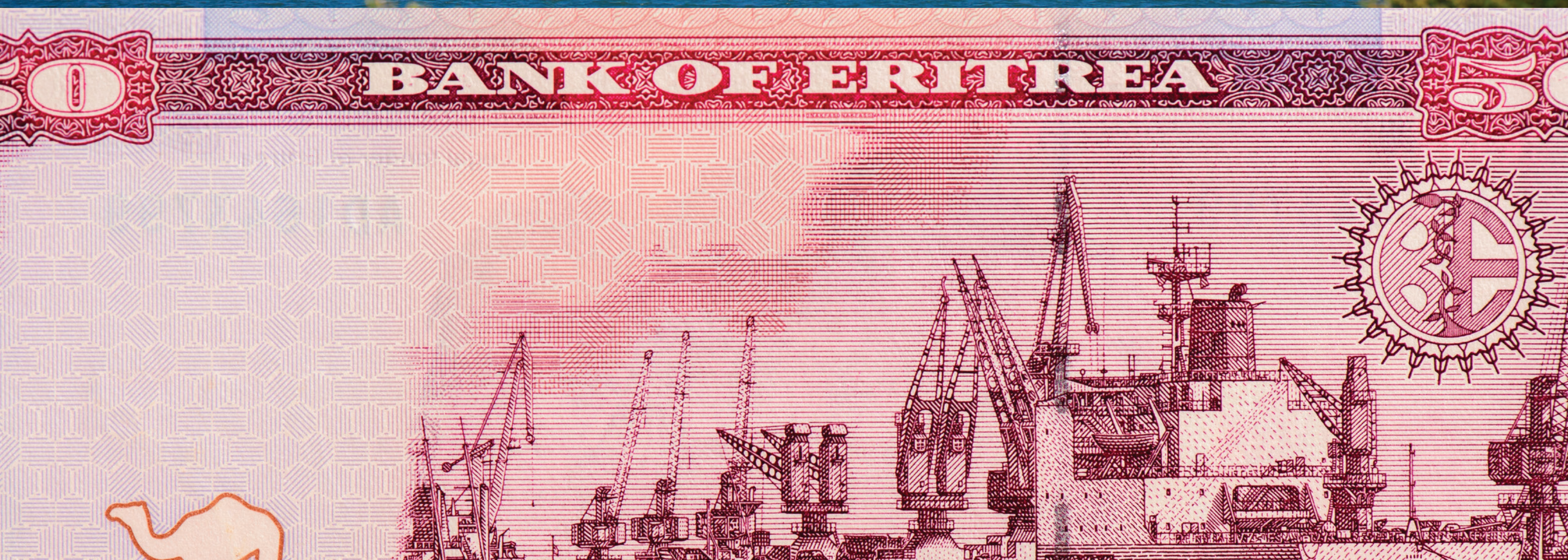
Eritrea
Country Brief



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Transforming Africa's Trade

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Eritrea

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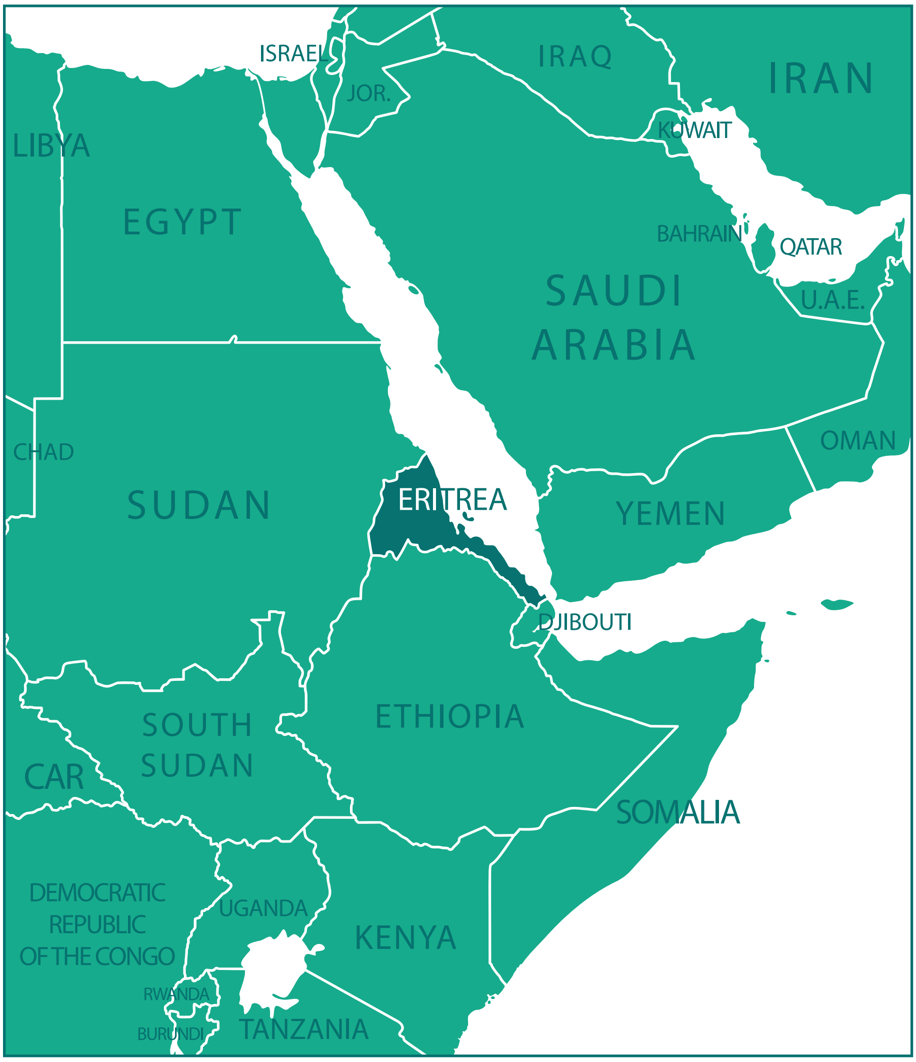


INTRODUCTION

Eritrea is a small, strategically located country in the Horn of Africa, bordered by Sudan, Ethiopia, and Djibouti, with a long Red Sea coastline that positions it as a potential maritime hub. Covering an area of approximately 117,600 square kilometers, Eritrea has an estimated population of 3.6 million. Asmara, the capital, is the administrative and economic center.

The country's economic activity is primarily driven by the mining sector, which accounts for a significant share of export earnings and foreign exchange inflows. The country possesses rich deposits of gold, copper, zinc, and potash, and mining projects such as the Bisha and Colluli sites form the backbone of its external sector. Agriculture remains a key source of livelihood, though it contributes modestly to gross domestic product (GDP) estimated at 10 percent due to recurring droughts and low productivity.

Eritrea faces significant developmental challenges, including infrastructure gaps, limited integration into global markets, and high youth unemployment. However, it could improve its long-term economic prospects through ongoing efforts to attract foreign investment in the extractive industries and through regional stabilization initiatives.

POLITICAL ENVIRONMENT

Eritrea is a unitary state, governed under a centralized political framework. Since its independence in 1993, the country has been led by President Isaias Afwerki and the People's Front for Democracy and Justice (PFDJ), which functions as the only legal political party. The government emphasizes national sovereignty, self-reliance, and state-led development as central pillars of its policy agenda. While institutional frameworks continue to evolve, the administration retains a significant role in directing economic activity and public investment.

Eritrea maintains a strategic and selective approach to external engagement, favoring bilateral partnerships that are aligned with its long-term vision. The normalization of ties with Ethiopia in 2018 marked a key step toward regional reengagement, though the Tigray conflict (2020–2022) reintroduced tensions, particularly over borders and port access. Despite these challenges, Eritrea retains a strategic role in the Horn of Africa, balancing cautious diplomacy with aspirations for regional stability and economic integration.

MACROECONOMIC ANALYSIS

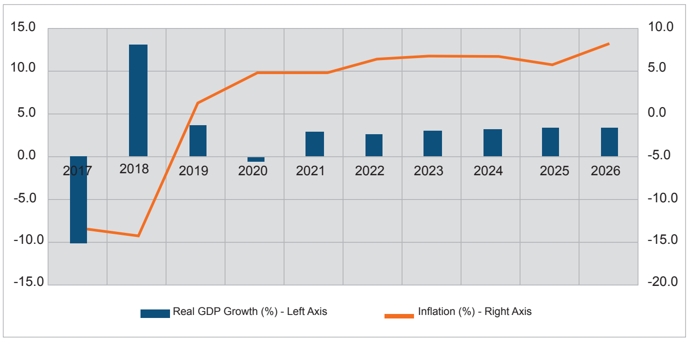
Gross domestic product

Eritrea's economic performance over the past decade has been marked by modest and fluctuating growth, reflecting both structural constraints and sectoral volatility. Real GDP growth was recorded at 3.1 and 3.3 percent in 2023 and 2024, respectively (Figure 1), driven primarily by increased mineral production, the stabilization of agricultural output after drought years, and incremental improvements in public infrastructure. However, growth continues to fall short of the country's potential due to persistent structural bottlenecks, such as limited access to capital, restrictive policies, and a shallow domestic market. Looking ahead, real GDP growth is projected to reach 3.4 and 3.5 percent in 2025 and 2026, respectively, supported by further expansion in mining, gradual improvements in services, and increased private investment.

Inflation

Inflation was 6.9 percent in both 2023 and 2024 (Figure 1), supported by lower global fuel and food prices and improved domestic supplies. However, ongoing structural issues, such as exchange rate misalignment and supply chain bottlenecks, continue to pose challenges. Although the government avoided hyperinflation in 2024, projections indicate that the inflation rate will decline to below 5.8 percent in 2025 before rising again to 8 percent in 2026 due to persistent economic imbalances. The country acknowledges the need for exchange rate reform, financial sector modernization, and enhancements to monetary transmission mechanisms. Proposed measures include unifying the exchange rate regime, liberalizing current account transactions, and deepening financial intermediation.

Figure 1. GDP Growth and Inflation Trend, 2017–2026



Source: Afreximbank Research 2025.

Exchange Rate

Eritrea's exchange rate regime remains officially fixed, with the nakfa pegged at 15.08 per U.S. dollar, a policy in place since 2005 and continues to date. The peg arrangement is intended to provide currency stability, anchor inflation expectations, and foster investor confidence. However, the nakfa is not fully convertible, and a significant gap persists between the official and black-market rate, where the nakfa trades at approximately 100 per U.S. dollar. This wide disparity underscores sustained pressure on the currency, reflecting rationed access to foreign exchange and persistent demand in the parallel market.

Fiscal Balance

The government adheres to a conservative fiscal policy, with limited deficit spending due to a lack of external financing options. Total revenues are mainly composed of mining royalties, customs duties, and remittances, with direct tax contributions remaining minimal. In 2024, the fiscal deficit was estimated at 15.8 percent of GDP, marking an improvement from the 18.3 percent deficit recorded in 2023. This reduction reflects ongoing fiscal consolidation efforts, while the tax-to-GDP ratio has remained stable at approximately 17 percent.

Looking ahead, the fiscal deficit is expected to widen in the near term, reaching 17.8 percent in 2025 and about 32.5 percent by 2026, mainly due to increased development expenditures aligned with Vision 2030, which provides a comprehensive and ambitious roadmap focused on inclusive growth and structural transformation. Nonetheless, the government is actively working to modernize the tax system, improve revenue collection, and enhance budget execution, as well as broaden public–private partnerships and consider concessional finance to help close the infrastructure gap.

Trade, Reserves, and Financial Sector

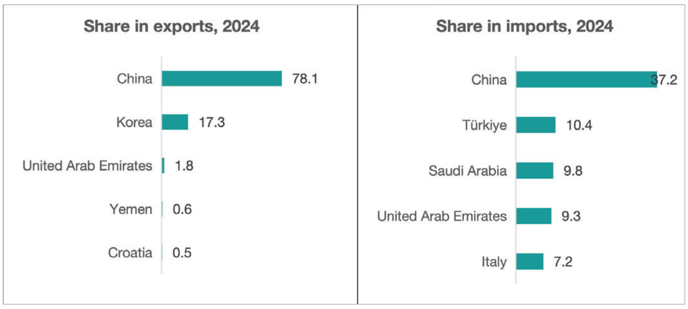
Total Trade

Eritrea's trade profile is heavily skewed toward the export of unprocessed mineral commodities, with gold, copper, zinc, salt, and potash comprising more than 90 percent of export earnings. The mining sector is the backbone of the formal economy, contributing significantly to GDP and government revenue. Imports are dominated by refined petroleum products, food, medicines, machinery, construction materials, and fertilizers. Export diversification is limited, leaving the country exposed to terms-of-trade shocks and global price volatility.

Key trading partners include China, Croatia, Italy, Saudi Arabia, South Korea, Türkiye, the United Arab Emirates (UAE), and Yemen (Figure 2), primarily for exports and essential imports. Eritrea also maintains informal or underreported trade flows with neighboring countries such as Ethiopia and Sudan. If the country addresses trade facilitation constraints, it could benefit from expanded regional trade under the African Continental Free Trade Area (AfCFTA).

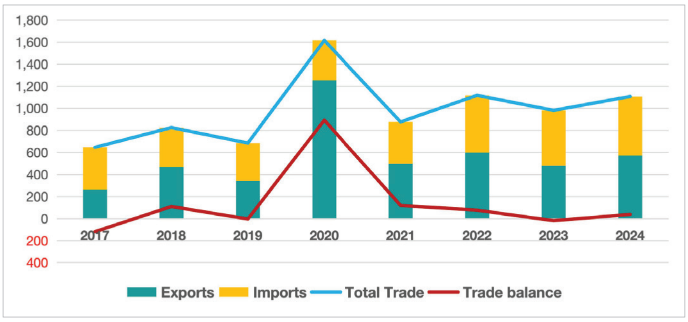
Eritrea's total trade grew by 12.9 percent from US$1.0 billion in 2023 to US$1.1 billion in 2024 (Figure 3). While total exports amounted to US$573.1 million in 2024, up from US$481.3 million in 2023, total imports stood at US$534.4 million, an increase from US$499.9 million. This resulted in a trade surplus of US$38.7 million in 2024, compared to the deficit of US$18.5 million recorded in 2023.

Figure 2. Eritrea's Top Five Trade Partners, 2024 (in percent)



Sources: Afreximbank research; IMF Direction of Trade Statistics.

Figure 3. Trade Accounts, Exports, and Imports, 2017–2024 (in US$ millions)



Sources: Afreximbank research; IMF Direction of Trade Statistics.

Intra-African trade

Eritrea's total intra-African trade was estimated at US$25.4 million in 2024, accounting for less than 3 percent of its overall trade. This is lower than the 7 percent, or US$67.2 million, reported in 2023, likely due to the current regional political situation. The country's main export destinations were Djibouti and Sudan, accounting for more than 80 percent of its intra-African exports. Eritrea's export products included edible vegetables, certain roots, beverages, spirits, and vinegar. Djibouti and South Africa received 96 percent of the total imports, which included primarily industrial and finished goods such as nuclear reactors, boilers, machinery, mechanical appliances, and electrical machinery and equipment.

Reserves

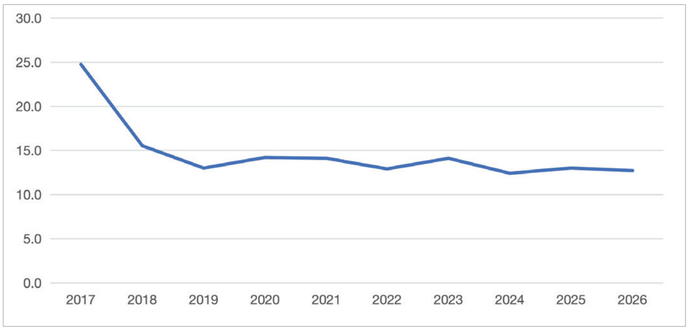
As of end of 2024, Eritrea's international reserves were relatively low, estimated at $384 million, which covers approximately five months of imports. While this level is generally considered adequate for short-term external stability, it leaves the country vulnerable to external shocks, particularly given its heavy reliance on the mining sector for foreign exchange earnings. The mining sector's exposure to global commodity price fluctuations and potential operational disruptions pose ongoing risks to reserve adequacy and the central bank's ability to defend the peg.

To enhance the long-term sustainability of the fixed exchange rate, Eritrea would benefit from measures to increase foreign reserves, enforce fiscal discipline, and diversify sources of foreign exchange. Expanding financial services, attracting foreign direct investment, and promoting export diversification are critical steps toward reducing external vulnerabilities and strengthening the resilience of the exchange rate regime.

Current account balance

In 2024, Eritrea's current account registered a surplus of 12.4 percent of GDP (Figure 4), reflecting strong mineral export receipts and subdued import growth. Looking ahead, the surplus is projected to remain broadly stable at about 13 percent of GDP in 2025 and 2026, supported by favorable terms of trade and expected donor-related foreign exchange inflows. Nevertheless, persistent debt-service pressures and a weak reserve position underscore underlying vulnerabilities. Structural reforms to enhance export diversification and strengthen external buffers will be critical to sustain this positive trend over the medium term.

Figure 4. Current Account Balance, 2017–2026 *(f) (in percent of GDP)



*Forecast
Source: Afreximbank Research 2025

Banking Sector

Eritrea's banking sector remains underdeveloped and is characterized by strong state dominance, with all commercial banks being either state-owned or affiliated with the ruling party. The Commercial Bank of Eritrea is the largest institution, controlling nearly 80 percent of sector assets, followed by the Housing and Commerce Bank of Eritrea and the Eritrean Investment and Development Bank. Private banking is not permitted, and the sector has minimal competition or innovation. The Bank of Eritrea acts as the central authority, overseeing monetary policy, regulating interest rates, and managing macroeconomic indicators.

Financial intermediation is limited, with domestic credit to the private sector remaining low relative to GDP. Credit allocation is primarily administered, and access to finance for small and medium enterprises (SMEs) and exporters is severely constrained. Studies show that less than 10 percent of SMEs in Asmara have accessed bank loans in recent years, with collateral requirements and procedural barriers being major obstacles. Deposit mobilization is weak, and most economic transactions occur outside of the formal banking system, reflecting the dominance of the informal sector and cash-based nature of the economy.

The sector's development is further inhibited by the fixed exchange rate regime, stringent capital controls, and limited convertibility of the Nakfa, all of which restrict the effectiveness of monetary policy and external competitiveness. The country lacks modern financial services such as ATMs, online banking, and mobile money platforms, and has not implemented or prioritized open banking frameworks. More than 70 percent of Eritreans remain unbanked, underscoring the challenge of financial inclusion.

Reforming the banking sector is essential for supporting Eritrea's ambitions for export diversification and private sector growth. Priorities include modernizing payment systems, enabling channels for diaspora financing, liberalizing foreign exchange operations, and fostering a regulatory environment that encourages innovation and broader financial access. Such reforms would help deepen financial intermediation, improve access to credit for businesses, and support the country's broader economic transformation objectives.

Debt Sustainability

Public debt trends

Eritrea has historically managed high levels of public debt, shaped by development needs and limited access to concessional financing. Recent trends, however, indicate a gradual improvement in debt sustainability indicators, supported by a sustained current account surplus, prudent import management, and steady revenue growth.

Eritrea's public debt burden remains one of the highest globally, with total public debt projected to decline from 250.3 percent in 2024 to 223.7 and 222.3 percent by 2025 and 2026, respectively. This high ratio reflects both historical factors and a relatively modest nominal GDP base, rather than recent large-scale borrowing. The downward trend suggests a gradual stabilization of the macroeconomic environment, facilitated by real GDP growth and prudent debt management strategies.

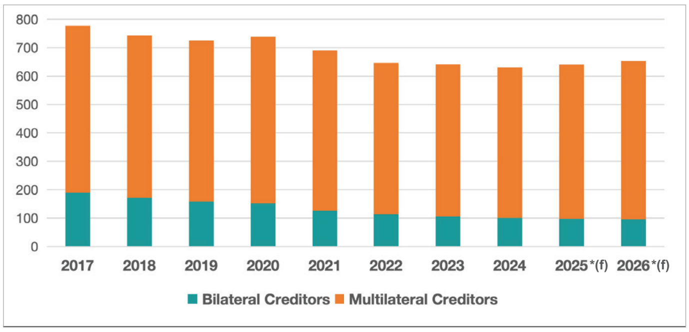
While the debt level continues to present challenges for fiscal space and international credit access, fiscal revenues are expected to increase from US$663 million in 2023 to US$822 million in 2026. These revenues, however, are not yet sufficient to significantly reduce the nominal debt stock without additional support. As such, ongoing efforts to enhance debt transparency, strengthen domestic resource mobilization, and explore concessional financing options remain important for medium-term debt stabilization.

External debt sustainability analysis

Relying heavily on September 2025 data from the Economic Intelligence Unit, Eritrea's external debt stock is projected to decrease from 30.1 percent of GDP in 2024 to 24.6 percent by 2026. This downward trend is primarily due to GDP growth outpacing the accumulation of new external liabilities. In absolute terms, however, external debt is expected to grow modestly from US$731.8 million in 2024 to US$745.2 million in 2026, mainly driven by disbursements from multilateral creditors.

The country's external debt stock is composed predominantly of multilateral loans, which account for more than 80 percent of total external debt, while bilateral creditors represent the remainder (Figure 5). This conservative debt profile reflects Eritrea's cautious approach to external borrowing, emphasizing concessional and semi-concessional financing. Sustained efforts to mobilize domestic revenue and promote import substitution would help limit new external financing needs.

Figure 5. Decomposition of External Debt by Creditors (in US$ millions)



*Forecast
Sources: Afreximbank Research; Economist Intelligence Unit.

External debt-to-GDP ratio

Eritrea's external debt-to-GDP ratio has averaged 36.1 percent over the past decade, which is below the 50 percent recommended threshold. In 2024, this ratio was estimated at 30.1 percent, supported by limited new borrowing and a modest rebound in real GDP. Projections suggest a further decline to an estimated 25 percent in 2025 and 24.5 percent by 2026, driven by fiscal consolidation, controlled external borrowing, and increased output from the mining sector. However, Eritrea's narrow production base and limited diversification make it vulnerable to external shocks and fluctuations in commodity prices.

External debt-to-exports ratio

Eritrea's export performance has contributed to keeping the external debt-to-exports ratio below the vulnerability threshold of 180 percent. This ratio was recorded at 87.6 percent in 2024 and is projected to decline steadily to 76.9 percent by 2026, reflecting the expected increase in mining exports, in particular potash and base metals. To maintain this positive trend and avoid external risks, it is essential to implement structural reforms to diversify the export base and enhance value addition.

External debt service-to-exports ratio

Eritrea's external debt service remains low due to favorable concessional debt terms and limited reliance on commercial borrowing. The debt service-to-exports ratio was 5.1 percent in 2024 and is expected decrease to 3.9 percent by 2026, significantly below the 20 percent threshold. This indicates a strong capacity to meet external obligations in the short to medium term if export revenues remain stable and continued access to concessional financing is maintained.

External debt service-to-revenue ratio

The external debt service-to-revenue ratio was 6.0 percent in 2024 and is projected to decrease to 4.1 percent by 2026, remaining well below the 18 percent liquidity threshold. Although this ratio is currently manageable under current projections, Eritrea continues to face structural and macroeconomic risks, including export concentration, climate variability, and the challenges of a non-convertible currency regime. It is crucial to focus on prudent debt management and economic diversification, while also increasing domestic revenue mobilization to improve debt servicing capacity and enhance long-term fiscal resilience.

Appendix: Table A1. Eritrea Selected Macroeconomic and Financial Indicators, 2017–2026

	2017	2018	2019	2020	2021	2022	2023	2024	2025 *(f)	2026 *(f)
Real GDP, percent	-10.0	13.0	3.8	-0.5	2.9	2.8	3.1	3.3	3.4	3.5
Inflation, annual average, percent	-13.3	-14.4	1.3	4.8	4.5	6.4	6.9	6.9	5.8	8.0
Exports of goods and services, percent y/y	48.8	6.5	-5.5	-1.2	39.1	9.7	-13.4	2.6	7.2	8.2
Current account, percent of GDP	24.8	15.5	13.0	14.2	14.1	12.9	14.1	12.4	13.0	12.7
International reserves, US$ million	143.4	163.0	191.7	405.1	344.9	339.8	345.9	384.4	391.0	410.7
Gross reserves, months of imports	4.3	5.2	5.3	5.0	5.6	4.6	4.7	4.9	5.0	4.7

*Forecast
Sources: Afreximbank Research; International Monetary Fund; Economist Intelligence Unit.

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