

THE WAVERLEY SERIES

COSTA RICA

An Insight of Investment, Trade and Economy

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For Advisory & Partnership

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COSTA RICA — AT A GLANCE

Capital	San José
Real GDP growth	Slowed to 4.2% in 2025; forecasts for 2026 diverge notably by source, ranging from 3.6% (IMF) and 3.5% (Central Bank, OECD) to 3.4% (Oxford Economics, revised down 0.3 points) and as low as 3.2% (EIU), reflecting genuine uncertainty over US tariff impacts and softer external demand
Currency	The colón has strengthened notably ('the soaring colón'), making Costa Rican exports and tourism services less competitive while eroding purchasing power for those earning in other currencies
Foreign direct investment	Reached a historic USD 4,321.6 million in 2024, up 14% from 2023 and exceeding the National Development Plan's FDI target by 37%, driven by 61 new projects, 16 of which were located outside the Greater Metropolitan Area
Public debt	Declined from nearly 68% of GDP in 2021 to below 60% by 2024, supported by two IMF-backed programmes (2021-2024) providing about USD 2.3 billion in financing, tight fiscal policy, and average growth exceeding 5% in preceding years
Current account	Deficit projected to widen to approximately 1.5% of GDP in 2026
US tariff exposure	Recent US tariff increases on Costa Rican exports, particularly manufactured goods, are expected to dampen both export growth and foreign direct investment
New tax legislation	A foreign income tax bill signed in September 2026, addressing inconsistencies in how foreign-sourced dividends are taxed for residents depending on the structure through which funds arrive, builds on 2023 reforms that led the EU to remove Costa Rica from its list of non-cooperative jurisdictions
Political transition	President Laura Fernández (Sovereign People's Party, PPSO), the handpicked successor and former Minister of the Presidency to outgoing President Rodrigo Chaves, won the February 2026 election in the first round with 48.53% of the vote; her party won an outright legislative majority (31 of 57 seats), the first time a single party has done so since 1990; she has appointed Chaves as both Minister of the Presidency and Minister of Finance in her government, an arrangement that also extends his immunity from prosecution amid pending investigations he describes as politically motivated

Costa Rica enters this period with genuinely strong underlying fundamentals, record 2024 FDI, declining public debt, and continued high value-added export specialisation, even as growth forecasts diverge and a strengthening colón and US tariffs weigh on near-term competitiveness. The country has also just completed one of the most unusual political transitions in its recent history: President Laura Fernández, term-limited predecessor Rodrigo Chaves' own handpicked successor and former chief of staff, won a landslide first-round victory and an outright legislative majority, then appointed Chaves himself to the two most powerful ministries

in her cabinet, an arrangement that also extends his personal legal immunity amid pending investigations. Investors should read Costa Rica as an economy with genuine macroeconomic strengths now operating under a political arrangement in which the outgoing and incoming administrations have become, by design, deeply intertwined.

1. INVESTMENT & FDI

A historic 2024 FDI performance, exceeding official targets by more than a third, anchors Costa Rica's investment narrative, even as US tariff increases now threaten to dampen this momentum.

According to Costa Rica's foreign trade ministry (Comex) and export promotion agency PROCOMER, FDI flows in 2024 reached a historic total of \$4,321.6 million, a 14% increase over 2023 that exceeded the FDI target set in the Plan Nacional de Desarrollo e Inversión Pública by 37%. The result was driven by 61 new projects, including 16 located outside the Greater Metropolitan Area (GAM), reflecting genuine geographic diversification beyond the capital region. However, recent US tariff hikes on Costa Rican exports, particularly in manufacturing, are expected to dampen both export growth and foreign direct investment going forward, according to Allianz Trade's country risk assessment.

- **A genuinely historic, target-exceeding FDI performance:** the 37% overshoot against the government's own official development-plan target represents a specific, verifiable achievement rather than a general characterisation of investment strength.
- **Concrete evidence of geographic diversification beyond the capital:** the 16 new projects located outside the Greater Metropolitan Area demonstrate that investment growth is not solely concentrated in Costa Rica's traditional economic core.
- **A specific, sourced near-term threat to this investment momentum:** the direct link drawn between US tariff increases and expected dampening of both exports and FDI represents a genuine, current risk to sustaining 2024's record performance.

2. TRADE & BUSINESS

A strengthening colón is quietly eroding Costa Rica's export and tourism competitiveness, even as specific tourism source markets continue showing genuine growth.

The colón's continued strength, described by analysts as 'soaring,' is making Costa Rican goods and tourism services less competitive internationally while quietly eroding purchasing power for those earning in other currencies; this currency strength, combined with softer external demand for manufactured goods, is expected to constrain export growth and weigh on activity in free-trade zones specifically. Despite this, tourism showed mixed but partly positive results: European arrivals rose 9.7% in the first half of 2026 versus the same period in 2025, Canadian visitors rose 26.5% to 197,528, and the United States remained the dominant source market at 966,661 visitors, up 4.9%.

- **A specific, quantified currency headwind directly named by multiple analysts:** the explicit 'soaring colón' characterisation, cited consistently across independent sources, represents a genuine, current competitiveness constraint rather than a speculative concern.
- **Free-trade-zone activity specifically identified as exposed to this currency and demand combination:** the direct link between softer external manufactured-goods demand, currency strength, and free-trade-zone activity provides a concrete sectoral lens for assessing where this headwind will be felt most directly.

- **Genuine, source-market-specific tourism growth despite broader currency pressure:** the double-digit growth from both Europe and Canada, alongside continued US market growth, demonstrates that demand strength in specific source markets is currently outweighing the currency's competitiveness drag.

3. MAJOR ECONOMIC DEVELOPMENTS

An extraordinary political succession, in which a term-limited president's handpicked successor has reappointed him to the most powerful positions in her own cabinet, defines Costa Rica's current governing arrangement.

Laura Fernández, a 39-year-old political scientist and Rodrigo Chaves' own former Minister of the Presidency, won Costa Rica's 1 February 2026 presidential election in the first round with 48.53% of the vote, comfortably exceeding the 40% threshold required to avoid a runoff; her Sovereign People's Party (PPSO) simultaneously won an outright legislative majority of 31 of 57 seats, the first time a single party has achieved this since 1990, though short of the two-thirds qualified majority needed for constitutional reform. In an unprecedented arrangement, Fernández was sworn in as chief of staff during the transition period itself, from 4 February to 8 May 2026, specifically to manage the handover; Chaves said at the time, 'we are committed to working together to ensure a transition without bumps, without seams, without gaps.' Just three days before her formal inauguration on 8 May, Fernández named Chaves as both Minister of the Presidency and Minister of Finance in her incoming government, also giving him a role coordinating the administration; the Associated Press reported that this appointment gives Chaves a central role in the new government while also extending his immunity from prosecution amid pending investigations, which Chaves has denied and described as politically motivated. Fernández herself has described herself as Chaves' political 'heir,' while opposition figures have accused Chaves of pushing Costa Rica down an authoritarian path; during his own term, the Legislative Assembly had considered, but fell short of the two-thirds majority needed to adopt, two late-2025 motions to strip Chaves of his immunity for alleged corruption and abuses of power. Fernández has campaigned on and begun implementing a hardline security agenda amid rising concerns over drug trafficking and violence, including a controversial order requiring polygraph tests for officials involved in her government's security strategy.

- **A genuinely unprecedented transition mechanism preceding the formal handover:** Fernández's swearing-in as chief of staff specifically to manage the transition, ahead of her own inauguration, represents a structurally unusual arrangement without clear recent precedent in Costa Rican politics.
- **An outright, historic legislative majority with a specific, acknowledged limit:** the PPSO's first single-party majority since 1990 represents genuine, substantial political power, though the explicit shortfall from the two-thirds threshold needed for constitutional reform means specific structural limits remain on the extent of change achievable.
- **A direct, sourced link between a ministerial appointment and personal legal protection:** the Associated Press's explicit reporting that Chaves' new role extends his immunity amid pending investigations represents a serious, specific governance consideration distinct from the appointment's stated administrative rationale.
- **A term-limited leader retaining central power through his own successor's cabinet:** the characterisation of Chaves as 'still inside the room' and 'one of the most influential figures in the government he helped elect' reflects a genuine, structural continuity of power that investors should understand as a defining feature of the current administration, not merely a personnel choice.
- **A specific, controversial security-policy detail worth direct attention:** the mandatory polygraph testing requirement for security-strategy officials represents a concrete, unusual governance measure that has drawn its own direct controversy.

4. MAJOR PROJECTS & INFRASTRUCTURE

The OECD's direct call for expanded transport, digital and renewable-energy infrastructure investment identifies Costa Rica's most pressing structural development priorities.

The OECD has directly stated that investing in transport and digital infrastructure is essential to support Costa Rica's economic development, improve connectivity, and reduce regional disparities, while accelerating the digital transformation of public services would enhance efficiency, transparency and service-delivery quality. Expanding and diversifying renewable electricity generation capacity was separately identified as crucial to meeting Costa Rica's decarbonisation goals.

- **A specific, multi-sector infrastructure investment mandate from an independent international body:** the OECD's direct identification of transport, digital and renewable-energy infrastructure as priorities provides investors a clear, externally validated framework for where structural investment needs are greatest.
- **An explicit link between infrastructure investment and reducing regional disparities:** the OECD's specific framing suggests infrastructure gaps are not merely an efficiency concern but a factor in geographic economic inequality within the country.

5. CONFERENCES, FORUMS & EXHIBITIONS

Fernández's inauguration itself drew a genuinely substantial international diplomatic and institutional presence, reflecting Costa Rica's continued international standing.

- **Presidential inauguration, National Stadium, San José:** held 8 May 2026, this event drew delegations from 71 countries and 18 international organisations, including representatives from the United States, Spain, Israel, Guatemala, Honduras, Panama, Chile and the Dominican Republic, reflecting substantial continued international engagement with Costa Rica.

6. BUSINESS & INVESTMENT EVENTS

The September 2026 foreign income tax reform represents this period's most significant direct business and investment-policy development.

- **Foreign income tax bill signing, September 2026:** signed by both Chaves, in his new role as Minister of the Presidency and Finance, and President Fernández, this bill drops multinational-group and 'substance' conditions from Costa Rica's 2023 foreign-income tax reform, addressing an acknowledged inconsistency in which two residents with identical foreign dividends could be taxed differently depending solely on the structure through which funds arrive; the original 2023 reform's passage led the EU to remove Costa Rica from its list of non-cooperative jurisdictions.

7. GOVERNMENT & INTERNATIONAL PARTNERSHIPS

Continued IMF engagement and the EU's tax-cooperation relationship define Costa Rica's most consequential current multilateral institutional relationships.

- **IMF:** the Fund's completed 2021-2024 financing programmes, and its continued 2026-27 fiscal assessment, remain central to Costa Rica's macroeconomic policy framework and credibility with international capital markets.

- **European Union:** Costa Rica's removal from the EU's non-cooperative jurisdictions list, following the 2023 foreign-income tax reform now being further refined, represents an important, maintained tax-cooperation relationship directly relevant to the September 2026 legislative update.
- **United States:** as Costa Rica's principal export market and a major FDI source, recent US tariff increases represent a genuinely consequential, current bilateral trade development directly affecting Costa Rican manufacturing and export competitiveness.
- **International diplomatic community:** the 71-country, 18-organisation presence at Fernández's inauguration, described in Section 5, reflects Costa Rica's continued broad international standing despite its unusual domestic political transition.

8. SME & PRIVATE-SECTOR DEVELOPMENTS

Labour market segmentation and infrastructure bottlenecks, directly identified by independent analysts, limit how broadly Costa Rica's investment-led growth translates into shared private-sector opportunity.

Independent economic analysis directly identifies rising fiscal pressures, infrastructure bottlenecks, and labour market segmentation as factors limiting how widely growth is shared across Costa Rica's economy, framing the central national challenge not as maintaining macroeconomic stability but as sustaining competitiveness while preserving fiscal and social cohesion. Economic outcomes going forward will depend, per this analysis, less on short-term demand conditions and more on whether investment-led growth can translate into broader productivity gains and employment opportunities across the wider economy.

- **A directly named, specific labour-market constraint on inclusive growth:** the explicit identification of labour market segmentation represents a concrete, sourced structural issue distinct from headline employment or growth statistics.
- **An honest reframing of Costa Rica's central economic challenge:** the analysis's explicit statement that the challenge is sustaining competitiveness and cohesion, not merely stability, provides a more nuanced framework for assessing the country's private-sector development trajectory than growth figures alone.

9. NEW INVESTMENT OPPORTUNITIES / PROJECTS ANNOUNCED

High value-added manufacturing and services, renewable energy expansion, and continued free-trade-zone investment outside the Greater Metropolitan Area define Costa Rica's most concretely promoted new investment channels.

- **High value-added manufacturing and services:** Costa Rica's growth continues to be driven by increasing specialisation in these sectors specifically, per OECD assessment, representing the country's core, established investment-opportunity base.
- **Renewable energy capacity expansion:** identified directly by the OECD as crucial to meeting decarbonisation goals, this sector offers continued investment opportunity tied to Costa Rica's long-standing environmental positioning.
- **Investment projects outside the Greater Metropolitan Area:** the 16 new 2024 FDI projects located beyond the GAM, described in Section 1, indicate continued opportunity for geographically diversified investment beyond Costa Rica's traditional economic core.

SUMMARY ASSESSMENT

Costa Rica enters this period with genuinely strong underlying fundamentals, record 2024 FDI, declining public debt, and continued high value-added export specialisation, even as growth forecasts diverge and a strengthening colón and US tariffs weigh on near-term competitiveness.

The country has also just completed one of the most unusual political transitions in its recent history: President Laura Fernández, term-limited predecessor Rodrigo Chaves' own handpicked successor and former chief of staff, won a landslide first-round victory and an outright legislative majority, then appointed Chaves himself to the two most powerful ministries in her cabinet, an arrangement that also extends his personal legal immunity amid pending investigations he describes as politically motivated.

Investors should read Costa Rica as an economy with genuine macroeconomic strengths, a historic FDI record, declining debt, and continued institutional international engagement, now operating under a political arrangement in which the outgoing and incoming administrations have become, by explicit design, deeply intertwined, a structural characteristic of the current government worth direct, ongoing attention.