

Background Note on Eritrea

Eritrea domestic situation

There is limited information available about Eritrea given that the government doesn't publish National Budgets and there is relatively strict control over the media.

The economy is dominated by the mining sector which appears to be the focus of a substantial portion of domestic investment and a significant majority of external investment. There are large distortions in the labour market owing to the indefinite national military service requirement.

This, along with reported human rights violations, has also contributed to up to 4000 migrants fleeing the country every month according to the most recent report by the UN special rapporteur on human rights in Eritrea. Many of those migrants have attempted the risky crossing of the Mediterranean where the UN estimates that nearly 2,000 migrants from West Asia and Africa have died in 2014.

There are also reports of significant food insecurity, particularly given poor harvests in 2013. Imports of food and other materials continue to drive large current account deficits, estimated to be close to 5 per cent of GDP.

The import situation is exacerbated by a fixed exchange rate which has resulted in significant foreign currency shortfalls. Higher food prices, among other things, drive persistent double digit inflation.

The IMF estimates that the government has continued to run sizable deficits since independence and that overall debt may be as high as 142 per cent in 2009. Although external debt amounts to around \$1 billion, that is still close to 30 per cent of GDP.

Recent improvements in the mining sector, including increases in copper and gold production are expected to drive output and export growth in the coming years. This also should boost government revenue given stakes held by the national mining company in many mining operations.

Eritrea remains one of the poorest countries in the world and scores close to the bottom in the Human Development Index. There have been some indications of an opening of political space with the announcement

of the intention to write a new constitution earlier this year, although the implications of that are still unclear. The country remains relatively isolated within the region given continuing strained relations with Ethiopia, although tensions have eased somewhat in the past two years.