

EQUATORIAL GUINEA

World Rank: **157**

Regional Rank: **37**

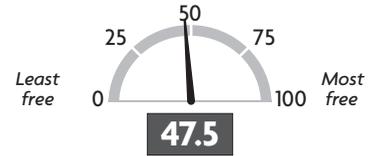
Equatorial Guinea's economic freedom score is 47.5, making its economy the 157th freest in the 2011 *Index*. Its overall score fell 1.1 points, driven by deteriorating scores for monetary freedom, government spending, business freedom, and labor freedom. Equatorial Guinea is ranked 37th out of 46 countries in the Sub-Saharan Africa region, and its score is below the regional and world averages.

Privatization and liberalization half-measures have led to only marginal economic and investment growth. The oil sector has been the major source of high economic growth over the past five years. Overall economic development has been uneven, and poverty remains daunting. Improving the investment and business climate remains an urgent priority.

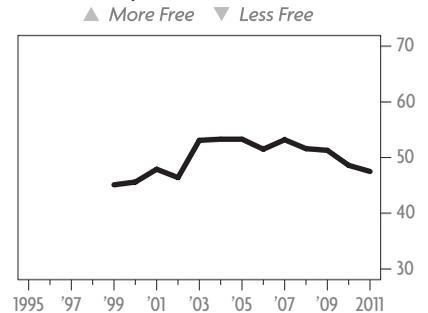
Persistent institutional weaknesses impede creation of a more vibrant private sector. Pervasive corruption and onerous regulations are major hurdles for foreign and domestic investment. The rule of law is weak, and private property is vulnerable to bureaucratic interference and even expropriation. Restrictive labor laws hamper employment and productivity growth. More than half of the workforce is estimated to work in the shadow economy.

BACKGROUND: Equatorial Guinea, though small, is now sub-Saharan Africa's third-largest oil producer and one of Africa's fastest-growing economies. One-party rule ended in 1991, but opposition parties have won few victories. President Teodoro Obiang Nguema Mbasogo seized power in a 1979 coup, won deeply flawed elections in 2002 and 2009, and still tightly controls both the military and the government. Oil accounted for 91 percent of GDP, 91 percent of government revenue, and 99 percent of exports in 2007. Government management of the country's oil wealth, however, is not transparent, and average living standards are low. Most people still rely on subsistence farming, hunting, and fishing.

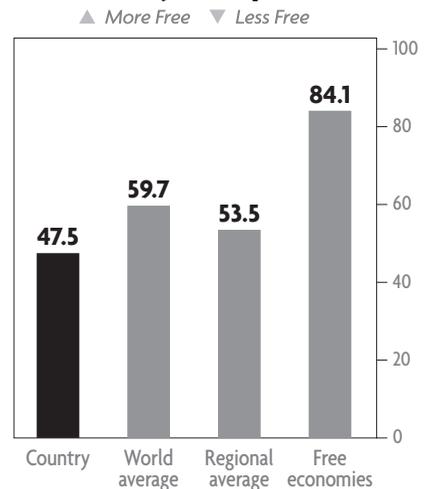
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Quick Facts

Population: 0.7 million
GDP (PPP): \$23.7 billion
 5.3% growth in 2009
 9.4% 5-year compound annual growth
 \$33,873 per capita
Unemployment: n/a
Inflation (CPI): 5.9%
FDI Inflow: \$1.3 billion

How Do We Measure Economic Freedom?

See page 447 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

2009 data unless otherwise noted.
 Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: 44.2 - 0.6

Equatorial Guinea’s burdensome regulatory environment impedes the overall freedom to conduct business. Lingering constraints include cumbersome administrative procedures, relatively high costs of complying with licensing requirements, and other institutional deficiencies such as corruption and a weak judicial system.

TRADE FREEDOM: 58.9 *no change*

Equatorial Guinea’s weighted average tariff rate was 15.5 percent in 2007. Burdensome and corrupt customs, extensive and non-transparent regulations, inadequate infrastructure, export licenses for timber and cocoa, and government subsidies of cocoa and other exports add to the cost of trade. Ten points were deducted from Equatorial Guinea’s trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: 75.5 *no change*

Equatorial Guinea has relatively high tax rates. The top income and corporate tax rates are 35 percent. Other taxes include a value-added tax (VAT) and a tax on inheritance. In the most recent year, overall tax revenue as a percentage of GDP was only 0.9 percent.

GOVERNMENT SPENDING: 80.5 - 3.4

The government is involved in telecommunications, electricity, and oil. In the most recent year, total government expenditures, including consumption and transfer payments, increased to 25.5 percent of GDP. A major dip in oil revenues dropped the budget surplus significantly from 22 percent of GDP to 6.9 percent of GDP.

MONETARY FREEDOM: 74.4 - 6.5

Inflation has been rising, averaging 6 percent between 2007 and 2009. The regional Banque des Etats de l’Afrique Centrale (BEAC) prioritizes control of inflation and maintenance of the CFA franc’s peg to the euro. Nevertheless, inflation has been consistently higher in Equatorial Guinea than in other Franc Zone countries over the past 10 years. The government sets the price of electricity and subsidizes electricity and cocoa production. Ten points were deducted from Equatorial Guinea’s monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM: 20 *no change*

The government welcomes foreign investment, but complex bureaucracy and non-transparent regulations, underdeveloped markets, insufficiently qualified staff, poor data, corruption, and lax or arbitrary enforcement of investment laws are serious impediments. Foreign investment is not screened, and foreign equity ownership is not subject to limitation, although additional advantages can be gained by having a national majority partner. Residents and non-residents may hold foreign exchange accounts, subject to approval. Capital transactions, payments, and transfers to countries other than France, Monaco, and regional partners are subject to restrictions. Foreign investors are allowed to repatriate their profits.

COUNTRY’S WORLD RANKINGS

Business Freedom	No. 149	Investment Freedom	No. 152
Trade Freedom	No. 163	Financial Freedom	No. 106
Fiscal Freedom	No. 104	Property Rights	No. 146
Government Spending	No. 52	Freedom from Corruption	No. 170
Monetary Freedom	No. 96	Labor Freedom	No. 152

FINANCIAL FREEDOM: 40 *no change*

Equatorial Guinea’s underdeveloped financial system remains dominated by the banking sector, which has expanded as a result of high economic growth. However, the high costs of finance and limited access to credit instruments hinder entrepreneurial activities. Compliance with banking regulations is mixed, but non-performing loans have declined to around 10 percent of total loans. The insurance sector is very small, consisting of three insurance companies and one reinsurance company. Equatorial Guinea, a member of the Central African Economic and Monetary Community (CEMAC), has no stock exchange or securities market. Capital transfers within the CEMAC region are unrestricted, but there are restrictions on capital accounts transactions with other countries.

PROPERTY RIGHTS: 20 *no change*

Application of the laws is selective. Some government officials have attempted to extort money from foreign companies by threatening to take away concessions, and the judicial system is open to political influence. Equatorial Guinea is a member of OHADA (Organisation pour l’Harmonisation en Afrique du Droit des Affaires), a regional organization that trains judges and lawyers to help reform the enforcement of contracts. Enforcement of intellectual property rights is weak.

FREEDOM FROM CORRUPTION: 18 + 1.0

Corruption is perceived as rampant. Equatorial Guinea ranks 168th out of 180 countries in Transparency International’s Corruption Perceptions Index for 2009. Cronyism and corruption among officials is pervasive, particularly in connection with the oil sector, and many business deals are concluded under non-transparent circumstances. Transparency International has accused President Obiang of spending public funds on expensive cars and luxury homes for himself while his fellow citizens struggle to feed their families.

LABOR FREEDOM: 43.1 - 1.7

The state remains actively involved in most economic activity and hampers the development of an entrepreneurial private sector. In the absence of private-sector employment opportunities, an efficient labor market has not emerged. Existing labor regulations are outmoded and create challenging hurdles to businesses trying to innovate or raise productivity.