

ERITREA

Table 1	2021
Population, million	3.6
GDP, current US\$ billion	2.3
GDP per capita, current US\$	632.6
School enrollment, primary (% gross) ^a	68.4
Life expectancy at birth, years ^a	66.3
Total GHG Emissions (mtCO ₂ e)	8.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ WDI for School enrollment (2018); Life expectancy (2019).

Real GDP rebounded by 2.9 percent in 2021 after a 0.6 percent contraction in 2020, aided by external demand uptake and resumption of domestic activity. A significant boost to growth is expected in 2022 from new mining developments and rising prices of mineral exports. However, rising food inflation, climate vulnerabilities and geopolitical tensions cloud the medium-term outlook. National accounts and poverty statistics have not been produced over the last decade.

Key conditions and challenges

After UN sanctions were lifted in November 2018, Eritrea started emerging from a decade of international isolation. Efforts to shift from a centrally planned to a market-led economy have been slow and sporadic, and large SOEs dominate economic activity. Monetary policy is characterized by administrative measures, fiscal dominance, and a fixed exchange rate regime pegged to the US dollar, enabled by severe import restrictions in a context of low foreign exchange reserves. The banking system largely lends to government and lacks international correspondent banks, while payment and settlement systems are absent. The country is among the most vulnerable and least adapted to climate change in Sub-Saharan Africa, and frequent weather shocks pose a heavy burden for the economy and rural livelihoods. The mining sector, which started operating in 2011, accounts for over 90 percent of total exports, yet contributions to budget revenues are limited.

The Covid-19 crisis hit Eritrea amid a hiatus in its reengagement with development partners, leaving it without needed external funding. In addition, informal cross-border trade was affected by the conflict in northern Ethiopia. Yet, Eritrea's isolation moderated the magnitude of the initial external shock.

The emergency conditions prevailing in the country over the past decade have

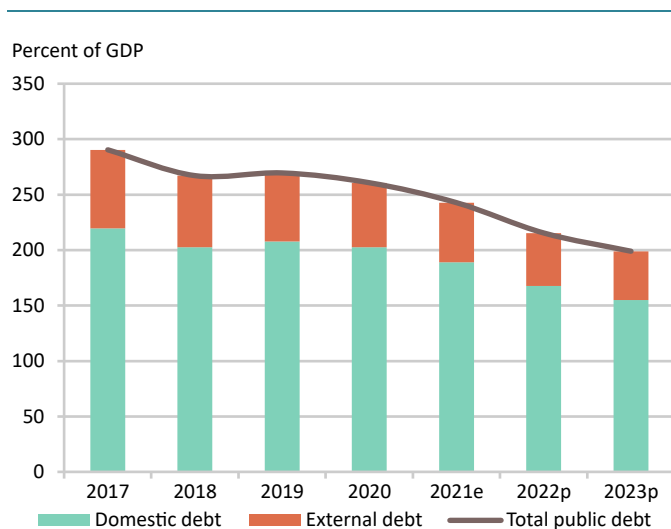
led to data production capacity constraints. National accounts data are limited to unofficial GDP estimates by the Ministry of Finance, inflation estimates cover only the capital, Asmara, and full balance of payments accounts are missing. The last population census in Eritrea took place more than 25 years ago. Therefore, little is known about poverty. Data from 1996/97, covering only urban areas, suggests that poverty was widespread with around 70 percent of the population living in poverty.

Recent developments

After contracting by 0.6 percent in 2020 amid the Covid-19 crisis, real GDP rebounded by an estimated 2.9 percent in 2021, supported by external demand uptake and the resumption of economic activity as the restrictions imposed at the onset of the pandemic were lifted. Inflationary pressures that build up following the closure of the border with Ethiopia after its temporary opening for two months in 2019 eased in 2021, and inflation hovered at 4.5 percent. The external current account surplus increased to 13.6 percent of GDP in 2021 from 11.4 percent the year before as commodity exports grew faster than the recovering imports. Reserves are estimated to hover at about two months of imports.

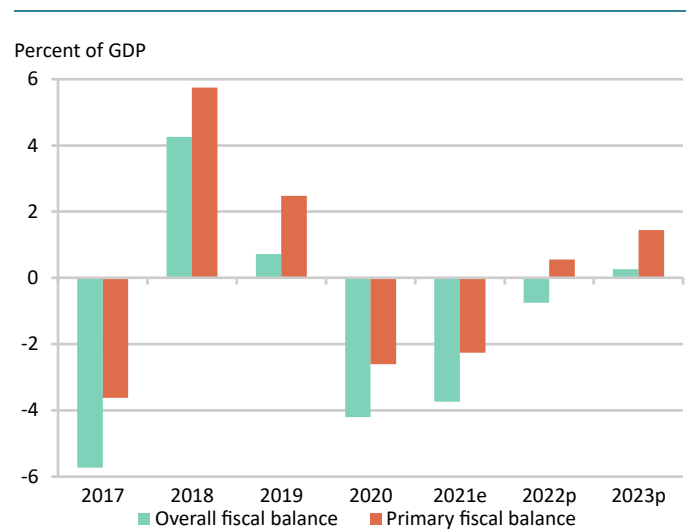
The UN Food and Agriculture Organization said in early March 2022 that the desert locust upsurge that ravaged the Horn of Africa for more than two years

FIGURE 1 Eritrea / Evolution of total public debt



Sources: Ministry of Finance, Planning and Economic Development, World Bank staff estimates.

FIGURE 2 Eritrea / Primary and overall fiscal balances



Sources: Ministry of Finance, Planning and Economic Development, World Bank staff estimates.

has ended as drier conditions prevail, but recommended vigilance as few residual infestations may linger. As part of efforts to reinvigorate the partnership between the UN and Eritrea and prepare for a new Sustainable Development Cooperation Framework for 2022-2026, a 24-person mission to Asmara led by UN Regional Directors took place end-January 2022, with discussions covering COVID-19 vaccination, regional dynamics in the Horn of Africa, regional trade integration and ACFTA, human rights, climate action, and data for development. However, Eritrea remains mostly isolated internationally. On November 12, 2021, the US imposed sanctions on four prominent Eritrean entities and two individuals in response to their role in the ongoing human rights crisis in Ethiopia.

The rebounding economic activity supported stronger revenues in 2021, driving a decline of fiscal deficit to 3.7 percent of GDP from 4.2 in 2020. Construction work associated to the Colluli and Asmara mines continued to drive capital expenditures. Public debt is estimated at around 243 percent of GDP, of which nearly 80 percent is owed to domestic banks. However, fiscal and domestic debt

outcomes remain uncertain given frequent data revisions due to reporting lags driven by widespread manual processes.

Outlook

Real GDP growth is expected to accelerate to 4.7 percent in 2022 as the Colluli and Asmara mines start exporting at full capacity. Rising international prices of zinc, gold and copper, which jointly account for over 90 percent of Eritrea's exports, will strengthen the current account and soften the negative impact from rising prices of oil and wheat, which are among the country's top imports, stemming from the Russia-Ukraine war. Similarly, the hike in potash prices, which have trebled over the past year and have low prospects of coming down soon as sanctions weigh heavily on Russia and Belarus, the second and third world producers of the commodity, could further boost Eritrea's growth and external accounts, bolstering government revenue and providing much needed foreign exchange. However, the increasing food inflation and possible shortages of key commodities will weigh negatively on

household's consumption, exacerbating poverty and food insecurity. Over the medium term, growth could continue in the range of 3.6 to 3.8 percent, supported by sustained mineral exports and potential spillovers from the new potash mine to fertilizer production, which could enhance agricultural productivity, improving livelihoods and food security.

Nevertheless, downside risks are significant. Rising global geopolitical tensions and new Covid-19 variants could further reduce global growth, negatively impacting exports. Eritrea's continued involvement in the northern Ethiopia conflict could attract renewed international sanctions, while escalation of war in Europe could further push up oil and wheat prices, with potentially dire effects on poverty and food insecurity. The absence of a Covid-19 vaccination campaign heightens risks to lives and livelihoods, while severe climate vulnerabilities that burden Eritrea could worsen in coming years. The fragile macroeconomic situation and severe credit constraints leave the country with little space to boost preparedness facing these risks, and to control damages should they materialize.

TABLE 2 Eritrea / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	3.8	-0.6	2.9	4.7	3.6	3.7
Private Consumption	5.5	-1.9	3.0	7.2	5.6	5.9
Government Consumption	39.3	16.4	9.9	3.5	4.0	2.2
Gross Fixed Capital Investment	67.5	152.2	39.1	-18.0	1.6	1.3
Exports, Goods and Services	-5.0	-5.4	49.7	25.7	3.8	1.6
Imports, Goods and Services	1.4	-3.5	42.6	28.0	2.0	3.1
Real GDP growth, at constant factor prices	3.7	-0.7	2.9	4.7	3.6	3.7
Agriculture	27.0	-0.5	4.5	3.1	2.5	3.3
Industry	13.0	-0.7	1.4	10.2	7.6	6.7
Services	-26.0	-1.1	2.0	0.6	0.2	0.3
Inflation (Consumer Price Index)	-16.4	4.8	4.5	6.2	3.5	2.2
Current Account Balance (% of GDP)	13.0	11.4	13.6	13.6	13.3	12.4
Net Foreign Direct Investment (% of GDP)	3.9	3.8	3.7	3.4	3.3	3.2
Fiscal Balance (% of GDP)	0.7	-4.2	-3.7	-0.8	0.3	1.0
Debt (% of GDP)	269.5	260.7	242.7	215.4	198.9	186.6
Primary Balance (% of GDP)	2.5	-2.6	-2.3	0.6	1.4	2.1
GHG emissions growth (mtCO2e)	4.3	-2.8	3.1	4.9	3.7	1.0
Energy related GHG emissions (% of total)	26.1	26.3	26.6	27.5	27.8	28.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.