

ERITREA

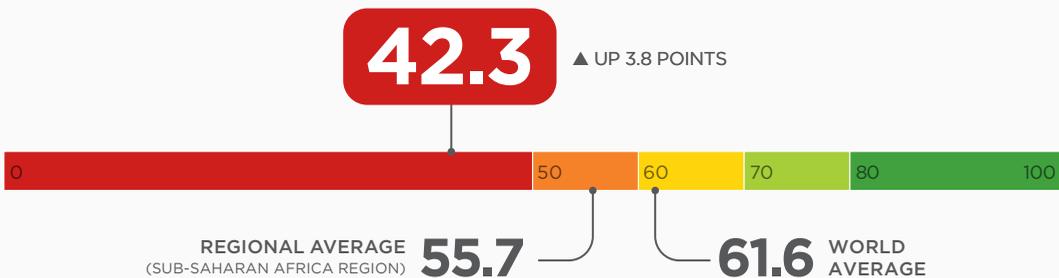
Eritrea's economic freedom score is 42.3, making its economy the 173rd freest in the 2021 *Index*. Its overall score has increased by 3.8 points, primarily because of an improvement in **fiscal health**. Eritrea is ranked 45th among 47 countries in the Sub-Saharan Africa region, and its overall score is well below the regional and world averages.

Index grading of Eritrea began in 2009, and this is only the fourth year that its economy has scored higher than 40. Eritrea remains one of the world's least developed countries, and the majority of its people depend on subsistence agriculture for their livelihoods. Perhaps a future Eritrean government will pursue the broad reforms needed to transform the country into a market-based economy.

IMPACT OF COVID-19: As of December 1, 2020, no deaths had been attributed to the pandemic in Eritrea, but the economy was forecast to contract by 0.6 percent for the year.

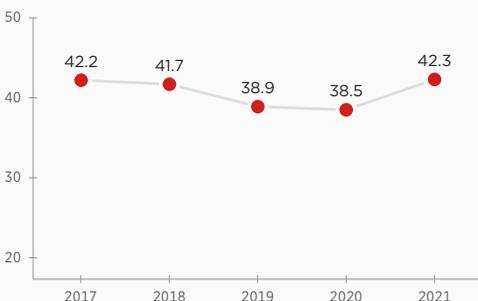
WORLD RANK: **173** REGIONAL RANK: **45**
ECONOMIC FREEDOM STATUS: **REPRESSED**

ECONOMIC FREEDOM SCORE



HISTORICAL *INDEX* SCORE CHANGE (SINCE 2009): +3.8

RECENT FREEDOM TREND



QUICK FACTS

POPULATION:
3.5 million

GDP (PPP):
\$6.6 billion
3.8% growth in 2019
5-year compound annual growth -1.3%
\$1,710 per capita

UNEMPLOYMENT:
5.1%

INFLATION (CPI):
-16.4%

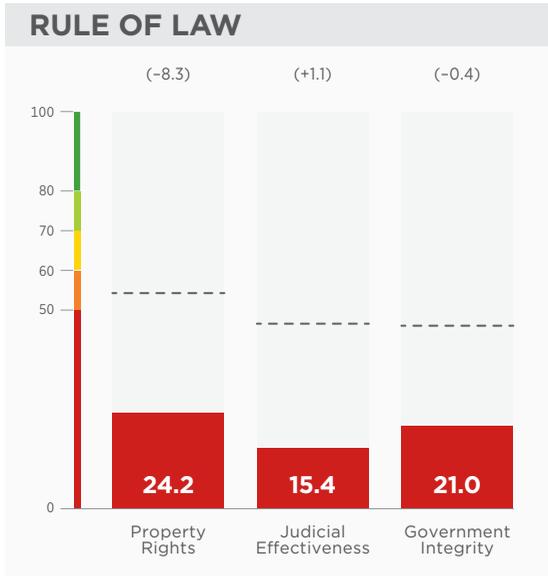
FDI INFLOW:
\$67.1 million

PUBLIC DEBT:
265.8% of GDP

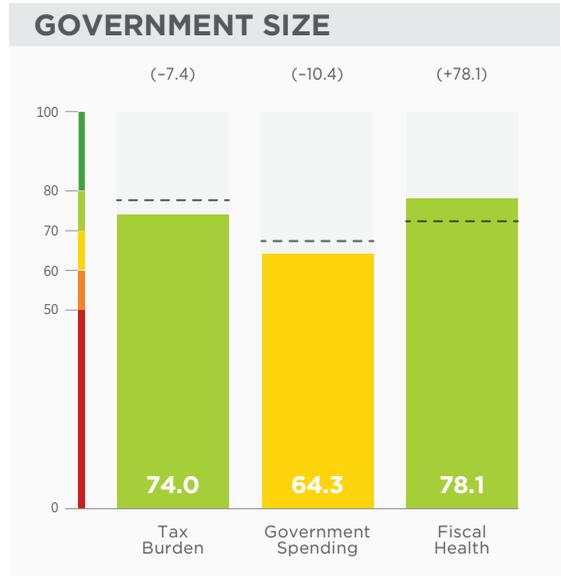
2019 data unless otherwise noted. Data compiled as of September 2020

BACKGROUND: Ethiopia's annexation of Eritrea in 1962 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 has created a rigidly militarized society. Mandatory conscription can be for indefinite periods. Eritrea and Ethiopia normalized relations in 2018, but Eritrea again closed its border posts with Ethiopia in 2019. The U.N. lifted the arms embargo on Eritrea in 2018 after concluding that Eritrea was no longer supplying weapons to the terrorist group al-Shabaab. The government has expanded military-owned and party-owned businesses in pursuing the president's development agenda. Copper and gold are important exports, but military spending drains resources needed for the construction of public infrastructure.

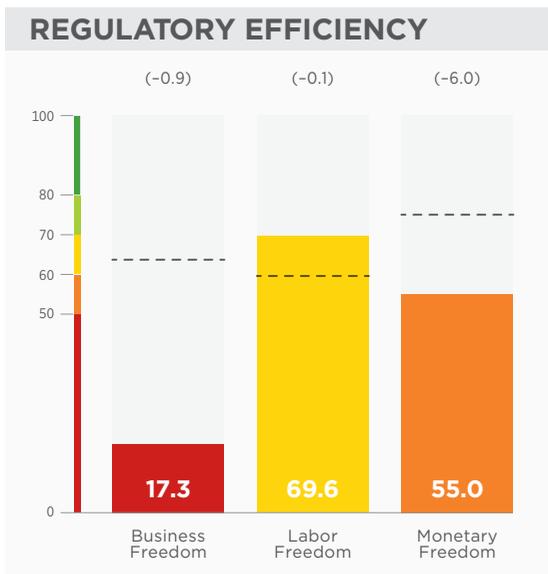
12 ECONOMIC FREEDOMS | ERITREA



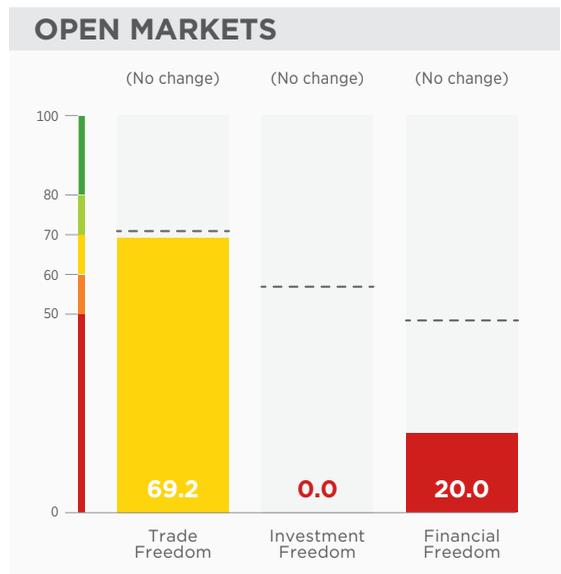
All land is considered state-owned, and property rights are nearly nonexistent. The small amount of private property that does exist can be expropriated without due process or compensation. The politicized judiciary is understaffed, underfunded, and unprofessional. The autocratic one-party state, widely considered to be one of the world's most repressive, is controlled by the president and his inner circle. Corruption is a major problem.



The top individual income tax rate is 30 percent, and the top corporate tax rate is also 30 percent. The overall tax burden equals 28.2 percent of total domestic income. Government spending has amounted to 34.5 percent of total output (GDP) over the past three years, and budget deficits have averaged 1.1 percent of GDP. Public debt is equivalent to 265.8 percent of GDP.



Eritrea has the second-worst business freedom score of any country and failed to make any progress during the year. Because few sizable private businesses exist, employment opportunities are limited. Reliable economic and labor statistics are difficult or impossible to find. Monetary stability is weak, and subsidies and price controls continue to be used widely in the command economy.



Eritrea has one preferential trade agreement in force. The country's most recent publicly available average tariff rate is 5.4 percent, but layers of nontariff barriers severely hamper trade flows. Eritrea is not a member of the World Trade Organization. Foreign investment in several sectors is restricted, and state-owned enterprises distort markets. The financial system remains very underdeveloped, and there are no effective capital markets.