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OFFERING CIRCULAR

U.S.$250,000,000

República de Costa Rica

9.995% Notes Due August 1, 2020

Interest payable August 1 and February 1, commencing on February 1, 2001. Except as described herein, payments on the Notes will be made without deduction for or on account of withholding taxes imposed by the Republic of Costa Rica. Application has been made to list the Notes on the Luxembourg Stock Exchange. Application has been made to have the Notes made eligible for trading in The Portal℠ Market (''PORTAL''), a subsidiary of the Nasdaq Stock Market, Inc.

Price: 100%

plus accrued interest, if any, from July 27, 2000

Delivery of the Global Notes will be made on or about July 27, 2000.

The Notes have not been and will not be registered under the Securities Act. The Notes may not be offered or sold within the United States or to U.S. persons, except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A and to certain persons in offshore transactions in reliance on Regulation S. You are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Credit Suisse First Boston

The date of this Offering Circular is July 20, 2000.

[INSERT COSTA RICAN MAP HERE]

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."

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 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.

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 of Costa Rica.

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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 of 1933, as amended (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 may be limited.

We expect that delivery of the Notes will be made against payment therefor on or about that date specified in the second paragraph of the cover page of this Offering Circular, which is the fifth business day following the date hereof (such settlement cycle being herein referred to as "T+5"). Purchasers of Notes should note that trading in the Notes on the date hereof may be affected by the T+5 settlement.

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 (the "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 the Euroclear System ("Euroclear") and Clearstream Banking, S.A. ("Clearstream"). On or prior to the 40th day after the later of commencement of the offering and July 27, 2000 (the "Closing Date"), beneficial interests in the Regulation S Global Note may be held only through Euroclear or Clearstream. Notes sold in the United States to qualified institutional buyers (each a "qualified institutional buyer") as defined in, and in reliance on, Rule 144A under the Securities Act ("Rule 144A") will be represented by a permanent Global Note (which may be subdivided) in fully registered form without coupons (the "Restricted Global Note" and, together with the Regulation S Global Note, 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. 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."

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.

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 issue 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 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 the 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.

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 "colón," "colones" and "¢" are to Costa Rican colones. Translations of colones to dollars have been made for the convenience of the reader only 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 1966 colones. *Banco Central de Costa Rica* (the "Central Bank") has recently implemented an additional method of measuring real GDP in constant 1991 colones. Costa Rica expects to use both methodologies in determining real GDP for the foreseeable future. The average interbank rate for the sale of U.S. dollars for colones at the close of business on July 17, 2000 was ¢309.4 = US$1.00. References to "billions" are to thousands of millions.

The following table shows 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,
1990	¢ 91.6	¢103.6
1991	122.5	135.4
1992	134.5	137.4
1993	142.2	151.4
1994	157.1	165.1
1995	179.8	194.9
1996	207.7	220.1
1997	232.6	244.3
1998	257.2	271.4
1999	285.7	298.2
2000(2)	303.2	308.2

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

(2) Average for the six months ended and at June 30, 2000.

Source: Central Bank.

CERTAIN DEFINED TERMS AND CONVENTIONS

All references in this Offering Circular to (i) "Costa Rica" or the "Republic" are to the Republic of Costa Rica and (ii) 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.

Measures of distance referred to herein are stated in miles, each of which is equal to approximately 1.609 kilometers. Measures of area referred to 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 of each year and ends on December 31.

The Republic's official financial and economic statistics are subject to a two-year review process by the Central Bank and *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 1998 and 1999 and for interim periods of 2000 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 no assurances may be given 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* (Superintendency of Financial Entities) and the *Superintendencia General de Valores* (Superintendency of Securities).

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, 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 gross domestic product ("GDP") of US$11,560.8 million in 1999. Costa Rica's GDP per capita, at approximately US$3,180.37, was the highest in Central America in 1999. Over the past two decades, the Government has invested significant resources in health care and education, and the Republic was ranked fourth in Latin America on the 1999 United Nations Human Development Index, a measure of quality of life based on income per capita, life expectancy, level of adult literacy and school registration rate at all levels of education.

The current President of Costa Rica, Miguel Angel Rodríguez, of the *Partido Unidad Social Cristiana* (Christian Social Unity Party), is serving a four-year term which began May 8, 1998. His predecessor was a member of the *Partido Liberación Nacional* (National Liberation Party). 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. 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.

Economy

History and Background

Over the past decade, 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 in recent years, with industrial exports increasing significantly. In 1999, industrial exports (including the value added by exports from Free Trade Zone and In-bond (as defined herein) industries) represented approximately 76.1% of Costa Rica's total exports, while agricultural exports represented approximately 23.9% of total exports. With respect to exports, value added is the difference between the value of the final goods exported and the value of the raw materials and intermediate goods used to produce them. The principal sectors of the Costa Rican economy are industrial manufacturing and mining; agriculture, forestry and fishing; and retail and wholesale commerce and hotels and restaurants (which includes substantial proceeds from tourism).

Since 1984, Costa Rica has had a stable economy with inflation and devaluation rates averaging 16.8% and 12.4%, respectively, on an annual basis between 1984 and 1999. Costa Rica experienced real GDP growth averaging approximately 4.3% per year between 1984 and 1999 (greater than the 2.6% average annual growth rate of the population during the same period). During the late 1980s and early 1990s, Costa Rica undertook certain structural reforms, primarily (i) the liberalization of trade, capital flows and the foreign exchange market, (ii) the development of a dynamic non-traditional export sector, and (iii) reforms in the financial sector. See "Balance of Payments and Foreign Trade" and "Monetary System." From 1992 through 1999, the international reserves of the Costa Rican banking system have averaged more than US$1.0 billion. See "The Costa Rican Economy."

The average Central Government fiscal deficit was approximately 3.2% of GDP between 1984 and 1994. During the late 1980s and early 1990s, Costa Rica suffered from a persistent Central 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. See "The Costa Rican Economy — History and Background." The issuance of domestic debt to finance the Central Government fiscal deficit has generally led to increased interest rates, hindering private investment as a result of high lending rates. The 1994 Central Government fiscal deficit substantially increased as the Government assumed the liabilities of *Banco Anglo Costarricense,* a state-owned bank ("Banco Anglo"), following its 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 to 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 Central 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 in order to counter the internal and external economic imbalances caused by the Central Government fiscal deficit of 1994. This program was in place 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 Central Government deficit, led to a contraction of investment and real GDP in 1996 of 6.4% and 0.6%, respectively. See "Monetary System."

Current Economic Trends

Beginning in the second half of 1996, the Central Bank relaxed its monetary policy, which, together with increased private sector confidence in the monetary and fiscal programs of the Government, led to a return to economic growth beginning in 1997 which gained force in 1998. Real GDP grew by 3.7%, 6.7% and 8.3%, respectively, in 1997, 1998 and 1999. In 1999, according to the *Comisión Económica para América Latina* (Economic Commission for Latin America) ("CEPAL"), Costa Rica's GDP growth was the highest of any Latin American country.

In 1998, the Costa Rican economy also experienced the effects of the economic crises in Asia and Russia, but to a lesser extent than other Latin American countries. In 1998, Costa Rica's international reserves declined, 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 resulted primarily in lower revenues from coffee exports due to a decrease in the price of coffee. This was more than offset by an increase in the price of bananas.

Costa Rica's real GDP increased by 8.3% in 1999 to 3,302.9 billion colones, the equivalent of US$11,560.8 million. The increase was principally due to a 15.6% increase in real terms of exports of goods and services, led by exports from Intel Corp.'s two plants in Costa Rica, and an 4.9% increase in aggregate demand, partially offset by a decrease of 0.1% in domestic demand. If Intel Corp. is excluded from the calculation, the estimated real GDP growth is 3.6% in 1999. Aggregate demand increased in 1999, principally due to:

- a 24.8% increase in industrial manufacturing and mining; and
- a 11.8% increase in construction.

As a result, unemployment was 6% while inflation and devaluation declined to 10.1% and 9.9%, respectively (the lowest levels since 1994).

Total exports (f.o.b.), including In-bond and Free Trade Zones value added, reached US$6,576.8 million for the year ended December 31, 1999, an increase of 19.0% from the year ended December 31, 1998. The increase in exports of goods and services was principally due to revenues related to the Zonas Francas ("Free Trade Zones") and maquila or "drawback" ("In-bond") industries, particularly from value added of 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 38.9% of Costa Rica's total exports. In 1999, Intel Corp. accounted for

approximately 16.3% of foreign direct investment in Costa Rica. Value added by the exports from Free Trade Zones grew by 84.2% 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 1.3% in 1999 as compared to 1998, principally due to a 6.8% 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, to a lesser extent, a decline 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 surplus of US$259.6 million at December 31, 1999 as compared to a deficit of US$710.6 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."

Inflation for the year ended December 31, 1999 was 10.1%, 0.1% above the target rate of 10% set by the Central Bank, as compared to 12.3% for the year ended December 31, 1998 and 11.2% for the year ended December 31, 1997. The factors that helped keep inflation relatively low in 1999 were primarily:

- the effects of the Central Bank monetary policy in controlling monetary aggregates;
- stable fiscal conditions as a result of the reduction in the Central Government's fiscal deficit; and
- low inflation in the United States, Costa Rica's principal trading partner.

See "Monetary System — Monetary Policy." 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 at December 31, 1999 were US$1,441.2 million, compared to US$1,044.0 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 decreased to US$584.8 million (5.1% of GDP), from US$611.7 million in 1998, primarily as a result of a decrease of growth of investment in industries producing non-traditional products. In 1999, Intel Corp. accounted for approximately 16.3% of foreign direct investment in Costa Rica. See "Balance of Payments and Foreign Trade — Foreign Investment."

The Central Government fiscal deficit decreased to 3.0% of GDP for the year ended December 31, 1999 from 3.3% of GDP for the year ended December 31, 1998. The reduction was primarily a result of the reduced rate of growth of government expenditures and increased total revenue due to an increase in the fuel consumption tax revenues, additional income taxes received from public enterprises and the effect of the implementation of new tax enforcement legislation. The consolidated public sector deficit increased to 4.3% of GDP for the year ended December 31, 1999 as compared to 2.7% of GDP for the year ended December 31, 1998. In 1999, the Government continued implementation of its plan to reduce domestic debt. In May 1999, Costa Rica issued the 1999 Notes (as defined herein), 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 Central Government relative to the debt service payments that would have been required absent such substitution, leading to a reduction in inflationary pressures and lower interest rates paid by the Government and the Central Bank.

In 1999, the Central Bank conducted monetary policy consistent with its monetary target of achieving a 10% 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 at 18.8% in 1999 compared to 51.2% in 1998.

Additionally, in September 1998, the Central Bank established as a goal that private sector credit expansion of the Costa Rican banks would be limited to a maximum of 26% over the following 15 months. The *Consejo Nacional de Supervisión del Sistema Financiero* (National Supervisory Board of the Financial System) ("CONASSIF") had the authority to increase loss reserve requirements for financial institutions that did not comply with this goal. In mid-1999, the Central Bank relaxed this request to permit private credit

expansion to a maximum of 30%. On December 1, 1999, the Central Bank made a similar request to limit private sector credit expansion to a maximum of 26% over the following 13 months. Currently, if private credit expansion of any financial institution grows at a rate exceeding 1.5 times the rate of growth of GDP, *Superintendencia General de Entidades Financieras* (Superintendency of Financial Entities) ("SUGEF") has the authority to apply stricter supervision to that financial institution.

The Central Bank's inflation and real GDP growth targets for 2000 are 10.0% and 4.7%, respectively. Preliminary data for the first six months of 2000 indicate an inflation rate of 10.5% for the last twelve months, a trade balance deficit of approximately US$88.7 million for the first five months of 2000 and net international reserves of the Central Bank of approximately US$1,372.1 million as of July 17, 2000.

In August 1998, President Rodríguez issued a decree establishing the *Foro Nacional de Concertación* (Forum for a National Consensus). The goal of the Forum for a National Consensus is to bring together representatives of all sectors of Costa Rican society to discuss economic and social topics including environmental policy, the reduction of poverty and the liberalization of various sectors of the economy historically controlled by the Government.

In 1999, the Government enacted several important pieces of legislation implementing its major policy objectives. Most importantly, the legislation covered: pension fund reform, stricter tax enforcement and changes to excise taxes. See "Public Sector Finances." 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 next five years in order to reduce domestic debt. 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."

There are three major proposed bills which are currently pending in the Legislative Assembly. One of these bills contemplates a comprehensive tax reform; in addition, based on proposals developed by the Forum for a National Consensus, in December 1998 the Government presented to the Legislative Assembly (as defined herein) the legislation necessary:

- to restructure the *Instituto Costarricense de Electricidad* (Costa Rican Electricity Institute) ("ICE") (the state-owned telecommunications and power company);
- to liberalize the energy and telecommunications sectors; and
- to liberalize the insurance sector.

The Legislative Assembly held its first debate regarding the legislation for the restructuring of ICE and the liberalization of the energy and telecommunications sectors and approved the legislation on a preliminary basis on March 20, 2000. In response to demonstrations and protest marches by some members of the unions representing the employees of ICE, joined by members of other public sector unions and students, on April 4, 2000 President Rodríguez called for further analysis of this legislation. As a result, a commission consisting of representatives from a diverse range of the general population, including deputies to the Legislative Assembly, the Government, public sector union members, the business sector and university students was formed to analyze the proposed legislation for a period of 150 days. The commission is expected to recommend changes to the legislation by the end of the 150-day period. The commission has begun preliminary discussions addressing the concerns and problems and discussing solutions with respect to the proposed legislation. Concurrently, the constitutional branch of the Supreme Court issued a non-binding opinion during April 2000 in which it found certain procedural aspects of the legislation to be unconstitutional. Once the commission proposes revised legislation, a first debate must again be held. If the revised legislation is passed on first debate by the Legislative Assembly, it will again be subject to constitutional review if necessary prior to a dispositive vote on second debate. There can be no assurances that this legislation will be finally approved by the Legislative Assembly or that the final form of the legislation will be substantially similar to the current draft of the proposed legislation.

As currently drafted, the proposed legislation contemplates the complete liberalization of the telecommunications market, the creation of a regulatory authority with power to promote and foster competition between telecommunications operators, and the creation of a universal service fund. Moreover, this legislation would provide that ICE transfer 80 billion colones (approximately US$265 million) to reduce the Government domestic debt. In addition, this legislation would liberalize the market for generation, distribution and commercialization of electricity and promote private investment in the industry. See "The Costa Rican Economy — Government Participation in the Economy; Privatization and Deregulation."

In December 1999, the Government proposed legislation under which the tax regime would be simplified. This proposed legislation includes imposing a single tax on fuel, eliminating certain tax exemptions, broadening the tax base, substantially eliminating certain excise taxes and improving the tax regime for private universities. This tax reform was approved by the Commission on Fiscal Affairs of the Legislative Assembly in April 2000 and is before the Legislative Assembly. There can be no assurances that this legislation will be finally approved by the Legislative Assembly.

The *Comisión de Asuntos Económicos* ("Commission on Economic Affairs") of the Legislative Assembly is drafting legislation to reform the Costa Rican insurance law to terminate the monopoly in the insurance sector, to create general norms in the insurance market, create an Insurance Superintendency and repeal the laws and decrees that established the state monopoly in the insurance sector. The proposed legislation would create an integrated market in which the *Instituto Nacional de Seguros* (National Insurance Institute) ("INS") (the state-owned insurance monopoly) and private companies that comply with the requirements of the law and register with the Insurance Superintendency would compete on equal terms.

Monetary Policy

The principal objectives of Costa Rica's monetary policy have traditionally been consistent with its targets of declining inflation rates and fostering a stronger net international reserve position. The effectiveness of such policy has been limited by the absence of controls on foreign exchange convertibility or remittances in Costa Rica as well as the Central Bank's targeted inflation-based crawling peg rate policy.

In the second half of 1998, the Central Bank adopted a restrictive monetary policy in response to an expansion of the monetary aggregates and credit to the private sector as discussed above.

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

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 on their offshore subsidiaries, which the Central Bank believes extend a significant amount of credit to the private sector.

Debt

Costa Rica's total gross public sector domestic 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. At December 31, 1999, gross public sector domestic debt was 1,451.6 billion colones (US$4,868.0 million). The domestic debt has been increasing over the last several years, primarily as a result of the issuance of domestic debt to finance the Central Government fiscal deficit. The increase in domestic debt during 1999 is largely attributable to the issuance of approximately US$848.5 million (7.3% of GDP) in Government debt to the Central Bank to satisfy Government obligations to the Central Bank. These obligations were recognized in the Organic Law of the Central Bank, which was enacted in 1995, and were documented in October 1999. See "Public Sector Debt — Domestic Debt."

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 these entities issue outside of Costa Rica. At December 31, 1999, gross public sector external debt increased by 6.4% to US$3,056.5 million, or 46.4% of exports (f.o.b.), from US$2,872.4 million, or 51.8% of exports (f.o.b.), at December 31, 1998.

At the end of 1996 Costa Rica adopted a plan to reduce the public sector domestic debt through measures including the substitution of external debt for domestic debt. On April 30, 1998, Costa Rica issued US$200 million

in the international markets in reliance on Rule 144A and Regulation S (the "1998 Notes"). The proceeds of the 1998 Notes were used to substitute external debt for domestic debt. On May 6, 1999, Costa Rica issued US$300 million in the international markets in reliance on Rule 144A and Regulation S (the "1999 Notes"). The proceeds of the 1999 Notes were used to substitute external debt for domestic debt. The issuance of the 1998 Notes and the 1999 Notes utilized the US$500 million of external debt authorized by Costa Rica's Legislative Assembly in 1997 for the purpose of reducing domestic debt.

On December 20, 1999, the Legislative Assembly approved Law 7970, a five-year public debt law that authorizes US$1.45 billion in foreign debt issuance over the next five years for the purpose of reducing domestic debt. This amount will be reduced by an amount equivalent to any disbursements of future loans from multilateral or bilateral organizations. The issuance of the Notes will utilize the US$250 million of external debt authorized for issuance in 2000 by Law 7970.

Selected Economic Indicators

	For the year ended and at December 31,				
	1995	**1996**	**1997**	**1998**	**1999**
	(in millions of U.S. dollars, except where noted)				
Economic Data:					
GDP					
Real GDP % change from prior year	2.4%	(0.6)%	3.7%	6.7%	8.3%
Nominal GDP	$9,012.4	$9,169.8	$9,718.3	$10,613.3	$11,560.8
Consumer Price Index (% change)					
End of period	22.6%	13.9%	11.2%	12.3%	10.1%
Industrial producer price index (% change)					
End of period	21.9%	13.3%	10.1%	8.8%	11.3%
Unemployment Rate	5.2%	6.2%	5.7%	5.6%	6.0%(1)
Trade Data(2):					
Merchandise trade					
Exports (f.o.b.)(3)	$3,481.9	$3,774.1	$4,349.7	$ 5,541.2	$ 6,592.8
Imports (f.o.b.)	3,804.4	4,023.3	4,702.6	5,937.3(11)	6,037.5
Merchandise trade balance (deficit)/surplus	(322.5)	(249.2)	(352.9)	(396.1)	555.5
Service trade balance, net	56.1	20.2	141.2	233.6	358.6
Current account balance (deficit)/surplus	(357.9)	(266.7)	(330.1)	(494.3)	(487.9)
Capital account balance(4)	480.5	67.8	474.5	536.0	967.9
Change in Central Bank's international reserves					
(increase)/decrease	(221.6)	54.5	(215.7)	149.1	(480.0)
Net international reserves	1,139.0	1,075.6	1,183.1	1,044.0	1,441.2
Import coverage reserves (months of imports)(5)	3.3	3.0	2.9	2.0	2.7
Public Finance:					
Fiscal accounts(6)					
Current income	$1,471.0	$1,514.0	$1,623.0	$ 1,787.0	$ 1,900.0
Expenditure	1,878.0	1,993.0	2,001.0	2,134.0	2,321.0
Fiscal (deficit)/surplus	(407.0)	(479.0)	(378.0)	(347.0)	(349.0)
% of GDP	(4.5)%	(5.3)%	(3.9)%	(3.3)%	(3.0)%
Primary balance (deficit)/surplus(7)	$ 99.0	$ 70.0	$ 110.0	$ 104.0	$ 225.0
% of GDP	1.1%	0.8%	1.2%	1.0%	1.9%
Consolidated public sector (deficit)/surplus(8)	$ (351.5)	$ (495.1)	$ (330.4)	$ (286.6)	$ (497.1)
% of GDP	(3.9)%	(5.4)%	(3.4)%	(2.7)%	(4.3)%
Public Debt(9)					
External debt	$3,258.6	$2,858.9	$2,640.2	$ 2,872.4	$ 3,056.5
% of GDP	36.2%	31.2%	27.2%	27.1%	26.4%
External debt service	$ 562.8	$ 535.1	$ 634.8	$ 612.5	$ 587.8
External debt service (as a % of exports and					
tourism earnings)	14.6%	12.9%	13.4%	10.1%	8.2%
Domestic debt	$2,645.5	$2,940.2	$3,485.7	$ 3,552.0	$ 4,868.0(10)
% of GDP	29.4%	32.1%	35.9%	33.5%	42.1%
Other Data:					
Tourism					
Total visitor arrivals (thousands of persons)	784.6	781.1	811.5	942.5	1,027.5
Foreign exchange earnings(11)	$ 657.7	$ 688.6	$ 719.3	$ 883.5	$ 991.6
Exchange rate(12)					
(end of period, ¢/$)	¢ 194.9	¢ 220.1	¢ 244.3	¢ 271.4	¢ 298.2
(average, ¢/$)	179.8	207.7	232.6	257.2	285.7

(1) 1999 figure not comparable to prior years due to changes in methodology.
(2) These figures were calculated in accordance with the methodology set forth in the IMF's Fifth Manual of Balance of Payments.
(3) Includes value added from Free Trade Zones and In-bond (as defined herein) facilities. See "Balance of Payments and Foreign Trade — Balance of Payments" and " — Foreign Trade."
(4) Includes errors, omissions and unspecified capitals.
(5) When calculated by dividing net international reserves of the Central Bank by average monthly imports (excluding Free Trade Zones and In-bond), import coverage reserves are 3.5, 3.1, 3.5, 2.6 and 4.0 months, respectively, for 1995, 1996, 1997, 1998 and 1999. Import coverage reserves were 3.3 for the first five months of the year 2000.
(6) Represents fiscal accounts of the Government from January to December.
(7) Represents current income less total expenditures (other than interest on the Public Indebtedness).
(8) Represents the Central Government fiscal deficit plus the Central Bank deficit plus deficits of non-financial public sector entities.
(9) Public sector.
(10) Includes US$848.5 million the Central Government owes to the Central Bank. See "Public Sector Debt — Domestic Debt."
(11) Central Bank estimate.
(12) Interbank market operations.
Sources: Central Bank; Ministry of Finance.

The Offering

Issuer	República de Costa Rica.
Issue Amount	US$250,000,000 aggregate principal amount of the Notes are 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 Notes.
Maturity Date	August 1, 2020.
Interest	The Notes will bear interest from July 27, 2000 at a rate of 9.995% per annum, payable semi-annually in arrears on each August 1 and February 1 commencing on February 1, 2001. 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 the 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. On or prior to the 40th day after the later of commencement of the offering and the Closing Date, beneficial interests in the Regulation S Global Note may be held only through Euroclear or Clearstream. Notes sold in reliance on Rule 144A will be represented by the 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 — 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. 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 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 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 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 made eligible for trading in PORTAL. See "Subscription and Sale."
Transfer Restrictions	A transfer of a beneficial interest in the Restricted Global Note to a person that takes delivery in the form of an interest in the 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 the Regulation S Global Note to a person that takes delivery in the form of an interest in the 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 of Costa Rica. 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 substitute Public External Indebtedness of the Government for Domestic Indebtedness.
Governing Law	The Notes will be governed by and interpreted in accordance with the laws of the State of New York, except with respect of their authorization and execution, which will be governed by the laws of Costa Rica.

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 July 27, 2000, 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 their respective successors and permitted assigns), Kredietbank S.A. Luxembourgeoise, as a paying agent and transfer agent, and The Bank of New York, London branch, as a 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 does not purport to be complete and 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 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 Notes will mature, and will be repaid at par (unless previously repaid), on August 1, 2020. The Notes will bear interest from July 27, 2000 at a rate of 9.995% per annum, payable semi-annually in arrears on each August 1 and February 1 commencing on February 1, 2001. 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 the Regulation S Global Note (which may be subdivided), 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. 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 Note may be held only through Euroclear or Clearstream. 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 Note may be held through organizations other than Euroclear and Clearstream that are DTC Participants.

Notes sold in reliance on Rule 144A will be represented by the Restricted Global Note (which may be subdivided), which will be deposited with the Fiscal Agent as custodian for DTC and registered in the name of Cede as nominee of DTC. The 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 the Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in the 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.

Beneficial interests in the Restricted Global Note may be transferred to a person who takes delivery in the form of an interest in the 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 144A 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.

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 other Global Note will, upon transfer, cease to be an interest in such Global Note and become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such other 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 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, 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 depositary 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).

Certificated Notes

If DTC is at any time unwilling or unable to continue as a depositary or ceases to be a "clearing agency" as described in the preceding paragraph and a successor depositary 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 Note and Restricted Global Note, 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 Note, 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 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 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.

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:

1. Default in any payment of principal on any of the Notes 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 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 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; 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; 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 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 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 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, 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;

then in any such event each holder of Notes, 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 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 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 described in clauses (1) through (5) 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 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 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 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 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 the Notes to be made, given or taken by holders of Notes or to modify, amend or supplement the terms of the Notes or the Fiscal Agency Agreement as hereinafter provided. The Republic may at any time call a meeting of holders of 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 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, have requested the Fiscal Agent to call a meeting of the holders of 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 the Notes.

To be entitled to vote at any meeting of holders of Notes, a person must be a holder of Outstanding Notes 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 the 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 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 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 66⅔% in principal amount of the Outstanding Notes represented and voting.

With (i) the affirmative vote, in person or by proxy thereunto duly authorized in writing, of the holders of not less than 66⅔% in aggregate principal amount of the Notes then Outstanding represented at a meeting duly called and held as specified above, or (ii) the written consent of the owners of 66⅔% in aggregate principal amount of the Outstanding Notes, the Republic and the Fiscal Agent may modify, amend or supplement the terms of the Notes or, insofar as affects the 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 the Notes to be made, given or taken by holders of Notes; *provided, however*, that no such action may, without the consent or affirmative vote of the holder of each Note 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 (as defined below). 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 will be credited to the cash accounts of Euroclear participants or Clearstream 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 registrar, principal paying agent and transfer agent for the Notes, Kredietbank S.A. Luxembourgeoise as paying agent and transfer agent for the Notes, and The Bank of New York, London branch, as a paying agent for the Notes. 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 the 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 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.

Prescription

All claims against the Republic for payment of principal of or interest (including Additional Amounts) on or in respect of the Notes shall be prescribed 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 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 the 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 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 of Costa Rica 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 net proceeds from the sale of the Notes will amount to approximately US$250 million and will be used to substitute Public External Indebtedness of the Government for Domestic Indebtedness.

REPUBLIC OF COSTA RICA

Costa Rica, 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$11,560.8 million in 1999. Costa Rica's GDP per capita, at approximately US$3,180.37, was the highest in Central America in 1999. Over the past two decades, the Government has invested significant resources in health care and education, and the Republic is ranked fourth in Latin America on the 1999 United Nations Human Development Index, a measure of quality of life based on income per capita, life expectancy, level of adult literacy and school registration rate at all levels of education.

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.

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% 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.

In 1999, the National Institute of Statistics estimated the population of Costa Rica to be approximately 3.6 million people. In the 1960s, the Government began efforts in the area of family planning through increased health care spending, which resulted in a reduction of population growth to an estimated rate of 1.8% in 1999, compared to average rates of approximately 3.4% in the 1960s and 1970s. In 1999, approximately 31.6% of the population was under the age of 15, approximately 42.5% was between the ages of 15 and 39, approximately 22.6% was between the ages of 39 and 70, and approximately 3.3% was over the age of 70. 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. As of December 31, 1999, approximately 73.3% of the population of Costa Rica lived in urban areas. The province of San José, which includes the capital, accounted for approximately 36.1% of the total population.

Social Indicators

Historically, Costa Rica has invested a significant portion of its public sector budget in social services. In 1997, 1998 and 1999, investment in education, health services and social assistance and housing represented approximately 44.0%, 47.1% and 41.0%, respectively, of public sector expenditures. In 1997, the *Constitución Política de la República de Costa Rica* (Political Constitution of the Republic of Costa Rica) of November 7, 1949 (the "Constitution") was amended to require the investment of not less than 6% of GDP on education. President Rodríguez has identified social assistance, particularly for children, education and health care as priorities of his administration. Costa Rica's budget for the 2000 fiscal year provides for an investment of 6.0% of GDP in education. In addition, the administration has implemented initiatives to eliminate child labor and to provide scholarships for low-income students.

According to the 1999 Human Poverty Index developed by the United Nations Development Program, Costa Rica has reduced the level of poverty in the country to 6.7% as measured by income, life expectancy, literacy, access to health services, potable water and adequate nutrition. As of 1999, Costa Rica was classified by the World Bank as a lower middle-income developing country.

Historically, Costa Rica has provided social assistance and housing to poor families through the *Fondo de Desarrollo de Asignaciones Familiares* (Fund for the Development of Aid to Families) ("FODESAF") which is funded primarily with sales tax revenues. In 1999, as a result of the efforts of the Forum for a National Consensus, the Government presented the Legislative Assembly with proposed legislation to restructure FODESAF with the goal of further strengthening FODESAF's operations and thereby empowering it to reduce poverty levels. This legislation is being reviewed by the Commission on Economic Affairs. The Government has also undertaken a number of initiatives 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. See "The Costa Rican Economy — Poverty."

The following table sets forth selected 1998 comparative social statistics, the most recent available data for the region, as reported in the United Nations Development Program 2000 Human Development Report.

Selected Comparative Social Statistics

	Costa Rica	Guatemala	Honduras	El Salvador	Nicaragua	Panama	Mexico
Per capita GDP(1)	$5,987	$3,505	$2,433	$4,036	$2,142	$5,249	$7,704
Life expectancy (in years)	76.2	64.4	69.6	69.4	68.1	73.8	72.3
Adult literacy rate	95.3%	67.3%	73.4%	77.8%	67.9%	91.4%	90.8%

(1) Adjusted for purchasing power parity.

Source: 2000 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* (the "Legislative Assembly") are elected by popular vote. Under Costa Rica's electoral system, voters elect a ticket including a 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* (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. The term of the current President of Costa Rica, Miguel Angel Rodríguez of the *Partido Unidad Social Cristiana,* expires on May 8, 2002. 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* (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 at least two-thirds 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 449 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 currently in power, 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 democrat 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 27 of the 57 seats in the Legislative Assembly, and members of the *Partido Liberación Nacional* hold 23 seats, with the remainder 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 International Monetary Fund (the "IMF"), the International Bank for Reconstruction and Development (the "World Bank"), the Inter-American Development Bank (the "IDB") and the Group of 77. In 1991, Costa Rica became a party to the General Agreement on Tariffs and Trade and is a member of the World Trade Organization (the "WTO").

In 1961, Costa Rica signed the *Tratado General para la Integración Económica de América Central* (General Treaty for Central American Economic Integration) (the "General Treaty"), previously signed by Guatemala, El Salvador, Honduras and Nicaragua, which provides the framework for the *Mercado Común Centroamericano* (Central American Common Market) (the "CACM"). The CACM was initiated in 1963 in an attempt to move toward regional economic integration. The CACM treaty envisioned a customs union, macroeconomic coordination and a regime for balancing regional development through the designation of "integrated industries" (industries that are deemed more efficient if they are established in only one country within the region). The CACM helped create significant growth in intra-regional trade in the 1960s and early 1970s. However, the Nicaraguan civil war which began in 1978 created obstacles to trade which caused the CACM effectively to cease functioning in the late 1970s. Intra-regional trade contracted sharply during the 1980s due to continuing economic and political problems in the Central American region.

In 1990, the Central American nations decided to reinvigorate the regional integration movement by revising the terms of the General Treaty. In June 1990, the Presidents of Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica approved the *Plan de Acción Económica para Centroamérica* (Economic Action Plan for Central America). Under this plan, these nations agreed to set import tariffs for products not produced within the region at 20% for finished products and 5% for intermediate and capital goods.

In October 1993, the five countries party to the General Treaty signed the *Protocolo de Guatemala* (Guatemala Protocol), a far-reaching program which modified the General Treaty. In 1995, the five members of the CACM agreed to gradually reduce their external tariff structures for goods produced outside the

Central American region to the following levels by the year 2000: 0% for raw materials and intermediate and capital goods, and 15% for finished products. These countries agreed to reduce tariffs for 2000 to no more than 15% for finished products, 10% for intermediate goods and capital goods produced within the region, 5% for raw materials produced within the region and 0% for raw materials and capital goods produced outside of the region. See "Balance of Payment and Foreign Trade — Foreign Trade — Imports."

The Costa Rican government proposed the modernization and strengthening of the CACM through the *Plan de Acción Inmediato* (the "Immediate Action Plan"), which was approved in July 1998 at the 10th Annual Conference of the Central American Ministers' Council. Regulations on sanitary measures and technical norms have been approved by the Central American countries party to the Immediate Action Plan and negotiations on the Treaty for Dispute Resolution have concluded. Negotiations for a Treaty for Services and Investments are continuing between the Central American countries.

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

Costa Rica and Canada held exploratory meetings in April 2000 to establish a schedule and terms of negotiations toward a free trade agreement. The first round of negotiations was held during the second week of July 2000. There can be no assurances as to when, if ever, any such agreement will be reached. In November 1998, Costa Rica signed a free trade agreement with the Dominican Republic which was ratified by the Legislative Assembly in July 1999. This agreement will become effective upon its ratification by the Dominican Republic. On October 18, 1999, Costa Rica signed a free trade agreement with Chile. Costa Rica is currently negotiating a free trade agreement with Panama and has agreed to initiate negotiation of a free trade agreement with Trinidad and Tobago.

Environmental Policy

Costa Rica, like many Latin American nations, has had environmental difficulties during the last three decades, primarily related to deforestation. Beginning in the 1970s, Costa Rica has been committed to environmental conservation, principally through the implementation of reforestation programs and the establishment of protected areas. In July 1999, in addition to 151 national parks and equivalent reserves, consisting of approximately 3,237,824 acres and covering 25.4% of the total area of Costa Rica, more than 100 private reserves existed. The efforts of the Government in this regard have been supported by a variety of non-governmental organizations. For example, in 1989, 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. 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. These efforts have complemented the Government's efforts to further develop the tourism industry as international recognition of these conservation efforts have led to an increase in tourism.

In 1994, Costa Rica adopted a policy of pursuing "sustainable development" which envisions the simultaneous pursuit of economic and social development and ecologically efficient use of the environment. This policy has led to various pioneering endeavors, including, among others, energy-saving projects, rehabilitation of forests, increased use of unleaded gasoline and involvement of the private sector in reducing pollution.

Costa Rica has been a leading advocate of the United Nations Framework Convention on Climate Change and has been involved in the development of market-oriented strategies to reduce emissions of greenhouse gases to mitigate climate change. Costa Rica has been involved in the development of financial instruments called "certified tradable offsets" or "CTOs." The value of CTOs is equivalent to the average cost sustainable forestry activities and other environmental projects in Costa Rica sustain in taking actions which reduce emissions of greenhouse gases. Currently, CTOs represent emissions reductions on a project-by-project basis, in addition to any that would have been generated "without the project." CTOs may be eligible under the Kyoto Protocol to count against national greenhouse gas reduction commitments.

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 will result from the commitment to preserve certain forest areas. A similar agreement has been reached with the Government of The Netherlands pursuant to which Costa Rica will receive US$4.0 million in exchange of CTOs generated by the reductions in emissions of greenhouse gases by a windfarm, waste water treatment plants in coffee mills and regeneration of abandoned banana plantations.

Additionally, the Government, through the national banking system, has signed brokerage agreements with leading over-the-counter brokers in the United States and Europe, in an effort to develop the potential market for greenhouse gas offsets. Proceeds from CTOs are considered a potential source of funding, particularly for the territorial consolidation of national conservation areas, the sustainability of private forestry activities which are not currently self-sustaining, and the promotion of renewable energy. There can be no assurance, however, that the CTOs or any system of trading in CTOs will eventually develop.

On June 6, 2000, 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 must be approved by the Legislative Assembly prior to disbursement.

THE COSTA RICAN ECONOMY

General

Over the past decade, Costa Rica has diversified its economy with strong growth in manufacturing and tourism supplementing its historical production of agricultural goods for export. It has diversified its exports, attracted investment in high value-added manufacturing and promoted 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 in recent years, with industrial exports increasing significantly. In 1999, industrial exports (including the value added by exports from Free Trade Zone and In-bond industries) represented approximately 76.1% of Costa Rica's total exports, while agricultural exports represented approximately 23.9% of total exports. Value added, when used with respect to exports, means the difference between the value of the final goods exported and the value of the raw materials and intermediate goods used to produce them. The principal sectors of the Costa Rican economy are industrial manufacturing and mining; agriculture, forestry and fishing; and retail and wholesale commerce and hotels and restaurants (which includes substantial proceeds from tourism).

Since 1984, Costa Rica has had a stable economy with inflation and devaluation rates averaging 16.8% and 12.4%, respectively, on an annual basis between 1984 and 1999. Costa Rica experienced real GDP growth averaging approximately 4.3% per year between 1984 and 1999 (greater than the 2.6% average annual growth rate of the population during the same period). During the late 1980s and early 1990s, Costa Rica undertook certain structural reforms, primarily (i) the liberalization of trade, capital flows and the foreign exchange market, (ii) the development of a dynamic non-traditional export sector, and (iii) reforms in the financial sector. See "Balance of Payments and Foreign Trade" and "Monetary System." From 1992 through 1999, the international reserves of the Costa Rican banking system have averaged more than US$1.0 billion. See "The Costa Rican Economy."

During this period, Costa Rica suffered from a persistent Central 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. See "Public Sector Finances," "Monetary System — Monetary Policy," "— Inflation and Interest Rates" and "Balance of Payments and Foreign Trade."

Current Economic Trends

Beginning in the second half of 1995, the Government and the Central Bank implemented a program in order to counter the internal and external economic imbalances caused by the Central Government fiscal deficit of 1994. This program was applied from the second half of 1995 through the first half of 1996 and caused a deceleration of economic activity.

Beginning in the second half of 1996, the Central Bank relaxed its monetary policy, which, together with increased private sector confidence in the monetary and fiscal programs of the Government, led to a return to economic growth beginning in 1997 which gained force in 1998. Real GDP grew by 3.7%, 6.7% and 8.3%, respectively, in 1997, 1998 and 1999. In 1999, according to CEPAL, Costa Rica's GDP growth was the highest of any Latin American country.

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. In 1998, Costa Rica's international reserves declined 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 decline in world commodity prices in connection with the economic crises in Asia and Russia had a mild effect on Costa Rica's

exports, resulting primarily in lower revenues from coffee exports due to a decrease in the price of coffee. This was 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.

In 1999, the Central Bank conducted monetary policy consistent with its monetary targets of achieving a 10% 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 at 18.8% in 1999 compared to 51.2% in 1998.

Additionally, in September 1998, the Central Bank established as a goal that private sector credit expansion of the Costa Rican banks would be limited to a maximum of 26% over the following 15 months. CONASSIF had the authority to increase loss reserve requirements for financial institutions that did not comply with this goal. In mid-1999, the Central Bank relaxed this request to permit private credit expansion to a maximum of 30%. On December 1, 1999, the Central Bank made a similar request to limit private sector credit expansion to a maximum of 26% over the following 13 months. Currently, if private credit expansion of any financial institution grows at a rate exceeding 1.5 times the rate of growth of GDP, SUGEF has the authority to apply stricter supervision to that financial institution.

The Central Bank's inflation and real GDP growth targets for 2000 are 10.0% and 4.7%, respectively. Preliminary data for the first six months of 2000 indicate an inflation rate of 10.5% for the last twelve months, a trade balance deficit of approximately US$88.7 million for the first five months and net international reserves of the Central Bank of approximately US$1,372.1 million as of July 17, 2000.

From 1995 through 1999, the primary balance, defined as current income minus non-interest expenditures, has remained positive and stable at an average of approximately 1.2% of GDP. The primary balance was 1.1%, 0.8%, 1.2%, 1.0% , respectively, for 1995, 1996, 1997 and 1998. In 1999, the primary balance increased to 1.9%.

The table below 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)

	1997	1998	1999	2000
January	1.7%	5.5%	10.5%	2.0%
February	2.3	5.6	10.7	1.3
March	2.9	5.7	10.6	0.9
April	3.6	5.8	10.2	1.1
May	4.1	5.9	9.4	1.5
June	4.5	6.3	8.5	n.a.
July	4.5	6.8	7.6	
August	4.6	7.4	6.9	
September	4.7	7.9	6.2	
October	4.8	8.6	5.3	
November	5.0	9.3	4.3	
December	5.2	9.9	3.1	

n.a. Not available.

Source: Central Bank.

1999

Costa Rica's real GDP increased by 8.3% in 1999 to 3,302.9 billion colones, the equivalent of US$11,560.8 million. The increase was principally due to a 15.6% increase in real terms of exports of goods and services, led by exports from Intel Corp.'s two plants in Costa Rica, and an 4.9% increase in aggregate demand, partially offset by a decrease of 0.1% in domestic demand. If Intel Corp. is excluded from the calculation, the estimated real GDP growth is 3.6% in 1999. Aggregate demand increased in 1999, principally due to:

- a 24.8% increase in industrial manufacturing and mining;
- a 11.8% increase in construction, principally due to the development of roadway infrastructure projects carried out by the National Council of Roads.

As a result, unemployment was 6% while inflation and devaluation declined to 10.1% and 9.9%, respectively (the lowest levels since 1994).

Total exports (f.o.b.), including In-bond and Free Trade Zones value added, reached US$6,576.8 million for the year ended December 31, 1999, an increase of 19.0% 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 Zones and In-bond industries, particularly from value added of 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 38.9% of Costa Rica's total exports. In 1999, Intel Corp. accounted for approximately 16.3% of foreign direct investment in Costa Rica. Value added by the exports from Free Trade Zones grew by 84.2% 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 1.3% in 1999 as compared to 1998, principally due to a 6.8% 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, to a lesser extent, a decline 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 surplus of US$259.6 million at December 31, 1999 as compared to a deficit of US$710.6 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."

Inflation for the year ended December 31, 1999 was 10.1%, 0.1% above the target rate of 10% set by the Central Bank, as compared to 12.3% for the year ended December 31, 1998 and 11.2% for the year ended December 31, 1997. The factors that helped keep inflation relatively low in 1999 were primarily:

- the effects of the Central Bank monetary policy in controlling monetary aggregates;
- stable fiscal conditions as a result of the reduction in the Central Government's fiscal deficit; and
- low inflation in the United States, Costa Rica's principal trading partner.

See "Monetary System — Monetary Policy." 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 at December 31, 1999 were US$1,441.2 million, compared to US$1,044.0 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 decreased to US$584.8 million (5.1% of GDP), from US$611.7 million in 1998, primarily as a result of a decrease of growth of investment in industries producing non-traditional products. In 1999, Intel Corp. accounted for approximately 16.3% of foreign direct investment in Costa Rica. See "Balance of Payments and Foreign Trade — Foreign Investment."

The Central Government fiscal deficit decreased to 3.0% of GDP for the year ended December 31, 1999 from 3.3% of GDP for the year ended December 31, 1998. The reduction was primarily a result of the reduced rate of growth of government expenditures and increased total revenue due to an increase in the fuel consumption tax revenues, additional income taxes received from public enterprises and the effect of implementation of new tax enforcement legislation. The consolidated public sector deficit increased to 4.3% of GDP for the year ended December 31, 1999 as compared to 2.7% of GDP for the year ended December 31, 1998 primarily as 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 Central Government relative to the debt service payments that would have been required absent such substitution, leading to a reduction in inflationary pressures and lower interest rates paid by the Government and the Central Bank.

In 1999, the Central Bank conducted monetary policy consistent with its monetary targets of achieving a 10% 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 18.8% 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%. On December 1, 1999, the Central Bank established as a goal that private sector credit expansion of the Costa Rican banks would be limited to a maximum of 26% over the following 13 months. If private credit expansion of any financial institution grows at a rate exceeding 1.5 times the rate of growth of GDP, SUGEF has the authority to apply stricter supervision to that financial institution.

1998

Costa Rica's economic recovery, which began in the second half of 1996, gained force in 1998. Costa Rica's GDP in 1998 was 2,729.7 billion colones, the equivalent of US$10,613.3 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 6.7% in 1998 as compared to 1997 principally due to a 7.9% increase in domestic demand and an 25.9% increase in real terms of exports of goods and services. Domestic demand increased in 1998 principally due to (i) a 21.3% increase in gross fixed capital formation resulting from increased foreign direct investment and greater confidence of the private sector in the macroeconomic policies of the Government, and (ii) a 4.9% increase in private consumption.

The increase in exports of goods and services was principally due to revenues related to the Free Trade Zones and In-bond industries, particularly 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 to 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 had a growth of 117.2% compared to 1997. The increase in exports of bananas was partially offset by decreases in other traditional exports (coffee, beef and sugar), particularly a decrease in the volume of coffee exports primarily due to crop damage caused by Hurricane Mitch and a decline in international coffee prices.

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 oil and lubricants, during this period.

Total exports (f.o.b.), including In-bond and Free Trade Zones value added, reached US$5,528.0 million for the year ended December 31, 1998, an increase of 27.5% from the year ended December 31, 1997. This increase was due principally to an increase of 117.2% in the value from exports of Free Trade Zones facilities which represented 35.1% of total exports in 1998, increased export of other non-traditional products, and an increase in exports of bananas. 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. See "Balance of Payments and Foreign Trade — Foreign Trade — Exports." The trade balance measured as the difference between exports (f.o.b.) and imports (c.i.f.) showed a deficit of US$710.6 million at December 31, 1998 as compared to US$635.2 million at December 31, 1997. See "Balance of Payments and Foreign Trade — Foreign Trade — Imports."

Inflation for the year ended December 31, 1998 was 12.3% as compared to 11.2% for the year ended December 31, 1997 and 13.9% for the year ended December 31, 1996. Although the rate of inflation for 1998 was close to the target rate of 12.0% set by the Central Bank, inflation increased as compared to 1997. The factors that helped keep inflation relatively low in 1998 were primarily 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 factors that contributed to causing 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 nominal depreciation of the colón for the year ended 1998 was 11.1%, compared to 11.0% for the year ended 1997.

Net international reserves at December 31, 1998 were US$1,044.0 million as compared to US$1,183.1 million at December 31, 1997. The decrease of reserves was due primarily 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 Central Government fiscal deficit decreased to 3.3% of GDP for the year ended December 31, 1998 from 3.9% of GDP for the year ended December 31, 1997, primarily due to a reduction in interest payments on domestic public debt of 0.9% of GDP resulting from lower interest rates and a reduction of capital expenditures of 0.4% of GDP, offset by a reduction in current income of 0.2% of GDP. The consolidated public sector deficit decreased to 2.7% of GDP for the year ended December 31, 1998 as compared to 3.4% 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.

The 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 as a goal that private sector credit expansion of the Costa Rican banks would be limited to a maximum of 26% over the following 15 months. CONASSIF had the authority to increase loss reserve requirements for financial institutions that did not comply with this goal.

In addition, 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."

1997

Costa Rica's GDP in 1997 was 2,260.5 billion colones, the equivalent of US$9,718.3 million. Following a year of recession in 1996, the Costa Rican economy resumed its growth. The growth in real GDP was due to the reactivation of the industrial sector, primarily driven by increased economic activity related to the manufacturing industry, particularly the production of goods for export, the reactivation of the construction industry and increased commercial activity.

Costa Rica's real GDP increased by 3.7% in 1997 as compared to 1996 principally due to a 4.4% increase in domestic demand and a 5.7% increase in real terms of exports of goods and services. Domestic demand increased in 1997 principally due to (i) a 17.2% increase in gross fixed capital formation resulting from increased foreign direct investment and greater confidence of the private sector in the macroeconomic policies of the Government, and (ii) a 2.9% increase in private consumption. The increase in exports of goods and services was principally due to increased exports of non-traditional agricultural and manufacturing products and revenues related to the Free Trade Zone and In-bond industries, partially offset by decreases in the volume of banana and coffee exports.

Total exports (f.o.b.), including In-bond and Free Trade Zones value added, reached US$4,334.5 million for the year ended December 31, 1997, an increase of 15.3% from the year ended December 31, 1996. This increase was due principally to increases in coffee exports (due to increases in international coffee prices) and increased export of non-traditional products. Imports (c.i.f.) for the year ended December 31, 1997 reached US$4,969.7 million as compared to US$4,326.6 million for the year ended December 31, 1996, primarily due to the increase in imports of raw material and capital goods. The trade balance measured as the difference between exports (f.o.b.) and imports (c.i.f.) showed a deficit of US$635.2 million at December 31, 1997 as compared to US$568.2 million at December 31, 1996.

Inflation for the year ended December 31, 1997 was 11.2% as compared to 13.9% for the year ended December 31, 1996 and 22.6% for the year ended December 31, 1995, primarily due to a decline in the international prices of oil and cereals and strengthened public finances. Although private domestic demand recovered significantly in 1997 from 1996 levels, no inflationary pressure was created because part of the increased private domestic demand was channeled to imports. The nominal depreciation of the colón between December 31, 1997 and December 31, 1996 was 11.0%, compared to 12.9% between December 31, 1996 and December 31, 1995.

Net international reserves at December 31, 1997 were US$1,183.1 million as compared to US$1,075.6 million at December 31, 1996. This accumulation of reserves was due primarily to foreign direct investment and inflows of foreign financial capital.

The Central Government fiscal deficit decreased to 3.9% of GDP for the year ended December 31, 1997 from 5.3% of GDP for the year ended December 31, 1996 as a result of reduced outlays on domestic interest payments resulting from lower interest rates and diminished current transfers, principally contributions to a higher education fund and funds allocated for social services. The consolidated public sector deficit decreased to 3.4% of GDP for the year ended December 31, 1997 as compared to 5.4% of GDP for the year ended December 31, 1996, primarily as a result of the increase in overall economic activity and the increased controls on public expenditures.

In addition, gross foreign direct investment decreased to US$406.9 million for the year ended December 31, 1997 from US$426.9 million for the year ended December 31, 1996, primarily as a result of repatriation of profits from In-bond and Free Trade Zone industries. See "Balance of Payments and Foreign Trade — Foreign Investment."

1996

Costa Rica's GDP in 1996 was 1,904.6 billion colones, the equivalent of US$9,169.8 million. After four years of real GDP growth, Costa Rica's economic activity declined in 1996, reflecting the full impact of fiscal restraint and monetary tightening initiated in 1995 in response to the worsening macroeconomic imbalances encountered during 1994. An important part of these macroeconomic imbalances was generated by the increasing debt service burden imposed by Costa Rica's public sector domestic debt. In addition, due to the substantial growth of Government domestic debt caused by the increased Central Government deficit and increased interest rates, interest payments on Government domestic debt increased significantly as a percentage of GDP. Primarily as a result of the increase in interest on the Government debt, the Central Government's fiscal deficit rose to approximately 5.3% of GDP in 1996.

Costa Rica's real GDP declined by 0.6% in 1996 as compared to 1995 principally due to a 4.3% decline in domestic demand, partially offset by a 9.3% increase in exports of goods and services in real terms. Domestic demand declined in 1996 principally due to (i) a 6.4% decline in gross fixed capital formation, and (ii) a 1.8% decline in private consumption, partially offset by a 3.6% increase in general Government expenditures on final consumption.

Costa Rica's exports of goods and services in real terms increased by 9.3% in 1996 as compared to 1995 principally due to increased exports of non-traditional agricultural and manufacturing products and revenues related to the Free Trade Zones, partially offset by decreases in banana exports, principally due to decreased prices and adverse agricultural conditions, in coffee and banana exports, largely attributable to decreased prices, and in revenues from In-bond facilities. Imports of goods and services in real terms increased by 4.5% in 1996 as compared to 1995, principally due to increases in imports of consumer durable goods, fuels and lubricants and raw materials for the industrial manufacturing and mining sector, partially offset by a decrease in imports of capital goods, principally for the transportation sector, and consumer non-durable goods.

1995

The Government and the Central Bank instituted programs of fiscal and monetary stabilization, respectively, in the second half of 1995. In an effort to reduce inflation and to maintain the level of its international reserves, the Central Bank adopted a restrictive monetary policy in 1995 which continued through the first half of 1996. The Government also enacted tax legislation which increased the sales tax from 10% to 15% while mandating its reduction to 13% after April 1997, instituted a minimum tax on legal entities equal to 1% of the value of certain assets (which tax may be credited against income taxes), and reformed its tax administration system to provide the taxing authority with greater powers to investigate and sanction tax evasion. The implementation of this tax legislation resulted in an increase in current revenues to 16.3% of GDP in 1995 as compared to 15.1% in 1994. This increase in revenue, combined with a reduction of certain non-interest public sector expenditures, led to a decline in the Central Government's fiscal deficit to 4.5% of GDP in 1995 as compared to 6.9% of GDP in 1994.

Costa Rica's real GDP increased by 2.4% to 1,620.4 billion colones (US$9,012.4) in 1995 as compared to 1994, principally due to a 7.5% increase in exports of goods and services in real terms, offset by a 1.5% decline in domestic demand. Domestic demand decreased in 1995 principally due to a 2.2% decline in gross fixed capital formation resulting from the decreased availability of credit caused by the Central Bank's monetary policy, and to the decision of producers not to accumulate inventory. Such factors were partially offset by a 1.3% increase in domestic consumption and a 1.6% increase in Government expenditures, which increase resulted primarily from increased expenditures for wages and salaries and also from increased purchases of goods and services.

Costa Rica's exports of goods and services in real terms increased by 7.5% in 1995 as compared to 1994, principally due to a 8.6% increase in the volume of bananas exported, an 18.6% increase in exports of non-traditional products and an increase in the number of tourists, partially offset by a decline in the volume of exported coffee. Imports of goods and services increased by 1.2% in real terms in 1995 as compared to 1994, principally due to increases in imports of raw materials for the industrial manufacturing and mining sector and

increases in transportation and insurance services, partially offset by a decline in imports of consumer durable goods and capital goods.

History and Background

Historically, the Costa Rican economy 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's import substitution industrialization strategy created the conditions for an industrial manufacturing sector oriented toward the production of consumer products for the domestic market. This industrial process generated significant economic growth, permitting the modernization of the economy, and created the conditions for significant 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% 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 IDB. 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.

The average Central Government fiscal deficit was approximately 3.2% of GDP between 1984 and 1994. During the late 1980s and early 1990s, Costa Rica suffered from a persistent Central 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 Central Government fiscal deficit has generally led to increased interest rates, hindering private investment as a result of high lending rates. The 1994 Central Government fiscal deficit substantially increased as the Government assumed the liabilities of Banco Anglo, following its 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 to 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 Central 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 in order to counter the internal and external economic imbalances caused by the Central Government fiscal deficit of 1994. This program was in place 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 Central Government deficit, led to a contraction of investment and real GDP in 1996 of 6.4% and 0.6%, respectively. See "Monetary System."

Gross Domestic Product

Costa Rica's real GDP grew at a compounded annual rate of 4.0% between 1995 and 1999. 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,				
	1995	1996	1997	1998	1999
Private expenditures on final consumption	1.3%	(1.8)%	2.9%	4.9%	(0.7)%
General Government expenditures on final consumption	1.6	3.6	1.6	2.4	1.0
Gross fixed capital formation	(2.2)	(6.4)	17.2	21.3	1.1
Domestic demand	(1.5)	(4.3)	4.4	7.9	(0.1)
Exports of goods and services	7.5	9.3	5.7	25.9	15.6
Aggregate demand	2.0	1.2	5.0	13.0	4.9
Less: Imports of goods and services	1.2	4.5	7.2	25.9	(1.0)
Gross Domestic Product	2.4%	(0.6)%	3.7%	6.7%	8.3%

n.m. Not meaningful.

Source: Central Bank.

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

Per Capita GDP(1)

1995	$2,697.89
1996	$2,685.40
1997	$2,786.77
1998	$2,980.93
1999	$3,180.37

(1) Figures are not adjusted for purchasing power.

Source: Central Bank. Population data from *Encuesta de Hogares* (Population Survey) of 1999.

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"). Since 1995, the gross domestic savings rate has ranged between 21.3% and 24.8% of GDP. In 1995 and 1996, the gross investment rate was reduced, principally due to the decline in cash inflows to emerging markets relating to the devaluation of the Mexican peso in 1994. The gross investment rate rose from 26.1% of GDP in 1996 to 27.5% and 28.6% of GDP in 1997 and 1998, respectively, principally due to an increase in foreign investment in the manufacturing sector. The gross investment rate fell to 24.9% in 1999, principally due to the growth in GDP in 1999 paired with the decrease in the growth of foreign investment.

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

Gross Investment and National Savings Rates
(% of total GDP)

	Gross Investment	Gross National Savings: Domestic Savings	Gross National Savings: External Savings
1995	24.0%	22.3%	1.8%
1996	26.1	23.9	2.2
1997	27.5	24.8	2.7
1998	28.6	24.2	4.4
1999	24.9	21.3	3.5

Source: Central Bank.

Principal Sectors of the Economy

The principal sectors of the Costa Rican economy are industrial manufacturing and mining; agriculture, forestry and fishing; and wholesale and retail commerce and hotels and restaurants (which includes substantial proceeds from tourism), which collectively accounted for approximately 58.3% of real GDP in 1999. In the last five years, industrial manufacturing and mining has been and continues to be one of the most rapidly growing of Costa Rica's major economic sectors. From 1995 to 1999, the industrial manufacturing and mining sector grew at an average rate of 7.7%, while the agriculture, forestry and fishing sector increased at an average rate of 2.6% and wholesale and retail commerce, hotels and restaurants grew at an average rate of 1.8%. In 1999, industrial manufacturing and mining was the largest sector of the economy, accounting for approximately 25.8% of real GDP. The principal manufactured goods produced in Costa Rica are processed food and beverages, chemicals, textiles, wood and leather products. In addition, goods exported from Free Trade Zone industries have experienced rapid growth, particularly electronic components assembled at Intel Corp.'s microprocessor plants in Costa Rica. The value added by exports from Free Trade Zone industries increased by 84.2% in 1999 as compared to 1998. In 1999, the agriculture, forestry and fishing sector accounted for approximately 17.1% of real GDP. The principal agricultural products are bananas, coffee, beef, dairy products and sugar cane. The wholesale and retail commerce and hotels and restaurants sector, Costa Rica's third largest sector, comprised approximately 15.4% of real GDP in 1999.

The following table sets forth real growth rates of the sectors contributing to Costa Rica's real GDP for the periods indicated.

Rates of Growth of Gross Domestic Product by Sector

	For the Year Ended December 31,				
	1995	1996	1997	1998	1999
Agriculture, forestry and fishing	4.0%	(0.4)%	(0.1)%	6.1%	3.6%
Industrial manufacturing and mining	3.6	(4.1)	5.1	11.0	24.8
Electricity and water	3.0	2.3	5.7	9.6	5.5
Construction	(8.3)	(4.6)	7.5	10.7	11.8
Wholesale and retail commerce, restaurants and hotels	1.7	(2.5)	4.0	5.2	0.7
Transportation, warehousing and communications	6.0	4.4	6.7	8.0	6.7
Real estate	1.8	1.6	1.4	1.7	1.5
Financial institutions, insurance and other services	(1.5)	3.1	5.6	6.4	3.9
General Government	2.1	1.0	1.0	1.2	1.0
Other personal services	1.6	2.1	4.8	5.5	5.0
Gross Domestic Product	2.4%	(0.6)%	3.7%	6.7%	8.3%

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 1995 through 1999.

Percentage of Real GDP by Sector

	For the Year Ended December 31,				
	1995	1996	1997	1998	1999
Agriculture, forestry and fishing	18.7%	18.7%	18.0%	17.9%	17.1%
Industrial manufacturing and mining	22.0	21.2	21.5	22.3	25.8
Electricity and water	3.2	3.3	3.4	3.4	3.4
Construction	3.5	3.4	3.5	3.6	3.9
Wholesale and retail commerce, hotels and restaurants	17.3	17.0	17.1	16.8	15.4
Transportation, warehousing and communications	10.3	10.8	11.1	11.2	11.0
Real estate	5.8	5.9	5.8	5.5	5.2
Financial institutions, insurance and other services	7.4	7.7	7.9	7.8	7.5
General government	7.5	7.6	7.4	7.0	6.6
Other personal services	4.2	4.3	4.4	4.3	4.2
Total	100%	100%	100%	100%	100%

Source: Central Bank.

Industrial Manufacturing and Mining

Industrial manufacturing and mining is a key sector of Costa Rica's economy, generating more than 20% of real GDP since 1995 and accounting for approximately 76.1% of total exports and 15.7% of domestic employment in 1999. 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.

Exports from Free Trade Zone industries have experienced rapid growth in recent years. The value added by exports from Free Trade Zones represented 12.5%, 17.1%, 20.6%, 35.1% and 54.2%, respectively, of Costa Rica's total exports in 1995, 1996, 1997, 1998 and 1999. Exports from Free Trade Zones increased by 84.2% in 1999. The high level of growth of exports from Free Trade Zone industries in 1999 was primarily due to growth in exports from the electronics industry. In 1999, the portion of Costa Rican exports represented by exports of electronic components reached 38.9%, as Intel Corp. commenced operation of its second microprocessor assembly and testing facility under the Free Trade Zone regime in January 1999.

Costa Rica has deposits of gold and silver which are being commercially exploited. Under the Constitution and Costa Rican law, mining may only be conducted by the Government or pursuant to concessions granted by the Government to Costa Rican or foreign individuals or corporations.

The industrial manufacturing and mining sector grew by 24.8% in 1999 as compared to 1998, primarily due to the 84.2% growth in production for exports in the Free Trade Zone industries. This sector grew by 11.0% in 1998, primarily due to an increase of 27.5% in production for export, particularly in the Free Trade Zone industries. This sector grew by 5.1% in 1997, primarily due to the growth of production for export, the recovery of In-bond production and increased domestic demand resulting from the recovery of the construction sector. This sector contracted by 4.1% in 1996, primarily due to the slowing and eventual standstill in internal demand resulting from restrictive fiscal and monetary policies. This sector grew by 3.6% in 1995, primarily due to increased exports resulting from increased external demand. The compounded annual growth rate of this sector between 1995 and 1999 was approximately 7.7%.

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

Manufacturing and Mining Sector
Production Growth Index

	For the Year Ended December 31,				
	1995	1996	1997	1998(1)	1999(1)
Consumer goods					
Food, beverages and tobacco	118.3	115.6	118.7	125.9	128.7
Coffee	110.3	69.4	88.8	81.4	91.5
Beef	112.2	113.8	105.4	107.6	115.4
Sugar	117.4	121.6	116.1	125.3	113.9
Other foodstuffs	120.6	122.3	124.6	133.6	136.2
Textiles, clothing and leather	105.5	92.6	97.4	101.9	91.3
Wood, wood products and furniture	84.7	72.9	69.6	75.4	76.0
Paper, printing and publishing	121.8	118.2	122.3	126.9	139.8
Other	73.0	66.4	63.3	44.4	46.7
Intermediate goods					
Paper products	85.7	89.8	101.7	105.6	107.6
Chemicals, rubber and plastics	152.9	146.3	158.5	161.4	169.1
Petroleum refineries	228.6	191.8	178.8	18.8	0.0
Non-metallic minerals	108.1	100.0	112.2	115.3	125.3
Metals and machinery	130.8	123.0	146.6	141.5	139.9
In-bond	n.a	n.a.	n.a.	n.a.	n.a.
Free Trade Zones	n.a	n.a.	n.a.	n.a.	n.a.
Total output	124.3	119.3	125.6	139.4	174.0

(1) Preliminary data.

n.a. Not available.

Source: CEPAL, based on Central Bank data and the *Encuesta de Coyuntura Industrial* (Industrial Opportunity Survey) of the *Instituto de Investigaciones de Ciencias Económicas* (Institute of Economic Research) of the University of Costa Rica.

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

	1995	1996	1997	1998(1)	1999(1)
Food, beverages and tobacco	7.4%	(2.1)%	2.5%	6.1%	2.2%
Coffee	44.1	(37.1)	28.0	(8.3)	12.4
Beef	1.8	1.5	(7.4)	2.1	7.2
Sugar	7.9	3.6	(4.8)	7.9	(9.1)
Other foodstuffs	4.4	1.4	(1.9)	7.2	2.0
Textiles, clothing and leather	(1.6)	(12.3)	5.2	4.6	(10.4)
Wood, wood products and furniture	(3.1)	(13.9)	(4.5)	8.4	0.8
Paper, printing and publishing	(8.6)	(3.0)	3.5	3.8	10.1
Other	(40.5)	(9.0)	(4.7)	(29.8)	5.1
Paper products	9.2	3.6	13.3	3.8	1.9
Chemicals, rubber and plastics	1.0	(4.3)	8.3	1.8	4.8
Petroleum refineries	27.1	(15.4)	(7.8)	(89.5)	(100.0)
Non-metallic minerals	(0.5)	(7.5)	12.3	2.8	8.6
Metals and machinery	(2.2)	(6.0)	19.2	(3.5)	(1.1)
In-bond	n.a	n.a.	n.a.	(6.1)	(19.4)
Free Trade Zones	n.a	n.a.	n.a.	108.0	117.2
Total output	3.7	(4.1)	5.2	11.0	24.8

(1) Preliminary data.

n.a. Not available.

Source: CEPAL, based on Central Bank data and the *Encuesta de Coyuntura Industrial* (Industrial Opportunity Survey) of the *Instituto de Investigaciones de Ciencias Económicas* (Institute of Economic Research) of the University of Costa Rica.

Agriculture, Forestry and Fishing

Agriculture, forestry and fishing has been the second largest sector of Costa Rica's economy from 1995 through 1999, generating approximately 17.1% of real GDP and accounting for approximately 23.9% of total exports and approximately 17.3% of domestic employment in 1999. During the last 10 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 addition, as of December 31, 1999, the cattle industry utilized approximately 3.1 million acres. Costa Rica also has a growing fishing industry, primarily consisting of shrimp and sardines.

In 1999, the agriculture, forestry and fishing sector grew by 3.6% as compared to 1998, principally due to adverse weather conditions including the effects of *El Niño* and *La Niña*. During 1999, agricultural exports reached an estimated US$1,856 million, while imports reached an estimated US$448 million. This sector grew by 6.1% in 1998 in spite of the adverse effects on the coffee, banana and sugar cane crops of floods 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.

This sector contracted by 0.1% in 1997, primarily due to the negative effects on the coffee, banana and sugar cane crops of the adverse weather conditions in 1996 which continued through the first half of 1997. This sector contracted by 0.4% in 1996, primarily due to the adverse effects of floods caused by Hurricane César, which destroyed part of the banana crop, protectionist measures in Europe with respect to banana imports and decreases in the international coffee and banana prices. This sector grew by 4.0% in 1995, primarily due to increases in banana production and in exports of non-traditional products such as fruits and flowers. The compounded annual growth rate of this sector between 1995 and 1999 was 2.6%.

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

Coffee. In 1999, Costa Rica produced the third largest coffee harvest in Central America and the twelfth 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 132-pound bag) was US$149.4, US$112.4, US$148.9, US$144.3 and US$103.1 in 1995, 1996, 1997, 1998 and 1999, respectively.

In 1999, coffee export earnings decreased by 28.7% as compared to 1998 to US$292.1 million (representing 4.4% of total value of exports (f.o.b.)), primarily due to a 26.5% decline of international coffee prices and a 3.0% decline in the volume of coffee exports. In 1998, coffee export earnings decreased by 1.8% to US$409.6 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 decrease in international coffee prices. In 1997, coffee export earnings increased by 8.2% to US$416.9 million (representing 9.6% of total value of exports (f.o.b.)), primarily due to the impact of an increase in international coffee prices of more than 32.5% which was partially offset by an 0.6% decrease in the volume of coffee exports. In 1996, coffee export earnings decreased by 7.6% to US$385.4 million (representing 10.3% of total value of exports (f.o.b.)), primarily due to the impact of a fall in international coffee prices of 24.8%. In 1995, coffee export earnings increased by 35.7% to US$417.4 million (representing 12.0% of total value of exports (f.o.b.)), primarily due to an increase in international coffee prices.

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) 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). All restrictions on the quantity of coffee that can be exported by a member were eliminated in July 1999.

Bananas. For the past ten 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$336.4, US$300.2, US$290.3, US$306.0 and US$284.8 in 1995, 1996, 1997, 1998 and 1999, respectively.

The value of exports (f.o.b.) of bananas decreased by 7.7% to US$613.2 million in 1999 (representing 9.3% of total value of exports (f.o.b.)) as compared to 1998, principally due to a 6.9% decline in international banana prices and a 1.0% decline in the volume of banana exports. The value of exports (f.o.b.) of bananas increased by 16.4% to US$664.2 million in 1998 (representing 12.0% of total value of exports (f.o.b.)), primarily due to a 2.4% increase in the volume of bananas exported and an increase of approximately 5.4% in the international market price of bananas. The value of exports (f.o.b.) of bananas declined by 9.6% to US$570.7 million in 1997 (representing 13.2% of total value of exports (f.o.b.)), primarily due to a 4.9% decrease in the volume of bananas exported and a drop of approximately 3.3% in the international market price of bananas. The value of exports (f.o.b.) of bananas declined by 7.2% to US$631.1 million in 1996 (representing 16.8% of total value of exports (f.o.b.)), primarily due to a 4.8% increase in the volume of bananas exported and a drop of approximately 10.8% in the international market price of bananas. The value of exports (f.o.b.) of bananas increased by 21.2% to US$680.2 million in 1995 (representing 19.6% of total value of exports (f.o.b.)), primarily due to an increase of 8.6% in the quantity of bananas produced and a 12.4% increase in the international market price of bananas.

In 1994, Costa Rica, Colombia, Venezuela and Nicaragua signed the *Acuerdo Marco del Banano* (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. Costa Rica presently continues to export under the Framework Agreement until a new quota system is adopted. The Government does not believe that the final outcome of these proceedings will have a material adverse effect on the export of bananas from Costa Rica to the world market and believes, that with the adoption of a new EU quota system, Costa Rica will continue to be one of the major exporters of bananas to the EU.

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

	For the Year ended December 31,				
	1995	1996	1997	1998	1999
Crops					
Bananas	28.61%	27.25%	26.14%	28.16%	27.96
Coffee	20.76	19.55	19.60	19.37	19.18
Sugar cane	4.40	4.67	4.36	4.74	4.56
Rice	3.10	3.98	4.31	3.79	4.54
Potatoes	1.17	1.38	1.53	1.45	1.32
Beans	1.01	0.59	0.44	0.34	0.46
Plantains	2.74	2.92	3.08	3.07	3.50
Other	10.46	11.38	12.36	12.26	11.56
Crop total	72.26	71.72	71.82	73.19	73.07
Livestock					
Beef	8.29	8.59	7.86	7.15	6.90
Milk	9.02	8.91	9.30	9.31	9.55
Pork	2.15	1.96	2.09	2.33	2.56
Poultry	1.13	1.16	1.11	1.14	1.21
Eggs	2.72	2.35	2.44	2.05	2.05
Livestock total	23.31	22.97	22.81	21.98	22.27
Agricultural improvements	1.51	1.53	1.57	1.47	1.42
Wood	1.84	1.84	1.86	1.75	1.69
Fishing	1.08	1.93	1.96	1.61	1.56
Total output	100%	100%	100%	100%	100%

Source: Central Bank.

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

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

	For the Year Ended December 31,				
	1995	1996	1997	1998	1999
Crops					
Bananas	8.6%	(4.8)%	(4.9)%	14.4%	(0.3)%
Coffee	2.2	(5.9)	(0.6)	5.0	6.2
Sugar cane	7.7	6.0	(7.4)	15.3	2.8
Rice	(11.0)	28.1	7.3	(6.5)	8.8
Potatoes	(7.5)	17.9	9.5	1.2	(16.1)
Beans	(4.2)	(41.6)	(26.8)	(16.7)	46.0
Plantains	15.5	6.6	4.5	5.7	(28.6)
Cocoa	1.5	(47.6)	54.5	11.0	(18.3)
Corn	(14.9)	12.2	8.5	(9.1)	1.5
Tobacco	(3.2)	(19.8)	26.3	0.0	(60.7)
Manioc	32.3	(0.5)	(16.8)	(0.9)	36.2
Onion	0.1	0.0	0.0	0.1	19.9
Other	7.3	10.1	7.5	6.9	2.3
Crop total	4.9	(0.8)	(0.8)	8.2	2.6
Livestock					
Beef	5.1	3.4	(9.3)	(3.4)	1.7
Milk	3.6	(1.3)	3.5	6.2	8.7
Pork	2.3	(8.9)	5.8	18.1	6.7
Poultry	5.3	2.4	(5.2)	9.7	15.6
Eggs	21.1	(13.6)	2.7	(10.8)	4.5
Livestock total	5.9	(1.6)	(1.6)	2.3	7.1
Agricultural improvements	20.1	1.7	1.1	0.0	(3.3)
Wood	(38.3)	0.0	0.0	0.0	0.0
Fishing	2.2	78.1	0.3	(12.5)	9.1
Total Output	4.0	(0.1)	(0.9)	6.2	3.6

Source: Central Bank.

Electricity and Water

As of December 31, 1999, 80.6% of the electric power utilized in Costa Rica was generated by ICE. The remainder of Costa Rica's electric power is generated by other public sector entities and private power producers. As of December 31, 1999, the total electric power generation capacity of the Costa Rican electricity sector was 1,483.6 megawatts. To satisfy the growing demand for electricity, Costa Rica plans to increase generation capacity by 19.2% to 1,769 megawatts by December 31, 2000.

The electricity and water sector grew by 5.5% in 1999 as compared to 1998, 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 9.6% in 1998, primarily due to the general increase in industrial manufacturing, and by 5.7% in 1997, primarily due to increased demand resulting from the general increase in economic activity, particularly in the industrial manufacturing and mining sector. This sector grew by 2.3% in 1996,

primarily due to increases in residential demand, partially offset by reduced demand by the manufacturing sector. This sector grew by 3.0% in 1995, primarily due to increased residential and industrial demand in the first half of 1995, partially offset by a decline of industrial demand in the second half of 1995 in response to the general economic contraction. Residential demand has been increasing steadily for the past several years. The compounded annual growth rate of this sector between 1995 and 1999 was 5.2%.

Legislation to restructure ICE and to liberalize the energy and telecommunications sectors is under consideration by a commission of the Legislative Assembly. There can be no assurances that this legislation will be finally approved by the Legislative Assembly. See "— Government Participation in the Economy; Privatization and Deregulation."

Construction

The construction sector grew by 11.8% in 1999 as compared to 1998, primarily due to an increase in construction and repair of toll roads in connection with the increased activity of the National Transportation Board. This sector grew by 10.7% 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 construction sector grew by 7.5% in 1997, primarily due to an increase in private construction, particularly residential, industrial and commercial construction, resulting from increased availability of credit and decreased interest rates. This sector contracted by 4.6% in 1996, primarily due to the completion of a major phase of hotel construction, a reduction in public investment consistent with the Government's fiscal policy and a reduction in demand for private housing resulting from high interest rates. This sector contracted by 8.3% in 1995, primarily due to a decrease in construction of industrial facilities, hotels and other commercial construction projects. The compounded annual growth rate of this sector between 1995 and 1999 was 3.1%.

The construction sector has been subject to cyclical trends. During 1994, 1995 and 1996, this sector was negatively affected by the Central Bank's restrictive monetary policy which led to high interest rates and decreased availability of credit. In 1997, 1998 and 1999, this sector experienced growth resulting from the overall growth of the economy.

Wholesale and Retail Commerce, Hotels and Restaurants

Wholesale and retail commerce, hotels and restaurants, which captures a substantial portion of Costa Rica's gross tourism receipts, was the third largest sector of Costa Rica's economy from 1995 through 1999, generating approximately 15.4% of real GDP since 1995 and accounting for approximately 20.7% of domestic employment in 1999.

The wholesale and retail commerce, hotels and restaurants sector grew by 0.7% in 1999 as compared to 1998, primarily due to an increase in tourism receipts partially offset by a contraction of 0.1% in domestic demand. This sector grew by 5.3% in 1998 and by 4.0% in 1997, primarily due to an increase in receipts generated by tourism and an increase in retail sales resulting from the general increase in economic activity. This sector contracted by 2.5% in 1996, primarily due to a decline in domestic commercial activity. This sector grew by 1.7% in 1995, primarily due to increased tourism and domestic commercial activity in the first half of 1995, offset by reduced domestic commercial activity in the second half of 1995 as a result of the introduction of a more restrictive monetary policy, reductions in Government expenditures and an increase in the sales tax. The compounded annual growth rate of this sector between 1995 and 1999 was 2.2%.

The Government has developed a number of initiatives to promote tourism over the last 15 years, and the tourism industry has expanded rapidly during this period. In 1985, Costa Rica enacted the *Ley de Incentivos para el Desarrollo Turístico* (Tourism Development Incentives Law) to encourage the growth of the tourism industry by granting this industry special tax exemptions, accelerated depreciation on certain items and duty-free imports of capital goods. As part of its objective to further reduce the Central Government fiscal deficit, the Government, after discussions with the tourism sector, eliminated the granting of certain incentives to the tourism industry as of March 31, 1999.

In 1999, Costa Rica hosted approximately 1,027,000 foreign tourists as compared with approximately 942,900 foreign tourists in 1998. The number of tourists visiting Costa Rica in 1999 increased by approximately 9.0% as compared to 1998, and the total amount of tourism receipts increased by approximately 12.2% during the same period. In 1999, the tourists visiting Costa Rica originated primarily in the United States (38.2%), Europe (13.5%), principally Germany and Spain, and Nicaragua (17.2%). Tourism has been the major source of foreign exchange for Costa Rica in 1995 through 1999, surpassing exports of bananas in 1996 and exports of all traditional products (bananas, coffee, beef and sugar) in 1999. In 1999, the average stay of foreign tourists was 10.0 days and each tourist spent an average of US$965 per visit. 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 table below 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	Number of Tourists	Amount	Number of Excursionists
	(in millions)	(thousands)	(in millions)	(thousands)
1995	657.7	784.6	12.8	139.4
1996	688.6	781.1	14.9	158.7
1997	719.3	811.5	18.3	196.8
1998	883.5	942.9	21.8	213.6
1999	$991.6	1,027.5	$20.1	213.6(3)

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

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

(3) Central Bank estimate.

Source: Central Bank.

Transportation, Warehousing and Communications

The telecommunications industry in Costa Rica is controlled by ICE, the sole provider of telecommunications services in Costa Rica, and its subsidiaries. This sector grew by 6.7% in 1999 as compared to 1998, 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 8.0% in 1998 and by 6.7% in 1997, primarily due to an increase in the volume of international trade and to an increase in the demand for long-distance and data telecommunication services. This sector grew by 4.4% in 1996, primarily due to increased revenues from long-distance and business related telecommunications, offset by the reduction in transported goods in the domestic market as a result of the decline in domestic consumption of manufactured and agricultural products. This sector grew by 6.0% in 1995, primarily due to the increased revenues from telecommunications, increased transportation of goods in the domestic market and increased importation of primary goods. The compounded annual growth rate of this sector between 1995 and 1999 was 6.4%.

Legislation to restructure ICE and to liberalize the energy and telecommunications sectors is under consideration by a commission of the Legislative Assembly. There can be no assurances that this legislation will be finally approved by the Legislative Assembly. See "— Government Participation in the Economy; Privatization and Deregulation."

The Government commenced the expansion and modernization of the Juan Santamaría International Airport in 1999, which is expected to cost an estimated US$19.0 million. In addition, Consorcio AGI ("Consorcio AGI"), a consortium composed of Airport Group International, Bechtel Enterprises, EDICA, CORMAR and Agencia Datsun, was awarded a concession to operate the airport for a term of 20 years. Pursuant to the concession, the airport property remains the property of the Government and Consorcio AGI is responsible for administration of the airport and is required to make capital improvements to the airport over

the life of the concession at an estimated cost of US$180 million of which improvements estimated at US$90 million must be made within the first three years of the concession.

The Government also plans to award concessions to private entities for the construction, maintenance and repair of highways. The Government has solicited bids for the renovation and construction of new lanes for the General Cañas highway, has obtained bids for the construction of the Caldera toll road and is currently studying and seeking private sector investments in other infrastructure projects. The total value of these and other infrastructure projects is estimated at approximately US$740 million. See "— Government Participation in the Economy; Privatization and Deregulation" below. In April 1998, the *Consejo Nacional de Vialidad* ("National Transportation Board") was created to maintain, construct and repair the national highway system. Effective August 1998, the Government established a 15% fuel consumption tax to fund the National Transportation Board.

Real Estate

The real estate sector, which consists of sales and rentals of real property, grew by 1.5%, 1.6%, 1.5%, 1.6% and 1.8% in 1995, 1996, 1997, 1998 and 1999, respectively, primarily due to increases in residential rentals. The compounded annual growth rate of this sector between 1995 and 1999 was 1.6%.

Financial Institutions, Insurance and other Business Services

The financial institutions, insurance and other business services sector grew by 3.9% in 1999 as compared to 1998, principally due to an increase in revenues from financial services other than traditional bank intermediation. This sector grew by 6.4% in 1998 and 5.6% in 1997, primarily due to an increase in the domestic demand for credit. This sector grew by 3.1% in 1996, primarily due to an increase of real deposits in the banking system and an increase in the issuance of insurance policies to the industrial and agricultural sectors, partially offset by a decrease in domestic demand for and supply of credit at prevailing rates. This sector contracted by 1.5% in 1995, primarily due to the decreased demand for credit resulting from the Central Bank's restrictive monetary policy and the reduced profits earned by the state-owned banks. The compounded annual growth rate of this sector between 1995 and 1999 was 3.5%. For a more detailed discussion of the activities of this sector, see "Monetary System — Banking Sector."

The Commission on Economic Affairs is drafting legislation to reform the Costa Rican insurance law to terminate the monopoly in the insurance sector, to create general norms in the insurance market, to create an Insurance Superintendency and to repeal the laws and decrees that established the state monopoly in the insurance sector. The proposed legislation would create an integrated market in which the INS and private companies that comply with the requirements of the law and register with the Insurance Superintendency would compete on equal terms.

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 on their offshore subsidiaries, which the Central Bank believes extend a significant amount of credit to the private sector.

Government Participation in the Economy; Privatization and Deregulation

Since taking office in May 1998, Costa Rica's President has identified support of private sector participation in the economy to promote competition as one of his administration's priorities. One of the Government's goals is to promote competition in the economy by liberalizing various industries, including energy, telecommunications and insurance, which have been historically controlled by the Government.

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. The *Ley de Promoción de la Competencia y Defensa Efectiva del Consumidor* (Law for the Promotion of Competition and Consumer Protection), which became effective in January 1995, establishes, among other things, (i) the regulation and sanctioning of large-and small-scale anti-competitive economic behavior, (ii) the promotion of consumer protection and education, and (iii) the elimination of 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 the Law for the Promotion of Competition and Consumer Protection, which provides that regulatory requirements should not impede the flow of commerce. In October 1998, the *Comisión Nacional de Desregulación* (National Deregulation Commission) was created to coordinate 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. Among a variety of initiatives taken to streamline the regulation of commercial activity, the Government has taken measures to

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

ICE, the state-owned communications and electric power company, is the largest commercial enterprise in Central America, with total revenues equivalent to approximately 5.4% of Costa Rica's GDP in 1999. 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 allowed the generation of power by the private sector from hydroelectric and non-conventional facilities, so long as the amount generated does not exceed 30% of the capacity of the national power system.

The Legislative Assembly held its first debate regarding the legislation for the restructuring of ICE and the liberalization of the energy and telecommunications sectors and approved the legislation on a preliminary basis on March 20, 2000. In response to demonstrations and protest marches by some members of the unions representing the employees of ICE, joined by members of other public sector unions and students, on April 4, 2000 President Rodríguez called for further analysis of this legislation. As a result, a commission consisting of representatives from a diverse range of the general population, including deputies to the Legislative Assembly, the Government, public sector union members, the business sector and university students was formed to analyze the proposed legislation for a period of 150 days. The commission is expected to recommend changes to the legislation by the end of the 150-day period. The commission has begun preliminary discussions addressing the concerns and problems and discussing solutions with respect to the proposed legislation. Concurrently, the constitutional branch of the Supreme Court issued a non-binding opinion during April 2000

in which it found certain procedural aspects of the legislation to be unconstitutional. Once the commission proposes revised legislation, a first debate must again be held. If the revised legislation is passed on first debate by the Legislative Assembly, it will again be subject to constitutional review if necessary prior to a dispositive vote on second debate. There can be no assurances that this legislation will be finally approved by the Legislative Assembly or that the final form of the legislation will be substantially similar to the current draft of the proposed legislation.

As currently drafted, the proposed legislation contemplates the complete liberalization of the telecommunications market, the creation of a regulatory authority with power to promote and foster competition between telecommunications operators, and the creation of a universal service fund. Moreover, this legislation would provide that ICE transfer 80 billion colones (approximately US$265 million) to reduce the Government domestic debt. In addition, this legislation would liberalize the market for generation, distribution and commercialization of electricity and promote private investment in the industry. This legislation would liberalize the market for electric generation and private investment in generation projects by:

- eliminating the ownership percentage restrictions on foreign participation in generation projects; and
- permitting the creation of a market in electricity consisting of generators and large consumers of electricity in Costa Rica.

This proposed legislation would also strengthen ICE by permitting it to create two corporations, one to hold and operate its power assets and the other to hold and operate its telecommunications assets, as well as eliminating restrictions imposed by public sector laws, such as those relating to administrative contracts, public employment rules and the establishment of joint ventures with the private sector and ICE's budget. Moreover, ICE would no longer be obligated to set aside a percentage of its net profits to contribute to the reduction of the consolidated public sector fiscal deficit, since the proposed legislation permits the reinvestment of all of ICE's profits, which was not previously allowed.

Refinadora Costarricense de Petróleo (Costa Rican Petroleum Refinery) ("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 because imported refined products were less expensive than products produced by RECOPE. RECOPE's revenues represented approximately 3.0% of GDP in 1999.

In 1994, the Legislative Assembly enacted a new hydrocarbon law which provides a regulatory framework for the Government to promote hydrocarbon exploration and development. The government agency *Dirección General de Hidrocarburos* ("General Directorate of Hydrocarbons") is responsible for the development and supervision of the Costa Rican petroleum sector. As of June 2000, the General Directorate of Hydrocarbons had 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.

All insurance activities (insurance and reinsurance) are conducted by INS, which had revenues representing approximately 2.5% of GDP in 1999. The Commission on Economic Affairs of the Legislative Assembly is drafting legislation to reform the insurance laws. See "— Financial Institutions, Insurance and Other Business Services."

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 5.4% of GDP in 1999. Since the 1980s, the financial sector has undergone significant reforms designed to permit greater private participation in all aspects of banking and finance. See "Monetary System — Banking Sector."

In the postal service sector, the Government legally restructured *Correos y Telégrafos* (Postal Service and Telegraphs), the Government postal agency, into a state-owned corporation, *Correos de Costa Rica S.A.,* in 1998, thereby removing certain regulatory restrictions on its operations.

The table below sets forth certain information with respect to the principal entities controlled by the Government and their revenues and expenditures for 1999.

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

			For the Year Ended December 31, 1999					
Company	Acronym	Activity	Total Revenues		Total Expenses		Net Income	
Instituto Costarricense de Electricidad	ICE	Electricity and telecommunications	$ 623.3	5.4%	$ 642.8	5.6%	$(19.6)	(0.2)%
Refinadora Costarricense de Petróleo	RECOPE	Refining and importation of petroleum	352.4	3.0	344.6	3.0	7.8	0.1
Instituto Nacional de Seguros	INS	Insurance	287.0	2.5	274.4	2.4	12.3	0.1
Banco Nacional de Costa Rica*	BNCR	Commercial bank	364.2	3.2	254.9	2.2	11.1	0.1
Banco de Costa Rica*	BCR	Commercial bank	169.1	1.5	72.8	0.6	33.4	0.3
Banco de Crédito Agrícola de Cartago*	BCAC	Commercial bank	77.9	0.7	59.5	0.5	2.4	0.0
Junta de Protección Social de San José	JPS	Lotteries and social services	91.2	0.8	87.1	0.8	4.2	0.0
Instituto Costarricense de Acueductos y Alcantarillados	ICAA	Water and sewage services	75.4	0.7	73.3	0.6	2.1	0.0
Consejo Nacional de la Producción	CNP	Marketing of agricultural products	34.5	0.3	32.2	0.3	2.2	0.0
Fábrica Nacional de Licores	FANAL	Production of alcohol	32.2	0.3	28.1	0.2	4.0	0.0
Instituto de Puertos del Pacífico	INCOP	Ports	15.5	0.1	17.6	0.2	(2.1)	0.0
			$2,122.7	18.4%	$1,612.9	16.3%	$ 57.8	0.5%

* Financial Intermediation.

Source: Ministry of Finance.

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% of the assets and losses of CODESA. Most of the companies which CODESA created or participated in were dissolved or sold to the private sector by 1992. CODESA itself was dissolved in July 1997.

In April 1998, the Legislative Assembly approved the new *Ley General de Concesión de Obras Públicas Con Servicios Públicos* (General Law of Public Works Concessions and Public Services), creating the *Consejo Nacional de Concesiones* (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) that includes concessions for highways, airports, ports, water and sewer systems, prisons, railroads and hospitals. The National Concession Board has identified several concessions with an estimated aggregate value of approximately US$1.4 billion to be granted within the next four years.

In connection with this program, the Government has solicited bids for the renovation and construction of new lanes for the General Cañas highway. The total investment for this project is estimated to be US$130 million. The Government has also received bids for the Caldera toll road and is currently studying and seeking private sector investments in other infrastructure projects, with an estimated total investment value of US$740 million.

Consorcio AGI, a consortium composed of Airport Group International, Bechtel Enterprises, EDICA, CORMAR and Agencia Datsun, was awarded a concession to operate the airport for a term of 20 years. Pursuant to the concession, the airport property remains the property of the Government and Consorcio AGI is responsible for administration of the airport and is required to make capital improvements to the airport over the life of the concession at an estimated cost of US$180 million of which improvements estimated to cost US$90 million must be made within the first three years of the concession.

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 build-operate-transfer projects, especially in the telecommunications and electricity sectors.

In August 1998, President Rodríguez issued a decree establishing the Forum for a National Consensus. The Forum for a National Consensus was aimed at bringing together representatives of all sectors of Costa Rican society to discuss economic and social topics including environmental policy, the reduction of poverty and the liberalization of various sectors of the economy historically controlled by the Government.

Based on proposals developed by the Forum for a National Consensus, in December 1998 the Government presented to the Legislative Assembly the legislation necessary (i) to restructure ICE, (ii) to liberalize the energy and telecommunications sectors, and (iii) to liberalize the insurance sector.

Legislation to restructure ICE and to liberalize the energy and telecommunications sectors is under consideration by a commission of the Legislative Assembly. There can be no assurances that this legislation will be finally approved by the Legislative Assembly. See "— Government Participation in the Economy; Privatization and Deregulation."

As noted above, the Commission on Economic Affairs is drafting legislation to reform the insurance laws. See "— Financial Institutions, Insurance and Other Business Services."

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

In 1999, the Costa Rican labor force consisted of approximately 1.4 million persons, representing approximately 38.9% of the total population.

The unemployment rate was 6.0% in 1999, while the underemployment rate was 7.8%. In 1999, the National Institute of Statistics modified the method used in calculating unemployment, underemployment and poverty.

In its 1999 annual survey, the National Institute of Statistics used a revised graph of the Costa Rican regions. This graph, 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 with respect to unemployment, underemployment and poverty are not comparable to the data presented for prior years.

The unemployment rate fell to 5.6% in 1998 and 5.7% in 1997 after rising to 6.2% in 1996 from 5.2% in 1995. The underemployment rate rose slightly to 7.5% in 1998 after falling to 7.4% in 1997. The underemployment rate rose to 7.7% in 1996 from 5.8% in 1995.

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

	At July 31,				
	1995	**1996**	**1997**	**1998**	**1999**
Labor force	1,231.6	1,220.9	1,301.6	1,376.5	1,383.5
Employed(1)	1,168.1	1,145.0	1,227.3	1,300.0	1,300.1
Unemployed	63.5	75.9	74.3	76.5	83.3
Unemployment rate(2)	5.2%	6.2%	5.7%	5.6%	6.0%(3)
Underemployment rate(4)	5.8%	7.7%	7.4%	7.5%	7.8%(3)

(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 of 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.

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.

In 1999, private economic activity employed approximately 1.1 million persons, representing 86.8% of total employed persons, as compared with approximately 993,514 persons, representing 85.1% of the total number of employed persons, in 1995.

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 and in the construction sector.

The table below 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,									
	1995		1996		1997		1998		1999(1)	
Agriculture, forestry and fishing	260,970	21.2%	259,032	21.2%	263,385	20.2%	270,781	19.7%	270,843	19.6%
Mining	2,713	0.2	2,301	0.2	1,520	0.1	1,646	0.1	2,299	0.2
Industrial manufacturing	202,738	16.5	202,128	16.6	203,859	15.7	216,005	15.7	217,024	15.7
Electricity and water	12,578	1.0	12,373	1.0	14,136	1.1	13,278	1.0	13,562	1.0
Construction	79,809	6.5	71,448	5.9	89,132	6.8	89,151	6.5	89,514	6.5
Wholesale and retail commerce, restaurants and hotels	239,158	19.4	238,963	19.6	249,235	19.1	267,062	19.4	286,558	20.7
Transportation, warehousing and communications	64,362	5.2	61,598	5.0	67,218	5.2	75,217	5.5	77,004	5.6
Financial institutions, insurance and other services	51,818	4.2	51,916	4.3	64,095	4.9	73,695	5.4	68,580	5.0
Social services(2)	298,086	24.2	296,741	24.3	328,023	25.2	346,403	25.2	338,731	24.5
Other	19,340	1.6	24,414	2.0	21,022	1.6	23,305	1.7	19,337	1.4
Total	1,231,572	100%	1,220,914	100%	1,301,625	100%	1,376,543	100%	1,383,452	100%

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

(2) Includes Government employees, teachers, workers in the informal sector and pensioners.

Source: National Institute of Statistics.

Employment in the private sector is generally at-will, although employers must indemnify employees terminated without just cause. Such indemnification 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.

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.

Costa Rican law provides protection against the dismissal of pregnant women and provides additional employment benefits to the disabled.

Membership in labor organizations is limited. Membership in unions as a percentage of the total number of employed persons has decreased from 15.5% (162,166 persons) in 1992 to 11.1% (152,778 persons) in 1997. The number of union members had increased to 186,727 as of June 2000. Membership in *Asociaciones Solidaristas* ("Solidarity Associations") as a percentage of the total number of employed persons has increased from 14.4% (163,473 persons) in 1995 to 17.5% (228,861 persons) in 1999. This increase in membership in Solidarity Associations, which were created by law in 1982, 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. Membership in Solidarity Associations had increased to 254,908 as of June 2000.

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 assurances that significant labor disputes will not arise in the future regarding the proposed restructuring of ICE. See "— Government Participation in the Economy; Privatization and Deregulation."

Set forth below is a table showing the evolution of nominal wages for the periods indicated.

Average Monthly Wages
(in U.S. dollars)

	For June of				
	1995	1996	1997	1998	1999
Private sector	$297.0	$306.9	$322.1	$345.0	$359.9
Agriculture	216.6	219.0	233.9	245.9	254.3
Industrial manufacturing	310.5	327.8	347.3	387.0	410.6

Source: Central Bank, based on information of 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 1997, approximately 82,300 new jobs were created. 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 1998, 72,672 new jobs were created.

In 1999, the National Institute of Statistics modified the methodology it uses in conducting its annual survey. As noted above, 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 the adoption of this change of methodology, the data presented herein for 1999 with respect to poverty and job creation and loss are not comparable to the data presented for prior years. In 1999, the poverty rate was 20.6% and 1,300,146 people were employed.

In 1999, the Government presented to the Legislative Assembly proposed legislation to restructure FODESAF, the national poverty fund, for the purpose of further reducing the level of poverty and strengthening its operations. This legislation is being reviewed by the Commission on Economic Affairs and the Government has undertaken a number of initiatives 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.

The following table sets forth poverty rates for the periods indicated.

Poverty Rates

	At July 31,				
	1995	**1996**	**1997**	**1998**	**1999(1)**
Extreme poverty(2)	6.2%	6.9%	5.7%	5.3%	6.7%
Unsatisfied basic needs(3)	14.1	14.7	15.0	14.4	13.9
Poor households	20.4	21.6	20.7	19.7	20.6
Non-poor households	79.6	78.4	79.3	80.3	79.4
Total households	100%	100%	100%	100%	100%

(1) Not comparable to prior years because of a change of 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, which have been partially offset since 1997 by strong growth in its service balance surplus. The growth in the Republic's service balance surplus is a result of growth in the tourism industry. Although Costa Rica recorded a surplus in its merchandise trade balance of US$555.5 million in 1999, its current account deficit declined only slightly, as Costa Rica also experienced a sharp increase in net outflows due to increased profit repatriation (income from direct investments), as a result of increased foreign direct investment.

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 1997 and 1999, and significant increases in net commercial bank credits in 1995 and 1997. Long-term private sector capital has increased since 1995, principally due to improvements in the investment climate and greater private sector confidence.

Costa Rica's capital account surpluses exceeded its current account deficits in 1995, 1997 and 1999, resulting in increases in the banking system's net international reserves in those years. Net international reserves declined in 1996 and 1998 as the current account deficits exceeded the capital account surpluses in those years.

In 1999, Costa Rica's capital account surplus exceeded its current account deficit, resulting in a US$480.0 million increase in the banking system's net international reserves. Net international reserves stood at US$1,441.2 million at December 31, 1999, representing the equivalent of approximately 2.7 months of imports (c.i.f.).

In 1998, the current account deficit exceeded the capital account surplus, principally due to a net outflow of short-term private capital as a result of the economic crises in Asia and Russia. The difference was financed by a US$149.1 million reduction of the banking system's net international reserves. 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.).

In 1997, the capital account surplus exceeded the current account deficit, principally due to a net inflow of long-term private capital, primarily commercial credits, loans and investments in Costa Rican securities. Accordingly, the net international reserves of the banking system increased from US$215.7 million to US$1,183.1 million at December 31, 1997, representing the equivalent of approximately 2.9 months of imports (c.i.f.).

In 1996, the current account deficit exceeded the capital account surplus. The difference was financed by a US$54.5 million reduction of the banking system's net international reserves. Accordingly, the net international reserves of the banking system decreased to US$1,075.6 million at December 31, 1996, representing the equivalent of approximately 3.0 months of imports (c.i.f.).

In 1995, the capital account surplus exceeded the current account deficit, resulting in a US$221.6 million increase in the banking system's net international reserves to US$1,139.0 million at December 31, 1995, representing the equivalent of 3.3 months of imports (c.i.f.).

Current Account

In 1999, the current account deficit narrowed to US$487.9 million (4.2% of GDP), from US$494.3 million (4.7% of GDP) in 1998, principally due to a US$555.5 million surplus in the merchandise trade balance, as contrasted with a deficit of US$396.1 million in 1998, as well as an increase of US$125.0 million in the service balance surplus, primarily resulting from an increase of US$79.3 million in net tourism receipts. These factors were offset by a decline of US$1,068.5 million resulting primarily from the repatriation of approximately US$1,047.1 million of profits from the Free Trade Zone industries.

In 1998, the current account deficit widened to US$494.3 million (4.7% of GDP), from US$330.1 million (3.4% of GDP) in 1997, principally due to a decline of US$201.1 million resulting primarily from the repatriation of profits from the Free Trade Zone industries, and an increase of US$43.2 in the merchandise trade balance deficit. These factors were partially offset by an increase of US$92.4 million in the service balance surplus.

In 1997, the current account deficit widened to US$330.1 million (3.4% of GDP), from US$266.7 million (2.9% of GDP) in 1996, principally due to an increase of US$103.7 in the merchandise trade balance deficit and a decline of US$59.3 million primarily from the repatriation of approximately US$75.2 million of profits from the Free Trade Zone industries. These factors were partially offset by an increase of US$121.0 million in the service balance surplus, primarily resulting from a decrease of US$62.8 million in net transportation costs and an increase of US$20.3 in net tourism receipts.

In 1996, despite a marked deterioration in the terms of trade, the current account deficit narrowed to US$266.7 million (2.9% of GDP), from US$357.9 million (4.0% of GDP) in 1995, principally due to an decrease of US$73.3 million in the merchandise trade balance deficit and a reduction of US$40.8 million, primarily from the repatriation of approximately US$143.5 million of profits from the Free Trade Zone industries. These factors were partially offset by an decrease of US$35.9 million in the service balance surplus.

Capital Account

Beginning in the 1990s, the current account deficit was 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 1999, the capital account surplus increased by 80.6% to US$967.9 million (8.4% of GDP), from US$536.0 million (5.0% of GDP) in 1998, principally due to an increase of US$385.6 million in Costa Rican securities. This factor was offset by a net decrease of US$197.3 million in loans and a net decrease in commercial credits and currencies and deposits.

In 1998, the capital account surplus increased by 13.0% from US$474.5 million (4.9% of GDP) in 1997, principally due to an increase of US$203.6 million in net direct investment and an increase of US$78.7 million in net loans. These factors were partially offset by a US$160.0 decline in Costa Rican securities and a net decrease of US$78.4 million in commercial credits.

In 1997, the capital account surplus increased by 599.9% from US$67.8 million (0.7% of GDP) in 1996, principally due to a increase of US$151.3 million in net commercial credits, a net increase of US$134.2 in loans, and a net increase of US$95.9 million in Costa Rican securities.

In 1996, the capital account surplus decreased by 85.9% from US$480.5 million (5.3% of GDP) in 1995, principally due to an net decrease of US$79.5 in loans, a net decrease in currency and deposits of US$142.0 million and a decrease of US$227.0 million in net commercial credits. These factors were partially offset by an increase of US$89.9 million in net direct investment.

The following table sets forth Costa Rica's balance of payments for the five years ended December 31, 1999.

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

	For the Year Ended December 31,				
	1995	1996(2)	1997(2)	1998(2)	1999
Current account	$(357.9)	$(266.7)	$(330.1)	$(494.3)	$ (487.9)
Merchandise trade balance	(322.5)	(249.2)	(352.9)	(396.1)	555.5
Exports (f.o.b.)	3,481.9	3,774.1	4,349.7	5,541.2	6,592.8
Imports (f.o.b.)	3,804.4	4,023.3	4,702.6	5,937.3	6,037.5
Service balance	56.1	20.2	141.2	233.6	358.6
Transportation	(236.8)	(250.8)	(188.0)	(213.6)	(183.3)
Tourism, net	358.3	374.0	394.3	504.6	583.9
Other services	(65.4)	(103.0)	(65.1)	(57.4)	(42.0)
Investment income	(225.4)	(184.6)	(243.9)	(445.0)	(1,513.5)
Income from direct investments	(225.3)	(81.8)	(157.0)	(349.1)	(1,396.2)
Other investment income	(0.1)	(102.8)	(86.9)	(95.9)	(117.3)
Unilateral transfers	133.9	146.9	125.5	113.2	111.5
Official	34.8	43.0	37.5	39.8	39.5
Private	99.1	103.9	88.0	73.4	72.0
Capital accounts (net)	480.5	67.8	474.5	536.0	967.9
Capital account	0	28.2	0	0	0
Transferred capital	0	28.2	0	0	0
Financial account	480.5	39.6	474.5	536.0	967.9
Direct investment, net	331.4	421.3	399.9	603.5	584.9
Investment in Costa Rican securities	(24.3)	(21.5)	74.4	(85.6)	300.0
Stock	0.1	0	(24.5)	(33.9)	0
Debt	(24.4)	(21.5)	98.9	(51.7)	300.0
Other	173.4	(360.2)	0.2	18.1	83.0
Commercial credits	159.7	(67.3)	84.0	5.6	n.a.
Loans	(103.5)	(183.0)	(48.7)	30.0	(167.3)
Public	(146.8)	(186.1)	(65.0)	52.4	(167.3)
Long-term	(99.1)	(139.6)	(63.9)	52.4	(167.3)
Disbursement payments as principal	214.9	176.6	288.0	274.9	197.3
Amortization	(274.4)	(333.0)	(381.8)	(252.5)	(364.6)
Others	(39.5)	16.8	29.9	30.0	0
Short-term	(47.7)	(46.5)	(1.1)	0	0
Debt service unpaid and in arrears	(47.7)	(46.5)	(1.1)	0	0
Private	43.3	3.1	16.3	(22.4)	n.a.
Long-term	43.3	3.1	9.3	72.9	n.a.
Short-term	0	0	7.0	(95.3)	0
Currency and deposits	97.3	(44.7)	(5.8)	(17.6)	n.a.
Others	19.9	(65.2)	0.8	(5.1)	(84.3)
Decrease/(increase) in international monetary reserves	(221.6)	54.5	(215.7)	149.1	(480.0)
Errors and omissions	99.0	144.4	71.3	(190.9)	n.a.

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

(2) Revised jointly with the IMF technical assistant mission in July 1999.

n.a. Not available.

Source: Central Bank.

Foreign Trade

In 1999, Costa Rica recorded a trade surplus (exports (f.o.b.) (including In-bond value added and Free Trade Zones value added) less imports (c.i.f.)) of US$259.6 million (2.3% of GDP) as compared with a trade deficit of US$710.6 million (6.7% of GDP) in 1998. Non-traditional products accounted for approximately 85.4% of total exports in 1999.

The trade deficit increased by 11.9% in 1998 from US$635.2 million (6.5% of GDP) in 1997. The trade deficit increased by 11.8% in 1997 from US$568.2 million (6.2% of GDP) in 1996. The trade deficit decreased by 7.5% in 1996 from US$614.0 million (6.8% of GDP) in 1995.

In 1991, Costa Rica became a party to the General Agreement on Tariffs and Trade. It is also a member of the WTO. Costa Rica signed a free trade agreement with Mexico in April 1994, which became effective January 1, 1995. In November 1998, Costa Rica signed a free trade agreement with the Dominican Republic which was ratified by the Legislative Assembly in July 1999. This agreement will become effective upon its ratification by the Dominican Republic. In October 1999, Costa Rica signed a free trade agreement with Chile. Costa Rica is currently negotiating a free trade agreement with Panama and has agreed to initiate negotiation of a free trade agreement with Trinidad and Tobago.

Costa Rica and Canada held exploratory meetings in April 2000 to establish a schedule and terms of negotiations toward a free trade agreement. The first round of negotiations was held during the second week of July 2000. There can be no assurances as to when, if ever, any such agreement will be reached.

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

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

	Exports(1) (f.o.b.)	Imports (c.i.f.)	Merchandise Trade Balance
1995(2)	$3,476.0	$4,090.0	(614.0)
1996(2)	3,758.4	4,326.6	(568.2)
1997(2)	4,334.5	4,969.7	(635.2)
1998	5,528.0	6,238.7	(710.6)
1999	6,576.8	6,317.2	259.6
2000(3)	2,606.7	2,695.4	(88.7)

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

(2) Based on calculations derived from customs declarations.

(3) As of May 31, 2000.

Source: Central Bank.

Exports

In recent years, Costa Rica's foreign trade has become increasingly important to the overall growth of the economy. From 1995 to 1999, Costa Rican exports have increased at a compounded annual rate of approximately 18.0%.

Total exports (f.o.b.), including In-bond and Free Trade Zones value added, reached US$6,576.8 million for the year ended December 31, 1999, an increase of 19.0% from the year ended December 31, 1998. This increase was due to an 84.2% increase in value added by exports from Free Trade Zone industries, which represented 54.2% of total exports in 1999, partially offset by lower exports of traditional and other non-traditional products. 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.

Total exports increased by 27.5% to US$5,528.0 million in 1998 from US$4,334.5 in 1997, principally due to a 44.0% increase in industrial exports, primarily attributable to value added by exports from Free Trade Zone industries, which grew by approximately 117.2% and represented 35.1% of total exports in 1998, as well as a 7.8% increase in traditional exports, attributable to an increase of approximately 16.4% in the value of exports of bananas, These factors were partially offset by the decline in the value of exports of coffee and beef due to adverse weather.

Total exports increased by 15.3% in 1997 from US$3,758.4 million in 1996, primarily due to a 23.4% growth in exports of non-traditional products. This factor was partially offset by a decrease of 4.2% in traditional exports, despite a 32.5% increase in coffee prices, due to the impact of bad weather on production of bananas and beef. The growth in exports of non-traditional products was a result of a 38.6% growth in net revenues from Free Trade Zones, an 8.0% growth in industrial exports and a 44.9% increase in non-traditional agricultural exports (mostly seafood, food products, horticultural products, and tropical fruits).

Total exports increased by 8.1% in 1996 from US$3,476.0 million in 1995, primarily due to a 16.0% growth in exports of non-traditional products. This factor was partially offset by a decrease of 7.1% in traditional exports, principally bananas and coffee, attributable to a decline in world prices. The growth in exports of non-traditional products was a result of a 28.0% growth in net revenues from Free Trade Zones, a 16.3% growth in industrial exports and a 25.2% increase in non-traditional agricultural exports.

The value added by exports from Free Trade Zones has increased significantly from US$434.6 million, or 12.5% of total exports, in 1995 to US$3,567.2 million, or 54.2% of total exports, in 1999, primarily due to foreign direct investment in the sector, particularly in activities that require an educated and skilled workforce such as light manufacturing, especially electronics, and pharmaceutical activities.

The value added by exports from In-bond facilities (principally apparel and textile plants) has decreased from to US$475.2 million, or 13.7% of total exports, in 1995 to US$368.4 million, or 5.6% of total exports, in 1999, primarily due to a shift in foreign investment in this activity to other countries in the region with lower labor costs.

The following table provides the value of exports (f.o.b.) by principal products for the five years ended December 31, 1999.

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,									
	1995		1996		1997		1998		1999	
Traditional										
Bananas	$ 680.2	19.6%	$ 631.1	16.8%	$ 570.7	13.2%	$ 664.2	12.0%	$ 613.2	9.3%
Coffee	417.4	12.0	385.4	10.3	416.9	9.6	409.6	7.4	292.1	4.4
Sugar	46.1	1.3	44.4	1.2	41.3	1.0	41.9	0.8	30.0	0.5
Beef	43.6	1.3	42.2	1.1	28.4	0.7	24.0	0.4	27.4	0.4
Traditional total	1,187.3	34.2	1,103.1	29.4	1,057.3	24.4	1,139.7	20.6	962.7	14.6
Non-traditional										
Industry	951.8	27.4	1,107.2	29.5	1,196.2	27.6	$1,246.1	22.5	$1,066.3	16.3
Agricultural	427.1	12.3	526.3	14.0	762.5	17.6	766.1	13.9	612.2	9.3
In-bond	475.2	13.7	378.8	10.1	427.2	9.9	440.0	7.9	368.4	5.6
Free Trade Zones	434.6	12.5	643.0	17.1	891.3	20.6	1,936.2	35.1	3,567.2	54.2
Non-traditional total	$2,288.7	65.8%	$2,655.3	70.6%	$3,277.2	75.6%	$4,388.4	79.4%	$5,614.1	85.4%
Total	$3,476.0	100%	$3,758.4	100%	$4,334.5	100%	$5,528.1	100%	$6,576.8	100%

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* (the "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 became the principal incentive for exporters. CATs are negotiable, most commonly through the securities exchanges, and allow the 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% of such prices. In 1992, the Government eliminated CATs from the group of incentives included in the Export Contract Program. Since then, there have been no new beneficiaries of these incentives; however, because CATs continued to be granted to the businesses that had received them prior to 1992 and were valid until December 31, 1999 and because the maturity date of the CATs is 18 months, their fiscal impact will continue 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 approximately 1.1% of GDP in 1999. The Ministry of Finance estimates that expenditures on CATs awarded will represent approximately 0.8% of GDP for the year 2000 and approximately 0.4% of GDP for the year 2001.

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

In 1998, in connection with Costa Rica's free trade agreement with Mexico, Mexico granted Costa Rica quotas to export beef, milk, powdered cocoa and processed sweeteners for soft drinks. Under this grant, Costa Rica has the right to export to Mexico:

- 2,500 metric tons of beef in 2000, with incremental annual increases to 4,000 metric tons by 2003;
- 11 million liters of milk in 2000, with incremental annual increases to 15 million liters in 2004;
- 1500 metric tons of powdered cocoa on an annual basis; and
- 13,200 metric tons of processed sweeteners in 2000, with incremental annual increases to 22,000 metric tons in 2004.

Costa Rica estimates that if it is able to export its entire quota of these products during 2000, it will receive incremental export earnings of approximately US$12.5 million through exports of beef, approximately US$6.6 million through exports of milk, approximately US$1.2 million through exports of powdered cocoa and US$38.6 million through exports of processed sweeteners. However, there can be no assurance that Costa Rica will be able to export its entire quota of these products.

Imports

Over the past five years, Costa Rican imports have increased substantially and their composition has significantly changed. Imports (f.o.b.) increased approximately 1.7%, 26.3%, 13.9%, 5.7% and 8.5% in 1999, 1998, 1997, 1996 and 1995, respectively. The principal factors influencing the growth in imports over the past five years have been the reduction in tariffs and the growth of the economy in 1995, 1997, 1998 and 1999.

Imports of raw materials and capital goods have accounted for most of this growth, reflecting increased growth of the industrial manufacturing and mining sector which in turn have contributed to the overall

expansion of the economy. Imports of capital goods and raw materials, primarily for the industrial manufacturing and mining and construction sectors, accounted for 71.4%, 67.0%, 71.3%, 72.5% and 74.1% of total imports in 1995, 1996, 1997, 1998 and 1999, respectively.

Imports (c.i.f.) increased by 1.3% to US$6,317.2 million in 1999 as compared to 1998, principally due to a 7.3% increase in imports of raw materials for the industrial manufacturing and mining 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 and a 3.7% increase in imports of non-durable consumer goods. The growth in imports in these areas was offset by a 31.1% decline in imports of durable consumer goods and a 5.7% 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 as compared to US$4,969.7 million in 1997, principally due to increases (i) of 26.1% in imports of raw materials for the industrial manufacturing and mining sector, particularly the Free Trade Zone industries including the first Intel Corp. plant, (ii) of 36.6% in imports of capital goods, particularly in the industrial and electricity sectors, and (iii) of 19.0% in imports of consumer durable and non-durable goods.

Imports (c.i.f.) increased by 14.9% in 1997 from US$4,326.6 million in 1996, primarily due to (i) an 18.3% increase of imports of raw materials for the industrial manufacturing and mining sector and a 24.0% increase of imports of capital goods, primarily in the industrial and electricity sectors, primarily related to the increase of foreign direct investment and the domestic recovery in private investment, and (ii) a shift in imports of consumer goods with imports of consumer durable goods increasing by 30.1% and imports of consumer non-durable goods decreasing by 11.9%.

Imports (c.i.f.) increased by 5.8% in 1996 from US$4,090.0 million in 1995, primarily due to a 49.1% increase in imports of consumer durable goods and a 18.3% increase in imports of consumer non-durable goods, partially offset by a 3.0% decrease in imports of capital goods reflecting the depressed investment climate. In compliance with agreements under CACM, import tariffs were reduced

- on capital goods from 5% to 3% in January 1996, to 2% in January 1998, to 1% in July 1998 and to 0% in January 1999;

- on raw materials from 5% to 1% in July 1996, and to 0% in July 1998;

- on intermediate goods from a range of 9% to 14% in January 1998, to a range of 7% to 12% in January 1999, and to a range of 5% to 10% in January 2000; and

- on finished goods from 20% to 19% in January 1998, to 17% in January 1999 and to 15% in January 2000.

The weighted average tariff decreased from 16.4% in 1990 to 6.8% in 1999. In addition, all import license requirements were abolished by 1995.

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 José Accord) (the "Accord") with other Central American and Caribbean nations, Panama, Venezuela and Mexico. Pursuant to the Accord, Costa Rica is granted the right to make preferential purchases of crude oil from Venezuela and Mexico. The Accord also provides for the financing of such purchases pursuant to credit facilities provided by Venezuela and Mexico. In addition, the Accord states that 20% 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 Accord. In 1999, imports of fuels and oil amounted to US$320.2 million, representing 5.1% of all imports and 2.8% of GDP, compared to US$260.8 million in the year 1998, representing 4.2% of all imports and 2.5% of GDP.

The following table provides the value of imports (c.i.f.) by principal products for the five years ended December 31, 1999.

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,									
	1995		1996		1997		1998		1999	
Raw materials	$2,190.7	53.6%	$2,192.0	50.7%	$2,666.0	53.6%	$3,320.7	53.2%	$3,547.4	56.1%
Industry and mining	2,119.4	51.8	2,120.5	49.0	2,509.3	50.5	3.163.8	50.7	3,395.7	53.7
Agriculture	71.3	1.8	71.4	1.7	156.7	3.1	156.9	2.5	151.7	2.4
Consumer goods	852.3	20.8	1,073.4	24.8	1,078.4	21.7	1,283.3	20.5	1,142.6	18.1
Non-durable goods	640.1	15.6	757.1	17.5	666.8	13.4	743.3	11.9	770.7	12.2
Durable goods	212.2	5.2	316.3	7.3	411.6	8.3	540.0	8.6	371.9	5.9
Capital goods	730.6	17.9	708.4	16.4	878.6	17.7	1,199.8	19.3	1,131.2	17.9
Industry and electricity	554.9	13.6	557.0	12.9	675.6	13.6	937.9	15.0	883.0	14.0
Agriculture	25.7	0.6	30.4	0.7	46.7	1.0	56.5	1.0	52.6	0.8
Transportation	150.0	3.7	121.0	2.8	156.3	3.1	205.4	3.3	195.5	3.1
Construction	110.1	2.7	108.6	2.5	122.8	2.5	172.6	2.8	174.1	2.8
Fuels and lubricants	200.8	4.9	238.7	5.5	222.0	4.5	260.8	4.2	320.2	5.1
Others	5.5	0.1	5.5	0.1	1.9	0.0	1.5	0.0	1.7	0.0
Total	$4,090.0	100%	$4,326.6	100%	$4,969.7	100%	$6,238.7	100%	$6,317.2	100%

Source: Central Bank.

Direction of Trade

The United States is Costa Rica's most important trading partner. In 1999, trade with the United States accounted for approximately US$938.7 million, or 14.3% of total exports, and approximately US$1,627.3 million, or 25.8% of total imports.

Trade with members of the CACM has increased from 1995 to 1999 as the economies of these countries have become more stable. Exports to CACM countries increased to US$541.2 million in 1999 from US$349.8 million in 1995. Imports from CACM countries increased to US$295.5 million in 1999 from US$233.0 million in 1995. In 1999, 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, which 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 1997, 1998 and 1999 at approximately the same pace as imports generally. Following the enactment of the free trade agreement, Costa Rica's exports to Mexico increased significantly in 1996 and continued to grow in 1997. However, Costa Rica's exports to Mexico declined sharply in 1998 and grew at the same pace as exports generally in 1999.

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

The following tables show the geographic distribution of Costa Rica's foreign trade for the five years ended December 31, 1999.

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

	For the Year Ended December 31,									
	1995		1996		1997		1998(3)		1999(3)	
Central America										
Guatemala	$ 117.0	3.4%	$ 122.2	3.3%	$ 140.9	3.3%	$ 157.0	2.8%	$ 163.7	2.5%
El Salvador	90.9	2.6	94.9	2.5	101.5	2.3	101.8	1.8	107.1	1.6
Honduras	54.6	1.6	64.7	1.8	67.9	1.6	82.8	1.5	93.9	1.4
Nicaragua	87.3	2.5	103.6	2.8	112.3	2.6	138.7	2.5	176.5	2.7
North America										
Canada	33.4	1.0	53.0	1.4	68.0	1.6	78.2	1.4	30.2	0.5
Mexico	16.5	0.5	53.4	1.4	63.5	1.6	55.6	1.0	65.3	1.0
United States	902.4	26.0	974.0	25.9	1,266.1	29.2	1,095.9	19.8	938.7	14.3
South America										
Colombia	16.5	0.5	19.8	0.5	31.8	0.7	32.9	0.6	14.7	0.2
Panama	78.2	2.3	85.1	2.3	91.6	2.1	91.8	1.7	112.0	1.7
Venezuela	14.5	0.4	11.0	0.3	19.7	0.5	21.6	0.4	14.3	0.2
Europe										
Belgium, Luxembourg	146.0	4.2	126.8	3.3	114.5	2.6	94.4	1.7	62.6	1.0
Germany	168.8	4.9	205.3	5.5	185.6	4.3	188.1	3.4	174.8	2.6
Great Britain	100.6	2.9	89.7	2.4	108.4	2.5	119.2	2.2	63.8	1.0
Italy	127.6	3.7	148.9	4.0	123.5	2.8	120.7	2.1	100.0	1.5
The Netherlands	87.5	2.5	109.7	2.9	112.5	2.6	136.1	2.5	124.0	1.9
Sweden	23.6	0.7	46.6	1.2	53.9	1.2	49.6	0.9	37.0	0.5
Asia										
Japan	27.7	0.8	36.3	1.0	30.9	0.7	64.1	1.2	21.6	0.3
Others(1)	473.2	13.6	391.6	10.4	323.5	7.5	523.3	9.5	340.9	5.2
In-bond(2)	475.2	13.7	378.8	10.1	427.2	9.8	440.0	8.0	368.5	5.7
Free Trade Zones(2)	$ 434.6	12.4	$ 643.0	17.1	$ 891.3	20.5	$1,936.2	35.0	$3,567.2	54.2
Total	$3,475.9	100%	$3,758.4	100%	$4,334.6	100%	$5,528.0	100%	$6,576.8	100%

(1) Other countries.

(2) Not categorized by country.

(3) Data for 1998 and 1999 by country includes In-bond and Free Trade Zones.

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,									
	1995		1996		1997		1998		1999(1)	
Central America										
Guatemala	$ 110.7	2.7%	$ 115.9	2.7%	$ 132.0	2.6%	$ 114.4	1.8%	$ 141.1	2.2%
El Salvador	83.7	2.0	93.1	2.2	109.3	2.2	114.8	1.8	99.2	1.6
Honduras	21.8	0.5	24.9	0.6	24.8	0.5	26.0	0.4	29.0	0.5
Nicaragua	16.8	0.4	15.2	0.3	26.4	0.5	24.6	0.4	26.2	0.4
North America										
Canada	41.8	1.0	49.0	1.1	58.8	1.2	75.5	1.2	65.9	1.0
Mexico	180.7	4.4	255.4	5.9	278.4	5.6	318.8	5.1	333.7	5.3
United States	1,479.9	36.2	1,559.4	36.0	1,534.1	30.9	1,784.1	28.6	1,627.3	25.8
South America										
Colombia	100.9	2.5	113.4	2.6	110.7	2.3	121.9	2.0	117.8	1.9
Panama	90.8	2.2	79.7	1.8	76.8	1.6	88.8	1.4	82.3	1.3
Venezuela	215.4	5.3	238.0	5.5	261.5	5.2	176.0	2.8	237.0	3.7
Europe										
Belgium, Luxembourg	28.2	0.7	29.1	0.7	26.5	0.5	29.9	0.5	32.9	0.5
Germany	101.8	2.5	92.7	2.1	110.7	2.3	121.9	2.0	117.8	1.9
Great Britain	25.8	0.6	32.9	0.8	46.1	0.9	50.2	0.9	51.2	0.8
Italy	63.2	1.6	64.1	1.5	74.1	1.5	74.9	1.2	74.0	1.1
Netherlands	39.8	1.0	34.6	0.8	34.1	0.7	36.5	0.6	36.7	0.6
Sweden	8.8	0.2	10.7	0.2	12.9	0.3	24.4	0.4	13.2	0.2
Asia										
Japan	124.6	3.0	146.8	3.4	233.1	4.7	350.2	5.6	249.7	4.0
Others	598.4	14.6	635.6	14.7	812.7	16.3	1,076.7	17.2	1,031.7	16.3
In-bond	398.8	9.8	292.4	6.8	378.4	7.6	348.1	5.6	328.0	5.2
Free Trade Zones	358.1	8.8	443.7	10.3	628.3	12.6	1,281.0	20.5	1,622.6	25.7
Total	$4,090.0	100%	$4,326.6	100%	$4,969.7	100%	$6,238.7	100%	$6,317.3	100%

(1) Preliminary information.

Source: Central Bank.

Foreign Investment

Costa Rica's foreign trade policy seeks to encourage foreign direct investment to promote economic development and employment. The Ministry of Foreign Trade estimates that during the period from 1985 through 1999, foreign direct investments of approximately US$3,941 million have been made in Costa Rica, resulting in the creation of more than 105,400 jobs.

Based on preliminary data, in 1999 the aggregate gross foreign investment was US$624.8 million. The regulatory framework governing foreign investment in Costa Rica currently imposes very limited foreign investment restrictions, including a prohibition on investment in certain border areas, such as Costa Rica's coastline. The regulatory regime also sets forth limitations on the ownership of electric power generation companies; however, these limitations may be eliminated in connection with the proposed liberalization of the energy market. See "The Costa Rican Economy — Electricity and Water." The Constitution provides for equal treatment of foreigners and Costa Rican citizens.

Foreign investment treaties are in effect between Costa Rica and Germany, Chile, France, the United Kingdom, Switzerland, Spain, Canada and the Republic of China (Taiwan). Costa Rica has signed foreign investment treaties with the Czech Republic, Venezuela, Paraguay, Argentina and The Netherlands. Costa

Rica has initiated negotiations with respect to foreign investment treaties with Bolivia, South Korea, Belgium, Luxembourg and Poland.

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 addition, Taiwan may grant loans to Costa Rica under the treaty in an amount of up to US$82 million for public infrastructure and other projects. In 1998, Taiwan donated US$15 million to Costa Rica which will be used for construction of a new port for cruise ships at Puntarenas on the Pacific coast. In 1999, the government of Taiwan granted Costa Rica the funds for construction of a bridge over the Tempisque River in Guanacaste Province. This bridge is estimated to be completed in April 2002 at a cost of approximately US$27 million. Additionally, Taiwan has donated to Costa Rica the design for a highway between Naranjo and Florencia. The Government is conducting preliminary studies with respect to the construction of this highway.

In 1990, Costa Rica adopted the *Ley de Zonas Francas* (Free Trade Zone Law) to reform its foreign investment regime to provide exporting companies, located in Free Trade Zones, with certain incentives and benefits, including, among others, certain 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.

Growing domestic demand during the period from 1992 to 1994 created an attractive investment environment in Costa Rica. As a result, foreign investment was made in bottling plants, food processing plants, bakeries and other manufacturing facilities servicing domestic demand. The Government has also promoted Costa Rica, with its skilled and well-educated labor force and industrial Free Trade Zones, as an ideal location for certain light manufacturing industries.

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. The Government believes that this shift continued during 1997, 1998 and 1999 and will continue in the future. Foreign direct investment in the industrial sector accounted for 70.1% of all such investment in 1998, the latest year for which information is available, compared to 55.3% in 1995. Foreign direct investment in the agricultural sector accounted for 5.3% of all such investment in 1998, compared to 14.4% in 1995.

In March 1998, Intel Corp. commenced operations at a new assembly and testing facility for electronic components valued at approximately US$300 million. In January 1999, Intel Corp. commenced operations at a second microprocessor facility in Costa Rica which increased its investment in Costa Rica to a total value of US$442 million. These facilities are part of a program to build facilities and to install technology valued at approximately US$500 million in Costa Rica. In 1998 and 1999, exports of electronic components from Intel Corp.'s facilities accounted for approximately 17.3% and 38.9%, respectively, of Costa Rica's total exports. In 1998 and 1999, Intel Corp. accounted for approximately 26.7% and 16.3%, respectively, of foreign direct investment in Costa Rica. In 1998, Intel Corp. accounted for approximately 26.7% of foreign direct investment in Costa Rica.

In March 2000, Abbot Pharmaceutical and Medical Equipment opened a pharmaceutical plant in Costa Rica valued at approximately US$60 million. Procter & Gamble has commenced building a global customer services center to provide service support through Latin America. This facility is expected to open during 2000 and represents an estimated capital investment of approximately US$60 million. In addition, during the first half of 2000, Aluminum Company of America (ALCOA) initiated operations in Costa Rica with an investment of approximately US$15 million.

The following table summarizes gross foreign direct investment by economic sector for the five years ended December 31, 1999.

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

	For the Year Ended December 31,									
	1995		1996		1997		1998		1999(1)	
Agriculture	$ 48.4	14.4%	$ 34.6	8.1%	$ 34.3	8.4%	$ 32.3	5.3%	n.a.	n.a.
Industry	186.3	55.3	257.4	60.3	280.5	68.9	428.6	70.1	n.a.	n.a.
Commerce	21.2	6.3	35.5	8.3	19.3	4.7	45.4	7.4	n.a.	n.a.
Others	81.0	24.1	99.4	23.3	72.8	17.9	105.3	17.2	n.a.	n.a.
Total	$336.9	100%	$426.9	100%	$406.9	100%	$611.7	100%	$624.8	100%
% of GDP	3.7%		4.7%		4.2%		5.8%		5.4%	

(1) Central Bank estimate.
n.a. Not available.
Source: Central Bank.

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 for 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% 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 following table summarizes the balance sheet of the Central Bank for the periods indicated.

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

	For the Year Ended December 31,				
	1995	1996	1997	1998	1999
Net international reserves	¢ 177,303	¢ 192,085	¢ 264,563	¢ 254,954	¢ 414,920
External debt	(215,813)	(227,947)	(226,272)	(260,192)	(264,067)
Net external assets	(38,510)	(35,862)	38,291	(5,238)	150,853
Net credit to the Government	57,312	159,195 (1)	283,018	330,671	206,333
Net credit to public institutions	18,684	26,165	9,351	(23,168)	(23,726)
Net credit to the non-financial public sector	75,996	185,360	292,369	307,485	182,608
Gross credit	17,283	14,659	13,278	12,133	11,089
Obligations	(245,335)	(292,400)	(383,866)	(364,317)	(400,658)
Net credit to the financial sector	(228,053)	(277,742)	(370,588)	(353,204)	(389,569)
Credit to the private sector(2)	23,636	13,006	12,181	12,181	12,181
Private sector BEMs	(78,893)	(11,000)	(87,678)	(88,745)	(170,129)
Private sector short-term investments	(3,549)	(7,589)	(7,363)	(2,127)	(2,475)
Obligations to the private sector	(82,442)	(18,589)	(95,041)	(90,875)	(172,604)
Other assets, net	330,041	225,570	229,603	252,818	360,795
Net internal assets	119,178	127,605	68,524	129,405	(6,589)
Money in circulation	80,668	91,743	106,815	124,167	144,264

(1) Includes an estimate by the Central Bank of the outstanding debt of the Government to the Central Bank pursuant to art. 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 the Viceminister 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 Intendent 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, which the Central Bank believes extend a significant amount of credit to the private sector.

Monetary Policy

The principal objectives of Costa Rica's monetary policy have traditionally been to contain the growth of monetary aggregates to levels consistent with declining inflation rates and to foster a stronger net international reserve position. The effectiveness of such policy has tended to be constrained by the absence of controls on foreign exchange convertibility or remittance in Costa Rica as well as by the Central Bank's targeted inflation-based crawling peg rate policy.

The principal mechanisms used by the Central Bank in implementing monetary policy are open-market operations in BEMs, which have been conducted through an auction mechanism since April 1996, short-term deposit facilities at the Central Bank, and an interbank market which initiated operations in 1997, as well as 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 1.3% of GDP from 1995 to 1999.

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.

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.

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% to 15% and (ii) demand obligations denominated in colones with terms equal to or greater than 180 days from 10% to 15%. The reserve requirements with respect to demand deposits denominated in colones reduced from 15% in 1998 to 14% in 1999, and was further reduced to 12% in March 2000.

In 1996, the Central Bank reduced the minimum reserve requirements with respect to time deposits and time obligations denominated in foreign currencies to 5%.

The reduction in the reserve requirements together with the low demand for credit and the improving fiscal condition of the Government contributed to a reduction in domestic interest rates, notwithstanding the continuing restrictive monetary policy of the Central Bank.

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 1999, the Central Bank conducted monetary policy consistent with its monetary targets of achieving a 10% 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 at 18.8% in 1999 compared to 51.2% in 1998.

Additionally, in September 1998, the Central Bank established as a goal that private sector credit expansion of the Costa Rican banks would be limited to a maximum of 26% over the following 15 months. In mid-1999, the Central Bank relaxed this request to permit private credit expansion to a maximum of 30%. On December 1, 1999, the Central Bank made a similar request to limit private sector credit expansion to a maximum of 26% over the following 13 months. See "— Banking Sector."

Inflation and Interest Rates

Inflation (as measured by the consumer price index) fell from 22.6% during 1995 to 13.9% during 1996. The decrease was primarily attributable to a continued decline in private demand and an increase in the amount of imported durable consumption goods in total supply, which more than offset the adverse impact on domestic prices of increases in the international prices of oil and cereals and weakened public finances.

Despite the significant recovery of private domestic demand that resulted from the sharp decline in international oil prices and cereals and the strengthening of public finances, inflation was further reduced in 1997 to 11.2% as part of the increased demand was channeled to imports and no substantial changes in the price of housing services occurred.

Inflation increased to 12.3% 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.

Inflation for the year ended December 31, 1999 decreased to 10.1%, 0.1% above the target rate of 10% set by the Central Bank. The factors that helped keep inflation relatively low in 1999 were primarily:

- the effects of the Central Bank monetary policy in controlling monetary aggregates;
- stable fiscal conditions as a result of the reduction in the Central Government's fiscal deficit; and
- low inflation in the United States, Costa Rica's principal trading partner.

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

Inflation Indicators
(Percent Change from Previous Year at Period End)

	Consumer Prices	Industrial Producer Prices
1995	22.6%	21.9%
1996	13.9	13.3
1997	11.2	10.1
1998	12.3	8.8
1999	10.1	11.3
2000(1)	10.5	11.4

(1) At June 30, 2000. CPI and IPPI figures for 2000 are based on the preceding 12 months.
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 July 18, 2000, 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.

In 1995, interest rates in Costa Rica increased primarily as a result of the restrictive monetary policy and the Central Government's need to finance its fiscal deficit through the issuance of domestic debt. In 1995, nominal interest rates reached their highest level during the period from 1995 to 1999, rising to an average of 31.3% for six-month bank deposits. The increase in interest rates resulted in reduced domestic investment as well as an increased interest burden on the domestic debt.

Interest rates in 1996 and 1997 decreased as a result of the effects of the monetary policy of the Central Bank and the decrease of the Central Government deficit. Interest rates for six-month bank deposits reached an average of 18.8% at December 31, 1997, while interest rates on Government bonds reached an average of 18.0%.

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 reached an average of 24.5% at December 31, 1998, while interest rates on Government bonds reached an average of 24.0%.

Interest rates decreased in 1999, primarily due to reduced central Government borrowing from the domestic market as a result of its issuance of US$300 million bonds in external markets, as well as the decrease in inflation and the Central Government's deficit. Interest rates for six-month bank deposits were an average of 18.3% at December 31, 1999, while interest rates on Government bonds reached an average of

17.5%. At July 18, 2000, interest rates on six-month bank deposits and Government bonds averaged 17.8% and 17.0%, respectively.

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

	Government Bonds	Reference Rate(1)
1995		
March	34.0	33.0
June	34.0	33.0
September	32.1	31.8
December	29.4	28.5
1996		
March	25.0	24.3
June	23.1	21.9
September	24.5	24.1
December	26.6	24.5
1997		
March	22.7	21.5
June	21.7	20.8
September	19.8	19.0
December	18.0	18.8
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
July(3)	17.0	17.8

(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.

(3) At July 18, 2000.

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)

	For the Year Ended December 31,				
	1995	1996	1997	1998	1999
Currency, including cash held in vaults	$509	$526	$ 602	$610	$ 771
Other(2)	317	311	308	286	241
Monetary base	826	837	909	896	1,012
Central Bank's net international reserves	$986	$925	$1,140	$992	$1,471

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

(2) Bank deposits in the Central Bank.

Source: Central Bank.

Article 175 of the Organic Law of the Central Bank states that the Ministry of Finance must issue domestic bonds in order to satisfy the outstanding debts of the Government with the Central Bank. In October 1999, the Government issued bonds 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 assumption by the Government of 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 bonds have a term of 25 years. An aggregate principal amount of US$244.3 million of the bonds are denominated in dollars and have an annual interest rate of 0.5%, subject to adjustment by 0.5% every two years, up to a ceiling of 5.0%. An aggregate principal amount of ¢180,176.4 million (US$604.2 million) of the bonds are denominated in colones and have an annual interest rate equal to inflation for the corresponding year, plus a spread of 0.5%, subject to adjustment by 0.5% every two years, up to a ceiling of 5.0%. The Central Bank has included the amount of the obligation to be represented by such bonds in its monetary accounts since December 1996. The inclusion of such amount in the Central Bank's monetary accounts has caused fluctuations in the public sector credit accounts.

The total outstanding credits of the domestic component of the national banking system amounted to US$3,917.7 million at December 31, 1999, an increase of US$303.6 million from the level of outstanding credits at December 31, 1998. At December 31, 1999, deposits in the financial system, including deposits in checking accounts, amounted to US$4,481.2 million, an increase of US$641.7 million from the level of deposits at December 31, 1998.

The following table shows selected monetary indicators for the periods indicated.

Selected Monetary Indicators
(percent change, except as indicated)

	For the Year Ended December 31,				
	1995	1996	1997	1998	1999
M1(1)	1.3%	17.5%	43.2%	12.3%	20.6%
Quasi-money(2)	12.3	14.7	26.5	30.5	28.2
In foreign currencies	29.4	32.7	22.7	42.2	27.4
In domestic currency	4.0	3.9	29.3	22.0	28.9
Internal credit from national banking system(3)	11.1	52.2	28.5	36.7	2.1
Internal credit from national banking system(4)	11.1	12.8	28.3	44.4	2.1
Average annual colones deposit interest rate(5)	31.2	24.2	20.9	20.2	22.0

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

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

(3) Includes credit for renegotiation.

(4) Excludes outstanding debt of the Government to the Central Bank pursuant to art. 175 of the Organic Law of the Central Bank.

(5) Corresponds to the basic rate based on the days it was valid.

Source: Central Bank.

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

Liquidity and Credit Aggregates
(in millions of colones, at period end)

	As of December 31,				
	1995	1996	1997	1998	1999
Liquidity aggregates					
Monetary base	¢160,563	¢184,122	¢ 221,945	¢ 242,907	¢ 301,650
NPP	80,668	91,743	106,815	124,167	144,264
M1(1)	167,412	196,676	281,688	316,310	381,577
Quasi-money(2)	550,750	631,547	798,595	1,042,034	1,336,280
In foreign currencies	206,470	273,977	336,104	477,991	609,123
In domestic currency	344,280	357,570	462,491	564,043	727,157
Total liquidity	718,162	828,223	1,080,283	1,358,344	1,717,857
Credit aggregates					
Private sector credit	295,943	351,429	443,656	670,609	767,417
In foreign currencies	70,814	74,520	109,665	201,341	290,658
In domestic currency	225,129	276,909	333,991	469,268	505,759
Public sector credit(2)(3)(4)	132,504	300,880	394,632	475,589	372,446
Public sector credit(2)(3)(5)	132,504	131,785	176,230	224,291	372,446
Total domestic credit(3)(4)	428,447	652,309	838,288	1,146,198	1,168,863
Total domestic credit(3)(5)	¢428,447	¢483,214	¢ 619,886	¢ 894,900	¢1,168,863

(1) In 1997, *Banco de Costa Rica* reclassified certain short-term liabilities as demand deposits.

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

(3) Includes credit for renegotiation.

(4) Includes outstanding debt of the Government to the Central Bank pursuant to art. 175 of the Organic Law of the Central Bank.

(5) Excludes outstanding debt of the Government to the Central Bank pursuant to art. 175 of the Organic Law of the Central Bank.

Source: Central Bank.

Banking Sector

The banking system in Costa Rica is comprised of three state-owned commercial banks, 22 private banks (10 of which have at least one subsidiary abroad that performs offshore operations), 18 non-bank financial firms, six savings and loan associations, 27 credit cooperatives and three banks created by special laws (the *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 the *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 (*Caja Costarricense del Seguro Social*) ("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 the state-owned banks over checking accounts and short-term deposits in September 1996.

Historically, 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 as is 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 financial information on a consolidated basis including their offshore operations. Under these regulations, financial groups are required to file with CONASSIF quarterly financial information on a consolidated basis, including on their offshore subsidiaries. A minimum capital requirement of US$3.0 million was established for offshore bank members of groups registered with SUGEF.

The Organic Law of the Central Bank introduced certain improvements 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, the Government dissolved and liquidated Banco Anglo as a result of its mismanagement and significant losses. The bank's losses, which amounted to approximately US$150 million (approximately 1.8% of GDP) in 1994, resulted primarily from the poor credit quality of its loan portfolio (approximately 37.6% of which was deemed uncollectable) and from losses in speculative investments made by management in Latin American debt instruments, principally Venezuelan government obligations. The Organic Law of the Central Bank transformed the *Auditoría 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 had the authority since March 27, 1998 to promulgate rules and regulations for, and appoint the Superintendent and Intendent 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 allocation 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. Following the principles of the Basle Committee on Banking Supervision, financial institutions must maintain a ratio of total capital to risk-weighted assets equivalent to 10%.

As part of the supervision of the financial system, in 1998 and 1999, SUGEF intervened in *Coovivienda, Viviendacoop, Banco Federado* and *Banco Cooperativo,* 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 are part of a program carried out by SUGEF to consolidate the soundness of the financial system, were a result of specific problems in the cooperative sector and have not adversely affected the financial system as a whole. SUGEF intervened in three relatively small financial firms in 1999 and 2000 for reasons unrelated to the problems in the cooperative sector.

Additionally, in September 1998, the Central Bank established as a goal that private sector credit expansion of the Costa Rican banks would be limited to a maximum of 26% over the following 15 months. CONASSIF had the authority to increase loss reserve requirements for financial institutions that did not comply with this goal. In mid-1999, the Central Bank relaxed this request to permit private credit expansion to a maximum of 30%. On December 1, 1999, the Central Bank made a similar request to limit private sector credit expansion to a maximum of 26% over the following 13 months. Currently, if private credit expansion of any financial institution grows at a rate exceeding 1.5 times the rate of growth of GDP, SUGEF has the authority to apply stricter supervision to that financial institution.

The following table shows the amounts of assets and liabilities corresponding to each category of financial institutions (excluding offshore activity).

Structure of the Regulated Financial System
(As of December 31, 1999)

	Assets						Liabilities			
	Total		Loans(1)		Investments		Total(2)		Deposits(3)	
	millions US$	% of total	millions US$	% of total	millions US$	% of total	millions US$	% of total	millions US$	% of total
Banco Nacional de Costa Rica	$1,910.9	28.6%	$ 724.4	23.8%	$ 759.5	38.3%	$1,811.2	31.3%	$1,753.0	32.1
Banco de Costa Rica	1,325.9	19.9	439.7	14.5	617.8	31.2	1,191.5	20.6	1,157.4	21.2
Banco Crédito Agrícola de Cartago	446.3	6.7	112.3	3.7	208.3	10.5	420.9	7.3	403.4	7.5
Commercial state banks total	3,683.1	55.2	1,276.4	42.0	1,585.6	80.0	3,423.5	59.2	3,313.7	60.8
Banco Hipotecario de la Vivienda	189.0	2.8	26.0	0.9	36.3	1.8	129.6	2.2	67.5	1.2
Banco Popular y de Desarrollo Comunal	523.4	7.8	327.9	10.8	63.2	3.2	369.2	6.4	368.7	6.8
Caja de Ahorro y Préstamo de ANDE	129.7	1.9	74.7	2.5	40.0	2.0	7.3	0.0	7.3	0.0
Banks created by special law total	842.1	12.6	428.7	14.2	139.4	7.0	506.1	8.8	443.4	8.1
Private banks	1,611.6	24.1	982.5	32.3	195.0	9.8	1,412.5	24.4	1,300.4	23.8
Nonbank financial institutions	65.7	1.0	37.5	1.2	11.4	0.6	47.2	0.8	43.4	0.8
Savings and loan associations	475.1	7.1	313.3	10.3	51.1	2.6	394.5	6.8	351.9	6.5
Total regulated financial system	$6,677.5	100%	$3,083.5	100%	$1,982.6	100%	$5,783.8	100%	$5,453.0	100%

(1) Net of provisions.

(2) Excludes net worth.

(3) Deposits and obligations with the non-financial sector.

Source: SUGEF, Financial Bulletin, December 1999.

Approximately 63.5% of all bank credit provided in Costa Rica in 1999 was denominated in colones and the balance was denominated in foreign currencies, primarily U.S. dollars. This figure does not include credit transactions of offshore subsidiaries of Costa Rican private banks.

The quality of the loan portfolio of the regulated banking system has improved since 1995, when it was 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% of the total portfolio at June 30, 1995 to approximately 15.2% at December 31, 1999. The state-owned commercial banks reduced their past due loans from approximately 34% to approximately 17.0%, while private banks lowered their past due loans from approximately 14% to approximately 6.3% 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.

Past Due Loan Portfolio of the Financial System
(As of December 31, 1999)

	Total Loans		Current Loans		Past Due 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	$ 757.4	26.1%	$ 694.5	91.7%	$ 26.1	3.4%	$ 7.8	1.0%	$ 0.9	0.1%	$ 2.3	0.3%	$3.3	0.4%	$22.4	3.0%
Banco de Costa Rica	461.5	15.9	340.1	73.7	82.2	17.8	24.5	5.3	6.0	1.3	5.0	1.1	1.5	0.3	2.2	0.5
Banco Crédito Agrícola de Cartago	124.3	4.3	80.7	64.9	19.7	15.8	8.0	6.4	3.4	2.7	1.2	1.0	0.7	0.5	10.6	8.5
Total commercial state banks	1,343.2	46.4	1,115.3	83.0	128.0	9.5	40.3	3.0	10.4	0.8	8.5	0.6	5.4	0.4	35.1	2.6
Banks created by special law	379.9	13.1	231.7	61.0	104.7	27.6	18.2	4.8	4.1	1.1	2.3	0.6	0.8	0.2	18.2	4.8
Private banks(2)	1,173.9	40.5	1,099.8	93.7	40.3	3.4	11.6	1.0	5.4	0.5	4.1	0.3	0.8	0.1	12.0	1.0
Total regulated financial system(3)	$2,897.0	100%	$2,446.9	84.8%	$273.0	9.2%	$70.1	2.4%	$19.9	0.7%	$14.8	0.5%	$7.0	0.2%	$65.3	2.2%

(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% of capital, with daily changes restricted to 1% of the previous day's position.

The following table shows 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,
1990	¢ 91.6	¢103.6
1991	122.5	135.4
1992	134.5	137.4
1993	142.2	151.4
1994	157.1	165.1
1995	179.8	194.9
1996	207.7	220.1
1997	232.6	244.3
1998	257.2	271.4
1999	285.7	298.2
2000(2)	303.2	308.2

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

(2) Average for the six months ended and at June 30, 2000.

Source: Central Bank.

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 exchange 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, reverting to a trend that started in 1990. The increase was due primarily to the increase of net private and official capital inflows.

Net international reserves of the banking system were US$1,044.0 million and US$1.441.2 million at December 31, 1998 and December 31, 1999, respectively. As of December 31, 1999, net international reserves represented the equivalent of approximately 2.9 months of imports (c.i.f.), and the ratio of reserves to the monetary base was approximately 1.5. 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 shows the composition of international reserves at each of the dates indicated.

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

	For the Year Ended December 31,				
	1995	1996	1997	1998	1999
Monetary gold	$ 13.2	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Special Drawing Rights holdings(1)	0.2	0.0	0.0	0.1	0.0
IMF reserves position	(11.3)	11.8	11.9	12.0	27.4
Foreign currency	1.9	2.2	1.0	3.8	8.4
Deposits	948.3	876.4	1,115.4	961.6	1,423.3
Demand	60.9	51.8	97.3	67.9	251.9
Time	887.4	824.6	1,018.1	893.7	1,171.4
Securities	0.4	5.7	0.3	0.3	0.5
Budgetary financing fund	25.8	25.8	4.0	4.0	4.0
Other assets and liabilities	0.7	2.7	7.8	9.5	7.8
Central Bank	979.2	924.6	1,140.4	991.3	1,471.4
Deposits abroad	194.3	247.7	50.9	245.2	172.5
Securities	0.0	0.0	0.0	0.0	0.0
Other assets and liabilities	34.5	96.6	8.2	192.5	202.7
Commercial banks	159.8	151.0	42.7	52.7	(30.2)
Total	$1,139.0	$1,075.6	$1,183.1	$1,044.0	$1,441.2

(1) 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. In 1999, private sector debt and equity securities accounted for approximately 6.7% of the total volume of securities traded on the two exchanges, with public debt securities comprising the balance. The share of total trading volume on both exchanges represented by non-governmental securities increased in the past several years. The aggregate securities trading volume on the two exchanges reached US$25,187 million in 1999, representing 217.9% of GDP.

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, unless otherwise indicated)

	For the Year Ended December 31,									
	1995		1996		1997		1998		1999	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
National Securities Exchange										
Government	$3,422.8	34.7%	$ 4,693.8	23.5%	$ 3,355.8	14.7%	$ 2,201.2	8.1%	$ 2,901	11.5%
BEMs	293.5	3.0	212.5	1.1	978.6	4.3	621.0	2.3	2,436	9.7
CATs	112.5	1.1	140.6	0.7	164.4	0.7	250.0	0.9	190	0.8
Time deposit (denominated in colones)	147.7	1.5	95.5	0.5	313.0	1.4	1,132.3	4.2	1,271	5.0
Time deposit (denominated in dollars)	3,079.1	31.2	2,693.9	13.5	2,379.3	10.4	2,973.8	11.0	3,629	14.4
Short-term deposit facilities at the Central Bank	694.3	7.0	8,669.2	43.4	7,586.1	33.2	3,461.2	12.8	667	2.6
Other	54.5	0.6	41.4	0.2	58.4	0.3	5,371.9	19.8	4,027	16.0
National banking system	4,381.6	44.5	11,853.1	59.4	11,479.8	50.2	13,810.2	50.9	12,218	48.5
Public sector repos	441.7	4.5	864.7	4.3	3,690.5	16.1	6,266.0	23.1	8,090	32.1
Public sector total	8,246.1	83.7	17,411.6	87.2	18,526.1	81.0	22,277.4	82.1	23,209	92.1
Stocks	17.8	0.2	14.7	0.1	17.9	0.1	32.4	0.1	208	0.8
Debt (denominated in colones)	362.1	3.7	242.2	1.2	256.5	1.1	299.1	1.1	119	0.5
Debt (denominated in dollars)	36.4	0.4	60.5	0.3	89.0	0.4	127.4	0.5	92	0.4
Other	287.9	2.9	179.1	0.9	310.3	1.4	327.4	1.2	352	1.4
Firms	704.2	7.1	496.5	2.5	673.7	2.9	786.3	2.9	772	3.1
Private sector repos	125.0	1.3	232.4	1.2	373.1	1.6	859.6	3.2	908	3.6
Private sector total	829.2	8.4	728.9	3.7	1,046.8	4.6	1,645.9	6.1	1,680	6.7
National Securities Exchange total	9,075.3	92.1	18,140.5	90.9	19,572.9	85.6	23,923.3	88.2	24,889	98.8
Electronic Securities Exchange(2)										
Government	12.3	0.1	1,076.9	5.4	1,435.0	6.3	999.4	3.7	54	0.2
Central Bank	16.8	0.2	20.7	0.1	522.0	2.3	770.2	2.9	104	0.4
Other	570.6	5.8	282.6	1.4	229.3	1.0	273.7	1.0	37	0.1
National banking system	587.3	6.0	303.3	1.5	751.4	3.3	1,043.9	3.9	142	0.6
Public sector repos	0.0	0.0	241.9	1.2	543.0	2.4	991.5	3.7	94	0.4
Public sector total	599.6	6.1	1,622.1	8.1	2,729.3	11.9	3,034.8	11.2	289	1.1
Stocks	1.9	0.0	1.5	0.0	8.8	0.0	27.9	0.1	0	0.0
Debt	41.7	0.4	54.0	0.3	71.3	0.3	89.7	0.3	2	0.0
Other	58.1	0.6	113.2	0.6	397.2	1.7	38.5	0.1	1	0.0
Firms	101.7	1.0	168.7	0.8	477.3	2.1	156.1	0.6	4	0.0
Private sector repos	78.0	0.8	33.7	0.2	88.1	0.4	0.0	0.0	5	0.0
Private sector total	179.6	1.8	202.4	1.0	565.4	2.5	156.1	0.6	5	0.0
Electronic Securities Exchange total	779.3	7.9	1,824.5	9.1	3,294.7	14.4	3,190.9	11.8	198	1.2
Total	$9,854.5	100%	$19,965.1	100%	$22,867.5	100%	$27,114.2	100%	$25,187	100%
Number of listed companies(1)	122		119		114		117		118	

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

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

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 1995, the Central Government deficit decreased to 4.5% of GDP from 6.9% of GDP in 1994, principally due to an increase in current revenues of 1.2% of GDP (owing to an increase in the sales tax rate and the excise tax on fuel), despite an increase in interest payments on domestic public debt of 1.4% of GDP. In 1996, the Central Government deficit grew to 5.3% of GDP, principally due to an increase in current expenditures of 1.3% of GDP (including an increase in interest payments on domestic public debt of 0.8% of GDP) offset by an increase in current income of 0.5%.

The deficit of the Central Government narrowed to 3.9% of GDP in 1997, principally due to a decrease in current expenditures of 1.4% of GDP, including a reduction in interest payments on domestic public debt of 1.0% of GDP resulting from lower interest rates and a reduction of current transfers of 0.4% of GDP, principally contributions to a higher education fund and funds allocated for social services. In 1998, the fiscal deficit of the Central Government narrowed further to 3.3% of GDP, primarily due to a reduction in interest payments on domestic public debt of 0.8% of GDP and a reduction of capital expenditures of 0.4% of GDP, offset by a reduction in current income of 0.2% of GDP.

In 1999, the Central Government deficit decreased to 3.0% of GDP, principally due to the incurrence of capital revenue in an amount equal to 0.6% of GDP and a decrease in transfer payments of 0.8% of GDP, offset by an increase in interest on the public debt of 0.7% of GDP and a decrease in current income of 0.4% 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, stricter 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 next five years in order to reduce domestic debt. In addition, the Legislative Assembly approved significant reforms to the pension system in 1998, 1999 and 2000. See " — Social Security and Pension Reform."

There are three major proposed bills which are currently pending in the Legislative Assembly. One of these bills contemplates a comprehensive tax reform. In December 1999, the Government proposed legislation under which the tax regime would be simplified. This proposed legislation includes imposing a single tax on fuel, eliminating certain tax exemptions, broadening the tax base, substantially eliminating certain excise taxes and improving the tax regime for private universities. This tax reform was approved by the Commission on Fiscal Affairs of the Legislative Assembly in April 2000 and is before the Legislative Assembly. There can be no assurances that this legislation will be finally approved by the Legislative Assembly. In addition, based on proposals developed by the Forum for a National Consensus, in December 1998 the Government presented to the Legislative Assembly (as defined herein) the legislation necessary:

- to restructure ICE (the state-owned telecommunications and power company);
- to liberalize the energy and telecommunications sectors; and
- to liberalize the insurance sector.

See "The Costa Rican Economy — Government Participation in the Economy; Privatization and Deregulation."

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

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

	For the Year Ended December 31,									
	1995		1996		1997		1998		1999	
Total revenue	$1,471	16.3%	$1,514	16.8%	$1,623	17.0%	$1,787	16.8%	$1,971	17.1%
Current income	1,471	16.3	1,514	16.8	1,623	17.0	1,787	16.8	1,900	16.4
Direct taxes	329	3.6	329	3.7	359	3.8	415	3.9	532	4.6
Income tax	264	2.9	257	2.9	285	3.0	344	3.2	462	4.0
Payroll tax	54	0.6	60	0.7	62	0.7	60	0.6	62	0.5
Tax on property transfers	9	0.1	10	0.1	12	0.1	10	0.1	9	0.1
Property tax	3	0.0	3	0.0	0	0.0	0	0.0	0	0.0
Indirect taxes	1,116	12.4	1,158	12.8	1,248	13.1	1,349	12.7	1,346	11.6
On imports	686	7.6	667	7.4	719	7.6	820	7.6	801	6.9
On exports	62	0.7	24	0.3	20	0.2	23	0.2	19	0.2
Sales (domestic)	225	2.5	323	3.6	331	3.5	303	2.9	300	2.6
Consumption (domestic)	74	0.8	87	1.0	114	1.2	113	1.1	101	0.1
Other indirect taxes	68	0.8	56	0.6	64	0.7	90	0.8	125	1.1
Other income	26	0.3	27	0.3	16	0.2	23	0.2	22	0.2
Capital revenue	0.0	0.0	0.0	0.0	0.0	0.0	0	0.0	71	0.6
Total expenditures	1,878	20.8	1,993	22.1	2,001	21.0	2,134	20.1	2,321	20.1
Current expenditures	1,705	18.9	1,817	20.2	1,790	18.8	1,934	18.3	2,102	18.2
Wages and salaries	511	5.7	522	5.8	551	5.8	605	5.7	669	5.8
Goods and services	70	0.8	73	0.8	73	0.8	82	0.8	77	0.7
Interest on the public debt	506	5.6	548	6.1	488	5.1	451	4.3	575	5.0
Domestic	436	4.8	485	5.4	443	4.7	403	3.8	500	4.3
External	70	0.8	63	0.7	45	0.5	48	0.5	75	0.6
Current transfers	618	6.9	674	7.5	677	7.1	805	7.6	781	6.8
Public sector	268	3.0	309	3.4	291	3.1	353	3.3	312	2.7
Private sector	348	3.9	363	4.0	384	4.0	446	4.2	466	4.0
External sector	2	0.0	3	0.0	2	0.0	6	0.1	4	0.0
Capital expenditures	173	1.9	175	1.9	211	2.2	191	1.8	219	1.9
Fixed investment	75	0.8	61	0.7	84	0.9	70	0.7	77	0.7
Capital transfers	92	1.0	109	1.2	124	1.3	116	1.1	134	1.2
Other	6	0.1	5	0.1	4	0.4	5	0.0	8	0.1
Fiscal balance (deficit)/surplus	(407)	(4.5)	(479)	(5.3)	(378)	(3.9)	(347)	(3.3)	(349)	(3.0)
Current balance (deficit)/surplus(1)	(234)	(2.6)	(303)	(3.4)	(167)	(1.8)	(156)	(1.5)	(201)	(1.7)
Primary balance (deficit)/surplus(2)	99	1.1	70	0.8	110	1.2	104	1.0	255	1.9

(1) Represents current income less current expenditures.

(2) Represents current income less total expenditures (other than interest on the public debt).

Source: Ministry of Finance.

A primary objective of the Central Government during the last 15 years has been to control spending and reduce its fiscal deficit, and to this end a number of stabilization programs have been implemented since 1983.

The consolidated public sector, which includes the Government, the Central Bank and public and decentralized entities, accumulated a consolidated deficit of 4.3% of GDP in 1999, compared with 2.7% of GDP in 1998, 3.4% of GDP in 1997, 5.4% in 1996 and 3.9% in 1995.

The following table shows the consolidated public sector deficit as a percentage of GDP for the five fiscal years ended 1999.

Consolidated Public Sector Deficit
(percentage of GDP)

	For the Year Ended December 31,				
	1995	1996	1997	1998	1999
Government	(4.5)%	(5.3)%	(3.9)%	(3.3)%	(3.0)%
Central Bank	(1.9)	(2.1)	(1.8)	(1.6)	(2.2)
Remainder of non-financial public sector	2.5	2.0	2.3	2.2	0.9
Total	(3.9)%	(5.4)%	(3.4)%	(2.7)%	(4.3)%

Source: Central Bank; Ministry of Finance.

Following a marked improvement in 1995, the finances of the remainder of the non-financial public sector, principally ICE and CCSS, weakened in 1996 reflecting the slow growth in public enterprises' operating revenues, in particular revenues of the oil refinery, as well as the decline in economic activity, adjustments in tariffs at a rate less than that of inflation, higher international oil prices and an increase of the consumption tax on fuels and lubricants. By contrast, the current surplus of CCSS remained at 1.3% of GDP in 1996, reflecting the effect of measures adopted in 1995 to increase contributions and streamline benefits. The overall surplus of the state-owned institutions, principally ICE and CCSS, improved in 1997 and 1998, mainly as a result of the 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.

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,				
	1995	1996	1997	1998	1999
Direct taxes					
Income tax	17.9%	17.0%	17.6%	19.3%	24.3%
Payroll tax	3.7	4.0	3.8	3.4	3.3
Tax on property transfers	0.6	0.7	0.7	0.6	0.4
Property tax	0.2	0.2	0.0	0.0	0.0
Total	22.4	21.8	22.1	23.2	28.0
Indirect taxes					
On imports(1)	46.6	44.1	44.3	45.9	42.1
On exports	4.2	1.6	1.2	1.3	1.0
Sales (domestic)	15.3	21.3	20.4	17.0	15.8
Consumption (domestic)	5.1	5.7	7.0	6.3	5.3
Other indirect taxes	4.6	3.7	3.9	5.0	6.6
Total	75.8	76.4	76.9	75.5	70.8
Other income	1.8	1.8	1.0	1.3	1.1
Current income	100%	100%	100%	100%	100%

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

Source: Ministry of Finance.

In July 1999, the Legislative Assembly, pursuant to Law 7900, introduced a series of modifications to Law 4755, 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 Law 7972, which increased the tax imposed on liquor, beer and cigarettes. This law reduced the consumption tax on alcoholic beverages by 10% while imposing a new tax of 16 colones per unit of consumption on alcoholic beverages, and increased the consumption tax on cigarettes from 70% to 95%.

The following table sets forth the composition of Government expenditures for the periods indicated.

Composition of Government Expenditures
(percentage of total)

	For the Year Ended December 31,				
	1995	1996	1997	1998	1999
Wages and salaries	27.2%	26.2%	27.5%	28.3%	28.8%
Goods and services	3.7	3.6	3.6	3.8	3.3
Interest on public debt	26.9	27.5	24.4	21.1	24.8
Domestic	23.2	24.3	22.1	18.9	21.5
External	3.7	3.2	2.3	2.3	3.2
Current transfers	32.9	33.9	33.8	37.7	33.6
Public sector	14.3	15.5	14.5	16.5	13.4
Private sector	18.6	18.2	19.2	20.9	20.1
External sector	0.1	0.2	0.1	0.3	0.2
Current expenditures	90.8	91.2	89.4	91.0	90.6
Capital expenditures	9.2	8.8	10.6	9.0	9.4
Fixed investment	4.0	3.1	4.2	3.3	3.3
Capital transfers	4.9	5.5	6.2	5.4	5.8
Other	0.3	0.3	0.2	0.2	0.4
Total	100%	100%	100%	100%	100%

Source: Ministry of Finance.

The Central Government has financed its deficits 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
(in millions of U.S. dollars and percentage of total GDP)

	For the Year Ended December 31,									
	1995		1996		1997		1998		1999	
Financings	$406.8	4.5%	$ 478.4	5.2%	$ 378.2	3.9%	$ 347.0	3.3%	$ 349.5	3.0%
Net external borrowing	(93.3)	(1.0)	(116.9)	(1.3)	(106.6)	(1.1)	192.9	1.8	225.7	2.0
Net internal borrowing	500.1	5.5	595.3	6.5	484.8	5.0	154.1	1.5	123.8	1.1
Government bonds, net	674.1	7.5	619.4	6.8	517.4	5.3	537.0	5.1	252.5	2.2
Other	(174)	(1.9)	(24.1)	(0.3)	(32.6)	(0.3)	(382.9)	(3.6)	(128.7)	(1.1)

Source: Ministry of Finance.

2000 Budget

The Republic's budget for the 2000 fiscal year became effective pursuant to Law 7952, signed into law on December 28, 1999. The *Ley de Presupuesto* (Budgetary Law) sets maximum expenditure levels. In practice, an average of approximately 92% of the authorized expenditure levels are utilized. The 2000 budget anticipates revenues of 609.2 billion colones (US$1,956.4 million) and total expenditures of 1,006.2 billion colones (US$3,231.3 million), including debt service (principal and interest) in an amount of 379.9 billion colones (US$1,220.1 million). The 2000 budget authorized 413.6 billion colones (US$311.4 million) of domestic bonds to finance expenditures provided in the budget, including debt service. The President has identified education, infrastructure and health care as priorities of his administration. The 2000 budget provides for an investment of 6.0% of GDP in education, which equals the amount required by the Constitution. In addition, the 2000 budget provides for an investment in public infrastructure projects of 68.1 billion colones (US$218.7 million) (representing approximately 1.9% of GDP).

The following table shows the principal assumptions utilized in the 2000 budget.

Assumptions Underlying 2000 Budget
(percentages, except as indicated)

Mean inflation	9.0%
Mean devaluation	9.0
Real growth in GDP	5.0
Nominal growth in GDP	14.5
Growth in imports of goods (c.i.f.)	10.0
Average six-month interest rate	20.0
Growth in Government salaries per semester	4.5
Trade opening	0.0
Tariffs (as of December 31, 2000)	
Raw materials	0.0
Final goods	16.0
Capital goods	0.0
Intermediate goods	
With domestic competition	11.0
Without domestic competition	6.0

Source: Ministry of Finance.

Social Security and Pension Reform

The Constitution established a social welfare system, composed of health and pension benefits, administered by the CCSS. The CCSS is an autonomous entity governed by a board of directors composed of nine members: the Executive President of the CCSS, 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 disability, pension and death benefits which are funded by contributions from employees, employers and the Government.

In addition to the system administered by the CCSS, a number of special pension programs which cover public employees in specific occupations and Government agencies were established by legislation. 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 began the implementation of a general reform of the pension system with the support of the World Bank 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 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. Since the enactment of this legislation, all newly hired employees of the public sector have been required to participate in the pension system administered by the CCSS. 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 the benefits available under the special pension programs and the pension systems administered by the CCSS. To complete this component of the reform, the CCSS is considering several reforms designed to assure the financial soundness of the CCSS pension system, including an increase in the retirement age and a decrease in replacement rates.

The *Ley del Protección del Trabajador* (Worker Protection Law), enacted in January 2000, established a pension system with three components. The first component was based on the system currently administered by the CCSS providing basic pension benefits. The second component is reallocating certain contributions which 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 could contribute on a voluntary basis.

The second component of the reform has two goals: first, to replace the mandatory severance plan that existed for all employees prior to the implementation of the reform and second, to create a supplementary mandatory pension fund to complement the pensions paid by the CCSS. 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. An amount equal to 3% of each employee's salary paid by the employer is withheld and deposited in a pension fund (2%) which will provide benefits to the employee upon retirement and a severance fund (1%) which will provide benefits to the employee upon termination of employment. In addition to the 3% 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 permit employees to receive greater pension benefits and to prevent the eventual insolvency of the pension system administered by the CCSS.

In order to implement the third component of the reform, legislation was enacted in 1992 to authorize the establishment of *Operadoras de Fondos de Pensiones Complementarias* (Operators of Complementary Pension Plan Funds). This legislation provides for fiscal incentives which permit the voluntary contribution of up to 10% of an individual's income to accounts established by such individual with these operators. 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 applied 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.

PUBLIC SECTOR DEBT

During the 1980s, the Central Government relied primarily on foreign loans from multilateral institutions, bilateral creditors and commercial banks to finance its fiscal deficits. Since the late 1980s, the Central Government has relied more heavily on domestically issued debt to finance its fiscal deficits. In 1995, public domestic debt represented 44.8% of the total public sector debt. In 1999, public domestic debt represented 60.5% 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 29.4% and 42.1% of GDP at December 31, 1995 and December 31, 1999, respectively. In 1999, public domestic debt grew primarily as a result of the issuance of approximately US$848.5 million (7.3% of GDP) in Government debt to the Central Bank to satisfy the obligations of the Government to the Central Bank. These obligations were recognized in the Organic Law of the Central Bank, which was enacted in 1995, and were documented in October 1999.

At the end of 1996, Costa Rica adopted a plan to reduce the 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.

On December 20, 1999, the Legislative Assembly approved Law 7970, a five-year public debt law that authorizes US$1.45 billion in foreign debt issuance over the next five years for the purpose of reducing domestic debt. This amount will be reduced by an amount equivalent to any disbursements of future loans from multilateral or bilateral organizations. The issuance of the Notes will utilize the US$250 million of external debt authorized for issuance in 2000 by Law 7970.

Costa Rica's total gross public sector domestic 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.

Domestic Debt

At December 31, 1999, gross public sector domestic debt increased by 34.1% to 1.5 billion colones (US$4,868.0 million) from 1.0 billion colones (US$3,522.0 million) at December 31, 1998, primarily due to the issuance of approximately US$848.5 million (7.3% of GDP) in Government debt to the Central Bank to satisfy the obligations of the Government to the Central Bank and a 96% increase in debt issued by the Central Bank, as a result of its open market operations to control and diminish inflation. The obligations to the Central Bank were recognized in the Organic Law of the Central Bank, which was enacted in 1995, and were documented in October 1999. If the Central Government's domestic debt is calculated without including the Government's debt to the Central Bank, the Central Government's domestic debt decreased by 2.8% in real terms in 1999 as compared to 1998.

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 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 assumption by the Government of 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 bonds have a term of 25 years. An aggregate principal amount of US$244.3 million of the bonds are denominated in dollars and have an annual interest rate of 0.5%, subject to adjustment by 0.5% every two years, up to a ceiling of 5.0%. An aggregate principal amount of ¢180,166.4 million (US$604.2 million) of the bonds are denominated in colones and have an annual interest rate equal to inflation for the corresponding year, plus a spread of 0.5%, subject to adjustment by 0.5% every two years, up to a ceiling of 5.0%. The Central Bank has included the amount of the obligation to be represented by such bonds in its monetary accounts since December 1996. The inclusion of such amount in the Central Bank's monetary accounts has caused fluctuations in the public sector credit accounts. In 1999, the Government prepaid ¢20,000.0 million (US$67.1 million) as debt to the Central Bank.

In addition, at December 31, 1999, the Government had obligations in the amount of approximately 23.8 billion colones (approximately US$79.7 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% of the outstanding domestic debt of the Government may be denominated in foreign currencies. As of December 31, 1999, all domestic debt of the Government that was not denominated in colones was denominated in U.S. dollars. 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 December 31, 1999, dollar denominated obligations of the Central Bank accounted for US$195.9 million, or 16.2%, of the Central Bank's total US$1,215.0 million domestic debt, based on Central Bank preliminary estimates.

The Central Bank and the Government hold auctions of BEMs and Treasury Bonds every Tuesday, 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 targets in the monetary program of the Central Bank.

In addition to sales at auction, on January 15, 1997 the Government began to place *Renta Real* (Real Income) bonds with public sector institutions. These bonds bear interest at a rate equal to the rate of inflation plus a spread ranging from 2% to 4% based upon the term of the bond. These bonds have been authorized and are issued as part of the Government's strategy to reduce interest payments on domestic public sector debt.

The aggregate principal amount of outstanding Government domestic bonds at December 31, 1999 was equivalent to approximately 31.3% of GDP, and interest payments in 1999 equivalent to approximately 4.3% of GDP and approximately 26.6% of tax revenues.

The following table summarizes the gross public sector domestic debt of the Government and Central Bank as at December 31 for each of the years 1995 through 1999.

Gross Domestic Debt (1)
(in millions of U.S. dollars)

	For the Year Ended December 31,				
	1995	1996	1997	1998	1999
Government bonds	$1,954.5	$2,706.5(2)	$2,795.7	$2,866.5	$3,620.7(3)
Other public institution bonds	30.3	21.8	23.8	21.3	19.3
Commercial bank bonds	20.2	17.9	16.1	14.4	13.0
BEMs(4)	640.5	194.1	650.0	619.8	1,215.0
Total	$2,645.5	$2,940.2	$3,485.7	$3,522.0	$4,868.0

(1) Only includes debt issued in the form of bonds.

(2) Includes joint auctions (US$351.6 million).

(3) Includes an aggregate of US$244.3 million of bonds denominated in dollars and an aggregate of US$604.2 million of bonds denominated in colones issued by the Government in October, 1999 in satisfaction of its obligations to the Central Bank under article 175 of the Organic Law of the Central Bank.

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

Source: Central Bank.

The following table summarizes the holdings of gross public sector domestic debt as at December 31 for each of the years 1995 through 1999.

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

	For the Year Ended December 31,				
	1995	1996	1997	1998	1999
Government bonds					
Central Bank	6.2%	4.6%	3.4%	2.9%	18.5%
Commercial banks	8.1	15.7	11.3	12.3	9.1
Public institutions	29.0	27.2	27.6	38.2	28.3
Internal private sector	27.2	39.7	30.3	25.4	19.1
External sector	3.4	4.9	7.6	3.4	2.5
Government bonds total	73.9	92.1	80.2	82.3	77.5
Central Bank bonds (BEMs)					
National banking system	7.0	4.7	4.7	1.8	4.1
Public institutions	1.5	0.2	3.6	5.5	5.5
Internal private sector	15.7	1.8	10.3	9.4	12.2
Central Bank bonds total	24.2	6.6	18.6	16.7	21.8
Other public institution bonds					
Central Bank	0.7	0.6	0.4	0.4	0.3
Commercial banks	0.1	0.1	0.1	0.1	0.0
Placements between institutions	0.1	0.0	0.2	0.1	0.1
Internal private sector	0.3	0.1	0.0	0.0	0.0
Non-financial public sector bonds total	1.1	0.7	0.7	0.6	0.4
Commercial bank bonds					
Placements between banks	0.8	0.6	0.5	0.4	0.3
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	0.8	0.6	0.5	0.4	0.3
Total	100%	100%	100%	100%	100%

Source: Central Bank.

The following table sets forth the aggregate principal amount of Costa Rican 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)

As of December 31,	Total		Colón Denominated Bonds		U.S. Dollar Denominated Debt	
1992	$ 954.7	100.0%	$ 954.7	100.0%	$ 0.0	0.0%
1993	1,205.7	100.0	1,205.7	100.0	0.0	0.0
1994	1,615.8	100.0	1,615.8	100.0	0.0	0.0
1995	1,964.6	100.0	1,785.8	90.9	178.8	9.1
1996	2,716.5	100.0	2,353.6	86.6	362.9	13.4
1997	2,807.0	100.0	2,268.0	80.8	539.0	19.2
1998	2,982.4	100.0	2,508.2	84.1	474.2	15.9
1999	3,620.7	100.0	2,911.0	80.4	709.7	19.6

Source: Ministry of Finance.

Historically, the Government and the Central Bank have 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,				
	1995	1996	1997	1998	1999
From 8 to 30 days	1.3%	2.5%	1.1%	0.4%	0.2%
From 31 to 90 days	19.3	14.0	8.2	8.4	2.9
From 91 to 180 days	29.0	31.7	26.7	15.3	8.3
From 181 to 360 days	19.1	11.5	13.9	18.5	11.7
From 361 to 720 days	3.9	2.7	4.4	5.9	9.7
From 721 to 1440 days	4.6	4.5	4.4	10.2	9.9
More than 1441 days	22.8	33.1	41.2	41.3	57.3
Total	100%	100%	100%	100%	100%

Source: Ministry of Finance.

External Debt

Gross public sector external debt increased by 6.4% to US$3,056.5 million at December 31, 1999 from US$2,872.4 million at December 31, 1998. This increase was primarily due to the issuance of the 1999 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 December 31, 1999, Costa Rica's public sector external debt was composed principally of obligations to multilateral organizations in the amount of approximately US$1,315.6 million, bonds and floating rate notes in an outstanding aggregate amount of US$955.9 million (primarily consisting of the 1998 Notes, the 1999 Notes and Brady bonds), and bilateral debt in the amount of US$740.6 million. Approximately 34.3% of the

public sector external debt is floating-rate debt. A majority (66.9%) of the public sector external debt was denominated in U.S. dollars at December 31, 1999. In addition, approximately 23.0% of the public sector external debt was denominated in the IDB unit of account and approximately 6.6% 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 1995 through 1999.

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

	As of December 31,				
	1995	1996	1997	1998	1999
Total gross public external debt	$3,258.6	$2,858.9	$2,640.2	$2,872.4	$3,056.5
Less: gross international reserves(1)	991.8	925.7	1,141.3	991.3	1,471.4
Other assets of the Central Bank(2)	293.8	300.2	283.4	284.4	298.1
Total public external debt, net of reserves	$2,266.8	$1,933.2	$1,498.9	$1,881.1	$1,585.1

(1) Represents international reserves of the Central Bank.
(2) Included in gross international reserves.
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 Brady bonds and multilateral organizations accounted for 83.6% of total gross public sector external debt outstanding at December 31, 1999. The IDB and the Central American Bank for Economic Integration ("CABEI") are currently Costa Rica's principal creditors, accounting in 1999 for 68.6% and 16.1%, respectively, of the debt owed to multilateral institutions.

The following table sets forth the total gross public sector external debt, by creditor and percentage of total, as of December 31 of each year from 1995 through 1999.

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

	As of December 31,									
	1995		1996		1997		1998		1999	
Multilateral										
IDB	$ 959.9	29.5%	$ 893.5	31.3%	$ 911.6	34.5%	$ 933.5	32.5%	$ 902.1	29.5%
World Bank	303.0	9.3	245.5	8.6	192.0	7.3	173.2	6.0	150.7	4.9
IMF	24.4	0.7	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CABEI(1)	150.8	4.6	147.6	5.2	173.4	6.6	206.9	7.2	211.2	6.9
Other	57.3	1.8	52.6	1.8	23.6	0.9	41.5	1.4	51.6	1.7
Total	1,495.4	45.9	1,339.9	46.9	1,300.6	49.3	1,355.1	47.2	1,315.6	43.0
Bilateral creditors										
Paris Club	832.7	25.6	662.9	23.2	558.3	21.1	514.5	17.9	484.8	15.9
Other	329.6	10.1	278.1	9.7	242.5	9.3	284.3	9.9	255.8	8.4
Total	1,162.3	35.7	941.0	32.9	800.8	30.3	798.8	27.8	740.6	24.2
Commercial banks	37.9	1.2	37.6	1.3	25.0	1.0	33.1	1.2	39.7	1.3
Bonds and floating rate notes(2)	557.8	17.1	536.9	18.8	510.8	19.3	679.0	23.6	955.9	31.3
Account payable	5.2	0.2	3.5	0.1	3.0	0.1	6.4	0.2	4.7	0.2
Total	$3,258.6	100%	$2,858.9	100%	$2,640.2	100%	$2,872.4	100%	$3,056.5	100%

(1) Central American Bank for Economic Integration.
(2) Includes Brady bonds.
Source: Central Bank.

The following table summarizes the amortization schedule of Costa Rica's consolidated public sector external debt for 1999 and the five years ended December 31, 2004, excluding interest payments on such debt.

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

	1999	2000	2001	2002	2003	2004
Multilateral organizations						
IDB	$ 87.6	$ 96.0	$112.6	$113.6	$113.1	$112.5
World Bank	34.4	29.1	24.8	21.9	18.6	17.2
CABEI	42.0	38.5	43.8	41.3	34.8	29.8
Others	6.5	3.2	6.1	7.7	6.4	6.5
Total	170.6	166.8	187.3	184.5	172.8	166.0
Bilateral creditors						
Paris Club	64.3	59.9	54.3	46.2	41.8	36.5
Others	62.8	150.8	48.4	38.4	21.8	21.2
Total	127.0	210.7	102.7	84.6	63.6	57.7
Commercial banks	14.6	14.9	4.9	24.7	4.7	4.5
Bonds and floating rate	23.2	17.5	27.9	27.9	227.9	26.1
Account payable	2.0	1.4	1.6	0.8	0.3	0.3
Total	$337.5	$411.3	$324.5	$322.5	$469.3	$254.6
Other bonds	50.0	0.0	0.0	0.0	0.0	0.0
Total	$387.5	$411.3	$324.5	$322.5	$469.3	$254.6

(1) Data for 2000-2004 were projected using spot exchanges rates of September 30, 1999.
Source: Central Bank.

The following table sets forth Costa Rica's total public sector external debt service for the years ended December 31, 1995 through December 31, 1999.

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

	For the Year Ended December 31,				
	1995	1996	1997	1998	1999
Interest payments	$195.5	$178.9	$171.2	$178.2	$200.3
Amortization	367.3	356.2	463.6	434.3	387.5
Total	$562.8	$535.1	$634.8	$612.5	587.8
Total external debt service/exports of goods and tourism earnings(%) (2)	14.1	12.3	14.6	11.1	8.9
Total external debt service/GDP(%)	6.2	5.8	6.5	5.8	5.1

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

(2) 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 December 31, 1999.

Summary of Public External Debt Denominated in Foreign Currency, by Currency(1)
(in millions of U.S. dollars, except percentages)

	1999	
	Amount(2)	Percentage
U.S. dollar	$2,044.3	66.9
IDB unit of account	701.7	23.0
Japanese yen	202.3	6.6
German mark	24.4	0.8
Swiss franc	15.5	0.5
Pound sterling	7.5	0.2
Canadian dollar	16.2	0.5
Dutch guilder	11.0	0.4
Spanish peseta	11.5	0.4
French franc	5.0	0.2
Special drawing rights	1.5	0.0
Other currencies	15.6	0.5
Total	$3,056.5	100%

(1) Data as of December 31, 1999.
(2) In currencies converted as of December 31, 1999.
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 is current in all its payments on public external debt since 1996. The following table sets forth Costa Rica's public external debt arrearages for the periods indicated.

Public External Debt Arrearages
(in millions of U.S. dollars)

	For the Year Ended December 31,				
	1995	1996	1997	1998	1999
Multilateral creditors	$14.2	$0.0	$0.0	$0.0	$0.0
Bilateral creditors	41.9	0.0	0.0	0.0	0.0
Commercial banks	1.0	0.0	0.0	0.0	0.0
Bonds	0.0	0.0	0.0	0.0	0.0
Suppliers	0.4	0.0	0.0	0.0	0.0
Total	$57.5	$0.0	$0.0	$0.0	$0.0

Source: Central Bank.

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 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% 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% 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 million was exchanged for Series A bonds and approximately US$303 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 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 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 million. In 1995, Costa Rica sought further restructuring of its debt. The IMF determined that Costa Rica was not eligible for further restructuring and fixed March 1996 for payment of all Paris Club obligations. Costa Rica made the required payments between January and March of 1996 and is current on all of its payments under the Paris Club Agreements.

IMF, World Bank and IDB Financial Support

During the 1980s, the IMF, the World Bank and the IDB 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 IDB 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 June 30, 2000, 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 does not involve the disbursement of funds. Instead, it requires 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 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 June 30, 2000, Costa Rica is current on all of its payments to the World Bank.

On June 6, 2000 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 must be approved by the Legislative Assembly prior to disbursement.

The IDB 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 35% of the

IDB's outstanding loans to Costa Rica at December 31, 1999. The remainder was concentrated in infrastructure, health and education.

The second tranche of a Public Sector Reform Loan and a Multisector Investment Loan (both extended in support of the SAP) in an aggregate amount of approximately US$58 million was disbursed in December 1997. On April 5, 2000, the Board of Directors of the IDB approved the disbursement of an additional US$58 million, consisting of the third tranche of the Public Reform Loan and the Multisector Investment Loan. The proceeds from this disbursement are being used to substitute domestic public debt. In addition, during 1997 the IDB approved a technical cooperation loan of US$12.7 million to support structural reforms and an educational loan of US$28.0 million to support preschool and junior high education.

Santa Elena Litigation

Compañía del Desarrollo de Santa Elena, S.A. ("Santa Elena") commenced an arbitration before the International Centre for Settlement of Investment Disputes ("ICSID") against the Republic in regard to an expropriation of real property in Costa Rica. Santa Elena's claims arose from Costa Rica's 1978 expropriation of real property belonging to Santa Elena for purposes of incorporating that property into a national park in Costa Rica. Santa Elena sought compensation in the amount of approximately US$42 million. The arbitration was conducted by a Tribunal constituted in accordance with the provisions of the ICSID Convention. On February 17, 2000, a final award was rendered against Costa Rica by the Tribunal in the amount of US$16 million. This award was satisfied in full by Costa Rica on March 1, 2000. Costa Rica had reserved US$15 million for payment of this settlement in its budget for fiscal year 2000. Costa Rica borrowed the remaining US$1 million from the Guanacaste Conservation Area which will be repaid through an extraordinary budget allocation in the 2000 fiscal year.

CLEARANCE AND SETTLEMENT

Arrangements have been made with each of DTC, Euroclear and Clearstream to facilitate initial issuance of the Global Notes. See "Description of the Notes — Global Notes." Transfers within DTC, Euroclear and Clearstream 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 will be effected in DTC through the respective depositaries of Euroclear and Clearstream.

Upon the issuance of the Regulation S Global Note and the Restricted Global Note, DTC or its custodian will credit, on its internal system, the respective principal amount of the individual beneficial interests represented by 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, 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 will hold omnibus positions on behalf of their participants through customers' securities accounts for Euroclear and Clearstream 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. The Chase Manhattan Bank, N.A., will act as depositary for Euroclear, and Citibank, N.A., will act as depositary for Clearstream.

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 have agreed to the following procedures in order to facilitate transfers of interests in the Regulation S Global Note and in the Restricted Global Note among participants of DTC, Euroclear and Clearstream, 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 or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Trading between Clearstream and/or Euroclear participants. Secondary market trading between Clearstream 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 or Euroclear purchaser. When interests are to be transferred from the account of a DTC Participant to the account of a Clearstream participant or a Euroclear participant, the purchaser will send instructions to Clearstream or Euroclear through a Clearstream or Euroclear participant, as the case may be, at least one business day prior to settlement. Clearstream or Euroclear will instruct its respective depositary to receive such interest against payment. Payment will include interest accrued on such beneficial interest in the Global Note from and including the last interest payment date to and excluding the settlement date. Payment will then be made by the depositary to the DTC Participant's account against delivery of the interest in the 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 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 the 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 or Euroclear cash debit will be valued instead as of the actual settlement date.

Clearstream 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 or Euroclear. Under this approach, such participants may take on credit exposure to Clearstream or Euroclear until the interests in the Global Note are credited to their accounts one day later.

As an alternative, if Clearstream or Euroclear has extended a line of credit to a Clearstream 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 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 the Global Note were credited to their accounts. However, interest on the Global Note would accrue from the value date. Therefore, in many cases the investment income on the interest in the 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 depositaries of Clearstream or Euroclear for the benefit of Clearstream 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 or Euroclear seller and DTC purchaser. Due to time zone differences in their favor, Clearstream 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 depositary, to a DTC Participant, as the case may be, at least one business day prior to settlement. In these cases, Clearstream or Euroclear will instruct its respective depositary to deliver the interest in the Global Note to the DTC Participant's account against payment. Payment will include interest accrued on such beneficial interest in the 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 participant or Euroclear participant the following day, and receipt of the cash proceeds in the Clearstream 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 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 or Euroclear participant's account would instead be valued as of the actual settlement date.

Finally, day traders that use Clearstream or Euroclear to purchase interests in a Global Note from DTC Participants for delivery to Clearstream 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 or Euroclear for one day (until the purchase side of the day trade is reflected in their Clearstream 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 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 participant or Euroclear participant.

The information in this section concerning DTC, Euroclear and Clearstream 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 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, 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 or by DTC, Euroclear or Clearstream 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 Direction 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 advisers 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 of 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 advisers 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 either (A) such gain or income is attributable to an office or other fixed place of business maintained in the United States by such holder or (B) 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 a 31 percent 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.

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 political subdivision thereof, 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), its possessions, territories and other areas subject to its jurisdiction.

SUBSCRIPTION AND SALE

Under the terms and subject to the conditions contained in a subscription agreement dated as of July 20, 2000 (the "Subscription Agreement") we have agreed to sell to Credit Suisse First Boston (Europe) Limited as the Lead Manager (the "Lead Manager" or "Credit Suisse First Boston") the following principal amounts of Notes:

Manager	Aggregate Principal Amount of Notes
Credit Suisse First Boston (Europe) Limited	$250,000,000
Total	$250,000,000

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 July 27, 2000 to the Closing Date.

A commission of US$1,875,000 will be paid to the Lead Manager by the Republic. Additionally, the Republic has agreed to indemnify the Lead Manager against liabilities, including liabilities under the Securities Act, or to contribute to payments the Lead Manager may be required to make in respect thereof.

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 of Costa Rica. 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 Act 1986 with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Credit Suisse First Boston 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 Credit Suisse First Boston 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 Credit Suisse First Boston 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 advisers 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 Notes made eligible for trading in PORTAL under the symbol RCRIFN20. The Notes are a new issue 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 the Restricted Global Note. Before any interest in the 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 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 White & Case 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 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 White & Case 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 the Regulation S Global Note accepted for clearance through Euroclear and Clearstream. The CUSIP numbers for the Regulation S Global Note and the Restricted Global Note are P3699PAA5 and 221597AF4, respectively. Application has also been made for the Regulation S Global Note and the Restricted Global Note to be accepted for clearance through the Euroclear and Clearstream clearance systems and the Notes have been accepted for clearance in such systems. The common codes for the Regulation S Global Note and the Restricted Global Note are 11499163 and 11498833, respectively, and the International Securities Identification Numbers (ISIN) for the Regulation S Global Note and the Restricted Global Note are USP3699PAA59 and US221597AF46 , respectively.

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