

# COUNTRY REVIEW

## Eritrea



21 August 2009

**ANALYST: Andrew Atkinson**

**EULER HERMES COUNTRY RISK GRADE: D**

**Country Risk Grades are on a scale of AA, A, BB, B, C, D  
where AA is the lowest and D the highest risk.**

**COUNTRY PROFILE**

Capital city:	Asmara
GDP:	USD1,560mn (2008e)
Population:	4.93mn (2008e)
GDP per capita:	USD316 (2008e)
Currency:	Nakfa (ERN)
Form of state:	Unitary, under transitional government
Head of government:	President Issaias Afewerki
Next elections:	National Assembly December 2001 – postponed, yet to be rescheduled

Eritrea became an independent and internationally-recognised state as recently as May 1993, following the defeat of Ethiopia's communist government by an alliance of the Eritrean People's Liberation Front and a coalition of Ethiopian resistance groups. Independence was adopted almost unanimously in a referendum. However, a number of border disputes have coloured relations between the former allies and Eritrean and Ethiopian troops have engaged in a series of border conflicts. A full-scale war that claimed an estimated 70,000 lives was concluded in 2000, but skirmishes have persisted, with both sides disputing independent border rulings, particularly Ethiopia's claims over the town of Badme that was judged by international arbiters to be Eritrean. Security issues have delayed the country's progress towards parliamentary democracy and there are signs of donor frustration with the current government's increasingly authoritarian stance and apparent lack of commitment to political and social liberties. To date, the only legal political party is the People's Front for Democracy and Justice (PFDJ).

The economy remains highly fragile and its infrastructure and resource base was severely damaged by war and is affected adversely by recurrent droughts. Agricultural output remains depressed and the country is dependent on food aid. Annual real GDP growth between 2001 and 2008 was around 1.8% and annual population growth is 3.1%, signifying a decline in income per head over that period. A limiting factor to economic expansion is the government's interventionist stance that stifles private sector initiatives. Accordingly, the economy will remain dependent on mobilisation of aid resources from the International Financial Institutions (IFIs)—Eritrea joined both the IMF and World Bank in 1994—and other bilateral donors, aimed at post war reconstruction projects, the resettlement of displaced people and assisting the government to procure essential imports.

The country has substantial mineral deposits, including gold, copper, zinc, lead, iron and nickel. However, exploitation of natural resources is hampered by poor security and a weak business environment, with uncertainty in relation to government strategy towards foreign investment. In general, economic data are scarce and not timely. Latest available World Bank statistics indicate a foreign debt/GDP ratio of around 64%, even after a rescheduling in 2007 of some repayments. For such a fragile economy with weak revenue generation, debt obligations are problematic and weak servicing is likely to involve further accumulation of arrears of interest and, particularly, principal on long-term official debt. Foreign exchange reserves have accumulated and at USD58mn at end-2008 were double the level of 2006 but still provided only an estimated one month of import cover, compared with an internationally-accepted "safe" minimum of three months. Inward remittances account for around 45% of GDP and until the country finds sustainable security it will remain essentially a war economy, with the misdirection of resources that such a state entails.

The structural business environment is weak. Eritrea ranks 164 out of 179 countries in the UN's Human Development Index for 2008, below Benin, Malawi and Zambia. Life expectancy is 57 years, adult literacy is below 70% and 40% of the population does not have access to an improved source of water. The country ranks 126= with Ethiopia, Indonesia and Libya out of 180 in Transparency International's 2008 Corruption Perceptions Index, below Togo and Vietnam. The World Bank's Doing Business survey for 2009 ranks Eritrea a lowly 173 out of 181 economies it assesses for overall ease of doing business.

**Andrew Atkinson****London: +44 (0)20 7860 2577**