Historical Development of Money and Banking in Eritrea from the Axumite Kingdom to the Present

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Abstract
The development of money is an abstract of the history of civilization. Financial institutions encourage saving habit among the people by receiving deposits from the public in various forms. The Axumite kings were the first to mint coins in the African Continent. The aim of this paper is to explore the lessons learned from the different historical developments in the country and the region. The paper discusses the origin of banking system in Eritrea. It highlights the historical evolution and growth of money and banking in Eritrea during the Axumite, Italian, and the British, Ethiopian periods. It also provides the chronological development of money and banking from historical times to the post-independent Eritrea. It also deals with the existing banking institutions in the country. The paper makes an extensive use of related literature in enlightening the money and banking system in Eritrea during the historical period. It ends with summary and concluding remarks.

Keywords
Money; Banking; Eritrea; historical development; Banking institutions etc.

1. Introduction
The precious metals, in weighed quantities, were a common form of money in ancient times. The transition to quantities that could be counted rather than weighed came gradually. Many primitive forms of money were counted just like coins. Cowrie shells, obtained from some islands in the Indian Ocean, were a very widely used primitive form of money – in fact they were still in use in some

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parts of the world (such as Nigeria). The cowrie play as money in ancient China that its pictograph was adopted in their written language for money (Davies, 2002: 36). Thus it is not surprising that among the earliest countable metallic money or coins were cowries made of bronze or copper, in China. In addition to these metal cowries, the Chinese also produced coins in the form of other objects that had long been accepted in their society as money e.g. spades, hoes, and knives.¹ Crossely, and Blandford (1975) viewed that the use of tool coins developed in the West and the ancient Greeks used iron nails as coins, while Julius Caesar regarded the fact that the ancient Britons used sword blades as coins as a sign of their backwardness.

These quasi-coins were all easy to counterfeit and, being made of base metals, of low intrinsic worth and thus not convenient for expensive purchases. True coinage developed in Asia Minor as a result of the practice of the Lydians, of stamping small round pieces of precious metals as a guarantee of their purity. Later, when their metallurgical skills improved and these pieces became more regular in form and weight the seals served as a symbol of both purity and weight. The first real coins were probably minted some time in the period 640-630 BC. Afterwards the use of coins spread quickly from Lydia to Ionia, mainland Greece, and Persia (Davies, 2002).

In China, the issue of paper money had become common from 960 AD onwards but there had been occasional issues long before that. A motive for one such early issue, in the reign of Emperor Hien Tsung 806-821, was a shortage of copper for making coins. A drain of currency from China, partly to buy off potential invaders from the north, led to greater reliance on paper money with the result that by 1020 the quantity issued was excessive, causing inflation. In subsequent centuries there were several episodes of hyperinflation and after about 1455, after well over 500 years of using paper money, China abandoned it (Davies, 2002:43; Rena, 2004).

The invention of banking preceded that of coinage. Banking originated in ancient Mesopotamia where the royal palaces and temples provided secure places for the safe-keeping of grain and other commodities. Receipts came to be used for transfers not only to the original depositors but also to third parties. Eventually, private houses in Mesopotamia also got involved in these banking operations and laws regulating them were included in the code of Hammurabi (Crossely, and Blandford, 1975; Davies, 2002).

¹ Although there is some dispute over exactly when these developments first took place, the Chinese tool currencies were in general use at about the same time as the earliest European coins and there have been claims that their origins may have been much earlier, possibly as early as the end of the second millennium BC.