Costa Rica:
In Depth Coffee Report:

Key Economic Data

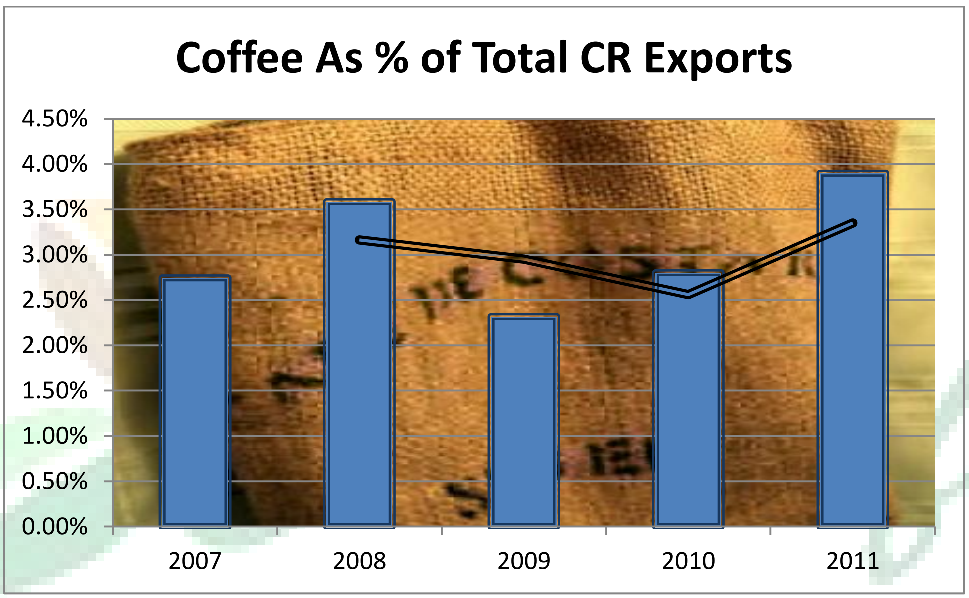
Coricafê

Costa Rica: Key Economic Data[1]

Prior to the global economic crisis, Costa Rica enjoyed stable economic growth. The economy contracted 0.7% in 2009, but resumed growth at more than 3% in 2010.

While the traditional agricultural exports of bananas, coffee, sugar, and beef are still the backbone of commodity export trade, a variety of industrial and specialized agricultural products have broadened export trade in recent years. High value added goods and services, including microchips, have further bolstered exports. Tourism continues to bring in foreign exchange, as Costa Rica's impressive biodiversity makes it a key destination for ecotourism.

Coffee exports have lost the preponderant role that they enjoyed in the past, and even at current prices they represent less than 4% of total.[2]



	2007	2008	2009	2010	2011
Total Exports	$ 9,343	$ 9,570	$ 8,676	$ 9,371	$ 8,469
Coffee	$ 256	$ 343	$ 201	$ 262	$ 330
%	2.74%	3.58%	2.32%	2.80%	3.90%

Data in Millions of US Dollars

Foreign investors remain attracted by the country's political stability and relatively high education levels, as well as the fiscal incentives offered in the free-trade zones; and Costa Rica has attracted one of the highest levels of foreign direct investment per capita in Latin America. Unlike the rest of Central America, Costa Rica is not highly dependent on remittances as they only represent less than 2% of GDP, compared with above 10% for Guatemala.

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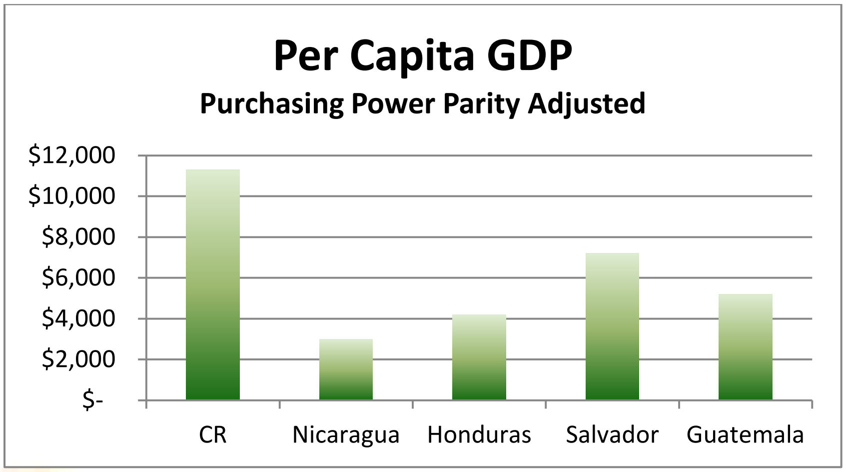
[1] Source for Economic Data CIA Factbook except when noted.

[2] Source Procomer. Export data to Nov 15, 2011. Given low relative exports for coffee in these months the total year should be slightly lower.

As the local economy has grown steadily, coffee production has fallen by more than 1/3 in the past decade. While this production drop can't be considered independent from international coffee prices, it also reflects the inability of the coffee sector to compete with the balance, more dynamic, sectors.

The following graph and data show the wide gap that exists between Costa Rica and its fellow Central American countries



	CR	Nicaragua	Honduras	Salvador	Guatemala
Per Capita GDP	$ 11,300	$ 3,000	$ 4,200	$ 7,200	$ 5,200
%GDP Agriculture	6.5%	18.5%	12.50%	11.3%	13.2%
% Labor in Agriculture	14%	28%	39%	19%	50%
% Population in Poverty	16%	48%	65%	38%	56%

A review of the same data for the largest producing countries (Brazil, Vietnam and Colombia) and Mexico reveals a similar pattern:

	CR	Colombia	Brazil	Mexico	Vietnam
Per Capita GDP	$ 11,300	$ 9,800	$ 10,800	$ 13,900	$ 3,100
%GDP Agriculture	6.5%	9.2%	5.8%	3.9%	20.6%
% Labor in Agriculture	14%	18%	20%	14%	54%
% Population in Poverty	16%	46%	26%	47%	10.60%

In summary, when compared with Mexico and Central America and the 3 largest coffee producers Costa Rica's Per Capita GDP ranks second only to Mexico, with whom it also ties for lowest percentage of people devoted to agriculture. The share of agriculture within the GDP ranks third, being lower only in the much larger and diversified economies of Brazil and Mexico, while only in Vietnam the percentage of population below the defined poverty level is lower.

The long term issue of how to sustain coffee production, traditionally a third world crop, in the face of the potential economic development of a producing nation remains a big question. During the past two decades it was solved by shifting a significant percentage of world production to a lower income country: Vietnam, or in the case of Brazil by adopting a much more capital intensive way of production. Other countries like Costa Rica and Colombia faced a sharp drop of their crops.

Currency

Like many other producing countries, Costa Rica has suffered from the appreciation of its currency.

Until 2007, and for approximately 20 years, the Central Bank had followed a policy of constant sliding of the exchange rate, in order to keep the competitiveness of costarrican exports. In theory the currency was supposed to devaluate the difference between local inflation and the inflation of the major commercial counterparts of the country. This system resulted in a predictable and steady devaluation of the colon that helped exports.

However in 2007 this system was replaced by what was supposed to be a dirty float, within previously defined bands. The result was an immediate 4% revaluation of the currency (520 to 500), followed by a steady decline until the world financial crisis pushed the exchange rate up to a high of 590 by Sep 2009. From there on the colon has been under steady pressure, despite constant purchases of dollars by the Central Bank as the exchange rate remains in the lower band.

As a result of this revaluation the colon is basically at the same exchange rate than at the end of 2005. Cumulative inflation for the same period of time is 52%. The impact of this disparity will show clearly later when we analyze costs of production.

Costa Rica Colon Exchange Rate Chart
Colones per US Dollar[3]

[3] Source Reuters