

INTERNATIONAL MONETARY FUND



# **Staff Country Reports**

October 1997

IMF Staff Country Report No. 97/88

## **Eritrea—Selected Issues**

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# INTERNATIONAL MONETARY FUND

## ERITREA

### Selected Issues

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Approved by the African Department

July 14, 1997

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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
GNP per capita (1996)	US\$217-254

1992 1993 1994 1995 1996

(In millions of birr, unless otherwise specified)

Gross domestic product (GDP)

GDP at current market prices	2,003	2,521	3,381	3,873	4,254
Real GDP at factor cost (growth rate in percent)	...	-2.5	9.8	3.0	6.8

(In percent of nominal GDP at factor cost)

Agriculture	28.7	12.7	16.1	11.2	9.8
Industry	19.2	20.7	19.1	22.7	27.4
Distribution services	34.0	43.6	41.9	39.3	40.1
Other services	18.0	23.0	22.9	26.8	22.7

(Annual percentage change)

Prices

Consumer prices (end-period)	8.8	9.6	6.8	11.0	3.4
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(In millions of birr)

Government finance

Revenue	488.8	893.2	1,026.5	1,345.2	1,389.9
Expenditure	734.8	1,559.0	2,005.7	2,680.0	2,721.5
Current	643.4	1,103.7	1,551.8	2,131.3	1,883.3
Capital	91.4	455.3	453.9	548.7	838.2
Overall balance (cash, excluding grants)	-246.0	-665.8	-979.2	-1,334.8	-1,331.6
Foreign grants	181.4	507.0	626.0	457.8	478.7
Overall balance (cash, including grants)	-64.6	-158.8	-353.2	-843.8	-823.0

Money and credit

Domestic credit	1.0	165.0	672.6	1,989.0	2,934.0
Claims on Government (net)	-91.5	-103.8	87.5	759.7	1,198.1
Other credit	92.6	268.8	585.1	1,229.3	1,931.0
Broad money 1/	1,186.9	1,925.3	2,889.3	3,569.3	4,111.8

(In millions of US dollars, unless otherwise specified)

Balance of payments

Exports, f.o.b.	15.2	36.1	64.5	80.6	95.3
Imports, c.i.f.	277.9	275.1	395.9	403.8	513.7
Trade balance	-262.7	-239.0	-331.4	-323.2	-418.5
Service (net)	72.8	102.0	72.9	47.1	51.2
Private transfers	127.5	165.4	276.3	215.3	243.9
Current account balance 2/	-62.4	28.4	17.9	-53.2	-130.7
Official long term capital (net)	0.0	2.4	29.2	7.5	3.6
Official transfers	167.7	69.5	79.7	71.0	81.7
Errors and omissions	-73.1	8.9	-47.6	-91.5	-66.5
Overall balance	91.1	109.1	78.2	-66.3	-75.2
Current account balance (as percent of GNP) 2/	-11.9	5.6	2.7	-7.7	-17.2

Gross official reserves

In months of imports	0.2	3.9	5.1	4.6	4.1
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Exchange rate (Br/US\$, period average)

Auction rate	2.8	5.3	6.2	6.3	6.4
Preferential rate	6.6	7.1	7.1	7.2	7.2

Sources: Eritrean authorities; and staff estimates.

1/ Deposits in the banking system, as data on currency outside banks are not available.

2/ Excluding official transfers.

## **I. IMPACT OF RELIEF AND RECONSTRUCTION EXPENDITURES ON THE FISCAL PROFILE**

### **A. Introduction**

1. A major objective of the Eritrean government during the past four years has been the reconstruction and rehabilitation of the economic and social infrastructure (both physical and human) that was damaged by the prolonged war for independence lasting about 30 years. The state of the economy at the time of independence not only reflected the destruction of infrastructure and the lack of any capital rehabilitation during the war years owing to the insecurity in the region but also the adverse impact of central planning in 1974-91. At independence in May 1993, the Eritrean government inherited an economy characterized by state-owned enterprises, most of which were barely operational; an agricultural and industrial base disrupted by the war; and a damaged and decayed economic and social infrastructure, including health and educational facilities. Thus, there was a massive need for reconstruction and rehabilitation to rebuild the infrastructure and government institutions at all levels--local, provincial, and central.

2. The detrimental effect of the war on society is reflected on the estimated 500,000 people who were forced to become refugees in neighboring countries. In addition, a large number of people left the country and settled overseas in the Arabian Peninsula, Europe, and North America; through their remittances the overseas settlers provided a crucial support to the struggle for independence. Nevertheless, this exodus also left the country with a skill shortage in almost all professions including policy makers, civil servants, teachers, and health professionals. Thus, at the time of independence, the government was faced with a massive task of providing relief to the displaced population and enabling their reintegration—both returning refugees and those displaced internally—and had to deal immediately with the future of the large number of ex-combatants. To contain the medium- and long-term cost of a big army, the government initiated early on a demobilization program, with the aim of reducing the size of the army by at least 50 percent in a short period and reintegrating the demobilized personnel into normal civilian life through various programs.

3. In order to maintain social cohesion and initiate a sustained economic recovery the Eritrean government decided to frontload the expenditures on relief, rehabilitation and reintegration. This broad based effort has contributed to an expansionary fiscal trend particularly in 1994-96, characterized by a few large one-off extraordinary expenditures, consisting mainly of payment to "martyrs' families" who suffered casualties in the liberation war and for the demobilization of ex-combatants. The emerging fiscal deficits (including grants) of 18 and 16 percent of GNP in 1995 and 1996, respectively, represented a sharp deterioration compared with deficits that averaged 7 percent during 1993-94. The extraordinary relief and reconstruction expenditures, those explicitly itemized in budgetary outlays—demobilization of ex-combatants, payments to martyrs' families, retroactive salary payments to ex-combatants, and compensatory payments to retrenched civil servants—ranged from 3.2 percent of GNP in 1993 to about 10 percent in 1995 (Table 1). There have been



other extraordinary expenditures that significantly impacted on total expenditure but could not be itemized; for example, spending on materials and supplies for rehabilitation, the cost to reintegrate ex-combatants, and capital investment towards reconstruction and rehabilitation. A substantial share of the capital expenditure which increased from 3.8 percent in 1992 to 16.3 percent in 1996, was directed towards reconstruction of damaged and destroyed infrastructure.

4. The following section discusses the principle categories of extraordinary expenditures, which the authorities have undertaken during 1993-96 for relief and reconstruction purposes.

### **B. Types of Extraordinary Expenditures**

#### **Demobilization of ex-combatants**

5. At the time of independence, Eritrea had an army of ex-combatants estimated at about 96,000. The demobilization program was initiated in 1993 with the reduction of the force by about 26,000 ex-combatants. Most of these ex-combatants were young and without families, who joined the Eritrean Peoples Liberation Front (EPLF) after 1990. Upon demobilization each of them received a lump sum payment ranging from Br 2,500-Br 5,000, which resulted in total costs of Br 99 million (Table 1).<sup>1</sup> In 1994, this exercise was followed with a demobilization of another group of about 15,000 ex-combatants, most of whom had served in the EPLF for many years. Each received a lump sum payments of Br 10,000 along with a year of food rations. This resulted in budgetary outlays of about Br 154 million. In 1995, another 3,500 ex-combatants were demobilized and each received about Br 10,000 plus food rations, resulting in budgetary costs of about Br 42 million. In 1996, a much smaller number of just over 1,000 ex-combatants were demobilized at a cost of Br 14 million.

6. During 1993-96, 45,500 ex-combatants were demobilized, entailing a total cumulative cost to the exchequer of about Br 310 million (or 6.1 percent of estimated 1996 GNP), financed entirely from domestic resources, excluding the cost of reintegration which involved additional outlays for rehabilitation and retraining programs (see below). Demobilized soldiers are now active in farming and small business activities and a large number have been successfully reintegrated into civilian life. The size of the army was reduced further by reassigning about 6,000 personnel to various other government ministries. In all, the size of the army was reduced by about 52,000 (54 percent).

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<sup>1</sup> This amount included some contingency allowance and food rations for 6 months.

### **Payment to martyrs' families**

7. It was estimated that about 60,000 Eritreans were killed and a large number of ex-combatants and civilians disabled as a result of the war. As part of the government's social safety net program, the government provided financial compensation to surviving family members of those killed in the war and to the disabled and their families. Available information indicate that about Br 10,000 was paid per family in 1995, to 30,000 such families, for a total cost of Br 296 million (6.4 percent of GNP in 1995 or 13 percent of total recurrent expenditure; Table 1). An additional payment of about Br 30 million to martyrs' families was made in 1996.

### **Retroactive salary payments to ex-combatants**

8. After liberation, the nondemobilized ex-combatants formed the core of the country's security forces (military personnel and police), while some 6,000 of them began working in other governmental ministries. They all continued to work for the government without a regular salary during 1992-94. In lieu of regular wages, the government provided them with some nominal pocket money along with food and housing. The government started to pay them on a retroactive basis; the first such retroactive payment to the security forces was made in 1995 totaling about Br 70 million based on the existing pay scale of the ex-combatants and their ranks within the security force. Retroactive salary payments to ex-combatants working in the civilian government amounted to Br 450 per month plus Br 10 for each year of service in the EPLF. These payments to ex-combatants were mainly to cover all back pay dating back to 1994.<sup>2</sup> In 1996, another sum of about Br 150 million (2.9 percent of GNP) was paid by the government to the security forces, based on the revised security service structure and a new higher pay scale retroactive to 1994.

### **Civil service reform**

9. At the time of independence, Eritrea inherited a civil service structure that was characterized by too many departments and a deep hierarchial structure. The process of civil service reform was initiated through the setting up of a Presidential Task Force to review government operations.<sup>3</sup> The findings of the task force indicated that the civil service was overstaffed, a majority of the staff possessed low levels of skills, and the division of labor, authority, and responsibility were not clearly defined. This organizational structure of

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<sup>2</sup> The pocket money (ranging from Br 50 to Br 195 per month) and the birr equivalent of subsistence received (housing, electricity, and food) prior to receiving regular wages was deducted from the retroactive salary payments.

<sup>3</sup> A task force comprising of ten members was authorized by the President of the country on January 11, 1995 to determine how to restructure the government. It submitted its report to the President on April 28, 1995.

ministries led to an overlap of responsibilities across ministries which resulted in inefficient use of resources. According to a comprehensive job assessment conducted by the task force, government operations could be managed effectively by a reduction of the government's work force by a third to about 20,000 employees in conjunction with the introduction of modern technology and better work practice. Based on the task force's report, the government embarked on a comprehensive program of civil service reform. The government's aim was to create a lean, efficient, and effective civil service through a reduction in its size, a redefinition of the priorities of ministries to focus on policy development, regulatory aspects, research, human resource management and training; and decentralization of government operations to the provincial and local levels. Efficiency was gained in many areas through extensive reorganization, computerization, and/or reassignment of responsibilities among the ministries. The structure within ministries was streamlined through a reduction in departments and posts to enable a faster decision making process.

10. Following the recommendation of the presidential task force, the size of the civil service was reduced by 10,000. The redundancies included about 3,500 ex-combatants who had been absorbed into the civil service. In 1995, Br 51 million was paid in compensation to the retrenched civil servants.

11. The task force also recommended that in order to produce an efficient and effective civil service the employees would have to be remunerated competitively. Thus, the salary structure of the civil servants was revised in 1997. The basic pay scale was consolidated to include most allowances and was revised upwards to be comparable to the private sector; the salary of some employees is expected to nearly double. Since the beginning of 1997, most employees in the urban areas have been paid according to the revised higher pay scale, while employees in the rural areas are expected to be paid later in the year, retroactive to the beginning of 1997. At this stage no firm estimate of the revised total government wage bill is available, but it is not expected to be higher than the 1996 total nominal wage payment of about Br 798 million, which included the Br 150 million back pay element to the security forces (Appendix II, Table 16).

### **Reintegration of ex-combatants and refugees**

12. The government has also undertaken a program to reintegrate both ex-combatants and refugees into civilian life. The reintegration has been implemented through agricultural settlement projects, vocational training programs, public works programs, and technical and financial support to help establish independent small-scale enterprises.<sup>4</sup> One of the important projects undertaken was the resettlement of about 1,100 ex-combatants in 1994, at the Alighider state plantation located in the Western lowlands. The farm mainly grows cotton and other crops on irrigated land. The cost of this project was reported to be about Br 36 million.

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<sup>4</sup> See SM/96/122, (5/29/96).

13. It is estimated that between 1991-94, about 80,000 refugees returned to Eritrea without official assistance. In early 1995, the government with the assistance of the United Nations High Commission for Refugees and other donors completed a pilot project—Program for Refugee Reintegration and Rehabilitation of Resettlement Areas in Eritrea (PROFERI). About 25,000 refugees returned under this program. This program cost an estimated Br 88 million (US\$14 million) most of which was provided by external donors. Since then preparations have been continuing, along with discussions with bilateral donors, World Bank, and UN agencies, on the technical and financial aspect to repatriate the remaining refugees in phases. Phase 1 is being designed to repatriate about 100,000 refugees which is estimated to entail a cost of about Br 510 million (US\$80 million) to be funded mostly by donors.

#### **Expenditure on materials and supplies**

14. Expenditure on materials averaged 14.6 percent during 1992-96, peaking at about 18 percent in 1995 (Table 1). Although no firm estimate is available, a major part of this expenditure involved one-off extraordinary expenses. These include rehabilitation of existing government institutions and setting up institutions at the provincial and local levels in line with the restructuring of government operations towards decentralization of most functions. Items in this category of expenditure towards the restocking of supplies in government institutions ranged from basic furniture, office supplies, and computer equipment. In addition, expenses were also incurred towards the rehabilitation of government enterprises, ports, and state farms. For example, new settlers in the state farms were provided with farming tools, seeds, and oxen. Furthermore, expenditure was incurred in restocking of school supplies and improving health facilities which the government had reconstructed and rehabilitated over the past few years. Most of these expenses were on durable good items, which after initial acquisition will require relatively lower level of expenditures for maintenance.

#### **Capital expenditures**

15. Capital formation and maintenance in Eritrea, throughout the war years, was constrained by the prevailing insecurity. Furthermore, the lack of new capital and the war damage led to decay and decline in basic infrastructure, thereby necessitating a major rehabilitation effort at the end of the war. The poor quality and decline in infrastructure was reflected in extensive damages to major roads, key bridges, ports, domestic and commercial buildings, neglect and destruction of most major government enterprises including state farms (Elaberet, Ghinda, and Alighider), and damage to education and health facilities.

16. A large part of the capital expenditure during 1992-96 has included expenditure on rehabilitation projects which is not expected to be repeated in the future. Capital expenditure has ranged between 4-16 percent of GNP during 1992-96 (Table 1). Until 1995, the bulk of this expenditure was financed through external resources as donors responded to the large rehabilitation needs of the country. Rehabilitation projects have been undertaken throughout the country, especially in those areas that suffered most in the war, for example, the port city of Massawa. Capital expenditures have encompassed a wide variety of rehabilitation projects

including the rebuilding of roads linking major cities, housing, power, schools, health clinics, ports, fisheries, and in the agricultural sector involving rehabilitation of the three state farms and the construction of dams for irrigation. Capital spending on education and health increased from about 1 percent of GNP in 1993 to about 3 percent of GNP in 1996. This involved mostly the rebuilding and construction of schools and health clinics throughout the country.

### **C. Impact of Extraordinary Expenditures on Fiscal Sustainability**

17. The relatively high level of expenditure in 1995-96 was necessitated by the government's aim to meet urgent one-off payments to rehabilitate the economy and provide social relief. Most of the large one-off expenses have already been undertaken. Total extraordinary expenditure peaked in 1995 at about 10 percent of GNP (Table 1). In 1996, there was a significant decline in extraordinary expenditures of about 6 percentage points of GNP, along with a marked decline in expenses on materials equivalent to about 4 percentage points of GNP (Table 2). Thus, there was a potential for the overall deficit (including grants) to have declined significantly by as much as 10 percentage points of GNP. However, this substantial decline in extraordinary expenditures was almost offset by a combination of a decline in total revenues and grants of 2.4 percent of GNP, an increase in wage and salaries of about 1 percent of GNP (excluding retroactive wage payments), and in particular a sharp increase in capital expenditures equivalent to 4.5 percent of GNP (largely due to a sharp increase in outlays directed towards construction of schools and health facilities). As a result, there was only a marginal improvement equivalent to 2 percentage points of GNP in the overall deficit in 1996.

18. Although the government of Eritrea has no formal budgetary process as yet, the broad budget outline which emerged from available information point to a likely sharp decline in the budget deficit (including grants) for 1997. Provisional data on a cash basis through March 1997, also indicates that the budget deficit is expected to decline significantly during the year. A combination of measures could bring about a sharp decline in the deficit in 1997. Revenues are estimated to increase by 1 percentage point of GNP, mostly through better administration and improved coverage and collection.<sup>5</sup> Similarly external grants are expected to recover and increase by about 1 percentage point of GNP. The remaining adjustment is likely to come through a decline in total expenditure of almost 6 percentage points of GNP. Almost all extraordinary expenditures have been completed and it is expected that there will be a further decline in such payments equal to 3.6 percentage points of GNP. This would be accompanied with a fall in expenses for materials by about 1 percentage point, as the government's program of restocking ministries and agencies comes to a close. Additionally, it is likely that capital expenditure will fall by about 3 percentage points of GNP from the exceptionally high level achieved in 1996 to a level more consistent with the outcome in 1995. Overall, total

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<sup>5</sup> Particularly in the customs department where Eritrea received technical assistance from the Fund in the form of a short-term resident expert.

expenditure could be lower by more than 7.5 percent of GNP. However, part of this decline in expenditure is likely to be offset by a rise in other expenditures, particularly wage and salary payments. The total wage bill in 1997 is targeted to not exceed the 1996 level of Br 798 million (including retroactive payment of Br 150 million). Excluding the 1996 retroactive wage payments the basic wage bill for 1997 could increase by about 1.3 percent of GNP, in line with the government's implementation of the new salary scale for the civil servants as discussed above (Table 2). As a result, total expenditure is expected to fall instead by about 6 percentage points of GNP in 1997. Thus, in conjunction with a rise in revenue and grants of about 2 percentage points of GNP, the overall deficit is expected to decline by half to about 8 percent of GNP in 1997.

Table 1. Eritrea: Extraordinary Government Expenditures, 1992-97

	1992	1993	1994	1995	1996 Prel.	1997 Est.
(In millions of birr)						
Total expenditure	734.8	1,559.0	2,005.7	2,680.0	2,721.5	2,708.4
Wages and salaries 1/	136.9	233.3	460.8	531.3	648.3	798.3
Materials	319.0	546.2	427.5	844.2	718.1	746.8
Current expenditures externally financed	181.4	142.4	456.3	170.6	194.6	188.8
Other current expenditures	6.1	181.8	207.2	585.2	322.3	220.5
Of which: extraordinary expenditures	--	99.0	153.6	458.9	194.3	11.2
Demobilization and reintegration	--	99.0	153.6	41.8	14.0	11.2
Support to Martyrs' families	--	--	--	296.1	30.3	--
Civil service retrenchment	--	--	--	51.0	--	--
Retroactive salary payments	--	--	--	70.0	150.0	--
Capital expenditures and net lending	91.4	455.3	453.9	548.7	838.2	754.0
(As percent of GNP)						
Total expenditure	30.6	50.2	45.5	57.6	53.1	47.4
Wages and salaries 1/	5.7	7.5	10.5	11.4	12.6	14.0
Materials	13.3	17.6	9.7	18.2	14.0	13.1
Current expenditures externally financed	7.6	4.6	10.4	3.7	3.8	3.3
Other current expenditures	0.3	5.8	4.7	12.6	6.3	3.9
Of which: extraordinary expenditures	--	3.2	3.5	9.9	3.8	0.2
Demobilization and reintegration	--	3.2	3.5	0.9	0.3	0.2
Support to Martyrs' families	--	--	--	6.4	0.6	--
Civil service retrenchment	--	--	--	1.1	--	--
Retroactive salary payments	--	--	--	1.5	2.9	--
Capital expenditures and net lending	3.8	14.6	10.3	11.8	16.3	13.2

Sources: Ministry of Finance; and staff estimates.

1/ Excludes retroactive and retrenchment payments.

Table 2. Eritrea: Annual Changes in Government Operations, 1995–97

(As percent of GNP)

	1995	<u>1996</u> Prel.	<u>1997</u> Est.
Total revenue	5.6	–1.8	1.0
Tax revenue	0.5	0.8	0.7
Direct taxes	0.1	0.1	0.1
Indirect domestic taxes	0.0	0.3	0.3
Taxes on international trade	0.3	0.4	0.3
Non tax revenue	5.2	–2.6	0.3
Total expenditure	12.1	–4.6	–5.7
Wages and salaries 1/	1.0	1.2	1.3
Materials	8.5	–4.2	–0.9
Current expenditures externally financed	–6.7	0.1	–0.5
Other current expenditures	7.9	–6.3	–2.4
Capital expenditures and net lending	1.5	4.5	–3.1
Grants	–3.6	–0.6	1.1
Overall balance (cash, including grants)	–10.1	2.1	7.8

Sources: Ministry of Finance; and staff estimates.

1/ Excludes retroactive and retrenchment payments.



## **II. RECENT DEVELOPMENTS AND REFORMS IN THE FINANCIAL SYSTEM**

### **A. Introduction**

19. Eritrea's financial system has undergone considerable reform through the mid-1990s but remains rudimentary and concentrated, and is still largely owned and controlled by the state. The impact of the latter has been to channel considerable credit to the public sector, particularly the central government at interest rates lower than the prevailing commercial bank rates. While the private sector, mainly the returning Eritreans and those who remain abroad, has been instrumental in building up a considerable deposit base with commercial banks, the sector's access to bank credit, even though much improved since 1994, has not kept pace with the growth in deposits. In the absence of money and capital market instruments, including government debt securities, this outcome has led the commercial banks to accumulate considerable cash reserves, mostly in deposits at the central bank that have been directed to finance a growing budget deficit. There are indications, however, that private sector demand for credit is growing, and is likely to accelerate with ongoing economic and financial reforms. Against the background of excess bank liquidity, this development poses a serious potential risk of inflationary pressures, at a time when the authorities are planning to introduce a national currency. The means to address this problem, in the context of additional financial reforms to underpin the introduction of the new currency, thus remains a key monetary policy objective.

### **B. Background**

20. The financial system in Eritrea comprises the central bank—the Bank of Eritrea (BE)—, the Commercial Bank of Eritrea (CBER), the Housing and Commerce Bank of Eritrea (HCBE), the Agricultural and Industrial Development Bank of Eritrea (AIDBE), the Eritrean Investment and Development Bank (EIDB), and the National Insurance Company of Eritrea (NICE). Apart from the HCBE, which is owned by the Peoples Front for Democracy and Justice (the ruling and only political party in Eritrea), all the other financial institutions are owned by the government. In terms of size, the CBER dominates the sector, as it accounted for just over 60 percent of the total assets of the banking system at the end of 1996. At the apex of the financial system is the Bank of Eritrea, which through 1996 was still hampered by the lack of a comprehensive legal framework to function as a central bank, and limited resources, particularly skilled manpower. Thus, it had developed only rudimentary instruments of monetary policy.<sup>6</sup> Moreover, the de facto currency union with Ethiopia since Eritrea's

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<sup>6</sup>The Bank of Eritrea was established in 1993 by a temporary Proclamation (No. 32/1993), which provided limited powers and instruments to conduct monetary policy or supervise the financial institutions. For details on the developments in the financial system through 1995, see SM/96/122, (5/29/96).

independence in 1993—in which the Ethiopian birr is the legal tender—constrains Eritrea's independence in the conduct of monetary policy.

21. The conduct of monetary policy has been confined largely to encouraging commercial banks to hold reserves (though not legally binding) and through administered interest rates. The focus on the commercial banks' reserves has been particularly important in light of the large build up in deposits while demand for credit has lagged (Figure 1). The factors that account for the relatively substantial growth in bank deposits include: (i) an increase in confidence in the financial system and the improvement in access to banking facilities;<sup>7</sup> (ii) unrecorded (across-the-border) movements of currency, mainly in the form of deposits of Eritreans returning from Ethiopia; (iii) cash deliveries by Ethiopia to meet the deposit liabilities in Eritrea's banking system at the time of liberation; and (iv) balance of payment surpluses vis-a-vis Ethiopia through 1995; in addition to the recorded transactions, remittances by Eritreans living abroad may underlie this development. On the other hand, the growth in private sector credit demand has been constrained by factors including: (i) cautious banks, which in the absence of established loan service track records and lack of appropriate collateral have been reluctant to provide credit to the private sector; (ii) legal and institutional bottlenecks, particularly the major difficulties in accessing land and legal titles to land for agricultural and construction purposes; and (iii) lack of experience by economic agents in undertaking transactions through the banking system.

22. With the overall high level of liquidity, the commercial banks have maintained a substantial part of their deposits as cash reserves at the central bank; the latter reached birr 2.6 billion by end-1996 and contributed substantially to the commercial banks' excess reserves—cash reserves in excess of the 20 percent “reserve requirements” imposed by the central bank—equivalent to 43 percent of total bank deposits.<sup>8</sup> However, with the government running a substantial deficit and given the constraints imposed by the currency union on the operational aspects of the Bank of Eritrea, the latter used the commercial banks birr deposits to lend to the government. A rediscount window was formally established in 1994 (with an

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<sup>7</sup>Prior to liberation in 1991, considerable cash had been accumulated in Eritrea outside of the banking system. Banking services were very limited, travel was restricted or subject to onerous security checks, and confidence in the banking system was very low. The available cash facilitated economic activity in the liberated territories, which in any case, had no banking institutions.

<sup>8</sup>Even with these large unremunerated cash reserves, the Commercial Bank of Eritrea has been profitable since 1993, reflecting earnings from foreign exchange operations, as well as its cautious lending policy and the large spread between the administered deposit rates (6 percent) and the lending rates (7-12 percent). The Housing Bank of Eritrea, on the other hand, offered higher deposit rates of 8 percent to compete more effectively and incurred a small loss in 1995.

interest rate of 5.5 percent), but the banks have not used this facility given their large cash holdings.

Selected Financial Indicators, 1992-96

	1992	1993	1994	1995	1996
(Annual change in percent of beginning-of-period broad money stock)					
Net foreign assets	5.0	44.3	27.7	-3.9	4.8
Net birr claims	106.4	15.3	-1.0	-9.7	-19.1
Domestic credit	18.5	13.8	26.4	45.6	43.6
Of which: net claims on government	14.3	-1.0	9.9	23.3	24.0
credit to private sector	-2.0	3.8	14.6	17.9	19.7
Broad money 1/	140.0	62	50.1	23.5	15.2
Other items net	-10.1	4.2	3.0	8.4	14.2
Velocity (GNP)	2.9	2.0	1.8	1.4	1.3
(In percent of GNP)					
Budget deficit (including grants)	-2.7	-5.1	-8.0	-18.1	-16.1

Sources: Bank of Eritrea; and staff estimates.

1/ Excluding currency outside of the banking system.

23. Interest rates, which are fully administered by the Bank of Eritrea were streamlined considerably in 1994 by a Bank Directive (No. 5/1994); the latter eliminated the administratively differentiated sectoral lending interest rates (see Appendix II, Table 28). In 1995, the Bank of Eritrea provided greater scope for setting the deposit rates, although the banks kept them in the 6-8 percent range. Lending rates were raised slightly and the spread between the lowest and the highest lending rates increased from 7-9 percent at the end of 1994 to 7-12 percent at the end of 1995. In addition, the Bank of Eritrea introduced a preferential lending rate on central government overdrafts of 2.5 percent, while no interest is paid by the BE on government deposits. However, with a rate of inflation (as measured by the consumer price index of Asmara) of 11 percent at the end of 1995, most interest rates were negative in real terms. Moreover, despite the de facto currency union between Eritrea and Ethiopia, the two countries have pursued somewhat different interest rate policies that have provided for significant interest rate differentials between them.<sup>9</sup> However, the potential impact of the resulting differential of about 2-4 percentage points in deposit and lending rates on capital flows between the two countries is difficult to evaluate given the unavailability of

<sup>9</sup>Deposit rates in Ethiopia were around 10 percent, considerably higher than those in Eritrea. Lending rates in Ethiopia stood in the range of 10-15 percent through 1995 and were raised to 11-16 percent in early 1996.

data on currency in circulation in either country and the inadequate recording of trade and financial flows between them.

24. Monetary developments over the 1992-95 period reflected the rapid increase in net bank credit to the government and the further growth in credit to the private sector, which together contributed to an accelerating growth in net domestic credit of 46 percent in 1995 (Appendix II, Table 22). However, with increasing pressure on the external sector, the sizeable growth in net foreign assets through 1994 gave way to a decline in 1995,<sup>10</sup> and broad money (excluding currency in circulation) growth moderated to about 24 percent in 1995 compared with 50 percent the previous year, thereby leading to a decline in velocity.

### **C. Recent Developments**

25. The developments in the Eritrean financial system during 1996 reflect a continuation of commercial banks reserves build up with the central bank, which in turn channeled the funds to finance the sizable budgetary deficit (some 16 percent of GNP). At the same time, the pace of financial sector reform has accelerated, in part to prepare the ground for the planned introduction of a national currency—the nakfa.

#### **Liquidity buildup, credit, and monetary developments**

26. During 1996, commercial banks remained fairly liquid as the growth in the deposit base continued at a rapid pace while lending to the private sector, though growing fast, remained relatively limited. Starting with the partial liberalization of interest rates in 1994, which eliminated the preferential rates for government owned enterprises, the share of credit to the private sector in total bank credit grew rapidly to reach 65 percent in 1996 (20 percent in 1993 and 51 percent in 1994). The sectoral share of credit underwent an equally dramatic shift as trade (domestic and foreign) accounted for 63 percent of the total credit by 1996 (40 percent in 1994), manufacturing for 16.3 percent (9.8 percent in 1994), while the share of agriculture remained static at about 7 percent over the same period and that for building and construction actually declined from 9.8 percent in 1994 to 6.3 percent in 1996 (Appendix II, Table 27). The significant acceleration in the trend of growth in private sector credit since 1994, particularly for domestic and foreign trade (Figure 2) imply that some of the constraining factors mentioned above have weakened over time. Specifically, Eritreans have acquired considerable experience with financing trade through the banking system, partly at the expense of the franco-valuta imports (i.e., those financed outside of the banking system) whose share in total imports declined from 97 percent in 1992 to 53 percent in 1996 (Appendix II, Table 29). This development was reinforced by reforms in the exchange and

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<sup>10</sup>The substantial deterioration in the net foreign assets over this period was largely on account of the deterioration in the birr balances with Ethiopia, owing largely to the sharp growth of Eritrea's sizable imports from its main trading partner.

trade regime and the issuance of business licences; these reforms considerably simplified and liberalized procedures in these areas.<sup>11</sup>

27. Overall, monetary developments in 1996 reflected the sustained rapid growth in net domestic credit (44 percent of the beginning-of-period money stock) as a result of higher growth in net bank credit to the government and the private sector. Net foreign assets increased by about 5 percent of the beginning of period money stock, while there was a sharp deterioration in net claims on Ethiopia, which supplied large food imports to drought stricken Eritrea. Against this background, broad money growth decelerated to about 15 percent. With the benefit of considerable reconstruction effort—which has eased supply constraints—and a bumper crop in Ethiopia (Eritrea's main trading partner), inflation decelerated considerably during 1996 to 3.4 percent, and the deposit interest rates, which remained at 6 percent while lending rates were in the range of 7.5-12 percent, became positive in real terms.

### **Recent financial sector reforms and developments**

28. Recently, the most important financial sector reform pertains to the evolution of a legal framework for the financial system, which provides a basis for the Bank of Eritrea to expand its array of monetary instruments and the means to oversee the financial institutions in order to promote a sound financial system. The other reforms, including those affecting individual institutions, should contribute to greater competition and efficiency.

29. In March 1997, the government enacted the Bank of Eritrea Proclamation (No. 93/1997) and Financial Institutions Proclamation (No. 94/1997) to establish a comprehensive legal framework for the financial system. The Bank of Eritrea Proclamation supersedes the 1993 Proclamation that established the central bank, and provides for an independent Bank of Eritrea, with considerably expanded powers to issue a legal tender, conduct monetary policy with a much broader set of instruments and to licence, regulate, and supervise the financial institutions (see Box 1). The Financial Institutions Proclamation is the first such law in Eritrea, and provides for a comprehensive definition of the role and obligations of financial institutions, which are also tailored to the functions of the Bank of Eritrea, to facilitate an effective and efficient regulation of a modern and sound financial system (see Box 2). The broader powers of the Bank of Eritrea have been designed to

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<sup>11</sup> As noted in Section III trade restrictions were eased since 1993, the customs tariff was rationalized and simplified and controls on payments for current transactions were progressively reduced. Moreover, in 1995, the exchange system was further liberalized by significantly raising the limits imposed on payments for current transactions and by allowing residents to hold foreign exchange deposits with banks. Also, in 1995 extensive reforms were introduced in the issuance of business licences, including trade licences, by establishing a Business Licencing Office, which now issues licences within 30 minutes compared with six months previously.

**Box 1. Bank of Eritrea Proclamation (No. 93/1997)**

The key elements of the Bank of Eritrea (BE) Proclamation, which was enacted in March 1997, spell out that:

- The objectives of the BE is the management of money and credit and the safeguarding of the value of the national currency. The BE is empowered to issue, manage and retire the legal tender—the nakfa—and is tasked to collect and publish economic data of the financial and other sectors for research and policy purposes.
- The BE shall be independent from and not subject to instructions by the government in performing its functions.
- The capital of the BE shall be equivalent to US\$10 million.
- The Board, consisting of seven members, is responsible for the management and administration policy of the BE but the Governor, the Deputy Governor (both appointed by the President), and three members appointed by the Governor will comprise the Policy Committee of Experts responsible for monetary and related policies.
- The BE has the responsibility to manage international reserves and is empowered to conduct open market operations with the issue, purchase, sell, discount, and rediscount of government or its own securities.
- The BE is now able to impose mandatory reserve requirements for deposit banks.
- Limits on government borrowing from BE comprise 25 percent of the estimated government revenue in the relevant fiscal year (repayable not later than six month after the end of the fiscal year) and 10 percent of government revenue for the current fiscal year on holdings by the BE of government securities with maturities exceeding two years.
- The contents of the Proclamation are fully coordinated with those of the Financial Institutions Proclamation.

**Box 2. Financial Institutions Proclamation (No. 94/1997)**

The Proclamation which was enacted in March 1997 provides for:

- The licensing, regulation, and supervision of financial institutions, comprising depository and non-depository entities, by the Bank of Eritrea (BE).
- The maintenance of adequate capital base, accounts and records, and the appointment of independent auditors by all depository financial institutions and for the BE to issue regulations to enforce these requirements and, as necessary, to have similar or relevant requirements for non-depository institutions.
- The prudential regulations of financial institutions by the BE, including exposure limits (20 percent of capital and reserves to any borrower and 10 percent ownership of any company, including its subsidiaries), information requirements, and limits on insider loans.
- The monetary supervision of financial institutions by the BE, including mandatory reserve requirements for depository institutions.
- The off-site monitoring and on-site inspection and other supervision by the BE to ensure compliance with regulations, while promoting a sound financial system.
- The fiduciary functions by financial institutions as well as remedial measures required by the BE to promote a sound financial system.

facilitate the introduction of the new currency. As further preparations for the introduction of the nakfa, the authorities have undertaken work on the legal, administrative and technical aspects of the conversion to the new currency, including the strengthening of the skills at the central bank and the preparation of more timely and improved data.

30. The government enacted in late May 1997 a Land Proclamation (No. 31/1997), which once implemented is expected to facilitate access to land, and may promote demand for private sector credit, particularly in the agricultural and construction sectors. Moreover, the availability of land titles or leases as collateral should make it easier to administer loans. At the same time, the government has announced a program to privatize 39 public enterprises during

1997, a factor that is likely to contribute to further growth in private sector credit demand.

31. The Housing Bank of Eritrea, which from inception in 1994 has been very heavily involved in real estate development (as of 1996, 66 percent of its assets were in the form of investment in housing projects), was restructured in early 1997.<sup>12</sup> As part of a major reorganization to concentrate fully on banking activities by spinning off its development activities in real estate, the bank changed its name to Housing and Commerce Bank of Eritrea. As of May 1997, the accounts of the two emerging entities have been separated and discussions are ongoing to finalize the division of assets and the capitalization of the new real estate company. Meanwhile, HCBE is undertaking steps to become a full service bank specializing in mortgage finance and commercial banking and, to this end, is in the process of opening three new branches in different parts of the country to diversify its activities. This reorganization will not only broaden financial activities in Eritrea, but will also enable the new bank to comply with the prudential guidelines; the latter are under preparation by the central bank in order to implement the provisions of the new Proclamations.

32. In other developments, in October 1996, the Eritrean Investment and Development Bank was established by Proclamation (No. 91/1996) with paid up capital of birr 45 million, to provide medium to long-term credit. During 1996, the CBER opened a branch in Barentu to bring the total number of branches to 13.

#### **D. Conclusion**

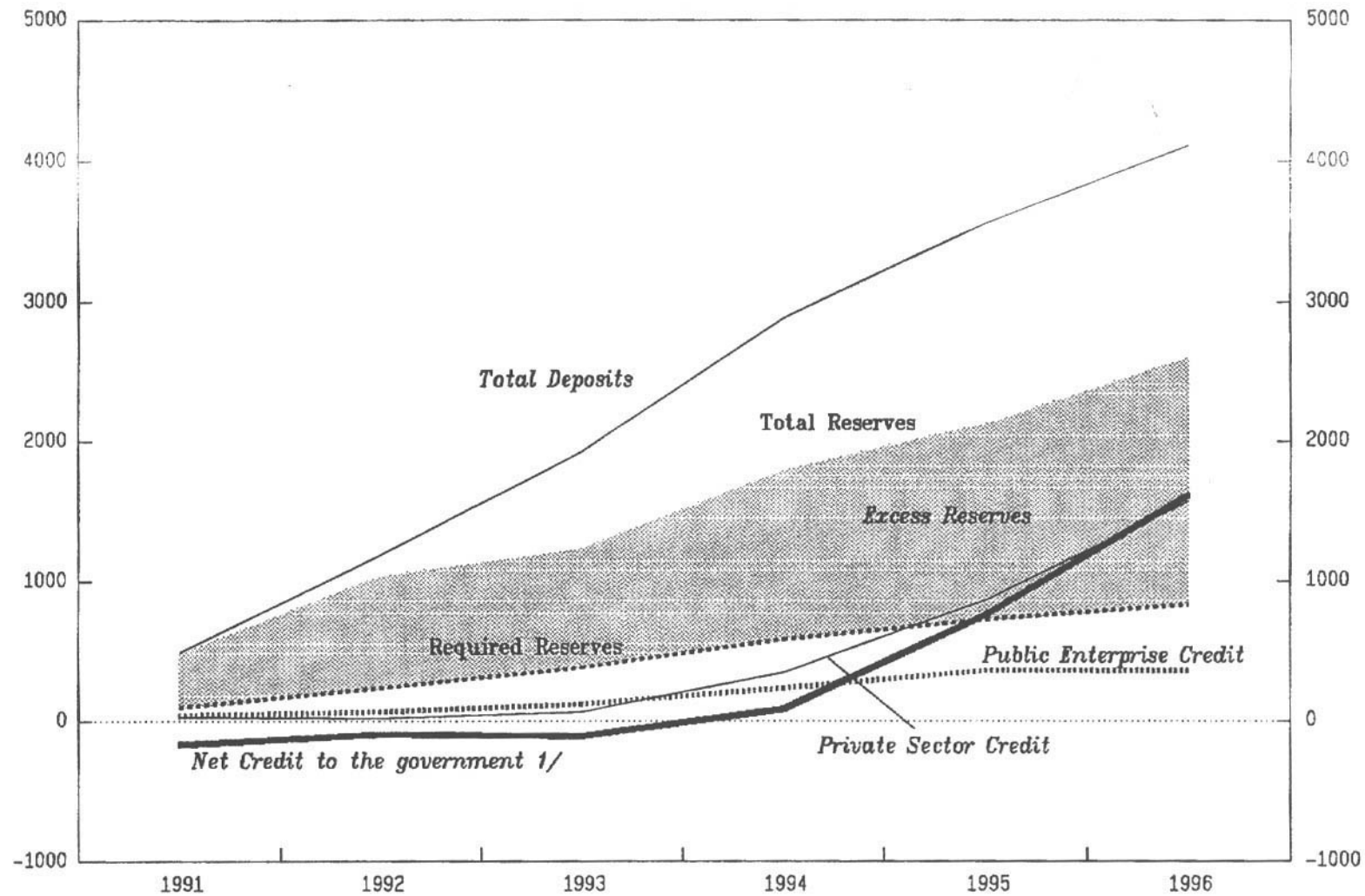
33. The special factors that have contributed to a significantly liquid commercial banking sector in Eritrea and which have hitherto facilitated government borrowing from the central bank—even within the context of a currency union—appear to be receding fast. The underlying economic trends are likely to work in tandem with certain economic reforms, notably the Land Proclamation, the privatization program and the broader provision of financial services, to set the stage for accelerated private sector credit growth. To accommodate this growth, while tightening the stance of monetary policy to provide a conducive macroeconomic setting for the introduction of the nakfa, a priority would be for the authorities to coordinate monetary and fiscal policies with the objective of substantially reducing the size of the budget deficit and government recourse to domestic bank financing. In addition, the Bank of Eritrea will have to act expeditiously to develop and deploy the requisite monetary instruments, provided under the new legal framework, to play a more active and effective monetary policy role than in the past.

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<sup>12</sup>The Housing Bank of Eritrea had been involved in developing three major housing projects; the US\$71 million Sembel apartment and office complex in Asmara to provide housing for 1,250 families, the US\$15 million Massawa residential and office complex, and a small pilot project for low income groups in Asmara.



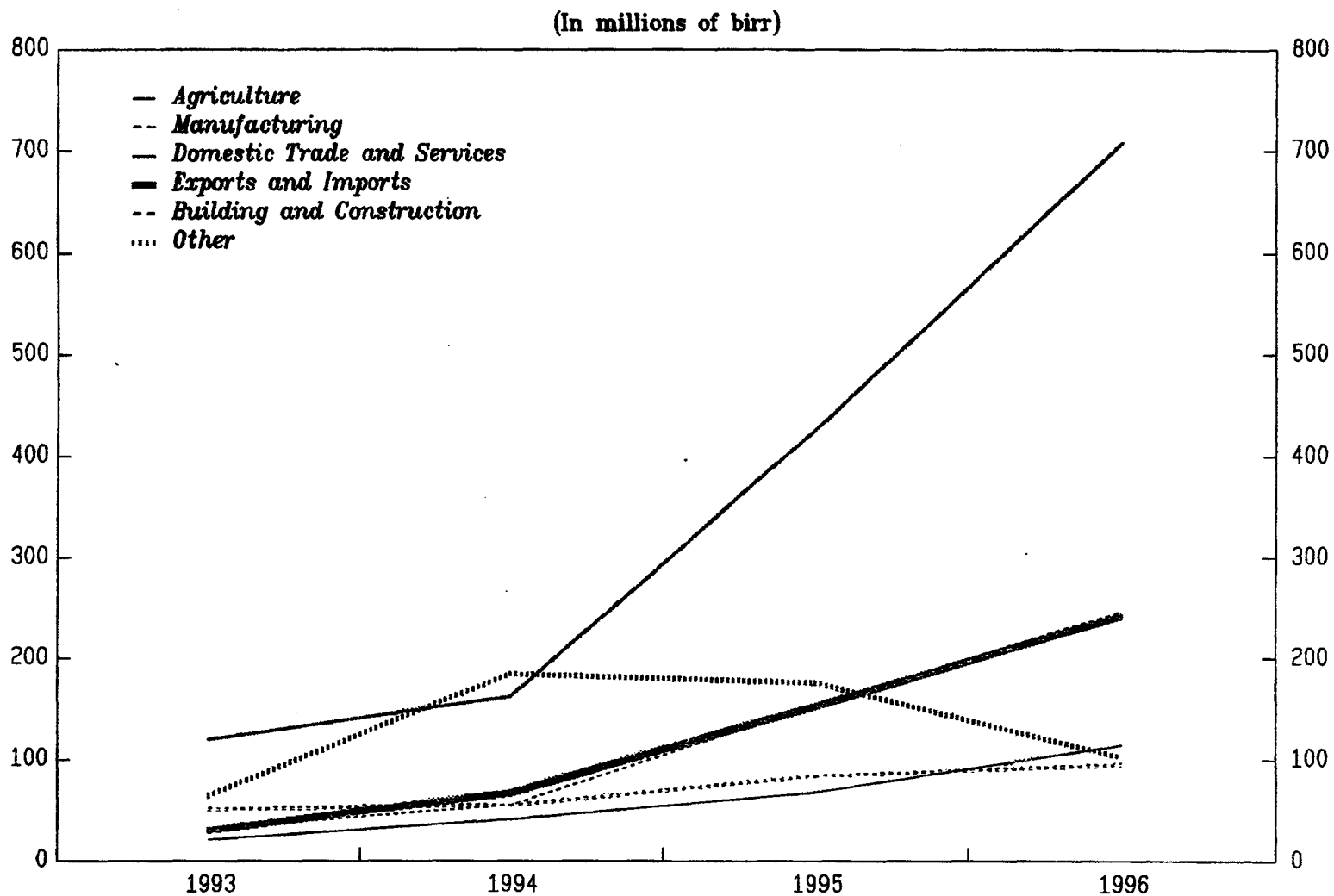
**FIGURE 1**  
**ERITREA**  
**SELECTED COMMERCIAL BANKS' FINANCIAL INDICATORS, 1991 - 96 1/**  
**(In millions of birr)**



Source: Data provided by the Bank of Eritrea.

1/ Net credit to the government provided by the central bank.

FIGURE 2  
ERITREA  
COMMERCIAL BANK CREDIT BY SECTOR, 1993 - 96



Source: Data provided by the Bank of Eritrea.

### **III. THE EXCHANGE AND TRADE SYSTEM<sup>13</sup>**

#### **Exchange arrangement**

34. The provisional legal tender of Eritrea is the Ethiopian birr, which is issued by the National Bank of Ethiopia. Prior to April 1, 1997, an official exchange rate (determined in the weekly foreign exchange auctions conducted by the National Bank of Ethiopia) and a preferential exchange rate prevailed in Eritrea. The official exchange rate at end-March 1997, was Br 6.64 per US\$1. Effective April 1, 1997, the official and the preferential exchange rates were unified at the prevailing preferential exchange rate of Br 7.2 per US\$1.

35. Prior to the unification of the preferential and the official exchange rates, the official rate applied to transactions between Eritrea and Ethiopia (oil refinery services, port transactions), to government imports, and all aid-funded imports. The preferential exchange rate was 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.

36. Exchange rates for currencies other than the U.S. dollar <sup>14</sup> are communicated daily by the BE to the authorized dealers on the basis of previous day's late afternoon 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 0.25 percent for purchases of foreign exchange and 0.75 percent for sales of foreign exchange. The authorized dealers are permitted, but not obliged, to levy a service charge for their own account 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.

#### **Administration of control**

37. The BE is working to ensure that all foreign exchange transactions are effected through the authorized dealers who were licensed in accordance with the Monetary and Banking Proclamation No. 32/1993. Foreign exchange transactions are now governed by the Bank of Eritrea Proclamation No. 93/1997, enacted on March 10, 1997. Under this

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<sup>13</sup>Position as of end-May 1997.

<sup>14</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.

proclamation, the BE may license and restrict, suspend, or revoke licenses of authorized dealers and may from time to time issue regulations, directives, and instructions on foreign exchange matters. Comprehensive foreign exchange regulations to enforce the provisions of the Proclamation are being prepared.

38. The Foreign Exchange Department of the BE issues permits only for those imports that require foreign exchange from the banking system. The Business 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) and issues certificate of origin for exports; it vets and licenses technology transfer agreements, as well as investment projects (including joint ventures) that are eligible to take advantage of the incentives and concessions of the Investment Proclamation.

#### **Prescription of currency**

39. 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.

#### **Trade and payments with Ethiopia**

40. Under the agreement of friendship and cooperation, signed by the Heads of State 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.

41. 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.

42. 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.

### **Foreign currency denominated accounts**

43. 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 and the Housing and Commerce 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.

### **Imports and import payments**

44. All importers must possess a valid trade license issued by the Business 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.

45. 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.

46. As a further import restriction, a public enterprise producing tobacco and matches continues to hold a monopoly over the import of these products. 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.

47. Imports prohibited for health, environmental, and security reasons are: old or used clothing, asbestos and construction materials made of asbestos, ivory, second grade alcohol, arms and weapons, and narcotics.

#### **Payments for invisibles**

48. 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 limits on 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 limits on the allowance has remained at US\$100 a person (adult or minor) for up to two trips a year. The limits on 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 invisible 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.

49. Following the 1994 Investment Code, 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 per contract of employment without limit their net earnings each month, and of their cumulative earnings upon completion of their term of service in Eritrea.

#### **Exports and export proceeds**

50. Exporters must be licensed by the Business Licensing Office. The annual licensing fee is Br 275 for manufacturers, Br 500 for private limited companies and partnerships, and Br 1,000 for share companies, associations, and government agencies. 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.

51. 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.

### **Proceeds from invisibles**

52. 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.

### **Capital**

53. 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.

54. 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.

55. Foreign borrowing by residents in Eritrea has to be registered with the BE. Authorized banks are permitted to purchase and hold foreign bank notes. With the approval of the BE, authorized banks may borrow abroad or overdraw their correspondent accounts abroad. They may acquire securities under similar conditions.

### **Gold**

56. 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 and Mines.

Eritrea: Summary of the Tax System as of end-May 1997

Tax		Nature of Tax	Deductions and Exemptions		Rates	
1.	<u>Tax on income and profits</u>					
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.	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
1.2	<u>Income taxes on agriculture</u>					
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	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	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.		
				Specific tax rates for each head of animal:		
				Camel	Br 4.0	
				Horned cattle, horse, mule	Br 2.0	
				Donkey	Br 1.0	
				Sheep or goat	Br 0.5	



Eritrea: Summary of the Tax System as of end-May 1997

	Tax	Nature of Tax	Deductions and Exemptions			Rates
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.	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
				Reinvested profit will be taxed only at 20 percent upon submission of certificate of the Investment Center.		
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).	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

Eritrea: Summary of the Tax System as of end-May 1997

Tax	Nature of Tax	Deductions and Exemptions	Rates		
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)	Levied on taxable gross income of lottery and game wins. To be paid within 1 month after income is received. Assessment based on returns filed.	None.	Income from lottery (above Br 500), and from bingo (above Br 400)		
			Royalty and income from services from abroad		10 percent 10 percent
1.5 <u>Rental income tax</u> (Proclamation No. 62/1994; October 5, 1994)	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.	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.	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

Eritrea: Summary of the Tax System as of end-May 1997

Tax	Nature of Tax	Deductions and Exemptions	Rates
1.6 <u>Income tax on Eritreans working abroad</u> (Proclamation No. 67/1995; February 10, 1995)	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.	None.	2 percent.
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-stage 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.	<div data-bbox="1359 567 1737 619">Agricultural products, raw materials, most intermediate goods</div> <div data-bbox="1839 597 1941 619">3 percent</div> <div data-bbox="1359 657 1716 710">Most consumer goods, drugs, some intermediate goods</div> <div data-bbox="1839 687 1941 710">5 percent</div> <div data-bbox="1359 748 1543 778">All other products</div> <div data-bbox="1839 748 1941 778">12 percent</div>

Eritrea: Summary of the Tax System as of end-May 1997

	Tax	Nature of Tax	Deductions and Exemptions	Rates	
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.	All Exports.	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.	Goods locally produced for direct export.	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

Eritrea: Summary of the Tax System as of end-May 1997

Tax	Nature of Tax	Deductions and Exemptions	Rates
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>

Eritrea: Summary of the Tax System as of end-May 1997

	Tax	Nature of Tax	Deductions and Exemptions	Rates
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.

Table 1. Eritrea: Gross Domestic Product by Sector, 1992–96 1/

(In millions of birr)

	1992	1993	1994	1995	1996
<b>Agriculture</b>	<b>508.4</b>	<b>277.4</b>	<b>489.1</b>	<b>390.9</b>	<b>371.7</b>
Crops and livestock	423.3	192.3	385.7	267.7	241.2
Forestry and fishing	85.1	85.1	103.4	123.1	130.5
<b>Industry</b>	<b>340.0</b>	<b>451.2</b>	<b>579.1</b>	<b>792.2</b>	<b>1,043.6</b>
Mining and quarrying	0.8	1.0	1.5	2.1	3.6
Manufacturing	152.7	206.4	255.0	343.4	399.9
Handicrafts and small industry	70.5	95.2	117.7	158.5	171.5
Electricity and water	23.4	31.6	39.0	52.5	56.2
Building and construction	92.6	117.0	166.0	235.6	412.3
<b>Distribution services</b>	<b>601.4</b>	<b>952.5</b>	<b>1,273.6</b>	<b>1,375.3</b>	<b>1,525.5</b>
Trade, wholesale, and retail	368.9	589.6	857.5	921.9	1,050.2
Transport and communications	232.5	362.9	416.1	453.4	475.3
<b>Other services</b>	<b>319.3</b>	<b>501.7</b>	<b>697.4</b>	<b>938.5</b>	<b>862.4</b>
Financial services	34.2	37.6	39.8	57.8	68.1
Dwellings and domestic services	47.7	54.0	65.3	79.0	95.6
Public administration and services	198.0	369.6	550.5	758.8	648.3
Domestic and other	39.3	40.5	41.7	43.0	50.5
<b>GDP at current factor cost</b>	<b>1,769.0</b>	<b>2,182.7</b>	<b>3,039.1</b>	<b>3,496.8</b>	<b>3,803.3</b>
Indirect taxes less subsidies	233.8	338.3	341.7	375.9	450.4
<b>GDP at market prices</b>	<b>2,002.8</b>	<b>2,521.0</b>	<b>3,380.9</b>	<b>3,872.7</b>	<b>4,253.7</b>
Net factor payments 2/	397.0	587.5	1,026.1	776.8	873.9
<b>GNP at current market prices</b>	<b>2,399.8</b>	<b>3,108.5</b>	<b>4,407.0</b>	<b>4,649.5</b>	<b>5,127.6</b>
<b>Memorandum item:</b>					
<b>GDP at constant factor cost</b>	<b>1,769.0</b>	<b>1,724.1</b>	<b>1,893.0</b>	<b>1,949.0</b>	<b>2,080.7</b>

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

1/ Provisional estimates.

2/ Estimated at 50 percent of private remittances.

Table 2. Eritrea: Gross Domestic Product by Sector, 1992–96 1/  
(Annual percentage change)

	1992	1993	1994	1995	1996
<b>Agriculture</b>	51.6	–45.4	76.3	–20.1	–4.9
Crops and livestock	84.5	–54.6	100.6	–30.6	–9.9
Forestry and fishing	–19.7	–	21.5	19.1	6.0
<b>Industry</b>	55.9	32.7	28.4	36.8	31.7
Mining and quarrying	100.0	26.3	41.9	41.9	75.0
Manufacturing	44.1	35.2	23.6	34.7	16.4
Handicrafts and small industry	44.1	35.2	23.6	34.7	8.2
Electricity and water	44.1	35.2	23.6	34.7	7.0
Building and construction	100.0	26.3	41.9	41.9	75.0
<b>Distribution services</b>	94.9	58.4	33.7	8.0	10.9
Trade, wholesale, and retail	50.6	59.8	45.4	7.5	13.9
Transport and communications	243.3	56.1	14.6	9.0	4.8
<b>Other services</b>	28.1	57.1	39.0	34.6	–8.1
Financial services	–6.0	10.0	6.0	45.0	17.8
Dwellings and domestic services	50.0	13.1	21.0	21.0	21.0
Public administration and services	38.6	86.6	48.9	37.8	–14.6
Domestic and other	3.0	3.0	3.0	3.0	17.5
<b>GDP at current factor cost</b>	59.2	23.4	39.2	15.1	8.8
Indirect taxes less subsidies	116.0	44.7	1.0	10.0	19.8
<b>GDP at market prices</b>	64.2	25.9	34.1	14.5	9.8
<b>Memorandum item:</b>					
<b>GDP at constant factor cost</b>	...	–2.5	9.8	3.0	6.8

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

1/ Provisional estimates.



Table 3. Eritrea: Sectoral Composition of Gross Domestic Product at Current Factor Cost, 1992-96 1/

(In percent of GDP)

	1992	1993	1994	1995	1996
<b>Agriculture</b>	28.7	12.7	16.1	11.2	9.8
Crops and livestock	23.9	8.8	12.7	7.7	6.3
Forestry and fishing	4.8	3.9	3.4	3.5	3.4
<b>Industry</b>	19.2	20.7	19.1	22.7	27.4
Mining and quarrying	0.0	0.0	0.0	0.1	0.1
Manufacturing	8.6	9.5	8.4	9.8	10.5
Handicrafts and small industry	4.0	4.4	3.9	4.5	4.5
Electricity and water	1.3	1.4	1.3	1.5	1.5
Building and construction	5.2	5.4	5.5	6.7	10.8
<b>Distribution services</b>	34.0	43.6	41.9	39.3	40.1
Trade, wholesale, and retail	20.9	27.0	28.2	26.4	27.6
Transport and communications	13.1	16.6	13.7	13.0	12.5
<b>Other services</b>	18.0	23.0	22.9	26.8	22.7
Financial services	1.9	1.7	1.3	1.7	1.8
Dwellings and domestic services	2.7	2.5	2.1	2.3	2.5
Public administration and services	11.2	16.9	18.1	21.7	17.0
Domestic and other	2.2	1.9	1.4	1.2	1.3
<b>GDP at current factor cost</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

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

1/ Provisional estimates.

Table 4. Eritrea: Agricultural Production, 1993–96 1/

	1993	1994	1995	1996
(In thousands of quintals)				
<b><u>Staple crops</u></b>				
Sorghum	448.6	1,182.8	610.1	391.9
Teff	22.2	148.4	57.6	63.2
Millet	191.0	575.7	127.8	124.1
Barley	97.3	306.6	279.5	128.3
Wheat	54.0	135.2	99.6	78.5
Peas	9.2	16.2	34.5	33.1
Sesame	59.6	62.2	108.8	46.3
Maize	55.4	185.3	53.5	47.1
Other 2/	39.7	42.4	13.8	56.5
Total	977.0	2,654.8	1,385.1	969.0
(In thousands of units)				
<b><u>Livestock</u></b>				
Cows	949	1,139	1,252	1,600
Goats	4,152	4,982	5,480	6,302
Poultry	2,500	3,000	3,300	3,696
(In thousands of hectares)				
Total area	12,189	12,189	12,189	12,189
Cultivated area	395	363	362	371
Cultivated area as percent of total	3.2	3.0	3.0	3.0

Sources: Ministry of Agriculture.

1/ Preliminary estimates.

2/ Includes mainly horsebeans, groundnuts, and lentils.

Table 5. Eritrea: Regional Structure of the Agricultural Sector, 1994-95

Province	1994								
	Total population 1/	Total cultivated area	Staple crops				Livestock population		
			Sorghum	Teff	Millet	Other 2/	Cows	Goats	Poultry
	(In thousands)	(In thousands of hectares)	(In thousands of quintals)				(In thousands)		
Akeleguzay	341.3	41.6	44.8	22.4	20.5	172.9	43.2	294.0	450.0
Barka	232.3	58.1	288.8	--	113.4	7.8	367.2	1,225.0	150.0
Gash-Setit	304.0	62.1	320.4	--	166.4	54.8	394.8	636.0	300.0
Hamassen 3/	731.0	32.5	23.2	4.5	12.5	197.2	67.2	24.0	600.0
Senhit	254.0	33.2	114.1	--	102.9	13.9	111.6	576.0	450.0
Semhar	118.0	10.0	98.0	--	--	30.0	20.4	312.0	150.0
Sahel	223.7	12.8	30.7	--	19.0	15.9	16.8	1,681.0	150.0
Seraye	421.3	110.7	240.8	121.5	141.0	213.2	80.4	72.0	600.0
Denkel	176.5	2.0	22.0	--	--	--	37.2	162.0	150.0
Total	<u>2,802.1</u>	<u>363.0</u>	<u>1,182.8</u>	<u>148.4</u>	<u>575.7</u>	<u>705.7</u>	<u>1,138.8</u>	<u>4,982.0</u>	<u>3,000.0</u>
Province	1995								
	Total population 1/	Total cultivated area	Staple crops				Livestock population		
			Sorghum	Teff	Millet	Other 2/	Cows	Goats	Poultry
	(In thousands)	(In thousands of hectares)	(In thousands of quintals)				(In thousands)		
Akeleguzay	351.5	35.1	6.0	18.1	1.3	81.7	47.0	323.3	495.0
Barka	239.5	60.5	123.7	--	32.9	1.0	403.0	1,348.1	165.0
Gash-Setit	313.1	77.2	327.4	--	41.6	107.2	433.0	701.5	330.0
Hamassen 3/	752.9	34.8	1.9	1.4	1.8	221.2	76.0	27.4	660.0
Senhit	261.6	39.4	28.9	--	14.6	3.7	123.0	635.7	495.0
Semhar	121.5	9.5	49.7	--	0.6	30.2	23.0	345.2	165.0
Sahel	230.4	21.7	23.9	--	8.2	30.7	19.0	1,846.7	165.0
Seraye	433.9	71.3	48.6	38.1	26.7	83.9	88.0	76.7	660.0
Denkel	181.8	...	--	--	--	...	40.0	175.4	165.0
Total	<u>2,886.2</u>	<u>349.5</u>	<u>610.1</u>	<u>57.6</u>	<u>127.7</u>	<u>559.6</u>	<u>1,252.0</u>	<u>5,480.0</u>	<u>3,300.0</u>

Source: Ministry of Agriculture.

1/ Based on 3 percent increase in population.

2/ Includes barley, wheat, peas, sesame, and maize.

3/ Includes Asmara.

Table 6. Eritrea: Food Grain Position, 1992/93-96/97 1/

(In metric tons)

	1992/93	1993/94	1994/95	1995/96	1996/97 Proj.
Opening balance	110,000	60,019	65,021	--	14,997
Gross domestic production	260,000	86,000	265,000	149,000	132,000
Less: post-harvest losses	-25,000	-8,000	-25,000	-7,000	-11,000
Less: seed, feed, and non food uses	-15,000	-15,000	-15,000	-15,000	-15,000
Net domestic production	220,000	63,000	225,000	127,000	106,000
Domestic grain balance	330,000	123,019	290,021	127,000	120,997
Food imports	101,000	323,670	54,662	291,970	309,290
Commercial	50,000	65,000	54,662	100,000	120,000
Food aid	51,000	258,670	--	191,970	189,290
Total grain balance	431,000	446,689	344,683	418,970	430,287
Consumption	370,981	381,668	392,662	403,973	415,285
<u>Memorandum items:</u>					
Estimated consumption requirement	370,981	381,668	392,662	403,973	415,285
Actual grain available	431,000	446,689	344,683	418,970	430,287
Grain surplus/deficit	60,019	65,021	-47,979	14,997	15,002

Source: Ministry of Agriculture.

1/ Agricultural year, September to August.

Table 7. Eritrea: Annual Catch and Sales of Fish, 1994–96 1/

	1994			1995			1996		
	Industrial	Artisanal	Total	Industrial	Artisanal	Total	Industrial	Artisanal	Total
(In tons)									
Massawa	2,277	371	2,648	3,262	463	3,725	2,454	560	3,014
Assab	--	22	22	--	48	48	--	258	258
Total	2,277	393	2,670	3,262	511	3,773	2,454	818	3,272
(In millions of birr)									
Massawa	12.5	2.2	14.7	21.4	3.3	24.7	14.7	3.4	18.1
Assab	--	0.1	0.1	--	0.3	0.3	--	1.6	1.6
Total	12.5	2.3	14.8	21.4	3.6	25.0	14.7	5.0	19.7

Source: Ministry of Marine Resources.

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

Table 8. Eritrea: Gross Value of Public Enterprise Production, 1993–96

Type of Industry	Number of enterprises December 1996	Number of employees December 1996	1993	1994	1995	1996
(In millions of birr)						
Food industries	6	1,322	48.4	69.4	122.0	126.5
Beverage industries	3	774	65.5	47.5	49.2	57.9
Tobacco and matches	2	240	3.6	8.1	13.4	22.1
Textile industries	5	3,756	16.5	40.2	54.3	68.2
Leather and shoes	5	1,186	28.2	30.5	57.9	71.7
Nonmetallic industries	4	455	24.0	30.8	31.3	23.0
Of which: Eritrea Cement	1	182	16.5	16.9	15.5	20.1
Paper and printing	3	337	17.7	15.7	19.1	20.2
Chemical industries	5	740	51.1	58.8	101.9	98.1
Of which: Eritrea Salt Works	2	596	38.9	44.7	75.8	72.3
Metal industries	9	720	34.0	45.6	47.0	66.2
Total	<u>45</u>	<u>9,530</u>	<u>289.1</u>	<u>346.6</u>	<u>496.1</u>	<u>553.9</u>

Source: Ministry of Trade and Industry.

Table 9. Eritrea: Investment Projects by Sector, 1993-96

(In thousands of birr, unless otherwise indicated)

	1993			1994			1995			1996 1/
	Local	Foreign	Total	Local	Foreign	Total	Local	Foreign	Total	Total
Agriculture	32,470	--	32,470	10,377	1,555	11,932	32,424	--	32,424	67,709
Number of projects			5			3			20	15
Fishing	9,000	21,600	30,600	25,675	67,608	93,283	66,610	5,400	72,010	20,869
Number of projects			1			13			13	2
Mining	--	--	--	1,627	--	1,627	--	--	--	39,350
Number of projects						2				9
Quarrying	5,000	--	5,000	--	--	--	--	--	--	22,435
Number of projects			1							4
Manufacturing	47,081	4,939	52,020	83,036	35,891	118,927	214,375	152,161	366,536	354,786
Number of projects			7			17			68	74
Construction	38,268	--	38,268	5,464	--	5,464	46,625	--	46,625	63,663
Number of projects			2			2			9	6
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	159,890
Number of projects			5			11			23	38
Others	7,798	--	7,798	3,465	--	3,465	780	--	780	94,917
Number of projects			3			3			4	33
Total capital	155,306	26,539	181,845	258,378	570,942	829,320	448,336	234,408	682,744	823,767
Total projects			24			53			144	181

Source: Eritrean Investment Center.

1/ Local and foreign distribution not available.

Table 10. Eritrea: Assab Refinery Production and Purchase by Eritrea, 1993-96

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

	1993				1994				1995				1996			
	Production	Purchase	Value	Purchase/ Production	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	5,812	1,631	7.3	28.1
Regular gasoline	76,301	10,649	11.7	14.0	94,294	11,818	12.6	12.5	77,056	12,596	22.7	16.3	84,206	14,035	19.7	16.7
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	25,166	19,721	28.0	78.4
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	18,854	9,612	13.6	51.0
Automobile diesel	154,270	104,923	96.4	68.0	192,868	120,684	105.3	62.6	169,827	128,792	104.2	75.8	176,855	134,179	160.4	75.9
Inland fuel oil	109,042	26,121	15.0	24.0	118,339	26,620	15.6	22.5	123,474	34,829	18.2	28.2	137,044	45,064	51.2	32.9
Bunker fuel oil	12,142	12,151	4.7	100.1	10,899	10,930	5.6	100.3	10,417	10,792	5.5	103.6	11,331	6,460	3.3	57.0
Export fuel oil	145,165	--	--	--	201,175	--	--	--	132,562	--	--	--	137,527	--	--	--
Bitumen (Asphalt)	13,432	3,349	3.5	24.9	15,863	2,231	3.4	14.1	18,047	220	0.3	1.2	20,515	213	0.5	1.0
Total	<u>565,376</u>	<u>175,755</u>	<u>151.4</u>	<u>31.1</u>	<u>691,769</u>	<u>191,346</u>	<u>162.7</u>	<u>27.7</u>	<u>578,605</u>	<u>211,131</u>	<u>180.3</u>	<u>36.5</u>	<u>617,310</u>	<u>230,915</u>	<u>284.0</u>	<u>37.4</u>

Source: Petroleum Corporation of Eritrea.



Table 11. Eritrea: Ex Refinery and Retail Prices of Petroleum Products, 1992–96

	Unit	Ex refinery prices			Retail prices (as of 12/31/95)					Retail prices (as of 12/31/96)				
		Up to 6/92	As of 12/94	As of 12/96	Asmara	Massawa	Assab	Keren	Nacfa	Asmara	Massawa	Assab	Keren	Nacfa
Liquefied petroleum gas	birr/ton	1,313.1	1,313.1	1,276.2	2,790.0	...	2,221.0	...	...	4,000.0	...	3,250.0	...	...
Regular gasoline	cents/liter	194.6	193.5	193.5	260.0	256.0	251.0	264.0	278.0	280.0	275.0	275.0	283.0	292.0
Kerosene	cents/liter	114.0	100.0	100.0	120.0	116.0	111.0	124.0	138.0	155.0	153.0	146.0	158.0	167.0
Jet fuel	cents/liter	123.5	163.0	163.0	178.5	...	...	...	...	178.5	...	134.0	...	...
Automobile diesel	cents/liter	114.3	114.3	114.3	145.0	141.0	117.0	149.0	163.0	170.0	165.0	156.0	173.0	182.0
Inland fuel oil	cents/liter	75.5	75.5	75.5	89.5	85.0	78.0	93.4	108.2	113.6	109.0	104.5	117.3	127.5
Bunker fuel oil	cents/liter	75.5	75.5	75.5	...	85.0	78.0	...	...	...	...	...	...	...

Source: Petroleum Corporation of Eritrea.

Table 12. Eritrea: Electricity Production, Sales, and Tariffs, 1995-96

	1995	1996
(In thousand Kwh)		
<b>Total production</b>	144,668	154,786
Inter connected system	117,773	132,456
Asmara	92,009	126,478
Massawa	25,764	5,978
Self contained system	26,895	22,330
Of which: Assab	18,425	12,931
Decamhare	2,566	2,746
Keren	2,240	2,475
<b>Total volume of sales</b>	118,180	127,507
Inter connected system	95,975	103,122
Asmara	76,172	82,543
Ghinda	2,304	2,747
Massawa	17,499	17,832
Self contained system	22,205	24,385
Of which: Assab	15,313	15,981
Decamhare	2,186	2,428
Keren	1,817	2,135
(In millions of birr)		
<b>Total sales revenue</b>	94.1	104.6
Inter connected system	75.6	84.0
Asmara	59.7	66.8
Ghinda	1.9	2.4
Massawa	13.9	14.8
Self contained system	18.6	20.6
Of which: Assab	12.3	12.9
Decamhare	1.8	2.2
Keren	1.7	0.4
(In birr per Kwh)		
Electricity tariffs		
Domestic		
Less than 500 Kwh	...	0.65 - 0.75
Greater than 500 Kwh	...	0.55 - 0.65
General 1/	...	1.00
Large industry		
Less than 100,000 Kwh	...	0.75
Greater than 100,000 Kwh	...	0.50

Source: Ministry of Energy and Mines.

1/ Includes street lighting and small industry.

Table 13. Eritrea: Asmara Price Index, 1992-96 1/

	(Weights)	1992		1993				1994				1995				1996			
		Jan.	Dec.	March	June	Sept.	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	156.8	157.3	152.6	149.2
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	139.3	129.3	129.8	124.6
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	110.3	111.0	114.2	110.4
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	156.2	145.4	142.4	147.7
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	144.4	154.3	134.9	143.7
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	202.8	200.3	193.1	193.3
Livestock (other)	0.10	100.0	144.5	128.2	145.1	146.6	151.2	159.4	164.7	171.7	170.7	166.5	145.2	170.1	155.5	168.7	166.6	160.6	160.7
Average index	1.00	100.0	108.8	113.0	113.4	110.4	119.3	109.8	130.0	132.2	127.4	136.9	131.9	138.2	141.3	153.4	151.4	146.0	146.1
(Percent change)																			
Inflation																			
Quarterly change	...	0.9		3.8	0.3	-2.6	8.0	-8.0	18.5	1.7	-3.6	7.5	-3.7	4.8	2.2	8.5	-1.3	-3.6	0.1
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	12.0	14.8	5.6	3.4

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

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

Table 14. Eritrea: Summary of Developments in the Labor Market, 1993–96

	December 1993			December 1994			December 1995			December 1996		
	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
Registered job seekers	37,609	21,731	59,340	42,533	23,664	66,197	7,783	3,657	11,440	16,908	6,078	22,986
Number of job seekers placed	5,887	1,492	7,379	7,008	1,634	8,642	3,972	1,016	4,988	6,738	1,201	7,939
Reported vacancies	...	...	8,575	...	...	10,598	...	...	6,548	...	...	11,380
Eritreans permitted to work abroad	452	359	811	474	516	990	...	...	833	...	...	674
Employment in private and public establishments 1/	17,015	8,343	25,358	17,848	8,429	26,277	...	...	...	36,728	17,409	54,137
Government-owned establishments	5,876	5,357	11,233	6,164	5,413	11,577	...	...	...	11,647	6,938	18,585

Source: Ministry of Labor and Human Welfare.

1/ Large establishments only.

Table 15. Eritrea: Structure of Private Sector Wages, 1996

(Base salary per month, in birr)

	<u>Production</u>		<u>Service</u>	
	<u>Lower</u>	<u>Upper</u>	<u>Lower</u>	<u>Upper</u>
Messenger	234	500	140	547
Driver	370	818	399	1,160
Typist	390	598	300	1,304
Clerk	234	725	250	900
Storekeeper	234	828	210	1,100
Inspector	390	780	450	1,850
Teacher	...	...	265	735
Nurse	...	...	520	1,531
Senior supervisor	...	...	455	1,200
Production manager	1,145	1,731	1,998	3,000
Section head	...	...	520	991
Department head	...	...	1,085	1,386
University graduates (with master's degree)	...	...	1,050	1,386
Specialists in all fields	1,200	3,000	1,200	3,000
Senior experts	1,200	1,998	1,200	1,998
Managers	1,085	3,000	1,085	3,000

Source: Ministry of Labor and Human Welfare.

Table 16. Eritrea: Summary of Government Operations, 1992-96

(In millions of birr)

	1992	1993	1994	1995	1996 Prel.
<b>Revenue</b>	<b>488.8</b>	<b>893.2</b>	<b>1,026.5</b>	<b>1,345.2</b>	<b>1,389.9</b>
Tax revenue	297.6	517.6	657.5	715.6	830.4
Direct taxes	63.8	179.3	315.8	339.7	380.0
Indirect domestic taxes	109.2	143.6	142.8	151.0	180.7
Import duties and taxes	118.7	180.7	187.1	224.9	269.7
Export tax	5.9	14.0	11.8	--	--
Nontax revenue	191.2	375.6	333.4	629.6	559.5
Port fees and charges	152.4	244.5	152.9	233.5	281.9
Contributions and other 1/	38.5	128.5	140.3	371.1	259.3
Sale of government property	--	2.6	40.2	25.0	18.3
Capital revenue (privatization receipts)	--	--	35.6	--	--
<b>Expenditure</b>	<b>734.8</b>	<b>1,559.0</b>	<b>2,005.7</b>	<b>2,680.0</b>	<b>2,721.5</b>
Current expenditure	643.4	1,103.7	1,551.8	2,131.3	1,883.3
Wages, salaries, and allowances 2/	136.9	233.3	460.8	652.3	798.3
Materials	319.0	546.2	427.5	844.2	718.1
Grants and contributions	6.1	81.9	74.0	109.4	91.8
Interest and charges	--	0.9	3.4	16.9	36.2
Demobilization and reintegration of ex-combatants	...	99.0	153.6	41.8	14.0
Support to martyrs' families	...	...	...	296.1	30.3
Current expenditures, externally financed 3/	181.4	142.4	456.3	170.6	194.6
Reclassification from current to capital expenditure	--	--	-23.8	--	--
Capital expenditure and net lending	91.4	455.3	453.9	548.7	838.2
Capital expenditure from own resources	91.4	89.4	130.0	215.5	499.4
Capital expenditure, financed from external grants	...	364.6	169.7	287.2	284.1
Capital expenditure, financed from external loans	--	1.3	154.2	46.0	54.7
<b>Overall balance (cash, excluding grants)</b>	<b>-246.0</b>	<b>-665.8</b>	<b>-979.2</b>	<b>-1,334.8</b>	<b>-1,331.6</b>
<b>Grants</b>	<b>181.4</b>	<b>507.0</b>	<b>626.0</b>	<b>491.0</b>	<b>508.6</b>
External grants (capital and current)	181.4	507.0	626.0	457.8	478.7
Counterpart funds from external grants	...	...	...	33.2	29.9
<b>Overall balance (cash, including grants)</b>	<b>-64.6</b>	<b>-158.8</b>	<b>-353.2</b>	<b>-843.8</b>	<b>-823.0</b>
<b>Financing</b>	<b>64.6</b>	<b>158.8</b>	<b>353.2</b>	<b>843.8</b>	<b>823.0</b>
External (net)	--	1.3	154.2	46.0	54.7
Gross borrowing	--	1.3	154.2	46.0	54.7
Amortization	--	--	--	--	--
Domestic (net)	70.4	-12.0	192.0	797.8	768.3
Bank of Eritrea	70.0	-12.0	192.0	672.2	855.7
Nonbank financing	--	--	--	--	--
Residual	-5.4	169.5	7.0	125.6	-87.4

Source: Ministry of Finance.

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

2/ In 1995 including payments to civil service retrenchment (Br 51 million); and retroactive salary payments to ex-combatants of Br 70 million and Br 150 million in 1995 and 1996, respectively.

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

Table 17. Eritrea: Selected Indicators of Government Operations, 1992-96

	1992	1993	1994	1995	1996 Prel.
(Annual changes in percent)					
Revenue	...	82.7	14.9	31.0	3.3
Tax revenue	...	73.9	27.0	8.8	16.0
Nontax revenue	...	96.4	-11.2	88.8	-11.1
Expenditure	...	112.2	28.6	33.6	1.5
Current expenditure	...	71.5	40.6	37.3	-11.6
Capital expenditure	...	398.1	-0.3	20.9	52.8
Grants	...	179.5	23.5	-21.6	3.6
(In percent of GNP)					
Revenue	20.4	28.7	23.3	28.9	27.1
Tax revenue	12.4	16.7	14.9	15.4	16.2
Nontax revenue	8.0	12.1	8.4	13.5	10.9
Expenditure	30.6	50.2	45.5	57.6	53.1
Current expenditure	26.9	35.5	35.2	45.8	36.7
Capital expenditure	3.8	14.5	10.3	11.8	16.3
Overall balance					
Cash, excluding grants	-10.3	-21.4	-22.2	-28.7	-26.0
Grants	7.6	-16.3	14.2	10.6	9.9
Overall balance (cash, including grants)	-2.7	-5.1	-8.0	-18.1	-16.1
Financing	2.7	5.1	8.0	18.1	16.1
External (net)	--	--	3.5	1.0	1.1
Domestic (net)	2.9	-0.4	4.4	17.2	15.0
Residual	-0.2	5.5	0.1	2.7	-1.7
<b>Memorandum item:</b>					
GNP at current market prices (millions of birr)	2,399.8	3,108.5	4,407.0	4,649.5	5,127.6

Sources: Ministry of Finance; and staff estimates.

Table 18. Eritrea: Government Revenues and Grants, 1992-96

	1992	1993	1994	1995	1996 Prel.
(In millions of birr)					
Tax revenue	297.6	517.6	657.5	715.6	830.4
Direct taxes	63.8	179.3	315.8	339.7	380.0
Personal income	16.8	37.0	79.1	74.2	113.6
Business profits	27.1	95.1	160.7	185.0	230.7
Rehabilitation tax	19.0	40.9	73.0	73.2	23.3
Other 1/	0.9	6.3	3.0	7.3	12.4
Domestic indirect taxes	109.2	143.6	142.8	151.0	180.7
Sales tax on domestic goods and services 2/	109.2	143.6	142.8	151.0	180.7
Import duties and taxes	118.7	180.7	187.1	224.9	269.7
Customs duties	46.1	73.7	80.2	136.0	167.8
Sales and other taxes on imports	70.9	104.4	106.9	88.9	101.9
Other 3/	1.7	2.6	--	...	...
Export tax	5.9	14.0	11.8	--	--
Nontax revenue	191.2	375.6	333.4	629.6	559.5
Port fees and charges	152.4	244.5	152.9	233.5	281.9
Other fees and charges	9.9	25.5	60.7	74.9	87.5
Sales of goods and services	4.3	7.6	28.0	25.4	19.9
Sale of government property	--	2.6	40.2	25.0	18.3
Residual surplus and dividends	--	--	--	87.4	20.4
Other 4/	24.3	95.4	51.6	183.4	131.5
Capital revenue 5/	--	--	35.6	--	--
Revenue	488.8	893.2	1,026.5	1,345.2	1,389.9
External grants	181.4	507.0	626.0	491.0	508.6
Grants in kind/earmarked	181.4	507.0	626.0	457.8	478.7
Current external assistance 6/	181.4	142.4	456.3	170.6	194.6
Capital assistance (external grants)	...	364.6	169.7	287.2	284.1
Counterpart funds from external grants	...	...	...	33.2	29.9
Revenue and external grants	670.2	1,400.2	1,652.5	1,836.2	1,898.5
(In percent of total revenue)					
Direct taxes	13.1	20.1	30.8	25.3	27.3
Domestic indirect taxes	22.3	16.1	13.9	11.2	13.0
Import duties and taxes	24.3	20.2	18.2	16.7	19.4
Export tax	1.2	1.6	1.1	--	--
Nontax revenue	39.1	42.1	32.5	46.8	40.3
Capital revenue	--	--	3.5	--	--

Source: Ministry of Finance.

1/ Agricultural income tax and land use fee; taxes on dividends and rental income.

2/ Including stamp duties.

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

4/ Includes voluntary contributions for rehabilitation purposes.

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

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



Table 19. Eritrea: Government Current Expenditure by Economic Classification, 1992-96

	1992	1993	1994	1995	1996 Prel.
(In millions of birr)					
Current expenditure	643.4	1,103.7	1,551.8	2,131.3	1,883.3
Wages, salaries, and allowances	136.9	233.3	460.8	652.3	798.3
Materials	319.0	546.2	427.5	844.2	718.1
Grants and contributions	6.1	81.9	74.0	109.4	91.8
Interest and charges	--	0.9	3.4	16.9	36.2
Domestic debt	--	0.9	3.4	16.9	36.2
External debt	--	--	--	--	--
Demobilization and reintegration of ex-combatants 1/	...	99.0	153.6	41.8	14.0
Support to martyrs' families	...	...	...	296.1	30.3
Current expenditure, externally financed 2/	181.4	142.4	456.3	170.6	194.6
Reclassification adjustment between current and capital expenditure	...	...	-23.8	--	--
(In percent of GNP)					
Current expenditure	26.9	35.5	35.2	45.8	36.7
Wages, salaries, and allowances	5.7	7.5	10.5	14.0	15.6
Materials	13.3	17.6	9.7	18.2	14.0
Grants and contributions	0.3	2.6	1.7	2.4	1.8
Demobilization and reintegration of ex-combatants 1/	...	3.2	3.5	0.9	0.3
Current expenditure, externally financed	7.6	4.6	10.4	3.7	3.8
(In percent of total current expenditure)					
Wages, salaries, and allowances	21.3	21.1	29.7	30.6	42.4
Materials	49.6	49.5	27.5	39.6	38.1
(Annual changes in percent)					
Wages and operating expenditure	...	71.0	14.0	68.5	1.3
Wages, salaries, and allowances	...	70.4	97.5	41.6	22.4
Materials	...	71.2	-21.7	97.5	-14.9
Grants and contributions	...	1,242.6	-10.3	47.8	-16.1
Demobilization and reintegration of ex-combatants 1/	...	...	55.2	-72.8	-66.5
Current expenditure, externally financed	...	-21.5	220.3	-62.6	14.1
Current expenditure	...	71.5	40.6	37.3	-11.6
<b>Memorandum items:</b>					
Special expenditure 3/ 4/					
In millions of birr	...	99.0	153.6	458.5	194.3
In percent of total current expenditure	...	9.0	9.9	21.5	10.3
In percent of GNP	...	3.2	3.5	9.9	3.8

Sources: Ministry of Finance; and staff estimates.

1/ Excluding costs for reintegration of ex-combatants.

2/ In 1992 and 1993, only food aid.

3/ 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).

4/ In 1996, including payments to martyrs' families (Br 30 million) and retroactive salary payments to security personnel (Br 150 million).

Table 20. Eritrea: Government Current Expenditure by Functional Classification, 1992-96

	1992	1993	1994	1995	1996 Prel.
(In millions of birr)					
General services	329.0	649.8	635.9	1,090.3	1,233.1
Internal affairs	22.5	33.9	38.0	110.7	74.7
Regional administration	11.6	21.8	32.7	48.6	40.6
Foreign affairs	17.3	25.0	54.0	71.5	77.1
Ministry of Finance	9.0	16.3	47.3	37.7	39.1
Defense 1/	252.3	539.2	438.7	770.5	968.1
Other 2/	16.3	13.6	25.2	51.3	33.5
Economic services	63.2	103.3	185.0	235.1	186.4
Agriculture and natural resources 3/	21.8	17.1	18.0	30.1	15.4
Trade, industry, and tourism	2.9	6.3	5.0	8.6	14.3
Mining and energy	2.3	2.5	5.1	9.6	5.5
Roads, transport, and communication	30.2	52.7	98.5	97.6	85.4
Construction and urban development	6.0	24.4	57.7	88.5	61.8
Other 4/	--	0.3	0.7	0.7	4.0
Social services	63.7	94.5	135.4	226.9	188.0
Education and training	34.7	46.3	64.9	97.6	70.7
Health	11.0	18.2	35.1	75.3	56.0
Labor and social welfare	7.0	11.9	16.6	33.2	35.1
Relief and rehabilitation (ERRA)	1.7	4.9	4.7	7.8	3.3
Other 5/	9.3	13.2	14.1	13.0	22.9
Safety net measures	...	99.0	153.6	337.9	44.2
Demobilization and reintegration of ex-combatants 6/	...	99.0	153.6	41.8	14.0
Reintegration of refugees	...	...	...	...	--
Support to martyrs' families	...	...	...	296.1	30.2
Interest and charges	...	0.9	3.4	16.9	36.2
Domestic debt	...	0.9	3.4	16.9	36.2
External debt	--	--	--	...	--
Current expenditure, externally financed 7/	181.4	142.4	456.3	170.6	194.6
Miscellaneous 8/	6.1	13.8	-17.8	53.6	--
Total current expenditure	<u>643.4</u>	<u>1,103.7</u>	<u>1,551.8</u>	<u>2,131.3</u>	<u>1,883.3</u>
(In percent of GNP)					
General services	13.7	20.9	14.4	23.4	24.0
Of which: defense 9/	10.5	17.3	10.3	11.8	10.4
Economic services	2.6	3.3	4.2	5.1	3.6
Social services	2.7	3.0	3.1	4.9	3.7
Of which: education and health	1.9	2.1	2.3	3.7	2.5
(Annual changes in percent)					
General services	...	97.5	-2.1	71.5	13.1
Economic services	...	63.4	79.1	27.1	-20.7
Social services	...	48.4	43.3	67.6	-17.1
Other	...	36.6	132.5	-2.8	-52.5

Sources: Ministry of Finance; and staff estimates.

1/ Including the cost of the National Service Program in 1994-96, and the back pay of wages and salaries.

2/ Including President's Office, Ministry of Justice, Auditor General, and CERA.

3/ Including Ministry of Marine Resources.

4/ Including Standards Office and Land Commission.

5/ Including Ministry of Information and Culture.

6/ Excluding costs for reintegration of ex-combatants.

7/ In 1992 and 1993, only food aid.

8/ In 1994, including reclassification adjustment (-23.8 million birr) from recurrent to capital expenditures.

9/ Excludes National Service Program in 1994-96, and adjusted for back pay of wages and salaries.

Table 21. Eritrea: Government Capital Expenditure, 1992-96

	1992	1993	1994	1995	1996 Prel.
(In millions of birr)					
General services	7.8	41.7	17.3	54.4	163.9
Economic development	71.5	372.5	339.4	410.4	471.4
Agriculture and natural resources 1/	28.8	244.3	130.8	272.5	256.1
Mining and energy	...	9.9	83.5	17.8	93.1
Trade, industry, and tourism	5.0	58.1	69.7	25.1	35.0
Transport, construction, communication	37.7	60.2	55.4	93.8	73.6
Finance	--	--	--	1.2	13.6
Social development	12.1	41.1	73.4	83.9	202.9
Education	...	19.3	9.3	15.5	49.3
Health	0.2	18.1	13.5	35.5	87.7
Social affairs	11.9	3.6	29.5	32.9	25.0
Other 2/	...	0.1	21.1	...	40.9
Reclassification adjustment between recurrent and capital expenditure	--	--	23.8	...	--
Total capital expenditure	91.4	455.3	453.9	548.7	838.2
Financing by source	91.4	455.3	453.9	548.7	838.2
Central Treasury	91.4	89.4	130.0	215.5	499.4
External grants	...	364.6	169.7	287.2	284.1
External loans	--	1.3	154.2	46.0	54.7
(In percent of GNP)					
General services	0.3	1.3	0.4	1.2	3.2
Economic development	3.0	12.0	7.7	8.8	9.2
Social development	0.5	1.3	1.7	1.8	4.0
Of which: education and health	--	1.2	0.5	1.1	2.7
(In percent of total capital expenditure)					
General services	8.5	9.2	3.8	9.9	19.6
Economic development	78.2	81.8	74.8	74.8	56.2
Social development	13.2	9.0	16.2	15.3	24.2
Of which: education and health	0.2	8.2	5.0	9.3	16.3
(Annual changes in percent)					
General services	...	434.6	-58.5	214.5	201.3
Economic development	...	421.0	-8.9	20.9	14.9
Social development	...	239.7	78.6	14.3	141.8
Total capital expenditure	...	398.1	-0.3	20.9	52.8

Sources: Ministry of Finance; and staff estimates.

1/ Including Ministry of Marine Resources.

2/ Including Ministry of Information and Culture.

Table 22. Eritrea: Summary Monetary Survey, 1992-96 1/

	1992	1993	1994	1995		1996	
		December		Jun.	Dec.	Jun.	Dec.
(In millions of birr)							
Net foreign assets	27.7	553.5	1,087.0	980.3	975.7	722.8	1,148.4
Foreign assets	29.8	575.7	1,125.1	1,032.8	1,044.6	793.1	1,206.9
Foreign liabilities	2.1	22.3	38.1	52.5	68.9	70.3	58.5
Net claims on the birr area	1,094.5	1,275.8	1,256.5	1,357.8	975.6	852.3	293.8
Birr assets	1,214.7	1,450.3	1,563.3	1,798.4	1,666.9	1,849.8	1,846.3
Cash in vault	1,160.1	1,301.7	1,175.7	1,266.8	972.4	1,069.7	894.4
Correspondent account	--	97.9	328.7	466.0	640.7	769.7	911.4
Clearing account	54.6	50.7	58.7	65.1	...	...	...
Birr liabilities	120.2	174.5	306.8	440.6	691.3	997.5	1,552.4
Correspondent account	--	114.3	238.7	372.5	623.2	929.4	1,483.9
Clearing account	120.2	60.2	68.1	68.1	68.1	68.1	68.6
Net Domestic Credit	1.0	165.0	672.6	837.0	1,989.0	2,568.1	3,546.4
Net claims on the Central Government	-91.5	-103.8	87.5	-29.1	759.7	971.8	1,615.4
Credit to Central Government	213.6	--	311.0	528.5	1,011.5	1,496.5	1,915.5
Deposits of Central Government	305.1	103.8	223.5	557.6	251.8	524.7	300.1
Claims on local government	2.3	82.9	--	--	--	--	--
Claims on public enterprises	70.1	120.4	237.7	264.5	364.0	310.1	362.2
Claims on private sector	20.1	65.5	347.4	601.6	865.3	1,286.2	1,568.8
Broad money	1,186.9	1,925.3	2,889.3	3,214.7	3,569.3	3,713.9	4,111.8
Money 2/	517.3	866.8	1,258.4	1,321.8	1,295.8	1,435.5	1,677.0
Quasi-money	669.5	1,058.5	1,630.9	1,892.9	2,273.5	2,278.4	2,434.8
Other items (net)	-63.6	69.0	126.9	-39.6	370.9	430.2	878.1
(Annual change in percent of beginning-of-period broad money stock)							
Net foreign assets	5.0	44.3	27.7	10.7	-3.9	-8.0	4.8
Net claims on the birr area	106.4	15.3	-1.0	4.6	-9.7	-15.7	-19.1
Domestic credit	18.5	13.8	26.4	15.7	45.6	53.8	43.6
Net claims on the Central Government	14.3	-1.0	9.9	2.0	23.3	31.1	24.0
Credit to public enterprises	5.6	4.2	6.1	-6.1	4.4	1.4	-0.1
Credit to the private sector	-2.0	3.8	14.6	19.8	17.9	21.3	19.7
Broad money	140.0	62.2	50.1	38.7	23.5	15.5	15.2
Other items (net)	-10.1	11.2	3.0	-7.8	8.4	14.6	14.2
<b>Memorandum items:</b>							
Velocity (GNP)	2.9	2.0	1.8	...	1.4	...	1.3
Private sector credit (growth in percent)	-32.5	225.0	430.7	...	149.1	...	81.3

Source: Bank of Eritrea; and staff estimates.

1/ Includes the Bank of Eritrea, the Commercial Bank of Eritrea and from December 1994, the Housing and Commerce Bank of Eritrea.

2/ Money excluding currency outside banks in Eritrea.

Table 23. Eritrea: Summary Accounts of the Bank of Eritrea, 1992-96

(In millions of birr)

	1992	1993	1994	1995		1996	
	Dec.	Dec.	Dec.	June	Dec.	June	Dec.
Net foreign assets	0.0	73.0	449.0	271.0	420.3	513.2	844.9
Assets	0.0	73.0	454.6	277.9	426.4	519.3	851.0
Claims on foreign commercial banks	0.0	69.1	419.3	218.4	269.4	280.8	476.6
Foreign exchange	0.0	3.9	35.3	59.5	157.0	238.5	374.4
Gold	0.0	3.7	29.5	52.8	132.0	198.9	322.8
Foreign currency	0.0	0.2	5.8	6.7	25.0	39.6	51.6
Liabilities	0.0	0.0	5.6	6.9	6.1	6.1	6.1
Net claims on the birr area	234.0	326.3	247.0	337.5	258.0	232.7	196.2
Birr in vault	252.3	344.6	265.3	355.8	276.3	250.9	214.4
Liabilities to CBE Addis	18.3	18.3	18.3	18.3	18.3	18.2	18.2
Domestic credit	-72.0	-103.8	87.5	-29.1	759.7	971.8	1,615.4
Claims on Central Government (net)	-72.0	-103.8	87.5	-29.1	759.7	971.8	1,615.4
Credit to Central Government	0.0	0.0	311.0	528.5	1,011.5	1,496.5	1,915.5
Central Government deposits	72.0	103.8	223.5	557.6	251.8	524.7	300.1
Claims on commercial banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on other banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items (net)	9.5	-18.2	-48.3	-58.0	-98.0	-124.8	-163.0
Unclassified assets	11.7	16.0	35.0	143.2	208.5	226.6	257.3
Uncleared effects	11.6	9.7	7.5	0.1	0.1	0.0	1.2
Debtors	0.0	3.7	20.9	49.9	80.7	97.8	125.7
Fixed assets	0.0	2.6	2.8	2.8	3.1	3.1	4.0
Other accounts	0.0	0.0	0.0	90.4	124.6	125.7	126.4
Unclassified liabilities	0.0	23.1	5.1	163.4	227.2	219.4	285.4
Creditors	0.0	1.1	5.1	36.6	77.0	46.4	50.5
Other accounts	0.0	21.9	0.0	126.8	150.2	173.0	234.9
Capital account	2.2	11.1	78.2	37.8	79.3	132.0	135.0
General reserve fund	2.0	8.0	1.8	35.0	76.5	41.1	44.1
Capital reserves	0.0	2.5	30.8	2.7	2.8	2.8	2.8
Provisions	0.2	0.4	45.6	0.1	0.0	88.1	88.1
Reserve money	171.5	277.4	735.3	521.4	1,340.1	1,592.9	2,493.5
Deposits of commercial banks	171.5	277.4	735.3	521.4	1,340.1	1,592.9	2,493.5

Source: Bank of Eritrea.

Table 24. Eritrea: Summary Accounts of the Commercial Bank of Eritrea, 1992-96

(In millions of birr)

	1992	1993	1994	1995		1996	
		December		June	Dec.	June	Dec.
Reserves	171.5	278.0	735.3	521.4	1,334.5	1,591.5	2,447.4
Deposits with the Bank of Eritrea	171.5	278.0	735.3	521.4	1,334.5	1,591.5	2,447.4
Net foreign assets	27.7	480.4	638.0	709.3	553.4	181.4	289.9
Assets	29.8	502.7	670.5	754.9	616.2	245.6	342.3
Gold	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign currency	1.8	6.9	20.3	19.6	7.4	20.7	21.5
Claims on foreign banks	28.0	495.7	650.2	735.3	608.8	224.9	320.8
Nonresident birr accounts	2.1	22.3	32.5	45.6	62.8	64.2	52.4
Net claims on the birr area	860.4	949.5	1,017.3	1,027.7	671.7	617.2	65.5
Claims on the birr area	962.4	1,105.7	1,297.9	1,442.1	1,336.8	1,588.5	1,591.3
Cash in vault	907.8	957.1	910.4	911.0	696.1	818.8	679.9
Correspondent account	0.0	97.9	328.7	466.0	640.7	769.7	911.4
Claims on CBE Addis	54.6	50.7	58.7	65.1	0.0	0.0	0.0
Liabilities to birr area	102.0	156.2	280.6	414.4	665.1	971.3	1,525.8
Correspondent account	0.0	114.3	191.1	414.4	665.1	971.3	1,525.8
CBE Addis	102.0	41.9	89.5	...	...	...	...
Net Domestic credit	73.1	268.8	566.6	803.5	1,112.1	1,341.8	1,507.8
Claims on Central Government (net)	-19.5	82.9	0.0	0.0	0.0	0.0	0.0
Credit to the Central Government	213.6	82.9	0.0	0.0	0.0	0.0	0.0
Central Government deposit	233.1	0.0	0.0	0.0	0.0	0.0	0.0
Claims on local government	2.3	0.0	0.0	0.0	0.0	0.0	0.0
Claims on nonfinancial public enterpr	70.1	120.4	237.7	264.5	460.5	406.6	458.7
Claims on the private sector	20.1	65.5	328.9	539.0	651.6	935.2	1,049.1
Other items (net)	54.2	-51.4	-62.6	113.1	-258.4	-298.6	-550.6
Deposits							
Demand deposits	517.3	866.8	1,258.4	1,321.8	1,295.8	1,435.5	1,670.9
Savings deposits	660.7	936.2	1,317.9	1,484.3	1,668.3	1,745.7	1,827.4
Fixed deposits	8.8	122.3	318.2	368.8	449.2	252.1	261.3
Other items (net)	54.2	-51.4	-62.6	113.1	-258.4	-298.6	-550.6

Sources: Bank of Eritrea; Commercial Bank of Eritrea.

Table 25. Eritrea: Summary Accounts of the Housing and Commerce Bank of Eritrea, 1994-96

(In millions of birr)

	1994		1995		1996	
	June	Dec.	June	Dec.	June	Dec.
<b>Assets</b>	38.4	46.3	105.5	323.1	404.8	611.8
Reserves	30.0	35.6	50.3	61.5	23.2	46.5
Deposits with the BE and CBER	30.0	35.6	50.3	61.5	23.2	46.5
Net foreign assets	--	--	--	2.0	28.2	13.5
Assets	--	--	--	2.0	28.2	13.5
Claims on foreign banks	--	--	--	2.0	28.2	13.5
Liabilities	--	--	--	--	--	--
Net claims on the birr area	-7.8	-7.8	-7.4	45.9	2.5	32.0
Claims on the birr area	0.1	0.1	0.5	53.8	10.4	40.5
Cash in vault	0.1	0.1	0.5	53.8	10.4	40.5
Liabilities to birr area	7.9	7.9	7.9	7.9	7.9	8.4
Claims on the private sector	16.2	18.5	62.6	213.7	351.0	519.7
Loans and advances	16.2	18.5	26.3	37.8	56.6	85.7
Overdrafts	--	--	36.3	175.9	294.4	434.0
Liabilities	38.3	46.3	105.5	323.1	404.9	611.8
Other items (net)	16.7	15.9	15.4	9.1	4.5	16.6
Deposits	21.6	30.4	90.1	217.5	303.8	398.7
Demand deposits	--	--	--	--	--	6.0
Savings deposits	21.6	30.4	58.8	186.2	303.8	325.1
Fixed deposits	--	--	31.3	31.3	--	67.6
Liabilities to other banks	--	--	--	96.5	96.5	196.5
Other items (net)	16.7	15.9	15.4	9.1	4.5	16.6

Source: Housing and Commerce Bank of Eritrea.

Table 26. Eritrea: Distribution of Net Foreign Assets, 1992-96

(In millions of birr)

	1992	1993	1994	1995		1996	
		December		June	Dec.	June	Dec.
Net foreign assets	27.7	553.5	1,087.0	980.3	975.7	722.8	1,148.4
Bank of Eritrea	0.0	73.0	449.0	271.0	420.3	513.2	844.9
Commercial Bank of Eritrea	27.7	480.4	638.0	709.3	553.4	181.4	289.9
Housing and Commerce Bank of Eritrea	0.0	0.0	0.0	0.0	2.0	28.2	13.5
Assets							
Bank of Eritrea	0.0	73.0	454.6	277.9	426.4	519.3	851.0
Commercial Bank of Eritrea	29.8	502.7	670.5	754.9	616.2	245.6	342.3
Housing and Commerce Bank of Eritrea	0.0	0.0	0.0	0.0	2.0	28.2	13.5
Liabilities							
Bank of Eritrea	0.0	0.0	5.6	6.9	6.1	6.1	6.1
Commercial Bank of Eritrea	2.1	22.3	32.5	45.6	62.8	64.2	52.4
Housing and Commerce Bank of Eritrea	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Annual Change	24.7	525.7	533.5	247.3	-111.3	-257.5	172.7
Bank of Eritrea	0.0	73.0	375.9	-82.7	-28.7	242.2	424.6
Commercial Bank of Eritrea	24.7	452.7	157.6	330.0	-84.6	-527.9	-263.5
Housing and Commerce Bank of Eritrea	0.0	0.0	0.0	0.0	2.0	28.2	11.6
Birr claims (net)	1,094.5	1,275.8	1,256.5	1,365.2	975.6	852.3	293.8
Bank of Eritrea	234.0	326.3	247.0	337.5	258.0	232.6	196.2
Commercial Bank of Eritrea	860.4	949.5	1,017.3	1,027.7	671.7	617.2	65.5
Housing and Commerce Bank of Eritrea	0.0	0.0	-7.8	-7.4	45.9	2.5	32.0
Assets							
Bank of Eritrea	252.3	344.6	265.3	355.8	276.3	250.9	214.4
Commercial Bank of Eritrea	962.4	1,105.7	1,297.9	1,442.1	1,336.8	1,588.5	1,591.3
Housing and Commerce Bank of Eritrea	0.0	0.0	0.1	0.5	53.8	10.4	40.5
Liabilities							
Bank of Eritrea	18.3	18.3	18.3	18.3	18.3	18.3	18.2
Commercial Bank of Eritrea	102.0	156.2	280.6	414.4	665.1	971.3	1,525.8
Housing and Commerce Bank of Eritrea	0.0	0.0	7.9	7.9	7.9	7.9	8.4
Annual Change	526.2	181.4	-19.3	105.5	-280.9	-512.9	-681.8
Bank of Eritrea	7.2	92.2	-79.3	32.4	11.0	-104.9	-61.8
Commercial Bank of Eritrea	519.0	89.1	67.7	73.1	-345.6	-410.5	-606.2
Housing and Commerce Bank of Eritrea	0.0	0.0	-7.8	0.4	53.7	9.9	-13.9

Sources: Bank of Eritrea



Table 27. Eritrea: Sectoral Distribution of Commercial Bank Loans, 1993-96

(In millions of birr)

	1993		1994				1995				1996	
	Total	Of which: Private	Total	Of which: Private	Total	Of which: Private	Total	Of which: Private	Total	Of which: Private	Total	Of which: Private
Agriculture	21.3	1.3	31.7	3.5	40.9	10.3	54.0	22.9	68.0	26.6	114.2	46.1
Term loans	0.3	0.0	4.4	1.8	8.6	7.9	17.8	...	26.2	23.3	64.1	42.2
Overdrafts	21.0	1.3	27.3	1.7	32.3	2.4	36.2	...	41.8	3.3	50.1	3.9
Manufacturing	32.5	4.3	48.4	21.7	55.7	12.4	109.9	47.2	153.0	36.7	246.2	88.5
Term loans	3.4	2.7	5.0	...	6.8	5.6	48.2	17.4	61.8	15.9	147.2	58.8
Overdrafts	29.1	1.6	43.4	...	48.9	6.8	61.7	29.8	91.2	20.8	99.0	29.7
Domestic trade and services	120.2	42.9	317.1	68.2	162.6	91.5	190.9	171.7	426.4	281.9	707.6	500.9
Term loans	67.2	26.4	71.2	34.2	124.2	66.4	146.4	128.6	291.8	174.1	480.3	280.0
Overdrafts	53.0	16.5	245.9	34.0	38.4	25.1	44.5	43.1	134.6	107.8	227.3	220.9
Export	3.1	0.6	4.1	...	6.6	6.6	17.8	19.6	25.2	...	38.9	33.6
Term loans	0.6	0.6	4.1	...	2.5	2.5	8.1	...	15.3	...	26.8	21.5
Overdrafts	2.5	0.0	0.0	0.0	4.1	4.1	9.7	...	9.9	...	12.1	12.1
Import	27.5	13.2	29.6	18.2	60.6	45.5	131.7	100.1	127.7	81.7	203.1	176.9
Term loans	1.8	...	2.4	...	28.7	18.6	43.1	...	30.8	25.9	83.7	77.9
Overdrafts	25.7	...	27.2	...	31.9	26.9	88.6	...	96.9	55.8	119.4	99.0
Building and construction	51.4	1.6	40.7	2.6	55.3	3.9	57.4	9.4	84.1	33.8	95.2	34.9
Term loans	0.9	...	0.8	...	7.5	3.1	7.5	...	31.9	...	37.9	33.9
Overdrafts	50.5	...	39.9	...	47.8	0.8	49.9	...	52.2	...	57.3	1.0
Other	65.0	0.2	60.9	0.2	184.8	119.8	190.8	166.2	176.5	138.7	102.5	102.5
Of which:												
Loans under dispute	52.1	0.0	52.8	--	51.0	5.6	50.9	--	50.9	--	50.1	--
Total 1/	320.9	64.1	532.5	...	566.5	290.0	752.3	537.1	1,060.9	...	1,507.7	984.3
Term loans	139.2	...	148.8	...	363.1	223.9	461.9	...	634.6	...	942.5	616.8
Overdrafts	181.7	...	383.7	...	203.3	66.1	290.6	...	426.6	...	565.2	366.6

Source: Commercial Bank of Eritrea.

1/ Figures may not correspond exactly to those reported in Table 24, owing to classification issues.

Table 28. Eritrea: Structure of Interest Rates, 1992-96

(In percent per annum)

	December 1992 - August 1994		1994	1995 December	1996
	Government- owned enterprises	Individuals and private organizations			
<b>Savings deposits</b>	...	8.0	6.0	6.0-8.0	6.0
<b>Loans</b>					
<b>Agriculture</b>	9.0	10.0	...		
Commercial	...	...	8.0	8.5-9.5	8.5-9.5
Small-scale	...	...	7.5	7.5-8.5	7.5-8.5
<b>Industry, mining, power,     and water resources</b>	11.0	12.0	8.5	8.5-9.5	8.5-9.5
<b>Cottage industries</b>	...	...	...	7.5-8.5	7.5-8.5
<b>Domestic trade</b>	11.0	12.5	9.0	12.0	12.0
<b>Transport and communications</b>	11.0	11.0	8.5	8.5	8.5
<b>Export trade</b>	10.0	10.0	8.0	8.5	8.0
<b>Import trade</b>	11.0	12.0	9.0	12.0	9-12.0
<b>Hotels and tourism</b>	10.0	12.5	9.0	9.5	8.5-9.5
<b>Personal loans</b>	...	...	...	10.0	10.0
<b>Housing</b>					
Construction	8.5	9.5	7.0	7.5-9.5	7.5-9.5
Purchases	10.0	12.0	8.0	12.0	12.0

Sources: Bank of Eritrea and Commercial Banks.

Table 29. Eritrea: Balance of Payments, 1992-96

(In millions of US dollars)

	1992	1993	1994	1995			1996		
				Birr	Non-Birr	Total	Est.	Non-Birr	Total
Trade balance	-262.7	-239.0	-331.4	2.4	-325.6	-323.2	-43.5	-375.0	-418.5
Exports, f.o.b	15.2	36.1	64.5	56.3	24.3	80.6	68.4	26.9	95.3
Imports, c.i.f.	277.9	275.1	395.9	53.9	349.9	403.8	111.9	401.9	513.7
Franco valuta	270.0	210.4	303.0	22.9	214.3	237.2	71.4	200.6	272.0
Private	48.9	103.6	198.3	22.9	140.9	163.8	71.4	117.7	189.1
Official (Aid financed imports)	167.7	69.7	104.7	--	73.4	73.4	--	82.9	82.9
Of which: food imports (Grant)	43.2	17.3	43.8	--	22.1	22.1	--	26.0	26.0
Petroleum products	23.8	29.1	28.5	31.0	7.0	38.0	40.5	7.6	48.2
Other imports (financed by bank reserves)	37.6	72.6	64.4	--	128.6	128.6	--	193.6	193.6
Services (net)	72.8	102.0	72.9	21.1	26.1	47.1	33.2	18.0	51.2
Receipts	72.8	102.9	79.8	21.1	69.7	90.8	42.7	62.2	104.8
Oil refining	10.4	8.1	6.7	7.0	--	7.0	6.3	--	6.3
Port services	62.4	49.1	31.4	14.1	19.3	33.4	18.9	18.6	37.5
Other	--	45.7	41.7	--	50.4	50.4	17.5	43.5	61.1
Payments	--	0.9	6.9	--	43.7	43.7	9.4	44.2	53.7
Investment income (net)	...	...	--	--	7.6	7.6	-14.1	6.8	-7.3
Private transfers (net)	127.5	165.4	276.3	--	215.3	215.3	--	243.9	243.9
Receipts	128.6	165.5	289.0	--	215.8	215.8	--	245.3	245.3
Counterpart to Franco valuta imports	48.9	103.6	183.5	--	140.9	140.9	--	95.1	95.1
Other direct transfers	79.7	61.9	105.5	--	74.9	74.9	--	150.2	150.2
Payments	1.1	0.1	12.7	--	0.5	0.5	--	1.4	1.4
Current account 1/	-62.4	28.4	17.9	23.4	-76.7	-53.2	-24.4	-106.4	-130.7
Official transfers (net)	167.7	69.5	79.7	--	71.0	71.0	3.9	77.8	81.7
Capital account	--	2.4	29.2	--	7.5	7.5	--	40.3	40.3
Official long-term capital 2/	--	2.4	29.2	--	7.5	7.5	--	3.6	3.6
Foreign investment	--	...	...	...	...	...	--	36.7	36.7
Short-term capital and errors and omissions	-14.2	8.8	-48.5	-73.0	-18.6	-91.5	-78.7	12.2	-66.5
Overall balance	91.1	109.1	78.2	-49.5	-16.8	-66.3	-99.1	23.9	-75.2
Net foreign reserves: (- increase)	-91.1	-109.1	-78.2	49.5	16.8	66.3	99.1	-23.9	75.2
<b>Memorandum items:</b>									
Current account excluding official transfers (in percent of GNP)	-11.9	5.6	2.7	3.4	-11.1	-7.7	-3.2	-14.0	-17.2
Current account including official transfers (in percent of GNP)	20.1	19.4	14.7	3.4	-0.8	2.6	-2.7	-3.8	-6.4
Gross reserves in convertible currency (in months of imports)	4.9	88.8	168.6	...	...	154.3	...	...	177.0
Stock of external debt (in millions of US dollars)	0.2	3.9	5.1	...	...	4.6	...	...	4.1
Stock of external debt (in percent of GNP)	...	2.4	31.6	...	...	39.1	...	...	42.7
Exchange rate (birr per US dollar; annual average)	...	0.5	4.8	...	...	5.7	...	...	5.6
Auction rate	2.80	5.29	6.17	...	...	6.29	...	...	6.35
Preferential rate	6.58	7.10	7.10	...	...	7.20	...	...	7.20
GNP (in millions of U.S. dollars)	523.6	504.2	664.7	...	...	688.8	...	...	760.7

Sources: Bank of Eritrea; and staff estimates.

1/ Excluding official transfers.

2/ There were no debt amortization obligations in 1992-96.

Table 30. Eritrea: Commodity Composition of Exports, 1992-96 1/

(In millions of birr, unless indicated otherwise)

	1992	1993	1994	1995	1996 Est.
Food and live animals	2.5	27.8	117.7	141.3	92.4
Of which: Ethiopia	2.3	5.0	24.9	56.5	19.2
In percent	92.0	18.0	21.2	40.0	20.8
Beverages and tobacco	4.0	8.7	9.2	19.7	26.2
Of which: Ethiopia	2.8	7.6	8.4	17.9	25.7
In percent	69.6	87.5	91.3	90.9	98.1
Crude materials	34.7	76.6	132.1	156.1	123.0
Of which: Ethiopia	30.0	66.2	73.8	117.0	92.0
In percent	86.5	86.4	55.9	75.0	74.8
Mineral fuels, lubricants and related materials	--	--	--	0.1	0.2
Of which: Ethiopia	--	--	--	0.1	0.2
In percent	--	--	--	100.0	100.0
Animal and vegetable oils, fats and waxes	--	0.1	--	2.2	2.6
Of which: Ethiopia	--	--	--	2.2	2.5
In percent	--	--	--	100.0	96.2
Chemicals and related products	0.3	6.2	7.5	12.0	13.4
Of which: Ethiopia	0.3	3.0	6.8	11.0	11.4
In percent	105.1	48.4	90.4	91.7	85.1
Manufactured goods	2.4	52.9	67.8	100.3	88.3
Of which: Ethiopia	2.4	17.4	37.1	68.3	59.4
In percent	101.4	32.9	54.7	68.1	67.3
Machinery and transport equipment	1.2	3.5	11.7	20.2	27.7
Of which: Ethiopia	1.2	3.0	10.2	13.9	20.7
In percent	101.5	85.7	87.4	68.8	74.7
Miscellaneous manufactured articles	1.0	33.5	51.1	76.9	146.6
Of which: Ethiopia	1.0	28.2	46.3	67.3	104.8
In percent	98.2	84.1	90.6	87.5	71.5
Total	46.1	209.2	397.1	528.8	520.4
Of which: Ethiopia	40.0	130.4	207.5	354.2	335.9
In percent	86.8	62.3	52.3	67.0	64.5

Source: Customs Office.

1/ Data may differ from those in Table 29, owing to incomplete information on commodity composition of exports.

Table 31. Eritrea: Commodity Composition of Imports, 1992-96 1/

(In millions of birr, unless indicated otherwise)

	1992	1993	1994	1995	1996 Est.
Food and live animals	99.1	166.4	426.2	426.7	542.9
Of which: Ethiopia	48.6	50.2	54.7	90.5	182.7
In percent	49.1	30.2	12.8	21.2	33.7
Beverages and tobacco	13.8	35.9	43.3	10.7	23.5
Of which: Ethiopia	1.6	0.6	1.2	1.7	6.4
In percent	11.6	1.7	2.8	15.9	27.2
Crude materials	3.6	31.3	49.1	65.9	116.5
Of which: Ethiopia	0.1	0.4	11.6	18.7	20.3
In percent	2.8	1.3	23.6	28.4	17.4
Mineral fuels, lubricants and related materials	4.6	6.8	12.9	48.2	39.5
Of which: Ethiopia	0.1	0.2	0.4	0.2	0.1
In percent	2.2	2.9	3.1	0.4	0.3
Animal and vegetable oils, fats and waxes	1.9	10.7	33.3	28.8	55.0
Of which: Ethiopia	0.1	0.1	--	--	0.2
In percent	5.3	0.9	--	--	0.4
Chemicals and related products	32.2	56.4	120.3	144.2	209.7
Of which: Ethiopia	0.8	1.2	1.3	3.3	4.3
In percent	2.5	2.1	1.1	2.3	2.1
Manufactured goods	107.1	222.2	320.5	478.1	733.8
Of which: Ethiopia	6.8	7.5	14.7	16.8	25.5
In percent	6.3	3.4	4.6	3.5	3.5
Machinery and transport equipment	55.0	381.9	752.6	1,166.0	1091.1
Of which: Ethiopia	2.2	3.8	3.9	7.8	11.7
In percent	4.0	1.0	0.5	0.7	1.1
Miscellaneous manufactured articles	49.9	111.2	234.9	166.9	250.8
Of which: Ethiopia	1.6	2.4	3.1	7.8	10.5
In percent	3.2	2.2	1.3	4.7	4.2
Total	367.1	1,022.8	1,993.1	2,535.5	3,062.8
Of which: Ethiopia	61.9	66.4	90.9	146.8	261.7
In percent	16.9	6.5	4.6	5.8	8.5

Source: Customs Office.

1/ Data may differ from those in Table 29, owing to incomplete information on commodity composition of imports.

Table 32. Eritrea: Direction of Exports, 1992–96 1/

	1992	1993	1994	1995	1996 Est.
(In millions of birr)					
Belgium	--	--	--	--	0.1
Djibouti	--	--	0.7	1.4	2.2
Ethiopia	40.0	130.4	207.5	354.2	342.4
Germany	0.1	1.4	0.1	5.0	1.0
Italy	3.4	5.4	10.2	15.2	22.3
Japan	0.1	--	16.3	6.3	--
Korea	--	--	0.2	--	--
Netherlands	0.1	0.2	--	1.6	1.3
Saudi Arabia	0.1	3.6	50.3	15.9	20.0
Sudan	--	46.6	57.9	76.0	51.5
Sweden	1.2	0.6	--	0.1	0.6
United Arab Emirates	0.3	0.1	--	1.3	1.3
United Kingdom	0.3	--	10.2	1.8	4.0
United States	--	--	1.2	0.6	39.9
Yemen	0.2	--	7.4	27.4	--
Other	0.3	21.0	35.1	22.0	33.8
Total	<u>46.2</u>	<u>209.3</u>	<u>397.1</u>	<u>528.8</u>	<u>520.4</u>
(In percent)					
Belgium	--	--	--	--	0.0
Djibouti	--	--	0.2	0.3	0.4
Ethiopia	86.6	62.3	52.3	67.0	65.8
Germany	0.3	0.7	0.0	0.9	0.2
Italy	7.4	2.6	2.6	2.9	4.3
Japan	0.2	--	4.1	1.2	--
Korea	--	--	0.1	--	--
Netherlands	0.3	0.1	--	0.3	0.2
Saudi Arabia	0.3	1.7	12.7	3.0	3.8
Sudan	--	22.3	14.6	14.4	9.9
Sweden	2.5	0.3	--	0.0	0.1
United Arab Emirates	0.6	0.1	--	0.2	0.2
United Kingdom	0.6	--	2.6	0.3	0.8
United States	--	--	0.3	0.1	7.7
Yemen	0.5	--	1.9	5.2	--
Other	0.6	10.0	8.8	4.2	6.5
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Customs Office.

1/ Data may differ from those in Table 29, owing to incomplete information on the direction of exports.

Table 33. Eritrea: Origin of Imports, 1992-96 1/

	1992	1993	1994	1995	1996 Est.
(In millions of birr)					
Belgium	0.5	14.3	66.5	64.3	84.1
Djibouti	13.0	11.3	29.8	41.1	78.6
Ethiopia	61.9	66.3	90.9	146.9	261.8
Germany	7.1	79.4	147.4	142.5	217.0
Italy	27.8	136.9	431.0	459.0	429.1
Japan	--	2.6	34.4	58.9	111.2
Korea	0.2	1.3	16.0	58.1	126.0
Netherlands	6.7	22.0	107.8	60.3	49.4
Saudi Arabia	180.4	282.5	328.0	490.4	465.6
Sudan	2.1	53.4	51.7	71.1	97.9
Sweden	2.1	25.9	16.1	31.7	19.3
United Arab Emirates	36.7	96.6	178.6	236.9	365.9
United Kingdom	0.2	29.7	79.1	78.5	68.5
United States	1.3	11.4	35.3	93.8	83.1
Yemen	7.1	12.5	20.5	19.6	3.6
Other	20.0	176.9	360.1	482.4	601.8
Total	<u>367.1</u>	<u>1,023.0</u>	<u>1,993.2</u>	<u>2,535.5</u>	<u>3,062.9</u>
(In percent)					
Belgium	0.1	1.4	3.3	2.5	2.7
Djibouti	3.5	1.1	1.5	1.6	2.6
Ethiopia	16.9	6.5	4.6	5.8	8.5
Germany	1.9	7.8	7.4	5.6	7.1
Italy	7.6	13.4	21.6	18.1	14.0
Japan	--	0.3	1.7	2.3	3.6
Korea	0.1	0.1	0.8	2.3	4.1
Netherlands	1.8	2.2	5.4	2.4	1.6
Saudi Arabia	49.1	27.6	16.5	19.3	15.2
Sudan	0.6	5.2	2.6	2.8	3.2
Sweden	0.6	2.5	0.8	1.3	0.6
United Arab Emirates	10.0	9.4	9.0	9.3	11.9
United Kingdom	0.1	2.9	4.0	3.1	2.2
United States	0.4	1.1	1.8	3.7	2.7
Yemen	1.9	1.2	1.0	0.8	0.1
Other	5.4	17.3	18.1	19.0	19.6
Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Sources: Customs Office.

1/ Data may differ from those in Table 29, owing to incomplete information on the direction of imports.

Table 34. Eritrea: External Public Debt Commitments and Disbursements, 1993-96

(In millions of US dollars)

Lender	Contract date	Amount contracted end-1996	1993	1994	1995	1996
			Disbursements			
International Development Association-1 1/	April 7, 1993	26.0	2.4	16.3	5.1	1.6
CHINA-1 2/	May 24, 1993	2.4	--	2.3	--	--
CHINA-2 2/	April 4, 1994	3.6	--	--	--	--
European Investment Bank 3/	May 22, 1994	10.0	--	--	--	2.0
International Fund for Agricultural Development 1/	Jan. 30, 1995	12.3	--	--	--	--
Kuwait Fund for Arab Economic Development-1 4/	April 14, 1994	16.7	--	10.6	1.9	--
Saudi Fund for Development 5/	June 24, 1995	35.0	--	--	0.2	--
Abu Dhabi Fund for Development 6/	July 7, 1995	25.0	--	--	0.2	--
Arab Bank for Economic Development in Africa (BADEA) 7/	Sept. 21, 1995	12.0	--	--	--	--
Kuwait Fund for Arab Economic Development-2 4/	Sept. 27, 1995	25.3	--	--	0.2	--
International Development Association-2 1/	March 26, 1996	17.0	--	--	--	--
OPEC Fund for International Development 8/	July 16, 1996	5.0	--	--	--	--
African Development Bank 9/	Nov. 8, 1996	5.5	--	--	--	--
Total		195.9	2.4	29.2	7.5	3.6

Source: Ministry of Finance.

1/ Maturity period 40 years; grace period 10 years; interest rate 0.75 percent.

2/ Maturity period 30 years; interest free loans; grace period 10 and 5 years for 1993 and 1994 loans, respectively.

3/ Maturity period 20 years; grace period 6 years; interest rate 5.0 percent.

4/ Maturity period 30 years; grace period 5 years; interest rate 1.0 percent.

5/ Maturity period 20 years; grace period 5 years; interest rate 2.5 percent.

6/ Maturity period 20 years; grace period 5 years; interest rate 3.0 percent.

7/ Maturity period 18 years; grace period 5 years; interest rate 3.0 percent.

8/ Maturity period 18 years; grace period 5 years; interest rate 2.0 percent.

9/ Maturity period 50 years; grace period 10 years; interest rate 0.75 percent.



Table 35. Eritrea: Exchange Rates, January 1992 – May 1997

(Average data)

	Birr/ U.S. dollar official exchange rate 1/	Birr/ U.S. dollar preferential exchange rate	Nominal effective exchange rate index 2/	Real effective exchange rate index 2/
1992	2.80	6.58	100.00	100.00
1993	5.29	7.10	96.03	93.27
1994	6.17	7.10	96.10	95.56
1995	6.29	7.10	97.29	99.01
1996	6.35	7.20	101.52	109.21
1993				
January	5.00	7.10	94.55	88.53
February	5.00	7.10	95.83	92.53
March	5.00	7.10	96.71	97.91
April	5.00	7.10	95.23	92.25
May	5.00	7.10	94.45	92.48
June	5.10	7.10	95.23	94.54
July	5.35	7.10	96.06	92.31
August	5.90	7.10	94.42	91.30
September	5.10	7.10	96.84	91.81
October	5.41	7.10	97.18	94.58
November	5.71	7.10	98.07	91.82
December	5.86	7.10	97.74	99.17
1994				
January	5.82	7.10	98.49	94.10
February	5.96	7.10	97.53	88.95
March	6.06	7.10	96.43	87.67
April	6.29	7.10	95.01	93.41
May	6.29	7.10	94.15	95.12
June	6.22	7.10	94.07	98.76
July	6.15	7.10	95.66	97.55
August	6.18	7.10	96.64	104.80
September	6.25	7.10	96.15	99.86
October	6.21	7.10	95.61	97.21
November	6.30	7.10	96.04	94.47
December	6.25	7.10	97.43	94.77
1995				
January	6.25	7.10	97.02	94.51
February	6.25	7.10	96.93	98.19
March	6.27	7.10	97.06	99.76
April	6.28	7.10	97.35	102.08
May	6.27	7.10	97.02	101.04
June	6.32	7.10	96.55	93.98
July	6.33	7.10	96.17	98.13
August	6.28	7.10	97.64	100.30
September	6.30	7.10	98.04	99.33
October	6.30	7.10	97.27	100.01
November	6.30	7.10	97.15	98.78
December	6.31	7.10	99.30	101.96
1996				
January	6.32	7.20	99.45	106.52
February	6.34	7.20	99.24	105.63
March	6.35	7.20	99.80	110.29
April	6.32	7.20	101.33	111.79
May	6.32	7.20	102.05	119.01
June	6.34	7.20	102.44	111.56
July	6.34	7.20	102.61	108.14
August	6.34	7.20	102.09	106.41
September	6.36	7.20	102.32	106.46
October	6.40	7.20	102.44	111.30
November	6.39	7.20	101.90	107.82
December	6.40	7.20	102.57	105.62
1997				
January	6.46	7.20	...	103.48
February	6.63	7.20	...	107.81
March	6.65	7.20	...	110.18
April	7.20	7.20	...	...
May	7.20	7.20	...	...

Sources: Eritrean authorities; National Bank of Ethiopia; and staff estimates.

1/ Prior to May 1, 1993, the official exchange rate was pegged to the U.S. dollar. From May 1, 1993, and until April 1, 1997, the official exchange rate was equal to the marginal rate determined in foreign exchange auctions conducted by the National Bank of Ethiopia. The official rate was unified with the preferential rate on April 1, 1997.

2/ Staff estimates based on data on Eritrea's trading partners and average of official and preferential exchange rates.