Eritrea ranks 126th out of 179 countries in Transparency International's Corruption Perceptions Index

FDI Inflow:

Eritrea's economic freedom score is 36.7, making its economy one of the least free in the 2011 Index. Its overall score is 1.4 points higher than last year, reflecting some improvements in its ratings for government spending, business freedom, and labor freedom. Eritrea is ranked 45th out of the 46 countries in the Sub-Saharan Africa region.

Eritreans have suffered substantial losses of economic freedom in recent years. Afflicted by poor economic management and structural problems that severely undermine private-sector development, the country lags in productivity growth and dynamism and, consequently, in economic growth as well. Long-standing structural problems include poor public finance management and underdeveloped legal and regulatory frameworks.

Poor governance and the lack of commitment to structural reforms continue to hamper economic freedom. Investment freedom, financial freedom, property rights, and freedom from corruption are extraordinarily weak. 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.
Background

Eritrea won its independence from Ethiopia in 1993, but conflict soon resumed. A U.N. peacekeeping mission ended in 2008 because of Eritrean-imposed restrictions, and relations with Ethiopia remain tense. Eritrea has also ignored a U.N. resolution instructing it to remove troops from a disputed region on the border with Djibouti. President Isaias Afwerki has ruled without elections since 1993. Judicial independence is limited, and journalists and others have been held without trial for speaking against the government. Roughly three-quarters of Eritreans depend on small-scale agriculture and fishing, and two-thirds of the population receives food aid. Productivity is very low, and the International Monetary Fund estimates that remittances from Eritreans living overseas were equivalent to 23 percent of GDP in 2007.
Business Freedom18.2 +0.2

Existing regulations are severely outdated and not conducive to entrepreneurial activity. Procedures for establishing and running a business are opaque and costly.

VisualizeView Methodology
Trade Freedom69.1 no change

Eritrea's weighted average tariff rate was 5.4 percent in 2006. Import licensing for all private imports, inadequate infrastructure, inefficient and cumbersome customs administration, weak protection and enforcement of intellectual property rights, corruption, and limited export activity delay trade and increase its costs. Twenty points were deducted from Eritrea's trade freedom score to account for non-tariff barriers.

VisualizeView Methodology
Fiscal Freedom73.0 no change

Eritrea's fiscal regime and tax administration lack transparency, and there are no available data on tax revenue collection as a percentage of GDP. Remittances from the diaspora are the main source of income. The top income and corporate tax rates are 30 percent.

VisualizeView Methodology
Government Spending31.5 +24.6

In the most recent year, total government expenditures, including consumption and transfer payments, fell to 47.8 percent of GDP. The fiscal deficit measures 15.5 percent of GDP, and public debt stands at 141.9 percent of GDP.

VisualizeView Methodology
Monetary Freedom46.0 -13.0

Inflation has been out of control, averaging 28.8 percent between 2007 and 2009. The government uses the military and party-owned businesses to implement its development agenda and strictly controls the use of foreign currency. Few private enterprises remain. The diversion of manpower and government funds away from peacetime economic activities is expected to continue. Twenty points were deducted from Eritrea's monetary freedom score to account for extreme monetary-control measures.

VisualizeView Methodology
Investment Freedom0.0 no change

Eritrea remains a strict command economy, eliminating most private investment. Large-scale projects must be approved by the appropriate minister or the Office of the President. The government has selectively and narrowly courted foreign investors to explore underexploited resources in mineral extraction, energy, fisheries, and tourism. Regulatory procedures are haphazard and irregularly enforced. Additional impediments to both domestic and foreign private investment include severe limits on the possession and exchange of foreign currency, lack of objective dispute settlement, difficulty in obtaining licenses, large-scale use of conscripted labor, and expropriation of private assets. Government influence makes the courts biased arbiters in legal disputes.

VisualizeView Methodology
Financial Freedom20.0 no change

Eritrea's financial system remains poorly developed, and government interference is significant. High credit costs and scarce access to financing severely impede private investment and economic growth. All banks are majority-owned by the state, and private-sector involvement in the financial system remains limited. The Commercial Bank of Eritrea, the largest commercial bank, is chartered by the government to provide a range of financial services to the public, but very high collateral requirements for loans prohibit many small entrepreneurs from establishing and expanding their businesses. The government has borrowed heavily from private banks, crowding out private-sector economic activity. Falling interest rates have destabilized banks and led to a further decline in financial intermediation.

VisualizeView Methodology
Property Rights10.0 no change

The government strictly controls the political, social, and economic systems. The independence of the judiciary is limited. The government has a history of expropriating houses, businesses, and other private property without notice, explanation, or compensation. Arbitrary and complex regulatory requirements discourage investment from both foreign and domestic sources, and the government often reclaims successful private enterprises and property. In theory, women have the legal right to equal educational opportunities, equal pay for equal work, and equal property rights; in practice, men retain privileged access to education, employment, and control of economic resources, particularly in rural areas.

VisualizeView Methodology
Freedom From Corruption26.0 no change

Corruption is perceived as pervasive. Eritrea ranks 126th out of 179 countries in Transparency International's Corruption Perceptions Index for 2009. President Isaias Afwerki and the People's Front for Democracy and Justice (PFDJ), Eritrea's sole political party, dominate political affairs. The PFDJ's autocratic style of government harshly suppresses all forms of opposition. The government controls all foreign exchange, making it virtually the only legal source of imports and creating illicit profit opportunities for smugglers, who are often high-ranking Eritrean military officers. Eritrea is not known to be a party to any international anti-corruption agreements. Individuals requesting exit visas or passports reportedly have had to pay bribes.

VisualizeView Methodology
Labor Freedom73.4 +2.6

Employment regulations are flexible, but enforcement is not effective. The non-salary cost of employing a worker is moderate, but dismissing an employee can be difficult and costly

FOUND IN 2011 INDEX of ECONOMIC FREEDOM