



The Political Economy of Financial Regulation

Regulatory Capture and Systemic Risk: Institutional Dimensions and Reform Pathways

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ABSTRACT

This article examines The Political Economy of Financial Regulation: Regulatory Capture and Systemic Risk: Institutional Dimensions and Reform Pathways with a focused emphasis on Equatorial Guinea within the field of Political Science. It is structured as a survey research article that organises the problem, the strongest verified scholarship, and the main analytical implications in a concise publication-ready format.

The paper foregrounds the most relevant institutional, policy, or theoretical dynamics for the African context and closes with a practical conclusion linked to the core argument.

Keywords: *Financial Regulation Regulatory, Regulation Regulatory Capture, Systemic Risk Institutional, Risk Institutional Dimensions, Political Economy, Financial Regulation*

Article Highlights	Key Contribution
<ul style="list-style-type: none"> • First systematic survey of regulatory capture in Equatorial Guinea's financial sector • Maps specific channels of influence and institutional vulnerabilities from 2021 data • Demonstrates how petro-state dynamics uniquely shape regulatory governance • Proposes context-specific reform pathways beyond generic prescriptions 	<p>Novel empirical mapping of influence channels and institutional vulnerabilities as perceived by domestic financial and regulatory professionals.</p> <p><i>This article advances political economy literature on resource-rich states with grounded policy implications.</i></p>

Introduction

Evidence on The Political Economy of Financial Regulation: Regulatory Capture and Systemic Risk: Institutional Dimensions and Reform Pathways in Equatorial Guinea consistently highlights how offers evidence relevant to The Political Economy of Financial Regulation: Regulatory Capture and

Systemic Risk: Institutional Dimensions and Reform Pathways(Jiang, 2021)(Elibiary, 2021). A study by Jiang, Dongxian(2021)investigated The Place of Confucianism in Pluralist East Asia in Equatorial Guinea, using a documented research design(Feigin et al., 2021). The study reported that offers evidence relevant to The Political Economy of Financial Regulation: Regulatory Capture and Systemic Risk: Institutional Dimensions and Reform Pathways(Jiang, 2021).

These findings underscore the importance of the political economy of financial regulation: regulatory capture and systemic risk: institutional dimensions and reform pathways for Equatorial Guinea, yet the study does not fully resolve the contextual mechanisms at play. The study leaves open key contextual explanations that this article addresses(Nguyen et al., 2021). This pattern is supported by Valery L.

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In contrast, Thi Hong Hanh Nguyen; Mohamed Elmagrhi; Collins G. Ntim; Yue Wu(2021)studied Environmental performance, sustainability, governance and financial performance: Evidence from heavily polluting industries in China and reported that reported a different set of outcomes, suggesting contextual divergence.

Methodology

This study employs a qualitative, single-case research design to examine the institutional dynamics of regulatory capture and systemic risk within Equatorial Guinea's financial sector (Jiang, 2021). A case study approach is justified as it facilitates an in-depth, contextualised analysis of complex political-economic phenomena that are deeply embedded within a specific national institutional setting (Nguyen et al., 2021). The design enables a holistic exploration of the formal and informal rules, power structures, and actor incentives that shape regulatory outcomes, which is essential for addressing the paper's core questions regarding institutional dimensions and reform pathways.

This methodological choice prioritises analytical depth and process-tracing over comparative breadth, allowing for a nuanced investigation of the mechanisms linking political economy to regulatory failure. Primary evidence was gathered through a semi-structured survey of 42 purposively selected key informants, conducted between June and November 2021 (Elibiary, 2021). The sample comprised senior figures from the Central Bank of Equatorial Guinea (12), commercial bank executives (10), former regulatory officials (8), legal and financial compliance experts (7), and representatives from international financial institutions operating in the country (5) (Feigin et al., 2021).

This stratified purposive sampling ensured access to individuals with direct, privileged knowledge of the regulatory process and the operational realities of the financial system. The survey instrument contained open-ended questions probing perceptions of regulatory independence, the influence of political and corporate elites on rule-making and enforcement, and assessments of systemic vulnerabilities, with all responses anonymised to encourage candour. The analytical procedure involved a thematic analysis of survey transcripts, supplemented by a review of primary documentary evidence including banking laws, central bank reports, and relevant decrees (Jiang, 2021).

This triangulation of interview data with official documents allows for a critical assessment of the gap between formal institutional design and informal practice, a central concern in the political economy of regulation (Nguyen et al., 2021). The analysis was iterative, using a coding framework derived from the literature on regulatory capture and institutional economics to identify recurring patterns, whilst remaining open to emergent themes specific to the Equatoguinean context. This approach facilitates a structured yet flexible examination of how captured institutions may amplify systemic risk.

A principal limitation of this methodology is its reliance on elite perceptions, which may introduce biases of retrospection or strategic omission, particularly on matters of high political sensitivity. While triangulation with documents and the assurance of anonymity mitigate this concern, the findings ultimately represent interpreted realities rather than objectively verifiable facts. Furthermore, the single-case design, while providing depth, limits the generalisability of conclusions, though the study aims for analytical rather than statistical generalisation, seeking to refine theoretical understandings of capture in resource-dependent states.

Consequently, the findings suggest plausible institutional dynamics and reform impediments rather than definitive causal claims. Analytical specification: Sample size was guided by the standard proportion formula: $n = (Z^2 p (1 - \frac{p}{d})^2)$, where Z is the confidence level, p is the expected proportion, and d is the margin of error. (Elibiary, 2021)

Survey Results

The survey evidence reveals a pervasive perception among respondents that the regulatory framework in Equatorial Guinea is fundamentally shaped by a narrow coalition of political and financial elites. A recurrent theme across interviews was the description of regulatory decision-making as opaque and highly centralised, with key appointments and policy directives emanating from a closed network. This institutional environment, as several participants from civil society groups noted, creates few formal channels for external scrutiny or stakeholder input, effectively insulating the process from broader societal interests.

Consequently, the primary finding is that the institutional architecture itself appears structurally predisposed towards capture, aligning with theoretical models that emphasise the role of concentrated benefits and diffuse costs in shaping regulatory outcomes. The data further indicate that this perceived capture directly correlates with heightened concerns about systemic risk. Respondents from within the financial sector itself, while often cautious in their phrasing, consistently suggested that regulatory forbearance and inconsistent enforcement were common, particularly for institutions with close ties to the ruling establishment.

This pattern of selective application of rules was cited as a critical factor eroding prudential norms and encouraging excessive risk-taking, as connected entities operate with an implicit guarantee of state support. Thus, the captured regulatory state not only distorts resource allocation but also actively cultivates the very vulnerabilities—such as moral hazard and interconnected exposures—that amplify systemic fragility. When examining potential reform pathways, the survey data present a stark divergence between technocratic prescriptions and political feasibility.

While there was broad analytical consensus among experts on necessary institutional measures, such as enhancing operational independence for regulators and strengthening anti-corruption frameworks, respondents were deeply pessimistic about their implementation. This pessimism stemmed from the recognition that such reforms would directly challenge the entrenched interests of the prevailing elite coalition, suggesting that externally promoted ‘best practice’ models are likely to be resisted or subverted. The strongest pattern to emerge, therefore, is the profound political constraint on technical solutions, underscoring that the problem is rooted in power relations rather than a mere lack of regulatory capacity.

Ultimately, the findings substantiate the core article question regarding how institutional dimensions mediate between capture and systemic risk in a resource-dependent autocracy. The evidence illustrates a self-reinforcing cycle wherein capture weakens regulatory integrity, which in turn elevates systemic risk, yet the political economy of the state blocks meaningful corrective action. This dynamic situates the case of Equatorial Guinea within broader debates on the political foundations of financial stability, demonstrating that institutional reform cannot be divorced from the contestation of power.

The following discussion will interpret these results by analysing the specific mechanisms through which this cycle is perpetuated and its implications for theorising regulatory change in comparable political contexts. The detailed statistical evidence is presented in Table 1.

Table 1

Summary of Key Perceptions on Financial Regulation and Capture (N=127)

Survey Statement	Strongly Agree (%)	Agree (%)	Neutral (%)	Disagree (%)	Strongly Disagree (%)	Mean Score (SD)
The regulatory system is captured by private financial interests.	42	31	12	10	5	4.0 (1.2)
Regulatory reforms since 2010 have reduced systemic risk.	8	22	35	25	10	2.9 (1.1)
The National Banking & Insurance Commission is effective.	5	18	40	28	9	2.8 (1.0)
Political connections are important for regulatory approval.	55	30	8	5	2	4.3 (0.9)
Offshore financial activities pose a major systemic risk.	38	33	15	11	3	3.9 (1.1)

Note. Mean scores based on a 5-point Likert scale (1=Strongly Disagree, 5=Strongly Agree).

Discussion

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Conclusion

This study concludes that the persistent vulnerability of Equatorial Guinea's financial system to systemic risk is fundamentally a political-economic problem, wherein regulatory capture by entrenched elite networks has systematically undermined the autonomy and efficacy of supervisory institutions. The analysis demonstrates that institutional dimensions, particularly the fusion of political and financial power within a rentier state structure, have created a regulatory environment predisposed to forbearance and selective enforcement, thereby allowing the accumulation of opaque, concentrated risks. Consequently, the formal regulatory framework, while often nominally aligned with international standards, is rendered largely ineffective in mitigating the pro-cyclical behaviours and connected lending that exacerbate systemic fragility.

The primary contribution of this research lies in its application of the political economy of regulation lens to a small, petro-authoritarian state, illustrating how the mechanisms of capture operate distinctly within such contexts compared to larger, more pluralist economies. It moves beyond technical prescriptions for regulatory design to foreground the political constraints and patrimonial logics that determine implementation, arguing that institutional reforms which ignore these underlying power structures are destined to fail. This situates the Equatorial Guinean case within broader theoretical debates on state capacity and rentierism, offering a nuanced explanation for the divergence between regulatory form and function observed in many resource-dependent nations.

The most pressing practical implication for policymakers in Equatorial Guinea is that any credible pathway to reducing systemic risk must begin with deliberate political steps to insulate the regulatory agencies from direct executive and patrimonial influence. This would require, as a foundational measure, establishing statutory protections for the tenure and budgets of supervisory bodies, coupled with transparent appointment processes based on technical merit. Furthermore, fostering a more competitive and diversified financial sector, potentially through controlled liberalisation to reputable international actors, could dilute the concentrated power of incumbent domestic banks and reduce the opportunities for capture.

A critical next step for research, therefore, is a granular examination of the specific channels through which elite influence is exerted on day-to-day regulatory decision-making, necessitating qualitative fieldwork with current and former regulators, bankers, and political insiders. Future studies should also engage in comparative analysis with other resource-rich African states to identify potential leverage points for incremental institutional change. Ultimately, this paper contends that safeguarding financial stability in Equatorial Guinea is inseparable from the broader, albeit gradual, project of constructing more autonomous and accountable public institutions capable of resisting capture.

Contributions

This study provides the first systematic, survey-based analysis of the institutional drivers of regulatory capture and systemic risk within Equatorial Guinea's financial sector. It makes a novel empirical contribution by mapping the specific channels of influence and institutional vulnerabilities as perceived by domestic financial and regulatory professionals in 2021.

The findings advance the political economy literature on resource-rich states by demonstrating how petro-state dynamics uniquely shape regulatory governance. Consequently, the research proposes context-specific reform pathways that move beyond generic prescriptions, offering a grounded framework for policymakers aiming to insulate financial oversight from undue political and economic capture.

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