

# ERITREA

**Table 1** **2021**

Population, million	3.6
GDP, current US\$ billion	2.2
GDP per capita, current US\$	613.8
School enrollment, primary (% gross) <sup>a</sup>	68.4
Life expectancy at birth, years <sup>a</sup>	66.7
Total GHG emissions (mtCO2e)	7.5

Source: WDI, Macro Poverty Outlook, and official data.  
a/ WDI for School enrollment (2018); Life expectancy (2020).

Real GDP growth is expected to moderate to 2.5 percent in 2022, impacted by lower global growth, and to hover around 2.8 percent over the medium term, consistent with pre-pandemic growth rates. Eritrea has begun to reengage with development partners but remains mostly isolated and vulnerable to various risks, including food inflation, highly concentrated exports, COVID-19, geopolitical tensions, and climate shocks. Poverty data has not been produced in the last decade, and national accounts are limited.

## Key conditions and challenges

The lifting of UN sanctions in November 2018 marked Eritrea's emergence from a decade of international isolation. Prolonged conflict has deprived Eritrea, a fragile state, of vital aid and investment resources. The government responded by pursuing a self-sufficiency policy where large SOEs dominate the economy and outside the mining industry there is a virtually non-existent private sector. The financial sector is small and underdeveloped, and a few minerals (mainly zinc, gold, and copper) account for over 90 percent of exports, leaving Eritrea highly exposed to exogenous shocks. 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. Productivity in agriculture is low, and the country is among the most vulnerable and least adapted to climate change in Sub-Saharan Africa, with frequent natural hazards posing a heavy burden for the economy and rural livelihoods.

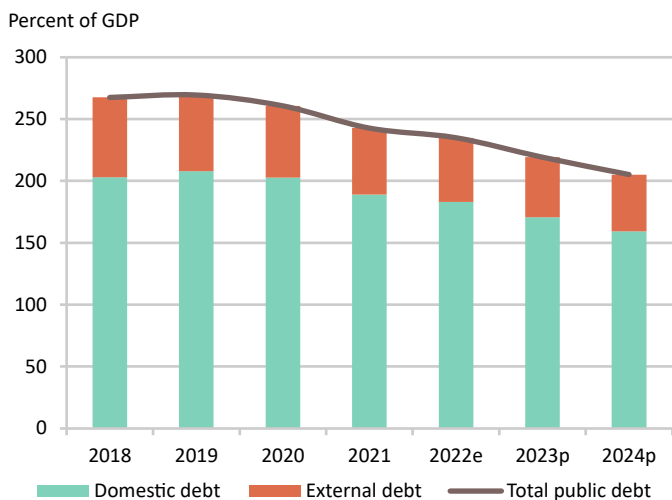
The COVID-19 crisis hit Eritrea amid a hiatus in its re-engagement with development partners, leaving it without external funding. In addition, informal cross-border trade was affected by the conflict in northern Ethiopia. However,

Eritrea's isolation moderated the magnitude of the initial external shock. Eritrea has severe data production capacity constraints resulting from the emergency conditions that prevailed in the country over the past decades. National accounts data are limited to unofficial GDP estimates produced by the Ministry of Finance and not endorsed by the government, while inflation estimates cover only the capital, Asmara, and full balance of payments accounts are missing. The last population census in Eritrea occurred over 25 years ago, and little is known about poverty. Data from 1996/97, covering only urban areas, suggests that widespread poverty reached around 70 percent of the population.

## Recent developments

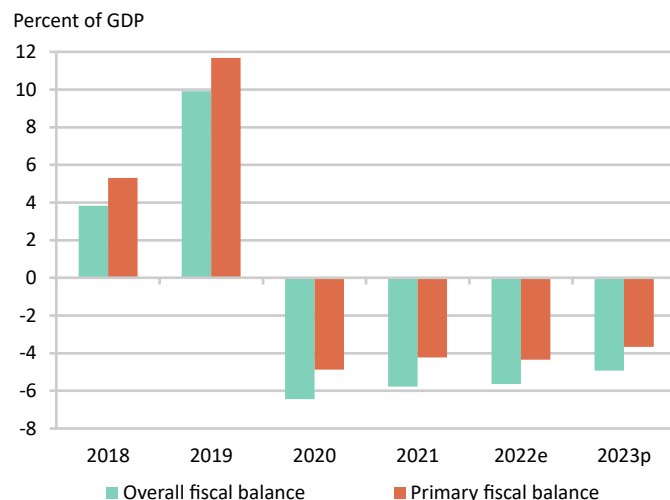
Real GDP growth rebounded by 2.9 percent in 2021 after contracting by 0.5 percent in 2020 amid the COVID-19 crisis. The recovery was led by improving external demand and the resumption of domestic economic activity following the phasing out of restrictions imposed at the onset of the pandemic. Headline inflation averaged 6.6 percent in 2021, fueled by rising international commodity prices and the continued closure of the Ethiopian border since April 2019. Rising prices of wheat, corn, fertilizers, and oil resulting from the war in Ukraine added to economic hardship for the poor. Eritrea has also been severely

**FIGURE 1 Eritrea / Evolution of total public debt**



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

**FIGURE 2 Eritrea / Primary and overall fiscal balances**



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

hit by the recent drought in the Horn of Africa, experiencing the fourth consecutive below-average rainfall season since late 2020, adding to food insecurity.

Strengthening economic activity and relatively high global metals prices (especially for zinc and gold) supported fiscal revenues in 2021 and a narrowing of the fiscal deficit to 5.8 percent of GDP from 6.4 in 2020. The polymetallic Asmara mine was officially inaugurated in June 2022 and is expected to contribute to exports and revenues in the future. Public debt is estimated at around 242.7 percent of GDP, of which nearly 80 percent is owed to domestic banks, and the country remains in debt distress.

Eritrea's engagement with the UN has intensified in recent months. On July 12, Eritrea presented its first Voluntary National Review report on its progress toward the SDGs focused on SDG3 on Health and Well-being and SDG13 on Climate Action, while briefly touching upon the status of implementation of the other SDGs.

## Outlook

Real GDP is expected to grow at 2.5 percent in 2022, a slight deceleration from 2021, mainly supported by mineral exports. Over the medium term, growth is projected to average 2.8 percent, consistent with pre-pandemic growth rates. Higher prices of fuel and wheat, the country's top import products, will likely keep inflation elevated at over 7 percent in 2022, exacerbating poverty and food insecurity. The current account is expected to remain in surplus, as currently elevated prices of gold and zinc offset the higher fuel and food import bill, but should narrow modestly over the medium term as the peak in global commodity prices fades. Steady remittances are expected to provide income support to households over the medium term. Fiscal consolidation, underpinned by slower growth in government current expenditures and continued growth in revenues in line with economic activity,

should help to narrow the fiscal deficit. Strong growth in nominal GDP should keep public debt-to-GDP ratios on a declining trend. However, fiscal and domestic debt outcomes and the outlook for public finances remain uncertain given frequent data revisions due to reporting lags driven by widespread manual processes.

Downside risks are significant. These include continued spillovers to the global economy and commodity prices from the Ukraine war and heightened regional geopolitical tensions. Eritrea's continued involvement in the northern Ethiopia conflict could attract renewed international sanctions. Further global food price shocks would negatively impact household consumption, given Eritrea's dependence on wheat imports. Additionally, Eritrea is currently one of only two countries in the world that have not yet started vaccinating their citizens against COVID-19, heightening health risks and economic growth risks. Finally, severe climate vulnerabilities continue to burden Eritrea and could worsen in the coming years.

**TABLE 2 Eritrea / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2019	2020	2021	2022e	2023f	2024f
<b>Real GDP growth, at constant market prices</b>	3.8	-0.5	2.9	2.5	2.7	2.9
Private Consumption	5.5	-1.9	3.0	3.5	4.1	4.5
Government Consumption	39.3	16.4	14.0	5.7	3.4	3.5
Gross Fixed Capital Investment	67.5	195.8	17.7	13.0	8.7	16.2
Exports, Goods and Services	-5.0	-5.4	49.7	8.9	4.8	3.1
Imports, Goods and Services	1.4	-3.5	42.6	12.0	8.1	7.1
<b>Real GDP growth, at constant factor prices</b>	3.7	-0.6	2.9	2.5	2.7	2.9
Agriculture	27.0	-0.5	4.5	1.6	2.5	2.4
Industry	13.0	-0.7	1.4	3.7	3.6	3.7
Services	-26.0	-0.6	2.0	2.4	1.8	2.9
<b>Inflation (Consumer Price Index)</b>	1.3	5.6	6.6	7.4	6.4	4.1
<b>Current Account Balance (% of GDP)</b>	13.1	14.6	13.5	12.3	10.8	10.2
<b>Net Foreign Direct Investment Inflow (% of GDP)</b>	3.1	1.4	1.4	1.3	1.2	1.1
<b>Fiscal Balance (% of GDP)</b>	9.9	-6.4	-5.8	-5.6	-4.9	-4.1
<b>Debt (% of GDP)</b>	269.5	260.7	242.7	234.9	219.1	205.1
<b>Primary Balance (% of GDP)</b>	11.7	-4.9	-4.2	-4.3	-3.7	-2.9
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	0.8	4.5	6.0	7.8	10.3	13.3
<b>Energy related GHG emissions (% of total)</b>	13.4	16.2	20.0	24.8	30.9	38.2

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.  
Notes: e = estimate, f = forecast.