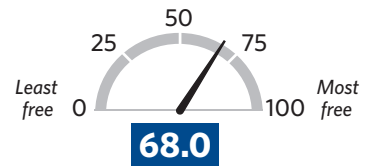




COSTA RICA

Economic Freedom Score



World Rank: **44**

Regional Rank: **7**

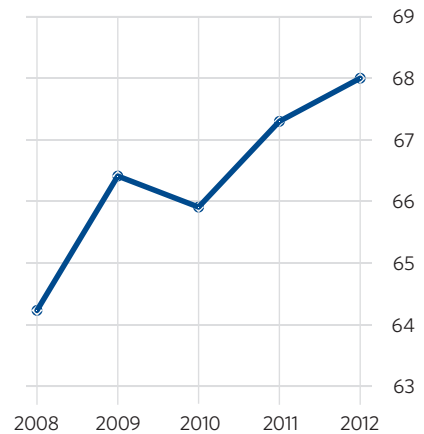
Costa Rica's economic freedom score is 68.0, making its economy the 44th freest in the 2012 *Index*. Its overall score is 0.7 point higher than last year, reflecting small increases in four of the 10 economic freedoms including monetary freedom and labor freedom. Costa Rica is ranked 7th out of 29 countries in the South and Central America/Caribbean region, and its overall score is higher than the global and regional averages.

Costa Rica's economic rebound has gained some momentum and become more broad-based. The trade regime is more open, and management of public finances is relatively sound. Costa Rica has taken measures to improve financial-sector freedom by consolidating private banks, easing procedures for the operations of foreign banks, and introducing a new development bank structure.

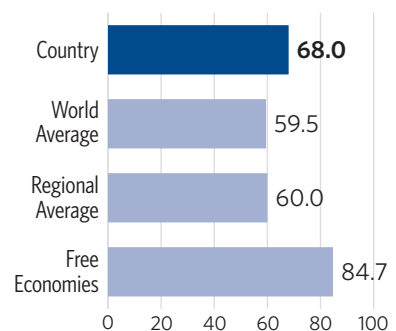
In fact, all four pillars of economic freedom are relatively well maintained in Costa Rica, although the rule of law shows some signs of vulnerability. The court system, while transparent and not corrupt, is inefficient, and enforcement of property rights can be weak. Progress in enhancing the effectiveness of government has been uneven. Excessive and inefficient bureaucracy discourages dynamic entrepreneurial activity, and privatization and fiscal reform have lagged.

BACKGROUND: Costa Rica has a strong democratic tradition, and per capita income is high by regional standards. However, former President Oscar Arias left the government's fiscal accounts in shambles, increasing public spending to 20 percent of GDP and running up one of the largest deficits in Latin America—5.2 percent of GDP. President Laura Chinchilla, a social democrat elected in 2010, promised improved infrastructure, tax code reforms, and “green” jobs, but the government is broke. It also has faced a border dispute with Nicaragua and growing crime. A traditional producer of bananas, pineapples, and coffee, Costa Rica has benefited more recently from manufacturing investments in electronics and health care. The Central America–Dominican Republic–United States Free Trade Agreement entered into force in 2009.

Freedom Trend



Country Comparisons



Quick Facts

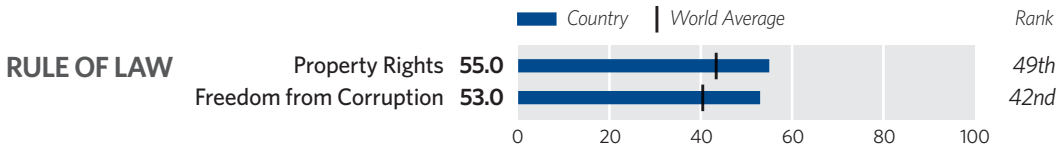
Population: 4.6 million
GDP (PPP): \$51.2 billion
 4.2% growth in 2010
 5-year compound annual growth 4.4%
 \$11,216 per capita
Unemployment: 7.3%
Inflation (CPI): 5.7%
FDI Inflow: \$1.4 billion
Public Debt: 29.6% of GDP

How Do We Measure Economic Freedom?

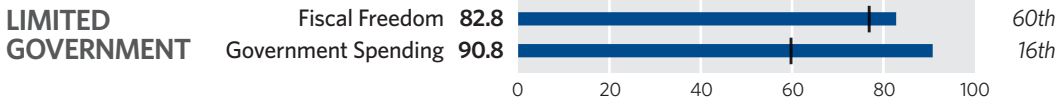
See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

2010 data unless otherwise noted.
 Data compiled as of September 2011.

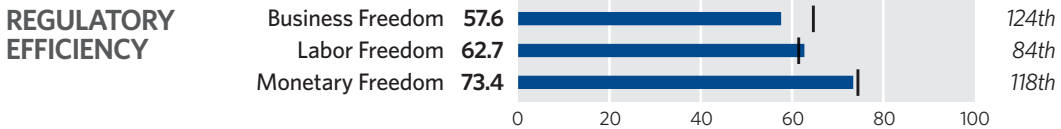
THE TEN ECONOMIC FREEDOMS



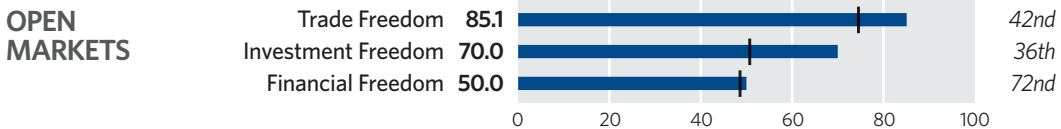
Property rights are secure, and contracts are generally upheld. However, the judicial system can be slow and complicated. Resolving a contract-related legal complaint remains a time-consuming process. Enforcement of intellectual property rights is often ineffective. Government has limited capacity to enforce anti-corruption laws, and allegations of lower-level corruption are common.



The top income tax rate is 25 percent, and the top corporate tax rate is 30 percent. Other taxes include a general sales tax and a real property tax, with the overall tax burden equal to 13.8 percent of total domestic income. Government spending is equivalent to 17.5 percent of total domestic output. Public debt remains low at below 30 percent of GDP, although budget deficits have been widening in recent years.



Although licensing requirements have been reduced, procedures for launching a business remain cumbersome and time-consuming. Starting a business still takes more than the world averages of 30 days and seven procedures. Despite some progress, labor regulations remain rigid. Rules on work hours are flexible, but the non-salary cost of employing a worker remains high. Inflationary pressure persists, and the government maintains price controls.



The trade weighted tariff rate is quite low at 2.4 percent, but non-tariff barriers continue to add to the cost of trade. The investment regime is relatively transparent, with foreign and domestic investors generally treated equally. No restrictions on the holding of foreign exchange accounts are imposed. The growing financial sector functions relatively well, with three state-owned banks dominating the banking sector.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.5	Business Freedom	-0.6	Trade Freedom	-0.1
Freedom from Corruption	0	Government Spending	+3.9	Labor Freedom	+0.6	Investment Freedom	0
				Monetary Freedom	+2.7	Financial Freedom	0