

ERITREA

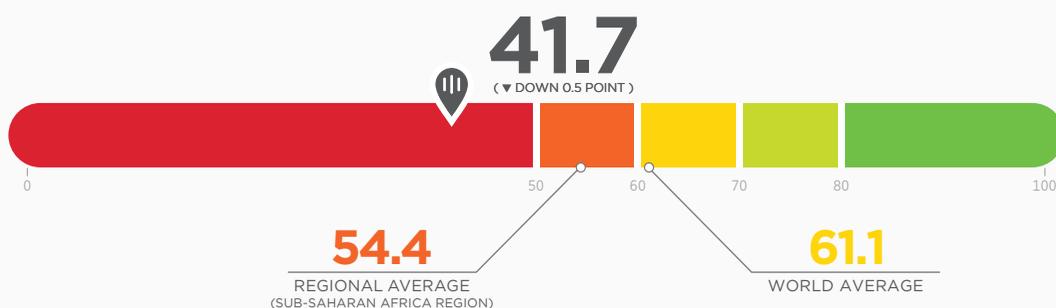
WORLD RANK: **176** | REGIONAL RANK: **46**

ECONOMIC FREEDOM STATUS:
REPRESSED

Eritrea's economic freedom score is 41.7, making its economy the 176th freest in the 2018 *Index*. Its overall score has decreased by 0.5 point, primarily because of lower scores for **government integrity** and **labor freedom**. Eritrea is ranked 46th among 47 countries in the Sub-Saharan Africa region, and its overall score is below the regional and world averages.

Poor governance and lack of commitment to reform continue to hamper economic freedom in Eritrea. Economic mismanagement and structural anomalies that severely undermine private-sector development have impeded productivity growth, dynamism, and overall economic growth. Long-standing structural problems include poor management of public finance and underdeveloped legal and regulatory frameworks. Monetary stability remains fragile, and inflation is very high, largely reflecting excessive money creation to fund fiscal deficits. Arbitrary taxation, poor infrastructure, marginal enforcement of property rights, and weak rule of law have driven many people and enterprises into the informal sector.

ECONOMIC FREEDOM SCORE



NOTABLE SUCCESSES:
Labor Freedom

CONCERNS:
Fiscal Health, Open Markets, and
Rule of Law

**OVERALL SCORE CHANGE
SINCE 2014:**
+3.2

FREEDOM TREND



QUICK FACTS

POPULATION:
6.5 million

GDP (PPP):
\$9.2 billion
3.7% growth in 2016
5-year compound
annual growth 4.7%
\$1,410 per capita

UNEMPLOYMENT:
7.3%

INFLATION (CPI):
9.0%

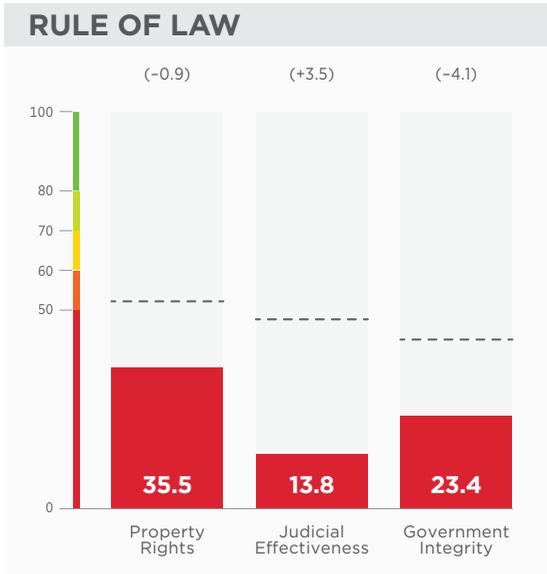
FDI INFLOW:
\$52.3 million

PUBLIC DEBT:
125.5% of GDP

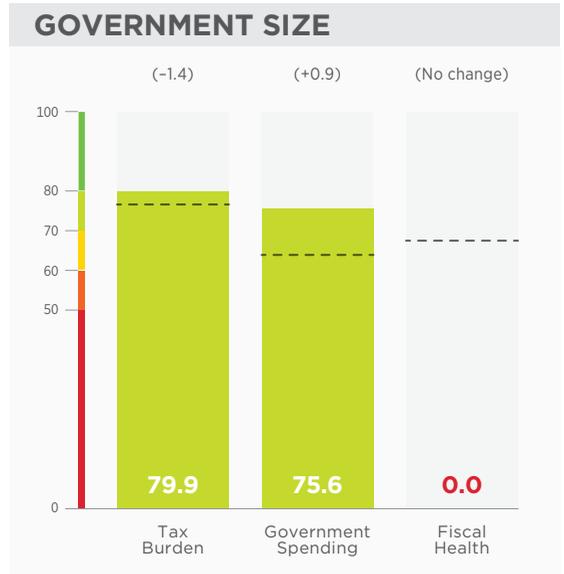
2016 data unless otherwise noted. Data compiled as of September 2017

BACKGROUND: Ethiopia's annexation of Eritrea as a province sparked a violent 30-year struggle for independence that ended in 1991 with Eritrean rebels defeating government forces. The autocratic and repressive rule of Isaias Afewerki of the People's Front for Democracy and Justice has created a rigidly militarized society. Mandatory conscription can be for indefinite periods. Ongoing border disputes with Ethiopia and Djibouti flare up periodically. Eritrea is subject to U.N. military and economic sanctions for allegedly supporting armed groups in the Horn of Africa. The government has expanded military-owned and party-owned businesses to complete the president's development agenda. Copper and gold are important exports, but military spending drains resources needed for the construction of public infrastructure.

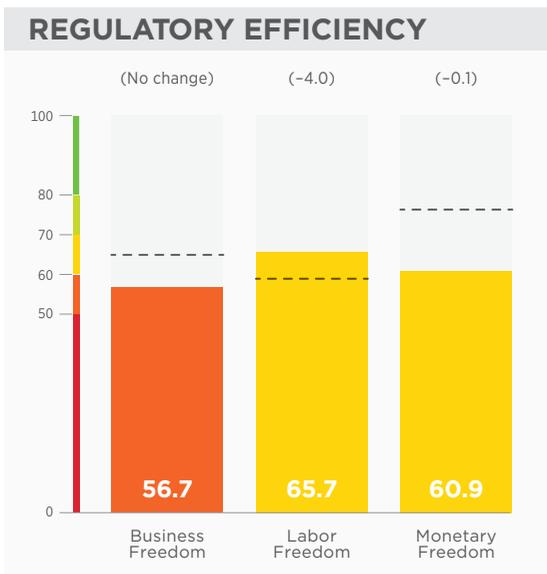
12 ECONOMIC FREEDOMS | ERITREA



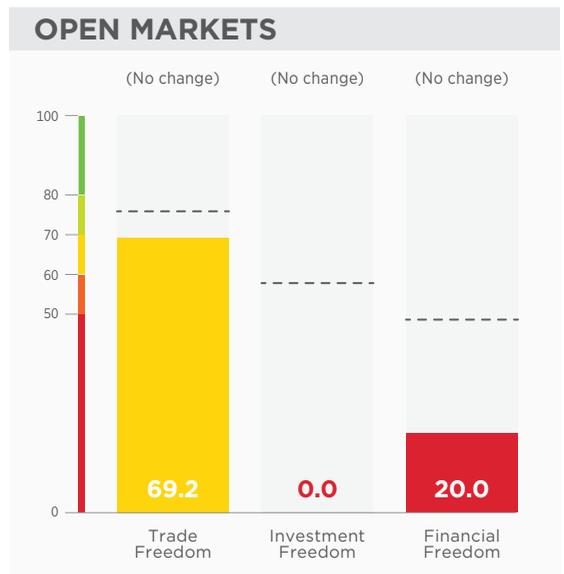
Property rights are nearly nonexistent. All land is owned by the state, which can expropriate private property without due process or compensation. The politicized and extremely corrupt judiciary, understaffed and unprofessional, has never ruled against the government. Through its control of foreign exchange, the nontransparent and deeply corrupt regime can decide who will profit from the smuggling and sale of scarce imported goods.



The top personal income and corporate tax rates are 30 percent. The overall tax burden equals 14.4 percent of total domestic income. Over the past three years, government spending has amounted to 28.5 percent of total output (GDP), and budget deficits have averaged 14.2 percent of GDP. Public debt is equivalent to 125.5 percent of GDP.



The overall regulatory regime remains severely outdated and not conducive to entrepreneurial activity. Procedures for establishing and running a business are opaque and costly. Nearly 80 percent of the population is involved in subsistence agriculture, but the sector does not produce a large share of total output. Subsidies and price controls have been a core feature of Eritrea's command economy, costing an estimated 15 percent of GDP.



Eritrea's average applied tariff rate is 5.4 percent. Nontariff barriers significantly impede trade. The government dominates most aspects of the economy and maintains ownership barriers that reduce or prevent foreign investment. The financial system, consisting mainly of a small banking sector, remains severely underdeveloped and subject to heavy state control. Private-sector participation in the system remains constrained.