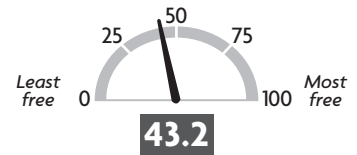


REPUBLIC OF CONGO

Economic Freedom Score



World Rank: **169**

Regional Rank: **43**

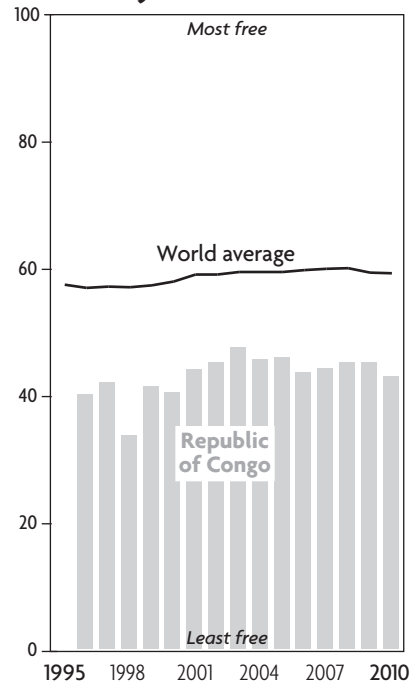
The Republic of Congo's economic freedom score is 43.2, making its economy the 169th freest in the 2010 *Index*. Its overall score has dropped 2.2 points from last year, due largely to declining scores for government spending and investment freedom. Congo is ranked 43rd out of 46 countries in the Sub-Saharan Africa region, and its overall score is much lower than the global and regional averages.

The Congolese economy, long afflicted with structural problems that severely undermine the development of a more dynamic private sector, lags in productivity growth. Entrepreneurs face extensive state controls that persist from the country's period of state socialism. At the same time, the government has failed to provide basic public goods and infrastructure.

The economy achieved marginal improvement in trade freedom, but it scores poorly in investment freedom, financial freedom, property rights, and labor freedom. Foreign investment restrictions, domestic regulations, and an inflexible labor market create a hostile business climate. The worst barrier to economic development is a profound lack of property rights, exacerbated by pervasive corruption.

BACKGROUND: Congo has endured internal conflict and coups since becoming independent in 1960. After seizing power in 1979, President Denis Sassou-Nguesso governed the country as a Marxist-Leninist state before moderating economic policy and making the transition to multi-party democracy in 1992. Sassou-Nguesso lost the 1992 election to Pascal Lissouba. Then, backed by Angolan troops, he again seized power following a 1997 civil war, won a flawed 2002 election, and was re-elected in July 2009. The 2003 and 2007 peace agreements with rebel groups have curtailed unrest in the Pool region, but many of the rebels have turned to banditry and criminality. Although most Congolese are engaged in agriculture, oil accounted for about 65 percent of GDP, over 90 percent of exports, and 85 percent of government revenue in 2008.

Country's Score Over Time



Quick Facts

Population: 3.6 million

GDP (PPP): \$14.3 billion

5.6% growth in 2008

4.4% 5-year compound annual growth

\$3,946 per capita

Unemployment: n/a

Inflation (CPI): 6.0%

FDI Inflow: \$2.6 billion

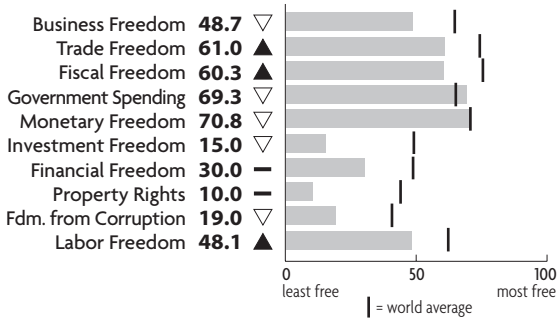
2008 data unless otherwise noted

Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

REPUBLIC OF CONGO'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 48.7

The overall freedom to start, operate, and close a business is seriously limited by Congo's regulatory environment. Starting a business takes about the world average of 35 days. The cost of launching a business is high, and closing a business is relatively easy but costly.

TRADE FREEDOM — 61

Congo's weighted average tariff rate was 14.5 percent in 2007. Import and export quotas, restrictive import licensing rules, burdensome and non-transparent bureaucracy, government export-promotion programs, an inefficient customs service, and corruption add to the cost of trade. Ten points were deducted from Congo's trade freedom score to adjust for non-tariff barriers.

FISCAL FREEDOM — 60.3

Congo has high tax rates. The top income tax rate is 50 percent, and the top corporate tax rate is 38 percent. Other taxes include a value-added tax (VAT), a tax on rental values, and an apprenticeship tax. In the most recent year, overall tax revenue as a percentage of GDP was 5.4 percent.

GOVERNMENT SPENDING — 69.3

Total government expenditures, including consumption and transfer payments, are moderate. In the most recent year, government spending equaled 32.0 percent of GDP. The government has agreed to implement public-sector reforms aimed at stronger, more transparent fiscal management, but political pressure has held up such reforms in the past, and the administrative capacity needed to implement reforms is lacking.

MONETARY FREEDOM — 70.8

Inflation has been moderate, averaging 5.1 percent between 2006 and 2008. The regional Banque des Etats de l'Afrique Centrale (BEAC) prioritizes the control of inflation and the maintenance of the CFA franc's peg to the euro. The prices of rail transport, telecommunications, electricity, water, and other goods and services are affected by government ownership and subsidization of the large public sector. Fifteen points were deducted from Congo's monetary freedom score to adjust for measures that distort domestic prices.

INVESTMENT FREEDOM — 15

Congo does not generally discriminate against foreign

investors, but retail and bakery trades and urban and long-haul transport are limited to Congolese nationals. Investments of over CFAF100 million require Ministry of Economy, Finance, and Budget approval within 30 days unless they involve creation of an enterprise with public-private ownership. The few state-owned enterprises have a disproportionate influence on economic performance and business conditions. Privatization has been slow. Bureaucracy and corruption are significant impediments to investment. Residents may not hold foreign exchange accounts; companies may hold such accounts with special approval. Non-residents may hold foreign exchange accounts subject to government approval. Payments and transfers to most countries are subject to documentation requirements. Capital transactions require approval.

FINANCIAL FREEDOM — 30

Congo's underdeveloped financial sector remains significantly hindered by instability and poor regulation. Bank development has been stunted by poor management, bad loans, and government interference. Congo shares a common central bank with the other five members of the Central African Economic and Monetary Community. The banking system dominates Congo's financial sector, and there are six banks that are privately owned. Banking-sector weakness limits access to credit for business and investment. Bank accounts are held by less than 3 percent of the population, many of whom still face high financing costs due to limited competition and poor financial infrastructure. Bank credit to the private sector represents around 3 percent of GDP, but microfinance has been expanding rapidly.

PROPERTY RIGHTS — 10

The 1997–2003 civil war left the judiciary corrupt, overburdened, underfinanced, subject to political influence and bribery, and almost without records. Security of contracts and the enforcement of justice cannot be guaranteed, and protection of intellectual property is virtually nonexistent. In rural areas, traditional courts handle many local disputes, especially those involving inheritance and property.

FREEDOM FROM CORRUPTION — 19

Corruption is perceived as pervasive. The Republic of Congo ranks 158th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. Corruption is seen as permeating the government, and financial non-transparency, inadequate internal controls and accounting systems, and conflicts of interest in the state-owned oil company's marketing of oil are concerns. Low-level corruption among security personnel and customs and immigrations officials is widespread.

LABOR FREEDOM — 48.1

Burdensome employment regulations restrict job opportunities and productivity growth. The non-salary cost of employing a worker is high; dismissing an employee can be difficult and inexpensive. Rigid restrictions control hours worked.