

ETHIOPIA

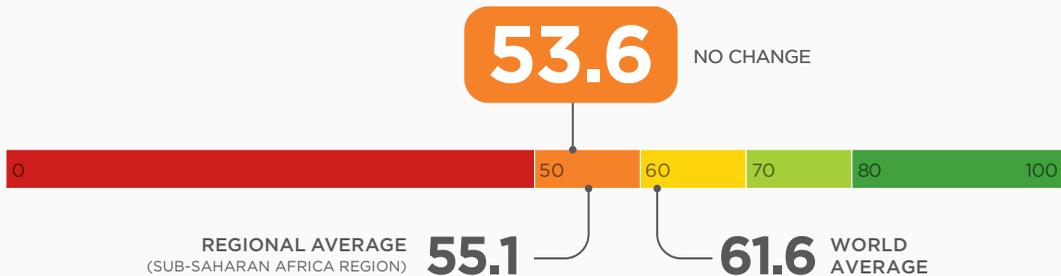
Ethiopia's economic freedom score is 53.6, making its economy the 146th freest in the 2020 *Index*. Its overall score is unchanged, with an improvement in **judicial effectiveness** offset by a decline in **fiscal health**. Ethiopia is ranked 30th among 47 countries in the Sub-Saharan Africa region, and its overall score is just below the regional average and well below the world average.

The Ethiopian economy has slowly climbed the ranks of the mostly unfree for the past five years. At the same time, GDP growth has been surging, partly because of rising business confidence and increased levels of foreign investment.

Prime Minister Abiy Ahmed's efforts to privatize state-owned enterprises and establish a multiparty democracy supported by strong institutions that respect human rights and the rule of law earned him the Nobel Peace Prize in 2019. These and other reforms, if fully realized, would improve *Index* indicators for business freedom and government integrity.

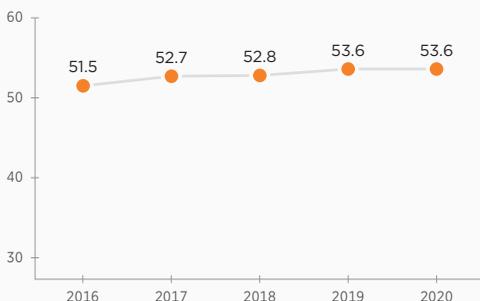
WORLD RANK: **146** REGIONAL RANK: **30**
ECONOMIC FREEDOM STATUS: **MOSTLY UNFREE**

ECONOMIC FREEDOM SCORE



HISTORICAL *INDEX* SCORE CHANGE (SINCE 1995): +11.0

RECENT FREEDOM TREND



QUICK FACTS

POPULATION:
94.1 million

GDP (PPP):
\$219.5 billion
7.7% growth in 2018
5-year compound
annual growth 9.3%
\$2,332 per capita

UNEMPLOYMENT:
1.8%

INFLATION (CPI):
13.8%

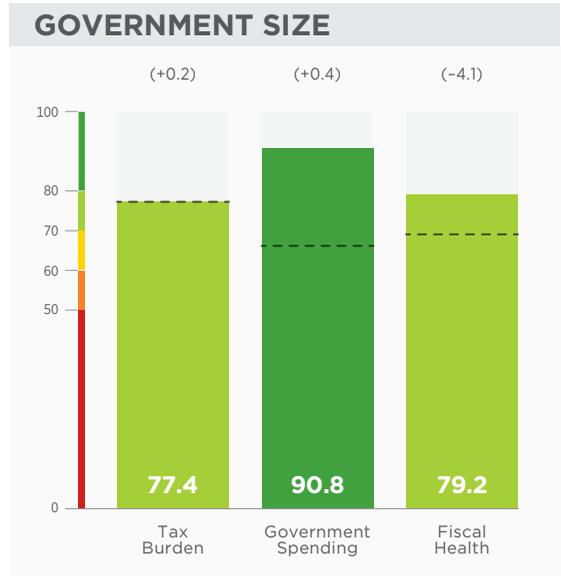
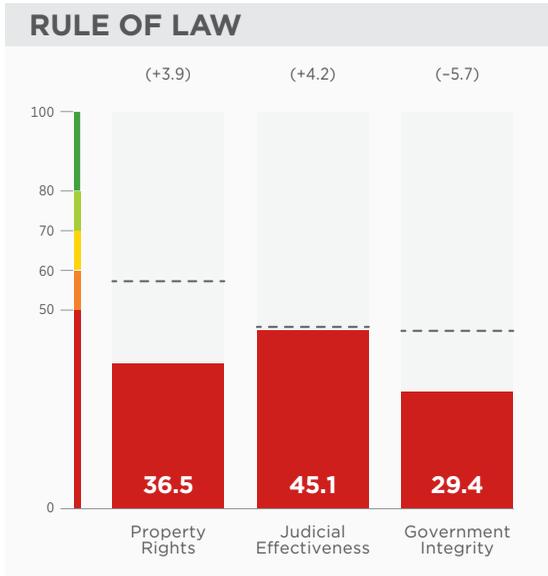
FDI INFLOW:
\$3.3 billion

PUBLIC DEBT: 61.1%
of GDP

2018 data unless otherwise noted. Data compiled as of September 2019

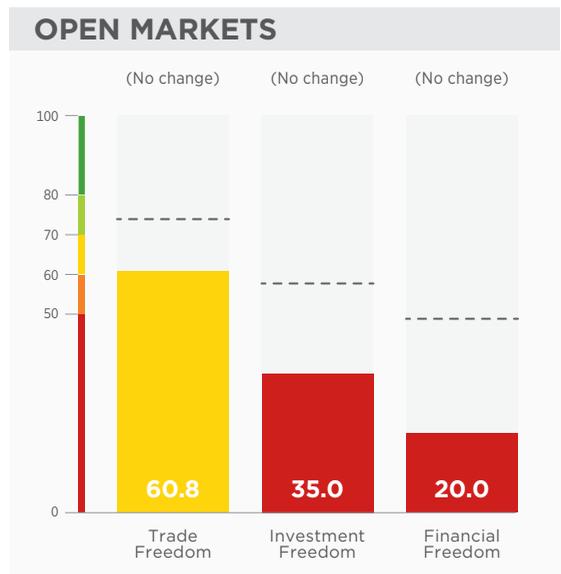
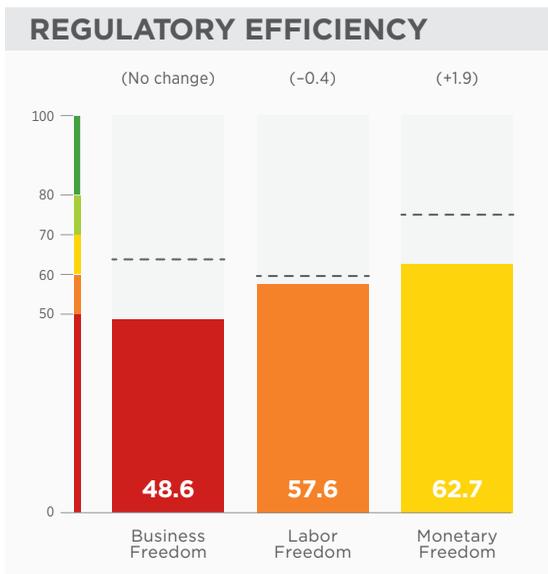
BACKGROUND: A military junta deposed Emperor Haile Selassie in 1974 and established a socialist state. The Ethiopian People's Revolutionary Democratic Front overthrew the junta in 1991, replacing it with a repressive one-party state. Protests by Ethiopia's marginalized Oromo tribe in 2018 led to the surprise rise to power 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. In 2018, the United Arab Emirates deposited \$1 billion in Ethiopia's central bank to help with a foreign exchange shortage. The agriculture-based economy's strong growth has reduced poverty, but Ethiopia still must contend with high unemployment, persistent poverty, ethnic tensions, and a large debt burden.

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All land must be leased from the state. While the officially independent judiciary has been subject to political interference, the November 2018 appointment of a highly respected Supreme Court chief justice raised hopes for judicial reform. Corruption and unequal resource distribution have contributed to the unrest that has plagued Ethiopia in recent years, but Prime Minister Abiy's administration has taken some steps to address the issue.

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 11.6 percent of total domestic income. Government spending has amounted to 17.5 percent of the country's output (GDP) over the past three years, and budget deficits have averaged 2.9 percent of GDP. Public debt is equivalent to 61.1 percent of GDP.



Key business sectors owned by the state include telecommunications, banking and insurance, and power distribution. The underdeveloped labor market makes it hard for individuals to escape poverty. Much of the labor force is trapped in the informal economy. The government plans to phase out implicit subsidies by gradually raising electricity tariffs and reducing borrowing by state-owned enterprises.

The total value of exports and imports of goods and services equals 31.2 percent of GDP. The average applied tariff rate is 12.1 percent, and nontariff barriers impede trade. Ethiopia is not a member of the World Trade Organization. Market openness to foreign investment is below average. Although the state has allowed the private sector to participate in banking, it influences lending decisions and funds state-led development projects.