AFREXIMBANK

Transforming Africa's Trade

African Export-Import Bank
Banque Africaine d'Import-Export

ERITREA Country Profile 2022

Executive Briefing

- The People's Front for Democracy and Justice (PFDJ), headed by President Isaias Afwerki, is the sole political party, ensuring broad policy continuity.
- Security risks remain high due to Eritrea's proximity to the Tigray region in Ethiopia. The Eritrean military has been involved in the war since the conflict broke out in 2020.
- Eritrea's near-term economic rebound will be driven by rising private consumption and stronger mining output on the back of elevated global metal prices.
- The designation of two free trade zones in the country highlights the government's intention to boost domestic manufacturing and trade.

Political Climate

Eritrea has not held a national election since independence from Ethiopia in 1993. The People's Front for Democracy and Justice (PFDJ), headed by President Isaias Afwerki, is the sole political party, ensuring broad policy continuity. Security risks remain high in Eritrea due to the country's proximity to the Tigray region in Ethiopia and the Eritrean forces continued support of the Ethiopian government's military campaign against the Tigray People's Liberation Front (TPLF).

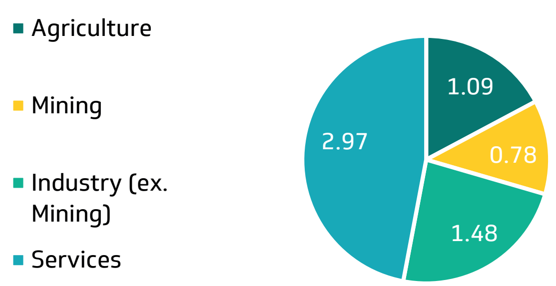
Macroeconomic Outlook

Eritrea's economy has suffered several setbacks over the last couple of years, largely from the Covid-19 pandemic and desert locust invasions. A modest recovery is underway, with real GDP growth registering 3.5% and 4.8% in 2021 and 2022, respectively.

This rebound will be driven by rising private consumption as Covid-19 regulations are relaxed, and stronger mining output on the back of elevated global metal prices. Furthermore, the Colluli potash project is expected to come online over 2022, significantly boosting potash production. Eventual annual output is expected to rise to just under one million tonnes per annum by around 2027, boosting exports and supporting long-term economic growth.

While the services sector accounts for the largest component of the economy, at 47%, the production of zinc and copper ore is crucial to export revenues, while the agricultural sector employs over 80% of the workforce. The government has identified the agricultural sector as an important driver of sustainable growth and has invested in a number of development programmes, such as the Agriculture Development Agenda, to increase resilience and support the creation of agricultural value chains.

Eritrea - GDP by Output, USD billion (2022)



Source: World Bank, Fitch Solutions

While the government is looking to diversify the economy, the challenging business environment and ongoing security risks stemming from the war in Ethiopia's Tigray region is likely to dampen investor sentiment and constrain economic diversification efforts. Real GDP will average 3.9% per annum between 2022 and 2031.

Key Macroeconomic Indicator	2019	2020	2021	2022	2022-2026 ave	2022-2031 ave
Population, mn	3.50	3.55	3.60	3.66	3.80	3.98
Real GDP Growth, % y-o-y	3.83	-3.97	3.45	4.81	4.00	3.94
Real GDP per capita, USD	614.49	581.89	592.78	610.99	635.00	667.30
Inflation (%)	-16.40	4.60	8.50	8.50	8.50	8.50
Fiscal balance, % of GDP	-	-	-	-	-	-
Public debt, % of GDP	-	-	-	-	-	-
Current account balance, % of GDP	6.96	4.96	7.97	7.96	7.95	7.95
Exchange rate, ERN/USD, ave	15.08	15.08	15.08	15.00	15.00	15.00

Source: National Sources, Fitch Solutions

Business & Trade Climate

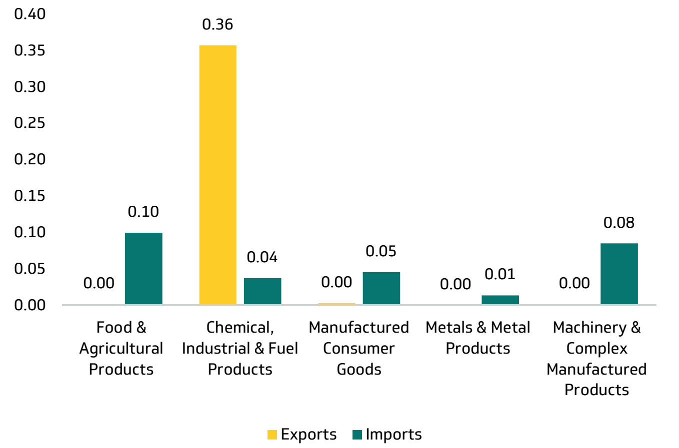
Eritrea is keen to attract more foreign investment and the official 1994 Investment Proclamation No. 59/1994 states that all sectors are open to any investors. That said, the investment climate remains challenging and inward FDI stocks remain relatively low.

The government has designated two free trade zones (FTZ): one in the port city of Massawa, and the other along the common border between Eritrea and Sudan. Although neither FTZ is currently operational, it shows the government's intent to boost domestic manufacturing and trade.

Eritrea's major exports are gold, copper ore and zinc ore. In 2020, chemical, industrial and fuel products was the country's largest export category in value terms, totalling nearly USD0.4 billion. The Colluli potash project has the potential to be a significant driver of export growth over the next decade. Colluli is the largest known potash deposit in the world – with the capacity to supply all of the global demand for 30 years. The UN estimates that Colluli could account for 3% of Eritrean GDP and could potentially represent over 50% of Eritrean exports by 2030.

Food and agricultural products is Eritrea's most significant import category in value terms, totalling USD0.1 billion in 2020. Major import partners are Egypt, the UAE, China, Italy and the United States. Given Eritrea's heavy reliance on food imports, particularly cereals like wheat, the ongoing disruption to global food supply chains from the Russia–Ukraine war is likely to increase the cost of imports over the near term and place strong upwards pressure on inflation.

Eritrea Exports & Imports, USD billion (2020)



Source: UN Comtrade

Market Risk

Risk Factor	Impact on Business
State ownership requirements may deter investors.	Investments must be undertaken in conjunction with the government or the ruling People's Front for Democracy and Justice. Access is restricted to certain industries.
Eritrea is heavily exposed to the ongoing conflict in Ethiopia, sharing a 1,000km-long border, including with Tigray.	Security risks threaten business operations, personnel and infrastructure, increasing operating costs.

Investment Opportunities

Mining

Eritrea has significant deposits of gold, copper, zinc, salt and potash, and possible oil and gas reserves, most of which are undeveloped. Potash production is set to accelerate most significantly over the coming years, in line with high global fertiliser demand growth and thus prices. This is creating investment opportunities across the mining value chain and in related infrastructure. Australian potash miner Danakali began construction of the world-class Colluli potash project in early 2020. Not only will the size of the mine be significant, but substantial logistics investment will be required. Danakali expects to initially export the 472,000 tonnes per annum output via truck to the Port of Massawa, 180km from the mine. However, the company plans eventually to build its own port closer to the mine and has identified a potential site only 87km from Colluli. Eventual annual output is expected to rise to just under one million tonnes per annum by around 2027.

Renewable Energy

Renewable energy is gaining traction in Eritrea, in line with the government's decarbonisation agenda and the attractive natural conditions for wind, solar, biomass and geothermal energy. Off-grid solar systems are also proliferating as the government looks to expand electricity access to remote regions of the country, while there is also scope for renewable energy to be incorporated into mining operations. In fact, Danakali is reportedly assessing ways of turning Colluli into a carbon neutral project through investment in renewable energy options such as solar, wind and geothermal energy.

Construction & Infrastructure

Increased investment is being channelled into both domestic and regional infrastructure, in order to reduce bottlenecks and boost trade. Eritrea is attracting a host of international investors, given its strategic location near the Red Sea, Suez Canal and Europe. While the Gulf states are involved in the Eritrean market (for example, the UAE's DP World), China will play an increasingly important role in the Eritrean infrastructure space, in line with the Chinese government's Belt and Road Initiative (BRI), of which Eritrea became the 50th African country to be involved in November 2021. The 134km-long Adi Guadad–Akordet road project has been under development since 2019; it is being financed by the Chinese government and carried out by China Shanghai (Group) Corporation for Foreign Economic & Technological Cooperation.

Telecommunications

Low mobile, fixed and internet penetration rates suggest significant subscriber growth opportunities in the telecoms sector and the country's geographic location makes it a potential transit route for telecoms infrastructure between the Horn of Africa, the Middle East and Asia. Significant investment is still required to improve the quality of services. The government has embarked on various initiatives aimed at this, specifically extending services to remote areas, improving the quality of services and integrating solar energy into telecoms infrastructure to compensate for the deficiencies of the electricity network.

For more information please contact:

Trade Intelligence Solutions, African Export-Import Bank [AFREXIMBANK], 72B El-Maahad El-Eshteraky Street, Roxy, Heliopolis, Cairo 11341, Egypt

afreximbank.com Tel: + 2 02 2456 4100/1/2/3/4 Email: trade.intelligence@afreximbank.com