

INTERNATIONAL MONETARY FUND



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## **Eritrea—Selected Issues**

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INTERNATIONAL MONETARY FUND

ERITREA

**Selected Issues**

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Approved by the African Department

July 14, 1997

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Eritrea--Basic Data

Area, population, and GDP per capita

|                       |                           |
|-----------------------|---------------------------|
| Area                  | 124,320 square kilometers |
| Population            |                           |
| Total                 | 3.0-3.5 million           |
| Annual growth rate    | 3.0 percent               |
| GNP per capita (1996) | US\$217-254               |

1992 1993 1994 1995 1996

(In millions of birr, unless otherwise specified)

Gross domestic product (GDP)

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

(In percent of nominal GDP at factor cost)

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

(Annual percentage change)

Prices

|                              |     |     |     |      |     |
|------------------------------|-----|-----|-----|------|-----|
| Consumer prices (end-period) | 8.8 | 9.6 | 6.8 | 11.0 | 3.4 |
|------------------------------|-----|-----|-----|------|-----|

(In millions of birr)

Government finance

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

Money and credit

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

(In millions of US dollars, unless otherwise specified)

Balance of payments

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

Gross official reserves

|                      |     |     |     |     |     |
|----------------------|-----|-----|-----|-----|-----|
| In months of imports | 0.2 | 3.9 | 5.1 | 4.6 | 4.1 |
|----------------------|-----|-----|-----|-----|-----|

Exchange rate (Br/US\$, period average)

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

Sources: Eritrean authorities; and staff estimates.

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

2/ Excluding official transfers.

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

### **A. Introduction**

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

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

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



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

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

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

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

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

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

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

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

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

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

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

### **Civil service reform**

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

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

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

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

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

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

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

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

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

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

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

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

#### **Capital expenditures**

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

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

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

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

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

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

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

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

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

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

Sources: Ministry of Finance; and staff estimates.

1/ Excludes retroactive and retrenchment payments.

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

(As percent of GNP)

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

Sources: Ministry of Finance; and staff estimates.

1/ Excludes retroactive and retrenchment payments.



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

### **A. Introduction**

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

### **B. Background**

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

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

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

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

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

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

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

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

Selected Financial Indicators, 1992-96

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

Sources: Bank of Eritrea; and staff estimates.

1/ Excluding currency outside of the banking system.

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

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

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

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

### **C. Recent Developments**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Proclamation which was enacted in March 1997 provides for:

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

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

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

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

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

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

#### **D. Conclusion**

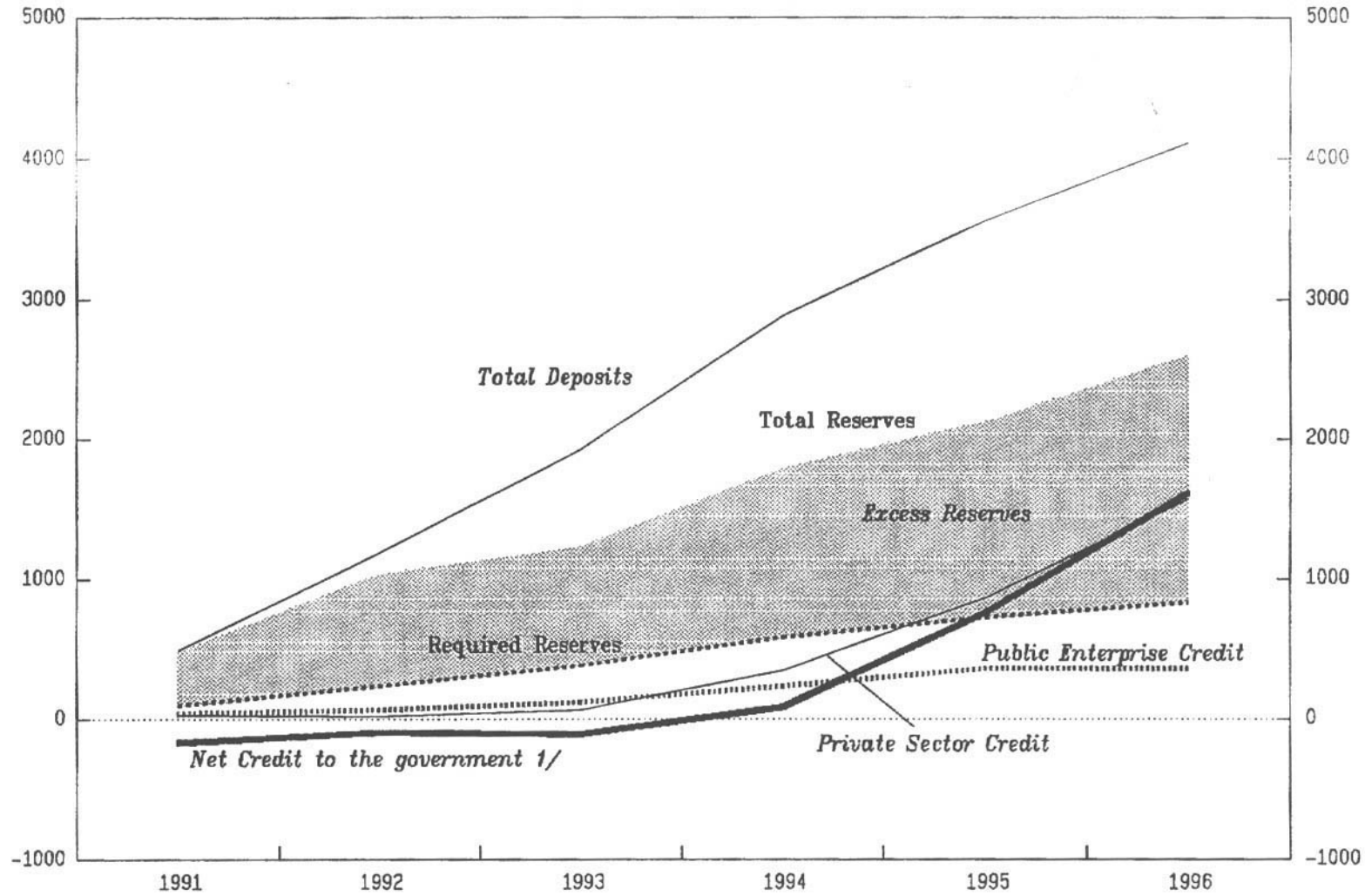
33. The special factors that have contributed to a significantly liquid commercial banking sector in Eritrea and which have hitherto facilitated government borrowing from the central bank—even within the context of a currency union—appear to be receding fast. The underlying economic trends are likely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

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



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

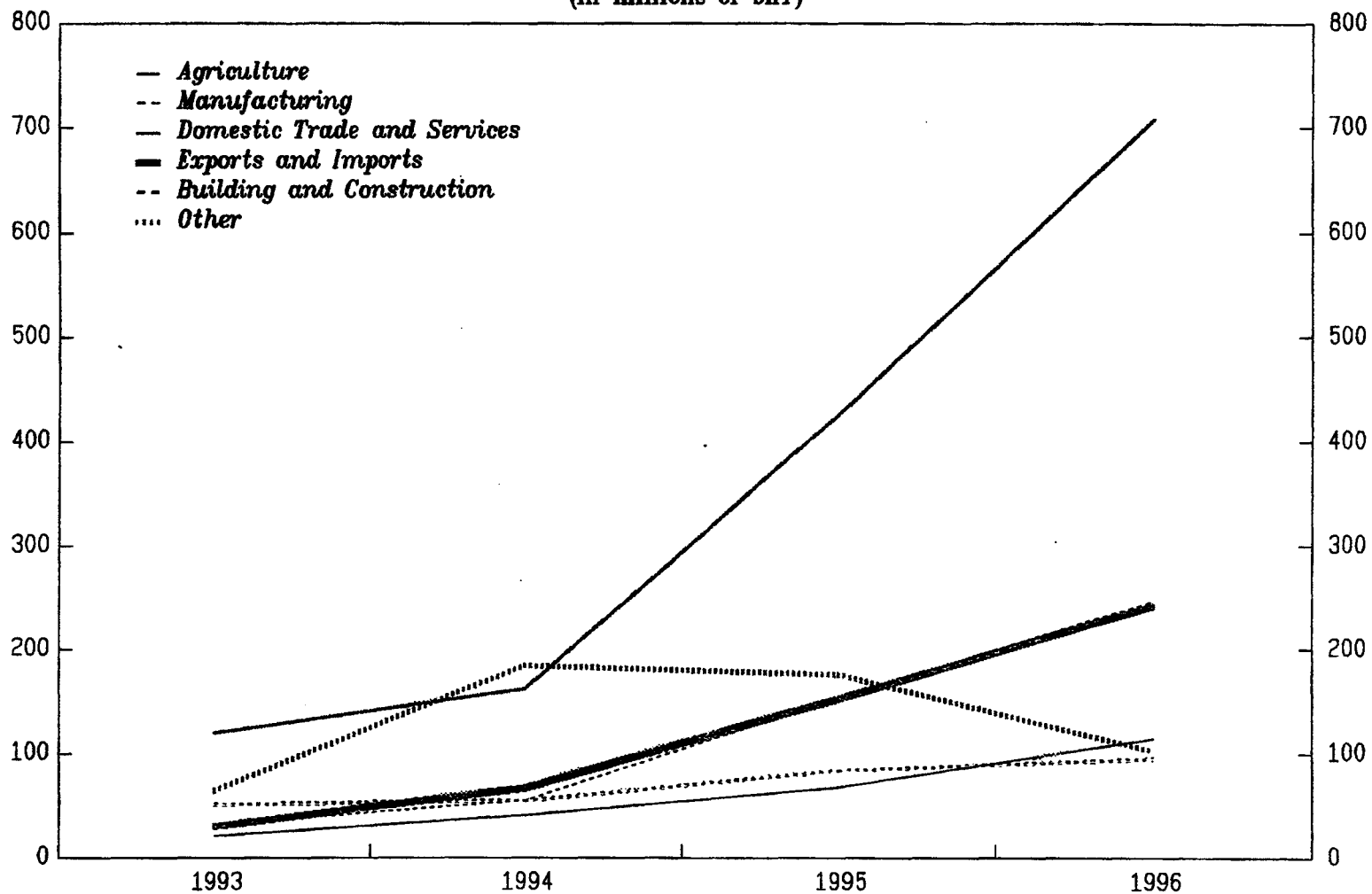


Source: Data provided by the Bank of Eritrea.

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

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

(In millions of birr)



Source: Data provided by the Bank of Eritrea.

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

#### **Exchange arrangement**

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

35. Prior to the unification of the preferential and the official exchange rates, the official rate applied to transactions between Eritrea and Ethiopia (oil refinery services, port transactions), to government imports, and all aid-funded imports. The preferential exchange rate was used for most private imports, all exports, and the conversion of foreign exchange remittances by Eritreans living abroad. The Bank of Eritrea (BE) undertakes transactions with authorized dealers, who in turn carry out transactions with the public on its behalf. There are also a limited number of unofficial, but sanctioned, dealers who buy and sell foreign exchange.

36. Exchange rates for currencies other than the U.S. dollar<sup>14</sup> are communicated daily by the BE to the authorized dealers on the basis of previous day's late afternoon cross quotations in the London market against the U.S. dollar. For all foreign currency transactions, except transactions involving foreign currency notes, the BE prescribes a commission of 0.25 percent for purchases of foreign exchange and 0.75 percent for sales of foreign exchange. The authorized dealers are permitted, but not obliged, to levy a service charge for their own account and, for currencies other than the U.S. dollar, to include a margin charge that is applied by the correspondents abroad. There are no taxes or subsidies on purchases or sales of foreign exchange, and no forward cover is provided in foreign exchange by the BE or the authorized dealers.

#### **Administration of control**

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

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

<sup>14</sup>Austrian schilling, Belgian franc, Canadian dollar, Danish krone, deutsche mark, Dutch guilder, French franc, Italian lira, Japanese yen, Norwegian krone, pound sterling, Swedish krona, and Swiss franc.

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

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

#### **Prescription of currency**

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

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

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

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

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

goods and the exchange of documentation are to be coordinated, and the port and shipping charges are paid in Ethiopian birr.

### **Foreign currency denominated accounts**

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

### **Imports and import payments**

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

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

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

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

#### **Payments for invisibles**

48. With a foreign exchange permit, which is issued free of charge by the BE, payments for invisible transactions could be made to any country. Effective May 9, 1995, the limits on travel allowance for business trips outside the birr area was raised from US\$50 a person a day for up to 20 days to US\$250 a person a day for up to 30 days. In bona fide cases, these limits may be exceeded with the approval of the BE. Also, exporters may freely use their foreign currency denominated retention accounts for this purpose. For personal travel, the limits on the allowance has remained at US\$100 a person (adult or minor) for up to two trips a year. The limits on the allowance for medical treatment outside the birr area was raised from US\$2,000 to US\$10,000 upon the recommendation of the Medical Board of the Ministry of Health. Residents may remit premia on life insurance policies that were taken out before May 1991. Generally, the BE gives approval in all bona fide cases that exceed these limits for invisible transactions. Effective November 11, 1995, the requirement to submit bills of settlement by authorized dealers of foreign exchange (e.g., hotels, duty-free shops) has been suspended, and the BE notified the general public that all Eritrean nationals could purchase air travel tickets in local or foreign currency.

49. Following the 1994 Investment Code, foreign investors may freely remit net profits and dividends accrued from investment and fees and royalties in respect of any technology transfer agreements. Foreign employees may remit per contract of employment without limit their net earnings each month, and of their cumulative earnings upon completion of their term of service in Eritrea.

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

50. Exporters must be licensed by the Business Licensing Office. The annual licensing fee is Br 275 for manufacturers, Br 500 for private limited companies and partnerships, and Br 1,000 for share companies, associations, and government agencies. All exports require documentation by the BE, which examines the sales contracts as to type of product, quantity, and unit price. Certain commodities may require clearance from specific government bodies (e.g., the Eritrean Institute of Standards). In particular, livestock and cereals require the permission of the Ministry of Agriculture, and marine products require the permission of the Ministry of Marine Resources. Exports of unprocessed hides and skins have been suspended since mid-1993 in an attempt to improve the supply to domestic tanneries and processors.

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

### **Proceeds from invisibles**

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

### **Capital**

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

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

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

### **Gold**

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

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

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



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

| Tax  | Nature of Tax  | Deductions and Exemptions   | Rates   |                             |   |
|--|--|---|---|-----------------------------|---|
| 1.3 <u>Income tax on profits</u>   |  |   |   |                             |   |
| 1.3.1 <u>Income tax on profits of incorporated business</u><br>(Proclamation No. 62/1994; October 5, 1994)   | Annual tax levied on taxable income, payable within 4, 2 or 1 months after the end of the fiscal year for taxpayer categories A, B, and C. Assessment based on returns filed.  | Exemptions: Dividends, and interest income of persons. Profits derived from mining activities to be taxed as per mining legislation. For new investments, losses incurred during the first 2 years may be carried forward for 3 consecutive years; for new investments, losses may be carried forward an additional one year in exceptionally critical circumstances. | No.   | Taxable income<br>(Br/year) | Tax rate on additional<br>income (in percent) |
|  |  |   | 1   | up to 100,000               | 25  |
|  |  |   | 2   | 100,001 - 400,000           | 28  |
|  |  |   | 3   | 400,001 - 750,000           | 30  |
|  |  |   | 4   | above 750,000               | 35  |
|  |  |   | Reinvested profit will be taxed only at 20 percent upon submission of certificate of the Investment Center. |                             |   |
| 1.3.2 <u>Income tax on profits of unincorporated business</u><br>(Proclamation No. 62/1994; October 5, 1994) | Annual tax levied on taxable income, payable within 4, 2 or 1 months after the end of the fiscal year for taxpayer categories A, B, and C. Assessment based on self-declared income, except for certain sectors where presumptive tax rates are applied. | Exemptions: Dividends, interest income from bank accounts, and income from self-employed persons residing in rural areas in certain sectors (e.g., blacksmiths, pottery).   | No.   | Taxable income<br>(Br/year) | Tax rate on additional<br>income (in percent) |
|  |  |   | 1   | up to 2,000                 | 2   |
|  |  |   | 2   | 2,001 - 5,000               | 7   |
|  |  |   | 3   | 5,001 - 18,000              | 15  |
|  |  |   | 4   | 18,001 - 35,000             | 20  |
|  |  |   | 5   | 35,001 - 60,000             | 25  |
|  |  |   | 6   | 60,001 - 100,000            | 30  |
|  |  |   | 7   | 100,001 - 150,000           | 35  |
|  |  |   | 8   | over 150,000                | 38  |

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

| Tax   | Nature of Tax   | Deductions and Exemptions  | Rates   |     |                          |  |   |           |      |   |           |     |   |           |     |   |           |     |   |           |     |   |             |     |   |               |      |   |               |      |   |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |                |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |              |      |
|---|---|--|---|-----|--------------------------|--|---|-----------|------|---|-----------|-----|---|-----------|-----|---|-----------|-----|---|-----------|-----|---|-------------|-----|---|---------------|------|---|---------------|------|---|---------------|------|----|---------------|------|----|---------------|------|----|---------------|------|----|---------------|------|----|---------------|------|----|---------------|------|----|---------------|------|----|----------------|------|----|-----------------|------|----|-----------------|------|----|-----------------|------|----|-----------------|------|----|-----------------|------|----|-----------------|------|----|-----------------|------|----|--------------|------|
| 1.4 <u>Tax on gains from lottery and other games, royalties, and services income earned abroad</u><br>(Proclamation No. 62/1994; October 5, 1994) | Levied on taxable gross income of lottery and game wins. To be paid within 1 month after income is received. Assessment based on returns filed.   | None.  | Income from lottery (above Br 500), and from bingo (above Br 400) 10 percent<br>Royalty and income from services from abroad 10 percent   |     |                          |  |   |           |      |   |           |     |   |           |     |   |           |     |   |           |     |   |             |     |   |               |      |   |               |      |   |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |                |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |              |      |
| 1.5 <u>Rental income tax</u><br>(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. | <table border="1"> <thead> <tr> <th data-bbox="1357 458 1391 480">No.</th> <th data-bbox="1432 458 1596 518">Taxable income (Br/year)</th> <th data-bbox="1637 458 1872 518">Tax rate on additional income (in percent)</th> </tr> </thead> <tbody> <tr><td>1</td><td>up to 120</td><td>Br 1</td></tr> <tr><td>2</td><td>121 - 380</td><td>1.5</td></tr> <tr><td>3</td><td>301 - 480</td><td>3.0</td></tr> <tr><td>4</td><td>481 - 660</td><td>4.5</td></tr> <tr><td>5</td><td>661 - 840</td><td>6.0</td></tr> <tr><td>6</td><td>841 - 1,020</td><td>8.0</td></tr> <tr><td>7</td><td>1,021 - 1,200</td><td>10.0</td></tr> <tr><td>8</td><td>1,201 - 1,600</td><td>12.0</td></tr> <tr><td>9</td><td>1,601 - 2,000</td><td>14.0</td></tr> <tr><td>10</td><td>2,001 - 2,400</td><td>16.0</td></tr> <tr><td>11</td><td>2,401 - 2,800</td><td>18.0</td></tr> <tr><td>12</td><td>2,801 - 3,600</td><td>20.0</td></tr> <tr><td>13</td><td>3,601 - 4,400</td><td>22.0</td></tr> <tr><td>14</td><td>4,401 - 5,200</td><td>24.0</td></tr> <tr><td>15</td><td>5,201 - 6,000</td><td>26.0</td></tr> <tr><td>16</td><td>6,001 - 8,000</td><td>28.0</td></tr> <tr><td>17</td><td>8,001 - 10,000</td><td>30.0</td></tr> <tr><td>18</td><td>10,001 - 12,000</td><td>32.0</td></tr> <tr><td>19</td><td>12,001 - 16,000</td><td>34.0</td></tr> <tr><td>20</td><td>16,001 - 20,000</td><td>36.0</td></tr> <tr><td>21</td><td>20,001 - 24,000</td><td>38.0</td></tr> <tr><td>22</td><td>24,001 - 30,000</td><td>40.0</td></tr> <tr><td>23</td><td>30,001 - 36,000</td><td>42.0</td></tr> <tr><td>24</td><td>36,001 - 42,000</td><td>44.0</td></tr> <tr><td>25</td><td>above 42,000</td><td>48.0</td></tr> </tbody> </table> | No. | Taxable income (Br/year) | Tax rate on additional income (in percent) | 1 | up to 120 | Br 1 | 2 | 121 - 380 | 1.5 | 3 | 301 - 480 | 3.0 | 4 | 481 - 660 | 4.5 | 5 | 661 - 840 | 6.0 | 6 | 841 - 1,020 | 8.0 | 7 | 1,021 - 1,200 | 10.0 | 8 | 1,201 - 1,600 | 12.0 | 9 | 1,601 - 2,000 | 14.0 | 10 | 2,001 - 2,400 | 16.0 | 11 | 2,401 - 2,800 | 18.0 | 12 | 2,801 - 3,600 | 20.0 | 13 | 3,601 - 4,400 | 22.0 | 14 | 4,401 - 5,200 | 24.0 | 15 | 5,201 - 6,000 | 26.0 | 16 | 6,001 - 8,000 | 28.0 | 17 | 8,001 - 10,000 | 30.0 | 18 | 10,001 - 12,000 | 32.0 | 19 | 12,001 - 16,000 | 34.0 | 20 | 16,001 - 20,000 | 36.0 | 21 | 20,001 - 24,000 | 38.0 | 22 | 24,001 - 30,000 | 40.0 | 23 | 30,001 - 36,000 | 42.0 | 24 | 36,001 - 42,000 | 44.0 | 25 | above 42,000 | 48.0 |
| No.   | Taxable income (Br/year)  | Tax rate on additional income (in percent)   |   |     |                          |  |   |           |      |   |           |     |   |           |     |   |           |     |   |           |     |   |             |     |   |               |      |   |               |      |   |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |                |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |              |      |
| 1   | up to 120   | Br 1   |   |     |                          |  |   |           |      |   |           |     |   |           |     |   |           |     |   |           |     |   |             |     |   |               |      |   |               |      |   |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |                |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |              |      |
| 2   | 121 - 380   | 1.5  |   |     |                          |  |   |           |      |   |           |     |   |           |     |   |           |     |   |           |     |   |             |     |   |               |      |   |               |      |   |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |                |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |              |      |
| 3   | 301 - 480   | 3.0  |   |     |                          |  |   |           |      |   |           |     |   |           |     |   |           |     |   |           |     |   |             |     |   |               |      |   |               |      |   |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |                |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |              |      |
| 4   | 481 - 660   | 4.5  |   |     |                          |  |   |           |      |   |           |     |   |           |     |   |           |     |   |           |     |   |             |     |   |               |      |   |               |      |   |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |                |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |              |      |
| 5   | 661 - 840   | 6.0  |   |     |                          |  |   |           |      |   |           |     |   |           |     |   |           |     |   |           |     |   |             |     |   |               |      |   |               |      |   |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |                |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |              |      |
| 6   | 841 - 1,020   | 8.0  |   |     |                          |  |   |           |      |   |           |     |   |           |     |   |           |     |   |           |     |   |             |     |   |               |      |   |               |      |   |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |                |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |              |      |
| 7   | 1,021 - 1,200   | 10.0   |   |     |                          |  |   |           |      |   |           |     |   |           |     |   |           |     |   |           |     |   |             |     |   |               |      |   |               |      |   |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |                |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |              |      |
| 8   | 1,201 - 1,600   | 12.0   |   |     |                          |  |   |           |      |   |           |     |   |           |     |   |           |     |   |           |     |   |             |     |   |               |      |   |               |      |   |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |                |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |              |      |
| 9   | 1,601 - 2,000   | 14.0   |   |     |                          |  |   |           |      |   |           |     |   |           |     |   |           |     |   |           |     |   |             |     |   |               |      |   |               |      |   |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |                |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |              |      |
| 10  | 2,001 - 2,400   | 16.0   |   |     |                          |  |   |           |      |   |           |     |   |           |     |   |           |     |   |           |     |   |             |     |   |               |      |   |               |      |   |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |                |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |              |      |
| 11  | 2,401 - 2,800   | 18.0   |   |     |                          |  |   |           |      |   |           |     |   |           |     |   |           |     |   |           |     |   |             |     |   |               |      |   |               |      |   |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |                |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |              |      |
| 12  | 2,801 - 3,600   | 20.0   |   |     |                          |  |   |           |      |   |           |     |   |           |     |   |           |     |   |           |     |   |             |     |   |               |      |   |               |      |   |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |                |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |              |      |
| 13  | 3,601 - 4,400   | 22.0   |   |     |                          |  |   |           |      |   |           |     |   |           |     |   |           |     |   |           |     |   |             |     |   |               |      |   |               |      |   |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |                |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |              |      |
| 14  | 4,401 - 5,200   | 24.0   |   |     |                          |  |   |           |      |   |           |     |   |           |     |   |           |     |   |           |     |   |             |     |   |               |      |   |               |      |   |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |                |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |              |      |
| 15  | 5,201 - 6,000   | 26.0   |   |     |                          |  |   |           |      |   |           |     |   |           |     |   |           |     |   |           |     |   |             |     |   |               |      |   |               |      |   |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |                |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |              |      |
| 16  | 6,001 - 8,000   | 28.0   |   |     |                          |  |   |           |      |   |           |     |   |           |     |   |           |     |   |           |     |   |             |     |   |               |      |   |               |      |   |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |                |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |              |      |
| 17  | 8,001 - 10,000  | 30.0   |   |     |                          |  |   |           |      |   |           |     |   |           |     |   |           |     |   |           |     |   |             |     |   |               |      |   |               |      |   |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |                |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |              |      |
| 18  | 10,001 - 12,000   | 32.0   |   |     |                          |  |   |           |      |   |           |     |   |           |     |   |           |     |   |           |     |   |             |     |   |               |      |   |               |      |   |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |                |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |              |      |
| 19  | 12,001 - 16,000   | 34.0   |   |     |                          |  |   |           |      |   |           |     |   |           |     |   |           |     |   |           |     |   |             |     |   |               |      |   |               |      |   |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |                |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |              |      |
| 20  | 16,001 - 20,000   | 36.0   |   |     |                          |  |   |           |      |   |           |     |   |           |     |   |           |     |   |           |     |   |             |     |   |               |      |   |               |      |   |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |                |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |              |      |
| 21  | 20,001 - 24,000   | 38.0   |   |     |                          |  |   |           |      |   |           |     |   |           |     |   |           |     |   |           |     |   |             |     |   |               |      |   |               |      |   |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |                |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |              |      |
| 22  | 24,001 - 30,000   | 40.0   |   |     |                          |  |   |           |      |   |           |     |   |           |     |   |           |     |   |           |     |   |             |     |   |               |      |   |               |      |   |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |                |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |              |      |
| 23  | 30,001 - 36,000   | 42.0   |   |     |                          |  |   |           |      |   |           |     |   |           |     |   |           |     |   |           |     |   |             |     |   |               |      |   |               |      |   |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |                |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |              |      |
| 24  | 36,001 - 42,000   | 44.0   |   |     |                          |  |   |           |      |   |           |     |   |           |     |   |           |     |   |           |     |   |             |     |   |               |      |   |               |      |   |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |                |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |              |      |
| 25  | above 42,000  | 48.0   |   |     |                          |  |   |           |      |   |           |     |   |           |     |   |           |     |   |           |     |   |             |     |   |               |      |   |               |      |   |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |               |      |    |                |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |                 |      |    |              |      |

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

| Tax   | Nature of Tax  | Deductions and Exemptions  | Rates  |
|---|--|--|--|
| 1.6 <u>Income tax on Eritreans working abroad</u><br>(Proclamation No. 67/1995; February 10, 1995)              | Tax on net income from employment, rent of movable and immovable property, and vocational and professional services. Payable monthly or annually. Collected through embassies, consulates and other delegations under the Ministry of Foreign Affairs; transferred directly to the Treasury. | None.  | 2 percent.   |
| 2. <u>Taxes on goods and services</u>   |  |  |  |
| 2.1 <u>Sales tax on domestic goods</u><br>(Proclamation No. 64/1994; October 5, 1994; Legal Notice No. 22/1995) | Single-stage tax levied at factory or wholesale level on all manufactured goods, and collected monthly. Sales tax paid on raw materials used for local production will be refunded. Assessment based on self-declaration.  | All exports, and the following products for domestic sale are exempted: Basic foodstuffs (e.g., cereals, leguminous vegetables, njera, rice, bread); live animals; capital goods for agriculture, industry, and construction; refractory bricks and the like used in building furnaces; fire-fighting equipment; public transport vehicles; vehicles used for road maintenance, lifting and loading equipment; kerosene and aviation fuel; medical equipment; medical, scientific, and technical instruments; fish nets; beehives and incubators; silver and gold when imported by the Bank of Eritrea; traveler's checks, revenue stamps, and bandlets. | <p>Agricultural products, raw materials, most intermediate goods 3 percent</p> <p>Most consumer goods, drugs, some intermediate goods 5 percent</p> <p>All other products 12 percent</p> |

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

| Tax  | Nature of Tax   | Deductions and Exemptions                 | Rates   |                                  |            |                           |            |  |            |                           |            |                           |             |
|--|---|---|---|----------------------------------|------------|---------------------------|------------|--|------------|---------------------------|------------|---------------------------|-------------|
| 2.2 <u>Sales tax on domestic services</u><br>(Proclamation No. 64/1994; October 5, 1994; Legal Notice No. 22/1995) | Assessment based on value of the service, through self-declaration. Collected monthly.  | All Exports.                              | Subject to 10 percent sales tax: Telecommunications; laundry; legal services, and public affairs services; photography, photocopying, and other reproduction; auditing and accountancy; lodging; consultancy; clearing and forwarding agents; all other agents; brokers; cinemas; tourism; rent of goods and movable property; garages.<br><br>Subject to 5 percent sales tax: Contractors; hair dressing and beauty salons; tailoring; repairs and maintenance excluding garages; washing and greasing; billiard and bowling establishments; education and training.   |                                  |            |                           |            |  |            |                           |            |                           |             |
| 2.3 <u>Excise tax on domestic goods</u><br>(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. | <table> <tr> <td data-bbox="1357 666 1671 689">Mineral water, textiles, carpets</td> <td data-bbox="1780 666 1892 689">10 percent</td> </tr> <tr> <td data-bbox="1357 727 1631 749">Glass beads and ornaments</td> <td data-bbox="1780 727 1892 749">30 percent</td> </tr> <tr> <td data-bbox="1357 787 1708 848">Tobacco products, beverages with high alcoholic contents</td> <td data-bbox="1780 825 1892 848">50 percent</td> </tr> <tr> <td data-bbox="1357 886 1622 908">Four-wheel drive vehicles</td> <td data-bbox="1780 886 1892 908">90 percent</td> </tr> <tr> <td data-bbox="1357 946 1627 969">Beer, perfumes, cosmetics</td> <td data-bbox="1780 946 1892 969">100 percent</td> </tr> </table> | Mineral water, textiles, carpets | 10 percent | Glass beads and ornaments | 30 percent | Tobacco products, beverages with high alcoholic contents | 50 percent | Four-wheel drive vehicles | 90 percent | Beer, perfumes, cosmetics | 100 percent |
| Mineral water, textiles, carpets   | 10 percent  |   |   |                                  |            |                           |            |  |            |                           |            |                           |             |
| Glass beads and ornaments  | 30 percent  |   |   |                                  |            |                           |            |  |            |                           |            |                           |             |
| Tobacco products, beverages with high alcoholic contents   | 50 percent  |   |   |                                  |            |                           |            |  |            |                           |            |                           |             |
| Four-wheel drive vehicles  | 90 percent  |   |   |                                  |            |                           |            |  |            |                           |            |                           |             |
| Beer, perfumes, cosmetics  | 100 percent   |   |   |                                  |            |                           |            |  |            |                           |            |                           |             |

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

| Tax | Nature of Tax   | Deductions and Exemptions  | Rates   |
|-----|---|--|---|
| 3.  | <u>Taxes on international trade</u>                                 |  |   |
| 3.1 | <u>Customs duties</u><br>(Legal Notice 18/1994;<br>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.  |
|     |   |  | 12 different ad valorem rates, including:   |
|     |   |  | Agricultural products and essential foods (e.g. cereals, oil seeds, hides and skins), most capital goods, raw materials (e.g., fertilizer), pharmaceuticals, 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, electrical household appliances. 100 percent  |
|     |   |  | Video recorders. 160 percent  |
|     |   |  | Beverages with high alcoholic contents, and tobacco products. 200 percent   |
|     |   |  | Specific rates for grease (Br 0.15/kg) and small family cars (10 percent of CC).  |

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

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

Source: Data provided by the Eritrean authorities.

Table 1. Eritrea: Gross Domestic Product by Sector, 1992-96 1/  
(In millions of birr)

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

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

1/ Provisional estimates.

2/ Estimated at 50 percent of private remittances.

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

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

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

1/ Provisional estimates.



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

(In percent of GDP)

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

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

1/ Provisional estimates.

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

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

Sources: Ministry of Agriculture.

1/ Preliminary estimates.

2/ Includes mainly horsebeans, groundnuts, and lentils.

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

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

Source: Ministry of Agriculture.

1/ Based on 3 percent increase in population.

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

3/ Includes Asmara.

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

(In metric tons)

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

Source: Ministry of Agriculture.

1/ Agricultural year, September to August.

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

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

Source: Ministry of Marine Resources.

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



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

(In thousands of birr, unless otherwise indicated)

|                        | 1993    |         |         | 1994    |         |         | 1995    |         |         | 1996 1/ |
|------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
|                        | Local   | Foreign | Total   | Local   | Foreign | Total   | Local   | Foreign | Total   | Total   |
| Agriculture            | 32,470  | --      | 32,470  | 10,377  | 1,555   | 11,932  | 32,424  | --      | 32,424  | 67,709  |
| Number of projects     |         |         | 5       |         |         | 3       |         |         | 20      | 15      |
| Fishing                | 9,000   | 21,600  | 30,600  | 25,675  | 67,608  | 93,283  | 66,610  | 5,400   | 72,010  | 20,869  |
| Number of projects     |         |         | 1       |         |         | 13      |         |         | 13      | 2       |
| Mining                 | --      | --      | --      | 1,627   | --      | 1,627   | --      | --      | --      | 39,350  |
| Number of projects     |         |         |         |         |         | 2       |         |         |         | 9       |
| Quarrying              | 5,000   | --      | 5,000   | --      | --      | --      | --      | --      | --      | 22,435  |
| Number of projects     |         |         | 1       |         |         |         |         |         |         | 4       |
| Manufacturing          | 47,081  | 4,939   | 52,020  | 83,036  | 35,891  | 118,927 | 214,375 | 152,161 | 366,536 | 354,786 |
| Number of projects     |         |         | 7       |         |         | 17      |         |         | 68      | 74      |
| Construction           | 38,268  | --      | 38,268  | 5,464   | --      | 5,464   | 46,625  | --      | 46,625  | 63,663  |
| Number of projects     |         |         | 2       |         |         | 2       |         |         | 9       | 6       |
| Export/import trade    | --      | --      | --      | 2,957   | --      | 2,957   | 6,619   | --      | 6,619   | --      |
| Number of projects     |         |         |         |         |         | 2       |         |         | 7       | --      |
| Hotels and restaurants | 15,689  | --      | 15,689  | 125,777 | 465,888 | 591,665 | 80,903  | 76,847  | 157,750 | 159,890 |
| Number of projects     |         |         | 5       |         |         | 11      |         |         | 23      | 38      |
| Others                 | 7,798   | --      | 7,798   | 3,465   | --      | 3,465   | 780     | --      | 780     | 94,917  |
| Number of projects     |         |         | 3       |         |         | 3       |         |         | 4       | 33      |
| Total capital          | 155,306 | 26,539  | 181,845 | 258,378 | 570,942 | 829,320 | 448,336 | 234,408 | 682,744 | 823,767 |
| Total projects         |         |         | 24      |         |         | 53      |         |         | 144     | 181     |

Source: Eritrean Investment Center.

1/ Local and foreign distribution not available.

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

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

|                         | 1993           |                |              |                         | 1994           |                |              |                         | 1995           |                |              |                         | 1996           |                |              |                         |
|-------------------------|----------------|----------------|--------------|-------------------------|----------------|----------------|--------------|-------------------------|----------------|----------------|--------------|-------------------------|----------------|----------------|--------------|-------------------------|
|                         | Production     | Purchase       | Value        | Purchase/<br>Production | Production     | Purchase       | Value        | Purchase/<br>Production | Production     | Purchase       | Value        | Purchase/<br>Production | Production     | Purchase       | Value        | Purchase/<br>Production |
| Liquefied petroleum gas | 5,060          | 583            | 2.4          | 11.5                    | 5,988          | 709            | 3.0          | 11.8                    | 5,209          | 1,255          | 3.8          | 24.1                    | 5,812          | 1,631          | 7.3          | 28.1                    |
| Regular gasoline        | 76,301         | 10,649         | 11.7         | 14.0                    | 94,294         | 11,818         | 12.6         | 12.5                    | 77,056         | 12,596         | 22.7         | 16.3                    | 84,206         | 14,035         | 19.7         | 16.7                    |
| Kerosene                | 28,984         | 13,056         | 13.3         | 45.0                    | 29,924         | 13,874         | 13.0         | 46.4                    | 24,019         | 17,236         | 19.5         | 71.8                    | 25,166         | 19,721         | 28.0         | 78.4                    |
| Jet fuel                | 20,980         | 4,923          | 4.4          | 23.5                    | 22,419         | 4,480          | 4.2          | 20.0                    | 17,994         | 5,411          | 6.1          | 30.1                    | 18,854         | 9,612          | 13.6         | 51.0                    |
| Automobile diesel       | 154,270        | 104,923        | 96.4         | 68.0                    | 192,868        | 120,684        | 105.3        | 62.6                    | 169,827        | 128,792        | 104.2        | 75.8                    | 176,855        | 134,179        | 160.4        | 75.9                    |
| Inland fuel oil         | 109,042        | 26,121         | 15.0         | 24.0                    | 118,339        | 26,620         | 15.6         | 22.5                    | 123,474        | 34,829         | 18.2         | 28.2                    | 137,044        | 45,064         | 51.2         | 32.9                    |
| Bunker fuel oil         | 12,142         | 12,151         | 4.7          | 100.1                   | 10,899         | 10,930         | 5.6          | 100.3                   | 10,417         | 10,792         | 5.5          | 103.6                   | 11,331         | 6,460          | 3.3          | 57.0                    |
| Export fuel oil         | 145,165        | --             | --           | --                      | 201,175        | --             | --           | --                      | 132,562        | --             | --           | --                      | 137,527        | --             | --           | --                      |
| Bitumen (Asphalt)       | 13,432         | 3,349          | 3.5          | 24.9                    | 15,863         | 2,231          | 3.4          | 14.1                    | 18,047         | 220            | 0.3          | 1.2                     | 20,515         | 213            | 0.5          | 1.0                     |
| <b>Total</b>            | <b>565,376</b> | <b>175,755</b> | <b>151.4</b> | <b>31.1</b>             | <b>691,769</b> | <b>191,346</b> | <b>162.7</b> | <b>27.7</b>             | <b>578,605</b> | <b>211,131</b> | <b>180.3</b> | <b>36.5</b>             | <b>617,310</b> | <b>230,915</b> | <b>284.0</b> | <b>37.4</b>             |

Source: Petroleum Corporation of Eritrea.



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

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

Source: Petroleum Corporation of Eritrea.

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

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

Source: Ministry of Energy and Mines.

1/ Includes street lighting and small industry.

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

|                               | (Weights) | 1992  |       | 1993  |       |       |       | 1994  |       |       |       | 1995  |       |       |       | 1996  |       |       |       |
|-------------------------------|-----------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|                               |           | Jan.  | Dec.  | March | June  | Sept. | Dec.  | March | June  | Sept. | Dec.  | March | June  | Sept. | Dec.  | March | June  | Sept. | Dec.  |
| Cereals                       | 0.25      | 100.0 | 103.4 | 102.3 | 106.7 | 98.7  | 99.6  | 109.9 | 144.0 | 129.2 | 110.6 | 133.3 | 124.6 | 133.0 | 147.7 | 156.8 | 157.3 | 152.6 | 149.2 |
| Vegetables, pasta, etc.       | 0.15      | 100.0 | 109.4 | 122.3 | 124.5 | 123.8 | 139.1 | 100.7 | 114.4 | 125.0 | 115.6 | 123.6 | 123.9 | 129.1 | 127.5 | 139.3 | 129.3 | 129.8 | 124.6 |
| Beef, fish, dairy             | 0.10      | 100.0 | 101.7 | 104.4 | 105.7 | 102.9 | 99.7  | 97.5  | 104.4 | 107.3 | 107.8 | 108.6 | 90.0  | 101.8 | 110.3 | 110.3 | 111.0 | 114.2 | 110.4 |
| Miscellaneous household items | 0.15      | 100.0 | 97.3  | 95.8  | 105.3 | 89.9  | 125.6 | 90.3  | 122.9 | 132.8 | 140.4 | 139.1 | 130.8 | 136.9 | 142.4 | 156.2 | 145.4 | 142.4 | 147.7 |
| Beverages                     | 0.15      | 100.0 | 99.2  | 108.1 | 107.7 | 105.0 | 108.9 | 105.1 | 114.0 | 124.2 | 129.0 | 143.2 | 151.6 | 136.3 | 124.4 | 144.4 | 154.3 | 134.9 | 143.7 |
| Clothing                      | 0.10      | 100.0 | 124.8 | 152.6 | 110.5 | 129.9 | 132.5 | 121.9 | 144.4 | 146.8 | 141.5 | 151.7 | 162.6 | 174.3 | 186.9 | 202.8 | 200.3 | 193.1 | 193.3 |
| Livestock (other)             | 0.10      | 100.0 | 144.5 | 128.2 | 145.1 | 146.6 | 151.2 | 159.4 | 164.7 | 171.7 | 170.7 | 166.5 | 145.2 | 170.1 | 155.5 | 168.7 | 166.6 | 160.6 | 160.7 |
| Average index                 | 1.00      | 100.0 | 108.8 | 113.0 | 113.4 | 110.4 | 119.3 | 109.8 | 130.0 | 132.2 | 127.4 | 136.9 | 131.9 | 138.2 | 141.3 | 153.4 | 151.4 | 146.0 | 146.1 |
| (Percent change)              |           |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| Inflation                     |           |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| Quarterly change              |           | ...   | 0.9   | 3.8   | 0.3   | -2.6  | 8.0   | -8.0  | 18.5  | 1.7   | -3.6  | 7.5   | -3.7  | 4.8   | 2.2   | 8.5   | -1.3  | -3.6  | 0.1   |
| Twelve-month change           |           | ...   | 8.8   | 5.2   | 4.8   | 2.4   | 9.6   | -2.9  | 14.6  | 19.7  | 6.8   | 24.7  | 1.4   | 4.6   | 11.0  | 12.0  | 14.8  | 5.6   | 3.4   |

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

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

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

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

Source: Ministry of Labor and Human Welfare.

1/ Large establishments only.

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

(Base salary per month, in birr)

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

Source: Ministry of Labor and Human Welfare.

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

(In millions of birr)

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

Source: Ministry of Finance.

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

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

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

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

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

Sources: Ministry of Finance; and staff estimates.

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

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

Source: Ministry of Finance.

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

2/ Including stamp duties.

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

4/ Includes voluntary contributions for rehabilitation purposes.

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

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



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

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

Sources: Ministry of Finance; and staff estimates.

1/ Excluding costs for reintegration of ex-combatants.

2/ In 1992 and 1993, only food aid.

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

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

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

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

Sources: Ministry of Finance; and staff estimates.

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

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

3/ Including Ministry of Marine Resources.

4/ Including Standards Office and Land Commission.

5/ Including Ministry of Information and Culture.

6/ Excluding costs for reintegration of ex-combatants.

7/ In 1992 and 1993, only food aid.

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

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

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

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

Sources: Ministry of Finance; and staff estimates.

1/ Including Ministry of Marine Resources.

2/ Including Ministry of Information and Culture.

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

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

Source: Bank of Eritrea; and staff estimates.

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

2/ Money excluding currency outside banks in Eritrea.

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

(In millions of birr)

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

Source: Bank of Eritrea.

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

(In millions of birr)

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

Sources: Bank of Eritrea; Commercial Bank of Eritrea.

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

(In millions of birr)

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

Source: Housing and Commerce Bank of Eritrea.

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

(In millions of birr)

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

Sources: Bank of Eritrea



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

(In millions of birr)

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

Source: Commercial Bank of Eritrea.

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

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

(In percent per annum)

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

Sources: Bank of Eritrea and Commercial Banks.

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

(In millions of US dollars)

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

Sources: Bank of Eritrea; and staff estimates.

1/ Excluding official transfers.

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

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

(In millions of birr, unless indicated otherwise)

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

Source: Customs Office.

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

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

(In millions of birr, unless indicated otherwise)

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

Source: Customs Office.

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

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

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

Source: Customs Office.

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

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

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

Sources: Customs Office.

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

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

(In millions of US dollars)

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

Source: Ministry of Finance.

- 1/ Maturity period 40 years; grace period 10 years; interest rate 0.75 percent.  
2/ Maturity period 30 years; interest free loans; grace period 10 and 5 years for 1993 and 1994 loans, respectively.  
3/ Maturity period 20 years; grace period 6 years; interest rate 5.0 percent.  
4/ Maturity period 30 years; grace period 5 years; interest rate 1.0 percent.  
5/ Maturity period 20 years; grace period 5 years; interest rate 2.5 percent.  
6/ Maturity period 20 years; grace period 5 years; interest rate 3.0 percent.  
7/ Maturity period 18 years; grace period 5 years; interest rate 3.0 percent.  
8/ Maturity period 18 years; grace period 5 years; interest rate 2.0 percent.  
9/ Maturity period 50 years; grace period 10 years; interest rate 0.75 percent.



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

(Average data)

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

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

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

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