COSTA RICA

Costa Rica’s economic freedom score is 66.5, making its economy the 45th freest in the 2023 Index. Its score is 1.1 points higher than last year. Costa Rica is ranked 8th out of 32 countries in the Americas region, and its overall score is higher than the global and regional averages.

All four pillars of economic freedom are relatively well maintained, although the rule of law could be strengthened. The court system is transparent but also inefficient, and enforcement of property rights can be weak. The trade regime is open, but bureaucracy continues to discourage more dynamic entrepreneurial activity.

BACKGROUND: The most prosperous Central American Common Market country and Central America’s oldest democracy, Costa Rica has a long history of stability and one of Latin America’s highest levels of foreign direct investment per capita. Rodrigo Chaves Robles, elected president in 2022 on a centrist anticorruption platform, has pursued policies designed to reduce regulatory burdens and eliminate state-regulated food prices and has initiated the process for entry into the Pacific Alliance trade bloc. Costa Rica is part of China’s Belt and Road Initiative and the first Central American country to enter the OECD. It has welcomed more than 150,000 Nicaraguan refugees.
The overall rule of law is relatively well respected in Costa Rica. The country’s property rights score is above the world average; its judicial effectiveness score is above the world average; and its government integrity score is above the world average.

Although licensing requirements have been reduced, procedures for launching a business remain cumbersome and time-consuming. Rules on work hours are quite flexible, but the non-salary cost of employing a worker remains high. The most recent available inflation rate is 1.7 percent.

The top individual and corporate tax rates are, respectively, 25 percent and 30 percent. The tax burden equals 22.9 percent of GDP. Three-year government spending and budget balance averages are, respectively, 21.7 percent and –6.8 percent of GDP. Public debt equals 68.2 percent of GDP.

The trade-weighted average tariff rate is 5.2 percent, and more than 60 nontariff measures are in force. The government restricts investment in some sectors. The central bank responded to the pandemic by reducing state-owned banks’ preferential interest rates and easing regulations on loan restructuring.