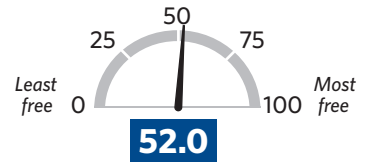


ETHIOPIA

Economic Freedom Score



World Rank: **134** Regional Rank: **28**

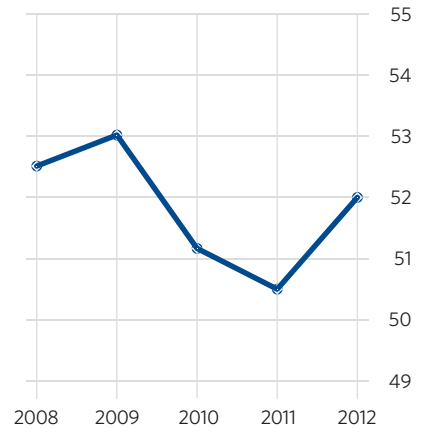
Ethiopia's economic freedom score is 52.0, making its economy the 134th freest in the 2012 *Index*. Its overall score is 1.5 points higher than last year, reflecting improvements in four of the 10 economic freedoms including investment freedom and monetary freedom. Ethiopia is ranked 28th out of 46 countries in the Sub-Saharan Africa region, and its overall score is slightly below the regional average.

Progress toward greater economic freedom has been very uneven, and Ethiopia underperforms in many critical policy areas. The absence of an independent and fair judiciary weakens the rule of law and undermines prospects for long-term sustainable economic development. Corruption is pervasive, and the efficiency of government services is poor.

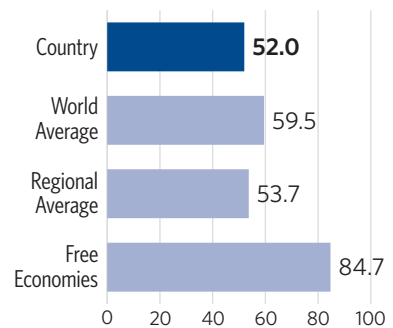
Weak regulatory frameworks and a lack of economic infrastructure impede expansion and diversification of the productive base. Open-market policies have been marginally advanced, but tariff and non-tariff barriers constrain the freedom to trade and the benefits derived from it. Lack of access to financing precludes entrepreneurial growth, and the investment regime lacks transparency.

BACKGROUND: Prime Minister Meles Zenawi, in office since 1991, won a landslide victory in May 2010. His Ethiopian People's Revolutionary Democratic Front claimed to win all but two seats in parliament, but the opposition claims that the political environment is oppressive and that the government engages in intimidation tactics. 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 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. Government control of the economy has stunted growth, and the state-run banks are not competitive with private banks in neighboring countries.

Freedom Trend



Country Comparisons



Quick Facts

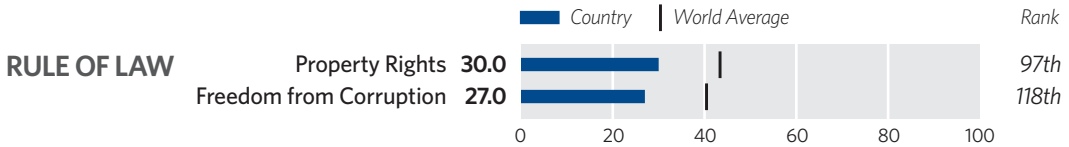
- Population:** 84.8 million
- GDP (PPP):** \$86.1 billion
- 8.0% growth in 2010
- 5-year compound annual growth 10.5%
- \$1,016 per capita
- Unemployment:** n/a
- Inflation (CPI):** 2.8%
- FDI Inflow:** \$184 million
- Public Debt:** 36.7% of GDP

2010 data unless otherwise noted.
Data compiled as of September 2011.

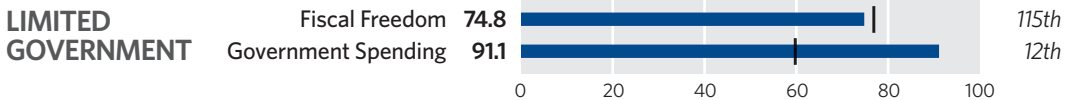
How Do We Measure Economic Freedom?

See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

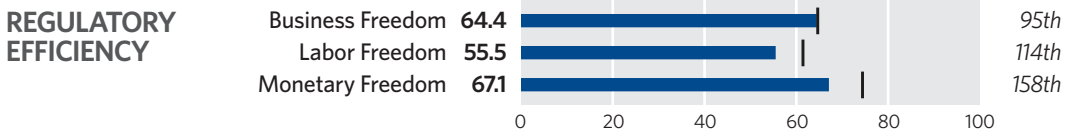
THE TEN ECONOMIC FREEDOMS



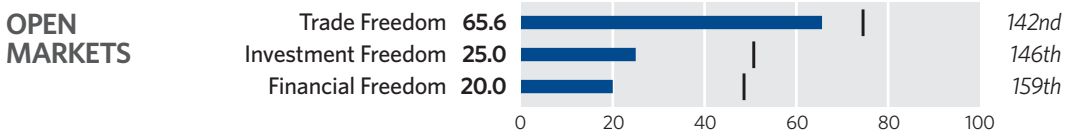
Property and contractual rights are recognized, but enforcement is weak. The judicial system is underdeveloped and vulnerable to political interference. A highly restrictive land-tenure policy makes it difficult to register property. State- and party-owned businesses receive preferential access to land leases and credit. Corruption further undermines the foundations of economic freedom.



The top income and corporate tax rates are 35 percent. Unincorporated businesses are taxed at a rate of 30 percent. Other taxes include a value-added tax (VAT) and a capital gains tax, with the overall tax burden equal to 8.6 percent of total domestic income. Government spending is equivalent to 17.2 percent of total domestic output, and the deficit has increased to 1.3 percent of GDP. Public debt amounts to 36.7 percent of GDP.



Despite somewhat simpler administrative procedures and increased transparency, the overall regulatory framework needs much more improvement. The minimum capital requirement for launching a business equals over three times annual average income. The formal labor market is underdeveloped. Outmoded employment regulations remain a barrier to business, although enforcement is not stringent. Monetary stability has been weak.



The trade weighted tariff rate is quite high at 9.7 percent, with myriad non-tariff barriers raising the cost of trade. The investment regime, lacking transparency and efficiency, remains unfavorable to dynamic investment growth. 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 remains restricted.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.3	Business Freedom	-3.0	Trade Freedom	0
Freedom from Corruption	0	Government Spending	+2.4	Labor Freedom	-1.6	Investment Freedom	+5.0
				Monetary Freedom	+12.8	Financial Freedom	0