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## **Eritrea—Recent Economic Developments**

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ERITREA

Recent Economic Developments

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Approved by the African Department

May 23, 1996

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Eritrea--Basic Data

Area, population, and GDP per capita

Area	124,320 square kilometers
Population:	
Total	3.0-3.5 million
Annual growth rate	3.0 percent
GDP per capita (1995)	US\$160-186

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
	<u>(In millions of birr, unless otherwise specified)</u>			
<u>Gross domestic product (GDP)</u>				
GDP at current market prices	2,003	2,521	3,381	3,904
Real GDP growth rate (in percent)	...	-2.5	9.8	3.9
	<u>(In percent of nominal GDP)</u>			
Agriculture	28.7	12.7	16.1	11.1
Industry	19.2	20.7	19.1	24.6
Distribution services	34.0	43.6	41.9	39.0
Other services	18.0	23.0	22.9	25.3
	<u>(Annual percentage change)</u>			
<u>Prices</u>				
Consumer prices (end-period)	8.8	9.6	6.8	11.0
	<u>(In millions of birr)</u>			
<u>Government finance</u>				
Revenue	488.8	893.2	1,026.5	1,345.2
Expenditure and net lending	734.8	1,559.0	2,005.7	2,657.1
Current	643.4	1,103.7	1,551.8	2,131.3
Capital	91.4	455.3	453.9	525.8
Overall balance (cash, excluding grants)	-246.0	-665.8	-979.2	-1,311.9
Foreign grants	181.4	507.0	626.0	457.8
Overall balance (cash, including grants)	-64.6	-158.8	-353.2	-820.9
	<u>(In millions of birr)</u>			
<u>Money and credit</u>				
Domestic credit	1.0	165.0	672.6	1,989.0
Claims on Government (net)	-91.5	-103.8	87.5	759.7
Other credit	92.5	268.8	585.1	1,229.3
Broad money <u>1/</u>	1,186.9	1,925.3	2,889.3	3,569.3
	<u>(In millions of U.S. dollars, unless otherwise indicated)</u>			
<u>Balance of payments</u>				
Exports, f.o.b.	15.2	36.1	64.5	80.6
Imports, c.i.f.	277.9	275.1	395.9	403.8
Trade balance	-262.7	-239.0	-331.4	-323.2
Services (net)	72.8	102.0	72.9	47.1
Private transfers	127.5	165.4	276.3	215.3
Current account balance <u>2/</u>	-62.4	28.4	17.9	-53.2
Official long-term capital (net)	--	0.2	25.0	24.3
Official transfers	168.0	69.0	80.0	73.0
Errors and omissions	14.9	16.6	-44.8	-108.2
Overall balance	120.2	114.7	78.7	-64.5
Current account balance <u>2/</u> (in percent of GNP)	-11.9	5.6	2.7	-7.7
<u>Gross official reserves</u>				
In months of imports	0.3	3.9	5.2	4.6
<u>Exchange rate (Br/US\$, period average)</u>				
Auction rate	2.8	5.2	6.2	6.3
Preferential rate	6.4	7.1	7.1	7.2

Sources: Data provided by the Eritrean authorities; and staff estimates.

1/ Deposits in the banking system, as data are unavailable for currency in circulation in Eritrea.

2/ Excluding official transfers.

## I. Introduction

The Eritrean Peoples' Liberation Front (EPLF) took control of Eritrea after an armed struggle of more than three decades and installed a provisional government in May 1991. Eritrea became an independent country in May 1993, following a referendum in April, in which an overwhelming majority of Eritreans chose to secede from Ethiopia. After independence, the EPLF transformed itself into the People's Front for Democracy and Justice (PFDJ), which at present is the ruling and only political party. A constitutional commission was formed in March 1994, with a mandate to prepare a draft constitution and a law on political parties. Ratification of the constitution is expected before end-1996 and multiparty elections are planned for 1997. <sup>1/</sup>

The Eritrean economy was devastated by the combined effects of the prolonged war and recurrent droughts, and at independence was confronted by the need for rehabilitation and reconstruction of the economic and social infrastructure. In addition, the Government has had to demobilize the ex-combatants and resettle large numbers of people displaced by the war, within and outside the country. At the same time, it had to start transforming the previous central planning regime into a market-based economic system.

Eritrea's institutional capacity is being strengthened through various programs, particularly the Economic and Financial Management Program (EFMP) under the Economic Recovery and Rehabilitation Project (RRPE), which is co-sponsored by a number of official creditors and bilateral donors. Since the inception of the program, notable progress has been made in enhancing the operating capacity of most government institutions and agencies, as well as strengthening tax administration.

Life expectancy at birth in Eritrea is estimated at 46 years, and the adult literacy rate is about 20 percent, compared with averages of 52 years and 42 percent, respectively, in sub-Saharan Africa. Education enrollment and access to health services are also very low in comparison with most other developing countries. Approximately 80 percent of Eritrea's population is rural, and the urban dwellers are concentrated in the country's capital, Asmara.

This report reviews recent economic developments and reform in Eritrea. Following this introduction, the developments in domestic production, prices, and the structural reforms undertaken are described in Section II. Developments in public sector finances are covered in Section III. Monetary developments and financial sector reform efforts are summarized in

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<sup>1/</sup> On the history of Eritrea prior to May 1991, see SM/94/285, Appendix I.



Section IV. External sector developments and liberalization are examined in Section V. Summaries of the tax system, and the exchange and trade system--as of end-March 1996--are provided in Appendices I and II, respectively. The statistical tables are provided in Appendix III.

## II. Economic Reconstruction and Reform

### 1. The economic reform program

The Eritrean Government's main economic objectives are to promote high and sustainable economic growth and thereby increase per capita income, create employment opportunities, and attain a sustainable external position over the medium term. To achieve these objectives the Government plans to create a modern, competitive market economy, by improving agricultural productivity, establishing export-oriented industries, and developing financial and tourism services. In addition, the Government has committed itself to facilitating private investment in all sectors of the economy, to pursuing sound financial policies, and to phasing out administrative controls. The Government's growth strategy also emphasizes the development of human capital through improved education and health, the rebuilding of infrastructure, and the protection of the environment.

The Government has initiated a wide range of economic reforms and has made progress in a number of areas; notably, deregulation of private economic activity, tax policy reform and improvement of revenue administration, investment promotion, and price decontrol, which includes agricultural producer and retail prices. After independence, many houses and retail shops were returned to the previous private owners, and since 1994 a number of hotels have been privatized or put under private management. In other areas some measures were taken, but limited progress has been made. In particular, land ownership reforms, the privatization of state-owned enterprises, liberalization of the exchange and trade system, and civil service reform have yet to be completed.

### 2. Recent developments in output and inflation

Since independence, Eritrea has shown remarkable signs of economic recovery, thanks mainly to the end of the war and the rebuilding of the economic and social infrastructure. This process has also been assisted by an increase in the availability of raw materials and spare parts, largely financed by remittances from Eritreans abroad and by donor assistance.

In the four years through 1995, real output grew at an annual average rate of about 4 percent, and was above the estimated population growth rate

of 3 percent. <sup>1/</sup> There was a significant decline in 1993, mainly because of drought conditions, but growth rebounded strongly in 1994, to about 10 percent, owing to a good crop, largely attributable to favorable rainfall, and a substantial increase in industrial production. In 1995, real GDP grew by about 4 percent, as result of a continued strong performance of the nonagricultural sectors (Appendix III, Table I). GDP per capita is estimated in the range of US\$160-186, while GNP per capita is in the range of US\$191-223. <sup>2/</sup>

During the period 1992-95, the structure of the economy underwent a remarkable shift, with the share of agriculture contracting from 28 percent of GDP in 1992 to 11 percent in 1995. The share of distribution services, wholesale and retail trade, and transport and communication sector increased steadily from 34 percent to 39 percent in the same period; while the industrial sector rose from roughly 19 percent of GDP to about 25 percent (Appendix III, Table III). The favorable outturn in the case of the industrial sector reflected the rehabilitation of a number of enterprises, as well as a steady supply of intermediate imported inputs.

a. Inflation

Price data for various commodities are compiled by the Ministry of Industry and Trade, but no official price indices are computed. A price survey for Asmara was started in November 1995 and results are expected by end-1996. The National Statistics Office (NSO) has been strengthened recently with additional staff and is conducting a number of surveys, including a Household Income Expenditure Survey. Based on the available commodity price index for Asmara, <sup>3/</sup> annual inflation rose from 6.8 percent in 1994 to 11 percent in 1995 (Appendix III, Table X). The acceleration in inflation reflected the poor agricultural harvest and demand pressures arising from the expansionary fiscal and credit policies in 1995.

b. Agricultural production

Agriculture is the mainstay of the Eritrean economy, although the industrial and services sectors have registered high growth rates in the last few years. Agricultural output had declined sharply, principally owing

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<sup>1/</sup> A proper review of the Eritrean economy is constrained by the paucity of macroeconomic data. While significant progress has been made over the past few years in compiling fiscal, monetary, and balance of payments data, key statistics on national income and prices are still virtually non-existent. Therefore, the Fund staff estimates of the national accounts are based on incomplete production indicators.

<sup>2/</sup> These calculations are based on population estimates that vary between 3 million and 3.5 million and assume that 50 percent of private remittances represent factor payments.

<sup>3/</sup> This index does not capture all price developments since the basket excludes housing rent, medical and other services, and utilities.

to war destruction, displacement of peasant farmers, and recurrent droughts. Agricultural productivity in Eritrea has historically been low because the sector is predominantly characterized by traditional, rain-fed subsistence farming, where little use is made of animal traction power, fertilizer, and modern agricultural inputs. Agriculture is also adversely affected by other exogenous factors such as frequent infestation of pests. The effects of widespread environmental degradation owing to the clearing of forests for security reasons during the war, fuel needs, and overgrazing have further weakened the agricultural sector.

Arable land in Eritrea is estimated at 3.2 million hectares, out of which only 11 percent is cultivated. Irrigation is limited and is confined to the lowlands, with about 17,500 hectares under irrigation. Family plot sizes are small (1-1.5 hectares) in the most densely populated highlands, but they tend to increase in the lowlands where commercial farms are being established. Eritrea has two rainy seasons: October through February for the eastern lowlands, and June through September for the rest of the country. This rainfall pattern and Eritrea's different altitudes allow planting of a wide variety of food and cash crops. Typically, barley and wheat are planted at higher altitudes, while teff, sorghum, and oil seeds--sesame and groundnuts--are grown at lower altitudes. Finger millet, a drought-resistant crop, is grown throughout the country.

Commercial farming is again being encouraged, following its demise during the war, and a number of investors have shown interest. Three large estate farms under the Government's ownership are in the process of rehabilitation prior to privatization. The Eldoret estate, which is the largest agro-industrial complex in the country, covers 1,200 hectares, of which 300 hectares are under cultivation for vegetables and fruits, and certain other sections of the estate are used for cattle ranching. The Alighider plantation, which had 5,000 hectares of cotton production before its decline, is undergoing a program of rehabilitation that commenced in 1993. So far, 4,000 hectares have been earmarked for the resettlement of ex-combatants. The smallest of the state farms, Ghinda, covers about 80 hectares and is devoted mainly to vegetables and citrus fruits.

As a result of the Government's drive to rehabilitate the agricultural sector, together with favorable rainfall, crop production was boosted almost threefold in 1994 from its 1993 level (Appendix III, Table IV). The program of rehabilitation entailed the restocking and distribution throughout the country of farm inputs such as seeds, implements, oxen, pesticides, and other essential inputs. During 1994, Eritrea's four principal food growing areas--Seraye, Gash-Serit, Barka, and Akeleguzay--with less than 50 percent of the country's population--accounted for more than 70 percent of total crop production. Hamassien and Denkel, accounting for 32 percent of the population, managed to produce only 10 percent (Appendix III, Table V). Crop production in 1995 benefited from good rains that year. However, owing to severe locust infestation and a slight decline in planted acreage, crop output at 1,385 thousand quintals was only about half that in 1994. Cereals production accounted for about 87 percent of total production: sorghum,

44 percent; barley, 20 percent; teff, 9 percent; wheat, 7 percent; and maize, 4 percent.

Food production has been insufficient to satisfy domestic requirements, thereby necessitating sizable food aid and commercial imports (Appendix III, Table VII). The Government has emphasized the need to increase the current food production levels, and assesses annual prospects through surveys conducted by the Ministry of Agriculture and the Eritrean Relief and Rehabilitation Agency, in collaboration with the Food and Agricultural Organization (FAO). To reduce Eritrea's dependence on food aid, the Government introduced a new policy in January 1996 to monetize all official food aid. According to this policy, food aid will be sold in the domestic market and the generated counterpart funds will be used to finance relief, rehabilitation, and development projects. In this regard, food distribution to participants in public works programs and development projects will be replaced entirely by cash payments.

Agricultural producer prices in Eritrea are market determined and reflect seasonal factors and the extent of food aid. However, through a Grains Board, which was established in 1993, cereals are purchased from surplus areas in order to stabilize prices and manage national food reserves.

Stocks of livestock have declined substantially as a result of the effects of the prolonged war, recurrent droughts, and inadequate veterinary services. The cattle population is estimated to have declined from 2.5 million in 1972 to less than a million in 1991. However, there was a significant rise in 1993-95 through improved animal husbandry, including an expanded program of veterinary services (Appendix III, Table IV). The increase in the cattle population will enable Eritrea to restore cattle exports, expand its leather industry, and improve the income level of the peasants. The main constraint on a rapid increase in livestock is the lack of forage.

The woodland area in Eritrea has steadily declined, from 40 percent of total surface area at the turn of the century to less than 1 percent to date, as a result of shifting cultivation, fuelwood usage, and war-related destruction. To reverse this land degradation, the authorities have taken a number of conservation measures, including reforestation, building of terraces to prevent soil erosion, and construction of microdams to store water.

With 52,000 square kilometers of continental shelf, fishing was a thriving business in Eritrea, in the 1950s when there were about 20,000 fishermen and the annual catch reached a peak of 25,000 tons, but this industry collapsed during the prolonged war. There have been recent efforts to resuscitate the fishing industry; in particular the Government has provided credit to cooperatives to purchase equipment and other fishing materials. Consequently, artisanal fishing increased by almost 30 percent in 1995. Commercial fishing also recovered, and the total tonnage exported

rose by 30 percent, to 3,773 tons, in 1995 (Appendix III, Table XI). A stock assessment and monitoring project has started and is expected to form the basis for setting guidelines for sustainable fishing.

c. Manufacturing

The industrial sector in Eritrea is dominated by public enterprises that operated for decades with outdated machinery, reflecting the low investment in this sector during the pre-independence years. However, the upgrading of machinery in a number of key industries since 1992 has contributed to an increase in production capacities. The food industry, in particular, expanded production steadily during 1993-95; the beverage industry, after suffering a setback in 1994, increased output substantially in 1995. While some industries such as paper and printing have yet to recover, the manufacturing sector's production value more than doubled between 1993 and 1995 (Appendix III, Table VI). Given the small domestic market in Eritrea, a large proportion of industrial products--salt, glass bottles, leather and leather products, and textile products--is exported, mainly to Ethiopia.

An intergovernmental agreement between Ethiopia and Eritrea determines Eritrea's share in the Assab refinery fuel production. Ethiopia imports all the crude oil for the refinery. Eritrea's purchases of refinery products rose from 175,755 metric tons, equivalent to 31 percent of total production, in 1993 to 211,131 metric tons, 37 percent of production, in 1995 (Appendix III, Table VIII). Petroleum product prices are still administered; ex refinery and retail prices are reviewed twice a year by a committee established by the Government. Although the costs of refining and distribution have risen, prices have been increased only twice since 1992, most recently in April 1994 (Appendix III, Table IX). The distribution of petroleum products is managed by private companies.

d. Mining

Eritrea's probable mineral resources include gold, potash, magnesium, marble, zinc, copper, and iron ore. However, little is known about the size of these mineral deposits and the commercial viability of their exploitation. Mining activities in base metals have resumed but mining's contribution to GDP remains small. The potential for expansion of base metal production exists, as shown by interest from investors from Africa, Australia, Canada, Europe, and the Far East. With regard to gold, there are three abandoned mines that could be rehabilitated that have estimated reserves of about 17,000 kilograms of gold; production is expected to start in 1998. Marble and granite mining has resumed on a modest scale, and the Department of Mines is actively promoting investment in finished or semifinished marble products. Exploration for oil and gas along the Eritrean coastline, interrupted during the war, has resumed. In September 1995, a US\$20 million offshore oil and gas exploration contract was signed with an American firm and other agreements are being negotiated with

international firms to prospect for oil and gas on the Red Sea coast and offshore.

e. Services

The services sector--comprising distribution and other services--is dominant in the economy, accounting for over half of GDP. Within this sector trade, transport, and public administration accounted for the major share; financial services, reflecting their limited development, contributed less than 2 percent of GDP in 1995. Transit trade destined for Ethiopia has become an important activity that is expected to boost the transport and communications sector.

3. Structural reforms

The regulatory framework has been enhanced by a number of key reforms affecting investment, privatization, land use, labor markets, and price deregulation. Moreover, as discussed in the following chapters, tax administration has been strengthened, exchange and trade restrictions have been eased, and the civil service is being restructured to make it more responsive and efficient.

a. Investment

The Investment Code (Proclamation No. 59/1994), which is administered by the Eritrean Investment Center (a one-stop autonomous body), provides for a liberal regime of foreign investment in all sectors of the economy, except in retail and wholesale trade, where a reciprocal agreement is required between Eritrea and the concerned country. The new code has eliminated tax holidays <sup>1/</sup> and introduced low income taxes (individual and company taxes are in the range of 20-35 percent, as detailed in Appendix I), as well as minimal tax rates for imports of raw materials and intermediate inputs. Duties and taxes on inputs and other materials used for export are rebated. Losses incurred in the initial two years are offset against future income for three successive years, with a provision for extension for one additional year in exceptional cases. Remittance of profits and repatriation of capital are provided for and investors can borrow from the domestic banking system, as well as contract foreign loans according to established procedures. Work permits can be obtained with ease, although firms are encouraged to employ Eritreans who have the requisite skills and qualifications. In the event of expropriation backed by legal arbitration, the Government is obliged to pay fair compensation.

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<sup>1/</sup> There is a provision for the authorities to provide additional incentives if a project is expected to benefit a large community or improve the environment.

There was a remarkable surge in the volume of investment registered with the Investment Center during 1993-95. The number of licensed projects increased from 24 in 1993 to 53 in 1994 and nearly tripled to 144 in 1995 (Appendix III, Table XII). Investment has taken place in all sectors of the economy, concentrated mostly in manufacturing, where the number of projects rose from 7 in 1993 to 68 in 1995. The value of foreign investment in manufacturing as a share of the total rose from less than 9 percent in 1993 to 42 percent in 1995. Investment in hotels has shown a rapid expansion, particularly in 1994 when the foreign component accounted for 79 percent of the total in this sector. Agriculture has attracted predominantly local investors, and the number of projects rose from 5 in 1993 to 20 in 1995. Overall commitments of foreign direct investment registered with the Investment Center rose steadily from 15 percent of total investment registered in 1993 to 34 percent in 1995. The pace at which these commitments will be translated into viable projects depends on allocations of land, the improvement of infrastructure (including utilities--water and electricity), and the upgrading of the financial system.

b. Privatization

In 1995 the Government established a Privatization and Monitoring Agency that would be responsible for the divestiture or liquidation of the state-owned manufacturing enterprises. The management of these enterprises, previously under the Ministry of Industry and Trade or other sector ministries, has been devolved to the general managers and the boards of each enterprise. With the assistance of the World Bank and private consultants, the privatization agency is expected to prepare a menu of options, including competitive tenders and management/employee buyouts, which the Government will utilize to implement its divestiture program.

A privatization program for other state-owned enterprises is also under consideration. All state-owned hotels are to be privatized by the Ministry of Tourism, as these are not covered by the privatization proclamation. Bids for several hotels (particularly Ambasoira and Hamasien) have been received, but were rejected as being too low. Interest in the tourism sector has been fairly strong; besides the hotels already privatized and others put under private management contracts, there are plans to build several hotels in Asmara, and to construct a large tourism facility in the Dahlak Islands.

c. Land reform

The land reform legislation of 1994 transferred land ownership to the state and granted usufructuary rights to Eritreans and investors alike. Until then a traditional land tenure system was in place, which comprised the diesa (where land was communally owned by members of the village or extended family and was reallocated every 5-7 years by a system of drawing lots), the demaniale system (where land was owned by the state and was leased for renewable periods in the range of 20-50 years for commercial activities), and the resti (which entailed family ownership of land). Under

the new legislation, the land commission will allocate land to Eritreans of 18 years old and above, regardless of gender and marital status. Farmers, however, have been allowed life-long lease to currently held land. Farmers can pass land to their heirs on meeting certain provisions of the law. Also, under the new legislation, investors will be allocated land on a long-term lease basis of up to 99 years.

d. Labor market

The Government has reduced the role of the state in the economy and hopes to improve the functioning of the labor market through training programs. In creating a labor market that is compatible with a market-based economy, the authorities have implemented a number of reforms, allowing the hiring of workers by the private sector and easing the restrictions on the layoff of workers. The management of public enterprises has also been given autonomy on labor issues. The civil service has been downsized and a competitive pay structure will be put in place, which is expected to enhance efficiency and hiring of skilled manpower. Some ex-combatants who have been relieved of their military duties and others retrenched from civilian duties in the Government have been allocated pieces of land. A National Service Program targeted toward young people has been established. These efforts are expected to provide some alleviation to the problem of unemployment.

e. Price deregulation

With regard to administered prices, the Eritrean Government has eased price controls since 1991 to permit the efficient allocation of resources. At independence, the price control regime covered soft and alcoholic drinks, flour, bread, pasta, fuel, mineral water, pharmaceuticals, detergents, cement, utility tariffs (electricity, and water), and rent for government houses. In August 1994, prices were decontrolled, except for flour and bread, petroleum products, pharmaceutical products, utility prices, and rents for government houses.

### III. Public Finances

1. Background

Faced with expenditure pressure stemming from reconstruction as well as other needs, the Government's fiscal policies have become increasingly expansionary during the four years through 1995. This expansionary fiscal stance, manifested in steadily increasing fiscal deficits during 1993-95, contributed to the emergence of macroeconomic imbalances during 1995, with rising inflation, a large external account deficit, and the loss of foreign exchange reserves. The overall deficit (excluding grants) reached a level of 28 percent of GNP in 1995; including grants, the deficit increased from 2.7 percent of GNP in 1992 to 17.5 percent in 1995. The deficits were largely financed by drawing down government bank deposits and external



financing through 1994, while in 1995 substantial domestic bank borrowing was undertaken (Appendix III, Table XIII).

During the past few years, the Government has been confronted with the need to establish and equip government institutions, to finance rehabilitation and reconstruction activities, and to pay for demobilization, reintegration of refugees, and severance payments for civil service restructuring. In addition, the continuing lack of a comprehensive budget has contributed to the expansionary fiscal policy stance and weak fiscal discipline.

## 2. Fiscal policy objectives and implementation

As part of its overall fiscal strategy, the Government formulated a set of policies to enhance revenue mobilization. On tax policy, the Government is committed to increasing the proportion of revenue from direct taxes, strengthening the tax administration, and maintaining the tax/GNP ratio. On direct taxes, all sources of income were to be taxed at comparable rates and with few brackets. Income below a "minimum national income level" was to be exempted from taxation, and a property tax was to be introduced. Indirect taxes were to include sales and excise taxes, and customs duties, with ad valorem rather than specific rates. In setting sales taxes, "extreme regressivity" was to be avoided by differentiating between essential and luxury products. Low and uniform rates, with few brackets, for given classes of goods and service were to be imposed to simplify tax administration. Regarding customs duties, minimum duties were to be levied on capital goods and intermediate inputs, and the conspicuous consumption of luxury items was to be discouraged, while duties on other goods were to be low and uniform. Taxes on exports were to be eliminated, and all re-exports were to be exempted from sales tax and customs duties. On nontax revenue, the Government planned to rationalize and properly manage nontax sources of revenue.

On expenditure policies, the Government is committed to (i) providing essential general government services (e.g., defense, foreign affairs, law and order, and regulatory services), and basic social services, with minimum charges and a guarantee of equal access; (ii) supporting the reintegration of ex-combatants into civilian life; (iii) assisting the rehabilitation of people adversely affected by the war; (iv) promoting environmental rehabilitation and protection; and (v) assisting private domestic and foreign investors by undertaking complementary investment in economic and social infrastructure and initiating investment jointly with the private sector, or solely by the Government, in strategic sectors where private entrepreneurship is lacking.

The Government took a number of steps to make public administration and the civil service more efficient. 1/ This process was intensified during 1995, when a comprehensive government restructuring exercise was completed; a number of government agencies were merged and others reorganized. In this context, a new Office of Management and Budget (OMB) under the President's Office was established, and the new Ministry of Finance (MOF) was assigned the responsibility for revenue administration and treasury operations, including participation in the preparation of the recurrent budget, expenditure control, and budget execution. The OMB is expected to take the lead in the formulation of the recurrent and capital budget, in cooperation with the MOF. Prior to 1995, a Macroeconomic Policy and Donor Coordination Unit had been established under the President's Office. The functions of sector ministries were rationalized, and the number of departments and autonomous agencies was reduced. In the restructuring, the number of civil servants and government workers was reduced by about one third, from 28,000 to 18,500. Also, government functions were decentralized and the number of administrative regions was reduced from ten to six.

The Government introduced major tax reforms, in late 1994, with the objective of reducing the maximum tax rates, broadening the tax base, and simplifying tax schedules. The highest marginal rates for unincorporated business profits and personal income taxes were reduced to 38 percent (from 51 and 85 percent, respectively); the rate for incorporated firms was reduced to 35 percent. The sales tax base was broadened by including most consumption goods, new excise taxes were introduced, and stamp duties were levied on a wide range of transactions. In addition, the authorities implemented a customs tariff reform that eliminated practically all exemptions, and introduced low duty rates except on a few luxury commodities.

The Government continued to reform its tax system in 1995, with the primary focus on tax administration. The authorities initiated tax identification numbers as well as a self-assessment system, on a voluntary basis, with the objective of simplifying assessment and improving compliance. 2/ At the same time, the authorities have started to revise and simplify the presumptive tax system during 1996; it is expected that low tax rates will be applied on presumed annual turnover and income of unincorporated businesses and individual professionals. 3/ Finally, the organizational restructuring of the Inland Revenue and Customs Department was completed and both institutions were better staffed and equipped.

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1/ For further details on the fiscal system prior to independence and the first reforms during the period 1991-94, see SM/94/285.

2/ A booklet has been produced (in Tigrinya) by the Inland Revenue Department to publicize this program, outlining procedures and providing examples.

3/ In 1995, a pamphlet on presumptive taxation was published (in Tigrinya) to inform the public about this scheme.

### 3. Developments in government revenue and external assistance

During 1992-94, overall revenue performance was favorable. Starting from a low level in 1992, which reflected the poor state of the economy and weak tax administration, revenue increased by 83 percent in 1993 and by another 15 percent in 1994 (Appendix III, Table XIV). This improved revenue performance was primarily as a result of the strong recovery in the economy, a sharp increase in imports, improvements in tax administration, and strong efforts to mobilize nontax revenue.

The favorable revenue performance continued in 1995. Overall revenue rose by 31 percent over the previous year, and the revenue-to-GNP ratio increased from 23 percent in 1994 to 29 percent in 1995. A substantial rise in nontax revenue explains the bulk of the revenue growth, as tax revenue rose by merely 9 percent (Appendix III, Tables XIV and XVI). Despite the favorable performance in the economy and further efforts to improve tax administration and broaden the tax base, tax revenue performance during 1995 reflected the impact of the reductions in marginal income tax rates, sales tax rates, and customs duties for many products, which were effected in late 1994. Within the tax revenue component, import duties and taxes experienced the strongest rise, reflecting primarily the rise in imports during the year.

The favorable performance in nontax revenue resulted from the large dividends paid by public enterprises and a combination of special factors. A number of public enterprises remitted, for the first time since independence, a part of their profits amounting to about Br 90 million. In addition, a total of about Br 50 million was collected from retroactive wages and salaries paid to the ex-combatants, representing the costs for in-kind allowances received by ex-combatants in the past. Finally, in both 1994 and 1995, the Government sold movable property (e.g., old vehicles) and realized significant nontax revenue.

Overall, aid disbursements have been limited, reflecting a government stance that stresses prudence in accepting external aid to avoid dependence, while preserving ownership in the implementation of programs and projects. However, donors have provided significant support in terms of food aid, as much as Br 400 million in 1994 to help mitigate the effects of the severe drought in the previous year; reflecting the good harvest of the preceding year, food aid fell sharply in 1995. Project-related grant disbursements have fluctuated widely from one year to another, partly reflecting data recording problems. In 1995, recorded grant disbursements, including food aid, showed a substantial decline from the level of 1994 (Appendix III, Table XV).

Regarding external loan financing, Eritrea has benefited from an IDA credit for recovery and rehabilitation in the amount of US\$ 25 million; this had been almost fully disbursed by end-1995. In addition, Eritrea has contracted loans from other multilateral and bilateral creditors to finance sectoral development projects, but little was disbursed in 1995. Overall

external loan disbursements peaked at Br 154 million in 1994, when most of the IDA credit was disbursed, and were much lower in 1995 at Br 55 million, as the IDA disbursements tapered off.

#### 4. Expenditure policies

In line with its fiscal policy objectives, the Government's expenditure priorities over the past four years have focused primarily on rehabilitating and developing basic economic and social infrastructure, improving the provision of basic social services, especially primary education and health care, supporting the demobilization and reintegration of ex-combatants, and assisting the resettlement of refugees and other target groups affected by the war through special safety net programs. Also, the Government has increased defense outlays, and introduced a National Service Program (NSP) partially devoted to reconstruction of economic infrastructure.

##### a. General expenditure

Given the need to rebuild and establish a government structure, there have been significant increases in the level of spending on general government activities. Current expenditure on internal services, regional administration, and foreign affairs rose markedly, in 1994 and 1995. Excluding defense, expenditure on general services rose from 3 percent of GNP in 1992 to almost 7 percent in 1995 (Appendix III, Table XVII). Defense outlays also increased substantially, reflecting the costs to maintain the ex-combatants in the national army, costs for the National Service Program, and ordinary defense outlays. About 60,000 young men and women have been conscripted into the NSP in four batches. <sup>1/</sup> The overall costs of this program amounted to about Br 130 million in 1994, including the establishment of training camps and other startup expenses.

The increase in general expenditure is also reflected in outlays on wages, salaries, and allowances, which rose from 5.7 percent of GNP in 1992 to almost 14 percent (including special expenditure on civil service retrenchment and retroactive wage payments). Similarly, outlays on goods and services rose significantly to 18 percent of GNP, from about 10 percent in 1994, reflecting recurrent cost implications of capital projects started in the previous years and the need to provide materials to newly established recurrent expenditure programs (Appendix III, Table XVI).

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<sup>1/</sup> Under this program, each participant receives military training for 6 months, followed by 12 months of civilian service in infrastructure rehabilitation and environment restoration programs. In July 1994, a first batch of 10,000 was conscripted, followed by 20,000 in January 1995, 20,000 in July 1995, and 10,000 in January 1996.

b. Rehabilitation and development of infrastructure

Prior to 1991, much of the economic infrastructure had deteriorated because of inadequate maintenance and war destruction. Very little new investment in social or economic infrastructure had been undertaken during the war years, except for the port of Assab, which had been maintained relatively well, given its strategic importance for Ethiopia. Consequently, after independence the Eritrean Government began to rehabilitate and extend the country's infrastructure. Many schools and health facilities were constructed or repaired, large stretches of the country's most important roads were rebuilt, and public works programs were initiated to improve the environment. Many of these activities were undertaken with the involvement of local communities, but the Government provided resources in the form of machinery, materials, and transport. Also, as the number of donor-financed capital projects has increased, so have the local counterpart contributions to these projects.

These efforts have been reflected in significant increases in capital spending in both economic and social sectors. Overall, capital outlays in economic sectors rose from 3 percent of GNP in 1992 to 9 percent in 1995. Most of the increase was in agriculture and natural resources, as well as in transport, construction, and communication, where capital spending surged by almost 100 percent in 1995. In the social sectors, capital outlays increased from 0.5 percent of GNP in 1992 to 2 percent in 1995 (Appendix III, Table XVIII).

c. Demobilization and reintegration of ex-combatants

In 1993, the Government started a demobilization program for ex-combatants, and the first group of about 26,000 was discharged. <sup>1/</sup> Each of these ex-combatants received a lump sum of up to Br 5,000 as a severance payment, and six months of food rations; the total cost amounted to Br 100 million. In 1994, a second batch of some 15,000 ex-combatants, most of whom had served under the EPLF for many years, was demobilized. A severance payment of Br 10,000 and 12 months of food rations was paid to each member of this group at a cost of about Br 154 million (Appendix III, Table XIII). In 1995, about 7,000 ex-combatants were demobilized, including about 3,500 who had been working in the civil service and were retrenched in the context of the ongoing government restructuring. As in 1994, each of the ex-combatants, not retrenched under the Civil Service Scheme, received a severance payment of Br 10,000 and food rations, resulting in budgetary costs of about Br 42 million. Those who had worked in the civil service and had not been paid regular wages received additional retroactive wage payments starting from January 1994. By the end of 1995, about 48,000 ex-combatants had been demobilized, with all costs associated with this exercise entirely financed from domestic sources.

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<sup>1/</sup> For the most part, these were young ex-combatants without families who had joined the EPLF after 1990.

Since 1993, the demobilization process has been accompanied by efforts to support the reintegration of ex-combatants into civilian life. A special unit under the Eritrean Relief and Refugee Commission (ERREC) has been made responsible for coordinating reintegration activities. <sup>1/</sup> Reintegration projects have been supported by official donors and NGOs, but the financing of these projects, which the Government estimated at about US\$50 million, has not been fully realized. One of the most important reintegration efforts has been the resettlement in 1994 of about 1,100 ex-combatants on a state farm, to cultivate cotton and other crops on irrigated plots. In 1995, the Government expanded the project and initiated another agricultural resettlement project in the western lowlands.

In addition, two special credit schemes have been initiated to assist ex-combatants. Under a scheme supported by the Commercial Bank of Eritrea (CBER) since 1994, credits, on concessional terms, have been extended to individual, or groups of, ex-combatants to finance small-scale development projects in agriculture or other sectors. Under the other credit scheme, salary advances were provided to ex-combatants in government service in the form of credits from the CBER, starting at a minimum of Br 3,000 and an additional Br 200 for each year of working as a civil servant. It was expected that 50 percent of the loan and interest (at a rate of 9 percent) had to be repaid within two years, while the balance was to be repaid once regular salaries were received.

d. Reintegration of refugees

In late 1994 early 1995, the Government began to receive the first group of 25,000 refugees from Sudan under a pilot Program for Refugee Reintegration and Rehabilitation of Resettlement Areas in Eritrea (PROFERI), with the assistance of the office of the United National High Commission for Refugees and other donors. <sup>2/</sup> Prior to the pilot program, about 80,000 refugees have returned without official assistance.

The pilot phase has been completed, and in 1995 the Eritrean authorities began to discuss with the World Bank, other UN agencies, and bilateral donors the technical design and financing of Phase I of the program, which would entail the repatriation of about 100,000 refugees during 1996 and 1997. It is estimated that Phase I will cost US\$60-80 million, to be mostly financed by donors.

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<sup>1/</sup> During 1995, the former Eritrean Relief and Rehabilitation Agency (ERRA) and the Commission for Eritrean Refugee Affairs (CERA) were merged into ERREC.

<sup>2/</sup> The official estimates of the total number of Eritrean refugees in Sudan is about 400,000.

e. Safety net programs

The Government has provided safety net programs for those adversely affected by the war, including disabled persons and families of combatants who died during the liberation war (martyrs' families). During 1995, the Government began to provide financial compensation to these families. According to official sources, about 60,000 families could qualify for such assistance. In 1995, payments were made in 30,000 cases, resulting in budgetary costs of about Br 300 million. Compensation payments to the remaining families are expected to be completed during 1996. In addition the Government provided compensation to civil servants and ex-combatants who were retrenched from the government service during 1995. About one third (10,000) of the total of 28,000 civil servants, including 3,500 ex-combatants working in civilian jobs since independence, were retrenched during this program.

IV. Monetary Developments and Financial Sector Reform

1. Introduction and background

At independence, Eritrea inherited a rudimentary financial sector, entirely owned by the Government. Previously, under the central planning system of the Ethiopian Government, credit policy had been directed by the Government, and interest rates set administratively and differentiated across economic sectors, as well as between the public and the private sector. Eritrea has since then undertaken efforts to establish a central bank, develop the capacity to set monetary policy, influence monetary developments in the context of a de facto currency union with Ethiopia, and reform the financial sector. 1/ Monetary policy has been confined largely to interest rate management, with other policy instruments either unavailable or ineffective. The de facto currency union with Ethiopia has limited the scope for an independent monetary policy; consequently, the authorities are determined to introduce a national currency in the near future in order to be able to conduct independent monetary and exchange rate policies.

Apart from the Bank of Eritrea (BE), the nascent central bank, other financial institutions include the Commercial Bank of Eritrea (CBER), the Housing Bank of Eritrea (HBE), the Agricultural and Industrial Development Bank of Eritrea (AIDBE), and the National Insurance Company of Eritrea (NICE). Except for the HBE, which is owned by the Peoples Front for Democracy and Justice, all financial sector institutions are owned by the Government. The financial sector is dominated by the CBER, which held about 70 percent of total assets in the Eritrean banking system at the end of 1995. The HBE has become more active in taking savings and time deposits,

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1/ The Ethiopian birr has remained the official currency of Eritrea.

and it has declared its intention to apply for a commercial bank license in the near future. No other private bank has been established so far.

Monetary and banking statistics are still weak. Progress has been made during the past few years in terms of training staff at the central bank in the compilation of monetary statistics and the preparation of balance sheets and a provisional monetary survey. However, a number of weaknesses remain, including the classification of the banks' balances by economic sectors, and the detailed and comprehensive classification of foreign and domestic assets and liabilities.

## 2. Government objectives and strategies

The Government's monetary policy objectives, as set out in its Macroeconomic Policy Paper, are (i) to stimulate growth through the mobilization and optimal allocation of savings; (ii) to control inflation and attain overall macroeconomic stability; and (iii) to maintain a healthy and sustainable balance of payments position. While the Government has made clear that it is committed to creating an independent central bank and a national currency, it has also recognized the need to build the capacity of the central bank to manage independent monetary and exchange rate policies as a first step. Moreover, the Government has declared its intention to develop financial institutions and instruments that will enable the market determination of interest rates, to aim for a system whereby access to credit will be determined by market forces, and to restrict government intervention to supervision and enforcing prudential requirements.

In the interim, the central bank was provided the authority to set interest rates with a view to (i) promoting the growth of financial savings through maintaining positive real interest rates; (ii) managing the inflow and outflow of short-term international capital; (iii) directing and lowering the cost of credit to priority sectors; and (iv) controlling the growth of money supply. During the interim, a system of preferences and priorities with respect to access to and conditions for credit has been established.

The Government indicated that entry to the banking sector will be open to the private sector, domestic and foreign. In this context, one of the Eritrean Government's long-term development objectives is to create a "competitive regional financial center." To achieve this objective, the Government plans to build the capacity of the financial system by introducing advanced modern technology and establishing a financial training institute.

## 3. Monetary policies since independence

The institutional set-up and legislative framework for monetary policies and financial sector development are still evolving. New central bank and financial sector legislation has been drafted, but not yet enacted, and a temporary proclamation (No. 32/1992) continues to form the legal basis



for monetary policies and financial sector operations. The Bank of Eritrea continues to operate on the basis of this temporary law.

During the past three years, progress has been made in building the capacities of the BE, although it is not yet in a position to effectively carry out all important central bank functions. Banking supervision and foreign exchange reserve management continue to be inadequate owing largely to the delays in adopting the appropriate legislation and the continued shortage of skilled personnel. The draft Bank of Eritrea Act and the Financial Sector Act are the only banking regulations to have been drafted to date.

Given the limitations set out by the de facto currency union with Ethiopia, and the high degree of liquidity in the banking system, the Eritrean monetary authorities have not taken any active measures to manage domestic liquidity. No new financial instruments (e.g., treasury bills, government bonds, central bank securities) have been introduced since independence, although the authorities are considering the introduction of these and other financial instruments.

A rediscount window was formally established in 1994 (with an interest rate of 5.5 percent), however banks have not used this facility given their large cash holdings. Some interbank lending occurred during 1995, as the CBER provided a loan to the HBE. While no mandatory reserve requirement exists, both the CBER and the HBE maintain a part of their deposits in the form of reserves with the Bank of Eritrea. In the case of the CBER, these reserves increased significantly, from 25 percent of the total deposit base at the end of 1994 to 39 percent (Br 1.3 billion) at the end of 1995 (Appendix III, Table XXI). In the case of the HBE, reserves amounted to 2.6 percent of the total deposit base at the end of 1995. Reserves of both the CBER and the HBE are not remunerated by the BE.

Interest rates were streamlined considerably, in late 1994, when the Bank of Eritrea Directive No. 5/1994 was issued. Prior to this, interest rates were administratively set and lending rates were differentiated between the public and the private sector, and across sectors. At the time of the issue of the Directive, the differentiation in lending rates between the public and the private sector was eliminated. During 1995, the Bank of Eritrea allowed some liberalization of savings deposit rates; the HBE started to offer 8 percent interest on savings deposits vis-à-vis 6 percent by the CBER. <sup>1/</sup> In addition, lending rates were raised slightly, and the spread between the lowest and highest sectoral lending rates increased from 7-9 percent at the end of 1994 to 7-12 percent at the end of 1995 (Appendix III, Table XXV). The Bank of Eritrea introduced a preferential lending rate on central government overdrafts of 2-3 percent, while no interest is paid by the BE on government deposits.

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<sup>1/</sup> However, the HBE has only offered 4 percent interest on savings deposits above Br 100,000.

Given that inflation (as measured by the price index for Asmara) increased to about 11 percent in 1995, most interest rates were no longer positive in real terms at the end of the year. In general, lending rates have been streamlined and adjusted upward, but in several cases, including government borrowing and special credit schemes, preferential interest rates have been maintained. For example, the special credit scheme for ex-combatants has been provided at an interest rate of 7.5 percent. In addition, credits were made available to Eritreans returning from abroad for the establishment of small-scale enterprises, at an interest rate of 8 percent.

Despite the de facto currency union, Eritrea and Ethiopia have pursued somewhat different interest rate policies, and a significant differential in interest rate levels between the two countries has prevailed. Ethiopia established a minimum deposit rate (of 10 percent) and a maximum lending rate (of 15 percent) in January 1995; in early 1996, these rates were raised to 11 percent and 16 percent, respectively. The prevalence of a differential of about 4 percentage points on the deposit rates between the two countries are likely to have encouraged capital flows from Eritrea to Ethiopia. These, however, cannot be quantified, given the unavailability of currency in circulation data in Eritrea and the inadequate recording of trade and financial flows between the two countries.

#### 4. Monetary developments in 1992-95

In the absence of reliable estimates of currency in circulation, monetary developments in Eritrea are assessed on the basis of trends in bank deposits. During the period 1992-94, monetary developments in Eritrea were mainly characterized by strong growth in broad money, although its growth rates decelerated progressively. There was a pronounced build up in deposits with the banking system in 1992, when cash holdings were shifted to bank deposits, as security improved in the country. In addition, Eritreans living in Ethiopia transferred capital to Eritrea, while substantial cash deliveries were made by Ethiopia to cover bank deposit liabilities. Eritrea experienced current account and balance of payments surpluses vis-à-vis Ethiopia, which further increased Eritrea's birr holdings. Net foreign assets also increased significantly in 1993 and 1994 (Appendix III, Table XXIII).

In 1995, monetary developments were markedly different from the trends of the preceding few years. Broad money (excluding currency in circulation) expanded by 23.5 percent, which was significantly above the growth rate of nominal GNP, but the expansion was considerably lower than in the previous three years (Appendix III, Table XX). Both net foreign assets and net claims on the birr area declined; as a percent of the beginning-of-period broad money stock, net foreign assets declined by 3.9 percent, while net

claims on the birr area declined by 9.7 percent. <sup>1/</sup> The decline in birr holdings by Eritrean banks may be attributable in part to an increase in cash demand for transactions within Eritrea owing to the increased level of economic activity, but it may also reflect unrecorded capital outflows to Ethiopia.

Domestic credit almost tripled in 1995, reflecting both a large increase in net claims on the Government and a surge in credit to the private sector. To finance its fiscal deficit, government borrowing rose by 23 percent of the beginning-of-period broad money stock. While credit to public enterprises rose only modestly, credit to the private sector increased by 18 percent of beginning-of-period broad money during 1995. Until end-1994, the CBER was virtually the only bank that extended credit to public enterprises and the private sector, however, during 1995, the HBE started to extend loans for housing construction. CBER credit to the private sector almost doubled during 1995, from Br 330 million at the end of 1994 to about Br 650 million at the end of 1995. At the same time, the private sector's share of outstanding credit with the CBER rose from 25 percent at the end of 1993 to about 60 percent at the end of 1995 (Appendix III, Table XXI).

Regarding the sectoral distribution of credit, the most important development during 1995 was the surge in credit extended to domestic trade and services by the CBER; loans to this sector grew from 29 percent in 1994 to 40 percent of total outstanding loans. Export and import financing, as well as credit for manufacturing, also went up by 100 percent or more, albeit from much lower levels. Agricultural credit increased by about 70 percent during 1995, also from a low level. Building and construction loans from the CBER rose somewhat during 1995; in addition, there was a strong increase in housing construction lending through the HBE (Appendix III, Tables XXII and XXIV).

As money (excluding currency in circulation) remained more or less stagnant during 1995, quasi-money rose by 39 percent, almost Br 640 million, reflecting primarily an increase in savings deposits of the private sector at both the CBER and the HBE. Since independence, there has been a strong boost in deposits because a large part of the substantial monetary overhang in the economy was redeposited with the banking system, given the increasing confidence in the independent Eritrean government and the banking system. While it was mostly the CBER that benefited from the increase in savings and fixed deposits, the HBE also accumulated substantial savings deposits during 1995; the CBER's share in total deposits liabilities thus declined to 93 percent at the end of 1995. Other items (net) also increased by 8.5 percent of the beginning-of-period broad money stock, owing primarily

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<sup>1/</sup> Net claims on the birr area are defined to include cash in bank vaults and the correspondent and clearing accounts with Ethiopia.

to a net increase in the suspense and margin-held accounts of the CBER, which in turn reflected the increase in the level of import financing. <sup>1/</sup>

5. The currency union with Ethiopia

Since independence, Eritrea and Ethiopia have undertaken a number of efforts to intensify bilateral cooperation. A number of important agreements on sectoral cooperation have been signed--specifically on the use of Eritrean ports, the joint use of the Assab refinery, and the waiver of visa requirements for their nationals. Moreover, a joint high ministerial commission was established to coordinate macroeconomic and other policies. Bilateral trade was largely free from restrictions after Eritrea became independent, and in April 1995 an agreement was reached on the establishment of a free trade area.

In the monetary area, after independence, Eritrea continued to use the Ethiopian birr as provisional legal tender, but has made clear that its own national currency will be introduced as circumstances warrant. However, bilateral cooperation has not been optimal with regard to the de facto currency union. Although efforts have been made, there has only been a limited harmonization of important macroeconomic policies, and the exchange of monetary data has been inadequate. While both countries have aligned their direct and indirect tax regimes, important differences have remained. Interest rate policies have been divergent, and exchange rate policies in Eritrea have been more liberal than in Ethiopia. These differences may have led to distortionary trade and capital flows. Finally, there has been little progress in negotiating a solution to the problem of excess liquidity in the Eritrean banking system.

6. Financial sector operations

In 1995, The Commercial Bank of Eritrea (CBER) continued the expansion of its domestic operations and branch network, and banking operations at its headquarters and branches in Asmara were partially computerized. <sup>2/</sup> It has benefited from external assistance as well as training provided by two foreign banks. The CBER has maintained close links with the Commercial Bank of Ethiopia, and has built correspondent relations with other foreign banks.

Based on available information, the CBER has maintained a sound loan portfolio, and its operating profits continued to increase in 1995. The CBER was exempted from paying income tax, and did not pay dividends to the Government until the end of 1995. Profits were primarily used to increase

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<sup>1/</sup> When opening a letter of credit, importers are generally required to deposit 20-40 percent of the amount in a margin-held account at the CBER.

<sup>2/</sup> At the end of 1995, the CBER operated 12 branches and had about 300 staff. Five new branches are expected to be opened by early 1997 (two in Asmara and three in regional towns), for which 50-60 new staff members would be required.

reserves and to finance investments. The Bank's profitability reflected earnings from comparatively high fees on foreign exchange operations, but it also benefited from low interest paid on major deposits, including those of the HBE and the NICE. Moreover, the surge in credit to the private sector during 1995 helped the bank's profitability.

The Housing Bank of Eritrea (HBE) was formally established in January 1994 under the ownership of the People's Front for Democracy and Justice with capital of Br 5 million. During 1995, the HBE significantly expanded both its banking and real estate activities. The Bank had two branches at the end of 1995, and has established correspondent relationships with banks in the United Kingdom, Germany, and Saudi Arabia. The HBE intends to begin commercial banking operations by offering birr current accounts and U.S. dollar savings accounts, as well as dealing in foreign exchange. During the year, savings and time deposits at the HBE increased strongly, while the number of savings accounts more than doubled (to about 11,000). <sup>1/</sup> The surge in deposits--mostly from individuals intending to purchase or construct buildings for residential and commercial purposes--was attributable to the 8 percent interest rate offered on savings deposits (6 percent at the CBER) below Br 100,000; these represented more than 80 percent of all deposits at the end of 1995. <sup>2/</sup>

The HBE contributed to the notable surge in overall net bank credit during the year. The Bank experienced a slight increase in housing loans, and significant non-interest-bearing advances were made to the Sembel Housing Project as of end-1995. Loans to the public for the purchase and construction of residential and commercial buildings doubled, albeit from a low level (Appendix III, Table XXII). The HBE extended housing credits based on down payments of 10-30 percent, with maximum repayment periods of 10-25 years, and at fixed interest rates of 9.5 percent for the construction of residential units, 10 percent for the construction of commercial units, and 12 percent for all purchases of buildings.

Apart from expanding its banking operations, the HBE has become a very active real estate developer. However, the Bank plans to separate its real estate activities from the banking operations. To date, one large-scale housing project has been started in Asmara, and another project is under

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<sup>1/</sup> Considering that the HBE intends to apply for a commercial banking license as soon as possible, and that deposits and lending operations have expanded beyond the housing market, the HBE accounts have been included in the monetary survey starting June 1994 (Appendix III, Table XIX).

<sup>2/</sup> In contrast, only 4 percent was offered on deposits exceeding this amount.

preparation in Massawa. 1/ The loan that was contracted from the CBER (U.S. dollar-denominated at an interest rate of 5.5 percent) was used to finance construction costs during the early phase of the Asmara Project.

The Agricultural and Industrial Development Bank of Eritrea (AIDBE) was only operational to a very limited extent at the end of 1995; it had only one office and very few staff. A proposal to recapitalize the AIDBE was presented to the Government, but no decision has been taken. The only activity by the AIDBE has been the collection of debt service payments--on loans extended before independence--from Eritrean clients. 2/ These collections have been used to cover the operating costs of the bank.

The National Insurance Corporation of Eritrea (NICE) is owned by the Government and currently is the only active insurance company in Eritrea. Although the sector is open to private domestic and foreign investors, no private insurance company has been established since independence. Partly owing to its monopoly, the NICE was able to increase its gross income to Br 50 million in 1995. 3/

## V. External Sector Developments and Liberalization

### 1. Introduction and background

Eritrea inherited from Ethiopia a heavily regulated external sector, under which the Minister of Trade had statutory authority to restrict, prohibit, and regulate exports and imports. All export proceeds were subject to a 100 percent surrender requirement. Resident nationals were not allowed to hold foreign currency accounts, and payments and transfers for current international transactions were strictly regulated.

In 1991-94, Eritrea started to promote a more liberal and open exchange and trade system. Trade restrictions were eased, and most controls on foreign exchange payments were progressively reduced. In February 1993, a new tariff schedule was introduced, and customs duty rates were

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1/ The Sembel Housing Project involves the construction of a complex of about 1,250 apartments with adjoined facilities (e.g., school, shopping mall), at an estimated cost of US\$70 million. Apartments are offered for sale, primarily to Eritreans living abroad. A second, smaller real estate project undertaken by the HBE is currently in its early construction phase in Massawa, where about 350 apartments and a number of office buildings will be constructed. For both projects, a foreign company has been contracted for the construction work.

2/ Under Ethiopian rule, this bank was a branch of the government-owned Agricultural and Industrial Development Bank (AIDB).

3/ The favorable financial performance was possible despite the fact that the NICE holds considerable cash and its fixed deposits at the CBER are only remunerated at 1 percent.

rationalized. <sup>1/</sup> Customs administration was restructured. In the areas where the legislation had not been revised, including limits on certain payments and transfers for current transactions, the BE approved virtually all legitimate requests for foreign exchange cover.

Since the Ethiopian birr has remained the official currency in Eritrea, the official exchange rate of the birr was applied for specific transactions such as imports of pharmaceuticals and port services used by Ethiopia. As of October 1, 1992, the official rate was substantially devalued from Br 2.07 to Br 5 per US\$1. In May 1993, biweekly foreign exchange auctions were introduced in Ethiopia, and the marginal rate from the most recent auction was subsequently used for most transactions in Eritrea. A more depreciated exchange rate, called the preferential rate, which has been set at Br 7.2 per US\$1, has also been sanctioned in Eritrea for selected transactions since mid-1992. The preferential rate was initially used for the conversion of remittances by nonresident Eritreans, but has subsequently been extended to export proceeds, and most import payments by the private sector. In July 1995, the auction rate and the official rate were unified in Ethiopia and Eritrea as well.

At independence, Eritrea started to compile comprehensive balance of payments statistics. Since 1993, progress has been made in the collection and compilation of trade statistics. Currently, the balance of payments data are based on information provided by (a) the Customs Office, for trade data (except for petroleum imports data, which are provided by the Petroleum Corporation of Eritrea); (b) the BE for services and private transfers; and (c) the Ministry of Finance for data on official transfers and loans. While the recording and reporting of trade data has improved, capital account data are still highly deficient. Data on grants and loans are generally available, but flows on disbursements are not properly recorded, and data on foreign investment flows are not compiled for balance of payments purposes.

## 2. Balance of payments in 1992-94

Eritrea maintained a relatively strong external position in 1992-94, as the overall balance of payments surplus averaged about US\$105 million a year. Exports almost doubled in value each year, albeit from a very low base, and reached some US\$65 million in 1994. Imports grew strongly, reflecting the increased demand for both capital goods and consumer items, owing to the strong recovery of the economy and the initiation of rehabilitation activities. During this period, official aid imports for food and various rehabilitation programs accounted for more than 20 percent of total imports. <sup>2/</sup> Imports were largely financed through remittances from abroad, while commercial imports averaged about 20 percent of total

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<sup>1/</sup> See SM/94/285, Appendix II.

<sup>2/</sup> The counterpart of food aid grants recorded in the official transfers is partly in food imports and partly in the services account, because these grants also cover transport services related to distribution of food.

imports over this period. The trade balance, in both the birr and the nonbirr accounts (transactions with Ethiopia and the rest of the world, respectively), remained negative throughout this period, with an average overall deficit of about US\$280 million.

The current account, which had shown a deficit of about US\$60 million in 1992, registered modest surpluses in 1993 and 1994, reflecting sizable positive balances in the services account, thanks mainly to port services, transport, and refinery services in Assab, and private transfers, which rose from about US\$130 million in 1992 to some US\$290 million in 1994. At these levels, private remittances from Eritreans residing abroad represented an important source of financing for private franco valuta imports (i.e., imports that are not financed through the banking system).

External assistance, in the form of official grants and loans, increased to more than US\$100 million in 1994; 42 percent of this was related to food aid. Capital account transactions reflected only disbursements of an IDA credit of about US\$25 million. Eritrea did not have any external debt at independence; disbursements started under the IDA credit in 1993.

Eritrea's official foreign exchange reserves increased from 0.3 month of imports at end-1992 to 5.2 months at end-1994. However, large movements in errors and omissions suggest that sizable transactions were not properly accounted for in the balance of payments data. This account, which reflects statistical errors or unrecorded outflows, turned from positive balances in 1992-93 to negative (about US\$45 million) in 1994.

### 3. Balance of payments in 1995

Eritrea's external position deteriorated significantly in 1995. For the first time since independence, the country recorded an overall balance of payments deficit, financed by a US\$49 million loss in the birr account and a US\$16 million loss in foreign assets. The overall trade balance improved slightly; the trade deficit in the nonbirr account was roughly unchanged, while the birr account improved slightly, owing mainly to a sharp increase in exports and a smaller increase in imports. However, a sizable reduction in remittances led to a substantial worsening of the current account, which swung from a surplus of about 3 percent of GNP in 1994 to a deficit of about 8 percent in 1995 (Appendix III, Table XXVI). 1/

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1/ The errors and omissions component is worrisome (US\$72 million in the birr amount and some US\$36 million in the nonbirr amount). Various developments could help explain these figures: (i) capital flight to Ethiopia occurred, owing to the interest rate differential and (ii) net claims on the birr area decreased as a result of higher cash demand for transactions, given higher levels of economic activity.



a. Merchandise trade

A modest trade surplus was registered in the birr account largely reflecting an increase of exports by almost 70 percent, following improvements in the capacity utilization of the manufacturing sector in Eritrea, as well as stronger import demand from Ethiopia due to favorable economic conditions partly related to higher coffee-related incomes. The nonbirr account registered a deficit of US\$326 million, similar to the level in 1994. Nonbirr exports declined by more than 20 percent in 1995; the lower exports reflected a sharp decline in livestock exports. In addition, given the limited overall manufacturing capacity, the large increase in exports to Ethiopia may have contributed to a decline of exports to other markets. Although the amount of nonbirr imports, equal to US\$350 million, did not change substantially from 1994, there was a marked shift in the composition of these imports. Private franco valuta imports, financed by remittances from Eritreans living abroad, decreased by more than US\$40 million, and official aid imports, in particular food aid, declined. In contrast, imports financed through the banking system doubled from about US\$65 million in 1994 to about US\$129 million in 1995, reflecting increased import demand from both the Government and the private sector.

The Government of Eritrea recognizes the importance of promoting exports, and there are favorable prospects for export growth over the medium and long term. Exploration for oil, gas, and mineral reserves has started; for example, contracts with a number of foreign investors have been signed for the exploration of oil, gas reserves, and mineral resources, especially gold. Moreover, fish exports started to pick up, and it is believed that fisheries will be an important source of hard currency in the future, thanks to the abundance of fish varieties in the Red Sea and the potential availability of a substantial stock of fish, which may have built up in the war years owing to a lack of any significant fishing activity.

As for the composition of trade, major export items in 1995 comprised food and livestock, salt, and manufactured items (matches, cigarettes, textiles, shoes, and households goods). The most important imports in 1995 were machinery and transport equipment, which accounted for about 45 percent of total imports, followed by manufactured goods, almost 20 percent; and food, which accounted for about 17 percent (Appendix III, Table XXVII).

With regard to the direction of trade, Ethiopia continued to be Eritrea's major trading partner. In 1995, exports to Ethiopia accounted for some 63 percent of the overall exports, while imports from Ethiopia represented about 6 percent of total imports (Appendix III, Tables XXVIII and XXIX). The reasons for this imbalance include the low value-added of imports from Ethiopia, which are mostly food products, and the fact that part of Eritrea's exports to Ethiopia were actually re-exports and not domestically produced goods. In particular, exports of food, live animals, and beverages to Ethiopia more than doubled from 1994, while exports of manufactured goods increased by more than 80 percent (Appendix III, Table XXVII).

As noted, trade with Ethiopia increased further in 1995. Sudan continued to be the second most important country for Eritrean exports (Appendix III, Table XXVIII), while Saudi Arabia, United Arab Emirates, and Yemen together accounted for about 10 percent of total exports in the first two quarters of 1995. The decrease in exports to Saudi Arabia, as shown in the data for the first two quarter of 1995, was primarily related to a substantial decline in the exports of livestock. The share of imports from Arab countries decreased, from 44 percent in 1993 to 29 percent in 1994. Italy and Saudi Arabia remained the major sources of Eritrea's imports, although imports from the United States and Europe increased (Appendix III, Table XXIX).

b. Invisibles

In 1995, the data classification for service transactions was improved, mainly as a result of surveys conducted by the BE. The large increase in service payments (by US\$37 million) was related to the contracting out of a housing project leading to substantial service payments (Appendix III, Table XXVI). Travel and transport receipts registered the largest increase. The flow of tourists, while increasing each year, is still low, mainly because of inadequate hotel and recreational infrastructure. Data available for 1995 show that about 85 percent of the 315,000 international arrivals, were Eritreans and Ethiopians. Overall, net services decreased by about US\$26 million in 1995.

Remittances from Eritreans living abroad continued to represent an important source of financing for franco valuta imports. However, private transfers decreased by 22 percent in 1995, to about US\$215 million. It is generally believed that the sizable remittances in the first years after independence were motivated by the Eritrean diaspora's sense of urgency about contributing to resettlement. However, it is not clear whether the change in the trend in 1995 reflects a temporary effect, or rather represents a more permanent behavior. Schemes to facilitate the transmission of remittances are currently being put in place. <sup>1/</sup> In the period 1993-95, the remittance/import ratio in Eritrea exceeded 60 percent. In several other countries that rely on remittances, this ratio was considerably lower; in Egypt, Albania, and Turkey the ratios were 45 percent, 40 percent, and 10 percent, respectively.

Official transfers declined in 1995, as food aid was reduced by half to about US\$23 million, thanks to a good harvest in 1994, which allowed Eritrea to reduce the amount of food imports delivered the following year. However, Eritrea is still highly dependent on food grants. While in the past food aid was distributed without generating counterpart funds, as of January 1996 all food aid has to be monetized. Regarding other official transfers, the Eritrean Relief and Reconstruction Program (RRPE), under which most grants

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<sup>1/</sup> An agreement between the Housing Bank and a bank in Saudi Arabia has recently been signed to facilitate remittances from the Gulf States.

were disbursed, is expected to wind down by June 1996, but it is expected to be gradually replaced by other bilateral and multilateral project assistance.

c. The capital account

Data on capital account transactions are still very weak. According to official information, the capital account balance in 1995, at about US\$25 million, remained at the preceding year's level. However, almost no foreign direct investment data were recorded in the balance of payments, and data on disbursements of loans are incomplete.

Eritrea's stock of external debt, on a commitment basis, increased in 1995 to about US\$162 million (Appendix III, Table XXX). In addition to the previously noted IDA loan, two credits totaling about US\$11 million were signed in 1994. The first credit, for about US\$7 million, was provided by the European Investment Bank to finance a telecommunications project. The second credit, for about US\$4 million, was signed with China, for a project related to fisheries. Six new loans amounting to US\$125 million were contracted in 1995, mostly with Arab financial institutions, all on highly concessional terms. These loans were to finance the construction of new power plants in Asmara and in Massawa. Additional concessional loans are likely to be signed in the future with Italy and Switzerland to cofinance the Massawa power plant.

4. Liberalization of the exchange and trade system

Eritrea's Government is committed to promoting exports by creating a competitive production base, easing all current account restrictions, and pursuing liberal exchange rate policies. In the areas where no Eritrean legislation was introduced, the de jure system continued to be based on the old Ethiopian system. The BE authorizes virtually all bona fide payments and transfers for current international transactions, although limits continue to apply on travel, medical, and other service allowances. Permits for imports that require foreign exchange from the banking system are issued by the Foreign Exchange Department at the BE, and the National Licensing Office issues licenses for importers, exporters, and commercial agents.

In 1995 the BE introduced a negative list for selected imports. No foreign exchange can be obtained from the banking system for a list of imports comprising 16 items, including liquors and soft drinks, ivory and smoking articles, and perfumery and cosmetics. Nevertheless, this restriction applies only to imports financed through the banking system; franco valuta imports of these goods are still allowed without any precondition at the more depreciated preferential exchange rate.

Since the unification of the official exchange rate and the auction rate in July 1995, Eritrea has applied two exchange rates: the auction rate, quoted at Br 6.32 per US\$1 at end April 1996, and the preferential rate at Br 7.2 per US\$1 (Appendix II). The spread between the parallel

market rate (Br 7.6 per US\$1) and the preferential rate started to widen somewhat in 1995.

In 1995, Eritrea continued to liberalize its exchange restrictions. Since May 1995, residents have been allowed to maintain foreign-currency denominated accounts in Eritrea, and payments restrictions for invisibles have been eased significantly; for example, the travel allowance for business trips outside the birr area was raised from US\$50 per person per day for up to 20 days to US\$250 per day for up to 30 days (Appendix II). Since November 1995, importers are not required to submit customs declarations for payments purposes, and authorized dealers in foreign exchange (such as hotels) are not required to submit receipts of settlement. Travelers to Eritrea are exempted from declaring their foreign exchange holdings upon entry into Eritrea and are allowed to reconvert their balances upon departure. Finally, the purchase of airline tickets in both birr and convertible currencies was officially permitted in November 1995.

Tax	Nature of Tax	Deductions and Exemptions	Rates																											
<b>1. Tax on income and profits</b>																														
1.1 <u>Income tax on employment.</u> (Proclamation No. 62/1994; October 5, 1994; Legal Notice No. 20/1995)	Tax withheld monthly by employers on salaries, allowances, pension contributions, and other benefits and personal emoluments (cash and in kind).	Exemptions: Income from employment of unskilled workers, employed on a daily and irregular basis; income of business representatives residing in the country less than 183 days.	<table border="1"> <thead> <tr> <th>No.</th> <th>Taxable income (Birr/month)</th> <th>Tax rate on additional income (in percent)</th> </tr> </thead> <tbody> <tr><td>1</td><td>up to 200</td><td>2</td></tr> <tr><td>2</td><td>201 - 500</td><td>7</td></tr> <tr><td>3</td><td>501 - 1,200</td><td>12</td></tr> <tr><td>4</td><td>1,201 - 2,000</td><td>17</td></tr> <tr><td>5</td><td>2,001 - 3,500</td><td>24</td></tr> <tr><td>6</td><td>3,501 - 5,500</td><td>29</td></tr> <tr><td>7</td><td>5,501 - 8,000</td><td>34</td></tr> <tr><td>8</td><td>over 8,000</td><td>38</td></tr> </tbody> </table>	No.	Taxable income (Birr/month)	Tax rate on additional income (in percent)	1	up to 200	2	2	201 - 500	7	3	501 - 1,200	12	4	1,201 - 2,000	17	5	2,001 - 3,500	24	6	3,501 - 5,500	29	7	5,501 - 8,000	34	8	over 8,000	38
No.	Taxable income (Birr/month)	Tax rate on additional income (in percent)																												
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3	501 - 1,200	12																												
4	1,201 - 2,000	17																												
5	2,001 - 3,500	24																												
6	3,501 - 5,500	29																												
7	5,501 - 8,000	34																												
8	over 8,000	38																												
<b>1.2 Income taxes on agriculture</b>																														
1.2.1 <u>Income tax on commercial farming</u> (Proclamation No. 62/1994; October 5, 1994)	Annual tax levied on taxable income of commercial farms, payable within 4 months after the end of the fiscal year for all taxpayers. Assessment based on returns filed.	None.	<table border="1"> <thead> <tr> <th>No.</th> <th>Taxable income (Br/year)</th> <th>Tax rate on additional income (in percent)</th> </tr> </thead> <tbody> <tr><td>1</td><td>up to 1,000</td><td>2</td></tr> <tr><td>2</td><td>1,001 - 1,0000</td><td>5</td></tr> <tr><td>3</td><td>10,001 - 20,000</td><td>10</td></tr> <tr><td>4</td><td>20,001 - 35,000</td><td>15</td></tr> <tr><td>5</td><td>above 35,000</td><td>20</td></tr> </tbody> </table>	No.	Taxable income (Br/year)	Tax rate on additional income (in percent)	1	up to 1,000	2	2	1,001 - 1,0000	5	3	10,001 - 20,000	10	4	20,001 - 35,000	15	5	above 35,000	20									
No.	Taxable income (Br/year)	Tax rate on additional income (in percent)																												
1	up to 1,000	2																												
2	1,001 - 1,0000	5																												
3	10,001 - 20,000	10																												
4	20,001 - 35,000	15																												
5	above 35,000	20																												
1.2.2 <u>Income tax, rural land use fee, and cattle tax for smallholders</u> (Proclamation No. 63/1994; October 5, 1994; Legal Notice No. 21/1995)	General annual land use fee for every farmer, and an additional annual fee levied on smallholder commercial farming, and specific rates for livestock.	None.	<p>General annual land use fee of Br 18 per farmer, and Br 5 for every quarter of a hectare that is commercially used by farmers without a commercial farming license.</p> <p>Specific tax rates for each head of animal:</p> <table border="1"> <tbody> <tr><td>Camel</td><td>Br 4.0</td></tr> <tr><td>Horned cattle, horse, mule</td><td>Br 2.0</td></tr> <tr><td>Donkey</td><td>Br 1.0</td></tr> <tr><td>Sheep or goat</td><td>Br 0.5</td></tr> </tbody> </table>	Camel	Br 4.0	Horned cattle, horse, mule	Br 2.0	Donkey	Br 1.0	Sheep or goat	Br 0.5																			
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Eritrea: Summary of the Tax System as of March 1996 (continued)

Tax	Nature of Tax	Deductions and Exemptions	Rate																											
1.3 <u>Income tax on profits</u>																														
1.3.1 <u>Income tax on profits of incorporated business</u> (Proclamation No. 62/1994; October 5, 1994)	Annual tax levied on taxable income, payable within 4, 2 or 1 months after the end of the fiscal year for taxpayer categories A, B, and C. Assessment based on returns filed.	Exemptions: Dividends, and interest income of persons. Profits derived from mining activities to be taxed as per mining legislation. For new investments, losses incurred during the first 2 years may be carried forward for 3 consecutive years; for new investments, losses may be carried forward an additional one year in exceptionally critical circumstances.	<table border="1"> <thead> <tr> <th data-bbox="1288 348 1320 363">No.</th> <th data-bbox="1387 348 1542 388">Taxable income (Br/year)</th> <th data-bbox="1612 348 1844 388">Tax rate on additional income (in percent)</th> </tr> </thead> <tbody> <tr> <td data-bbox="1300 417 1312 432">1</td> <td data-bbox="1427 417 1578 432">up to 100,000</td> <td data-bbox="1717 417 1741 432">25</td> </tr> <tr> <td data-bbox="1300 440 1312 455">2</td> <td data-bbox="1393 440 1578 455">100,001 - 400,000</td> <td data-bbox="1717 440 1741 455">28</td> </tr> <tr> <td data-bbox="1300 463 1312 478">3</td> <td data-bbox="1393 463 1578 478">400,001 - 750,000</td> <td data-bbox="1717 463 1741 478">30</td> </tr> <tr> <td data-bbox="1300 486 1312 502">4</td> <td data-bbox="1413 486 1578 502">above 750,000</td> <td data-bbox="1717 486 1741 502">35</td> </tr> </tbody> </table> <p data-bbox="1288 532 1844 597">Reinvested profit will be taxed only at 20 percent upon submission of certificate of the Investment Center.</p>	No.	Taxable income (Br/year)	Tax rate on additional income (in percent)	1	up to 100,000	25	2	100,001 - 400,000	28	3	400,001 - 750,000	30	4	above 750,000	35												
No.	Taxable income (Br/year)	Tax rate on additional income (in percent)																												
1	up to 100,000	25																												
2	100,001 - 400,000	28																												
3	400,001 - 750,000	30																												
4	above 750,000	35																												
1.3.2 <u>Income tax on profits of unincorporated business</u> (Proclamation No. 62/1994; October 5, 1994)	Annual tax levied on taxable income, payable within 4, 2 or 1 months after the end of the fiscal year for taxpayer categories A, B, and C. Assessment based on self-declared income, except for certain sectors where presumptive tax rates are applied.	Exemptions: Dividends, interest income from bank accounts, and income from self-employed persons residing in rural areas in certain sectors (e.g., blacksmiths, pottery).	<table border="1"> <thead> <tr> <th data-bbox="1288 725 1320 740">No.</th> <th data-bbox="1387 725 1542 765">Taxable income (Br/year)</th> <th data-bbox="1612 725 1844 765">Tax rate on additional income (in percent)</th> </tr> </thead> <tbody> <tr> <td data-bbox="1300 794 1312 810">1</td> <td data-bbox="1427 794 1542 810">up to 2,000</td> <td data-bbox="1717 794 1741 810">2</td> </tr> <tr> <td data-bbox="1300 817 1312 833">2</td> <td data-bbox="1373 817 1542 833">2,001 - 5,000</td> <td data-bbox="1717 817 1741 833">7</td> </tr> <tr> <td data-bbox="1300 840 1312 856">3</td> <td data-bbox="1373 840 1542 856">5,001 - 18,000</td> <td data-bbox="1717 840 1741 856">15</td> </tr> <tr> <td data-bbox="1300 863 1312 879">4</td> <td data-bbox="1373 863 1542 879">18,001 - 35,000</td> <td data-bbox="1717 863 1741 879">20</td> </tr> <tr> <td data-bbox="1300 887 1312 902">5</td> <td data-bbox="1373 887 1542 902">35,001 - 60,000</td> <td data-bbox="1717 887 1741 902">25</td> </tr> <tr> <td data-bbox="1300 910 1312 925">6</td> <td data-bbox="1373 910 1542 925">60,001 - 100,000</td> <td data-bbox="1717 910 1741 925">30</td> </tr> <tr> <td data-bbox="1300 933 1312 948">7</td> <td data-bbox="1353 933 1542 948">100,001 - 150,000</td> <td data-bbox="1717 933 1741 948">35</td> </tr> <tr> <td data-bbox="1300 956 1312 971">8</td> <td data-bbox="1413 956 1542 971">over 150,000</td> <td data-bbox="1717 956 1741 971">38</td> </tr> </tbody> </table>	No.	Taxable income (Br/year)	Tax rate on additional income (in percent)	1	up to 2,000	2	2	2,001 - 5,000	7	3	5,001 - 18,000	15	4	18,001 - 35,000	20	5	35,001 - 60,000	25	6	60,001 - 100,000	30	7	100,001 - 150,000	35	8	over 150,000	38
No.	Taxable income (Br/year)	Tax rate on additional income (in percent)																												
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Eritrea: Summary of the Tax System as of March 1996 (continued)

Tax	Nature of Tax	Deductions and Exemptions	Rate																																																																														
<p>1.4 <u>Tax on gains from lottery and other games, royalties, and services income earned abroad</u> (Proclamation No. 62/1994; October 5, 1994)</p>	<p>Levied on taxable gross income of lottery and game wins. To be paid within 1 month after income was received. Assessment based on returns filed.</p>	None	<p>Income from lottery (above Br 500), and from bingo (above Br 400) 10 percent Royalty and income from services from abroad 10 percent</p>																																																																														
<p>1.5 <u>Rental income tax</u> (Proclamation No. 62/1994; October 5, 1994)</p>	<p>Annual tax levied on all income received in cash and in kind from the rental of movable and immovable property. Assessment based on returns filed. Tax payments are required within one month after the end of the fiscal year.</p>	<p>None. Local property tax payments, and one fourth of gross income received for the rent of buildings, furniture and equipment (as allowance for repairs, maintenance and depreciation) are deductible.</p>	<table border="1"> <thead> <tr> <th data-bbox="1300 455 1333 471">No.</th> <th data-bbox="1399 455 1558 494">Taxable income (Br/year)</th> <th data-bbox="1618 455 1856 494">Tax rate on additional income (in percent)</th> </tr> </thead> <tbody> <tr><td>1</td><td>up to 120</td><td>Br 1</td></tr> <tr><td>2</td><td>121 - 380</td><td>1.5</td></tr> <tr><td>3</td><td>301 - 480</td><td>3.0</td></tr> <tr><td>4</td><td>481 - 660</td><td>4.5</td></tr> <tr><td>5</td><td>661 - 840</td><td>6.0</td></tr> <tr><td>6</td><td>841 - 1,020</td><td>8.0</td></tr> <tr><td>7</td><td>1,021 - 1,200</td><td>10.0</td></tr> <tr><td>8</td><td>1,201 - 1,600</td><td>12.0</td></tr> <tr><td>9</td><td>1,601 - 2,000</td><td>14.0</td></tr> <tr><td>10</td><td>2,001 - 2,400</td><td>16.0</td></tr> <tr><td>11</td><td>2,401 - 2,800</td><td>18.0</td></tr> <tr><td>12</td><td>2,801 - 3,600</td><td>20.0</td></tr> <tr><td>13</td><td>3,601 - 4,400</td><td>22.0</td></tr> <tr><td>14</td><td>4,401 - 5,200</td><td>24.0</td></tr> <tr><td>15</td><td>5,201 - 6,000</td><td>26.0</td></tr> <tr><td>16</td><td>6,001 - 8,000</td><td>28.0</td></tr> <tr><td>17</td><td>8,001 - 10,000</td><td>30.0</td></tr> <tr><td>18</td><td>10,001 - 12,000</td><td>32.0</td></tr> <tr><td>19</td><td>12,001 - 16,000</td><td>34.0</td></tr> <tr><td>20</td><td>16,001 - 20,000</td><td>36.0</td></tr> <tr><td>21</td><td>20,001 - 24,000</td><td>38.0</td></tr> <tr><td>22</td><td>24,001 - 30,000</td><td>40.0</td></tr> <tr><td>23</td><td>30,001 - 36,000</td><td>42.0</td></tr> <tr><td>24</td><td>36,001 - 42,000</td><td>44.0</td></tr> <tr><td>25</td><td>above 42,000</td><td>48.0</td></tr> </tbody> </table>	No.	Taxable income (Br/year)	Tax rate on additional income (in percent)	1	up to 120	Br 1	2	121 - 380	1.5	3	301 - 480	3.0	4	481 - 660	4.5	5	661 - 840	6.0	6	841 - 1,020	8.0	7	1,021 - 1,200	10.0	8	1,201 - 1,600	12.0	9	1,601 - 2,000	14.0	10	2,001 - 2,400	16.0	11	2,401 - 2,800	18.0	12	2,801 - 3,600	20.0	13	3,601 - 4,400	22.0	14	4,401 - 5,200	24.0	15	5,201 - 6,000	26.0	16	6,001 - 8,000	28.0	17	8,001 - 10,000	30.0	18	10,001 - 12,000	32.0	19	12,001 - 16,000	34.0	20	16,001 - 20,000	36.0	21	20,001 - 24,000	38.0	22	24,001 - 30,000	40.0	23	30,001 - 36,000	42.0	24	36,001 - 42,000	44.0	25	above 42,000	48.0
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<p>1.6 <u>Income tax on Eritreans working abroad</u> (Proclamation No. 67/1995; February 10, 1995)</p>	<p>Tax on net income from employment, rent of movable and immovable property, and vocational and professional services. Payable monthly or annually. Collected through embassies, consulates and other delegations under the Ministry of Foreign Affairs; transferred directly to the Treasury.</p>	None.	2 percent.																																																																														

Tax	Nature of Tax	Deductions and Exemptions	Rate
2. <u>Taxes on goods and services</u>			
2.1 <u>Sales tax on domestic goods</u> (Proclamation No. 64/1994; October 5, 1994; Legal Notice No. 22/1995)	Single-staged tax levied at factory or wholesale level on all manufactured goods, and collected monthly. Sales tax paid on raw materials used for local production will be refunded. Assessment based on self-declaration.	All exports, and the following products for domestic sale are exempted: Basic foodstuffs (e.g., cereals, leguminous vegetables, njera, rice, bread); live animals; capital goods for agriculture, industry, and construction; refractory bricks and the like used in building furnaces; fire-fighting equipment; public transport vehicles; vehicles used for road maintenance, lifting and loading equipment; kerosene and aviation fuel; medical equipment; medical, scientific, and technical instruments; fish nets; beehives and incubators; silver and gold when imported by the Bank of Eritrea; traveler's checks, revenue stamps, and bandlets.	Agricultural products, raw materials, most intermediate goods 3 percent Most consumer goods, drugs, some intermediate goods 5 percent All other products 12 percent
2.2 <u>Sales tax on domestic services</u> (Proclamation No. 64/1994; October 5, 1994; Legal Notice No. 22/1995)	Assessment based on value of the service, through self-declaration. Collected monthly.	None.	Subject to 10 percent sales tax: Telecommunications; laundry; legal services, and public affairs services; photography, photocopying, and other reproduction; auditing and accountancy; lodging; consultancy; clearing and forwarding agents; all other agents; brokers; cinemas; tourism; rent of goods and movable property; garages.  Subject to 5 percent sales tax: Contractors; hair dressing and beauty salons; tailoring; repairs and maintenance excluding garages; washing and greasing; billiard and bowling establishments; education and training.
2.3 <u>Excise tax on domestic goods</u> (Proclamation No. 64/1994; October 5, 1994; Legal Notice No. 22/1995)	Levied at factory level on all manufactured goods, and payable within one month from the date of production. Assessed on the basis of costs of production, through self-declaration. Collected monthly.	None.	Mineral water, textiles, carpets 10 percent Glass beads and ornaments 30 percent Tobacco products, beverages with high alcoholic contents 50 percent Four-wheel drive vehicles 90 percent Beer, perfumes, cosmetics 100 percent



Tax	Nature of Tax	Deductions and Exemptions	Rate
3. <u>Taxes on international trade</u>			
3.1 <u>Customs duties</u> (Legal Notice 18/1994; October 5, 1994)	Customs tariff regulations follow the Standard International Trade Classification (SITC) system.	Exemptions: Imports of diplomatic and consular missions, personal effects and property of Eritrean returnees, and trade samples not used as merchandise.	<p>12 different ad valorem rates, including:</p> <p>Agricultural products and essential foods (e.g. cereals, oil seeds, hides and skins), most capital goods, raw materials (e.g., fertilizer), pharma- ceuticals, pesticides, agricultural and construction machinery. 2 percent</p> <p>Basic consumer items (e.g., sugar, coffee), some capital goods and raw materials. 3 percent</p> <p>Fish and fish products, manufactured consumer items, and intermediate goods. 5-50 percent</p> <p>Mineral water, video cameras, marble, jewels, and some other manufactured items. 80 percent</p> <p>Soft drinks, beer, perfumes, and cosmetics. 90 percent</p> <p>CD recorders, electrical household appliances. 100 percent</p> <p>Video recorders. 160 percent</p> <p>Beverages with high alcoholic contents, and tobacco products. 200 percent</p> <p>Specific rates for grease (Br 0.15/kg) and small family cars (10 percent of CC).</p> <p>Imports prohibited are: old or used clothing, asbestos and construction materials made of asbestos, ivory, second grade alcohol, arms and weapons, and narcotics.</p>

Eritrea: Summary of the Tax System as of March 1996 (concluded)

Tax	Nature of Tax	Deductions and Exemptions	Rate
3.2 <u>Sales tax on imports</u> (Proclamation No 64/1994; Legal Notice 18/1994; October 5, 1994; Legal Notice No. 22/1995)	The sales tax applies to all imported commodities, and is computed based on the c.i.f. price plus customs duty and, if applicable, excise tax. Paid on clearance from customs.	Same exemptions as for customs duties, and as for sales tax on domestically produced goods. Re-exports are also exempted. Sales tax paid on imports that are used for export production is refunded.	Same as for domestic sales tax.
3.3 <u>Excise tax on imports</u>	Paid by the importer when goods are cleared from customs.	Same as for domestically produced goods.	Same as for domestically produced goods, except for imported salt (3 percent).
3.4 <u>Export tax</u>	Abolished on October 5, 1994.		
4. <u>Other taxes</u>			
4.1 <u>Stamp duties</u> (Proclamation No 65/1994, October 5, 1994; Legal Notice No 23/1995)	Duties are levied on a range of legal documents and instruments including contracts, agreements, bill of exchange, etc	None.	20 different ad valorem and specific rates.

Source: Data provided by the Eritrean authorities

Eritrea: The Exchange and Trade System  
(position as of end-March 1996)

1. Exchange arrangement

The provisional legal tender of Eritrea is the Ethiopian birr, which is issued by the National Bank of Ethiopia. Prior to July 30, 1995, an official exchange rate, the marginal auction rate (determined in the fortnightly foreign exchange auctions conducted by the National Bank of Ethiopia), and a preferential exchange rate prevailed in Eritrea. Effective July 30, 1995, the official rate and the marginal auction rates were unified and, as of end-March 1996, stood at Br 6.32 per US\$1. The preferential exchange rate for that date was Br 7.2 per US\$1.

The marginal auction rate applies to most transactions between Eritrea and Ethiopia, to government imports, and all aid-funded imports. The preferential exchange rate is used for most private imports, all exports, and the conversion of foreign exchange remittances by Eritreans living abroad. The Bank of Eritrea (BE) undertakes transactions with authorized dealers, who in turn carry out transactions with the public on its behalf. There are also a limited number of unofficial, but sanctioned, dealers who buy and sell foreign exchange at the preferential rate.

Exchange rates for currencies other than the U.S. dollar <sup>1/</sup> are communicated daily by the BE to the authorized dealers on the basis of same day early morning cross quotations in the London market against the U.S. dollar. For all foreign currency transactions, except transactions involving foreign currency notes, the BE prescribes a commission of 0.5 percent for purchases of foreign exchange and 1.5 percent for sales of foreign exchange. The authorized dealers are permitted, but not obliged, to levy a service charge for their own account of up to 0.25 percent buying and 0.75 percent selling and, for currencies other than the U.S. dollar, to include a margin charge that is applied by the correspondents abroad. There are no taxes or subsidies on purchases or sales of foreign exchange, and no forward cover is provided in foreign exchange by the BE or the authorized dealers.

2. Administration of control

The BE is working to ensure that all foreign exchange transactions are effected through the authorized dealers who are licensed in accordance with the Monetary and Banking Proclamation No. 32/1993. Under this proclamation, the BE may from time to time issue regulations, directives, and instructions on foreign exchange matters. Comprehensive foreign exchange regulations, as

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<sup>1/</sup> Austrian schilling, Belgian franc, Canadian dollar, Danish krone, deutsche mark, Dutch guilder, French franc, Italian lira, Japanese yen, Norwegian krone, pound sterling, Swedish krona, and Swiss franc.

well as a new Central Bank Act, have been prepared and submitted for the Government's approval.

The Foreign Exchange Department of the BE issues permits only for those imports that require foreign exchange from the banking system. The National Licensing Office issues licenses for importers, exporters, and commercial agents, while the Ministry of Trade and Industry has authority to regulate foreign investments (Investment Proclamation No. 59/1994); it vets and licenses technology transfer agreements, as well as investment projects (including joint ventures) that are eligible to take advantage of the tax, foreign exchange, and other concessions of the Investment Proclamation. The Asmara Chamber of Commerce issues certificates of origin for exports.

3. Prescription of currency

Settlements may be made in currencies quoted by the BE or in any other convertible currency it deems acceptable. All transactions with Ethiopia, except for those related to the imports of spare parts for the refinery in Assab, are settled in Ethiopian birr.

4. Trade and payments with Ethiopia

Under the agreement of friendship and cooperation, signed by the Presidents of Eritrea and Ethiopia in September 1993, the two countries undertook to cooperate closely and develop common policies concerning a wide range of issues, including matters pertaining to their exchange and trade systems. A joint ministerial commission is entrusted to ensure the implementation of the provisions of the agreement, notably Article 9, which calls for mutual consultation on the use of the Ethiopian birr and the exploration of the possibilities of adopting a common currency by both countries. An agreement with the objective of establishing a free trade area (FTA) between Eritrea and Ethiopia was signed on April 4, 1995.

Payments are generally made in Ethiopian birr, although the Government of Ethiopia has required payments in foreign currencies for Eritrea's purchases of some of Ethiopia's traditional exports, as well as for goods that are in short supply in Ethiopia. Under an intergovernmental agreement between Eritrea and Ethiopia, Eritrea pays Ethiopia in birr for its domestic requirements of petroleum products. The refinery in Assab is reimbursed in birr for the costs of refining the derivative products consumed by Ethiopia, except that the portion corresponding to the depreciation of equipment is paid for in foreign exchange.

As stipulated under an intergovernmental transit and port services agreement as well as a customs arrangement (amended annually), the port of Assab is a free port for Ethiopia, with its own Ethiopian customs branch office, and goods shipped to or from Ethiopia remain exempt from the Eritrean customs duties and related charges. Procedures for the clearing of goods and the exchange of documentation are to be coordinated, and the port and shipping charges are paid in Ethiopian birr.

5. Foreign-currency denominated accounts

With the approval of the BE, nonresidents may open accounts denominated in U.S. dollars or in Ethiopian birr with the Commercial Bank of Eritrea. The BE has authorized the maintenance of interest-bearing accounts denominated in U.S. dollars for Eritreans residing abroad since November 1, 1993. Effective May 9, 1995, all residents are allowed to maintain foreign currency accounts in Eritrea. Nonbank residents may not open accounts abroad, except where they are specifically authorized by the BE.

6. Imports and import payments

All importers must possess a valid trade license issued by the National Licensing Office. These licenses must be renewed each year at a fee of Br 200-500. Import payments made through the banking system require permits that are issued by the BE upon presentation of pro forma invoices providing information as to type, quantity, unit price, and freight cost (where applicable). A commission of 2 percent is collected on imports that do not require official foreign exchange and are not aid funded. The BE ensures full collection of franco valuta commissions by requesting the display of a payment document to customs at the time of the import declaration. Imports of cars and other motor vehicles require prior permission from the Ministry of Transport to ensure their suitability for existing infrastructure and other similar considerations.

In 1995, the BE introduced a negative list for imports that are financed through the banking system; however, goods included in this negative list can still be imported through the franco valuta system. As of March 30, 1996, the BE does not provide foreign exchange for the import of goods in the following categories: perfumes and cosmetics; hair wigs and dyes; toys and games; plastic shopping bags; jewelry and other ornaments; dishes and similar kitchen equipment, except for hotels; ready-made clothing; biscuits and confectionery items; fresh fruit, fruit juices and vegetables, except for hotels and duty-free shops; live animals, except for reproduction; fresh or tinned meat, eggs, and fish; liquor and soft drinks, except for hotels and duty-free shops; salt; articles of decoration and Christmas trees; postcards, Christmas or other greeting cards, and collectors' postage stamps; ivory and smoking articles.

As a further import restriction, a public enterprise producing tobacco and matches continues to hold a monopoly over the import of these products. Most imports requiring official foreign exchange are effected under letters of credit or on a cash-against-documents basis. Suppliers' credits must be registered by the BE. Effective November 11, 1995, importers are no longer required to submit customs declarations to the BE for discharging purposes.

7. Payments for invisibles

With a foreign exchange permit, which is issued free of charge by the BE, payments for invisible transactions could be made to any country. Effective May 9, 1995, the travel allowance for business trips outside the

birr area was raised from US\$50 a person a day for up to 20 days to US\$250 a person a day for up to 30 days. In bona fide cases, these limits may be exceeded with the approval of the BE. Also, exporters may freely use their foreign currency denominated retention accounts for this purpose. For personal travel, the allowance has remained at US\$100 a person (adult or minor) for up to two trips a year. The allowance for medical treatment outside the birr area was raised from US\$2,000 to US\$10,000 upon the recommendation of the Medical Board of the Ministry of Health. Residents may remit premia on life insurance policies that were taken out before May 1991. Generally, the BE gives approval in all bona fide cases that exceed these limits for invincible transactions. Effective November 11, 1995, the requirement to submit bills of settlement by authorized dealers of foreign exchange (e.g., hotels, duty-free shops) has been suspended, and the BE notified the general public that all Eritrean nationals could purchase air travel tickets in local or foreign currency.

Following the Investment Code (Proclamation No. 59/1994), foreign investors may freely remit net profits and dividends accrued from investment and fees and royalties in respect of any technology transfer agreements. Foreign employees may remit up to 40 percent of their net earnings each month, and up to 60 percent of their cumulative earnings upon completion of their term of service in Eritrea.

#### 8. Exports and export proceeds

Exporters must be licensed by the National Licensing Office. The annual licensing fee is Br 300 for producers and Br 500 for the commercial agents of foreign companies. All exports require documentation by the BE, which examines the sales contracts as to type of product, quantity, and unit price. Certain commodities may require clearance from specific government bodies (e.g., the Eritrean Institute of Standards). In particular, livestock and cereals require the permission of the Ministry of Agriculture, and marine products require the permission of the Ministry of Marine Resources. Exports of unprocessed hides and skins have been suspended since mid-1993 in an attempt to improve the supply to domestic tanneries and processors.

Exports may be made under a letter of credit or on an advance payment basis; in some cases, exports can be permitted on a consignment basis. All export proceeds must be repatriated to an authorized bank within 90 days of shipment; where justified, this deadline can be extended by another 90 days. Exporters may retain up to 100 percent of the sales proceeds.

#### 9. Proceeds from invisibles

Travelers are not required to declare their foreign exchange holdings at the point of entry into Eritrea, and they are allowed to reconvert their balances back into foreign currency upon departure, provided that documentation can be provided that the foreign exchange has been converted into birr through a licensed foreign exchange dealer.

10. Capital

Foreign exchange proceeds representing capital inflows must be registered at the BE in order to ensure the smooth transfer of profits, dividends and interest, amortization of principal, and proceeds of the sale of shares to residents or from the liquidation of investments.

Direct foreign investments (including joint ventures) in Eritrea are governed by the provisions of the Investment Code (Proclamation No. 59/1994). Foreign direct investment is permitted in all sectors, except that domestic retail and wholesale trade, and import and commission agencies are open to foreign investors only when Eritrea has a bilateral agreement of reciprocity with the country of the investor; the latter condition may be waived by the Government. Under the foreign exchange regulations submitted to the Government, foreign investors may freely remit proceeds received from liquidation of investment and/or expansion, and payments received from the sale or transfer of shares. Petroleum contractors and subcontractors may freely transfer abroad funds accruing from petroleum operations and pay subcontractors and expatriate staff abroad.

Foreign borrowing by residents in Eritrea has to be registered with the BE. Authorized banks are permitted to purchase and hold foreign bank notes up to the equivalent of US\$500,000. Amounts exceeding this limit must be surrendered to the BE or deposited in the correspondent accounts abroad. With the approval of the BE, authorized banks may borrow abroad or overdraw their correspondent accounts abroad. They may acquire securities under similar conditions.

11. Gold

Residents may own gold jewelry without restrictions. Beyond this, ownership or possession of gold or other precious metals or ores requires the authorization of the Ministry of Energy, Mines and Water Resources.

Table 1. Eritrea: Gross Domestic Product by Sector, 1992-95 1/

(In millions of birr)

	1992	1993	1994	1995
<b>Agriculture</b>	508.4	277.4	489.1	390.9
Agriculture and livestock	423.3	192.3	385.7	267.7
Forestry and fishing	85.1	85.1	103.4	123.1
<b>Industry</b>	340.0	451.2	579.0	868.8
Mining and quarrying	0.8	1.0	1.5	2.1
Manufacturing	152.7	206.4	254.9	390.9
Handicrafts and small industry	70.5	95.2	117.6	180.4
Electricity and water	23.4	31.6	39.0	59.8
Building and construction	92.6	117.0	166.0	235.6
<b>Distribution services</b>	601.4	952.5	1,273.6	1,375.3
Trade, wholesale, and retail	368.9	589.6	857.5	921.9
Transport and communications	232.5	362.9	416.1	453.4
<b>Other services</b>	319.3	501.7	697.4	893.9
Financial services	34.2	37.6	39.8	57.8
Dwellings and domestic services	47.7	54.0	65.3	79.0
Public administration and defense	154.2	304.6	457.0	558.0
Social services	43.8	65.0	93.5	156.2
Other	39.3	40.5	41.7	43.0
<b>GDP at current factor cost</b>	1,769.0	2,182.7	3,039.1	3,528.9
Indirect taxes less subsidies	233.8	338.3	341.7	375.9
<b>GDP at market prices</b>	2,002.8	2,521.0	3,380.8	3,904.8
<b>GDP at constant factor cost</b>	1,769.0	1,724.1	1,893.0	1,966.0
Net factor payments 2/	397.1	587.5	1,026.1	776.8
<b>GNP at current market prices</b>	2,399.9	3,108.5	4,406.9	4,681.5

Source: Staff estimates based on information provided by the Eritrean authorities.

1/ Provisional estimates.

2/ Estimated at 50 percent of private remittances.



Table II. Eritrea: Gross Domestic Product, 1992-95 <sup>1/</sup>

(Annual percentage change)

	1992	1993	1994	1995
<b>Agriculture</b>	51.6	-45.4	76.3	-20.1
Agriculture and livestock	84.5	-54.6	100.6	-30.6
Forestry and fishing	-19.7	--	21.5	19.1
<b>Industry</b>	55.9	32.7	28.3	50.0
Mining and quarrying	100.0	26.3	41.9	41.9
Manufacturing	44.1	35.2	23.5	53.3
Handicrafts and small industry	44.1	35.2	23.5	53.3
Electricity and water	44.1	35.2	23.5	53.3
Building and construction	100.0	26.3	41.9	41.9
<b>Distribution services</b>	94.9	58.4	33.7	8.0
Trade, wholesale, and retail	50.6	59.8	45.4	7.5
Transport and communications	243.3	56.1	14.6	9.0
<b>Other services</b>	28.1	57.1	39.0	28.2
Financial services	-6.0	10.0	6.0	45.0
Dwellings and domestic services	50.0	13.1	21.0	21.0
Public administration and defense	53.0	97.5	50.0	22.1
Social services	4.0	48.4	43.8	67.0
Other	3.0	3.0	3.0	3.0
<b>GDP at current factor cost</b>	59.2	23.4	39.2	16.1
Indirect taxes less subsidies	116.0	44.7	1.0	10.0
<b>GDP at market prices</b>	64.2	25.9	34.1	15.5
<b>GDP at constant factor cost</b>	...	-2.5	9.8	3.9

Source: Staff estimates based on information provided by the Eritrean authorities.

<sup>1/</sup> Provisional estimates.

Table III. Eritrea: Sectoral Composition of Gross Domestic Product at Current Factor Cost, 1992-95 <sup>1/</sup>

(In percent of GDP)

	1992	1993	1994	1995
<b>Agriculture</b>	28.7	12.7	16.1	11.1
Agriculture and livestock	23.9	8.8	12.7	7.6
Forestry and fishing	4.8	3.9	3.4	3.5
<b>Industry</b>	19.2	20.7	19.1	24.6
Mining and quarrying	--	--	--	0.1
Manufacturing	8.6	9.5	8.4	11.1
Handicrafts and small industry	4.0	4.4	3.9	5.1
Electricity and water	1.3	1.4	1.3	1.7
Building and construction	5.2	5.4	5.5	6.7
<b>Distribution services</b>	34.0	43.6	41.9	39.0
Trade, wholesale, and retail	20.9	27.0	28.2	26.1
Transport and communications	13.1	16.6	13.7	12.9
<b>Other services</b>	18.0	23.0	22.9	25.3
Financial services	1.9	1.7	1.3	1.6
Dwellings and domestic services	2.7	2.5	2.1	2.2
Public administration and defense	8.7	14.0	15.0	15.8
Social services	2.5	3.0	3.1	4.4
Other	2.2	1.8	1.4	1.3
<b>GDP at current factor cost</b>	100.0	100.0	100.0	100.0

Source: Staff estimates based on information provided by the Eritrean authorities.

<sup>1/</sup> Provisional estimates.

Table IV: Eritrea: Agricultural Production, 1993-95 <sup>1/</sup>

	1993	1994	1995
	<u>(In thousands of quintals)</u>		
<u>Staple crops</u>			
Sorghum	448.6	1,182.8	610.1
Teff	22.2	148.4	57.6
Millet	191.0	575.7	127.8
Barley	97.3	306.6	279.5
Wheat	54.0	135.2	99.6
Peas	9.2	16.2	34.5
Sesame	59.6	62.2	108.8
Maize	55.4	185.3	53.5
Other <sup>2/</sup>	39.7	42.4	13.8
Total	977.0	2,654.8	1,385.1
	<u>(In thousands of units)</u>		
<u>Livestock</u>			
Cows	949	1,139	1,252
Goats	4,152	4,982	5,480
Poultry	2,500	3,000	3,300
	<u>(In thousands of hectares)</u>		
Total area	12,189	12,189	12,189
Cultivated area	395	363	362
Cultivated area as percent of total	3.2	3.0	3.0

Sources: Ministry of Agriculture; and staff estimates.

<sup>1/</sup> Preliminary estimates.

<sup>2/</sup> Includes mainly horsebeans, groundnuts, and lentils.

Table V. Eritrea: Regional Structure of the Agricultural Sector, 1994

Province	Total population	Total cultivated area	Staple crops				Livestock population		
			Sorghum	Teff	Millet	Other <sup>1/</sup>	Cows	Goats	Poultry
	(In thousands)	(In thousands of hectares)	(In thousands of hectares)				(In thousands)		
Akeleguzay	341	42	45	22	21	173	43	294	450
Barka	232	58	289	--	113	8	367	1,225	150
Gash-Setit	304	62	320	--	166	55	395	636	300
Hamassen <sup>2/</sup>	731	33	23	5	13	197	67	24	600
Senhit	254	33	114	--	103	14	112	576	450
Semhar	118	10	98	--	--	30	20	312	150
Sahel	224	13	31	--	19	16	17	1,681	150
Seraye	421	111	241	122	141	213	80	72	600
Denkel	177	2	22	--	--	--	37	162	150
Total	<u>2,802</u>	<u>363</u>	<u>1,183</u>	<u>148</u>	<u>576</u>	<u>700</u>	<u>1,139</u>	<u>4,982</u>	<u>3,000</u>
			(In percent of total)						
Akeleguzay	12	11	4	15	4	25	4	6	15
Barka	8	16	24	--	20	1	32	25	5
Gash-Setit	11	17	27	--	29	8	35	13	10
Hamassen <sup>2/</sup>	26	9	2	3	2	28	6	--	20
Senhit	9	9	10	--	18	2	10	12	15
Semhar	4	3	8	--	--	4	2	6	5
Sahel	8	4	3	--	3	2	1	34	5
Seraye	15	30	20	82	24	30	7	1	20
Denkel	6	1	2	--	--	--	3	3	5
Total	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

Source: Ministry of Agriculture.

<sup>1/</sup> Includes barley, wheat, peas, sesame, and maize.<sup>2/</sup> Includes Asmara.

Table VI. Eritrea: Gross Value of Industrial Production, 1993-95

Type of Industry	Number of enterprises December 1995	1993	1994	1995
<u>(In millions of birr)</u>				
Food industries	6	48.4	69.4	122.0
Beverage industries	3	65.5	47.5	163.4
Tobacco and matches	2	3.6	8.1	13.4
Textile industries	5	16.5	40.2	54.3
Leather and shoes	5	28.2	30.5	57.9
Nonmetallic industries	4	24.0	30.8	31.3
Paper and printing	3	17.7	15.7	19.1
Chemical industries	5	51.1	58.8	101.9
Metal industries	10	34.0	45.6	47.0
Total	<u>43</u>	<u>289.1</u>	<u>346.6</u>	<u>610.3</u>

Source: Ministry of Industry and Trade.

Table VII. Eritrea: Food Grain Position, 1994-96

(In metric tons)

	1994	1995	1996
Opening balance	32,000	11,727	--
Gross domestic production <u>1/</u>	97,700	265,480	149,000
Less: post-harvest losses	-14,000	-30,000	21,000
Less: seed, feed, and non food uses	-15,000	-15,000	-15,000
Net domestic production	68,700	220,480	113,000
Domestic grain balance	100,700	232,207	113,000
Food imports	385,527	170,000	285,000
Commercial	...	65,000	65,000
Food aid	...	105,000	220,000
Total grain balance	486,227	402,207	398,000
Consumption	474,500	402,207	398,000
<u>Memorandum items:</u>			
Estimated consumption requirement <u>1/</u>	474,500	488,735	503,397
Actual grain available	486,227	402,207	398,000
Grain surplus/deficit <u>2/</u>	11,727	-86,528	-105,397

Sources: Ministry of Agriculture; and staff estimates.

1/ Official estimate of consumption requirement in 1994, thereafter assumed to increase in line with the estimated population growth rate of 3 percent.

2/ Projected grain deficit in 1996 could be met from higher levels of food aid and/or commercial imports.

Table VIII. Eritrea: Assab Refinery Production and Purchase by Eritrea, 1993–95

(Quantity in metric tons; value in millions of birr; ratio in percent)

	1993				1994				1995			
	Production	Purchase	Value	Purchase/ Production	Production	Purchase	Value	Purchase/ Production	Production	Purchase	Value	Purchase/ Production
Liquefied petroleum gas	5,060	583	2.4	11.5	5,988	709	3.0	11.8	5,209	1,255	3.8	24.1
Regular gasoline	76,301	10,649	11.8	14.0	94,294	11,818	12.6	12.5	77,056	12,596	22.7	16.3
Light fuel oil	254,207	26,121	15.0	10.3	319,514	26,620	15.6	8.3	256,036	34,829	18.2	13.6
Jet fuel	20,980	4,923	4.4	23.5	22,419	4,480	4.2	20.0	17,994	5,411	6.1	30.1
Kerosene	28,984	13,056	13.3	45.0	29,924	13,874	13.0	46.4	24,019	17,236	19.5	71.8
Automobile diesel	154,270	104,923	96.4	68.0	192,868	120,684	105.3	62.6	169,927	128,792	104.2	75.8
Other	25,574	15,500	8.1	60.6	26,762	13,161	9.0	49.2	28,464	11,012	5.8	38.7
Total	565,376	175,755	151.4	31.1	691,769	191,346	162.7	27.7	578,705	211,131	180.3	36.5

Source: Petroleum Corporation of Eritrea.

Table IX. Eritrea: Ex Refinery and Retail Prices of Petroleum Products, 1992–95

	Unit	Ex refinery prices			Retail prices (as of 12/31/95)				
		Up to 6/2/92	As of 6/30/94	As of 10/15/94	Asmara	Massawa	Assab	Keren	Nacfa
Liquefied petroleum gas	birr/ton	131.3	131.3	131.1	...	...	...	...	...
Regular gasoline	cents/liter	194.6	194.6	193.5	260.0	256.0	251.0	264.0	278.0
Light fuel oil	cents/liter	75.5	75.5	75.5	89.9	85.0	78.0	93.4	108.2
Jet fuel	cents/liter	123.5	123.5	163.0	178.5	--	--	--	--
Kerosene	cents/liter	114.0	114.0	100.0	120.0	116.0	111.0	124.0	138.0
Automobile diesel	cents/liter	114.3	114.0	114.3	145.0	141.0	117.0	149.0	163.0
Asphalt	birr/ton	1,270.0	1,270.0	2,250.0	...	...	...	...	...

Source: Petroleum Corporation of Eritrea.



Table X Eritrea: Asmara Price Index, 1992-95 1/

	(Weights)	1992		1993				1994				1995			
		Jan.	Dec.	March	June	Sept.	Dec.	March	June	Sept.	Dec.	March	June	Sept.	Dec.
Cereals	0.25	100.0	103.4	102.3	106.7	98.7	99.6	109.9	144.0	129.2	110.6	133.3	124.6	133.0	147.7
Vegetables, pasta, etc	0.15	100.0	109.4	122.3	124.5	123.8	139.1	100.7	114.4	125.0	115.6	123.6	123.9	129.1	127.5
Beef, fish, dairy	0.10	100.0	101.7	104.4	105.7	102.9	99.7	97.5	104.4	107.3	107.8	108.6	90.0	101.8	110.3
Miscellaneous household items	0.15	100.0	97.3	95.8	105.3	89.9	125.6	90.3	122.9	132.8	140.4	139.1	130.8	136.9	142.4
Beverages	0.15	100.0	99.2	108.1	107.7	105.0	108.9	105.1	114.0	124.2	129.0	143.2	151.6	136.3	124.4
Clothing	0.10	100.0	124.8	152.6	110.5	129.9	132.5	121.9	144.4	146.8	141.5	151.7	162.6	174.3	186.9
Livestock (other)	0.10	100.0	141.5	128.2	145.1	146.6	151.2	159.4	164.7	171.7	170.7	166.5	145.2	170.1	155.5
Average index	1.00	100.0	108.8	113.0	113.1	110.1	112.3	109.8	140.0	133.3	127.4	136.9	131.9	138.2	141.3
(Percent change)															
Inflation															
Quarterly change			0.9	3.8	0.3	2.6	8.0	8.0	8.7	1.7	-3.6	7.5	-6.1	4.8	2.2
Twelve-month change			8.8	5.2	4.8	2.4	9.6	-2.9	14.6	19.7	6.8	24.7	1.4	4.6	11.0

Sources: Ministry of Industry and Trade, and staff estimates.

1/ Index has been constructed using estimated weights. Indices for subgroups have been constructed by using simple arithmetic averages.

Table XI. Eritrea: Annual Catch and Sales of Fish, 1994-96 <sup>1/</sup>

	1994			1995			1996		
	Industrial	Artisanal	Total	Industrial	Artisanal	Total	Industrial	Artisanal Proj.	Total
(In tons)									
Massawa	2,277	371	2,648	3,262	463	3,725	7,175	602	7,777
Assab	--	22	22	--	48	48	--	144	144
Total	2,277	393	2,670	3,262	511	3,773	7,175	746	7,921
(In millions of birr)									
Massawa <sup>1/</sup>	12.5	2.2	14.7	21.4	3.3	24.7	47.6	4.2	51.8
Assab	--	0.1	0.1	--	0.3	0.3	--	1.0	1.0
Total	12.5	2.3	14.8	21.4	3.6	25.0	47.6	5.2	52.8

Source: Ministry of Marine Resources.

<sup>1/</sup> Industrial or commercial fishing is almost exclusively for export.

Table XII. Eritrea: Investment Projects by Sector, 1993-95

	1993			1994			1995		
	Local	Foreign	Total	Local	Foreign	Total	Local	Foreign	Total
(In thousands of birr, unless otherwise indicated)									
Agriculture	32,470	--	32,470	10,377	1,555	11,932	32,424	--	32,424
Number of projects			5			3			20
Fishing	9,000	21,600	30,600	25,675	67,608	93,283	66,610	5,400	72,010
Number of projects			1			13			13
Mining	--	--	--	1,627	--	1,627	--	--	--
Number of projects						2			
Quarrying	5,000	--	5,000	--	--	--	--	--	--
Number of projects			1						
Manufacturing	47,081	4,939	52,020	83,036	35,891	118,927	214,375	152,161	366,536
Number of projects			7			17			68
Construction	38,268	--	38,268	5,464	--	5,464	46,625	--	46,625
Number of projects			2			2			9
Export/import trade	--	--	--	2,957	--	2,957	6,619	--	6,619
Number of projects						2			7
Hotels and restaurants	15,689	--	15,689	125,777	465,888	591,665	80,903	76,847	157,750
Number of projects			5			11			23
Others	7,798	--	7,798	3,465	--	3,465	780	--	780
Number of projects			3			3			4
Total capital	155,306	26,539	181,845	258,378	570,942	829,320	448,336	234,408	682,744
Total projects			24			53			144

Source: Eritrean Investment Center.

Table XIII. Eritrea: Summary of Government Operations, 1992-95

(In millions of birr)

	1992	1993	1994	1995
	Preliminary Actuals			
<b>Revenue</b>	488.8	893.2	1,026.5	1,345.2
<b>Tax revenue</b>	297.6	517.6	657.5	715.6
Direct taxes	63.8	179.3	315.8	339.7
Indirect domestic taxes	109.2	143.6	142.8	151.0
Import duties and taxes	118.7	180.7	187.1	224.9
Export tax	5.9	14.0	11.8	--
<b>Nontax revenue</b>	191.2	375.6	333.4	629.6
Port fees and charges	152.4	244.5	152.9	233.5
Contributions and other <sup>1/</sup>	38.5	128.5	140.3	371.1
Sale of government property	--	2.6	40.2	25.0
<b>Capital revenue</b>	--	--	35.6	--
<b>Expenditure</b>	734.8	1,559.0	2,005.7	2,657.1
<b>Current expenditure <sup>2/</sup></b>	643.4	1,103.7	1,551.8	2,131.3
Wages, salaries, and allowances	136.9	233.3	460.8	646.3
Materials	319.0	546.2	427.5	850.2
Grants and contributions	6.1	81.9	74.0	109.4
Interest and charges	--	0.9	3.4	16.9
Demobilization and reintegration of ex-combatants	...	99.0	153.6	41.8
Support to martyrs' families	...	...	...	296.1
Current expenditures, externally financed <sup>3/</sup>	181.4	142.4	456.3	170.6
Reclassification from current to capital expenditure	--	--	-23.8	--
<b>Capital expenditure</b>	91.4	455.3	453.9	525.8
Capital expenditure from own resources	91.4	89.4	130.0	192.6
Capital expenditure, financed from external grants	...	364.6	169.7	287.2
Capital expenditure, financed from external loans	--	1.3	154.2	46.0
<b>Overall balance (cash, excluding grants)</b>	-246.0	-665.8	-979.2	-1,311.9
<b>Grants</b>	181.4	507.0	626.0	491.0
External grants (capital and current)	181.4	507.0	626.0	457.8
Counterpart funds from external grants	...	...	...	33.2
<b>Overall balance (cash, including grants)</b>	-64.6	-158.8	-353.2	-820.9
<b>Financing</b>	64.6	158.8	353.2	820.9
<b>External (net)</b>	--	1.3	154.2	46.0
Gross borrowing	--	1.3	154.2	46.0
Amortization	--	--	--	--
<b>Domestic (net)</b>	70.4	-12.0	192.0	672.2
Bank of Eritrea	70.0	-12.0	192.0	672.2
Nonbank financing	--	--	--	--
<b>Residual</b>	-5.4	169.5	7.0	102.7
<b>Memorandum items:</b>				
Special expenditure	...	...	...	416.7
Overall deficit (excluding special expenditures)	...	...	...	-895.2

Sources: Ministry of Finance; and staff estimates and projections.

<sup>1/</sup> In 1995, including about Br 50 million of special revenue, i.e., deductions from gross retroactive wage payments to ex-combatants.

<sup>2/</sup> In 1995, including payments to martyrs' families (Br 296 million), civil service retrenchment (Br 51 million), and retroactive salary payments to ex-combatants working for the Government (Br 70 million).

<sup>3/</sup> In 1992 and 1993, only food aid; in 1994 and beyond, also including other externally financed recurrent expenditures.

Table XIV. Eritrea: Selected Indicators of Government Operations, 1992-95

	1992	1993	1994	1995
	Preliminary Actuals			
		<u>(Annual changes in percent)</u>		
Revenue	...	82.7	14.9	31.0
Tax revenue	...	73.9	27.0	8.8
Nontax revenue	...	96.4	-11.2	88.8
Expenditure	...	112.2	28.6	32.5
Current expenditure	...	71.5	40.6	37.3
Capital expenditure	...	398.1	-0.3	15.8
Grants	...	179.5	23.5	-21.6
		<u>(In percent of GNP)</u>		
Revenue	20.4	28.7	23.3	28.7
Tax revenue	12.4	16.7	14.9	15.3
Nontax revenue	8.0	12.1	8.4	13.9
Expenditure	30.6	50.2	45.5	56.8
Current expenditure	26.9	35.5	35.2	45.5
Capital expenditure	3.8	14.5	10.3	11.2
Overall balance				
Cash, excluding grants	-10.3	-21.4	-22.2	-28.0
Cash, excluding grants and special expenditure	...	...	...	-19.1
Grants	7.6	-16.3	14.2	10.5
Overall balance (cash, including grants)	-2.7	-5.1	-8.0	-17.5
Financing	2.7	5.1	8.0	17.5
External (net)	--	--	3.5	1.0
Domestic (net)	2.9	-0.4	4.4	14.4
Residual	-0.2	5.5	0.1	2.1
<u>Memorandum item:</u>				
GNP at current market prices (millions of birr)	2,399.8	3,108.5	4,406.9	4,681.5

Sources: Ministry of Finance; and staff estimates and projections.

Table XV. Eritrea: Government Revenues and Grants, 1992-95

	1992	1993	1994	1995
		Preliminary Actuals		
	(In millions of birr)			
Tax revenue	297.6	517.6	657.5	715.6
Direct taxes	63.8	179.3	315.8	339.7
Personal income	16.8	37.0	79.1	74.2
Business profits	27.1	95.1	160.7	185.0
Rehabilitation tax	19.0	40.9	73.0	73.2
Other <sup>1/</sup>	0.9	6.3	3.0	7.3
Domestic indirect taxes	109.2	143.6	142.8	151.0
Sales tax on domestic goods and services <sup>2/</sup>	109.2	143.6	142.8	151.0
Import duties and taxes	118.7	180.7	187.1	224.9
Customs duties	46.1	73.7	80.2	136.0
Sales and other taxes on imports	70.9	104.4	106.9	88.9
Other <sup>3/</sup>	1.7	2.6	--	...
Export tax	5.9	14.0	11.8	--
Nontax revenue	191.2	375.6	333.4	629.6
Port fees and charges	152.4	244.5	152.9	233.5
Other fees and charges	9.9	25.5	60.7	74.9
Sales of goods and services	4.3	7.6	28.0	25.4
Sale of government property	--	2.6	40.2	25.0
Residual surplus and dividends	--	--	--	87.4
Other <sup>4/</sup>	24.3	95.4	51.6	183.4
Capital revenue <sup>5/</sup>	--	--	35.6	--
Revenue	488.8	893.2	1,026.5	1,345.2
External grants	181.4	507.0	626.0	491.0
Grants in kind/earmarked	181.4	507.0	626.0	457.8
Current external assistance <sup>6/</sup>	181.4	142.4	456.3	170.6
Capital assistance (external grants)	...	364.6	169.7	287.2
Counterpart funds from external grants	...	...	...	33.2
Revenue and external grants	670.2	1,400.2	1,652.5	1,836.2
	(In percent of total revenue)			
Direct taxes	13.1	20.1	30.8	25.3
Domestic indirect taxes	22.3	16.1	13.9	11.2
Import duties and taxes	24.3	20.2	18.2	16.7
Export tax	1.2	1.6	1.1	--
Nontax revenue	39.1	42.1	32.5	46.8
Capital revenue	--	--	3.5	--

Sources: Ministry of Finance; and staff estimates.

<sup>1/</sup> Agricultural income tax and land use fee; taxes on dividends and rental income

<sup>2/</sup> Including stamp duties.

<sup>3/</sup> Including stamp duties, license fees, and penalty payments and "unspecified revenues."

<sup>4/</sup> Includes voluntary contributions for rehabilitation purposes.

<sup>5/</sup> In 1994, proceeds from sale of Nyala Hotel.

<sup>6/</sup> In 1992 and 1993, only food aid; in 1994 and beyond, also including other externally financed expenditure.

Table XVI. Eritrea: Government Current Expenditure by Economic Classification, 1992-95

	1992	1993	1994	1995
		Preliminary		Actuals
	(In millions of birr)			
Current expenditure	643.4	1,103.7	1,551.8	2,131.3
Wages, salaries, and allowances	136.9	233.3	460.8	646.3
Materials	319.0	546.2	427.5	850.2
Grants and contributions	6.1	81.9	74.0	109.4
Interest and charges	--	0.9	3.4	16.9
Domestic debt	--	0.9	3.4	16.9
External debt	--	--	--	...
Demobilization and reintegration of ex-combatants <sup>1/</sup>	...	99.0	153.6	41.8
Support to martyrs' families	...	...	...	296.1
Current expenditure, externally financed <sup>2/</sup>	181.4	142.4	456.3	170.6
Reclassification adjustment between current and capital expenditure	...	...	-23.8	--
	(In percent of GNP)			
Current expenditure	26.9	35.5	35.2	45.5
Wages, salaries, and allowances	5.7	7.5	10.5	13.8
Materials	13.3	17.6	9.7	18.2
Grants and contributions	0.3	2.6	1.7	2.3
Demobilization and reintegration of ex-combatants	...	3.2	3.5	0.9
Current expenditure, externally financed	7.6	4.6	10.4	3.6
	(In percent of total current expenditure)			
Wages, salaries, and allowances	21.3	21.1	29.7	30.3
Materials	49.6	49.5	27.5	39.9
	(Annual changes in percent)			
Wages and operating expenditure	...	71.0	14.0	68.5
Wages, salaries, and allowances	...	70.4	97.5	40.3
Materials	...	71.2	-21.7	98.9
Grants and contributions	...	1,242.6	-10.3	48.8
Demobilization and reintegration of ex-combatants	...	...	55.2	-72.8
Current expenditure, externally financed	...	-21.5	220.3	-62.6
Current expenditure	...	71.5	40.6	37.3
<b>Memorandum items:</b>				
Special expenditure <sup>3/</sup>				
In millions of birr	...	...	...	416.7
In percent of total current expenditure	...	...	...	19.6
In percent of GNP	...	...	...	8.9

Sources: Ministry of Finance; and staff estimates.

<sup>1/</sup> In 1993 and 1994, excluding costs for reintegration of ex-combatants.

<sup>2/</sup> In 1992 and 1993, only food aid.

<sup>3/</sup> In 1995, including payments to martyrs' families (Br 296 million), civil service retrenchment (Br 51 million), and retroactive salary payments to ex-combatants working for the Government (Br 70 million).

Table XVII. Eritrea: Government Current Expenditure by Functional Classification, 1992-95

	1992	1993	1994	1995
	Preliminary Actuals			
	(In millions of burr)			
<b>General services</b>	329.0	649.8	635.9	1,090.3
Internal affairs	22.5	33.9	38.0	110.7
Regional administration	11.6	21.8	32.7	48.6
Foreign affairs	17.3	25.0	54.0	71.5
Ministry of Finance	9.0	16.3	47.3	37.7
Defense <sup>1/</sup>	252.3	539.2	438.7	770.5
Other <sup>2/</sup>	16.3	13.6	25.2	51.3
<b>Economic services</b>	63.2	103.3	185.0	235.1
Agriculture and natural resources <sup>3/</sup>	21.8	17.1	18.0	30.1
Trade, industry, and tourism	2.9	6.3	5.0	8.6
Mining and energy	2.3	2.5	5.1	9.6
Roads, transport, and communication	30.2	52.7	98.5	97.6
Construction and urban development	6.0	24.4	57.7	88.5
Other <sup>4/</sup>	--	0.3	0.7	0.7
<b>Social services</b>	63.7	94.5	135.4	226.9
Education and training	34.7	46.3	64.9	97.6
Health	11.0	18.2	35.1	75.3
Labor and social welfare	7.0	11.9	16.6	33.2
Relief and rehabilitation (ERRA)	1.7	4.9	4.7	7.8
Other <sup>5/</sup>	9.3	13.2	14.1	13.0
<b>Safety net measures</b>	...	99.0	153.6	337.9
Demobilization and reintegration of ex-combatants <sup>6/</sup>	...	99.0	153.6	41.8
Reintegration of refugees	...	...	...	...
Support to martyrs' families	...	...	...	296.1
<b>Interest and charges</b>	...	0.9	3.4	16.9
Domestic debt	...	0.9	3.4	16.9
External debt	--	--	--	...
<b>Current expenditure, externally financed <sup>7/</sup></b>	181.4	142.4	456.3	170.6
<b>Miscellaneous <sup>8/</sup></b>	6.1	13.8	-17.8	53.6
<b>Total current expenditure</b>	<u>643.4</u>	<u>1,103.7</u>	<u>1,551.8</u>	<u>2,131.3</u>
	(In percent of GNP)			
<b>General services</b>	13.7	20.9	14.4	23.3
Of which: defense (excluding National Service Program)	(10.5)	(17.3)	(7.0)	(...)
<b>Economic services</b>	2.6	3.3	4.2	5.0
<b>Social services</b>	2.7	3.0	3.1	4.8
Of which: education and health	(1.9)	(2.1)	(2.3)	(3.7)
	(Annual changes in percent)			
<b>General services</b>	...	97.5	-2.1	71.5
<b>Economic services</b>	...	63.4	79.1	27.1
<b>Social services</b>	...	48.4	43.3	67.6
<b>Other</b>	...	136.5	-196.6	-217.4

Sources: Ministry of Finance; and staff estimates.

<sup>1</sup> Including subsistence costs for ex-combatants; in 1994, also including National Service Program (Br 128.7 million).<sup>2</sup> Including President's Office, Ministry of Justice, Auditor General, and C'ERA.<sup>3</sup> Including Ministry of Marine Resources.<sup>4</sup> Including Standards Office and Land Commission.<sup>5</sup> Including Ministry of Information and Culture.<sup>6</sup> In 1993 and 1994, excluding costs for reintegration of ex-combatants.<sup>7</sup> In 1992 and 1993, only food aid.<sup>8</sup> In 1994, including reclassification adjustment (-23.8 million burr) from recurrent to capital expenditures.



Table XVIII. Eritrea: Government Capital Expenditure, 1992-95

	1992	1993	1994	1995
	Preliminary Actuals			
	(In millions of birr)			
General services	7.8	41.7	17.3	31.5
Economic development	71.5	372.5	339.4	410.4
Agriculture and natural resources <sup>1/</sup>	28.8	244.3	130.8	272.5
Mining and energy	...	9.9	83.5	17.8
Trade, industry, and tourism	5.0	58.1	69.7	25.1
Transport, construction, communication	37.7	60.2	55.4	93.8
Finance	--	--	--	1.2
Social development	12.1	41.1	73.4	83.9
Education	...	19.3	9.3	15.5
Health	0.2	18.1	13.5	35.5
Social affairs	11.9	3.6	29.5	32.9
Other <sup>2/</sup>	...	0.1	21.1	...
Reclassification adjustment between recurrent Capital expenditure	--	--	23.8	...
Total capital expenditure	91.4	455.3	453.9	525.8
Financing by source	91.4	455.3	453.9	525.8
Central Treasury	91.4	89.4	130.0	192.6
External grants	...	364.6	169.7	287.2
External loans	--	1.3	154.2	46.0
	(In percent of GNP)			
General services	0.3	1.3	0.4	0.7
Economic development	3.0	12.0	7.7	8.8
Social development	0.5	1.3	1.7	1.8
Of which: education and health	(--)	(1.2)	(0.5)	(1.1)
	(In percent of total capital expenditure)			
General services	8.5	9.2	3.8	6.0
Economic development	78.2	81.8	74.8	78.1
Social development	13.2	9.0	16.2	16.0
Of which: education and health	(0.2)	(8.2)	(5.0)	(9.7)
	(Annual changes in percent)			
General services	...	434.6	-58.5	82.1
Economic development	...	421.0	-8.9	20.9
Social development	...	239.7	78.6	14.3
Total capital expenditure	...	398.1	-0.3	15.8

Sources: Ministry of Finance; and staff estimates.

<sup>1/</sup> Including Ministry of Marine Resources.<sup>2/</sup> Including Ministry of Information and Culture.

Table XIX. Eritrea: Provisional Monetary Survey, 1991-95 <sup>1/</sup>

	1991	1992	1993	1994		1995	
		December		June	Dec.	June	Dec.
	(In millions of birr)						
Net foreign assets	3.1	27.7	553.5	733.0	1,087.0	980.3	975.7
Foreign assets	3.1	29.8	575.7	762.0	1,125.1	1,032.8	1,044.6
Foreign liabilities	--	2.1	22.3	29.0	38.1	52.5	68.9
Net claims on the birr area	568.2	1,094.5	1,275.8	1,252.0	1,256.5	1,357.8	975.6
Birr assets	599.2	1,214.7	1,450.3	1,458.9	1,563.3	1,798.4	1,666.9
Cash in vault	486.5	1,160.1	1,301.7	1,209.6	1,175.7	1,266.8	972.4
Correspondent account	--	--	97.9	198.4	328.7	466.0	640.7
Clearing account	112.7	54.6	50.7	50.8	58.7	65.1	53.8
Birr liabilities	31.0	120.2	174.5	207.0	306.8	440.6	691.3
Correspondent account	--	--	114.3	138.9	238.7	372.5	623.2
Clearing account	31.0	120.2	60.2	68.1	68.1	68.1	68.1
Domestic credit	-90.4	1.0	165.0	473.6	672.6	837.0	1,989.0
Net claims on the Central Government	-162.5	-91.5	-103.8	-75.2	87.5	-29.1	759.7
Credit to Central Government	--	213.6	--	140.0	311.0	528.5	1,011.5
Deposits of Central Government	162.5	305.1	103.8	215.2	223.5	557.6	251.8
Net claims on local government	--	2.3	82.9	--	--	--	--
Claims on public enterprises	42.3	70.1	120.4	405.2	237.7	264.5	364.0
Claims on private sector	29.8	20.1	65.5	143.6	347.4	601.6	865.3
Broad money	494.5	1,186.9	1,925.3	2,318.3	2,889.3	3,214.7	3,569.3
Money <sup>2/</sup>	203.0	517.3	866.8	1,122.7	1,258.4	1,321.8	1,295.8
Quasi-money	291.5	669.5	1,058.5	1,195.6	1,630.9	1,892.9	2,273.5
Other items (net)	-13.5	-63.6	69.0	140.2	126.9	-39.6	370.9
	(Annual change in percent of beginning-of-period broad money stock)						
Net foreign assets	...	5.0	44.3	27.2	27.7	10.7	-3.9
Net claims on the birr area	...	106.4	15.3	2.9	-1.0	4.6	-9.7
Domestic credit	...	18.5	13.8	28.7	26.4	15.7	45.6
Of which:							
Net claims on the Central Government	(...)	(14.3)	(-1.0)	(1.9)	(9.9)	(2.0)	(23.3)
Credit to public enterprises	(...)	(5.6)	(4.2)	(19.3)	(6.1)	(-6.1)	(4.4)
Credit to the private sector	(...)	(-2.0)	(3.8)	(7.5)	(14.6)	(19.8)	(17.9)
Broad money	...	140.0	62.2	51.1	50.1	38.7	23.5
Other items (net)	...	-10.1	11.2	7.7	3.0	-7.8	8.4

Sources: Eritrean authorities; and staff estimates.

<sup>1/</sup> The consolidated statement is based on the balance sheets of the Bank of Eritrea (BE), the Commercial Bank of Eritrea (CBER), and from December 1994, of the Housing Bank of Eritrea (HBE), which has universal bank features and plans to request a commercial banking license in the near future.

<sup>2/</sup> Money excluding currency outside banks in Eritrea

Table XX. Eritrea: Summary Accounts of the Bank of Eritrea, 1991-95

(In millions of birr)

	1991	1992	1993	1994		1995	
		December		June	Dec.	June	Dec.
<b>Net foreign assets</b>	--	--	73.0	353.7	454.6	277.9	426.4
Claims on foreign commercial banks	--	--	69.1	331.0	419.3	218.4	269.4
Foreign exchange	--	--	3.9	22.7	35.3	59.5	157.0
Gold	--	--	3.7	12.8	29.5	52.8	132.0
Foreign currency	--	--	0.2	9.9	5.8	6.7	25.0
<b>Net claims on the birr area</b>	226.9	234.0	326.3	305.2	247.0	337.5	258.0
Birr in vault	245.2	252.3	344.6	323.4	265.3	355.8	276.3
Liabilities to CBE Addis	18.3	18.3	18.3	18.3	18.3	18.3	18.3
<b>Domestic credit</b>	-95.8	-72.0	-103.8	-75.2	87.5	-29.1	759.7
Claims on Central Government (net)	-95.8	-72.0	-103.8	-75.2	87.5	-29.1	759.7
Credit to Central Government	--	--	--	140.0	311.0	528.5	1,011.5
Central Government deposits	95.8	72.0	103.8	215.2	223.5	557.6	251.8
Claims on commercial banks	--	--	--	--	--	--	--
Claims on other banks	--	--	--	--	--	--	--
<b>Other items (net)</b>	5.9	9.5	-18.2	-31.3	-53.9	64.9	104.1
Unclassified assets	6.2	11.7	16.0	16.6	35.0	143.2	208.5
Uncleared effects	...	11.6	9.7	1.2	7.5	0.1	0.1
Debtors	...	--	3.7	12.7	20.9	49.9	80.7
Fixed assets	...	--	2.6	2.7	2.8	2.8	3.1
Other accounts	--	--	--	--	--	90.4	124.5
Unclassified liabilities	0.3	--	23.1	15.1	10.7	170.3	233.3
Creditors	...	--	1.1	1.5	5.1	36.6	77.0
Other accounts	...	--	21.9	13.6	5.6	133.7	156.3
<b>Capital account</b>	--	2.2	11.1	32.9	78.2	37.8	79.3
General reserve fund	--	2.0	8.0	8.0	1.8	35.0	76.5
Capital reserves	--	--	2.5	2.7	30.8	2.7	2.8
Provisions	--	0.2	0.4	22.1	45.6	0.1	--
<b>Reserve money</b>	137.0	171.5	277.4	552.3	735.3	521.4	1,340.1
Deposits of commercial banks	137.0	171.5	277.4	552.3	735.3	521.4	1,340.1

Sources: Bank of Eritrea; and staff estimates.

Table XXI. Summary Account of the Commercial Bank of Eritrea, 1991-95

(In millions of birr)

	1991	1992	1993	1994		1995	
		December		June	Dec.	June	Dec.
<b>Reserves</b>	137.0	171.5	278.0	552.3	735.3	521.4	1,334.5
<b>Net foreign assets</b>	3.1	27.7	480.4	379.3	638.0	709.3	553.4
<b>Assets</b>	3.1	29.8	502.7	408.3	670.5	754.9	616.2
Gold	--	--	--	--	--	--	--
Foreign currency	1.6	1.8	6.9	22.7	20.3	19.6	7.4
Claims on foreign banks	1.5	28.0	495.7	385.6	650.2	735.3	608.8
Nonresident accounts	0.1	2.1	22.3	29.0	32.5	45.6	62.8
<b>Net claims on the birr area</b>	341.4	860.4	949.5	954.6	1,017.3	1,027.7	671.7
Claims on the birr area	354.0	962.4	1,105.7	1,135.4	1,297.9	1,442.1	1,336.8
Cash in vault	241.3	907.8	957.1	886.2	910.4	911.0	696.1
Correspondent account	--	--	97.9	198.4	328.7	466.0	640.7
Claims on CBE Addis	112.7	54.6	50.7	50.8	58.7	65.1	--
Liabilities to birr area	12.7	102.0	156.2	180.8	280.6	414.4	665.1
Correspondent account	--	--	114.3	138.9	191.1	414.4	665.1
CBE Addis	12.7	102.0	41.9	41.9	89.5	...	...
<b>Net domestic credit</b>	5.4	73.0	268.8	532.6	566.6	803.5	1,208.6
Claims on Central Government (net)	-66.7	-19.5	82.9	--	--	--	--
Credit to the Central Government	--	213.6	82.9	--	--	--	--
Central Government deposit	66.7	233.1	--	--	--	--	--
Claims on local government	--	2.3	--	--	--	--	--
Claims on nonfinancial public enterprises	42.3	70.1	120.4	405.2	237.7	264.5	460.5
Credit to other banks	--	--	--	--	--	--	96.5
Claims on the private sector	29.8	20.1	65.5	127.4	328.9	539.0	651.6
<b>Deposits</b>	494.5	1,186.8	1,925.3	2,326.7	2,894.5	3,174.9	3,413.3
Demand deposits	203.0	517.3	866.8	1,122.7	1,258.4	1,321.8	1,295.8
Savings deposits	280.9	660.7	936.2	1,086.9	1,317.9	1,484.3	1,668.3
Fixed deposits	10.6	8.8	122.3	117.1	318.2	368.8	449.2
<b>Other items (net)</b>	-7.6	-54.2	51.4	92.2	62.6	-113.1	354.9

Sources: Bank of Eritrea; Commercial Bank of Eritrea; and staff estimates.

Table XXII. Eritrea: Summary Accounts of the Housing Bank of Eritrea, 1994-95

(In millions of birr)

	1994		1995	
	June	Dec.	June	Dec.
Deposits with the BE and CBER	30.0	35.6	50.3	61.5
Net foreign assets	-7.9	-7.9	-7.9	-6.0
Assets	--	--	--	2.0
Claims on foreign banks	--	--	--	2.0
Liabilities	7.9	7.9	7.9	7.9
Net claims on the birr area	0.1	0.1	0.5	53.8
Claims on the birr area	0.1	0.1	0.5	53.8
Cash in vault	0.1	0.1	0.5	53.8
Claims on the private sector	16.2	18.5	62.6	213.7
Loans and advances	16.2	18.5	26.3	37.8
Overdrafts	--	--	36.3	175.9
Deposits	21.6	30.4	90.1	217.5
Savings deposits	21.6	30.4	58.8	186.2
Fixed deposits	--	--	31.3	31.3
Liabilities to other banks	--	--	--	96.5
Other items (net)	16.7	15.9	15.4	9.1

Source: Housing Bank of Eritrea.

Table XXIII. Eritrea: Distribution of Net Foreign Assets, 1992-95

(In millions of birr)

	1992		1993		1994		1995	
	December	December	June	Dec.	June	Dec.		
<b>Net foreign assets</b>	27.7	553.5	733.0	1,087.0	980.3	975.7		
Bank of Eritrea	--	73.0	353.7	449.0	271.0	420.3		
Commercial Bank of Eritrea	27.7	480.4	379.3	638.0	709.3	553.4		
Housing Bank of Eritrea	--	--	--	--	--	2.0		
<b>Assets</b>								
Bank of Eritrea	--	73.0	353.7	454.6	277.9	426.4		
Commercial Bank of Eritrea	29.8	502.7	408.3	670.5	754.9	616.2		
Housing Bank of Eritrea	--	--	--	--	--	2.0		
<b>Liabilities</b>								
Bank of Eritrea	--	--	--	5.6	6.9	6.1		
Commercial Bank of Eritrea	2.1	22.3	29.0	32.5	45.6	62.8		
Housing Bank of Eritrea	--	--	--	--	--	--		
<b>Annual change</b>	24.7	525.7	179.6	533.5	247.3	-111.3		
Bank of Eritrea	--	73.0	280.6	375.9	-82.7	-28.7		
Commercial Bank of Eritrea	24.7	452.7	-101.1	157.6	330.0	-84.6		
Housing Bank of Eritrea	--	--	--	--	--	2.0		
<b>Net claims on the birr area</b>	1,094.5	1,275.8	1,259.8	1,256.5	1,365.2	975.6		
Bank of Eritrea	234.0	326.3	305.2	247.0	337.5	258.0		
Commercial Bank of Eritrea	860.4	949.5	954.6	1,017.3	1,027.7	671.7		
Housing Bank of Eritrea	--	--	-7.8	-7.8	-7.4	45.9		
<b>Assets</b>								
Bank of Eritrea	252.3	344.6	323.4	265.3	355.8	276.3		
Commercial Bank of Eritrea	962.4	1,105.7	1,135.4	1,297.9	1,442.1	1,336.8		
Housing Bank of Eritrea	--	--	0.1	0.1	0.5	53.8		
<b>Liabilities</b>								
Bank of Eritrea	18.3	18.3	18.3	18.3	18.3	18.3		
Commercial Bank of Eritrea	102.0	156.2	180.8	280.6	414.4	665.1		
Housing Bank of Eritrea	--	--	7.9	7.9	7.9	7.9		
<b>Annual change</b>	526.2	181.4	52.8	-19.3	105.5	-305.3		
Bank of Eritrea	7.2	92.2	151.4	-79.3	32.4	35.8		
Commercial Bank of Eritrea	519.0	89.1	-98.5	67.7	73.1	-387.0		
Housing Bank of Eritrea	--	--	-7.8	-7.8	0.4	53.7		

Sources: Bank of Eritrea and Commercial Bank of Eritrea.

Table XXIV. Eritrea: Sectoral Distribution of Commercial Bank Loans, 1993-95

(In millions of birr)

	1993		1994				1995			
	Dec.		June		Dec.		June		Dec.	
	Total	Of which: Private	Total	Of which: Private	Total	Of which: Private	Total	Of which: Private	Total	Of which: Private
<b>Agriculture</b>	21.3	1.3	31.7	3.5	40.9	10.3	54.0	22.9	68.0	26.6
Term loans	0.3	...	4.4	1.8	8.6	7.9	17.8	...	26.2	23.3
Overdrafts	21.0	1.3	27.3	1.7	32.3	2.4	36.2	...	41.8	3.3
<b>Manufacturing</b>	32.5	4.3	48.4	21.7	55.7	12.4	109.9	47.2	153.0	36.7
Term loans	3.4	2.7	5.0	...	6.8	5.6	48.2	17.4	61.8	15.9
Overdrafts	29.1	1.6	43.4	...	48.9	6.8	61.7	29.8	91.2	20.8
<b>Domestic trade and services</b>	120.2	42.9	317.1	68.2	162.6	91.5	190.9	171.7	426.4	281.9
Term loans	67.2	26.4	71.2	34.2	124.2	66.4	146.4	128.6	291.8	174.1
Overdrafts	53.0	16.5	245.9	34.0	38.4	25.1	44.5	43.1	134.6	107.8
<b>Export</b>	3.1	0.6	4.1	...	6.6	6.6	17.8	19.6	25.2	...
Term loans	0.6	0.6	4.1	...	2.5	2.5	8.1	...	15.3	...
Overdrafts	2.5	...	...	...	4.1	4.1	9.7	...	9.9	...
<b>Import</b>	27.5	13.2	29.6	18.2	60.6	45.5	131.7	100.1	127.7	81.7
Term loans	1.8	...	2.4	...	28.7	18.6	43.1	...	30.8	25.9
Overdrafts	25.7	...	27.2	...	31.9	26.9	88.6	...	96.9	55.8
<b>Building and construction</b>	51.4	1.6	40.7	2.6	55.3	3.9	57.4	9.4	84.1	33.8
Term loans	0.9	...	0.8	...	7.5	3.1	7.5	...	31.9	...
Overdrafts	50.5	...	39.9	...	47.8	0.8	49.9	...	52.2	...
<b>Other</b>	65.0	0.2	60.9	0.2	184.8	119.8	190.8	166.2	176.5	138.7
Of which										
Loans under dispute	(52.1)	(--)	(52.8)	(--)	(51.0)	(5.6)	(50.9)	(--)	(50.9)	(--)
<b>Total 1/</b>	320.9	64.1	532.5	...	566.5	290.0	752.5	537.1	1,060.9	...
Term loans	139.2	...	148.8	...	363.1	223.9	461.9	...	634.6	...
Overdrafts	181.7	...	383.7	...	203.3	66.1	290.6	...	426.6	...

Source: Commercial Bank of Eritrea.

1/ Figures may not correspond exactly to those reported in Table XXI, owing to classification issues.

Table XXV. Eritrea: Structure of Interest Rates, 1992-95

(In percent per annum)

	December 1992 - August 1994		December 1994	December 1995
	Government-owned enterprises	Individuals and private organizations		
Savings deposits	...	8.0	6.0	6.0-8.0
Loans				
Agriculture	9.0	10.0	...	
Commercial	...	...	8.0	8.5-9.5
Small-scale	...	...	7.5	7.5-8.5
Industry, mining, power, and water resources	11.0	12.0	8.5	8.5-9.5
Cottage industries	...	...	...	7.5-8.5
Domestic trade	11.0	12.5	9.0	12.0
Transport and communications	11.0	11.0	8.5	8.5
Export trade	10.0	10.0	8.0	8.5
Import trade	11.0	12.0	9.0	12.0
Hotels and tourism	10.0	12.5	9.0	9.5
Personal loans	...	..		10.0
Housing				
Construction	8.5	9.5	7.0	7.5-9.5
Purchases	10.0	12.0	8.0	12.0

Sources: Bank of Eritrea, Commercial Bank of Eritrea.



Table XXVI. Eritrea: Balance of Payments, 1992-95 <sup>1/</sup>

(In millions of U.S. dollars)

	1992			1993			1994			1995		
	Birr	Non-birr	Total	Birr	Non-birr	Total	Birr	Non-birr	Total	Birr	Non-birr	Total
Trade balance	-39	-224	-263	-17	-222	-239	-10	-322	-331	2	-326	-323
Exports, f.o.b	14	1	15	25	11	36	34	31	64	56	24	81
Imports, c.i.f.	53	225	278	42	233	275	43	353	396	54	350	404
<u>Franco valuta</u>	7	263	270	--	210	210	15	288	303	23	214	237
Private	7	42	49	--	104	104	15	184	198	23	141	164
Official (AID)	--	168	168	--	70	70	--	105	105	--	73	73
Of which: food	(--)	(43)	(43)	(--)	(17)	(17)	(--)	(44)	(44)	(--)	(22)	(22)
Petroleum products	24	--	24	29	--	29	26	--	26	31	7	38
Other	22	16	38	13	60	73	--	64	64	--	129	129
Services (net)	65	8	73	51	51	102	22	51	73	21	26	47
Receipts	65	8	73	51	51	103	22	58	80	21	70	91
Oil refining	6	4	10	5	3	8	7	--	7	7	--	7
Port services	59	3	62	46	3	49	15	16	31	14	19	33
Other	--	--	--	--	46	46	--	42	42	--	50	50
Payments	--	--	--	--	1	1	--	7	7	--	44	44
Investment income	...	...	...	...	...	...	--	--	--	--	8	8
Private transfers (net)	7	121	127	--	165	165	--	276	276	--	215	215
Receipts	7	122	129	--	165	165	--	289	289	--	216	216
Counterpart <u>franco valuta</u>	7	42	49	--	104	104	--	184	184	--	141	141
Other	--	80	80	--	62	62	--	105	105	--	75	75
Payments	--	1	1	--	--	--	--	13	13	--	0	0
Current account <sup>2/</sup>	34	-96	-62	35	-6	28	12	6	18	23	-77	-53
Official transfers (net)	--	168	168	--	69	69	--	80	80	--	73	73
Food	--	43	43	--	17	17	--	44	44	--	23	23
Capital account	--	--	--	--	--	--	--	25	25	--	24	24
Official long-term capital <sup>3/</sup>	--	--	--	--	--	--	--	25	25	--	24	24
Short-term capital and errors and omissions	81	-66	15	-5	22	17	-14	-31	-45	-72	-36	-108
Overall balance	115	5	120	29	85	115	-2	80	79	-49	-16	-65
Net foreign assets and claims on the birr area (= increase)	-115	-5	-120	-29	-85	-115	2	-80	-79	49	16	65
Bank of Eritrea	-2	--	-2	-15	-12	-27	12	-57	-45	-2	3	1
Commercial Bank of Eritrea	-113	-5	-119	-14	-73	-88	-10	-24	-34	52	13	65
Memorandum items:												
Current account (percent of GNP) <sup>2/</sup>			-11.9			5.6			2.7			-7.7
Reserves in months of imports			0.3			3.9			5.2			4.6
Exchange rate (average)												
Auction rate			2.80			5.23			6.16			6.30
Preferential rate			6.37			7.10			7.10			7.20

Sources: Bank of Eritrea, and staff estimates and projections.

<sup>1/</sup> Data for 1993-95 are preliminary actuals.<sup>2/</sup> Includes the Kuwait Fund loan for the electric plant in Asmara installed in 1995. There were no debt amortization payments through 1995.<sup>3/</sup> Excluding official transfers.

Table XXVII. Eritrea: Commodity Composition of Foreign Trade, 1992-95<sup>1</sup>

(In millions of birr, unless indicated otherwise)

	Exports				Imports			
	1992	1993	1994	1995	1992	1993	1994	1995
Food and live animals	1.5	27.8	117.7	138.5	99.1	166.4	426.2	446.9
Of which: Ethiopia	(1.3)	(5.0)	(24.9)	(59.1)	(48.6)	(50.1)	(54.7)	(91.1)
In percent	--	--	--	--	--	--	--	--
Beverages and tobacco	4.0	8.7	9.2	20.2	13.8	35.9	43.3	12.4
Of which: Ethiopia	(2.8)	(7.6)	(8.4)	(18.2)	(1.6)	(0.6)	(1.2)	(1.6)
In percent	70.4	87.5	90.4	90.2	11.4	1.6	2.7	13.0
Crude materials	35.7	76.6	132.1	157.7	3.6	31.3	49.1	64.7
Of which: Ethiopia	(31.0)	(66.2)	(73.7)	(116.6)	(0.1)	(0.4)	(11.6)	(18.6)
In percent	86.8	86.4	55.8	73.9	3.2	1.3	23.5	28.7
Mineral fuels, lubricants and related materials	--	--	--	--	4.6	6.8	12.9	50.1
Of which: Ethiopia	(--)	(--)	(--)	(--)	(0.1)	(0.2)	(0.4)	(--)
In percent	100.0	100.0	100.0	--	1.4	2.6	3.2	--
Animal and vegetable oils, fats and waxes	--	0.1	--	1.9	1.9	10.7	33.3	30.5
Of which: Ethiopia	(--)	(--)	(--)	(1.8)	(0.1)	(0.1)	(--)	(--)
In percent	100.0	30.0	100.0	96.7	6.0	0.5	0.1	--
Chemicals and related products	0.3	6.2	7.5	13.1	32.2	56.4	120.3	157.0
Of which: Ethiopia	(0.3)	(3.0)	(6.8)	(11.4)	(0.8)	(1.2)	(1.3)	(3.3)
In percent	100.0	48.8	91.0	87.2	2.4	2.1	1.1	2.1
Manufactured goods	2.4	52.9	67.8	102.4	107.1	222.2	320.5	499.3
Of which: Ethiopia	(2.4)	(17.4)	(37.1)	(67.2)	(6.8)	(7.5)	(14.7)	(15.7)
In percent	99.4	32.9	54.6	65.7	6.4	3.4	4.6	3.2
Machinery and transport equipment	1.2	3.5	11.7	19.9	55.0	381.9	752.6	1,178.4
Of which: Ethiopia	(1.2)	(3.0)	(10.2)	(14.0)	(2.2)	(3.8)	(3.9)	(6.8)
In percent	100.0	84.7	87.4	70.1	4.0	1.0	0.5	0.6
Miscellaneous manufactured articles	1.0	33.5	51.1	75.8	49.9	111.2	234.9	169.2
Of which: Ethiopia	(1.0)	(28.3)	(46.2)	(66.5)	(1.6)	(2.5)	(3.1)	(7.2)
In percent	99.8	84.3	90.5	87.7	3.2	2.2	1.3	4.3
Total	46.1	209.2	397.2	529.5	367.1	1,022.8	1,993.1	2,608.5
Of which: Ethiopia	(40.0)	(130.5)	(207.4)	(354.8)	(61.9)	(66.2)	(90.8)	(144.3)
In percent	86.7	62.3	52.2	67.0	16.8	6.5	4.6	5.5

Sources: Customs Office; and staff estimates.

<sup>1</sup> Excludes petroleum imports; and imports are included only in 1994 and 1995.

Table XXVIII. Eritrea: Direction of Exports, 1992-95 1/

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995 2/</u>
(In millions of birr)				
Djibouti	--	--	0.7	0.5
Ethiopia	40.0	130.5	207.5	171.0
Germany	0.1	1.4	0.4	1.4
Italy	3.4	5.4	10.2	6.0
Netherlands	0.1	0.2	...	...
Saudi Arabia	0.1	3.6	50.3	10.0
Sudan	--	46.5	57.9	44.2
Sweden	1.2	0.6	...	...
United Arab Emirates	0.3	0.1	--	1.2
United Kingdom	0.3	--	10.2	0.9
United States	--	--	1.2	--
Yemen	0.2	--	18.4	13.2
Other	0.3	21.6	40.3	21.6
Total	<u>46.1</u>	<u>209.9</u>	<u>397.1</u>	<u>270.0</u>
(In percent)				
Djibouti	--	--	0.2	0.2
Ethiopia	86.8	62.2	52.3	63.3
Germany	0.3	0.7	0.1	0.5
Italy	7.5	2.6	2.6	2.2
Netherlands	0.3	0.1	--	--
Saudi Arabia	0.3	1.7	12.7	3.7
Sudan	--	22.2	14.6	16.4
Sweden	2.5	0.3	--	--
United Arab Emirates	0.6	0.1	--	0.4
United Kingdom	0.6	--	2.6	0.3
United States	--	--	0.3	--
Yemen	0.5	--	4.6	4.9
Other	0.6	10.3	10.1	8.0
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Sources: Customs Office; and staff estimates.

1/ Figures may differ from those in Table XXVII, owing to incomplete information on the direction of exports.

2/ Data are available for the first half of the year only.

Table XXIX. Eritrea: Origin of Imports, 1992-95 1/

	1992	1993	1994	1995 2/
(In millions of birr)				
Belgium	0.5	14.3	...	...
Djibouti	13.0	11.3	29.8	18.7
Egypt	1.6	1.6	...	...
Ethiopia	61.9	66.3	90.8	69.0
Germany	7.0	79.3	147.4	74.1
Italy	27.8	136.8	431.0	220.5
Netherlands	6.7	22.0	...	...
Saudi Arabia	136.1	282.5	328.0	247.0
Sudan	2.1	53.4	51.7	38.2
Sweden	2.1	25.9	...	...
Switzerland	1.5	9.2	...	...
United Arab Emirates	35.8	96.6	178.6	116.3
United Kingdom	4.7	29.7	79.1	47.4
United States	1.3	11.4	35.3	74.5
Yemen	7.1	12.5	20.5	12.4
Other	57.8	171.6	601.0	343.6
Total	367.1	1,024.4	1,993.2	1,261.7
(In percent)				
Belgium	0.1	1.4	--	--
Djibouti	3.6	1.1	1.5	1.5
Egypt	0.4	0.2	--	--
Ethiopia	16.8	6.5	4.6	5.5
Germany	1.9	7.7	7.4	5.9
Italy	7.6	13.4	21.6	17.5
Netherlands	1.8	2.1	--	--
Saudi Arabia	37.1	27.6	16.5	19.6
Sudan	0.6	5.2	2.6	3.0
Sweden	0.6	2.5	--	--
Switzerland	0.4	0.9	--	--
United Arab Emirates	9.8	9.4	9.0	9.2
United Kingdom	1.3	2.9	4.0	3.8
United States	0.3	1.1	1.8	5.9
Yemen	1.9	1.2	1.0	1.0
Other	15.7	16.8	30.2	27.2
Total	100.0	100.0	100.0	100.0

Sources: Customs Office; and staff estimates.

1/ Figures may differ from those in Table XXVII, owing to incomplete information on the direction of imports.

2/ Data are available for the first half of the year only.

Table XXX. Eritrea: External Public Debt Commitments and Disbursements, 1994-95

(In millions of U.S. dollars)

Lender	Contract date	Amount, End-1995	Disbursements, 1994	Disbursements, 1995
IDA <u>1/</u>	April 1993	25.6	17.4	5.8
China <u>2/</u>	1994	4.3	4.3	
EIB <u>3/</u>	October 1994	6.7	...	...
IFAD <u>4/</u>	January 1995	12.1		...
Kuwait Fund <u>5/</u>	April 1995	16.5		16.5
Saudi Fund <u>5/</u>	June 1995	35.0		...
Abusabi Fund <u>6/</u>	July 1995	24.8		...
Arab Bank for Economic Development in Africa <u>7/</u>	September 1995	12.0		...
Kuwait Fund <u>8/</u>	September 1995	25.1		...
Memorandum items:				
Total		162.1	21.7	22.3

Source: Ministry of Finance.

1/ Maturity period: 2003-2033; grace period: 10 years; interest rate 0.5 percent.2/ Interest free loan from China.3/ Maturity period: 2000-2014; grace period: 6 years; interest rate 2 percent.4/ Maturity period: 2005-2034; grace period: 10 years; interest rate 0.75 percent.5/ Maturity period: 1999-2023; grace period: 1 year; interest rate 1 percent.6/ Maturity period: 2000-2015; grace period: 5 years; interest rate 2.5 percent.7/ Maturity period: 2000-2013; grace period: 5 years; interest rate 3 percent.8/ Maturity period: 2000-2024; grace period: 5 years; interest rate 1.5 percent.