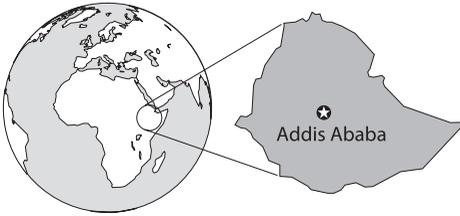


# ETHIOPIA



World Rank: **136**

Regional Rank: **28**

## Economic Freedom Score



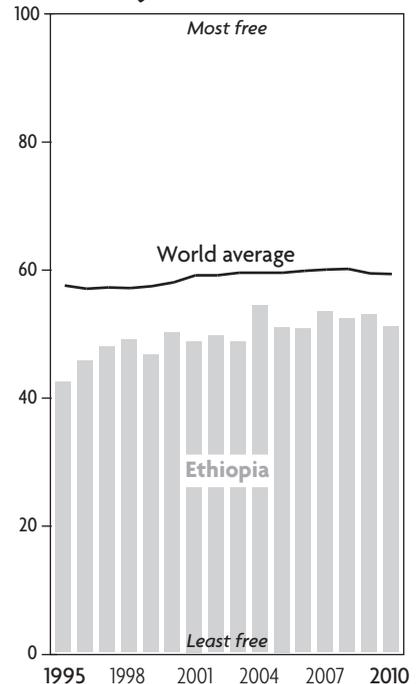
**E**thiopia's economic freedom score is 51.2, making its economy the 136th freest in the 2010 *Index*. Its overall score fell 1.8 points as a result of deteriorating trade freedom, monetary freedom, and investment freedom. Ethiopia is ranked 28th out of 46 countries in the Sub-Saharan Africa region, and its overall score is just below the regional average.

Ethiopia has achieved considerable economic growth over the past five years, driven mainly by exports of agricultural products. The double-digit growth rate of over 10 percent, however, is fragile due to the lack of economic dynamism, and the economy remains highly vulnerable to external shocks. Progress toward greater economic freedom has been uneven and sluggish.

Ethiopia underperforms in many of the 10 economic freedoms. The business and investment regime is burdensome and opaque. The overall quality and efficiency of government services have been poor and are further undermined by weak rule of law and pervasive corruption. Monetary stability is hampered by state distortions in prices and interest rates, and trade freedom is hurt by high tariff and non-tariff barriers.

**BACKGROUND:** Ethiopia is Africa's oldest independent country and is moving toward multi-party democracy, but obstacles are abundant, as demonstrated by the 2005 post-election crackdown on protestors. Following war with Eritrea in the late 1990s, a U.N. peacekeeping mission was established on the border. The mission was terminated in 2008, but relations between the two countries remain tense. Ethiopia invaded Somalia in support of Somalia's transitional federal government in 2006 and withdrew in 2009 following a peace deal concluded between the Somali government and moderate Islamic factions. Despite frequent drought and famine, agriculture contributes over 40 percent of GDP, accounts for over 70 percent of exports, and employs about 80 percent of the population. Privatization of state-owned enterprises has proceeded slowly, and the government remains involved in key sectors.

## Country's Score Over Time



## Quick Facts

**Population:** 80.7 million

**GDP (PPP):** \$70.1 billion

11.3% growth in 2008

11.8% 5-year compound annual growth

\$868 per capita

**Unemployment:** n/a

**Inflation (CPI):** 25.3%

**FDI Inflow:** \$93 million

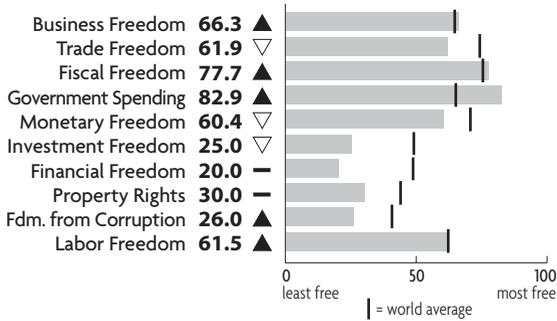
2008 data unless otherwise noted

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](http://heritage.org/index).

## ETHIOPIA'S TEN ECONOMIC FREEDOMS



### BUSINESS FREEDOM — 66.3

The overall freedom to conduct a business remains constrained by Ethiopia's regulatory environment. Starting a business takes an average of nine days, compared to the world average of 35 days. Obtaining a business license requires less than the world average of 218 days, but the minimum capital investment to start a business is high.

### TRADE FREEDOM — 61.9

Ethiopia's weighted average tariff rate was 11.5 percent in 2008. Import taxes, import restrictions, restrictive foreign exchange controls, services market barriers, non-transparent government procurement, import licensing, cumbersome customs clearance, and inadequate infrastructure add to the cost of trade. All imports must be channeled through Ethiopian nationals registered as official import or distribution agents with the Ministry of Trade and Industry. Fifteen points were deducted from Ethiopia's trade freedom score to account for non-tariff barriers.

### FISCAL FREEDOM — 77.7

Ethiopia has above-average tax rates. The top income tax rate is 35 percent, and the top corporate tax rate is 30 percent. Other taxes include a value-added tax (VAT) and a capital gains tax. In the most recent year, overall tax revenue as a percentage of GDP was 10.3 percent.

### GOVERNMENT SPENDING — 82.9

Total government expenditures, including consumption and transfer payments, are relatively low. In the most recent year, government spending equaled 23.9 percent of GDP.

### MONETARY FREEDOM — 60.4

Inflation has skyrocketed, averaging 21.8 percent between 2006 and 2008. Inflation averaged 44.4 percent in 2008 owing to strong increases in food and oil prices. The government influences prices through its regulation of state-owned enterprises and utilities, subsidizes and controls the prices of petroleum products, and controls the prices of pharmaceuticals and fertilizers. Ten points were deducted from Ethiopia's monetary freedom score to adjust for measures that distort domestic prices.

### INVESTMENT FREEDOM — 25

Foreign participation is prohibited in domestic banking,

insurance and microcredit services, and several other activities. All investments must be approved and certified and may be subject to additional restrictions. The judicial system remains poorly staffed and inexperienced. Foreign exchange accounts, payments, and current transfers are subject to tight controls and restrictions. Investors may remit profits and dividends, principal and interest on foreign loans, and other capital transactions with few restrictions. While government law states that no assets of a domestic investor or a foreign investor, enterprise, or expansion may be nationalized, except when required by public interest and in compliance with the laws and payment of adequate compensation, there were new reports of threatened or actual property expropriation cases and business disputes involving foreign investors and the government during 2008. All land is owned by the state and can be leased for up to 99 years.

### FINANCIAL FREEDOM — 20

Ethiopia's small financial sector remains underdeveloped. The government strongly influences lending and owns the largest bank, which dominates the banking sector. The state has allowed the local private sector to participate in banking, but foreign ownership and branch operations remain strictly barred. As of 2008, there were three government-owned banks, nine private banks, and nine insurance firms. The ratio of domestic credit to GDP has fallen to under 40 percent. The share of non-performing loans has decreased from over 50 percent to just under 10 percent. About 30 microfinance institutions have become major sources of financial services. Reflecting the financial system's lack of efficiency and depth, capital markets are poorly developed, and there is no stock market.

### PROPERTY RIGHTS — 30

Enforcement of property rights is weak. The judicial system is underdeveloped, poorly staffed, and inexperienced. Property and contractual rights are recognized, but judges lack an understanding of commercial issues. An international arbitration body's decision may not be fully accepted and implemented. A highly restrictive land-tenure policy makes it very difficult to register property. Land must be leased from the state.

### FREEDOM FROM CORRUPTION — 26

Corruption is perceived as pervasive. Ethiopia ranks 126th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. Despite legal restrictions, officials have been accused of manipulating the privatization process, and state-owned and party-owned businesses receive preferential access to land leases and credit.

### LABOR FREEDOM — 61.5

Relatively rigid labor regulations hinder employment and productivity growth. The non-salary cost of employing a worker is very low, but firing unneeded or poorly performing employees is difficult. Restrictions on work hours are inflexible.