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Eritrea: Selected Issues

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ERITREA

Selected Issues

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Approved by the African Department

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I. INTRODUCTION

A. Background

1. Eritrea attained independence from Ethiopia in 1993, after a civil war that lasted for about 30 years and led to the destruction of infrastructure and the displacement of the Eritrean people. The economy was devastated by the combined effects of the protracted war and recurrent droughts, and at independence it required substantial rehabilitation and reconstruction of the physical and social infrastructure. Moreover, the government had to demobilize the ex-combatants and resettle large numbers of displaced people. At the same time, it began the task of transforming the previous central planning regime[1] into a market-based economic system that could support a thriving private sector. The authorities have implemented significant reforms to establish central and local governments and financial institutions, privatize a large number of previously nationalized entities, and deregulate the economy; they have also undertaken a massive expenditure program to jump-start broad-based economic activities. Eritrea elected to join Ethiopia in a temporary currency union, using the Ethiopian birr as legal currency; moreover, in 1993 the two countries signed an agreement to establish a free trading area. However, the envisaged development of common monetary, exchange, and trade policies was not realized as there were divergences in the implementation of these policies.

2. With Fund technical assistance, the authorities enacted the Bank of Eritrea (BE) and Financial Institutions Proclamations in April 1997 and subsequently issued several regulations, that together provide a comprehensive legal financial framework. In November 1997, Eritrea introduced its own currency, (the nakfa, abbreviated as ERN), to replace the birr on a one-to-one parity, but Eritrea and Ethiopia have yet to agree on the treatment of the birr notes retired in Eritrea. Following the introduction of the nakfa and despite strong reservations by Eritrea, Ethiopia introduced a requirement to use hard currencies and letters of credit for payments in excess of ERN 2,000. More recently, the bilateral relations have worsened owing to a border dispute and have led to an outbreak of an armed conflict between the two countries.

B. Recent Developments

3. Since the early 1990s, the Eritrean economy has recovered considerably, thanks to the rebuilding of the infrastructure and the improved availability of essential imports following major trade reforms in 1994. During 1993–96, real GDP growth averaged about 4 percent

[1]The Derg regime (1974-91) in Ethiopia nationalized virtually all economic activities and subsequently introduced central planning as a basis to run the economy.

annually[2] (Appendix Table 1), ahead of the estimated population growth rate of about 3 percent. However, annual growth was erratic over the period mainly because of the drought conditions in 1993 and 1995, whereas the weather was exceptionally favorable in 1994. In 1997, the economy continued its strong recovery, and real GDP growth is estimated to have been 8 percent. The expansion in the economy was mainly supported by growth in the construction and manufacturing sectors, as agricultural output was adversely affected by inclement weather.[3]

4. Annual end-of-period inflation averaged about 8 percent during 1993–96, based on a commodity price index for Asmara (Appendix Table 11),[4] despite the elimination of significant price controls in 1994. While the substantial domestic supply response and low-priced food imports from Ethiopia had contributed to the slowdown in inflation to about 3 percent in 1996, the reduced food production in 1997, together with the disruption of trade with Ethiopia, led to an increase in inflation of 10.6 percent.

5. The fiscal outcome during 1993–96 was determined mainly by the massive expenditure programs undertaken to rehabilitate and reconstruct the economy, as well as by the reforms in the public sector.[5] The government also undertook measures to increase revenue collection during this period, including revising the tax structure in 1994. The overall deficit (including grants) doubled in 1995 to about 19 percent of GNP before moderating slightly to 16.4 percent in 1996 (Appendix Table 14). However, in 1997, the fiscal deficit was sharply reduced to 5.5 percent of GNP, as the ambitious expenditure program was completed and

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[2]Staff estimates of GDP are based on selected sectoral information provided by the authorities.

[3]The role of agriculture in overall GDP has declined because of recurring drought while improvement in the infrastructure has substantially benefited the performance of other sectors notably construction, manufacturing, and trade. Thus, the impact of developments in agriculture on overall GDP growth has diminished with time.

[4] This index does not capture all price developments since the basket excludes housing rent, medical and other services, and utilities.

[5]The ambitious expenditure program included road repair and construction; rehabilitation of power generation and transmission; civil service retrenchment of some 10,000 people; demobilization and settlement of over 54,000 ex-combatants; compensation of war victims; and resettlement of about 190,000 returning refugees. The wage bill in particular, grew very rapidly owing to compensation of retrenched workers and substantial wage and salary increases, some of which included significant back pay.

total revenue increased by 43 percent. As in the past, the overall deficits (including grants) were financed largely by recourse to Bank of Eritrea credit.[6]

6. Total revenues, which had averaged about 26 percent of GNP over 1993–96, increased to about 33 percent of GNP in 1997, mostly owing to a sharp increase in nontax revenues (Appendix Table 15). The sharp increase in nontax revenues to 16.9 percent of GNP was due to the growth in surpluses and dividends of public enterprises—including the payment of arrears accumulated during previous years—and significantly higher receipts from port fees and charges. These developments were also underpinned by the improved efficiency of the public enterprises and the port authorities. During the year, continued efforts were made to improve tax collections, particularly custom duties. Progress was made in simplifying administrative procedures for clearing of goods and training customs officers, and the Customs Proclamation was drafted. As the impact of these reforms is likely to take time, overall tax revenues remained at about 16 percent of GNP in 1997.

7. Recurrent expenditure which had averaged about 38 percent of GNP over 1993–96, declined sharply to about 24 percent of GNP in 1997 with the completion of expenditures on rehabilitation and reform programs (Appendix Table 16). There were in particular, sharp declines in the wage bill, outlays on materials, and externally financed expenditures. Notwithstanding the significant wage increase awarded to civil servants in 1997, the overall wage bill declined because of an offsetting reduction in outlays, reflecting the completion of payments for retrenchment (of about 10,000 civil servants) and for wage increases for the security forces in 1995–96. Moreover, the wage bill was significantly boosted during 1995-96 because part of the security forces pay increase had been back dated to 1994. Part of this steep decline in recurrent expenditure in 1997 was offset by an increase in capital expenditure, as externally financed recurrent expenditure was shifted to the capital budget.

8. Monetary developments over 1993-96 were characterized by rapid expansion of credit to the government and private sector borrowing; overall net domestic assets over this four-year period grew on average by 32 percent of the beginning-of-period money stock (Appendix Table 19). This credit expansion, together with an average increase in net foreign assets of 18 percent of beginning-of-period money stock, resulted in an average increase of 38 percent in bank deposits over 1993-96, the only indicator of broad money (as data on currency in circulation is unavailable for that period)[7]. However, in 1997, net domestic assets grew by only 6.8 percent of beginning-of-period money stock, reflecting sharply smaller financing requirements of the government along with a lower level of private sector borrowing. The modest domestic credit expansion facilitated a sharp gain in foreign reserves of 25.7 percent,

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[6]In the context of a currency union arrangement, the central bank was able to advance credit to the government by using the excess reserve deposits of the commercial banks.

[7]Following the introduction of the nakfa in 1997, currency outside banks was estimated at ERN 636 million, but no comparable estimate is available for 1996 or earlier.

which contributed to a further increase in bank deposits of 11.4 percent. The commercial banks continued to build up unremunerated excess reserves at the central bank; in order to bolster its earnings, the Commercial Bank of Eritrea increased lending rates for certain sectors while leaving the deposit rates unchanged (Appendix Table 26). Importantly, Eritrea introduced its own currency, the nakfa, in November 1997 and took steps to further develop the financial sector (see Section II).

9. Eritrea's external current account (including official transfers) weakened from a surplus of 19.4 percent of GNP in 1993 to a deficit of 6.7 percent in 1996,[8] owing in part to the large increase in the fiscal deficit and reflecting mainly investment-related import growth (Appendix Table 27). With the improvement in public finances and a 43 percent increase in private transfers, the current account recorded a surplus of 0.6 percent of GNP in 1997. However, the trade balance weakened slightly as a decline in exports—partly as a result of the new trade arrangement with Ethiopia—was offset only somewhat by a decline in imports. The surplus position in the services account showed only a modest increase as both receipts and payments rose sharply—the former on account of higher collection of port fees and charges, and the latter because of increased construction fees (mostly for the housing complexes in Asmara and Massawa) and travel expenditure. A decline in official grants was almost offset by higher loan disbursements, mostly related to the Hirghigo power project in Massawa. Finally, foreign direct investment recorded a marginal increase, partly owing to investments associated with the privatization program. However, with large errors and omissions,[9] the overall balance of payments deficit increased to 13.4 percent of GNP in 1997 from 9.9 percent in 1996. As the Commercial Bank of Eritrea's use of external financing more than offset the overall deficit, gross international reserves of the BE increased to US$260 million, the equivalent of 4.9 months of imports of goods and services, from 4.1 months in 1996.

10. Until April 1997, the official exchange rate was determined in weekly auctions conducted by the National Bank of Ethiopia and, at end-March 1997, was Br 6.64 per U.S. dollar. The auction exchange rate applied to transactions between Ethiopia and Eritrea (oil refinery services and port transactions) as well as to all aid-funded imports. In Eritrea, a more depreciated preferential exchange rate (buying and selling rates of Br 7.05 and Br 7.20 per U.S. dollar, respectively) was used for all other transactions, including remittances from Eritreans living abroad, export proceeds, and import payments not funded by foreign assistance. Eritrea unified the official exchange rate (which had depreciated to Br 6.8 per U.S. dollar) and the preferential exchange rate at Br 7.20 per U.S. dollar on April 1, 1997. When the nakfa was introduced its exchange rate vis-à-vis the U.S. dollar was initially set at the unified rate, pending establishment of a mechanism to determine the exchange rate (see

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[8]About 5 percentage points of GNP of the change in the external current account reflects a reclassification of US$36.7 million as foreign investment in 1996; prior to that, these inflows were treated as part of private transfers.

[9] There is inadequate recording of trade and financial flows.

below). In real effective terms, calculated using an average of the auction and preferential rates through April 1997 and the price index for Asmara, the nakfa appreciated by about 5 percent from end-1996 to end-1997 (Appendix Table 33).

11. Effective May 1, 1998, after 15 foreign exchange bureaus were licensed to join the two commercial banks as dealers in the market, the authorities put in place a mechanism to provide a market determination of the exchange rate. The dealers are required to report their prevailing exchange rates to the BE daily, and the midpoint of the reported rates is used to set a daily reference rate. These developments completed the transitional period that began with the introduction of the nakfa, when the exchange rate remained unchanged at ERN 7.2 per U.S. dollar. As of June 10, the nakfa had depreciated to ERN 7.40 per U.S. dollar.

12. At independence, Eritrea did not inherit any external debt. Since then, particularly in 1994 and 1997, it has contracted mostly concessional loans to finance investment projects. The stock of disbursed external public debt reached US$75.6 million at end-1997 (about 9 percent of GNP), while that on a commitment basis was US$318 million (Appendix Table 32). In 1996, the authorities established a unit in the Ministry of Finance to improve the monitoring and management of public debt.

II. Monetary Policy and Financial Sector Issues[10]

A. Introduction

13. Since independence in 1993, the financial system in Eritrea has undergone considerable reforms, most notably in 1997 with the enactment of the Bank of Eritrea (BE) and Financial Institutions Proclamations—establishing a comprehensive legal financial framework—and the introduction of a national currency (the nakfa).[11] Prior to introducing the nakfa, Eritrea was in a de facto currency union with Ethiopia, which limited the scope of an independent monetary policy thus, monetary management by the BE was largely confined to aspects of interest rate management. With its own currency, Eritrea will henceforth pursue an independent monetary policy. Notwithstanding efforts to diversify the financial system, including the creation of new institutions, the financial sector is still fairly rudimentary and is dominated by the state-owned Commercial Bank of Eritrea (CBE).

[10] Prepared by Salim M. Darbar.

[11] Prior to independence, the financial sector was run as part of the central planning system of the Ethiopian government.

B. Structure of the Financial Sector

14. Eritrea's financial system consists of the BE—the central bank—the CBE, the Housing and Commerce Bank (HBE), the Agriculture and Industrial Development Bank of Eritrea, the Eritrean Development and Investment Bank (EDIB), and the National Insurance Corporation of Eritrea. The EDIB was established through a legal proclamation in October 1996 to fill the gap in the market by providing medium-and long-term loans (maturities of 5-7 years and 7-15 years); however final arrangements for its establishment with a capital base of ERN 50 million were completed only recently, and it was expected to be operational by June 1998. The HBE has also just completed a major restructuring in the past year to allow it to concentrate on commercial banking operations while relinquishing its role in real estate development projects.[12] Except for the HBE, which is owned by the ruling party (People's Front for Democracy and Justice), all these financial sector institutions are owned fully by the government.

15. In addition to the above mentioned institutions, a number of more specialized financial entities have recently emerged or are in the planning stage. These include the 15 foreign exchange bureaus that were licensed and—in most cases—commenced operations during the first half of 1998 as part of the new framework for the incipient foreign exchange market. Discussions are ongoing with the World Bank to set up a revolving credit fund that would provide credit to small and medium-scale enterprises as part of the effort to promote private sector activity. In addition, a microcredit scheme (Box 1) for individuals (based on the Grameen Bank approach) was initiated as a component of the Eritrean Community Rehabilitation Fund.

16. Until March 1997, the BE functioned as a central bank on the basis of a temporary Proclamation No. 32/1993, enacted in 1993. This limited legal framework, which took account of the de facto currency union with Ethiopia, did not give the BE much leeway to develop a monetary framework or undertake measures to manage liquidity. Thus, during 1993–97, the BE primarily focused on basic capacity building at the central bank—mainly hiring staff and organizing itself into a functional institution. It also devoted a great deal of its time to drafting the central bank and financial institution proclamations, and preparing for the introduction of the national currency. The conduct of monetary policy by the BE was thus confined to a limited set of tools comprising: (a) the informal arrangement it had with the commercial banks to maintain—without remuneration—a 20 percent margin of their deposits plus any excess reserves with the BE; (b) administered interest rates; and (c) a rediscount window, which was established in 1994 (with an interest rate of 5.5 percent) but not utilized by the banks, given their large cash holdings.

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[12] The HBE 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.

Box 1: Savings and Credit Program

A savings and credit program targeted at the rural population was initiated as part of the US$49.6 million Eritrean Community Rehabilitation Fund. The program, which is funded by donors, the government, and the communities themselves, is administered by the Ministry of Local Government and is divided into two tiers.

The tier 1 program targets groups of five-eight people, with a maximum of ten groups per village. These groups form the basis for a village bank, which is aligned with the village administration. The head of the village is in charge of the bank. The loan committee consists of three people, of which one must be a woman, and the treasurer is elected from among the beneficiaries. Under this scheme, loans range from as low as ERN 750 for three months to a maximum of ERN 6,000 for a year. Since July 1, 1996, 3,778 beneficiaries, organized into 59 village banks have accessed the scheme. As of December 31, 1997, about US$1.5 million had been disbursed under the program.

The tier 2 program is targeted at small entrepreneurial ventures and, in particular, those initiated by women. Loans range from ERN 10,000 to ERN 100,000, with a typical value of ERN 10,000-30,000. Most loans are made for agricultural projects and handicrafts. About ERN 800,000 for 14 projects have been disbursed so far.

The interest rates on loans under both tiers is 16 percent per annum. Loans paid back on time under tier 2 receive a refund equivalent to 2 percentage points of the interest payments, that is, the effective cost of the loan is reduced to 14 percent per year. As of end-December 1997, the combined loan recovery rate was 98.85 percent.

17. The enactment of the Bank of Eritrea Proclamation and the Financial Institutions Proclamation in April 1997 substantially transformed the role of the BE.[13] The Bank of Eritrea Proclamation supersedes the 1993 temporary proclamation and provides for the establishment of an independent Bank of Eritrea, with considerably expanded powers to issue legal tender and conduct monetary policy with a much broader set of instruments, as well as to license, regulate, and supervise financial institutions. The Financial Institutions Proclamation provides for the first time a comprehensive definition of the role and obligations of the financial institutions and—in a complementary role to the Bank of Eritrea Proclamation—facilitates an effective and efficient regulation of a modern and sound financial system. During the remainder of 1997 and through early 1998, the BE took initial steps to establish the framework for monetary policy, the foreign exchange market and the means to improve its regulatory and supervisory capacity. To these ends, the BE has enacted regulations on legal reserve requirements and the licensing and operations of foreign exchange dealers (including

[13] For details see SM/97/191 (7/14/97).

bureaus), and it has prepared drafts of a number of regulations to establish a money market, including on credit facilities and the issuance of treasury bills. Internally, the BE established a Monetary Policy Committee—comprising the Governor and the Vice Governor of the BE, and three senior officials, including a representative from the Ministry of Finance—to oversee and coordinate the various functions involved in directing monetary policy. It also set up a Bank Supervision Department. However, substantial scope still exist for the BE to build its capacity further so that it can effectively carry out all its central bank functions.

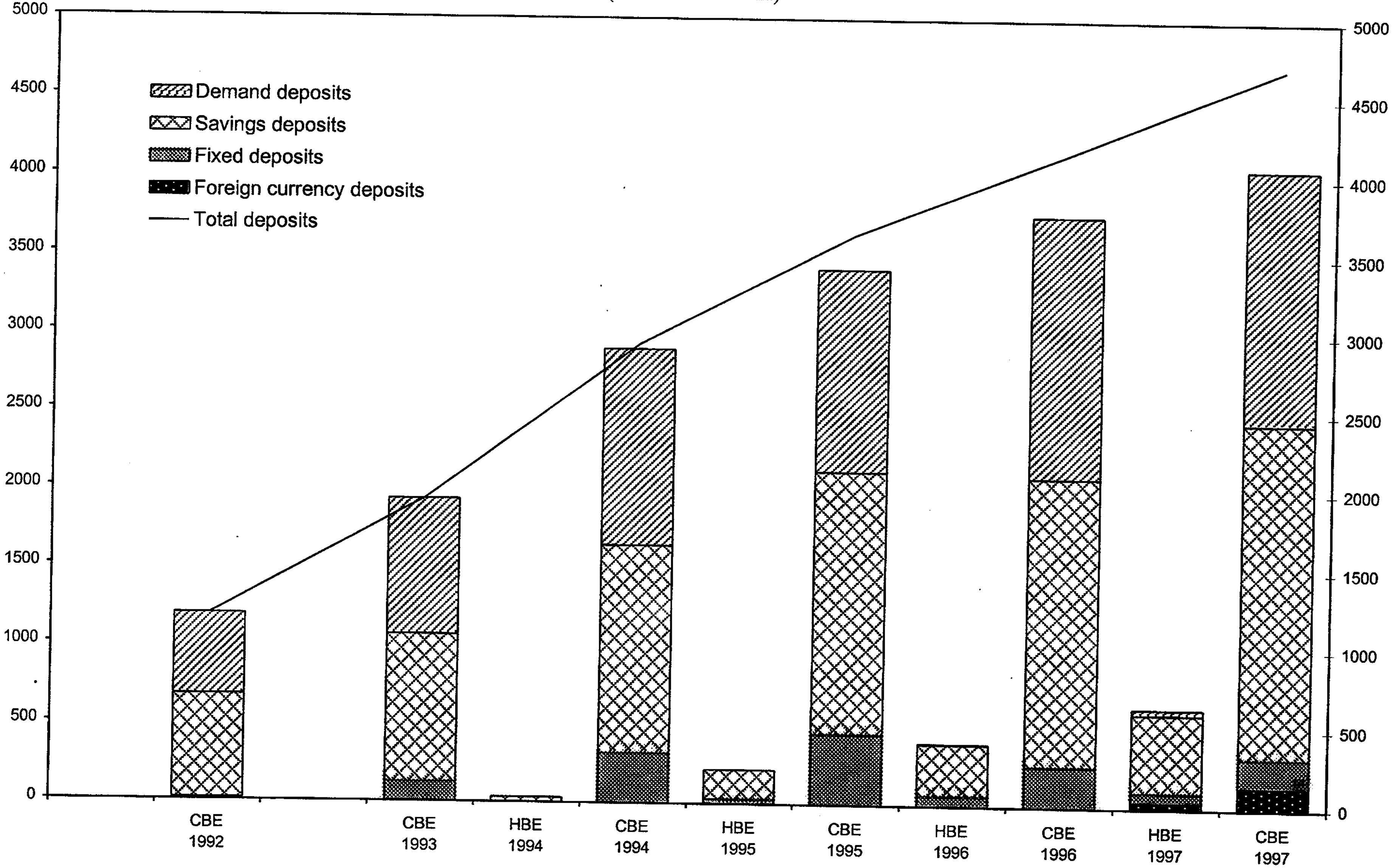
18. With only two commercial banks, Eritrea's financial sector is lacking in diversification and competition. The CBE, currently with 14 branches nationwide, is the dominant commercial financial institution in the country; as of end-December 1997, it accounted for about 88 percent of total bank assets and about 87 percent of the total deposit base in the country. A large portion of the CBE's deposits are kept at the BE, in the form of excess reserves (see below). With the opening of a new branch, the HBE saw a more than 50 percent growth in its deposit base in 1997 to ERN 633 million (Figure 1), and it hopes to increase its deposits base further with the introduction of three more branches in 1998. Both the CBE and HBE are under-capitalized, despite the doubling of capital subscription of the CBE to ERN 100 million in 1997. The authorities reported that while both banks have minimal nonperforming loans, they have each made provisions for bad debt, amounting to 3 percent of outstanding loans at the HBE and 1.5 percent of the capital base at the CBE.

C. Monetary Developments, 1995–97

19. Broad money expansion—as measured by the change in deposits in the absence of reliable estimates of currency in circulation—moderated over 1995–97 from about 24 percent of beginning-of-period money stock to about 11 percent (Appendix Table 19).[14] The underlying developments were characterized by a strong growth in net credit to the government and private sector credit through 1996, followed by sharp declines in 1997. Net credit to the government averaged 16.5 percent of GNP in 1995–96, (owing mainly to the impact of an ambitious expenditure program) but dropped to about 2 percent in 1997 when government expenditure was sharply curtailed. Private sector credit expanded by an annual average of about 57 percent in the three years ended 1997, thanks to the improvement in infrastructure and other measures to promote private sector activity. Overall net domestic credit expansion averaged about 137 percent per annum in 1995–96 before declining to about 8 percent in 1997. At the same time, the broad trend in the external accounts—a steadily deteriorating trade balance with Ethiopia, which partly offset an improving overall position of the BE in 1996–97—slowed monetary growth in 1996 while providing an impulse on broad money growth in 1997. On the demand side, deposits grew steadily, including a size-able shift from cash holdings, as the level of confidence in the banking system improved over time. The

[14] Prior to the introduction of the nakfa, there were no reliable estimates of currency outside banks.

Figure 1
Eritrea
Commercial Banks' Deposits, 1992-97 1/
(In millions of nakfa)



Source: Bank of Eritrea.

1/ Commercial Bank of Eritrea (CBE) and Housing and Commerce Bank of Eritrea (HBE).

growth in deposits averaged about 17 percent during 1995–97 and contributed to an increasingly liquid banking system; commercial bank excess reserves reached 61 percent of deposits in 1997 (see Table below).[15] Financial deepening in Eritrea in the last three years is evidenced by the increase in the various ratios of money to GDP; for example, the ratio of quasi money to GDP increased from 59 percent at end-1995 to 62 percent at end-1997 (Figure 2).

Commercial Banks' Excess Reserves, 1993–97
(In millions of nakfa, unless otherwise indicated; end of period)

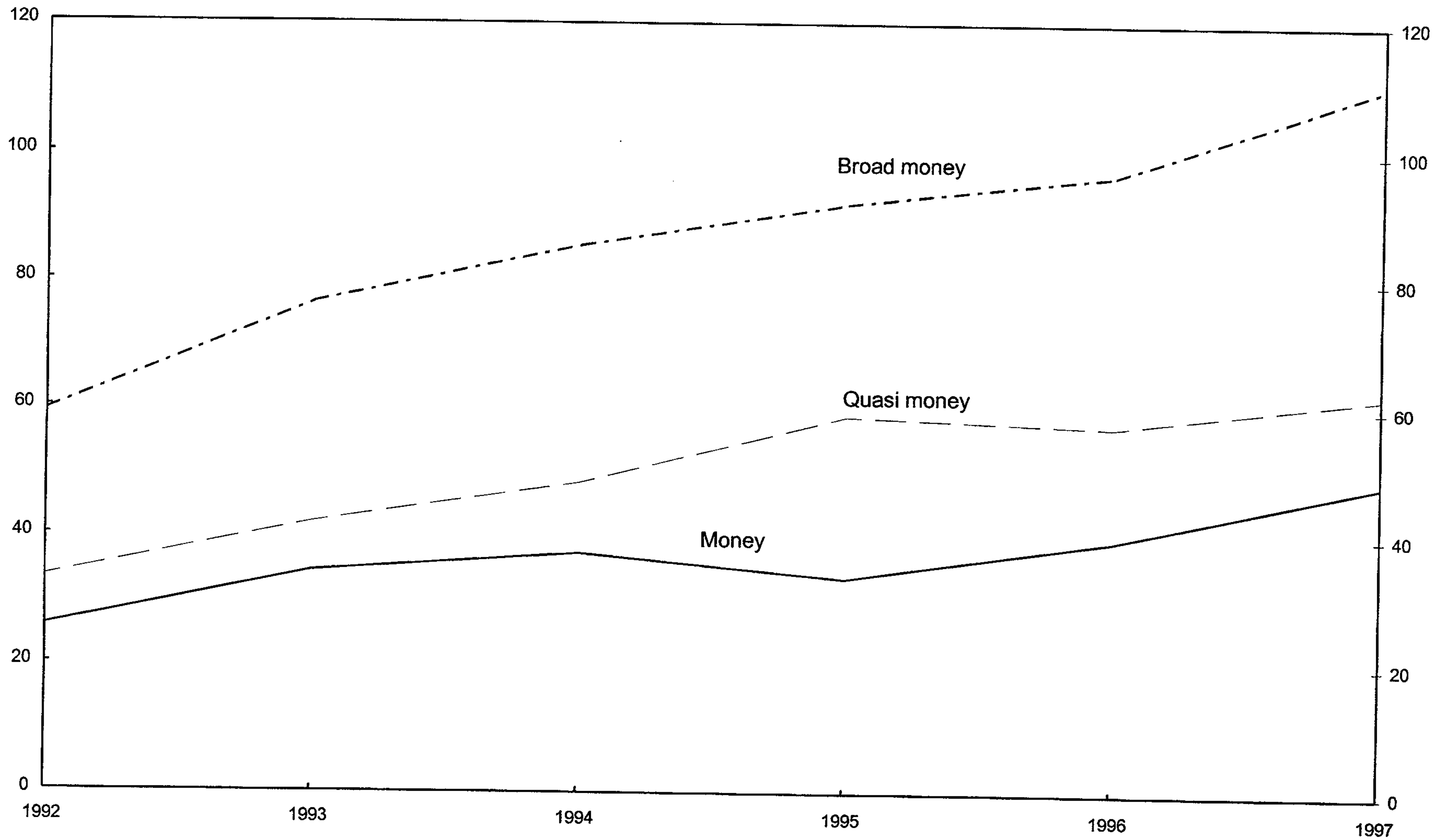
	1993	1994	1995	1996	1997
Reserves	1,227.5	1,780.3	2,113.6	2,591.5	3,822.1
Net claims on the birr area	949.5	1,009.5	717.6	97.6	...
Deposits with the BE	278.0	770.9	1,396.0	2,493.9	3,822.1
Deposits	1,925.3	2,924.9	3,630.8	4,158.3	4,698.1
Demand	866.8	1,258.4	1,295.8	1,677.0	1,649.9
Savings and time	1,058.5	1,666.5	2,335.0	2,481.4	3,048.2
Reserve requirements (20 percent)	385.1	585.0	726.2	831.7	939.6
Banks excess liquidity	842.4	1,195.4	1,387.4	1,759.8	2,882.5
(as a percent of deposits)	43.8	40.9	38.2	42.3	61.4

20. The strong growth in domestic credit in 1995–96, reflected both a government recourse to domestic credit in the face of deteriorating public finances and a surge in private sector activity. To finance its large fiscal deficits (averaging 18 percent of GNP), mainly caused by large outlays on infrastructure rehabilitation and expansion, as well as by major one-off extraordinary expenditures, government borrowing rose by an average of 23 percent of beginning-of-period money stock during 1995–96.[16] Government borrowing was entirely from the BE, which, in turn, was able to lend by accessing the significant excess reserves deposited by the commercial banks. However, with the completion of most extraordinary expenditures and a sharp recovery in revenue, government borrowing declined sharply in 1997 to about 4 percent of beginning-of-period money stock. There was a small decline in credit to public enterprises in 1996–97, owing to financial discipline, including the hard budget constraint that had been imposed on them by the government since 1994, the impact of liberalization

[15] Reserves included "net claims on the birr area" over 1993–96, as they represented a potential source for credit expansion.

[16] For details of the government expenditure programs, see SM/97/191 (7/14/97).

Figure 2
Eritrea
Selected Indicators of Financial Deepening, 1992-97
(In percent of GDP)



Sources: Bank of Eritrea; and staff estimates.

measures—including the lifting of price controls—and the effects of the privatization program.

21. Credit to the economy increased by an average of about 84 percent annually over 1995–96, albeit from a relatively low base, before moderating to an annual growth of about 5 percent in 1997. Accordingly, over 1995–96, private sector credit from the CBE significantly increased to almost all sectors (Appendix Table 25), before slowing in 1997. The lower level of private sector borrowing in 1997 reflected the sharp increase in access to external resources (notably private transfers, which increased by US$100 million in 1997—Appendix Table 27)[17] and the increase in certain lending rates by the CBE (see next paragraph).The largest percentage increase in credit from the CBE went to the export sector, followed by the manufacturing sector. However, in terms of the share of total outstanding credit from the CBE, the domestic trade and services sector continued to account for over 40 percent of total outstanding credit at end-1997, followed by the manufacturing and import sectors (at about 20 percent and 14 percent, respectively). The HBE also participated in the rapid credit growth during 1995–96, as it partly met the demand for building and construction finance. It advanced considerable credit to clients to enable them to purchase property in the Sembel housing and office complex in Asmara. At the same time, credit from the CBE to the building and construction sector grew at a slower rate in 1997 than in 1995–96, accounting for about 6 percent of the CBE's outstanding loans. Overall, during 1995–97 net outstanding credit to the private sector from the CBE and the HBE almost doubled. Correspondingly, the private sector's share of net outstanding credit extended by the CBE rose to about 75 percent in 1997.

22. Interest rates continue to be administered by the BE, but they have been considerably streamlined. In 1994, a BE directive eliminated the differentiated lending rates between the public and private sectors, but interest differentials across economic sectors was maintained (Appendix Table 26). In practice, commercial banks adjust lending and deposit rates in consultation with the central bank. In 1997, against the background of continued growth in its deposit base and a cautious lending policy that increased its excess (but unremunerated) reserves at the central bank, the CBE raised several sectoral lending interest rates by ½–3½ percentage points. This move increased the lending rates to 8–12 percent per annum and led to a significant increase in the spreads as deposit rates remained unchanged. A notable exception was the CBE lending rates for housing purchases, which declined from 12 percent to 8½–11 percent.[18] Meanwhile, although the central government continued to pay a preferential interest rate of 2.5 percent on its overdrafts from the BE, it received no interest on its deposits with the BE. The interest rate paid by the CBE and the HBE on deposits

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[17] Reflecting mainly a major campaign by the authorities directed at Eritrean's living abroad to support the launching of the nakfa.

[18] The CBE faced considerable competition in this sector, particularly in financing in 1997 the completed units of the large Sembel project in Asmara, which was developed by the HBE.

remained unchanged at about 6 percent; in order to gain market share, the HBE continued to offer a deposit rate of ½ of 1 percentage point higher than the CBE on its savings account. With the pickup in inflation to about 11 percent at end-1997, most interest rates were negative in real terms.

D. Monetary Management

23. The legal framework established through the 1997 Bank of Eritrea Proclamation provides the BE with several monetary instruments, including the use of reserve requirements on commercial banks' deposits, the sale and purchase of securities in open market type operations, and the lender-of-last resort window. It also provides powers to regulate and supervise financial institutions which must be now developed together with a framework to conduct monetary policy, while promoting a sound financial system.

24. The BE has issued regulations to commercial banks to formalize the 20 percent reserve requirement on total commercial banks' deposits. This reserve requirement is applicable to each type of deposit at the commercial banks, that is, demand, savings, and fixed deposits (including foreign currency deposits). The CBE easily met this requirement and in fact, continued to hold unremunerated excess reserves with the BE, amounting to about ERN 2,891 million at end-1997 (Appendix Table 24). Some of the factors that account for the large buildup in deposits include an increase in confidence in the financial system combined with an improvement in access to banking facilities; balance of payments surpluses vis-a-vis Ethiopia through 1995; and remittances from Eritreans living abroad. Additionally, by end-1997, foreign currency deposits had grown to an estimated ERN 185 million, reflecting in part the expansion of certain types of foreign currency deposits offered by the HBE to depositors. Moreover, Eritreans were encouraged in 1997 to deposit cash with banks to facilitate the introduction of the nakfa, as the cash exchange was limited to Br 5,000 per individual.

25. There is an urgent need to develop instruments to absorb this substantial excess of commercial banks' reserves. To this end, Eritrea is making arrangements to develop a primary market by auctioning treasury bills in the near future; eventually, the BE aims to conduct monetary policy with the sale and purchase of these bills in the secondary market. The issuance of treasury bills would introduce an important new instrument of monetary policy that, in addition to absorbing the excess bank liquidity, would help influence interest rates through market forces. A sizable initial stock of treasury bills could be provided by securitizing the existing stock of government domestic debt held by the BE, equivalent to about ERN 1.8 billion.[19] This approach would also help the BE satisfy the requirement in the

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[19]The introduction of treasury bills in this context, assuming the treasury bills attract market-determined interest rates, would result in an estimated increase in budgetary domestic interest payments of about ERN 95 million in 1998. This estimate assumes that the government would

(continued...)

1997 Bank of Eritrea Proclamation that limits its direct advances to the government to within 25 percent of estimated annual revenue for the relevant fiscal year.[20] The stock of treasury bills could then be traded at market interest rates and, if sold to the commercial banks, would help absorb part of their excess reserves. However, as the commercial banks' excess liquidity (ERN 2.8 billion) exceeds the outstanding stock of government debt (ERN 1.8 billion), more treasury bills or other instruments would have to be issued to commercial banks to fully absorb their excess liquidity. Alternatively, and as the money market is likely to take time to develop the BE may have to increase reserve requirements[21] and/or rely on credit ceilings to prevent the banks from extending credit beyond prudent levels in the near-term. The cost of the open market operations would be borne directly by the budget (if only government securities are used) so as not to compromise the BE's financial position in pursuing an appropriate monetary policy.

26. The reduction in the level of excess bank reserves through auctions of treasury bills would help to stimulate the development of both the interbank market and a secondary market in treasury bills. Furthermore, if the number of banking institutions were increased with the issuance of new banking licenses, the scope of the interbank market would be widened and overall competition in the sector promoted. To help deepen the market, treasury bills of several different maturities should be introduced over time. In turn, the development of the secondary market will enable the BE to use open market operations as the key instrument of monetary policy.[22] More specifically, the development of the money market will require supporting steps, including (a) improving the interbank settlement system for large payments; (b) moving toward a delivery-versus-payment basis for the settlement of transactions; and (c) ensuring appropriate market organization and trading arrangements. The introduction of treasury bill auctions would enable the market to determine a benchmark interest rate, which the BE in turn could use in its operation of a discount window to signal the market (see next paragraph).

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[19](...continued)
pay interest rates of 8 percent, instead of the 2.5 percent currently charged by the BE on advances to the government.

[20] The initial securitization of government debt with the BE through the issue of treasury bills would reduce the balance of the BE's direct advances (ways and means account) to government to zero, and subsequent annual securitization of the outstanding ways and means balance would reset the balance to zero.

[21] Higher levels of reserve requirements would increase the cost burden of the commercial banks and provide further incentive to widen interest rate spreads; the BE may thus consider remunerating some or all of the reserve requirements.

[22] Prior to the development of the secondary market open market type operations can be effected through auctions of treasury bills in the primary market.

27. Once the financial system has developed adequately, the BE could eventually also influence credit growth through its lender of last resort window. It is drafting new regulations to implement this facility with provisions for discounting securities, as it is envisaged that credit extended through this facility will be suitably collateralized (e.g., with treasury bills). To encourage the development of the interbank market, this facility should primarily be used for genuine short-term liquidity support (overnight to one week). The BE would use the market interest rate emerging from the money market to set the discount rate, which would include a premium to discourage banks from accessing the facility before exhausting alternative sources.

E. Development of Prudential Oversight

28. The financial sector which is growing, both in size and sophistication, will increasingly require effective supervision and regulation; thus, it is critical for the BE to rapidly build its capacity in this area. The newly created Bank Supervision Department within the BE needs to be quickly staffed with qualified personnel who can conduct the necessary supervisory and regulatory tasks of a central bank, including off-site surveillance and on-site examinations. In line with the BE's objective of developing a modern financial sector in Eritrea, it would need to issue prudential regulations that meet international standards

F. Conclusion

29. The BE must build on initial steps and quickly develop a framework and instruments to conduct monetary policy. This task is likely to require close coordination with fiscal policy, as government debt instruments are expected to play a key role in managing credit growth. The introduction of treasury bills will allow the BE to securitize the outstanding credit to the government and thus comply with the limit on advances to the government required under the Bank of Eritrea Proclamation while sales of treasury bills to commercial banks would mop up most of their excess liquidity. The initiation of treasury bill auctions and subsequent trading of government securities would help to develop the money market and establish a market rate of interest. To develop further an efficient money market, the BE should promote competition and foster the development of the financial sector. Finally, to safeguard the soundness of the financial system, the central bank should expedite the issuance of the appropriate prudential regulations and speed up steps to effectively monitor compliance with these regulations by financial institutions.

III. PRIVATIZATION IN ERITREA[23]

A. Introduction

30. This paper reviews the progress made with privatization in Eritrea since the early 1990s. In the first stage, during 1993–94, the government adopted a case-by-case approach to privatization, focusing on small-scale retail businesses and the tourism sector. In the second, ongoing stage, the emphasis has been on the large enterprises with a view to, inter alia, attracting foreign investment and technology.

B. Background

31. Prior to independence in 1993, Eritrea was part of Ethiopia, which the Marxist Derg regime (1974–91) had ruled with a highly controlled command economic system. After gaining power, the Derg nationalized all major industrial and financial enterprises and virtually all small-scale operations, while heavily regulating the remaining private sector activity. Even agriculture did not escape, as land and the three large farms—which accounted for virtually all private commercial farming—were nationalized. The regime imposed strict price controls and introduced import restrictions, which further reduced the scope for efficient business operations. The dismal economic situation and the poor performance of the public enterprises was compounded by the protracted war for independence (1961–91), which not only resulted in a large number of displaced people and other war victims, but also exacerbated the shortage of skilled manpower and the inadequacy of institutional capacity.

32. Against this background, the public enterprise sector in Eritrea—comprising about 69 medium- and large-scale enterprises, utilities, and a large number of small firms, which as a group employed an estimated 15,000 people—was in virtual collapse at the time of independence.[24] The industrial sector consisted of 42 working factories and about 700 small-scale workshops, all controlled by the state. The average age of the plants and machinery was about 40 years, and most plants were operating considerably below capacity because of a lack of maintenance and new investment, and poor infrastructure. Private sector activity was almost nonexistent.

33. The new government quickly focused on reconstructing the postwar economy and putting it on a sustainable growth path by reducing the role of public sector. Thus privatization (and development of the private sector in general) became an integral part of the country's economic policies at an early stage. Privatization in Eritrea is a part of a broader

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[23] Prepared by Zuzana Brixiova.

[24] Data on the total output of the public sector are limited. As of 1996, the nonutility public enterprises accounted for 11 percent of GNP.

program that aims at increasing the role of the private sector in the economy, accelerating the adoption of new technology and production techniques, and improving overall efficiency, competitiveness, and product quality.

C. The Early Stages, 1993–94

34. In the early stages, the government approached privatization on a case-by-case basis. To a certain extent, the process was demand driven. Examples are the tourism sector and small-scale enterprises, where there were ready investors, including a large number of Eritreans who were returning to civilian life or from exile, as well as those in the diaspora. In the tourism sector, the Nyala Hotel was sold in 1994 to a foreign investor for US$5 million. Meanwhile, the Ambassador hotel was returned to its previous owner, and management of several other hotels was leased to private companies.

35. The sale of state-owned small and medium-scale firms to private entrepreneurs began in 1993, and by year's end all 700 small-scale shops were already privately owned (see Table below). The government faced a more difficult position with regard to larger enterprises in the industrial sector, particularly those with monopoly positions or considered strategically important. In the meantime, decisions were taken to have all larger industrial public enterprises operate on a commercial basis, including making independent decisions about management, wage, and employment policies, access to imports, the setting of prices, and the imposition of hard budgets, which ruled out budgetary support.[25] The government kept its intervention only in the area of capital investment as part of its plan of rehabilitating the industrial enterprises through the updating of machinery and new construction. The government initially focused on industries with domestic sales, such as textiles, cement, glass, and brewing in order to alleviate supply constraints.[26] In addition, the Ministry of Industry began preliminary discussions with potential foreign investors who had shown an interest in three enterprises (textiles, soft drinks, and tobacco).

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[25]Measures taken in 1994–95 to support this process included: abolition of export taxes, reduction in corporate income tax rates to 25-35 percent, liberalization of the administrated interest rate structure, lifting of most price controls, abolition of import licenses, depreciation of the exchange rate and liberalization of the foreign exchange regime, and reduction and simplification of the external tariff rates.

[26]In the agricultural sector, after unsuccessful attempts to sell the two state farms (Elaberet and Alighider), the government undertook their rehabilitation.

Selected Data on Public and Private Enterprises, end-1993

	Public Employment			Private Employment		
Industry	Number of firms	Total employed	Average	Number of firms	Total employed	Average
Food	6	960	160	419	1,424	3
Beverages	3	940	313	8	185	23
Tobacco	2	337	169			
Textiles	5	4,397	879	98	964	10
Leather and shoes	5	1,569	314	27	492	18
Metal products	10	934	93	147	603	4
Printing	3	341	114	15	99	7
Nonmetallic minerals	4	631	158	41	449	11
Chemicals	4	746	187	38	468	12
Total	42	10,855	258	793	4,684	6

Source: World Bank, 1994.

D. Developments Since 1995

Legal and institutional framework

36. With the experience gained from the first phase of privatization, the government decided to develop a framework to guide the next phase of the privatization process, which would focus on larger enterprises. The legal basis regulating privatization is Proclamation No. 83/1995, which was enacted in 1995. It provides for a National Agency for Supervision and Privatization of Public Enterprises, which was established in December 1995. At the head of this agency is the Board of Directors [27] consisting of five members appointed by the President. The purpose of the board is to formulate a strategy for privatization and to supervise the privatization procedures and the overall progress. In addition, the Board is directly involved in the privatization of state-owned enterprises in manufacturing (of which there were originally 39). The Office of the National Agency for Supervision and Privatization of Public Enterprises (ONASPPE) carries out day-to-day privatization activities and is responsible for implementing the Board's decisions. The director of the ONASPPE is also appointed by the President. There are four sectoral boards of directors, responsible for the privatization of public enterprises in the sectors of finance, energy, transportation, and construction. In 1997, a decision was made to privatize all of the 39 state manufacturing enterprises.

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[27] All of the five Board members come from the public sector; the private sector is not represented.

Privatization procedures

37. The initial step in this second ongoing phase of privatization process was the preparation of brief profiles (audits) of the enterprises, including their legal obligations.[28] To do this, ONASPPE made contracts with outside consultants. The profile usually included a brief assessment of the financial situation of the enterprise, but the responsibility of carrying out a thorough financial audit rested with the potential investor. To simplify the process, most liabilities, especially those incurred as a result of transactions with Ethiopia before independence, were written off by the government. All enterprises remaining on the privatization list are audited every year.

38. After the profiles were completed (in the second half of 1996), the intended sale of the 39 enterprises was advertised to Eritreans by publishing the list of enterprises and their respective activities in the local papers. In addition, a series of seminars was given at the Chamber of Commerce of Asmara. The interested parties were provided free access to the factories. Advertisement to potential foreign investors was undertaken by providing the list of enterprises and their profiles to Eritrean diplomatic missions abroad, as well as to foreign diplomatic missions in Eritrea. Invitations for bids were then formally issued in March 1997 and advertised in all official domestic papers, as well as in some foreign papers. Each invitation contained information on a firm's activities and financial situation and the rules of the bidding process. However, this passive form of advertisement has not been combined with a more active approach under which ONASPPE would seek out the most suitable investors.[29]

39. Typically, the enterprises are advertised for two months; during this period the potential investors are required to submit a bidding fee. After that, the bidders have up to 45 days to submit final bids, consisting of price (including method of payment) and business plan. The weights attached to these two factors differ, depending on the circumstances of the enterprise, but they are announced to potential buyers in advance. The main factor considered in the business plan is the investment and training of the workers that the buyer intends to undertake. ONASPPE then selects the winning bidder, taking into account the offered price and business plan.

40. Once the winning bidder is selected, the final contract between the buyer and the government is signed. Sometimes during this process the winner attempts to renegotiate the contract, in particular to lower the price; this was the case, for example, in the sale of Mereb

[28] Some privatizations were delayed because after their nationalization in 1975, none of the public enterprises had legalized their altered status.

[29] This direct approach has turned out to be the most effective in a number of countries (see Kathy Megyery and Frank Sader, "Facilitating Foreign Participation in Privatization", Washington, World Bank, 1996) and could be particularly useful in Eritrea, where the absence of well-functioning capital markets tends to slow down the privatization process.

Textile Factory (Box 2). The buyer is usually required to immediately pay the agreed cash price in the contract, but exceptions have been granted (see Table below). This postponement of payment is another way of renegotiating the contract. However, since only eleven enterprises have been privatized so far—and only very recently—and four of them paid the price in full immediately upon signing the contract, it is too early to assess the impact of delayed payments.

Box 2. Privatization of Individual Enterprises

In interviews with the three newly privatized firms listed below, none of the owners mentioned serious difficulties during the privatization process itself but rather talked about general impediments to private sector development. The main obstacle faced by the enterprises after the privatization seems to be lack of skilled workers, followed by inadequate infrastructure. Unlike in other countries, none of the enterprises stated identified in obtaining credit or high taxation as an impediment to their operations.

The Gash Cigarettes Company was purchased for ERN 52 million by Rothmans Cigarettes (United Kingdom) at the beginning of 1998; the price was fully paid at purchase. Currently, the factory produces 140 million cigarettes a year; for the local market. At the time of purchase of the factory, the owner was granted a monopoly right (for 13 years) and, hence, is now the sole producer of cigarettes in Eritrea. Protection from competition from abroad comes through high import taxation, although the authorities intend to further reduce the external tariff. The company also intends to produce a new brand of cigarettes for export in a year. The company was first considered for privatization in 1994. However, at that time, no privatization law existed and procedures were not clear, so it was not actually offered for sale until the second half of 1997. Between 1994 and 1997, the company was restructured. In particular, about 10 percent of the workers were laid off, the entire structure of the organization was streamlined, and all liabilities were paid off. The main obstacle for operation reportedly is the lack of skilled workers. As the company is preparing to start production for export, it is retraining all its workers. The factory uses locally produced tobacco and faces a sector-specific obstacle in the form of inadequate land irrigation.

The Mereb Textile Factory specializes in processing cotton fabrics and garment production; it produced 5 million yards of cotton fabrics in 1997, and it intends to double production in 1998. Only 15-30 percent of the output is for the domestic market; the rest is for export to Ethiopia, Somalia, Congo, and Italy. The company was first advertised for privatization in June 1997; the bid was submitted in August; and the process was completed in December. Some postcontract negotiation over the price occurred; in the end the company was sold for ERN 12 million, which has been fully paid. As agreed in the business plan (and the privatization contract), the company is undertaking investment to replace the outdated machinery (about US$6 million is to be spent on investment in 1998). The owner did not report any problems in the privatization process itself, but rather general impediments to private sector development, such as poor roads and telephone networks, and the lack of skilled workers.

The Eritrea Shoe Factory was also privatized at the beginning of 1998. About 70 percent of the output is exported. Shortly after privatization, the new owners replaced or repaired some of the machinery. At the moment, the factory is operating at only 30 percent of its production capacity because of the lack of skilled workers, but production is expected to increase as more workers are trained to operate the updated machinery. In addition to the lack of skilled workers, the owners reported unreliable supply of electricity as one of the difficulties they currently face.

41. The privatization process in Eritrea to date has not benefited fully from technical assistance, especially from the experience of other countries. At the same time, ONASPPE does not provide a public record of the privatization progress, which hinders public access to information in this important area.

Public enterprises privatized as of May 1998.

Enterprise	Output	Date	Employment	Sale price (millions of nakfa)	Paid so far (millions of nakfa)
National Soft Drinks	coca cola, fanta	1/20/97	176	21.9	n/a
Red Sea Soap	soap, detergents	8/12/97	60	14.8	14.8
Eritrea Shoe	leather shoes	8/9/97	118	5.4	5.4
Himbold Household	cooking pots	2/17/98	59	5.1	1.6
Gejeret Carton Sil.	cartoon containers	3/10/98	80	6.5	2.0
Gash Cigarette	cigarettes, tobacco	3/2/98	129	52.7	53.7
Mereb Textile	cotton, fibre cloth	3/26/98	542	12.0	12.0
Eri-Bus Assembly	bus body building	3/26/98	63	2.4	1.2
Barka Wood/Plastics	furniture	5/8/98	n/a	7.5	4.5
Fana Oxygen/Aceton	oxygen	5/8/98	16	2.7	0.7
Eritrea Steel Sheets	steel sheets	5/8/98	n/a	12.1	1.2
Total			1,243	143.1	97.1

Source: Eritrean Authorities

The privatization record

42. After several hotels and the small-scale enterprises were privatized in 1994, the pace of privatization declined considerably through 1996, as the main focus of policy makers was on designing a privatization strategy and establishing the privatization framework. The tempo of privatization picked up again in 1997, when three enterprises in manufacturing were privatized (see Table above). By the end of March 1998, eleven enterprises had been privatized, and the process was under way for three others.[30] So far, all enterprises have been

[30] The enterprises that are in the final stages of privatization are Balbered Agro-Industry,

(continued...)

sold through tender offers, but some shares of the largest enterprises are expected to be sold through public floatation. However, the absence of well-functioning financial markets could be a major hindrance. Also, the loss-making enterprises are likely to be either liquidated or privatized through sale of assets.

43. Of these eleven industrial enterprises, only one (Gash Cigarette Company) was purchased in full by a foreign investor; the only other company with foreign investment is the National Soft Drinks Company, which currently has only minority foreign investment. As the above table shows, these two enterprises were also sold for the highest prices. The total value of the expected proceeds from privatization sales from the beginning 1997 through May 1998 was over ERN 140 million; the Gash Cigarette Company accounted for more than 30 percent of the expected proceeds. The median selling price for the enterprises sold was ERN 7.5 million. With the exception of the Eritrea Shoe Factory and Mereb Textile Factory, which have export markets in Ethiopia and other African countries (Somalia and Congo), the enterprises produce mainly for the domestic market. The government does not keep a separate accounting records of the proceeds and costs of privatization; instead, the net of the proceeds and costs is directly included in the budget.[31]

44. In October 1997, an agreement between the Eritrean government and the Daewoo Corporation of Korea was signed, according to which Daewoo would purchase 45 percent of the shares of the Telecommunications Company of Eritrea (for US$45 million) by January 1998. However, the sale has been delayed owing to technical issues. The government has been continuing negotiations with Daewoo, but also remains open to bids from other investors. An important consideration in selecting the winning bidder is how much capital investment the investor is willing to undertake.

45. In general, the government has not been offering any special incentives, e.g., tax holidays, to potential investors. The exception is the Gash Cigarette Company, which was granted a monopoly right for 13 years. The authorities have rather focused on improving the infrastructure and providing training to workers as a way to attract investors.

46. There is no minimum wage law in Eritrea, and the labor market is relatively free of impediments. At present, buyers are free to retrench workers after privatization. Even though the government is now paying an additional six months' salary to workers retrenched in the process of privatization, no formal unemployment insurance scheme exists for retrenched

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[30](...continued)
the Bizen Furniture Factory, and the Asmara Sweater Factory. Offers for these three enterprises have already been accepted by the Board, and privatization contracts are expected to be signed by the end of June 1998.

[31]So far, the annual proceeds from privatization amount to less than 1 percent of GNP. No explicit record of privatization costs is available.

workers beyond this period. While no major layoffs have occurred so far during the privatization process, the absence of social safety nets could potentially cause some delays to the program in the future.

E. Conclusions

47. The first phase of privatization (1993–94) was ad hoc and largely demand driven. The program was successful in privatizing several hotels and about 700 small-scale shops, thus providing employment and business opportunities for war veterans and Eritreans returning from abroad. During this period, the government realized the importance of a systematic approach to privatization and utilized the experience to establish a formal framework to guide the second stage, which has focused on the large industrial enterprises.

48. At the end of 1997, Eritrea began implementing a more formal privatization program; eleven industrial enterprises have been sold through end-May 1998, and the process is under way for three others. In most of the privatized enterprises, new investment was undertaken and training programs for the workers set up. It is too early, however, to assess the impact of privatization on enterprise performance.

49. Privatization has so far attracted only limited foreign investment, partly because of a lack of aggressive advertisement. The other impediments to foreign investment in the country—which could also be constraining the development of the private sector in general—include poor infrastructure (roads, facilities for generating and transmitting energy, telephone services, and financial services) and the lack of skilled workers; potentially, the small Eritrean market could also be a limitation. Finally, the lack of formal unemployment insurance, although not a major constraint, could undermine the support of the general population for privatization. On their part, the authorities could strengthen their expertise by taking advantage of the considerable experience elsewhere, including accessing technical assistance as needed. They could also provide a public record of the privatization process to promote transparency.

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Eritrea: Sumary of the Tax System as of May 1998

	Tax	Nature of Tax	Deductions and Exemptions	Rates
1.	Tax on income and profits			
1.1	Income tax on employment. (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; and income of business representatives residing in the country less than 183 days.	See rate schedule 1.1 below
1.2	Income taxes on agriculture			
1.2.1	Income tax on commercial farming (Proclamation No. 62/1994; October 5, 1994).	Annual tax levied on taxable income of commercial farms, payable within four months after the end of the fiscal year for all taxpayers. Assessment based on returns filed.	None.	See rate schedule 1.2.1 below
1.2.2	Income tax, rural land use fee, and cattle tax for small-holders (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, with specific rates for livestock.	None.	General annual land use fee of ERN 18 per farmer, and ERN 5 for every quarter of a hectare that is commercially used by farmers without a commercial farming license. See livestock rates below

Rates, 1.1:

No.	Taxable income (nakfa per 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

Rates, 1.2.1:

No.	Taxable income (nakfa per year)	Tax rate on additional income (in percent)
1	up to 1,000	2
2	1,001 - 10,000	5
3	10,001 - 20,000	10
4	20,001 - 35,000	15
5	above 35,000	20

Rates, 1.2.2:

Specific tax rates for each head of animal:

Camel	ERN 4.0
Horned cattle, horse, or mule	ERN 2.0
Donkey	ERN 1.0
Sheep or goat	ERN 0.5

Eritrea: Sumary of the Tax System as of May 1998

	Tax	Nature of Tax	Deductions and Exemptions	Rates
1.3	Income tax on profits			
1.3.1	Income tax on profits of incorporated business (Proclamation No. 62/1994; October 5, 1994).	Annual tax levied on taxable income, payable within one, two, or four 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 two years may be carried forward for three consecutive years; for new investments, losses may be carried forward an additional one year in exceptionally critical circumstances.	See rate table 1.3.1 below. Reinvested profit will be taxed only at 20 percent upon submission of certificate from the Investment Center.
1.3.2	Income tax on profits of unincorporated business (Proclamation No. 62/1994; October 5, 1994).	Annual tax levied on taxable income, payable within one, two, or four 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).	See rate table 1.3.2 below.

Rates, 1.3.1:

No.	Taxable income (ERN per 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 from the Investment Center.

Rates, 1.3.2:

No.	Taxable income (ERN per 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: Sumary of the Tax System as of May 1998

	Tax	Nature of Tax	Deductions and Exemptions	Rates		
1.4	Tax on gains from lottery and other games, royalties, and services income earned abroad (Proclamation No. 62/1994; October 5, 1994).	Levied on taxable gross income of lottery and game wins. To be paid within one month after income is received. Assessment based on returns filed.	None.	Income from lottery (above ERN 500) and from bingo (above ERN 400). Royalty and income from services from abroad.		10 percent 10 percent
1.5	Rental income tax (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 (ERN per year)	Tax rate on additional income
				1	up to 120	ERN 1
						(in percent)
				2	121 - 380	1.5
				3	381 - 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: Sumary of the Tax System as of May 1998

	Tax	Nature of Tax	Deductions and Exemptions	Rates	
1.6	Income tax on Eritreans working abroad (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.	Taxes on goods and services				
2.1	Sales tax on domestic goods (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 maintaining roads and for lifting and loading equipment; kerosene and aviation fuel; medical equipment; medical, scientific, and technical instruments; fishnets; beehives and incubators; silver and gold when imported by the Bank of Eritrea; and traveler's checks, revenue stamps, and bandlets.	Agricultural products, raw materials, and most intermediate goods	3 percent
				Most consumer goods, drugs, and some intermediate goods	5 percent
				All other products	12 percent

Eritrea: Sumary of the Tax System as of May 1998

	Tax	Nature of Tax	Deductions and Exemptions	Rates	
2.2	Sales tax on domestic services (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; and garages.	
				Subject to 5 percent sales tax: contractors; hair dressing and beauty salons; tailoring; repairs and maintenance, excluding garages; washing and greasing; billiards and bowling establishments; and education and training.	
2.3	Excise tax on domestic goods (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, and carpets	10 percent
				Glass beads and ornaments	30 percent
				Tobacco products and beverages with high alcoholic contents	50 percent
				Four-wheel-drive vehicles	90 percent
				Beer, perfumes, and cosmetics	100 percent

Eritrea: Sumary of the Tax System as of May 1998

	Tax	Nature of Tax	Deductions and Exemptions	Rates	
3.	Taxes on international trade				
3.1	Customs duties (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.	Twelve different ad valorem rates, including the following:	
				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
				Basic consumer items (e.g., sugar, coffee), some capital goods, and raw materials	3 percent
				Fish and fish products, manufactured consumer items, and intermediate goods	5-50 percent
				Mineral water, video cameras, marble, jewels, and some other manufactured items	80 percent
				Soft drinks, beer, perfumes, and cosmetics	90 percent
				CD recorders, and electrical household appliances	100 percent
				Video recorders	160 percent
				Beverages with high alcoholic contents and tobacco products	200 percent
				Specific rates for grease (ERN 0.15 per kg) and small family cars (10 percent of CC).	

Eritrea: Sumary of the Tax System as of May 1998

	Tax	Nature of Tax	Deductions and Exemptions	Rates
3.2	Sales tax on imports (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. Reexports are also exempted. Sales tax paid on imports that are used for export production is refunded.	Same as for domestic sales tax.
3.3	Excise tax on imports	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	Export tax	Abolished on October 5, 1994.		
4.	Other taxes			
4.1	Stamp duties (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.	Twenty different ad valorem and specific rates.

Source: Eritrean authorities.

Eritrea: Exchange and Trade System
Position as of June 15, 1998

Subject Measure	Existence	Description
I. Status Under IMF Articles of Agreement		
Date of membership		July 6, 1994
1. Article VIII		
2. Article XIV	Yes	
II. Exchange Arrangements		
1. Currency	Yes	A national currency, the nakfa, was introduced in the period between November 8 and 22, 1997; during this conversion period, the nakfa was exchanged at par with the Ethiopian birr. The Ethiopian birr ceased to be legal tender as of November 22, 1997.
Other legal tender	No	
2. Exchange rate structure		
a. Unitary	Yes	
b. Dual		
c. Multiple		
3. Classification		
a. Pegged		
b. Limited flexibility with respect to a single currency		
c. Cooperative arrangement		
d. Adjusted according to a set of indicators		
e. Managed floating		
f. Independent floating	Yes	Through March, 1997, the official exchange rate of Eritrea was the marginal auction exchange rate of Ethiopia's birr, determined in the weekly foreign exchange auction conducted by the National Bank of Ethiopia. On April 1, 1997, the official and preferential exchange rates were unified at Br 7.2 per US$1. A national currency, the nakfa, was introduced on November 22, 1997, and its exchange rate is market determined. On June 10, 1998, the average buying and selling exchange rates were ERN 7.38 and ERN 7.40, respectively, per US$1.
4. Exchange tax	Yes	The Bank of Eritrea (BE) prescribes a commission of 0.25 percent for purchases of foreign exchange and 0.75 percent for sales of foreign exchange, except for banknote transactions. The authorized dealers are permitted, but not required, to levy a service charge of up to 0.25 percent for buying and 0.75 percent for selling for their own account.

Eritrea: Exchange and Trade System
Position as of June 15, 1998

Subject Measure	Existence	Description
5. Exchange subsidy	No	
6. Forward exchange market	No	
Official coverage	No	
	III. Arrangements for Payments and Receipts	
1. Prescription of currency requirements	Yes	Since November 22, 1997, all transactions with Ethiopia are settled in convertible currencies, except for border trade valued at below Ethiopian birr 2,000. Prior to that, all transactions with Ethiopia, except those related to the imports of spare parts for the refinery in Assab and the purchase of certain Ethiopian exports, were settled in Ethiopian birr.
2. Payments arrangements	Yes	
a. Bilateral payment agreement	No	
(1) Operative	No	
(2) Inoperative	No	
b. Regional arrangement	Yes	
c. Clearing agreement	Yes	Payments between Angola, Burundi, Comoros, Democratic Republic of Congo, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Rwanda, Sudan, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe may be made within the framework of COMESA.
d. Barter agreement and open accounts	No	
3. Administration of control	Yes	
Exchange control authorities	Yes	The BE oversees all foreign exchange transactions of the authorized dealers and issues dealers' licenses. It may from time to time issue regulations, directives, and instructions on foreign exchange matters. The Exchange Control Department of the BE issues permits only for those imports that require foreign exchange from the banking system. The National Licensing Office issues licenses for importers, exporters, and commercial agents, and the Ministry of Trade and Industry regulates foreign investments. The Asmara Chamber of Commerce issues certificates of origin for exports.
4. International security restrictions	No	
a. In accordance with Executive Board decision No. 144(52/51)	No	
b. According to UN Sanctions	No	

Eritrea: Exchange and Trade System
Position as of June 15, 1998

Subject Measure	Existence	Description
c. Other	No	
5. Payment arrears	No	
a. Official	No	
b. Private	No	
6. Controls on trade in gold (coins/bullions)	Yes	
a. On domestic ownership/trade	Yes	Authorization from the Ministry of Energy and Mines is required for ownership or possession of gold or other precious metals or ores. Residents may own gold jewelry without restrictions.
b. On external trade	Yes	
7. Controls on banknotes	No	Travelers are not required to declare their foreign currency holdings upon departure.
a. On exports	No	
(1) Domestic currency	No	
(2) Foreign currency	No	Travelers are allowed to reconvert their balances into foreign currencies upon departure.
b. On imports	No	
(1) Domestic currency	No	
(2) Foreign currency	No	Travelers are not required to declare their foreign currency holdings upon entry into Eritrea.
		IV. Resident Accounts
1. Eligibility to open accounts	Yes	
a. Juridical persons	Yes	
b. Natural persons	Yes	
2. Foreign exchange accounts permitted	Yes	
a. Held domestically	Yes	Only investors and individuals earning foreign exchange in connection with foreign trade are allowed to open accounts.
Approval required	No	
b. Held abroad	Yes	Restricted to resident banks.
Approval required	Yes	Nonbank residents may not open accounts abroad, except if specifically authorized by the BE.

Eritrea: Exchange and Trade System
Position as of June 15, 1998

Subject Measure	Existence	Description
3. Accounts in domestic currency convertible in foreign currency	No	
		V. Nonresident Accounts
1. Eligibility to open accounts	Yes	
a. Juridical persons	Yes	
b. Natural persons	Yes	
2. Foreign exchange accounts permitted	Yes	Resident Eritreans working temporarily abroad may be permitted to maintain nonresident U.S. dollar accounts in Eritrea.
Approval required	Yes	BE approval is required.
3. Domestic currency accounts	Yes	Available only to members of the diplomatic community, welfare organizations, nongovernmental organizations and their personnel, as well as joint ventures and other business firms that invest their capital, wholly or partially, in foreign exchange.
Convertible into foreign currency	Yes	
Approval required	No	
4. Blocked accounts	No	
		VI. Imports and Import Payments
1. Foreign exchange budget	No	
2. Financing requirements for imports	No	Most imports financed with official foreign exchange are effected under letters of credit (LCs) or on a cash-against-documents (CAD) basis. Suppliers' credits must be registered with the BE.
a. Minimum financing requirements	No	
b. Advance payments requirements	No	
c. Advance import deposits	Yes	Only for LC type of imports.
3. Documentation requirements for release of foreign exchange for imports	Yes	
a. Domiciliation requirements	No	
b. Preshipment inspection	No	

Eritrea: Exchange and Trade System
Position as of June 15, 1998

Subject Measure	Existence	Description
c. Letters of credit	No	
d. Import licenses used as exchange licenses	Yes	Import payments made through the banking system require a permit issued by the BE upon presentation of pro forma invoices providing information as to type, quantity, unit price, and freight cost (where applicable).
e. Other	Yes	Suppliers' credits must be registered with the BE.
4. Import licenses and other nontariff measures	Yes	
a. Positive list	No	
b. Negative list	No	
c. Open general licenses	Yes	All importers must have a valid trade license issued by the National Licensing Office. These licenses must be renewed each year at a fee of ERN 200. Imports of cars and other motor vehicles require prior permission from the Ministry of Transportation.
d. Licenses with quotas	No	
e. Other nontariff measures	No	
5. Import taxes/tariffs	n.a.	
Taxes collected through the exchange system	Yes	A commission of 2 percent is collected on imports that do not require official foreign exchange and are not aid funded (franco valuta imports).
6. State import monopoly	No	The company that produces tobacco and matches holds the monopoly over the imports of these products.
	VII. Exports and Export Proceeds	
1. Repatriation requirements	Yes	All export proceeds must be repatriated within 90 days of shipment; where justified, this deadline can be extended by another 90 days.
Surrender requirements	No	
2. Financing requirements	No	Exports may be made under LCs, on an advance payment basis, or on a consignment basis.
3. Documentation requirements	Yes	All exports require documentation by the BE. Certain commodities require clearance from specific government bodies (e.g., the Eritrean Institute of Standards). In particular, livestock and cereals require permission from the Ministry of Agriculture, and marine products require permission from the Ministry of Marine Resources.
a. Letter of credit	No	
b. Guarantees	No	

Eritrea: Exchange and Trade System
Position as of June 15, 1998

Subject Measure	Existence	Description
c. Domiciliation	No	
d. Preshipment inspection	No	
e. Other	No	
4. Export licenses	Yes	Exporters must be licensed by the National Licensing Office. The annual licensing fee is ERN 200.
a. Without quotas	Yes	
b. With quotas	No	
5. Export taxes	No	
a. Collected through the exchange system	No	
b. Other export taxes	No	
VIII. Payments for Invisible Transactions and Current Transfers		
CONTROLS ON THESE PAYMENTS	Yes	
1. Freight/insurance	Yes	
a. Prior approval	Yes	
b. Quantitative limits	No	
c. Indicative limits/bona fide tests	No	
2. Unloading/storage costs	Yes	
a. Prior approval	Yes	
b. Quantitative limits	No	
c. Indicative limits/bona fide tests	No	
3. Administrative expenses	Yes	
a. Prior approval	Yes	
b. Quantitative limits	No	
c. Indicative limits/bona fide tests	No	
4. Commissions	Yes	
a. Prior approval	Yes	
b. Quantitative limits	No	
c. Indicative limits/bona fide tests	No	

Eritrea: Exchange and Trade System
Position as of June 15, 1998

Subject Measure	Existence	Description
5. Interest payments	Yes	
a. Prior approval	Yes	
b. Quantitative limits	No	
c. Indicative limits/bona fide tests	No	
6. Profits/dividends	No	For investments certified under the Investment Proclamation No. 59 (1994) foreign investors may freely remit proceeds received from the 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 may pay subcontractors and expatriate staff abroad.
a. Prior approval	No	
b. Quantitative limits	No	
c. Indicative limits/bona fide tests	No	
7. Amortization of loans or depreciation of direct investments	n.a.	
a. Prior approval	n.a.	
b. Quantitative limits	n.a.	
c. Indicative limits/bona fide tests	n.a.	
8. Payments for travel	Yes	
a. Prior approval	No	
b. Quantitative limits	Yes	For business trips, $250 a person a day for up to 30 days a trip. Exporters may use freely their retention balances for travel purposes. For personal travel, the allowance is $100 a person (adult or minor) a trip. Eritrean nationals can purchase air travel tickets in local and foreign currency.
c. Indicative limits/bona fide tests	No	
9. Medical costs	Yes	
a. Prior approval	Yes	Recommendation of the Medical Board of the Ministry of Health is required.
b. Quantitative limits	Yes	Up to $10,000 for treatment abroad, other than Ethiopia. The limit may be exceeded in special circumstances.
c. Indicative limits/bona fide tests	Yes	

Eritrea: Exchange and Trade System
Position as of June 15, 1998

Subject Measure	Existence	Description
10. Study abroad costs	Yes	
a. Prior approval	Yes	Approval is granted for higher-education expenses only.
b. Quantitative limits	No	
c. Indicative limits/bona fide tests	No	
11. Subscription and membership fees	Yes	
a. Prior approval	Yes	
b. Quantitative limits	No	
c. Indicative limits/bona fide tests	No	
12. Consulting/legal fees	Yes	
a. Prior approval	Yes	
b. Quantitative limits	No	
c. Indicative limits/bona fide tests	No	
13. Foreign workers' wages	No	
a. Prior approval	No	
b. Quantitative limits	No	
c. Indicative limits/bona fide tests	No	
14. Pensions	No	
a. Prior approval	No	
b. Quantitative limits	No	
c. Indicative limits/bona fide tests	No	
15. Gambling/prizes earnings	n.a.	
a. Prior approval	n.a.	
b. Quantitative limits	n.a.	
c. Indicative limits/bona fide tests	n.a.	

Eritrea: Exchange and Trade System
Position as of June 15, 1998

Subject Measure	Existence	Description
16. Family maintenance/ alimony	No	
a. Prior approval	No	
b. Quantitative limits	No	
c. Indicative limits/bona fide tests	No	
17. Credit card use abroad	n.a.	
a. Prior approval	n.a.	
b. Quantitative limits	n.a.	
c. Indicative limits/bona fide tests	n.a.	
		IX. Proceeds form Invisible Transactions and Current Transfers
1. Repatriation requirements	No	
2. Surrender requirements	No	
3. Restrictions on use of funds	No	
		X. Capital Transactions
1. Controls on capital and money market instruments	Yes	
a. On capital market securities	Yes	
(1) Shares or other securities of a participating nature		
(a) Purchase locally by nonresidents	Yes	
(b) Sale or issue locally by nonresidents	n.a.	
(c) Purchase abroad by residents	Yes	Authorized banks may acquire securities with the approval of the BE.
(d) Sale or issue locally by residents	n.a.	
(2) Bonds or other debt securities	n.a.	

Eritrea: Exchange and Trade System
Position as of June 15, 1998

Subject Measure	Existence	Description
(a) Purchase locally by nonresidents	n.a.	
(b) Sale or issue locally by nonresidents	n.a.	
(c) Purchase abroad by residents	n.a.	
(d) Sale or issue locally by residents	n.a.	
b. On money market instruments	Yes	
(1) Purchase locally by nonresidents	n.a.	
(2) Sale or issue locally by nonresidents	n.a.	
(3) Purchase abroad by residents	Yes	
(4) Sale or issue locally by residents	n.a.	
c. On collective investment securities	n.a.	
(1) Purchase locally by nonresidents	n.a.	
(2) Sale or issue locally by nonresidents	n.a.	
(3) Purchase abroad by residents	n.a.	
(4) Sale or issue locally by residents	n.a.	
2. Controls on derivatives and other instruments	n.a.	
a. Purchase locally by nonresidents	n.a.	
b. Sale or issue locally by nonresidents	n.a.	
c. Purchase abroad by residents	n.a.	

Eritrea: Exchange and Trade System
Position as of June 15, 1998

Subject Measure	Existence	Description
d. Sale or issue locally by residents	n.a.	
3. Controls on credit operations	Yes	
a. Commercial credit	Yes	
(1) By residents to nonresidents	n.a.	
(2) To residents from nonresidents	Yes	Foreign borrowing by residents must be registered with the BE.
b. Financial credit	Yes	
(1) By residents to nonresidents	n.a.	
(2) To residents from nonresidents	Yes	Authorized banks may borrow abroad or overdraw their correspondent accounts abroad with the approval of the BE.
c. Guarantees, sureties, and financial backup securities	n.a.	
(1) By residents to nonresidents	n.a.	
(2) To residents from nonresidents	n.a.	
4. Controls on direct investment	Yes	
a. Outward direct investment	n.a.	
b. Inward direct investment	Yes	Foreign direct investment is permitted in all sectors. However, 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. Approved investments and their subsequent expansion enjoy exemption from customs duties and sales tax for capital goods and spare parts associated with the investment. There are no exemptions from income tax.
5. Controls on liquidation of direct investment	No	
6. Controls on real estate transactions	Yes	
a. Purchase abroad by residents	Yes	

Eritrea: Exchange and Trade System
Position as of June 15, 1998

Subject Measure	Existence	Description
b. Purchase locally by nonresidents	Yes	
c. Sales locally by nonresidents	No	
7. Controls on personal capital movements	n.a.	
a. Loans	n.a.	
(1) By residents to nonresidents	n.a.	
(2) To residents from nonresidents	n.a.	
b. Gifts, endowments, inheritances, and legacies	n.a.	
(1) By residents to nonresidents	n.a.	
(2) To residents from nonresidents	n.a.	
c. Settlements of debt abroad by immigrants	n.a.	
d. Transfer of assets	n.a.	
(1) Transfer abroad by emigrants	n.a.	
(2) Transfer into the country by immigrants	n.a.	
8. Specific controls on transactions by commercial banks and other credit institutions	Yes	
a. Borrowing abroad	Yes	Borrowing is subject to prior approval of the BE.
b. Maintenance of accounts abroad	No	
c. Lending to nonresidents (loans, financial or commercial credit)	Yes	
d. Lending locally in foreign exchange	Yes	

Eritrea: Exchange and Trade System
Position as of June 15, 1998

Subject Measure	Existence	Description
e. Purchase of locally issued securities denominated in foreign exchange	n.a.	
f. Differential treatment of deposit accounts in foreign exchange	No	
(1) Reserve requirements	No	
(2) Liquid asset requirements	No	
(3) Interest rate controls	No	
(4) Credit controls	No	
g. Differential treatment of nonresident deposit accounts or deposit accounts in foreign exchange	n.a.	
(1) Reserve requirements	n.a.	
(2) Liquid asset requirements	n.a.	
(3) Interest rate controls	n.a.	
(4) Credit controls	n.a.	
h. Investment regulations	No	
(1) Abroad by banks	No	
(2) In banks by nonresidents	No	
i. Open foreign exchange position limits	No	
(1) On nonresident assets and liabilities	No	
(2) On resident assets and liabilities	No	
9. Provisions specific to institutional investors	n.a.	
a. Limits (max.) on securities issued by nonresidents and on portfolio invested abroad	n.a.	
b. Limits (max.) on portfolio invested abroad	n.a.	

Eritrea: Exchange and Trade System
Position as of June 15, 1998

Subject Measure	Existence	Description
c. Limits (min.) on portfolio invested locally	n.a.	
d. Currently matching regulations on assets/liabilities composition	n.a.	
10. Other controls imposed by securities laws	n.a.	

Table 1. Eritrea: Gross Domestic Product by Sector, 1993-97

	1993	1994	1995	1996	1997 Prel.
	(In millions of nakfa, unless otherwise indicated)				
Agriculture	277.3	489.4	390.9	371.8	390.3
Crops and livestock	192.3	386.0	267.8	241.3	261.0
Staple crops	101.4	249.2	145.4	107.7	117.0
Cash crops	52.7	91.1	72.1	75.7	78.0
Livestock	38.1	45.7	50.3	57.8	65.9
Forestry and fishing	85.1	103.4	123.1	130.5	129.4
Forestry	80.0	96.0	115.2	121.0	124.6
Fishing	5.1	7.4	7.9	9.5	4.8
Industry	451.2	579.1	792.2	1,043.6	1,241.0
Mining and quarrying	1.0	1.5	2.1	3.6	4.5
Manufacturing	206.4	255.0	343.4	399.9	469.5
Handicrafts and small industry	95.2	117.7	158.5	171.5	186.5
Electricity and water	31.6	39.0	52.5	56.2	65.1
Building and construction	117.0	166.0	235.6	412.3	515.4
Distribution services	952.5	1,273.6	1,375.3	1,525.5	1,623.0
Trade, wholesale, and retail	589.6	857.5	921.9	1,050.2	1,134.1
Transport and communications	362.9	416.1	453.4	475.3	488.9
Other services	501.7	697.4	938.5	862.4	947.0
Financial services	37.6	39.8	57.8	68.1	85.7
Dwellings and domestic services	54.0	65.3	79.0	95.6	103.7
Public administration and services	369.6	550.5	758.8	648.3	706.8
Domestic and other	40.5	41.7	43.0	50.5	50.8
GDP at current factor cost	2,182.7	3,039.5	3,496.9	3,803.3	4,201.4
Indirect taxes less subsidies	338.3	341.7	375.9	450.4	511.5
GDP at current market prices	2,521.0	3,381.2	3,872.8	4,253.7	4,712.9
Net factor payments 1/	587.5	1,026.1	776.8	873.9	1,262.4
GNP at current market prices	3,108.4	4,407.3	4,649.5	5,127.7	5,975.3
Memorandum items:					
GDP at constant factor cost	1,724.1	1,893.0	1,948.8	2,080.5	2,244.3
(annual percentage change)	-2.5	9.8	2.9	6.8	7.9
	(In percent of GDP at factor cost)				
Agriculture	12.7	16.1	11.2	9.8	9.3
Industry	20.7	19.1	22.7	27.4	29.5
Distribution services	43.6	41.9	39.3	40.1	38.6
Other services	23.0	22.9	26.8	22.7	22.5

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

1/ Estimated as 50 percent of private remittances.

Table 2. Eritrea: Agricultural Production, 1993-97

	1993	1994	1995	1996	1997
	(In thousands of quintals)				
Total volume of staple crops	977.0	2,654.8	1,385.1	931.4	1028.2
Sorghum	448.6	1,182.8	610.1	391.9	553.2
Teff	22.2	148.4	57.6	63.2	41.5
Millet	191.0	575.7	127.8	124.1	74.8
Barley	97.3	306.6	279.5	128.3	160.8
Wheat	54.0	135.2	99.6	78.5	51.3
Peas	9.2	16.2	34.5	33.1	10.3
Sesame	59.6	62.2	108.8	46.3	23.0
Maize	55.4	185.3	53.5	47.1	64.0
Others 1/	39.7	42.4	13.8	18.9	49.3
	(In thousands of units)				
Livestock 2/					
Cows	949.0	1,139.0	1,252.0	1,600.0	1,927.8
Goats	4,152.0	4,982.0	5,480.0	6,302.0	4,661.8
Poultry	2,500.0	3,000.0	3,300.0	3,696.0	1,134.3
	(In thousands of hectares unless otherwise indicated)				
Total area	12,189.0	12,189.0	12,189.0	12,189.0	12,189.0
Cultivated area	395.6	363.0	349.4	371.3	393.1
Cultivated area (as percent of total)	3.2	3.0	2.9	3.0	3.2

Source: Ministry of Agriculture.

1/ Includes horsebeans, groundnuts, lentils, nihug, vetch, and soybeans.

2/ The livestock figures for 1997 are based on surveys conducted during April 1996-April 1997, and the poultry figure excludes towns.

Table 3. Eritrea: Regional Structure of the Agricultural Sector, 1995-97

Province	Total population 1/	Total cultivated area	Staple crops				Livestock population		
			Sorghum	Teff	Millet	Other 2/	Cows	Goats	Poultry
1995									
	(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	0.0	32.9	1.0	403.0	1,348.1	165.0
Gash-Setit	313.1	77.2	327.4	0.0	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	0.0	14.6	3.7	123.0	635.7	495.0
Semhar	121.5	9.5	49.7	0.0	0.6	30.2	23.0	345.2	165.0
Sahel	230.4	21.7	23.9	0.0	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	...	0.0	0.0	0.0	...	40.0	175.4	165.0
Total	2,886.2	349.5	610.1	57.6	127.7	559.6	1,252.0	5,480.0	3,300.0

Province	Total population 1/	Total cultivated area	Staple crops				Livestock population		
			Sorghum	Teff	Millet	Other 2/	Cows	Goats	Poultry
1996									
	(In thousands)	(In thousands of hectares)	(In thousands of quintals)				(In thousands)		
Akeleguzay	362.0	35.1	60.0	7.6	8.4	60.6	...	...	...
Barka	246.7	61.1	22.0	...	6.4	0.3	...	...	...
Gash-Setit	322.5	108.6	138.0	...	23.5	44.4	...	...	...
Hamassen 3/	775.5	36.6	0.2	1.0	3.3	90.9	...	...	...
Senhit	269.4	33.3	28.7	...	24.6	14.4	...	...	...
Semhar	125.1	9.5	25.0	...	10.0	6.8	...	...	...
Sahel	237.3	13.4	7.0	...	5.3	5.7	...	...	...
Seraye	446.9	72.9	110.2	54.4	42.4	169.2	...	...	...
Denkel	187.3	...		...	...	...	...	...	...
Total	2,972.7	370.5	391.1	63.0	123.9	392.3	...	...	...

Table 3. Eritrea: Regional Structure of the Agricultural Sector, 1995-97 (Concluded)

Province	1997								
	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)		
Debub	732.6	111.4	72.2	39.2	25.3	160.9	490.1	706.4	512.8
Gash-setit	622.6	183.7	424.0	0.1	29.4	27.1	917.3	1,745.8	423.9
Maekel	552.8	27.2	2.8	2.0	3.8	129.2	40.5	23.6	86.4
Anseba	432.8	43.6	16.5	0.1	6.5	8.1	218.9	620.0	78.2
Semienawi K.B.	449.2	27.2	37.4	...	9.6	34.0	178.5	994.6	26.9
Debubawi K.B.	198.7	...	...	...	...	...	82.1	571.4	6.1
Total	2,988.7	393.1	552.9	41.4	74.6	359.3	1,927.5	4,661.8	1,134.3

Source: Ministry of Agriculture.

1/ Based on 3 percent annual population growth.
2/ Includes barley, wheat, peas, sesame, and maize.
3/ Includes Asmara.

Table 4. Eritrea: Food Grain Position, 1992/93-97/98 1/

(In metric tons)

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98 2/ Prel.
Opening balance	110,000	60,019	65,021	0	14,997	50,000
Gross domestic production	260,000	86,000	265,000	149,000	132,000	100,289
Less: post-harvest losses	-25,000	-8,000	-25,000	-7,000	-11,000	-10,029
Less: seed, feed, and nonfood uses	-15,000	-15,000	-15,000	-15,000	-15,000	-12,559
Net domestic production	220,000	63,000	225,000	127,000	106,000	77,701
Domestic grain balance	330,000	123,019	290,021	127,000	120,997	127,701
Food imports	101,000	323,670	54,662	291,970	309,290	140,000
Commercial	50,000	65,000	54,662	100,000	120,000	140,000
Food aid	51,000	258,670	0	191,970	189,290	0
Total grain balance	431,000	446,689	344,683	418,970	430,287	267,701
Consumption	370,981	381,668	392,662	403,973	415,285	591,784
Memorandum items:						
Grain surplus/deficit	60,019	65,021	-47,979	14,997	15,002	-324,084

Source: Ministry of Agriculture.

1/ Agricultural year, September to August.
2/ Food balance for1997.

Table 5. Eritrea: Annual Catch and Sales of Fish, 1995-97 1/

	1995			1996			1997		
	Industrial	Artisanal	Total	Industrial	Artisanal	Total	Industrial	Artisanal	Total
				(In tons)					
Massawa	3,262	463	3,725	2,454	560	3,014	37	154	191
Assab	0	48	48	0	258	258	0	34	34
Total	3,262	511	3,773	2,454	818	3,272	37	188	225
				(In millions of nakfa)					
Massawa	21.4	3.3	24.7	14.7	3.4	18.1	0.2	0.9	1.1
Assab	0.0	0.3	0.3	0.0	1.6	1.6	0.0	0.2	0.2
Total	21.4	3.6	25.0	14.7	5.0	19.7	0.2	1.1	1.3

Source: Ministry of Marine Resources.

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

Table 6. Eritrea: Gross Value of Public Enterprise Production, 1993-97

Type of Industry	Number of Enterprises Dec. 1997	Number of Employees Dec. 1997	Production 1993	1994	1995	1996	1997
			(In millions of nakfa)				
Food industries	6	1,296	48.4	69.4	122.0	145.5	203.7
Beverage industries 1/	2	587	135.6	134.4	171.0	199.2	159.6
Tobacco and matches	2	236	3.6	8.1	13.4	22.1	16.6
Textile industries	5	3,706	16.5	40.2	54.3	68.2	62.8
Leather and shoes	4	951	28.2	30.5	57.9	71.7	69.4
Nonmetallic industries	4	414	24.0	30.8	31.3	23.0	28.5
Of which: Eritrea Cement	1	184	16.5	16.9	15.5	20.1	25.6
Paper and printing	3	326	17.7	15.7	19.1	20.2	11.3
Chemical industries	4	616	51.1	58.8	101.9	98.1	59.7
Of which: Eritrea Saltworks	2	537	38.9	44.7	75.8	72.3	15.1
Metal industries	9	693	34.0	45.6	47.0	66.2	44.3
Total	39	8,825	359.2	433.5	617.9	714.2	655.9

Source: Ministry of Trade and Industry.

1/ Figures for beverage industry have been revised for 1993-96.

Table 7. Eritrea: Investment Projects by Sector, 1994-97

(In thousands of nakfa, unless otherwise indicated)

	1994			1995			1996			1997		
	Local	Foreign	Total	Local	Foreign	Total	Local	Foreign	Total	Local	Foreign	Total
Agriculture	10,377	1,555	11,932	32,424	0	32,424	...	...	67,709	7,235	...	7,235
Number of projects	...	...	3	...	...	20	...	...	15	3		3
Fishing	25,675	67,608	93,283	66,610	5,400	72,010	...	...	21,149	107	...	107
Number of projects	...	...	13	...	...	13	...	...	3	1	...	1
Mining	1,627	0	1,627	0	0	0	...	...	40,853	...	4,511	4,511
Number of projects	...	...	2	...	...	...	...	...	9	...	1	1
Quarrying	0	0	0	0	0	0	6,081	16,352	22,433	18,722	...	18,722
Number of projects	0	0	0	0	0	0	3	1	4	2	...	2
Manufacturing	83,036	35,891	118,927	214,375	152,161	366,536	326,944	41,556	368,500	287,491	100,397	387,888
Number of projects	...	...	17	...	...	68	59	17	76	53	12	65
Construction	5,464	0	5,464	46,625	0	46,625	...	...	77,901	8,279	262,515	270,794
Number of projects	...	...	2	...	...	9	1	5	6	2	4	6
Export/import trade	2,957	0	2,957	6,619	0	6,619	...	...	...	...	...	...
Number of projects	...	...	2	...	...	7	...	...	...	...	...	...
Hotels and restaurants	125,777	465,888	591,665	80,903	76,847	157,750	...	...	159,510	28,842	68,004	96,846
Number of projects	...	...	11	...	...	23	...	...	38	13	2	15
Others	3,465	0	3,465	780	0	780	...	...	92,845	41,400	2,241	43,641
Number of projects	...	...	3	...	...	4	...	...	25	10	2	12
Total capital	258,378	570,942	829,320	448,336	234,408	682,744	...	...	850,900	392,076	437,668	829,744
Total number of projects	...	...	53	...	...	144	...	...	176	84	21	105

Source: Eritrean Investment Center.

Table 8. Eritrea: Assab Refinery Production and Purchases by Eritrea, 1994-97

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

	1994				1995				1996				1997			
	Production	Purchases	Value	Purchases-production ratio	Production	Purchases	Value	Purchases-production ratio	Production	Purchases	Value	Purchases-production ratio	Production	Purchases	Value	Purchases-production ratio
Liquefied petroleum gas	5,988	709	3.0	11.8	5,209	1,255	3.8	24.1	5,812	1,631	7.3	28.1	4,643	1,504	6.7	32.4
Regular gasoline	94,294	11,818	12.6	12.5	77,056	12,596	22.7	16.3	84,206	14,035	19.7	16.7	63,865	14,733	20.7	23.1
Kerosene	29,924	13,874	13.0	46.4	24,019	17,236	19.5	71.8	25,166	19,721	28.0	78.4	12,181	21,086	29.9	173.1
Jet fuel	22,419	4,480	4.2	20.0	17,994	5,411	6.1	30.1	18,854	9,612	13.6	51.0	23,061	9,859	14.0	42.8
Automobile diesel	192,868	120,684	105.3	62.6	169,827	128,792	104.2	75.8	176,855	134,179	160.4	75.9	123,655	137,730	164.6	111.4
Inland fuel oil	118,339	26,620	15.6	22.5	123,474	34,829	18.2	28.2	137,044	45,064	51.2	32.9	114,964	43,160	49.0	37.5
Bunker fuel oil	10,899	10,930	5.6	100.3	10,417	10,792	5.5	103.6	11,331	6,460	3.3	57.0	0	7,971	4.1	0.7
Export fuel oil	201,175	0	0.0	0.0	132,562	0	0.0	0.0	137,527	0	0.0	0.0	77,960	167	0.0	0.2
Bitumen (asphalt)	15,863	2,231	3.4	14.1	18,047	220	0.3	1.2	20,515	213	0.5	1.0	15,962	483	1.0	3.0
Total	691,769	191,346	162.7	27.7	578,605	211,131	180.3	36.5	617,310	230,915	284.0	37.4	436,291	236,693	290.0	54.3

Source: Petroleum Corporation of Eritrea.

Table 9. Eritrea: Retail Prices of Petroleum Products, 1995-97

	Unit	Retail prices (as of 12/31/95)					Retail prices (as of 12/31/96)					Retail prices (as of 12/31/97)				
		Asmara	Massawa	Assab	Keren	Nakfa	Asmara	Massawa	Assab	Keren	Nakfa	Asmara	Massawa	Assab	Keren	Nakfa
Liquefied petroleum gas	nakfa/ton	2,790.0	...	2,221.0	...	...	4,000.0	...	3,250.0	...	...	4,000.0	...	3,250.0	...	...
Regular gasoline	cents/liter	260.0	256.0	251.0	264.0	278.0	280.0	275.0	275.0	283.0	292.0	280.0	275.0	275.0	283.0	292.0
Kerosene	cents/liter	120.0	116.0	111.0	124.0	138.0	155.0	153.0	146.0	158.0	167.0	155.0	153.0	146.0	158.0	167.0
Jet fuel	cents/liter	178.5	...	...	...	...	178.5	...	134.0	...	...	178.5	...	134.0	...	...
Automobile diesel	cents/liter	145.0	141.0	117.0	149.0	163.0	170.0	165.0	156.0	173.0	182.0	170.0	165.0	156.0	173.0	182.0
Inland fuel oil	cents/liter	89.5	85.0	78.0	93.4	108.2	113.6	109.0	104.5	117.3	127.5	113.4	109.0	104.5	117.3	127.5

Source: Petroleum Corporation of Eritrea.

Table 10. Eritrea: Electricity Production, Sales, and Tariffs, 1995-97

	1995	1996	1997
	(In thousands of kilowatt-hour)		
Total production	144,668	154,786	179,192
Interconnected system	117,773	132,456	149,305
Asmara	92,009	126,478	136,803
Massawa	25,764	5,978	12,502
Self-contained system	26,895	22,330	29,887
Assab	18,425	12,931	18,992
Decamhare	2,566	2,746	3,099
Keren	2,240	2,475	3,027
Others	3,664	4,178	4,769
Total volume of sales	118,180	127,507	143,695
Interconnected system	95,975	103,122	117,313
Asmara	76,172	82,543	94,149
Ghinda	2,304	2,747	2,675
Massawa	17,499	17,832	20,489
Self-contained system	22,205	24,385	26,383
Assab	15,313	15,981	16,589
Decamhare	2,186	2,428	2,783
Keren	1,817	2,135	2,621
Others	2,889	3,841	4,390
	(In millions of nakfa)		
Total sales revenue	94.1	104.6	121.8
Interconnected system	75.6	84.0	98.5
Asmara	59.7	66.8	78.5
Ghinda	1.9	2.4	2.5
Massawa	13.9	14.8	17.5
Self-contained system	18.6	20.6	23.3
Assab	12.3	12.9	13.6
Decamhare	1.8	2.2	2.3
Keren	1.7	0.4	2.6
Others	2.7	5.2	4.8
	(Nakfa per kilowatt-hour)		
Electricity tariffs			
Domestic			
Less than 500 kilowatt-hour	...	0.65 - 0.75	0.65 - 0.75
Greater than 500 kilowatt-hour	...	0.55 - 0.65	0.55 - 0.65
General 1/	...	1.00	1.00
Large industry			
Less than 100,000 kilowatt-hour	...	0.75	0.75
Greater than 100,000 kilowatt-hour	...	0.50	0.50

Source: Ministry of Energy and Mines.

1/ Includes street lighting and small industry.

Table 11. Eritrea: Asmara Price Index, 1993-97 1/

	Weights	1993	1994				1995				1996				1997			
		Dec.	March	June	Sep.	Dec.	March	June	Sep.	Dec.	March	June	Sep.	Dec.	March	June	Sep.	Dec.
	(January 1992 = 100)																	
Cereals	0.25	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	142.0	151.5	163.1	180.6
Vegetables, pasta, and others	0.15	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	123.3	130.2	136.7	144.0
Beef, fish, and dairy	0.10	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	109.4	108.8	112.8	117.0
Miscellaneous household items	0.15	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	146.7	146.8	157.1	152.1
Beverages	0.15	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	141.1	146.4	146.7	147.8
Clothing	0.10	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	212.6	213.6	216.1	220.0
Livestock (other)	0.10	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	160.9	179.2	175.8	161.2
Average index	1.0	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	145.5	151.5	157.3	161.5
	(Changes in percent)																	
Inflation																		
Quarterly change		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	-0.5	4.2	3.8	2.7
Twelve-month change		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	-5.2	0.1	7.8	10.6

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

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

Table 12. Eritrea: Summary of Developments in the Labor Market, 1994-97

	December 1994			December 1995			December 1996			December 1997		
	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
Registered job seekers	42,533	23,664	66,197	7,783	3,657	11,440	16,908	6,078	22,986	27,923	7,329	35,252
Number of job seekers placed	7,008	1,634	8,642	3,972	1,016	4,988	6,738	1,201	7,939	15,013	1,897	16,910
Reported vacancies	...	...	10,598	...	...	6,548	...	...	11,380	...	...	21,157
Eritreans permitted to work abroad	474	516	990	...	...	833	...	...	674	...	...	971
Employment in private and public establishments 1/	17,848	8,429	26,277	...	...	...	36,728	17,409	54,137	...	...	...
Of which: government-owned establishments	6,164	5,413	11,577	...	...	...	11,647	6,938	18,585	...	...	...

Source: Ministry of Labor and Human Welfare.

1/ Large establishments only.

Table 13. Eritrea: Summary of Government Operations, 1993-97

(In millions of nakfa)

	1993	1994 1/	1995	1996	1997 Prel.
Total revenue	890.6	950.7	1,320.2	1,371.6	1,967.4
Tax revenue	517.6	657.5	715.6	830.4	959.4
Direct taxes	179.3	315.8	339.7	380.0	447.9
Indirect domestic taxes	143.6	142.8	151.0	180.7	212.8
Import duties and taxes	180.7	187.1	224.9	269.7	298.7
Export tax	14.0	11.8	0.0	0.0	0.0
Nontax revenue	373.0	293.2	604.6	541.2	1,008.0
Port fees and charges	244.5	152.9	233.5	281.9	444.3
Contributions and other 2/	128.5	140.3	371.1	259.3	563.7
Total expenditure	1,559.0	2,005.7	2,680.0	2,721.5	2,588.8
Current expenditure	1,103.7	1,551.8	2,131.3	1,883.3	1,445.5
Wages, salaries, and allowances 3/	233.3	460.8	652.3	798.3	706.8
Materials	546.2	427.5	844.2	718.1	519.7
Grants and contributions	81.9	74.0	109.4	91.8	124.5
Interest and charges	0.9	3.4	16.9	36.2	49.3
Pension contributions and other transfers	99.0	153.6	337.9	44.3	12.5
Demobilization and reintegration of ex-combatants	99.0	153.6	41.8	14.0	0.0
Support to martyrs' families	0.0	0.0	296.1	30.3	12.5
Current expenditures, externally financed 4/	142.4	456.3	170.6	194.6	32.7
Capital expenditure and net lending	455.3	453.9	548.7	838.2	1,143.3
Central treasury	89.4	130.0	215.5	499.4	683.3
External grants	364.6	169.7	287.2	284.1	255.2
External loans	1.3	154.2	46.0	54.7	204.8
Overall balance (cash, excluding grants)	-668.4	-1,055.0	-1,359.8	-1,349.9	-621.4
Grants	507.0	626.0	491.0	508.6	290.4
External grants (capital and current)	507.0	626.0	457.8	478.7	287.9
Counterpart funds from external grants	0.0	0.0	33.2	29.9	2.5
Overall balance (cash, including grants)	-161.4	-429.0	-868.8	-841.3	-331.0
Financing	161.4	429.0	868.8	841.3	331.0
External (net)	1.3	154.2	46.0	54.7	204.8
Gross borrowing	1.3	154.2	46.0	54.7	204.8
Amortization	0.0	0.0	0.0	0.0	0.0
Domestic (net)	160.1	274.8	822.8	786.6	126.2
Banking system	-12.0	192.0	672.2	839.9	178.7
Nonbank financing	2.6	75.8	15.0	18.3	75.4
Privatization 5/	2.6	75.8	15.0	18.3	75.4
Treasury bills	0.0	0.0	0.0	0.0	0.0
Residual	169.5	7.0	135.6	-71.6	-127.9

Sources: Ministry of Finance; and staff estimates.

1/ In 1994, ERN 23.8 million of current expenditures was reclassified as capital expenditures.

2/ In 1995, includes martyrs' payments and thereafter social safety net transfers.

3/ In 1995, includes payments for civil service retrenchment (ERN 52 million) and retroactive salary payments to ex-combatants of ERN 70 million and ERN 150 million in 1995 and 1996, respectively.

4/ In 1993, only food aid; in 1994 and after, also includes other externally financed current expenditures.

5/ Figures include sales of government property.

Table 14. Eritrea: Selected Indicators of Government Operations, 1993-97

	1993	1994	1995	1996	1997 Prel.
			(Percentage change)		
Total revenue	82.3	6.7	38.9	3.9	43.4
Tax revenue	73.9	27.0	8.8	16.0	15.5
Nontax revenue	95.4	-21.4	106.2	-10.5	86.3
Total expenditure	112.2	28.6	33.6	1.5	-4.9
Current expenditure	71.5	40.6	37.3	-11.6	-23.2
Capital expenditure and net lending	398.1	-0.3	20.9	52.8	36.4
Grants	179.4	23.5	-21.6	3.6	-42.9
			(In percent of GNP)		
Total revenue	28.7	21.6	28.4	26.7	32.9
Tax revenue	16.7	14.9	15.4	16.2	16.1
Nontax revenue	12.0	6.7	13.0	10.6	16.9
Total expenditure	50.2	45.5	57.6	53.1	43.3
Current expenditure	35.5	35.2	45.8	36.7	24.2
Capital expenditure and net lending	14.6	10.3	11.8	16.3	19.1
Overall balance (cash, excluding grants)	-21.5	-23.9	-29.2	-26.3	-10.4
Grants	16.3	14.2	10.6	9.9	4.9
Overall balance (cash, including grants)	-5.2	-9.7	-18.7	-16.4	-5.5
Financing	5.2	9.7	18.7	16.4	5.5
External (net)	0.0	3.5	1.0	1.1	3.4
Domestic (net)	5.1	6.2	17.7	15.3	2.1
Memorandum item:					
GNP at current market prices (in millions of nakfa)	3,109	4,407	4,650	5,128	5,975

Sources: Ministry of Finance; and staff estimates.

Table 15. Eritrea: Government Revenues and Grants, 1993-97

	1993	1994	1995	1996	1997 Prel.
			(In millions of nakfa)		
Tax revenue	517.6	657.5	715.6	830.4	959.4
Direct taxes	179.3	315.8	339.7	380.0	447.9
Personal income	37.0	79.1	74.2	113.6	117.2
Business profits	95.1	160.7	185.0	230.7	292.9
Rehabilitation tax	40.9	73.0	73.2	23.3	18.1
Other 1/	6.3	3.0	7.3	12.4	19.7
Domestic indirect taxes	143.6	142.8	151.0	180.7	212.8
Of which: Sales tax on domestic goods and services 2/	143.6	142.8	151.0	180.7	212.8
Import duties and taxes	180.7	187.1	224.9	269.7	298.7
Customs duties	73.7	80.2	136.0	167.8	184.2
Sales and other taxes on imports	104.4	106.9	88.9	101.9	114.5
Other 3/	2.6	0.0	...	...	...
Export tax	14.0	11.8	0.0	0.0	0.0
Nontax revenue	375.6	333.4	629.6	559.5	1,063.4
Port fees and charges	244.5	152.9	233.5	281.9	444.3
Other fees and charges	25.5	60.7	74.9	87.5	93.3
Sales of goods and services	7.6	28.0	25.4	19.9	25.1
Sales of government property	2.6	40.2	25.0	18.3	55.4
Residual surplus and dividends	0.0	0.0	87.4	20.4	327.7
Other 4/	95.4	51.6	183.4	131.5	117.6
Capital revenue 5/	0.0	35.6	0.0	0.0	20.0
Revenue	893.2	1,026.5	1,345.2	1,389.9	2,042.8
External grants	507.0	626.0	491.0	508.6	290.5
Grants in kind/earmarked	507.0	626.0	457.8	478.7	288.0
Current external assistance 6/	142.4	456.3	170.6	194.6	32.7
Capital assistance (external grants)	364.6	169.7	287.2	284.1	255.3
Counterpart funds from external grants	...	...	33.2	29.9	2.5
Revenue and external grants	1,400.2	1,652.5	1,836.2	1,898.5	2,333.3
			(In percent of total revenue)		
Direct taxes	20.1	30.8	25.3	27.3	21.9
Domestic indirect taxes	16.1	13.9	11.2	13.0	10.4
Import duties and taxes	20.2	18.2	16.7	19.4	14.6
Export tax	1.6	1.1	0.0	0.0	0.0
Nontax revenue	42.1	32.5	46.8	40.3	52.1
Capital revenue	0.0	3.5	0.0	0.0	0.0

Sources: Ministry of Finance; and staff estimates.

1/ Agricultural income tax and land use fee; taxes on dividends and rental income.
2/ Includes stamp duties.
3/ Includes stamp duties, license fees, and penalty payments and "unspecified revenue".
4/ Includes voluntary contributions for rehabilitation purposes.
5/ In 1994, proceeds from sale of Nyala Hotel.
6/ In 1993, only food aid; in 1994 and beyond, also including other externally financed expenditure.

Table 16. Eritrea: Government Current Expenditure by Economic Classification, 1993-97

	1993	1994	1995	1996	1997 Prel.
	(In millions of nakfa)				
Current expenditure	1,103.7	1,551.8	2,131.3	1,883.3	1,445.5
Wages and operating expenditure	779.5	888.3	1,496.5	1,516.4	1,226.5
Wages, salaries, and allowances	233.3	460.8	652.3	798.3	706.8
Materials	546.2	427.5	844.2	718.1	519.7
Grants and contributions	81.9	74.0	109.4	91.8	124.5
Interest and charges	0.9	3.4	16.9	36.2	49.3
Domestic debt	0.9	3.4	16.9	36.2	49.3
External debt	0.0	0.0	...	0.0	0.0
Demobilization and reintegration of ex-combatants 1/	99.0	153.6	41.8	14.0	0.0
Support to martyrs' families	...	...	296.1	30.3	12.5
Current expenditure, externally financed 2/	142.4	456.3	170.6	194.6	32.7
Reclassification adjustment between current and capital expenditure	...	-23.8	...	0.0	...
	(In percent of GNP)				
Current expenditure	35.5	35.2	45.8	36.7	24.2
Wages, salaries, and allowances	7.5	10.5	14.0	15.6	11.8
Materials	17.6	9.7	18.2	14.0	8.7
Grants and contributions	2.6	1.7	2.4	1.8	2.1
Demobilization and reintegration of ex-combatants 1/	3.2	3.5	0.9	0.3	0.0
Current expenditure, externally financed 2/	4.6	10.4	3.7	3.8	0.5
	(In percent of total current expenditure)				
Wages, salaries, and allowances	21.1	29.7	30.6	42.4	48.9
Materials	49.5	27.5	39.6	38.1	36.0
	(Annual changes in percent)				
Wages and operating expenditure	71.0	14.0	68.5	1.3	-19.1
Wages, salaries, and allowances	70.4	97.5	41.6	22.4	-11.5
Materials	71.2	-21.7	97.5	-14.9	-27.6
Grants and contributions	...	-9.6	47.8	-16.1	35.6
Demobilization and reintegration of ex-combatants 1/	...	55.2	-72.8	-66.5	-100.0
Current expenditure, externally financed 2/	-21.5	220.4	-62.6	14.1	-83.2
Current expenditure	71.5	40.6	37.3	-11.6	-23.2
Memorandum items:					
Special expenditure 3/ 4/ 5/					
In millions of birr	99.0	153.6	458.5	194.3	163.5
Support to martyrs families	...	...	296.1	30.3	12.5
Civil service retrenchment	...	...	50.6	...	...
Retroactive salary payments to ex-combatants working for government	...	...	70.0	150.0	151.0
Demobilization and reintegration of ex-combatants	99.0	153.6	41.8	14.0	0.0
In percent of total current expenditure	9.0	9.9	21.5	10.3	11.3
In percent of GNP	3.2	2.6	6.8	3.8	2.7

Sources: Ministry of Finance; and staff estimates.

1/ Excluding costs for reintegration of ex-combatants.
2/ In 1993, only food aid.
3/ In 1995, includes 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, includes payments to martyrs' families (Br 30 million) and retroactive salary payments to security personnel (Br 150 million).
5/ In 1997, includes payments to martyrs' families (Br 13 million) and retroactive salary payments to security personnel (Br 151 million).

Table 17. Eritrea: Government Current Expenditure by Functional Classification, 1993-97

	1993	1994	1995	1996	1997 Prel.
	(In millions of nakfa)				
General services	649.8	635.9	1,090.3	1,233.1	886.0
Internal affairs	33.9	38.0	110.7	74.7	56.6
Regional administration	21.8	32.7	48.6	40.6	55.5
Foreign affairs	25.0	54.0	71.5	77.1	84.5
Ministry of Finance	16.3	47.3	37.7	39.1	30.8
Defense 1/	539.2	438.7	770.5	968.1	634.2
Other 2/	13.6	25.2	51.3	33.5	24.4
Economic services	103.3	185.0	235.1	186.4	140.8
Agriculture and natural resources 3/	17.1	18.0	30.1	15.4	32.8
Trade, industry, and tourism	6.3	5.0	8.6	14.3	7.2
Mining and energy	2.5	5.1	9.6	5.5	4.0
Roads, transport, and communication	52.7	98.5	97.6	85.4	85.0
Construction and urban development	24.4	57.7	88.5	61.8	9.7
Other 4/	0.3	0.7	0.7	4.0	2.1
Social services	94.5	135.4	226.9	188.0	279.5
Education and training	46.3	64.9	97.6	70.7	139.3
Health	18.2	35.1	75.3	56.0	81.1
Labor and social welfare	11.9	16.6	33.2	35.1	8.9
Relief and rehabiliation	4.9	4.7	7.8	3.3	8.7
Other 5/	13.2	14.1	13.0	22.9	41.5
Safety net measures	99.0	153.6	337.9	44.2	12.5
Demobilization and reintegration of ex-combatants 6/	99.0	153.6	41.8	14.0	0.0
Reintegration of refugees	...	...	...	0.0	0.0
Support to martyrs' families	...	...	296.1	30.2	12.5
Interest and charges	0.9	3.4	16.9	36.2	49.4
Domestic debt	0.9	3.4	16.9	36.2	49.4
External debt	--	--	...	0.0	0.0
Current expenditure, externally financed	142.4	456.3	170.6	194.6	32.7
Miscellaneous 7/	13.8	-17.8	53.6	0.0	44.6
Total current expenditure	1,103.7	1,551.8	2,131.3	1,882.5	1445.5
	(In percent of GNP)				
General services	20.9	14.4	23.4	24.0	14.8
of which: defense 1/	17.3	10.3	11.8	10.4	3.4
Economic services	3.3	4.2	5.1	3.6	2.4
Social services	3.0	3.1	4.9	3.7	4.7
of which: education and health	2.1	2.3	3.7	2.5	3.7
	(Annual changes in percent)				
General services	97.5	-2.1	71.5	13.1	-28.1
Economic services	63.4	79.1	27.1	-20.7	-24.4
Social services	48.4	43.3	67.6	-17.1	48.7
Other	36.6	132.5	-2.8	-52.5	-49.4

Sources: Ministry of Finance; and staff estimates.

1/ Excludes National Service Program in 1994-96, and adjusted for back pay of wages and salaries.
2/ Includes President's Office, Ministry of Justice, and Auditor General.
3/ Includes Ministry of Marine Resources.
4/ Includes Standards Office and Land Commission.
5/ Includes Ministry of Information and Culture.
6/ Excludes costs for reintegration of ex-combatants.
7/ In 1994, includes reclassification adjustment (Br -23.8 million) from recurrent to capital expenditures.

Table 18. Eritrea: Government Capital Expenditure, 1993-97

	1993	1994	1995	1996	1997 Prel.
			(In millions of nakfa)		
General services	41.7	17.3	54.4	163.9	99.6
Economic development	372.5	339.4	410.4	471.4	709.7
Agriculture and natural resources 1/	244.3	130.8	272.5	256.1	180.6
Mining and energy	9.9	83.5	17.8	93.1	190.7
Trade, industry, and tourism	58.1	69.7	25.1	35.0	83.1
Transport, construction, and communication	60.2	55.4	93.8	73.6	242.1
Finance	0.0	0.0	1.2	13.6	13.2
Social development	41.1	73.4	83.9	202.9	334.0
Education	19.3	9.3	15.5	49.3	99.3
Health	18.1	13.5	35.5	87.7	55.0
Social affairs	3.6	29.5	32.9	25.0	19.6
Other 2/	0.1	21.1	...	40.9	160.1
Total capital expenditure	455.3	453.9	548.7	838.2	1,143.3
Financing by source	455.3	453.9	548.7	838.2	1,143.3
Central Treasury	89.4	130.0	215.5	499.4	683.3
External grants	364.6	169.7	287.2	284.1	255.2
External loans	1.3	154.2	46.0	54.7	204.8
			(In percent of GNP)		
General services	1.3	0.4	1.2	3.2	1.7
Economic development	12.0	7.7	8.8	9.2	11.9
Social development	1.3	1.7	1.8	5.0	3.0
Of which: education and health	1.2	0.5	1.1	1.8	3.2
			(In percent of total)		
General services	9.2	3.8	9.9	19.6	8.7
Economic development	81.8	74.8	74.8	56.2	62.1
Social development	9.0	16.2	15.3	24.2	29.2
Of which: education and health	8.2	5.0	9.3	16.3	13.5
			(Annual changes in percent)		
General services	434.6	-58.5	214.5	201.3	-39.2
Economic development	421.0	-8.9	20.9	14.9	50.6
Social development	239.7	78.6	14.3	141.8	64.6
Total capital expenditure	398.1	-0.3	20.9	52.8	36.4

Sources: Ministry of Finance; and staff estimates.

1/ Including Ministry of Marine Resources.

2/ Including Ministry of Information and Culture.

Table 19. Eritrea: Summary Monetary Survey, 1993-97

	1993	1994	1995	1996		1997	
	December			June	Dec.	June	Dec.
	(In millions of nakfa)						
Net foreign assets	553.5	1,087.0	975.7	722.8	1,148.4	1,574.7	2,205.7
Foreign assets	575.7	1,125.1	1,044.6	793.1	1,206.9	1,630.3	2,287.0
Foreign liabilities	22.3	38.1	68.9	70.3	58.5	55.6	81.3
Net claims on the birr area 1/	1,275.8	1,256.5	975.6	852.4	293.8	-358.0	...
Birr assets	1,450.3	1,563.3	1,666.9	1,849.8	1,846.3	1,781.1	...
Cash in vault	1,301.7	1,175.7	972.4	1,069.7	894.4	688.0	...
Correspondent account	97.9	328.7	640.7	769.7	911.4	1,058.1	...
Clearing account	50.7	58.7	...	...	...	...	...
Birr liabilities	174.5	306.8	691.3	997.4	1,552.4	2,139.1	...
Correspondent account	114.3	238.7	623.2	929.4	1,483.9	2,112.4	...
Clearing account	60.2	68.1	68.1	68.0	68.6	26.7	...
Net domestic credit	165.0	672.6	1,989.0	2,568.1	3,530.5	3,528.0	3,810.4
Net claims on the central government	-103.8	87.5	759.7	971.8	1,599.6	1,532.2	1,778.3
Credit to central government	0.0	311.0	1,011.5	1,496.5	1,915.5	2,120.7	2,100.7
Deposits of central government 2/	103.8	223.5	251.8	524.7	315.9	588.5	322.4
Credit to the economy	268.8	585.1	1,229.3	1,596.3	1,931.0	1,995.7	2,032.1
Claims on public enterprises	203.4	237.7	364.0	310.1	362.2	323.7	341.5
Claims on private sector	65.5	347.4	865.3	1,286.2	1,568.8	1,672.0	1,690.6
Broad money	1,925.3	2,889.3	3,569.3	3,713.9	4,111.8	4,191.3	5,216.3
Money (M1)	866.8	1,258.4	1,295.8	1,435.5	1,677.0	1,634.3	2,285.7
Currency outside banks	...	...	...	...	...	...	635.8
Deposits	866.8	1,258.4	1,295.8	1,435.5	1,677.0	1,634.3	1,649.9
Quasi money	1,058.5	1,630.9	2,273.5	2,278.4	2,434.8	2,557.0	2,930.6
Other items (net)	69.0	126.9	370.9	430.2	862.3	556.7	803.3
	(Annual change in percent of beginning-of-period broad money stock)						
Net foreign assets	44.3	27.7	-3.9	-8.0	4.8	22.9	25.7
Net claims on the birr area	15.3	-1.0	-9.7	-15.7	-19.1	-32.6	...
Net domestic credit	13.8	26.4	45.6	53.8	43.2	25.8	6.8
Net claims on the central government	-1.0	9.9	23.3	31.1	23.5	15.1	4.3
Credit to the economy	14.9	16.4	22.3	22.7	19.7	10.8	2.5
Claims on public enterprises	11.2	1.8	4.4	1.4	-0.1	0.4	-0.5
Claims on private sector	3.8	14.6	17.9	21.3	19.7	10.4	3.0
Broad money	62.2	50.1	23.5	15.5	15.2	12.9	26.9
Money (M1)	...	20.3	1.3	3.5	10.7	5.4	14.8
Quasi money	32.8	29.7	22.2	12.0	4.5	7.5	12.1
Other items (net)	11.2	3.0	8.4	14.6	13.8	3.4	...
Memorandum items:							
Broad money excluding currency outside banks							
(in millions of nakfa)	1,925.3	2,889.3	3,569.3	3,713.9	4,111.8	4,191.3	4,580.5
(as percent of beginning-of-period money stock)	62.2	50.1	23.5	15.5	15.2	12.9	11.4
Credit to the economy (growth in percent)	190.4	117.7	110.1	84.3	57.1	25.0	5.2
Velocity (GDP/average broad money)	1.6	1.4	1.2	...	1.1	...	1.0

Sources: Bank of Eritrea; and staff estimates.

1/ As of 1997, net birr claims are to be resolved with Ethiopia and are included in "other items (net)."

2/ From 1996, deposits of central government reflect additional amounts previously classified under "other items (net)."

Table 20. Eritrea: Summary Accounts of the Bank of Eritrea, 1993-97

(In millions of nakfa)

	1993	1994	1995	1996		1997	
	December			June	Dec.	June	Dec.
Net foreign assets	73.0	449.0	420.3	513.2	844.9	1,307.9	1,924.2
Assets	73.0	454.6	426.4	519.3	851.0	1,314.5	1,930.8
Claims on foreign commercial banks	69.1	419.3	269.4	280.8	476.6	714.7	1,323.0
Foreign exchange	3.9	35.3	157.0	238.5	374.4	599.8	607.8
Gold	3.7	29.5	132.0	198.9	322.8	375.3	450.5
Foreign currency	0.2	5.8	25.0	39.6	51.6	224.5	157.3
Liabilities	0.0	5.6	6.1	6.1	6.1	6.6	6.6
Net claims on the birr area 1/	326.3	247.0	258.0	232.7	196.2	145.0	...
Birr in vault	344.6	265.3	276.3	250.9	214.4	163.3	...
Liabilities to National Bank of Ethiopia	18.3	18.3	18.3	18.2	18.2	18.3	...
Domestic credit	-103.8	87.5	759.7	971.8	1,599.6	1,532.2	1,778.3
Claims on central government (net)	-103.8	87.5	759.7	971.8	1,599.6	1,532.2	1,778.3
Credit to central government	0.0	311.0	1,011.5	1,496.5	1,915.5	2,120.7	2,100.7
Central government deposits	103.8	223.5	251.8	524.7	315.9	588.5	322.4
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)	-18.2	-48.3	-98.0	-124.8	-147.2	112.6	979.6
Unclassified assets	16.0	35.0	208.5	226.6	257.3	551.9	1,447.4
Uncleared effects	9.7	7.5	0.1	0.0	1.2	0.0	0.3
Debtors	3.7	20.9	80.7	97.8	125.7	287.1	238.2
Fixed assets	2.6	2.8	3.1	3.1	4.0	4.3	12.0
Other accounts 1/	0.0	3.8	124.6	125.7	126.4	260.5	1,196.9
Unclassified liabilities	23.1	5.1	227.2	219.4	269.6	268.9	355.8
Creditors	1.1	5.1	77.0	46.4	50.5	86.9	90.1
Other accounts 1/	21.9	0.0	150.2	173.0	219.1	182.0	265.7
Capital account	11.1	78.2	79.3	132.0	135.0	170.5	112.0
General reserve fund	8.0	1.8	76.5	41.1	44.1	79.6	104.9
Capital reserves	2.5	30.8	2.8	2.8	2.8	2.8	7.1
Provisions	0.4	45.6	0.0	88.1	88.1	88.1	0.0
Reserve money	277.4	735.3	1,340.1	1,592.9	2,493.5	3,101.1	4,685.5
Currency in circulation	0.0	0.0	0.0	0.0	0.0	0.0	862.6
Deposits of commercial banks	277.4	735.3	1,340.1	1,592.9	2,493.5	3,101.1	3,822.9

Source: Bank of Eritrea.

1/ As of 1997, net birr claims are to be resolved with Ethiopia and are included in "other items (net)."

Table 21. Eritrea: Summary Accounts of the Commercial Bank of Eritrea, 1993-97

(In millions of nakfa)

	1993	1994	1995	1996		1997	
	December			June	Dec.	June	Dec.
Reserves	278.0	735.3	1,334.5	1,591.5	2,447.4	3,049.8	3,917.1
Vault cash	...	...	...	...	...	...	212.6
Deposits with the Bank of Eritrea	278.0	735.3	1,334.5	1,591.5	2,447.4	3,049.8	3,704.5
Net foreign assets	480.4	638.0	553.4	181.4	289.9	227.5	250.8
Assets	502.7	670.5	616.2	245.6	342.3	293.8	325.5
Gold	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign currency	6.9	20.3	7.4	20.7	21.5	7.9	24.1
Claims on foreign banks	495.7	650.2	608.8	224.9	320.8	285.9	301.4
Nonresident birr accounts	22.3	32.5	62.8	64.2	52.4	17.3	0.0
Nonresident foreign currency accounts	0.0	0.0	0.0	0.0	0.0	49.0	74.7
Net claims on the birr area 1/	949.5	1,017.3	671.7	617.2	65.5	-512.3	...
Claims on the birr area	1,105.7	1,297.9	1,336.8	1,588.5	1,591.3	1,582.8	...
Cash in vault	957.1	910.4	696.1	818.8	679.9	524.7	...
Correspondent account	97.9	328.7	640.7	769.7	911.4	1,058.1	...
Claims on Commercial Bank of Ethiopia	50.7	58.7	0.0	0.0	0.0	0.0	...
Liabilities to birr area	156.2	280.6	665.1	971.3	1,525.8	2,095.1	...
Correspondent account	114.3	191.1	665.1	971.3	1,525.8	2,095.1	...
Commercial Bank of Ethiopia	41.9	89.5	...	...	...	...	...
Net domestic credit	268.8	566.6	1,112.1	1,341.8	1,507.8	1,558.8	1,653.2
Claims on central government (net)	82.9	0.0	0.0	0.0	0.0	0.0	0.0
Credit to the central government	82.9	0.0	0.0	0.0	0.0	0.0	0.0
Central Government deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on local government	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on nonfinancial public enterprises	120.4	237.7	460.5	406.6	458.7	420.2	385.1
Claims on the private sector	65.5	328.9	651.6	935.2	1,049.1	1,138.6	1,268.1
Deposits	1,925.3	2,894.5	3,413.3	3,433.3	3,759.6	3,779.9	4,065.5
Demand deposits	866.8	1,258.4	1,295.8	1,435.5	1,670.9	1,617.3	1,616.6
Savings deposits	936.2	1,317.9	1,668.3	1,745.7	1,827.4	1,853.2	2,121.1
Fixed deposits	122.3	318.2	449.2	252.1	261.3	162.7	186.0
Foreign currency deposits	0.0	0.0	0.0	0.0	0.0	146.7	141.9
Other items (net) 1/	51.4	62.6	258.4	298.6	550.6	543.8	1,755.5

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

1/ As of 1997, net birr claims are to be resolved with Ethiopia and are included in "other items (net)."

Table 22. Eritrea: Summary Accounts of the Housing and Commerce Bank of Eritrea, 1994-97

(In millions of nakfa)

	1994	1995	1996		1997	
	December		June	Dec.	June	Dec.
Reserves	35.6	61.5	23.2	46.5	48.4	131.9
Deposits with the BE and CBE 1/	35.6	61.5	23.2	46.5	48.4	117.6
Vault cash	...	...	...	...	...	14.3
Net foreign assets	0.0	2.0	28.2	13.5	22.0	30.7
Assets	0.0	2.0	28.2	13.5	22.0	30.7
Claims on foreign banks	0.0	2.0	28.2	13.5	22.0	15.0
Foreign currency	0.0	0.0	0.0	0.0	0.0	15.7
Liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Net claims on the birr area 2/	-7.8	45.9	2.5	32.0	26.6	...
Claims on the birr area	0.1	53.8	10.4	40.5	35.0	...
Cash in vault	0.1	53.8	10.4	40.5	35.0	...
Liabilities to birr area	7.9	7.9	7.9	8.4	8.4	...
Claims on the private sector	18.5	213.7	351.0	519.7	533.4	422.5
Loans and advances	18.5	37.8	56.6	85.7	120.9	265.7
Overdrafts	0.0	175.9	294.4	434.0	412.5	156.8
Deposits	30.4	217.5	303.8	398.7	459.8	632.6
Demand deposits	0.0	0.0	0.0	6.0	17.0	33.4
Savings deposits	30.4	186.2	303.8	325.1	353.5	495.1
Fixed deposits	0.0	31.3	0.0	67.6	60.6	61.5
Foreign currency deposits	0.0	0.0	0.0	0.0	28.7	42.6
Liabilities to other banks	0.0	96.5	96.5	196.5	196.5	143.6
Other items (net) 2/	15.9	9.1	4.5	16.6	-25.8	-191.0

Source: Housing and Commerce Bank of Eritrea.

1/ Bank of Eritrea (BE) and Commercial Bank of Eritrea (CBE).

2/ As of 1997, net birr claims are to be resolved with Ethiopia and are included in "other items (net)."

Table 23. Eritrea: Distribution of Net Foreign Assets, 1993-97

(In millions of nakfa)

	1993	1994	1995	1996		1997	
	December			June	Dec.	June	Dec.
Net foreign assets	553.5	1,087.0	975.7	722.8	1,148.4	1,574.7	2,205.7
Bank of Eritrea	73.0	449.0	420.3	513.2	844.9	1,307.9	1,924.2
Commercial Bank of Eritrea	480.4	638.0	553.4	181.4	289.9	244.8	250.8
Housing and Commerce Bank of Eritrea	0.0	0.0	2.0	28.2	13.5	22.0	30.7
Assets							
Bank of Eritrea	73.0	454.6	426.4	519.3	851.0	1,314.5	1,930.8
Commercial Bank of Eritrea	502.7	670.5	616.2	245.6	342.3	293.8	325.5
Housing and Commerce Bank of Eritrea	0.0	0.0	2.0	28.2	13.5	22.0	30.7
Liabilities							
Bank of Eritrea	0.0	5.6	6.1	6.1	6.1	6.6	6.6
Commercial Bank of Eritrea	22.3	32.5	62.8	64.2	52.4	49.0	74.7
Housing and Commerce Bank of Eritrea	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Annual change	525.7	533.5	-111.3	-257.5	172.7	851.9	1,057.4
Bank of Eritrea	73.0	375.9	-28.7	242.2	424.6	794.7	1,079.3
Commercial Bank of Eritrea	452.7	157.6	-84.6	-527.9	-263.5	63.4	-39.1
Housing and Commerce Bank of Eritrea	0.0	0.0	2.0	28.2	11.6	-6.2	17.2
Birr claims (net) 1/	1,275.8	1,256.5	975.6	852.4	293.8	-358.0	...
Bank of Eritrea	326.3	247.0	258.0	232.7	196.2	145.0	...
Commercial Bank of Eritrea	949.5	1,017.3	671.7	617.2	65.5	-529.6	...
Housing and Commerce Bank of Eritrea	0.0	-7.8	45.9	2.5	32.0	26.6	...
Assets							...
Bank of Eritrea	344.6	265.3	276.3	250.9	214.4	163.3	...
Commercial Bank of Eritrea	1,105.7	1,297.9	1,336.8	1,588.5	1,591.3	1,582.8	...
Housing and Commerce Bank of Eritrea	0.0	0.1	53.8	10.4	40.5	35.0	...
Liabilities							
Bank of Eritrea	18.3	18.3	18.3	18.2	18.2	18.3	...
Commercial Bank of Eritrea	156.2	280.6	665.1	971.3	1,525.8	2,112.4	...
Housing and Commerce Bank of Eritrea	0.0	7.9	7.9	7.9	8.4	8.4	...
Annual change	181.4	-19.3	-280.9	-512.9	-681.8	-1,210.4	...
Bank of Eritrea	92.2	-79.3	11.0	-104.8	-61.8	-87.7	...
Commercial Bank of Eritrea	89.1	67.7	-345.6	-410.5	-606.2	-1,146.8	...
Housing and Commerce Bank of Eritrea	0.0	-7.8	53.7	9.9	-13.9	24.1	...

Sources: Bank of Eritrea; Commercial Bank of Eritrea; and Housing and Commerce Bank of Eritrea.

1/ As of 1997, net birr claims are to be resolved with Ethiopia.

Table 24. Eritrea: Commercial Banks' Excess Reserves, 1993-97

(In millions of nakfa, unless otherwise indicated)

	1993	1994	1995	1996		1997	
	December			June	Dec.	June	Dec.
Comercial Bank of Eritrea							
Reserves	1,227.5	1,752.5	2,006.2	2,208.7	2,512.9	2,537.5	3,704.5
Net claims on the birr area 1/	949.5	1,017.3	671.7	617.2	65.5	-512.3	...
Deposits with Bank of Eritrea	278.0	735.3	1,334.5	1,591.5	2,447.4	3,049.8	3,704.5
Deposits	1,925.3	2,894.5	3,413.3	3,433.3	3,759.6	3,779.9	4,065.5
Demand	866.8	1,258.4	1,295.8	1,435.5	1,670.9	1,617.3	1,616.6
Savings	936.2	1,317.9	1,668.3	1,745.7	1,827.4	1,853.2	2,121.1
Fixed	122.3	318.2	449.2	252.1	261.3	162.7	186.0
Foreign currency deposits	0.0	0.0	0.0	0.0	0.0	146.7	141.9
Reserve requirement (20 percent of deposits)	385.1	578.9	682.7	686.7	751.9	756.0	813.1
Excess reserves	842.4	1,173.6	1,323.5	1,522.1	1,761.0	1,781.5	2,891.4
Housing and Commerce Bank of Eritrea							
Reserves	0.0	27.8	107.4	25.6	78.6	75.0	117.6
Net claims on the birr area 1/	0.0	-7.8	45.9	2.5	32.0	26.6	...
Deposits with the Bank of Eritrea	0.0	35.6	61.5	23.2	46.5	48.4	117.6
Deposits	0.0	30.4	217.5	303.8	398.7	459.8	632.6
Demand	0.0	0.0	0.0	0.0	6.0	17.0	33.4
Savings	0.0	30.4	186.2	303.8	325.1	353.5	495.1
Fixed	0.0	0.0	31.3	0.0	67.6	60.6	61.5
Foreign currency deposits	0.0	0.0	0.0	0.0	0.0	28.7	42.6
Reserve requirement (20 percent of deposits)	0.0	6.1	43.5	60.8	79.7	92.0	126.5
Excess reserves	0.0	21.7	63.9	-35.1	-1.2	-17.0	-8.9
Banks' excess liquidity	842.4	1,195.4	1,387.4	1,487.0	1,759.8	1,764.5	2,882.5
(As a percent of deposits)	43.8	40.9	38.2	39.8	42.3	41.6	61.4

Sources: Bank of Eritrea; and staff estimates.

1/ As of 1997, net birr claims are to be resolved with Ethiopia.

Table 25. Eritrea: Sectoral Distribution of Commercial Bank Loans, 1994-97

(In millions of nakfa)

	1994		1995				1996				1997			
	December		June		December		June		December		June		December	
	Total	*Of which*: Private	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	40.9	10.3	54.0	22.9	68.0	26.6	...	...	114.2	46.1	92.6	53.9	119.2	66.3
Term loans	8.6	7.9	17.8	...	26.2	23.3	...	...	64.1	42.2	51.8	50.5	64.6	46.9
Overdrafts	32.3	2.4	36.2	...	41.8	3.3	...	...	50.1	3.9	40.8	3.4	54.6	19.4
Manufacturing	55.7	12.4	109.9	47.2	153.0	36.7	...	...	246.2	88.5	254.0	116.3	317.2	205.6
Term loans	6.8	5.6	48.2	17.4	61.8	15.9	...	...	147.2	58.8	144.1	62.6	188.6	128.8
Overdrafts	48.9	6.8	61.7	29.8	91.2	20.8	...	...	99.0	29.7	109.9	53.7	128.6	76.8
Domestic trade and services	162.6	91.5	190.9	171.7	426.4	281.9	...	...	707.6	500.9	569.0	433.4	750.7	580.8
Term loans	124.2	66.4	146.4	128.6	291.8	174.1	...	...	480.3	280.0	377.0	344.5	506.3	382.0
Overdrafts	38.4	25.1	44.5	43.1	134.6	107.8	...	...	227.3	220.9	192.0	88.9	244.4	198.8
Export	6.6	6.6	17.8	19.6	25.2	...	...	...	38.9	33.6	39.1	32.9	58.3	40.3
Term loans	2.5	2.5	8.1	...	15.3	...	...	...	26.8	21.5	21.8	17.2	31.3	25.3
Overdrafts	4.1	4.1	9.7	...	9.9	...	...	...	12.1	12.1	17.3	15.7	27.0	15.0
Import	60.6	45.5	131.7	100.1	127.7	81.7	...	...	203.1	176.9	164.4	148.9	230.8	199.7
Term loans	28.7	18.6	43.1	...	30.8	25.9	...	...	83.7	77.9	40.7	40.7	93.2	86.4
Overdrafts	31.9	26.9	88.6	...	96.9	55.8	...	...	119.4	99.0	123.7	108.2	137.6	113.3
Building and construction	55.3	3.9	57.4	9.4	84.1	33.8	...	...	95.2	34.9	92.2	34.2	103.8	53.0
Term loans	7.5	3.1	7.5	...	31.9	...	...	...	37.9	33.9	37.6	33.7	41.3	37.3
Overdrafts	47.8	0.8	49.9	...	52.2	...	...	...	57.3	1.0	54.6	0.5	62.5	15.7
Other	184.8	119.8	190.8	166.2	176.5	138.7	...	...	102.5	102.5	130.2	130.2	73.2	73.2
Of which: loans under dispute	51.0	5.6	50.9	0.0	50.9	0.0	...	...	50.1	0.0	0.0	0.0	0.0	0.0
Total 1/	566.5	290.0	752.5	537.1	1,060.9	...	...	...	1,507.7	984.3	1,341.5	949.8	1,653.2	1,218.9
Term loans	363.1	223.9	461.9	...	634.6	...	...	...	942.5	616.8	803.2	679.4	998.5	779.9
Overdrafts	203.3	66.1	290.6	...	426.6	...	...	...	565.2	366.6	538.3	270.4	654.7	439.0

Source: Commercial Bank of Eritrea.

1/ Figures may not correspond exactly to those reported in Table 21, owing to classification issues.

Table 26. Eritrea: Structure of Interest Rates, 1992-97 1/

(In percent per annum)

	December 1992 - August 1994					
	Government-owned enterprises	Individuals and private organizations	1994	1995	1996	1997
			December			
Savings deposits	...	8.0	6.0	6.0-8.0	6.0	6.0
Loans						
Agriculture	9.0	10.0				
Commercial	...	...	8.0	8.5-9.5	8.5-9.5	8.5-9.5
Small scale	...	...	7.5	7.5-8.5	7.5-8.5	8.5-10.0
Industry, mining, power, and water resources	11.0	12.0	8.5	8.5-9.5	8.5-9.5	9.5-12.0
Cottage industries	...	...	...	7.5-8.5	7.5-8.5	9.5-12.0
Domestic trade	11.0	12.5	9.0	12.0	12.0	12.0
Transport and communications	11.0	11.0	8.5	8.5	8.5	9.0-12.0
Export trade	10.0	10.0	8.0	8.5	8.0	9.0-10.0
Import trade	11.0	12.0	9.0	12.0	9-12.0	12.0
Hotels and tourism	10.0	12.5	9.0	9.5	8.5-9.5	9.0-12.0
Personal loans	...	...	...	10.0	10.0	12.0
Housing						
Construction	8.5	9.5	7.0	7.5-9.5	7.5-9.5	8.0-10.0
Purchases	10.0	12.0	8.0	12.0	12.0	8.5-11.0

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

1/ Represents the interest rate structure of the Commercial Bank of Eritrea.

Table 27. Eritrea: Balance of Payments, 1993-97

	1993	1994	1995	1996	1997
	(In millions of U.S. dollars)				
Trade balance	-239.0	-331.4	-323.2	-418.5	-436.4
Exports, f.o.b	36.1	64.5	80.6	95.3	53.1
Imports, c.i.f.	275.1	395.9	403.8	513.7	489.5
Franco valuta	173.3	303.0	237.2	272.0	276.7
Private	103.6	198.3	163.8	189.1	208.8
Official (aid-financed imports)	69.7	104.7	73.4	82.9	67.8
Petroleum products	29.1	28.5	38.0	48.2	46.4
Other imports (financed by bank reserves)	72.6	64.4	128.6	193.6	166.4
Services (net)	102.0	72.9	47.1	51.2	54.9
Receipts	102.9	79.8	90.8	104.8	148.3
Payments	0.9	6.9	43.7	53.7	93.4
Investment income (net)	...	0.0	7.6	-7.3	-3.4
Private transfers (net)	165.4	276.3	215.3	243.9	348.4
Receipts	165.5	289.0	215.8	245.3	350.7
Payments	0.1	12.7	0.5	1.4	2.3
Current account (excluding official transfers)	28.4	17.9	-53.2	-130.7	-36.5
Official transfers (net)	69.5	79.7	71.0	79.9	41.4
Capital account	2.4	29.2	8.2	44.1	66.7
Official long-term capital	2.4	29.2	8.2	7.4	28.4
Loan disbursements	2.4	29.2	8.2	7.4	28.4
Amortization payments	0.0	0.0	0.0	0.0	0.0
Foreign investment	...	...	...	36.7	38.3
Short-term capital and errors and omissions	8.8	-48.5	-92.3	-68.5	-183.1
Overall balance	109.1	78.2	-66.3	-75.2	-111.5
Net foreign assets (- increase) and claims on the birr area (- increase)	-109.1	-78.2	66.3	75.2	111.5
Bank of Eritrea	-25.5	-44.4	2.6	-53.8	-74.1
Commercial Bank of Eritrea	-83.6	-33.8	63.7	129.0	185.6
	(In percent of GNP, unless otherwise specified)				
Memorandum items:					
Current account (excluding official transfers)	5.6	2.7	-7.7	-17.2	-4.4
Current account (including official transfers)	19.4	14.7	2.6	-6.7	0.6
Gross reserves in convertible currency	88.8	168.6	154.3	177.0	259.9
(in months of imports of goods and services)	3.9	5.1	4.6	4.1	4.9
Stock of external debt (in millions of U.S. dollars)	2.4	31.6	39.1	47.2	75.6
(in percent of GNP)	0.5	4.8	5.7	6.2	9.1
Debt-service ratio (in percent of exports of goods and services)	...	...	...	0.2	0.6
Exchange rate (nakfa per U.S. dollar; annual average)	...	6.7	6.7	6.7	7.2
Auction rate	5.2	6.2	6.3	6.4	...
Preferential rate	7.1	7.1	7.2	7.1	7.2
GNP (in millions of U.S. dollars)	504.2	664.7	688.8	760.7	829.9

Sources: Bank of Eritrea; and staff estimates.

Table 28. Eritrea: Commodity Composition of Exports, 1993-97 1/

(In millions of nakfa, unless indicated otherwise)

	1993	1994	1995	1996	1997
Food and live animals	27.8	117.7	141.3	92.4	81.3
Of which: Ethiopia	5.0	24.9	56.5	19.2	15.1
In percent	18.0	21.2	40.0	20.8	18.5
Beverages and tobacco	8.7	9.2	19.7	26.2	8.9
Of which: Ethiopia	7.6	8.4	17.9	25.7	8.4
In percent	87.5	91.3	90.9	98.1	93.8
Crude materials	76.6	132.1	156.1	123.0	129.5
Of which: Ethiopia	66.2	73.8	117.0	92.0	94.6
In percent	86.4	55.9	75.0	74.8	73.0
Mineral fuels, lubricants, and related materials	0.0	0.0	0.1	0.2	0.1
Of which: Ethiopia	0.0	0.0	0.1	0.2	0.1
In percent	0.0	0.0	100.0	100.0	100.0
Animal and vegetable oils, fats, and waxes	0.1	0.0	2.2	2.6	1.4
Of which: Ethiopia	0.0	0.0	2.2	2.5	1.3
In percent	0.0	0.0	100.0	96.2	97.1
Chemicals and related products	6.2	7.5	12.0	13.4	8.2
Of which: Ethiopia	3.0	6.8	11.0	11.4	5.6
In percent	48.4	90.4	91.7	85.1	67.8
Manufactured goods	52.9	67.8	100.3	88.3	64.3
Of which: Ethiopia	17.4	37.1	68.3	59.4	38.6
In percent	32.9	54.7	68.1	67.3	59.9
Machinery and transport equipment	3.5	11.7	20.2	27.7	10.8
Of which: Ethiopia	3.0	10.2	13.9	20.7	5.8
In percent	85.7	87.4	68.8	74.7	53.5
Miscellaneous manufactured articles	33.5	51.1	76.9	146.6	70.9
Of which: Ethiopia	28.2	46.3	67.3	104.8	68.8
In percent	84.1	90.6	87.5	71.5	97.1
Total	209.2	397.1	528.8	520.4	375.3
Of which: Ethiopia	130.4	207.5	354.2	335.9	238.1
In percent	62.3	52.3	67.0	64.5	63.5

Source: Customs Office.

1/ Data may differ from those in Table 27, owing to incomplete information on commodity composition of exports.

Table 29. Eritrea: Commodity Composition of Imports, 1993-97 1/

(In millions of nakfa, unless indicated otherwise)

	1993	1994	1995	1996	1997
Food and live animals	166.4	426.2	426.7	542.9	599.9
Of which: Ethiopia	50.2	54.7	90.5	182.7	202.7
In percent	30.2	12.8	21.2	33.7	33.8
Beverages and tobacco	35.9	43.3	10.7	23.5	22.4
Of which: Ethiopia	0.6	1.2	1.7	6.4	8.3
In percent	1.7	2.8	15.9	27.2	37.1
Crude materials	31.3	49.1	65.9	116.5	67.7
Of which: Ethiopia	0.4	11.6	18.7	20.3	16.0
In percent	1.3	23.6	28.4	17.4	23.6
Mineral fuels, lubricants, and related materials	6.8	12.9	48.2	39.5	52.5
Of which: Ethiopia	0.2	0.4	0.2	0.1	0.1
In percent	2.9	3.1	0.4	0.3	0.1
Animal and vegetable oils, fats, and waxes	10.7	33.3	28.8	55.0	57.6
Of which: Ethiopia	0.1	0.0	0.0	0.2	0.3
In percent	0.9	0.0	0.0	0.4	0.6
Chemicals and related products	56.4	120.3	144.2	209.7	182.8
Of which: Ethiopia	1.2	1.3	3.3	4.3	4.7
In percent	2.1	1.1	2.3	2.1	2.5
Manufactured goods	222.2	320.5	478.1	733.8	678.5
Of which: Ethiopia	7.5	14.7	16.8	25.5	18.4
In percent	3.4	4.6	3.5	3.5	2.7
Machinery and transport equipment	381.9	752.6	1,166.0	1091.1	1158.2
Of which: Ethiopia	3.8	3.9	7.8	11.7	12.6
In percent	1.0	0.5	0.7	1.1	1.1
Miscellaneous manufactured articles	111.2	234.9	166.9	250.8	242.7
Of which: Ethiopia	2.4	3.1	7.8	10.5	11.4
In percent	2.2	1.3	4.7	4.2	4.7
Total	1,022.8	1,993.1	2,535.5	3,062.8	3062.0
Of which: Ethiopia	66.4	90.9	146.8	261.7	274.6
In percent	6.5	4.6	5.8	8.5	9.0

Source: Customs Office.

1/ Data may differ from those in Table 27, owing to incomplete information on commodity composition of imports.

Table 30. Eritrea: Direction of Exports, 1993-97 1/

	1993	1994	1995	1996	1997
	(In millions of nakfa)				
Belgium	0.0	0.0	0.0	0.1	0.0
Djibouti	0.0	0.7	1.4	2.2	2.7
Ethiopia	130.4	207.5	354.2	342.4	238.1
Germany	1.4	0.1	5.0	1.0	2.1
Italy	5.4	10.2	15.2	22.3	18.3
Japan	0.0	16.3	6.3	0.0	0.0
Korea	0.0	0.2	0.0	0.0	0.0
Netherlands	0.2	0.0	1.6	1.3	1.4
Saudi Arabia	3.6	50.3	15.9	20.0	7.3
Sudan	46.6	57.9	76.0	51.5	62.3
Sweden	0.6	0.0	0.1	0.6	0.0
United Arab Emirates	0.1	0.0	1.3	1.3	0.9
United Kingdom	0.0	10.2	1.8	4.0	1.8
United States	0.0	1.2	0.6	39.9	3.2
Yemen	0.0	7.4	27.4	0.0	0.2
Other	21.0	35.1	22.0	33.8	37.0
Total	209.3	397.1	528.8	520.4	375.3
	(In percent)				
Belgium	0.0	0.0	0.0	0.0	0.0
Djibouti	0.0	0.2	0.3	0.4	0.7
Ethiopia	62.3	52.3	67.0	65.8	63.5
Germany	0.7	0.0	0.9	0.2	0.6
Italy	2.6	2.6	2.9	4.3	4.9
Japan	0.0	4.1	1.2	0.0	0.0
Korea	0.0	0.1	0.0	0.0	0.0
Netherlands	0.1	0.0	0.3	0.2	0.4
Saudi Arabia	1.7	12.7	3.0	3.8	1.9
Sudan	22.3	14.6	14.4	9.9	16.6
Sweden	0.3	0.0	0.0	0.1	0.0
United Arab Emirates	0.1	0.0	0.2	0.2	0.2
United Kingdom	0.0	2.6	0.3	0.8	0.5
United States	0.0	0.3	0.1	7.7	0.9
Yemen	0.0	1.9	5.2	0.0	0.1
Other	10.0	8.8	4.2	6.5	0.8
Total	100.0	100.0	100.0	100.0	100.0

Source: Customs Office.

1/ Data may differ from those in Table 27, owing to incomplete information on the direction of exports.

Table 31. Eritrea: Origin of Imports, 1993-97 1/

	1993	1994	1995	1996	1997
			(In millions of nakfa)		
Belgium	14.3	66.5	64.3	84.1	26.8
Djibouti	11.3	29.8	41.1	78.6	79.0
Ethiopia	66.3	90.9	146.9	261.8	274.6
Germany	79.4	147.4	142.5	217.0	168.4
Italy	136.9	431.0	459.0	429.1	420.1
Japan	2.6	34.4	58.9	111.2	125.5
Korea	1.3	16.0	58.1	126.0	...
Netherlands	22.0	107.8	60.3	49.4	51.2
Saudi Arabia	282.5	328.0	490.4	465.6	480.2
Sudan	53.4	51.7	71.1	97.9	20.3
Sweden	25.9	16.1	31.7	19.3	22.9
United Arab Emirates	96.6	178.6	236.9	365.9	402.0
United Kingdom	29.7	79.1	78.5	68.5	142.1
United States	11.4	35.3	93.8	83.1	96.4
Yemen	12.5	20.5	19.6	3.6	5.4
Other	176.9	360.1	482.4	601.8	747.3
Total	1,023.0	1,993.2	2,535.5	3,062.9	3,062.2
			(In percent)		
Belgium	1.4	3.3	2.5	2.7	0.9
Djibouti	1.1	1.5	1.6	2.6	2.6
Ethiopia	6.5	4.6	5.8	8.5	9.0
Germany	7.8	7.4	5.6	7.1	5.5
Italy	13.4	21.6	18.1	14.0	13.7
Japan	0.3	1.7	2.3	3.6	4.1
Korea	0.1	0.8	2.3	4.1	0.0
Netherlands	2.2	5.4	2.4	1.6	1.7
Saudi Arabia	27.6	16.5	19.3	15.2	15.7
Sudan	5.2	2.6	2.8	3.2	0.7
Sweden	2.5	0.8	1.3	0.6	0.7
United Arab Emirates	9.4	9.0	9.3	11.9	13.1
United Kingdom	2.9	4.0	3.1	2.2	4.6
United States	1.1	1.8	3.7	2.7	3.1
Yemen	1.2	1.0	0.8	0.1	0.2
Other	17.3	18.1	19.0	19.6	24.4
Total	100.0	100.0	100.0	100.0	100.0

Source: Customs Office.

1/ Data may differ from those in Table 27, owing to incomplete information on the origin of imports.

Table 32. Eritrea: External Public Debt Commitments and Disbursements, 1993-97

(In millions of U.S. dollars)

Lender	Contract Date	Amount Contracted, End-1997	1993	1994	1995	1996	1997
			Disbursements				
International Development Association-1 1/	April 7, 1993	26.0	2.4	16.3	5.1	1.6	0.0
China-1 2/	May 24, 1993	2.4	0.0	2.3	0.0	0.0	0.0
China-2 2/	April 4, 1994	3.6	0.0	0.0	0.0	0.0	0.3
European Investment Bank 3/	May 22, 1994	10.0	0.0	0.0	0.0	1.7	1.2
International Fund for Agricultural Development 1/	Jan. 30, 1995	12.3	0.0	0.0	0.7	0.0	1.1
Kuwait Fund for Arab Economic Development-1 4/	April 14, 1994	16.7	0.0	10.6	1.9	2.0	1.3
Saudi Fund for Development 5/	June 24, 1995	35.0	0.0	0.0	0.2	0.2	5.2
Abu Dhabi Fund for Development 6/	July 7, 1995	25.0	0.0	0.0	0.2	0.2	3.7
Arab Bank for Economic Development in Africa (BADEA) 7/	Sep. 21, 1995	12.0	0.0	0.0	0.2	0.2	3.8
Kuwait Fund for Arab Economic Development-2 4/	Sep. 27, 1995	25.3	0.0	0.0	0.0	0.0	1.8
International Development Association-2 1/	March 26, 1996	17.0	0.0	0.0	0.0	1.4	2.8
OPEC Fund for International Development-1 8/	July 16, 1996	5.0	0.0	0.0	0.0	0.0	0.7
African Development Bank-1 9/	Nov. 8, 1996	5.5	0.0	0.0	0.0	0.0	0.5
International Development Association-3 1/	April 24,1997	6.0	0.0	0.0	0.0	0.0	0.3
Kuwait Fund for Arab Economic Development-3 10/	May 13, 1997	22.5	0.0	0.0	0.0	0.0	2.3
Italy 11/	July 11, 1997	25.0	0.0	0.0	0.0	0.0	3.3
African Development Bank-2 9/	May 29, 1997	12.4	0.0	0.0	0.0	0.0	0.0
OPEC Fund for International Development-2 8/	Aug. 22, 1997	6.0	0.0	0.0	0.0	0.0	0.0
Swedish International Development Cooperation Agency (SIDA) 12/	Dec. 11, 1997	2.2	0.0	0.0	0.0	0.0	0.0
International Development Association-4 1/	Dec. 8, 1997	30.1	0.0	0.0	0.0	0.0	0.0
International Development Association-5 1/	Dec. 22, 1997	18.1	0.0	0.0	0.0	0.0	0.0
Total		318.3	2.4	29.2	8.2	7.4	28.4

Source: Ministry of Finance.

1/ Maturity period 40 years; grace period 10 years; interest rate 0.75 percent.
2/ Maturity period 30 years; grace period 10 and 5 years for 1993 and 1994 loans, respectively; interest-free loans.
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.
10/ Maturity period 41 years; grace period 5 years; interest rate 1.0 percent.
11/ Maturity period 30 years; grace period 12 years; interest rate 1.0 percent.
12/ Maturity period 15 years; grace period 9 years; interest-free loan.

Table 33. Eritrea: Foreign Exchange Rates, 1992 - April 1998

(Average data)

	Nakfa/ U.S. dollar official exchange rate 1/	Nakfa/ U.S. dollar preferential exchange rate 1/	Nominal effective exchange rate index 2/	Real effective exchange rate index 2/
			(1992 = 100)	
1992	2.80	6.58	100.00	100.00
1993	5.29	7.10	96.03	93.21
1994	6.17	7.10	96.10	95.46
1995	6.29	7.10	97.68	99.38
1996	6.35	7.20	101.52	109.33
1997	7.05	7.20	103.53	108.01
1995				
January	6.25	7.10	97.02	94.43
February	6.25	7.10	96.93	98.12
March	6.27	7.10	97.06	99.68
April	6.28	7.10	97.35	102.02
May	6.27	7.10	97.02	100.99
June	6.32	7.10	96.55	93.93
July	6.33	7.10	96.17	98.06
August	6.28	7.10	97.64	100.24
September	6.30	7.10	99.02	100.28
October	6.30	7.10	98.96	101.87
November	6.30	7.10	99.16	100.91
December	6.31	7.10	99.30	102.06
1996				
January	6.32	7.20	99.45	106.55
February	6.34	7.20	99.24	105.66
March	6.35	7.20	99.80	110.35
April	6.32	7.20	101.33	111.89
May	6.32	7.20	102.05	119.10
June	6.34	7.20	102.44	111.70
July	6.34	7.20	102.61	108.27
August	6.34	7.20	102.09	106.60
September	6.36	7.20	102.32	106.62
October	6.40	7.20	102.44	111.46
November	6.39	7.20	101.90	107.97
December	6.40	7.20	102.57	105.79
1997				
January	6.46	7.20	103.48	104.73
February	6.63	7.20	104.93	106.65
March	6.65	7.20	105.93	108.23
April	7.20	7.20	102.09	104.26
May	7.20	7.20	101.92	103.98
June	7.20	7.20	102.78	104.83
July	7.20	7.20	103.97	110.33
August	7.20	7.20	104.73	110.80
September	7.20	7.20	103.69	109.64
October	7.20	7.20	102.95	111.06
November	7.20	7.20	102.32	110.24
December	7.20	7.20	103.52	111.39
1998				
January	7.20	7.20	...	...
February	7.20	7.20	...	...
March	7.20	7.20	...	...
April	7.20	7.20	...	...

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

1/ Prior to November 22, 1997, the exchange rate refers to the birr/U.S. dollar rate. Prior to May 1, 1993, the official exchange rate was pegged to the U.S. dollar. From May 1, 1993, to 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.