

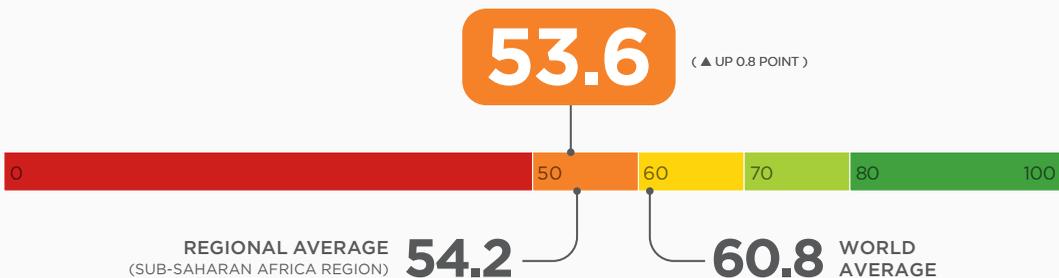
ETHIOPIA

Ethiopia's economic freedom score is 53.6, making its economy the 137th freest in the 2019 *Index*. Its overall score has increased by 0.8 point, with significant increases in scores for **business freedom** and **labor freedom** outpacing a decline in **monetary freedom**. Ethiopia is ranked 26th among 47 countries in the Sub-Saharan Africa region, and its overall score is below the regional and world averages.

The prime minister is encouraging greater private-sector involvement to support the government's plan to transform Ethiopia from an agriculture-based economy into a manufacturing hub, a plan that hinges on improved transport and energy infrastructure and greater agricultural-sector productivity. To achieve these goals, reforms are needed to improve the burdensome and opaque business and investment regime. The poor quality and efficiency of government services are made worse by weak rule of law and pervasive corruption. State distortions in prices and interest rates undermine monetary stability.

WORLD RANK: **137** | REGIONAL RANK: **26**
 ECONOMIC FREEDOM STATUS: **MOSTLY UNFREE**

ECONOMIC FREEDOM SCORE

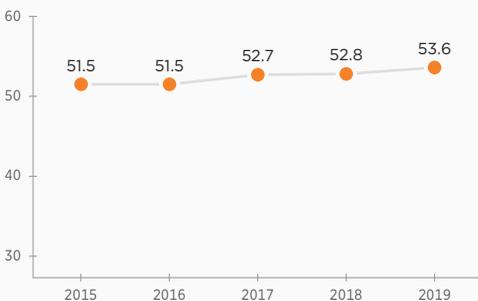


RELATIVE STRENGTHS:
 Government Spending and Fiscal Health

HISTORICAL INDEX SCORE CHANGE (SINCE 1995):
 +11.0

CONCERNS:
 Financial Freedom and Property Rights

FREEDOM TREND



QUICK FACTS

POPULATION:
 92.7 million

GDP (PPP):
 \$200.2 billion
 10.9% growth in 2017
 5-year compound annual growth 9.9%
 \$2,161 per capita

UNEMPLOYMENT:
 5.2%

INFLATION (CPI):
 9.9%

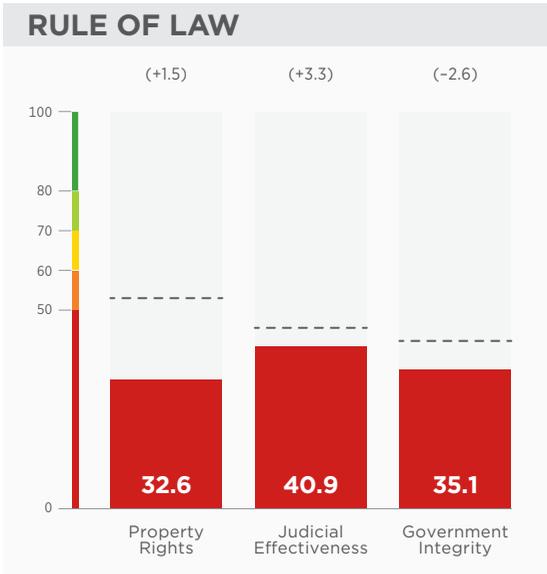
FDI INFLOW:
 \$3.6 billion

PUBLIC DEBT:
 56.2% of GDP

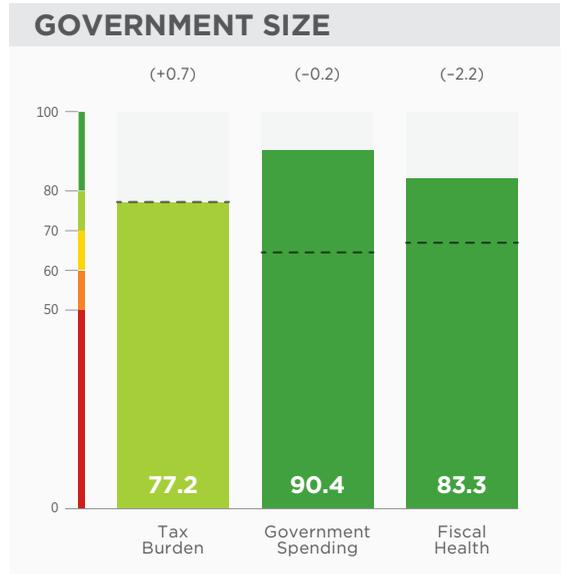
2017 data unless otherwise noted. Data compiled as of September 2018

BACKGROUND: A military junta deposed Emperor Haile Selassie in 1974 and created a socialist state. The Ethiopian People's Revolutionary Democratic Front (EPRDF) overthrew the junta in 1991 and established a repressive one-party state. Protests by Ethiopia's marginalized Oromo tribe led in April 2018 to the surprise ascension of Prime Minister Abiy Ahmed, who released political prisoners and launched ambitious reforms to increase the role of women in government, partially privatize state-owned enterprises, and seek rapprochement with longtime rival Eritrea. Tensions over Ethiopia's almost-completed Nile River dam eased after a water-sharing agreement was concluded with Egypt and Sudan. The economy's strong growth has reduced poverty.

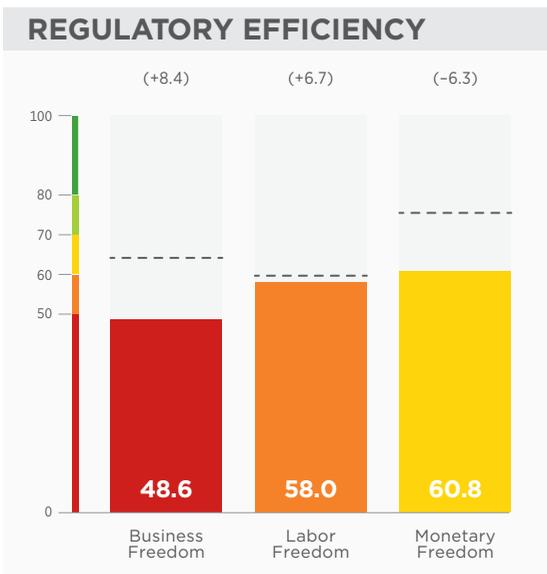
12 ECONOMIC FREEDOMS | ETHIOPIA



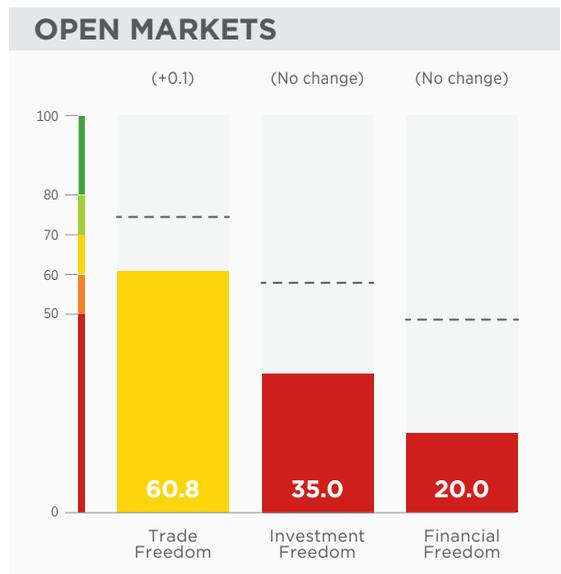
Ownership of all land remains in the hands of the state, with use rights granted to landholders. The judiciary is officially independent, but its judgments rarely deviate from government policy. Government officials and state institutions reportedly enjoy preferential access to credit, land leases, and jobs. Corruption and bribery remain significant problems, although the new prime minister has a reformist agenda.



The top individual income tax rate is 35 percent, and the top corporate tax rate is 30 percent. Other taxes include value-added and capital gains taxes. The overall tax burden equals 12.4 percent of total domestic income. Over the past three years, government spending has amounted to 17.9 percent of the country's output (GDP), and budget deficits have averaged 2.6 percent of GDP. Public debt is equivalent to 56.2 percent of GDP.



Ethiopia has made starting a business easier by removing the requirement to open a bank account for company registration and eliminating the paid-in minimum capital requirement. The underdeveloped labor market hinders employment growth, trapping much of the labor force in the informal economy. The government intends to reform fuel subsidies but also has offered tax breaks and subsidies to foreign investors.



The combined value of exports and imports is equal to 31.5 percent of GDP. The average applied tariff rate is 12.1 percent. Ethiopia is not a member of the World Trade Organization. The state has allowed the private sector to participate in banking, but it restricts foreign ownership. About 38 percent of adult Ethiopians have access to an account with a formal banking institution.