São Tomé and Príncipe’s economic growth has been driven by cocoa production and a nascent tourism sector. Strong cocoa exports, increased foreign direct investment, and donor-financed infrastructure projects have propelled expansion of the small island economy in recent years. However, the pace of poverty reduction has been slow.

**ECONOMIC FREEDOM SNAPSHOT**

- 2016 Economic Freedom Score: **56.7** (up 3.4 points)
- Economic Freedom Status: *Mostly Unfree*
- Global Ranking: **120th**
- Regional Ranking: **22nd in Sub-Saharan Africa**
- Notable Successes: *Trade Freedom*
- Concerns: *Property Rights, Corruption, and Investment Freedom*
- Overall Score Change Since 2012: **+6.5**

Structural reforms to boost government efficiency and strengthen public financial management have been undertaken, but institutionalized weaknesses continue to strain São Tomé and Príncipe’s economic development. A burdensome and inefficient bureaucracy hampers entrepreneurial dynamism. Pervasive corruption increases the cost of forming or operating businesses, and the judicial system is not strong enough to defend property rights effectively.

**BACKGROUND:** Manual Pinto da Costa, who served as president for 15 years following independence from Portugal in 1975, was elected again in 2011. In 2014, Patrice Trovoada assumed the post of prime minister after two previous brief stints in the position. São Tomé’s economy, one of Africa’s smallest, is based on agriculture and is highly vulnerable to external shocks as it imports most commodities. Cocoa production, an economic mainstay, has declined in recent years, but the country has tourism potential. São Tomé is dependent on foreign assistance and received $200 million in debt relief in 2000. It is developing oil fields in the Gulf of Guinea jointly with Nigeria, but production will not begin for several years.

**Quick Facts**

- **Population:** 0.2 million
- **GDP (PPP):** $0.6 billion
- 4.5% growth in 2014
- 5-year compound annual growth 4.4%
- $3,153 per capita
- **Unemployment:** n/a
- **Inflation (CPI):** 7.0%
- **FDI Inflow:** $19.9 million
- **Public Debt:** 68.2% of GDP

2014 data unless otherwise noted.

Data compiled as of September 2015.
The government has undertaken numerous reforms in recent years, but a 2015 report by the country’s Auditor Court revealed persistent financial irregularities across the public sector. Widespread impunity for corrupt officials has weakened the fight against graft and mismanagement of public funds. The judiciary is independent but weak and susceptible to political influence. Property rights are not protected effectively.

The top personal 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. The overall tax burden equals 15.2 percent of total domestic income. Government spending amounts to 31.6 percent of total domestic output. The budget has been in deficit, and public debt equals about 70 percent of annual domestic output.

The time needed to start a company has been reduced to seven days, but licensing requirements remain costly. Informal labor activity remains significant. Although world oil prices have fluctuated widely, the government has not changed retail fuel prices since 2010; the implicit subsidy arising from the difference between retail fuel prices and actual supply costs during that time is estimated to equal 13 percent of GDP.

The average tariff rate for São Tomé and Príncipe, a member of the Economic Community of Central African States, was 8.5 percent as of 2012. Imports of pork are not allowed. Domestic and foreign investors are generally treated equally under the law. The underdeveloped financial sector does not provide much access to banking services for a large portion of the population.

Long-Term Score Change (since 2009)

<table>
<thead>
<tr>
<th>Rule of Law</th>
<th>Government Size</th>
<th>Regulatory Efficiency</th>
<th>Open Markets</th>
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<tbody>
<tr>
<td>Property Rights</td>
<td>Fiscal Freedom</td>
<td>Business Freedom</td>
<td>Trade Freedom</td>
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<td>Freedom from</td>
<td>Freedom</td>
<td>Labor Freedom</td>
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<tr>
<td>Corruption</td>
<td>Spending</td>
<td>Monetary Freedom</td>
<td>Financial Freedom</td>
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</tbody>
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- Property Rights: -5.0 to +15.0
- Fiscal Freedom: +12.4
- Government Spending: +48.1
- Business Freedom: +20.8
- Labor Freedom: -1.9
- Monetary Freedom: +6.2
- Trade Freedom: +13.0
- Investment Freedom: +20.0
- Financial Freedom: 0