream, Luxembourg participants or Euroclear participants purchasing interests in a Global Note would incur overdraft charges for one day, assuming they cleared the overdraft when the interests in a Global Note were credited to their accounts. However, interest on a Global Note would accrue from the value date. Therefore, in many cases the investment income on the interest in a Global Note earned during that one-day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each participant's particular cost of funds.

Since the settlement is taking place during New York business hours, DTC Participants can employ their usual procedures for transferring interests in global bonds to the respective depositories of Clearstream, Luxembourg or Euroclear for the benefit of Clearstream, Luxembourg participants or Euroclear participants. The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the DTC Participants, a cross-market sale transaction will settle no differently than a trade between two DTC participants.

Trading Between Clearstream, Luxembourg or Euroclear Seller and DTC Purchaser

Due to time zone differences in their favor, Clearstream, Luxembourg and Euroclear participants may employ their customary procedures for transactions in which interests in a Global Note are to be transferred by the respective clearing system, through its respective depository, to a DTC Participant, as the case may be, at least one business day prior to settlement. In these cases, Clearstream, Luxembourg or Euroclear will instruct its respective depository to deliver the interest in a Global Note to the DTC Participant's account against payment. Payment will include interest accrued on such beneficial interest in a Global Note from and including the last interest payment date to and excluding the settlement date. The payment will then be reflected in the account of the Clearstream, Luxembourg participant or Euroclear participant the following day, and receipt of the cash proceeds in the Clearstream, Luxembourg or Euroclear participant's account would be back-valued to the value date (which would be the preceding day, when settlement occurred in New York). Should the Clearstream,

Luxembourg or Euroclear participant have a line of credit in its respective clearing system and elect to be in debit in anticipation of receipt of the sale proceeds in its account, the back-valuation may substantially reduce or offset any overdraft charges incurred over that one-day period. If settlement is not completed on the intended value date (*i.e.*, the trade fails), receipt of the cash proceeds in the Clearstream, Luxembourg or Euroclear participant's account would instead be valued as of the actual settlement date.

Finally, day traders that use Clearstream, Luxembourg or Euroclear to purchase interests in a Global Note from DTC Participants for delivery to Clearstream, Luxembourg participants or Euroclear participants should note that these trades will automatically fail on the sale side unless affirmative action is taken. At least three techniques should be readily available to eliminate this potential problem:

1. borrowing through Clearstream, Luxembourg or Euroclear for one day (until the purchase side of the day trade is reflected in their Clearstream, Luxembourg or Euroclear accounts) in accordance with the clearing system's customary procedures;
2. borrowing the interests in the United States from a DTC Participant no later than one day prior to settlement, which would give the interests sufficient time to be reflected in their Clearstream, Luxembourg or Euroclear account in order to settle the sale side of the trade; or
3. staggering the value date for the buy and sell sides of the trade so that the value date for the purchase from the DTC Participant is at least one day prior to the value date for the sale to the Clearstream, Luxembourg participant or Euroclear participant.

The information in this section concerning DTC, Euroclear and Clearstream, Luxembourg and their book-entry system has been obtained from sources the Republic believes to be reliable, and the Republic makes no representation or warranty with respect thereto, other than that such information has been accurately extracted and/or summarized from such sources.

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures to facilitate transfers of interests in the Regulation S Global Notes and the Restricted Global Notes among participants in DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or to continue to perform such procedures and such procedures may be discontinued at any time. Neither the Republic nor the Fiscal Agent will have any responsibilities for the performance of or by DTC, Euroclear or Clearstream, Luxembourg or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

TAXATION

Purchasers of the Notes may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase. The following is a general description of certain Costa Rican and United States income tax aspects of the Notes. Prospective purchasers should consult their tax advisors as to the tax laws of other applicable jurisdictions and the specific tax consequences of acquiring, holding and disposing of the Notes.

Costa Rican Tax Considerations

The following summary of certain Costa Rican tax matters is based on the advice of *Dirección General de Tributación* (General Directorate of Taxation). The summary contains a description of the principal Costa Rican tax consequences of the purchase, ownership and disposition of the Notes but it does not purport to be a comprehensive description of all of the tax consequences that may be relevant to a decision to purchase the Notes.

The summary is based upon the tax laws of Costa Rica as in effect on the date of this Offering Circular which are subject to change. Prospective purchasers of the Notes (including residents of Costa Rica, if any) should consult their tax advisors as to the tax consequences of the purchase, ownership and disposition of the Notes, including, in particular, the effect of any foreign, state or local tax laws.

Pursuant to the *Ley del Impuesto Sobre la Renta* (Income Tax Law), no income tax will be levied or withheld on payments of principal or interest on the Notes. Pursuant to Law 7970 of the Legislative Assembly (December 22, 1999), all payments made to satisfy the obligations resulting from the issuance and placement of the Notes shall be exempt from taxes, contributions, charges, rights and withholdings.

United States Tax Considerations

The summary contains a description of certain United States tax considerations involving the purchase, ownership and disposition of the Notes but it does not purport to be a comprehensive description of all of the tax consequences that may be relevant to a decision to purchase the Notes. The summary is based upon the tax laws of the United States as in effect on the date of this Offering Circular which are subject to change. Prospective purchasers of the Notes should consult their tax advisors as to the United States tax consequences of the purchase, ownership and disposition of the Notes.

Interest on the Notes will not be exempt from United States taxation generally. Under United States federal income tax law as currently in effect, holders of Notes that are not United States persons will not be subject to United States federal income taxes, including withholding taxes, on payments of interest on the Notes so long as the requirements described in the second succeeding paragraph are satisfied, unless:

(i) the holder is an insurance company carrying on a United States insurance business, within the meaning of the United States Internal Revenue Code of 1986, as amended, to which the interest is attributable, or

(ii) the holder has an office or other fixed place of business in the United States to which the interest is attributable and the interest either (a) is derived in the active conduct of a banking, financing or similar business within the United States or (b) is

received by a corporation the principal business of which is trading in stock or securities for its own account, and certain other conditions exist.

The gain realized on any sale or exchange of the Notes by a holder that is not a United States person will not be subject to United States federal income tax, including withholding tax, unless (i) such gain is effectively connected with the conduct by the holder of a trade or business in the United States or (ii) in the case of gain realized by an individual holder, the holder is present in the United States for 183 days or more in the taxable year of the sale and such holder has a tax home in the United States.

The Fiscal Agent will be required to file information returns with the United States Internal Revenue Service with respect to payments made to certain United States persons on the Notes. In addition, certain United States persons may be subject to United States backup withholding tax in respect of such payments if they do not provide their taxpayer identification number to the Fiscal Agent, and may also be subject to information reporting and backup withholding requirements with respect to proceeds from a sale of the Notes. Persons holding notes who are not United States persons may be required to comply with the applicable certification procedures to establish that they are not United States persons in order to avoid the application of such information reporting requirements and backup withholding tax.

A Note held by an individual holder who at the time of his death is a nonresident alien will not be subject to United States federal estate tax on the Note.

As used herein, the term "United States person" means a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States or any State, any estate the income of which is subject to United States federal income taxation regardless of its source, or a trust if (i) a U.S. court is able to exercise primary supervision over the trust's administration and (ii) one or more U.S. persons have the authority to control all the trust's substantial decisions, and the term "United States" means the United States of America (including the States and the District of Columbia).

Proposed European Union Directive on Taxation of Certain Interest Payments

The European Union is currently considering proposals for a new directive regarding the taxation of savings income. According to the most recently available information, it is proposed that, subject to a number of important conditions being met, member states will be required to provide to the tax authorities of another member state details of payments of interest or other similar income paid by a paying agent within its jurisdiction to an individual resident in that other member state, subject to the right of certain individual member states (including Luxembourg) to opt instead for a withholding system for a transitional period in relation to such payments. The proposals are not yet final, and they may be subject to further amendment and/or clarification.

Prospective investors should consult their own tax advisors regarding the potential adoption and application of the proposed directive or any similar directive.

SUBSCRIPTION AND SALES

Under the terms and subject to the conditions contained in a subscription agreement dated January 24, 2003 (the "Subscription Agreement") we have agreed to sell to Deutsche Bank Securities Inc., as the Lead Manager (the "Lead Manager" or "Deutsche Bank") all of the Notes.

The Subscription Agreement provides that the Lead Manager is obligated to purchase all the Notes in the offering if any are purchased, at a price of 100% of their principal amount, plus accrued interest, if any, from January 31, 2003 to the Closing Date.

A commission of US\$2,250,000 will be paid to the Lead Manager by the Republic.

The Republic has agreed to indemnify the Lead Manager against some specified types of liabilities, including liabilities under the Securities Act, and to contribute to payments the Lead Manager may be required to make in respect of any of these liabilities.

The Notes are offered for sale in those jurisdictions in the United States and Europe and other jurisdictions where it is legal to make such offers. The Lead Manager has agreed that it will not offer, sell or deliver any of the Notes, directly or indirectly, or distribute the Offering Circular or any other material relating to the Notes in or from any jurisdiction except under circumstances that will, to the best knowledge and belief of the Lead Manager, result in compliance with the applicable laws and regulations thereof (including, without limitation, any delivery requirements relating to the Offering Circular).

The Notes may not be initially offered or sold in the Republic. The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except to qualified institutional buyers in reliance on Rule 144A under the Securities Act and to certain persons in offshore transactions in reliance on Regulation S under the Securities Act. The Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each purchaser to which it sells Notes in reliance on Regulation S, during the restricted period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act. Resales of the Notes are restricted as described under "Transfer Restrictions."

The Lead Manager will represent and agree that it has complied and will comply with all applicable provisions of the Financial Services and Markets Act of 2000 with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Deutsche Bank, for its own account, may, to the extent permitted by applicable laws, over-allot and effect transactions in any over-the-counter market or otherwise, in connection with the distribution of the Notes, with a view to stabilizing or maintaining the market price of the Notes at levels other than those which might otherwise prevail in the open market, but in doing so Deutsche Bank will act as principal and not as agent of the Republic and any loss resulting from over-allotment or stabilization will be borne, and any profit arising therefrom will be beneficially retained, by Deutsche Bank for its own account.

No action has been or will be taken by the Republic or the Lead Manager that would or is intended to permit an offering of the Notes or the possession, circulation or distribution of this Offering Circular in preliminary or final form or any other offering material relating to the Republic or the Notes, in any country or jurisdiction where action for that purpose is required. Accordingly, but without prejudice to any other provision hereof, the Notes may not be offered, sold or delivered, directly or indirectly, and neither this Offering Circular nor any circular, prospectus, form of application, other offering material or advertisement relating to the Notes may be distributed or published, in or from any country or jurisdiction, except under circumstances that will result in compliance with all applicable laws and regulations of any such country or jurisdiction.

Each purchaser, and any subsequent purchaser or prospective purchaser of Notes, is urged to consult with its own legal advisors with respect to legal and regulatory considerations applicable to it in respect of the offer, purchase, ownership, transfer and other disposition of Notes.

Application has been made to list the Notes on the Luxembourg Stock Exchange. Application has been made to have the 2008 Notes made eligible for trading in PORTAL under the symbol CSTANP8 and the 2013 Notes made eligible for trading in PORTAL under the symbol CSTANP13. The 2008 Notes and 2013 Notes are new issues of securities with no established trading market. No assurance can be given as to the liquidity of the trading market for the Notes. The price at which the Notes will trade in the secondary market is uncertain.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of Notes.

Each prospective purchaser of Notes offered in reliance on Rule 144A (a “144A Offeree”), by accepting delivery of this Offering Circular, will be deemed to have represented and agreed as follows:

1. Such 144A Offeree acknowledges that this Offering Circular is personal to such 144A Offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the Notes other than pursuant to Rule 144A or in offshore transactions in accordance with Regulation S. Distribution of this Offering Circular, or disclosure of any of its contents to any person other than such 144A Offeree and those persons, if any, retained to advise such 144A Offeree with respect thereto and other persons meeting the requirements of Rule 144A or Regulation S, is unauthorized, and any disclosure of any of its contents, without the prior written consent of the Republic, is prohibited.

2. Such 144A Offeree agrees to make no photocopies of this Offering Circular or any document referred to herein and, if such 144A Offeree does not purchase Notes or the offering is terminated, to return this Offering Circular and all documents referred to herein to the Lead Manager or affiliate thereof who furnished this Offering Circular and those documents.

The Notes have not been registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) except to (a) qualified institutional buyers in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (b) certain persons in offshore transactions in reliance on Regulation S.

Each purchaser of Notes will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S under the Securities Act are used herein as defined therein):

(1) The purchaser (A) is a qualified institutional buyer, (ii) is aware that the sale to it is being made in reliance on Rule 144A and (iii) is acquiring such Notes for its own account or for the account of a qualified institutional buyer or (B) is not a U.S. person and is purchasing such Notes in an offshore transaction pursuant to Regulation S.

(2) The purchaser understands that the Notes are being offered in a transaction not involving any public offering in the United States within the meaning of the Securities Act, that the Notes have not been and will not be registered under the Securities Act and that (A) if in the future it decides to offer, resell, pledge or otherwise transfer any of the Notes, such Notes may be offered, resold, pledged or otherwise transferred only (i) in the United States to a person whom the seller reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A, (ii) outside the United States in a transaction complying with the provisions of Rule 904 under the Securities Act, (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 (if available), or (iv) pursuant to an effective registration statement under the Securities Act, in each of cases (i) through (iv) in accordance with any applicable securities laws of any State of the United States, and that (B) the purchaser will, and each subsequent holder is required to, notify any subsequent purchaser of such Notes from it of the resale restrictions referred to in (A) above.

(3) The purchaser understands that the Notes will, until the expiration of the applicable holding period with respect to the Notes set forth in Rule 144(k) of the Securities Act, unless otherwise agreed by the Republic and the holder thereof, bear a legend substantially to the following effect:

THIS NOTE (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), AND THIS NOTE MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS NOTE IS HEREBY NOTIFIED THAT THE SELLER OF THIS NOTE MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THE HOLDER OF THIS NOTE AGREES FOR THE BENEFIT OF THE REPUBLIC OF COSTA RICA THAT (A) THIS NOTE MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) IN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (II) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 UNDER THE SECURITIES ACT, (III) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (IV) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH OF CASES (I) THROUGH (IV) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY

PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE.

(4) The purchaser acknowledges that the Republic, the Registrar, the Lead Manager and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements. If it is acquiring any Notes for the account of one or more qualified institutional buyers, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of such account.

(5) The purchaser understands that the Notes offered in reliance on Rule 144A under the Securities Act will be represented by a Restricted Global Note. Before any interest in such Restricted Global Note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the corresponding Regulation S Global Note, it will be required to provide an Agent with a written certification (in the form provided in the Fiscal Agency Agreement) as to compliance with applicable securities laws.

Each person purchasing Notes from the Lead Manager or through an affiliate of the Lead Manager pursuant to Rule 144A under the Securities Act, by accepting delivery of this Offering Circular, acknowledges that (i) it has not relied on the Lead Manager or any person affiliated with the Lead Manager in connection with its investigation of the accuracy of the information contained in this Offering Circular or its investment decision; and (ii) no person has been authorized to give any information or to make any representation concerning the Republic or the Notes other than those contained in this Offering Circular and, if given or made, such other information or representation should not be relied upon as having been authorized by the Republic or the Lead Manager.

Any resale or other transfer, or attempted resale or other transfer, made other than in compliance with the above-stated restrictions shall not be recognized by the Republic or the Depositaries.

For further discussion of the requirements (including the presentation of transfer certificates) under the Fiscal Agency Agreement to effect exchanges or transfers of interests in Global Notes, see “Description of the Notes — Global Notes” and “Clearance and Settlement.”

This Offering Circular has been prepared by the Republic solely for use in connection with the offer and sale of the Notes outside the United States, for the private placement of the Notes in the United States and for the listing of the Notes on the Luxembourg Stock Exchange. The Republic and the Lead Manager reserve the right to reject any offer to purchase, in whole or in part, for any reason, or to sell less than the amount of Notes offered pursuant to Rule 144A under the Securities Act. This Offering Circular does not constitute an offer to any person in the United States other than any qualified institutional buyer within the meaning of Rule 144A under the Securities Act to whom an offer has been made directly by the Lead Manager or an affiliate of the Lead Manager.

Each purchaser of Notes must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells Notes or possesses or distributes this Offering Circular or any part of it and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of Notes under the laws and regulations in force in any

jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and neither the Republic nor the Lead Manager shall have any responsibility therefor.

VALIDITY OF THE NOTES

The validity of the Notes will be passed upon on behalf of the Republic by Luisana París Coronado, special Costa Rican counsel to the Republic, and by Greenberg Traurig, LLP, special New York counsel to the Republic, and on behalf of the Lead Manager by Cleary, Gottlieb, Steen & Hamilton, New York counsel to the Lead Manager, and by Lara, López, Matamoros, Rodríguez & Tinoco, Costa Rican counsel to the Lead Manager. As to all matters of Costa Rican law, Cleary, Gottlieb, Steen & Hamilton will rely upon the opinion of Lara, López, Matamoros, Rodríguez & Tinoco, and Greenberg Traurig, LLP will rely on the opinion of Luisana París Coronado.

GENERAL INFORMATION

1. The creation and issue of the Notes was authorized pursuant to Law 7970 promulgated by the Legislative Assembly on December 20, 1999, executed by the Executive branch on December 22, 1999 and published in the official Gazette of the Republic on January 10, 2000. The issuance of the Notes will be conducted in accordance with the regulations of the Ministry of Finance with respect of such issuance. This Offering Circular has been approved by the Republic through the Ministry of Finance.

2. Application has been made to list the Notes on the Luxembourg Stock Exchange.

3. Except as otherwise set forth herein, neither the Republic nor any governmental agency of the Republic is involved in any litigation or arbitration or administrative proceedings relating to claims or amounts which are material in the context of the issue of the Notes and which would materially and adversely affect the Republic's ability to meet its obligations under the Notes and the Fiscal Agency Agreement and, so far as the Republic is aware, no such litigation or arbitration or administrative proceedings are pending or threatened.

4. Copies of the following documents may be inspected during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the specified offices of the Fiscal Agent and the paying agents:

(i) The Fiscal Agency Agreement (including the forms of the Regulation S Global Note and the Restricted Global Note); and

(ii) English translation of the law referenced under paragraph 1 above.

5. Application has been made to have the Notes that are sold in offshore transactions in reliance on Regulation S under the Securities Act and represented by a Regulation S Global Note accepted for clearance through Euroclear and Clearstream, Luxembourg. The CUSIP numbers for the 2008 Regulation S Global Note and the 2008 Restricted Global Note are P3699PAD9 and 221597AJ6, respectively. The CUSIP numbers for the 2013 Regulation S Global Note and the 2013 Restricted Global Note are P3699PAE7 and 221597AK3, respectively. Application has also been made for the Regulation S Global Notes and the Restricted Global Notes to be accepted for clearance through Euroclear and Clearstream, Luxembourg and the Notes have been accepted for clearance in such systems. The common codes for the 2008 Regulation S Global Note and the 2008 Restricted Global Note are 16212911 and 16212814, respectively. The common codes for the 2013 Regulation S Global

Note and the 2013 Restricted Global Note are 16212946 and 16212938, respectively. The International Securities Identification Numbers (ISIN) for the 2008 Regulation S Global Note and the 2008 Restricted Global Note are USP3699PAD98 and US221597AJ67, respectively. The International Securities Identification Numbers (ISIN) for the 2013 Regulation S Global Note and the 2013 Restricted Global Note are USP3699PAE71 and US221597AK31, respectively.

6. Copies of the Republic's annual and interim economic reports, as provided by the Central Bank, will be available at the offices of the Luxembourg paying agent.

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ISSUER

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No dealer, sales person or other person is authorized to give any information or to represent anything not contained in this Offering Circular. You must rely on any authorized information or representations. This Offering Circular is an offer to sell only the securities described in this Offering Circular and only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this Offering Circular is current only as of its date.

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Offering Circular

Republic of Costa Rica

US\$200,000,000 6.914% Notes due 2008
US\$250,000,000 8.05% Notes due 2013

Lead Manager

Deutsche Bank Securities

January 24, 2003

