

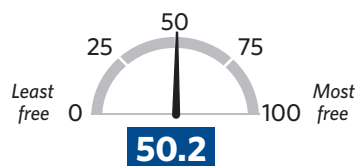
SÃO TOMÉ AND PRÍNCIPE



World Rank: **148**

Regional Rank: **32**

Economic Freedom Score



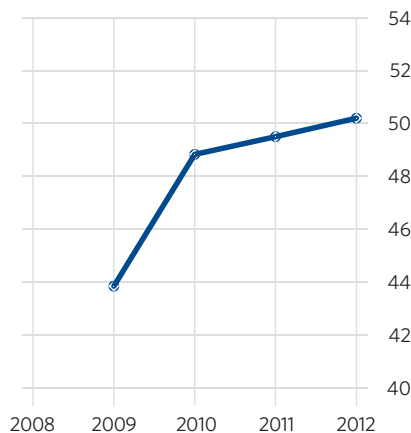
São Tomé and Príncipe's economic freedom score is 50.2, making its economy the 148th freest in the 2012 *Index*. Its score has increased by 0.7 point from last year, reflecting a significant gain in business freedom offset by a correspondingly large deterioration in the management of government spending. São Tomé and Príncipe is ranked 32nd out of 46 countries in the Sub-Saharan Africa region, and its score is below the world and regional averages.

With three consecutive years of advancing economic freedom, the island economy is no longer considered one of the least free in the *Index*. Notable reforms have been implemented in key areas. The corporate tax rate has been significantly reduced to a flat 25 percent. Regulatory efficiency has been enhanced through establishment of a streamlined business formation process. São Tomé and Príncipe recorded the largest improvement in business freedom in the 2012 *Index*.

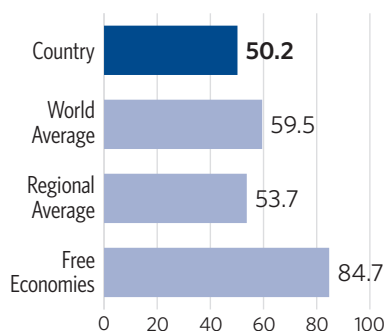
Nevertheless, institutional weaknesses continue to constrain overall economic freedom. The judicial system lacks the capacity to defend property rights effectively. Corruption remains widespread, undermining prospects for long-term sustainable economic development. High public spending perpetuates fiscal burdens. A lack of commitment to open-market policies holds back growth in trade and investment and thwarts the emergence of a more dynamic private sector.

BACKGROUND: The population of São Tomé and Príncipe, a two-island republic in the Gulf of Guinea, is heavily concentrated on São Tomé. President Fradique de Menezes, first elected in 2001, was re-elected in 2006. His election in December 2009 to lead the MDFM party as well was challenged, both within the party and by constitutional experts, as unconstitutional. Legislative elections on August 1, 2010, were deemed free and fair by international observers. Plantation agriculture, particularly cocoa and coffee, dominates the economy. Cocoa accounts for about 95 percent of exports. Other export crops include copra (a coconut product), palm kernels, and coffee. Offshore oil fields shared with Nigeria are thought to hold billions of barrels of oil but have not been exploited.

Freedom Trend



Country Comparisons



Quick Facts

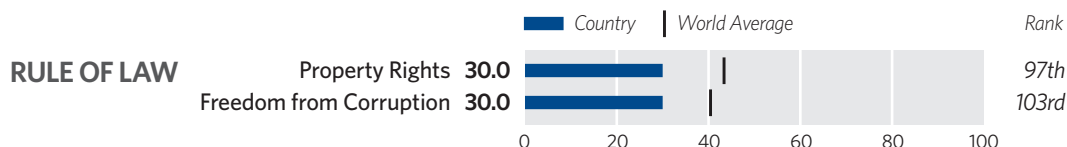
Population: 0.2 million
GDP (PPP): \$0.3 billion
 4.5% growth in 2010
 5-year compound annual growth 5.4%
 \$1,881 per capita
Unemployment: n/a
Inflation (CPI): 14.4%
FDI Inflow: \$3.0 million
Public Debt: 71.4% of GDP

How Do We Measure Economic Freedom?

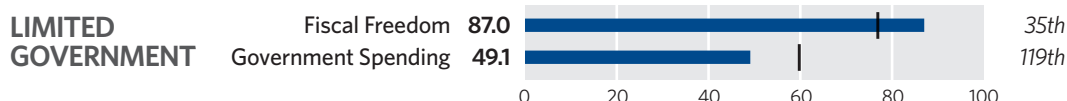
See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

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

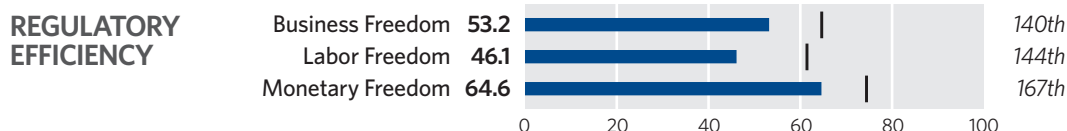
THE TEN ECONOMIC FREEDOMS



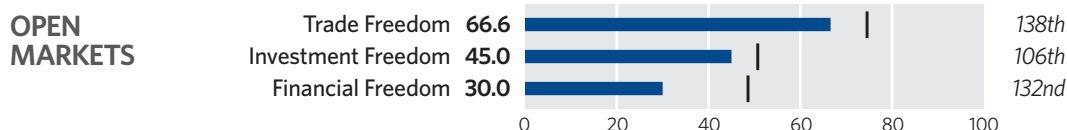
The legal system is weak, inefficient, and subject to persistent political influence, and property rights are not protected effectively. There is no separate commercial court system, and backlogs of civil cases cause long delays. The absence of effective measures or strong political will to fight corruption is a cause for concern. Bribery, embezzlement, and mismanagement of public funds are regarded as endemic.



The top income tax rate is 20 percent, and the corporate tax rate is a flat 25 percent. Other taxes include a sales tax and a dividend tax, with the overall tax burden amounting to 16.7 percent of total domestic income. Government spending has increased to the equivalent of 41.2 percent of total domestic output, leading to chronically high deficits of over 10 percent of GDP and growing public debt exceeding 70 percent of GDP.



Recent efforts to streamline the business start-up process have produced positive results. The time taken to start a company has been reduced to only 10 days from 144 days, and licensing requirements have also been simplified. Regulatory efficiency remains weak. In the absence of a well-functioning labor market, informal labor activity remains significant. Monetary stability is not well maintained, and inflation has been high.



The trade weighted tariff rate is high at over 10 percent, although the tariff structure has been simplified. Non-tariff barriers are numerous, and accession to the World Trade Organization has moved slowly since the country's application in 2005. The investment regime remains inefficient and lacks transparency. The underdeveloped financial sector does not provide adequate access to banking services for a large portion of the population.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.2	Business Freedom	+21.2	Trade Freedom	0
Freedom from Corruption	+2.0	Government Spending	-18.4	Labor Freedom	-0.3	Investment Freedom	0
				Monetary Freedom	+2.4	Financial Freedom	0