INTERNATIONAL MONETARY FUND

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DJIBOUTI

October 2019

2019 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR DJIBOUTI

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2019 Article IV consultation with Djibouti, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its September 30, 2019 consideration of the staff report that concluded the Article IV consultation with Djibouti.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 30, 2019, following discussions that ended on June 17, 2019, with the officials of Djibouti on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on September 10, 2019
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Djibouti.

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INTERNATIONAL MONETARY FUND

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October 23, 2019

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Washington, D. C. 20431 USA

IMF Executive Board Concludes 2019 Article IV Consultation with Djibouti

On September 30, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Djibouti.

The government has in recent years implemented large-scale investments to develop transport and logistics infrastructures with the aim of positioning Djibouti as a regional trade and logistics hub. Combined with reforms to improve the business climate, this development strategy has fueled a strong economic expansion. There has also been some progress on social indicators, although unemployment and poverty remain high.

Real GDP growth averaged close to 7 percent during 2014–17. After a slowdown in 2017, a recovery in trade flows has lifted growth—to an estimated 5.5 percent last year. Growth is projected to remain strong over the medium term, at around 6 percent annually. Inflation has been low, driven by declining food prices.

The overall current account balance has experienced large swings over the past few years, driven by changes in inventories associated with re-export activities. The underlying current account balance, excluding re-export activities, is estimated to have amounted to -0.8 percent of GDP in 2018. Official reserves decreased by $112 million in 2018, bringing the reserve coverage to 3.2 months of imports (excluding imports for re-exports).

The overall fiscal deficit has declined significantly in recent years. Staff's broad measure of the deficit—which includes investment spending for two large projects (railway and water pipeline) has fallen from 15.7 percent of GDP in 2015 to 2.5 percent of GDP in 2018, driven by the reduction in spending related to these projects. However, domestically-financed capital spending has been under increasing pressure due to lower budget support, a reduction in the tax-to-GDP ratio due to widespread tax-exemptions, and rising debt service costs.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

The development strategy based on large scale investments has come at the cost of rising debt vulnerabilities. Public and publicly guaranteed debt has increased from 34 percent of GDP in 2013 to about 71 percent in 2018. On the back of delays in operationalizing the Djibouti-Addis Ababa railway project, the authorities have launched discussions with their creditor to restructure this loan. They have recently reached an agreement that will smooth the debt repayment profile.

Notwithstanding progress in cleaning up banks' balance sheets, the financial sector remains fragile, and financial inclusion is low. Some banks have lost correspondent banking relationships (CBRs) with international banks in recent years but new CBRs have been rapidly established, hence preserving financial flows and stability.

Executive Board Assessment[2]

Executive Directors welcomed the strong economic growth, low inflation, and improved business environment, but noted the heightened debt vulnerabilities, as well as high poverty and unemployment. In this context, Directors underscored the need for a multi-faceted approach to reduce debt vulnerabilities combined with accelerated structural reforms. Steadfast implementation of this strategy is paramount to leverage the country's location as a regional trade hub and to ensure sustainable and inclusive long-term growth.

Directors called for the development of a medium-term fiscal policy framework, with a policy anchor consistent with debt sustainability. They noted that the infrastructure boom had been accompanied by a rapid increase in external public and publicly guaranteed debt, and recommended reducing the pace of borrowing, including through strict limits on government guarantees and SOE borrowing, and prioritizing concessional financing.

Noting that tax revenues had lagged growth due to large tax expenditures, Directors highlighted the need to enhance domestic resource mobilization to create fiscal space for poverty-reducing spending and debt reduction. They welcomed the authorities' plans to enhance tax collection and customs administration and urged them to design and implement a strategy to reduce tax exemptions and special regimes. In this regard, Directors supported continued Fund assistance on capacity development.

Directors noted that strengthening fiscal governance would help enhance government efficiency. They welcomed ongoing efforts to enhance the public procurement framework effectiveness and called on the authorities to improve SOEs governance to reduce their risks to debt sustainability, including by implementing performance contracts, in order to reduce costs, improve public services quality, and control debt accumulation.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Directors also stressed that deepening structural reforms was critical to achieve broad-based private-sector led growth, job creation, and poverty reduction. They welcomed the improved business environment and called for strengthened contract enforcement and respect for property rights. They recommended further efforts aimed at reducing production costs, particularly in the electricity and telecommunications sectors, and at raising skills of Djiboutian nationals to enhance labor productivity. They called for full implementation of the anti-corruption framework, including by strengthening the institutional capacity, to stimulate private investment.

Directors concurred that the currency board arrangement had provided an effective nominal anchor for Djibouti and remained appropriate. With the external position weaker than implied by fundamentals and desired policy settings, they highlighted the importance of reforms aimed at enhancing external competitiveness.

Directors noted that financial sector policies should continue to focus on strengthening stability and inclusion, including by upgrading banks' regulatory environment and strengthening supervision. They recommended making the AML/CFT framework more effective to limit opportunities for corruption and preserve correspondent banking relationships.

Table 1. Djibouti: Selected Economic and Financial Indicators, 2015–24

				Est.			Proj.			
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
National accounts				(Annual percentage change)						
Real GDP	7.7	6.9	5.1	5.5	6.0	6.0	6.0	6.0	6.0	6.0
Consumer prices (annual average)	-0.8	2.7	0.6	0.1	2.2	2.0	2.0	2.0	2.0	2.0
Consumer prices (end of period)	-1.6	2.4	-0.8	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Saving and investment				(In percent of GDP)						
Fixed capital investment	32.4	29.9	22.8	16.6	17.1	18.4	18.3	16.2	15.2	14.7
Non-government	7.0	15.2	12.4	7.5	9.2	10.9	10.5	9.8	8.9	8.5
Central government	25.3	14.7	10.4	9.0	8.0	7.6	7.9	6.4	6.3	6.2
Gross national savings	60.1	28.9	19.3	31.6	16.9	19.0	19.4	17.9	17.5	17.3
Savings/investment balance	27.7	-1.0	-3.6	15.1	-0.3	0.6	1.1	1.7	2.3	2.6
Central government				(In percent of GDP)						
Revenues and grants	26.3	24.2	23.6	23.9	23.1	21.7	20.7	20.3	19.6	19.0
Tax revenues	14.2	13.9	13.5	13.3	12.9	12.7	12.3	12.3	12.1	11.9
Nontax revenue	7.2	7.2	8.3	7.2	6.9	6.7	6.3	6.1	5.7	5.5
Grants	4.9	3.2	1.8	3.4	3.3	2.3	2.1	1.9	1.8	1.7
Expenditure	41.6	32.5	28.1	26.7	24.6	23.4	23.1	21.1	20.5	20.0
Current expenditure	16.3	17.7	17.7	17.7	16.7	15.8	15.2	14.7	14.3	13.8
Capital expenditure	25.3	14.7	10.4	9.0	8.0	7.6	7.9	6.4	6.3	6.2
Domestically financed	7.1	4.8	3.7	3.3	3.9	3.2	3.2	2.9	2.9	2.9
Foreign-financed	18.3	10.0	6.7	5.7	4.0	4.4	4.6	3.5	3.4	3.3
Overall balance (commitment basis)	-15.3	-8.3	-4.5	-2.9	-1.5	-1.7	-2.4	-0.8	-0.9	-1.0
Change in arrears	-0.4	-0.4	-0.1	0.4	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2
Overall balance (cash basis)	-15.7	-8.6	-4.6	-2.5	-1.8	-1.9	-2.7	-1.0	-1.1	-1.2
Financing	15.7	8.6	4.6	2.5	1.8	1.9	2.7	1.0	1.1	1.2
Domestic	0.0	0.5	-0.5	0.1	-1.0	-0.2	-0.2	0.0	0.0	0.0
External	15.7	8.1	5.1	2.4	2.8	2.2	2.8	1.0	1.1	1.2
Disbursements	16.3	8.7	5.8	3.3	2.9	3.4	3.7	2.6	2.6	2.6
Amortization	-0.7	-0.6	-0.7	-0.7	-0.9	-1.2	-0.9	-1.5	-1.4	-1.3
Other	0.0	0.0	0.0	-0.2	0.7	0.0	0.0	0.0	0.0	0.0
Memo: Overall balance, excluding large projects	-0.6	-2.0	-0.3	-1.6	-1.6	-1.5	-2.0	-1.0	-1.1	-1.2
Monetary sector				(Annual change in percent of broad money)						
Broad money	19.0	8.8	21.9	-5.6	8.4	10.3	9.2	9.5	10.2	10.2
Net foreign assets	15.4	8.0	20.7	-6.2	4.0	6.5	6.7	6.4	7.4	7.9
Net domestic assets	3.6	0.7	1.2	0.6	4.4	3.7	2.5	3.0	2.8	2.3
Of which: Claims on government (net)	0.3	0.7	-0.7	0.5	-0.4	-0.4	-0.3	0.0	0.0	0.0
Of which: Claims on non-government sector	4.3	0.8	2.8	3.7	3.3	3.3	3.3	3.3	3.2	3.2
Credit to non-government (in percent of GDP)	23.7	22.6	23.1	24.5	24.7	24.9	25.1	25.3	25.5	25.7
Currency board cover (in percent) 2/	104	107	104	108	109	109	109	108	108	108
External sector				(In millions of US dollars)						
Current account balance	678	-26	-99	441	-8	21	40	67	99	121
(In percent of GDP)	27.7	-1.0	-3.6	15.1	-0.3	0.6	1.1	1.7	2.3	2.6
Underlying current account balance 3/	-15.1	165.3	-4.4	-22.1	-8.3	20.8	40.0	66.9	99.3	120.6
(In percent of GDP)	-0.6	6.3	-0.2	-0.8	-0.3	0.6	1.1	1.7	2.3	2.6
External public and publicly guaranteed debt	1,218	1,647	1,951	2,087	2,231	2,342	2,476	2,602	2,704	2,783
(In percent of GDP)	49.8	62.9	70.5	71.4	70.5	68.4	66.9	65.0	62.5	59.5
Foreign direct investment	124	160	165	170	222	240	259	280	303	327
(In percent of GDP)	5.1	6.1	6.0	5.8	7.0	7.0	7.0	7.0	7.0	7.0
Exports of goods and services (percent change)	-2.0	-23.8	55.3	10.5	5.8	8.5	8.7	6.6	6.6	6.8
Imports of goods and services (percent change)	-4.5	-4.5	51.2	-2.8	17.8	7.3	8.1	6.0	5.9	6.3
Gross official reserves	355	398	556	445	422	443	466	480	516	564
(In months of next year's imports of goods and services, exc. re-exports)	3.1	3.2	4.3	3.2	3.0	3.0	3.0	3.0	3.1	3.2
Gross foreign assets of commercial banks	1,157	1,190	1,423	1,345	1,435	1,539	1,658	1,795	1,953	2,134
(In months of next year's imports of goods and services, exc. re-exports)	10.0	9.7	11.0	9.7	10.1	10.3	10.7	11.2	11.7	12.0
Exchange rate (DF/US$, end of period) 4/	177.7	177.7	177.7	177.7	…	…	…	…	…	…
Real effective exchange rate (yearly average, 2005=100) 4/	101.4	101.9	101.0	100.7	…	…	…	…	…	…
(Change in percent; depreciation -)	4.7	0.5	-0.9	-0.3	…	…	…	…	…	…
Memorandum items										
Nominal GDP (in millions of Djibouti francs)	434,612	465,375	491,728	519,540	562,724	608,417	657,820	711,235	768,988	831,429

Nominal GDP (in millions of US dollars) 4/	2,445	2,619	2,767	2,923	3,166	3,423	3,701	4,002	4,327	4,678
Nominal GDP per capita (US dollars) 4/	2,533	2,638	2,711	2,787	…	…	…	…	…	…
Population (million)	0.966	0.993	1.020	1.049	1.078	1.109	1.138	1.167	1.196	1.226

Sources: Djibouti authorities and IMF staff estimates and projections.

1/ Ratio of central bank gross total assets over liabilities (except the government deposits at the central bank).

2/ Reflects the resources allocated by the SOEs managing the rail and water pipeline projects for the servicing of related loans. The latter have been contracted by the government and are yet to be formally on-lent to these SOEs.

3/ Current account balance excluding imports and exports associated with re-export activities.

4/ Latest available.

INTERNATIONAL MONETARY FUND

DJIBOUTI

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

September 10, 2019

KEY ISSUES

Context. The government has in recent years implemented large-scale investments to develop transport and logistics infrastructures. Combined with business climate reforms, this development strategy has fueled strong growth and positioned Djibouti well to become a regional trade and logistics hub. However, it has come at the cost of rising debt vulnerabilities, and fiscal revenues have lagged due to large tax expenditure. Despite some progress on social indicators, unemployment and poverty remain high.

Outlook and risks. Staff's baseline projections assume a significant reduction in debt-financed public investment. Growth is nonetheless projected to remain strong, driven by the rapid expansion in Ethiopia's trade and a pickup in private investment. These developments are also expected to help improve the underlying current account balance. Debt service is set to pick up over the medium term. Downside risks to economic prospects stem mainly from delays in addressing debt vulnerabilities, regional geopolitical tensions, and a slowdown in Ethiopian trade.

Macroeconomic policies. The key priority is to reduce debt vulnerabilities. Ramping up operations of key projects will be important given the projected increase in debt service. Efforts to reduce borrowing will also be key. These should be underpinned by reforms to develop a medium-term fiscal framework, improve public investment and debt management, and strengthen the oversight of public enterprises. Reducing tax expenditure is paramount to create fiscal space for poverty-reducing spending and debt reduction.

Financial sector. Notwithstanding progress in cleaning up banks' balance sheets, the financial sector remains fragile, and financial inclusion is low. The central bank should continue to upgrade the banking sector regulatory environment, reinforce risk-based supervision, and improve access to finance. Making the AML/CFT framework more effective is also a key priority to preserve correspondent banking relationships.

Structural reforms. Fostering higher and inclusive growth and bolstering the external position require addressing impediments to private sector investment and improving external competitiveness. Critical reforms include further enhancing the business environment, promoting competition, and improving the governance and efficiency of public enterprises to lower factor costs, particularly in the telecommunications and electricity sectors. Enhancing the skills of Djiboutian nationals through education and training is important to raise labor productivity and reduce unemployment.

Approved By
Taline Koranchelian and Nathan Porter

Discussions were held in Djibouti during December 3–17, 2018, and June 9–17, 2019. The staff team comprised Mr. Roudet (head), Mses. Baduel and Fayad, Mr. Debbich (all MCD), and Mr. El Khoury (LEG). Mr. Olhaye (OED) also attended the meetings. The team met with Prime Minister Mohamed, Minister of Economics and Finance Dawaleh, Ministers of Budget Robleh and Cher, Central Bank Governor Ahmed, as well as other senior officials and private sector representatives. Research assistance was provided by Binta Terrier and Tucker Stone. The team also benefited from editorial support by Maria de Mesa.

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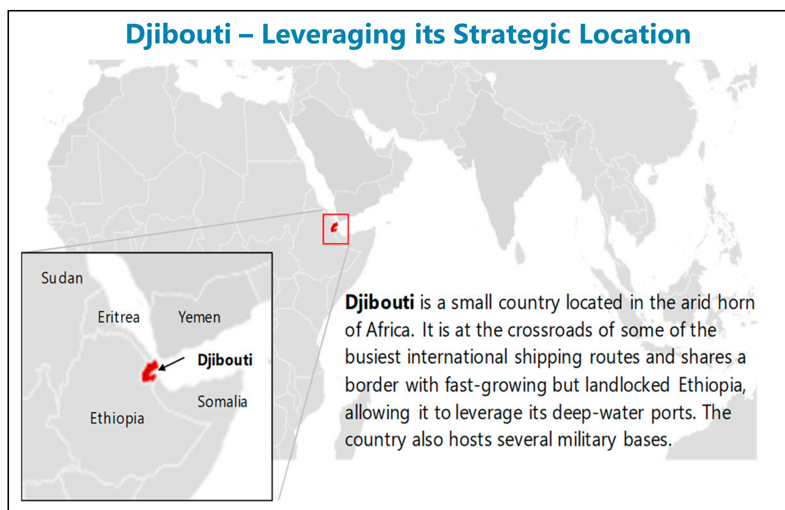
CONTEXT

1. Large-scale infrastructure investments and a rapid expansion of trade and logistics activities have fueled strong growth in recent years. The authorities' development strategy aims at positioning Djibouti as a regional trade and logistics hub. Since 2014, the government has promoted investments in ports, free trade zones (FTZs), a water pipeline, and a railway from Djibouti to Addis Ababa. Against this backdrop, real GDP growth averaged close to 7 percent during 2014-17, driven by buoyant trade and logistics activities.

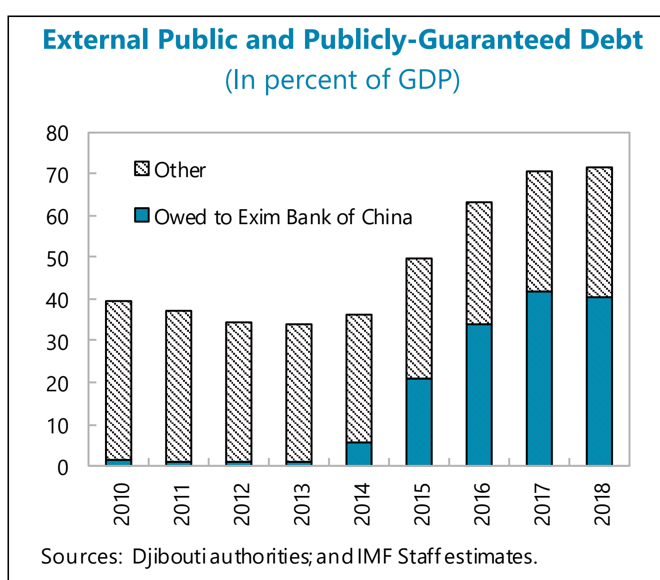


Djibouti – Leveraging its Strategic Location

2. The latest national account and external sector statistics attest to the importance of these sectors in the economy. Supported by IMF and World Bank technical assistance (TA), the authorities have overhauled their national accounts and international trade statistics to include new information on the activity of ports and FTZs (Annex I). Driven by higher value added in the trade and logistics sectors, nominal GDP was revised up by close to 38 percent relative to the last Article IV Consultation. Activity in the FTZs grew by about 10½ percent during 2014–17, and now accounts for one-fifth of the economy. Exports and imports were also revised up significantly to account for the large re-exports out of the FTZs.

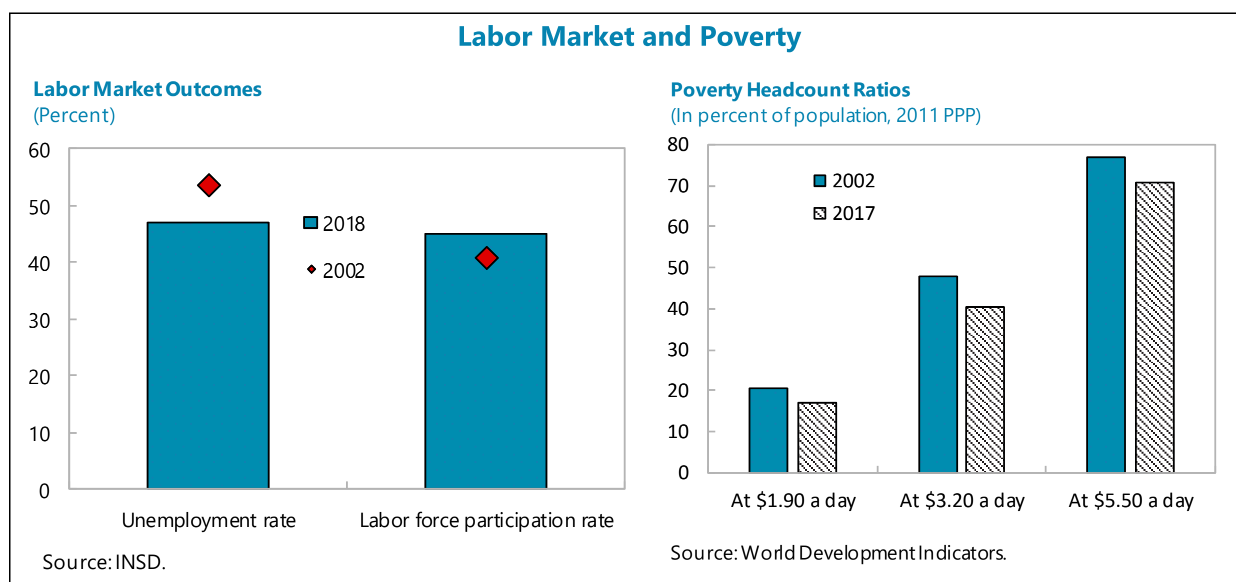
3. The investment boom has been accompanied by rapid accumulation of debt, part of which was recently restructured. The projects have been financed by external loans contracted or guaranteed by the government—with China playing an increasingly important role as a key partner and financier. As a result, total external public and publicly guaranteed (PPG) debt has increased from 34 percent of GDP in 2013 to about 71 percent in 2018—over two-thirds of which has been contracted for projects undertaken by State-Owned Enterprises (SOEs). Against the backdrop of raising debt service and delays in operationalizing the railway project, the authorities recently reached an understanding with Export-Import (Exim) Bank of China on the restructuring of the loan contracted for that project (see below).

External Public and Publicly-Guaranteed Debt
(In percent of GDP)



Sources: Djibouti authorities; and IMF Staff estimates.

4. Notwithstanding high growth, unemployment and poverty remain high. With investment concentrated in capital-intensive activities relying significantly on high-skilled foreign labor, job creation has been limited. The 2017 household survey shows that about half of the working-age population is not in the labor force and that 47 percent of those in the labor force are unemployed. Despite notable progress in terms of access to public services (electricity, water, education) and a reduction of extreme poverty, a fifth of the population still lives in extreme poverty, with significant inequalities between urban and rural areas.



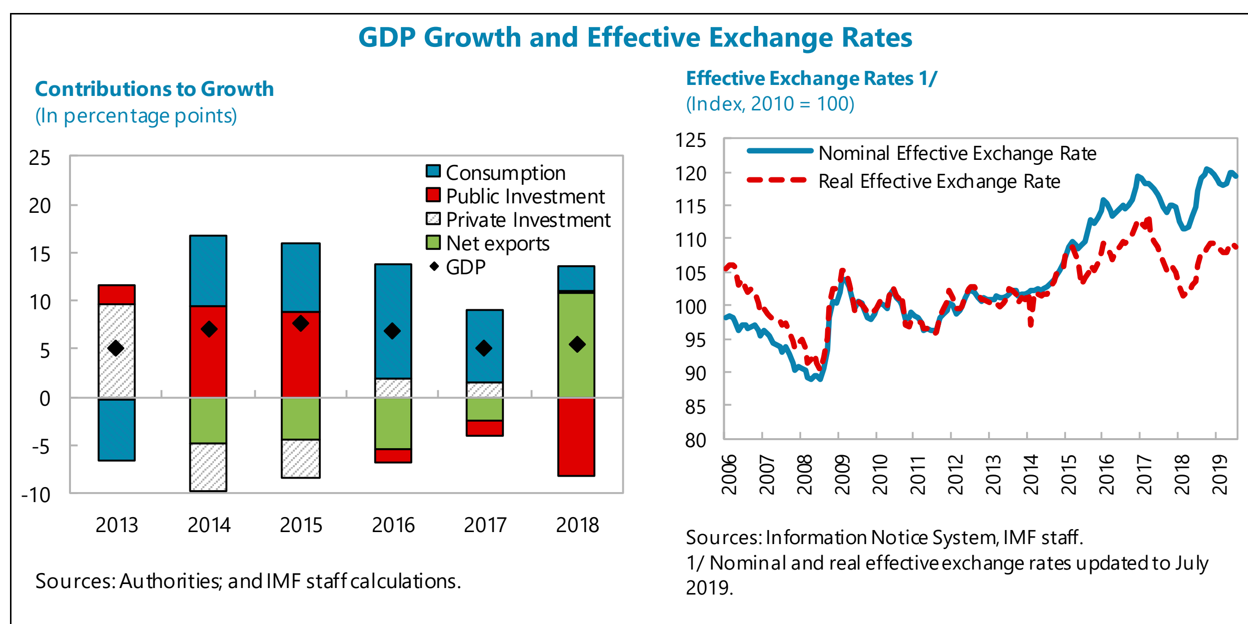
5. In addition, Djibouti faces a complex geopolitical environment. Instability in some neighboring countries has generated a significant flow of refugees—with the latter now accounting for about 3 percent of the population—and important security and humanitarian costs (Annex II). However, recent improvements in diplomatic relations between Eritrea, Djibouti, Ethiopia, and Somalia could ease regional tensions and conflicts. Relations with DP World, an investor from the UAE, became tense after the government's decision to break a contract regarding the management of a container terminal.[1]

6. Progress in implementing the 2016 Article IV Consultation recommendations has been uneven (Annex III). The authorities have taken significant steps to improve statistics, the business environment, and financial supervision and regulation. However, progress has been more limited on strengthening public financial management, developing a debt management strategy, adopting a medium-term budget framework anchored on debt sustainability, expanding the tax base or reforming SOEs, partly reflecting low implementation capacity.

[1] In February 2018, the government seized control of a container terminal run by DP World in a long-running legal dispute. The London Court of International Arbitration ruled that the contract could not be revoked. The Djiboutian authorities indicated to staff that they were not represented in court, and that they were contesting the decision, finding the initial contract unbalanced.

RECENT MACRO-FINANCIAL DEVELOPMENTS

7. After a slowdown in 2017, economic growth has started to recover. Real GDP growth decreased to 5.1 percent in 2017, reflecting the completion of major infrastructure projects and a slowdown in Ethiopia's trade. A recovery in trade flows since then has boosted trade and logistics activities, bringing economic growth to an estimated 5.5 percent last year. Inflation has been low (0.1 percent in 2018), driven by declining food prices. Combined with the depreciation of the U.S. dollar against the euro, this has allowed the real effective exchange rate to depreciate by about 3 percent since early 2017.



8. The overall fiscal deficit has declined significantly since 2015. Staff's broad measure of the deficit—which includes expenditures associated with two large projects undertaken by SOEs (railway and water pipeline) given that the related debt is being serviced by the central government—has fallen from 15.7 percent of GDP in 2015 to 2.5 percent of GDP in 2018, driven by the reduction in spending related to these projects.

9. Government spending has been under increasing pressure. Budget support has declined from 2.9 to 0.9 percent of GDP during 2015–18. Because large and fast-growing sectors benefit from special tax regimes and exemptions (FTZs, military bases, investment code), tax revenue decreased relative to GDP—from 14.2 to 13.3 percent of GDP over the same period. On the spending side, since the water pipeline and railway loans are being serviced by the government and the interest rate on the latter is indexed to the LIBOR, the interest bill has picked up significantly over the past few years. Humanitarian and security costs have also been rising. Against this backdrop, domestically-financed capital expenditure has been cut by close to 4 percent of GDP. The repayment of domestic arrears initiated a few years ago has also slowed down significantly over the past couple of years.

10. The government has recently reached an understanding on the restructuring of part of its debt. Delays in operationalizing the railway project have resulted in lower than expected revenues to service the related loan, which represents about 16 percent of GDP and was initially scheduled to start amortizing in 2020. In this context and given that the Ethiopian government had also launched discussions on restructuring the loan it contracted for the same joint project, the authorities engaged in discussions with the Exim Bank of China to restructure the loan. The Djiboutian authorities indicated that a memorandum of understanding had recently been signed to extend the loan's grace period and maturity substantially, to reduce the interest rate, and to restructure past due interests accumulated during the restructuring discussions. The new terms of the railway loan have reduced the present value of the debt-to-GDP ratio by 4 percentage points. Pending administrative and legal processes, the Djiboutian authorities expected the agreement to be finalized within the next few months. The authorities also indicated that other arrears on external PPG debt (1.6 percent of GDP as of end-June) reflected delays in finalizing conversion and cancellation agreements and arrears of a technical nature or reflecting diplomatic disagreements.

Central Government Operations
(In percent of GDP)

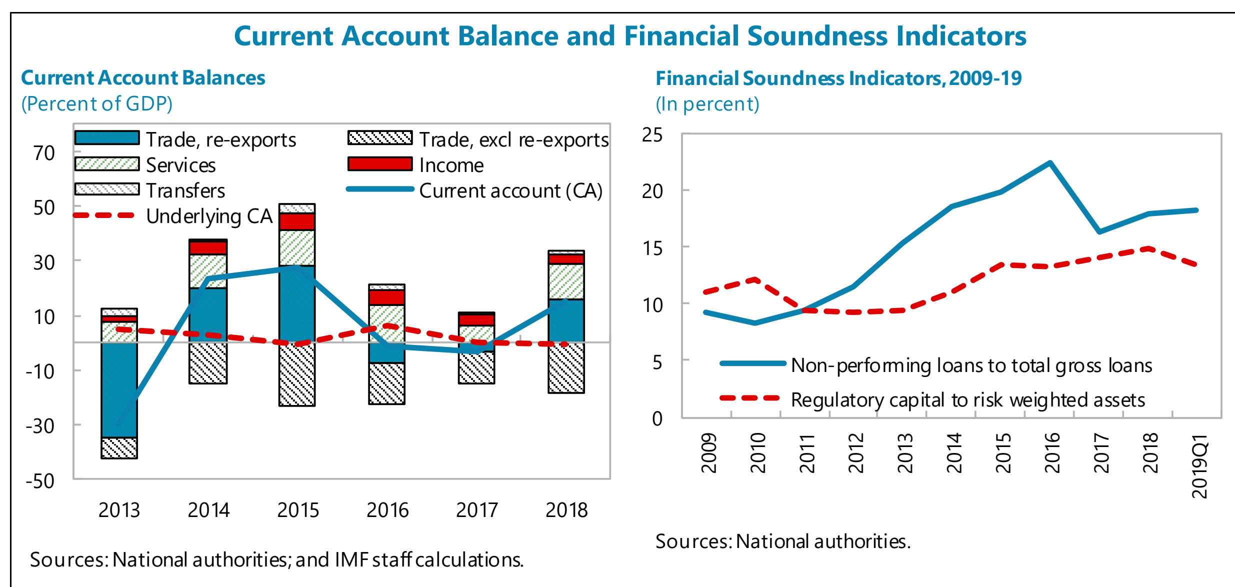
	2015	2016	2017	2018
Revenues and grants	26.3	24.2	23.6	23.9
Tax revenue	14.2	13.9	13.5	13.3
Nontax revenue	7.2	7.2	8.3	7.2
Grants	4.9	3.2	1.8	3.4
Development projects	1.9	1.3	0.9	2.4
Budget support	2.9	1.9	0.9	0.9
Expenditure	41.6	32.5	28.1	26.7
Current expenditure	16.3	17.7	17.7	17.7
Interest	0.4	0.8	1.1	1.2
Capital expenditure	25.3	14.7	10.4	9.0
Domestically financed	7.1	4.8	3.7	3.3
Foreign-financed	18.3	10.0	6.7	5.7
Large projects	15.1	6.7	4.3	0.9
Overall balance (commitment basis)	-15.3	-8.3	-4.5	-2.9
Change in arrears	-0.4	-0.4	-0.1	0.4
Overall balance (cash basis)	-15.7	-8.6	-4.6	-2.5
Memorandum				
Overall balance (excluding large project	-0.6	-2.0	-0.3	-1.6
Overall balance (excluding foreign financ	0.9	0.2	1.3	0.9

Sources: Djibouti authorities; and IMF staff estimates and projections.

11. The current account balance has experienced large swings over the past few years, driven by changes in inventories associated with re-export activities. The overall current account balance has swung between -30 and +30 percent of GDP over 2013–17. However, staff's estimated underlying current account balance, which excludes trade related to re-export activities, has been more stable, hovering around -2 percent of GDP. The current account balance reached 15 percent of GDP in 2018, reflecting a reduction in inventories for re-exports in reaction to the pick-up in Ethiopia's trade. The underlying current account balance is estimated to have reached -0.8 percent driven by an increase in imports for the domestic market, repatriation of investment revenues and the decrease in official grants. Errors and omissions, which averaged -23 percent of GDP over 2013–18 could, however, indicate a possible over-estimation of these balances and highlight persistent weaknesses in the compilation of trade and balance of payment statistics. Official reserves decreased by $112 million in 2018, bringing the reserve coverage to 3.2 months of imports (excluding imports for re-exports).

12. Notwithstanding progress in cleaning up banks' balance sheets, the financial sector remains fragile, and financial inclusion is low. Nonperforming loans (NPLs) peaked at

22½ percent in 2016 following the bankruptcy of two private oil companies and a tightening in loan classification requirements. Progress was made in reducing NPLs, but they still stood at about 18 percent of total claims in Q1 2019. Capital adequacy has remained broadly stable. The ratio of capital to risk-weighted assets stood at about 13½ percent at end-March, above the regulatory threshold of 12 percent. Credit to the private sector grew by 8 percent in 2018 and 10.7 percent in Q1 2019. However, it accounts for only one third of GDP. Despite some improvement over the past 20 years, access to financial services has remained limited, with only one in four adults having a bank account.



13. Correspondent banking relationships (CBRs) have been under pressure in recent years. Some banks have lost relationships with international banks. New CBRs have been rapidly established, hence preserving financial flows and stability. Nonetheless, the cost and time for processing transactions has increased.

OUTLOOK AND RISKS

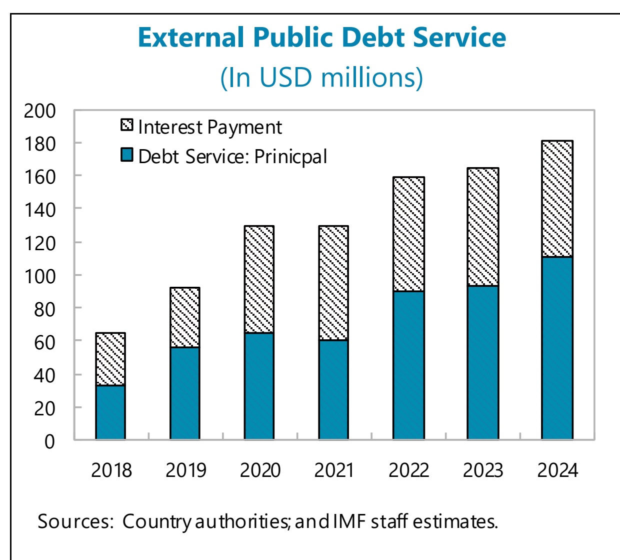
14. Staff's baseline assumes a significant reduction in debt-financed public investment in the coming years. With core infrastructure in place, the baseline does not incorporate additional mega-projects financed through external debt. It also envisages a broadly stable government balance excluding foreign-financed expenditures over the medium term, as further erosion of the revenue base relative to GDP, driven by the fact that fast-growing sectors are largely tax-exempt, is offset by continued efforts to prioritize spending. The baseline scenario projects the overall budget deficit to reach 1.2 percent of GDP by 2024, with external PPG debt declining to about 60 percent of GDP.

15. Growth is nonetheless projected to remain strong. The pick-up in Ethiopia's trade should support a recovery in trade and logistics this year. Over the medium term, the new infrastructures position Djibouti well to leverage the rapid growth in Ethiopia and increase transshipment, giving

net exports a prominent role as a driver of growth. Assuming continued efforts to improve the business environment, a pickup in private-sector investment is also expected to help maintain real GDP growth at about 6 percent annually over the projection period (Annex IV).

16. The underlying current account is expected to improve. Strong export growth, especially in transport and logistics services, and a decline in investment-related imports should gradually improve the current account balance to 2.6 percent of GDP by 2024. Combined with an increase in foreign direct investment (FDI), including in the FTZs and the gas sector, this should offset the increase in debt service and allow for official reserves accumulation, maintaining the reserve coverage above three months of imports.

17. Debt service is set to increase over the medium term. Despite the understanding reached with China's Exim Bank to lengthen the debt service profile of the railway loan, and with the water pipeline loan set to start amortizing in 2022, debt service is projected to increase over the next few years. The baseline assumes that SOEs will generate the cash flow necessary to repay the loans contracted for the projects they manage.



Sources: Country authorities; and IMF staff estimates.

18. There are downside risks to the baseline scenario (see also Annex V):

- *On the domestic front*, delays in implementing reforms to ensure debt sustainability—notably if the authorities engage in new debt-financed mega-projects or fail to raise returns on infrastructures and SOEs profitability—could worsen debt prospects, as there is limited space for consolidation at the level of the central government. A slowdown in structural reforms or slower progress in improving governance, the business climate, and external competitiveness, could reduce FDI and export growth, entail lower growth and weaken the international reserves coverage.

- *Externally*, regional geopolitical strains, rising trade tensions, and a slowdown in international or Ethiopia's trade would have adverse effects on Djibouti's exports, investment, economic growth, and fiscal prospects. In this context, lower exports and a widening current account deficit would increase external financing needs. The cancellation of DP World contract could entail reputational risks (affecting investment prospects) as well as fiscal costs. A worsening of global financial conditions could increase interest costs and worsen external financing prospects. Renewed pressures on CBRs could create financing disruptions. Finally, higher global oil prices than in the baseline scenario could weigh on the budget and the external position.

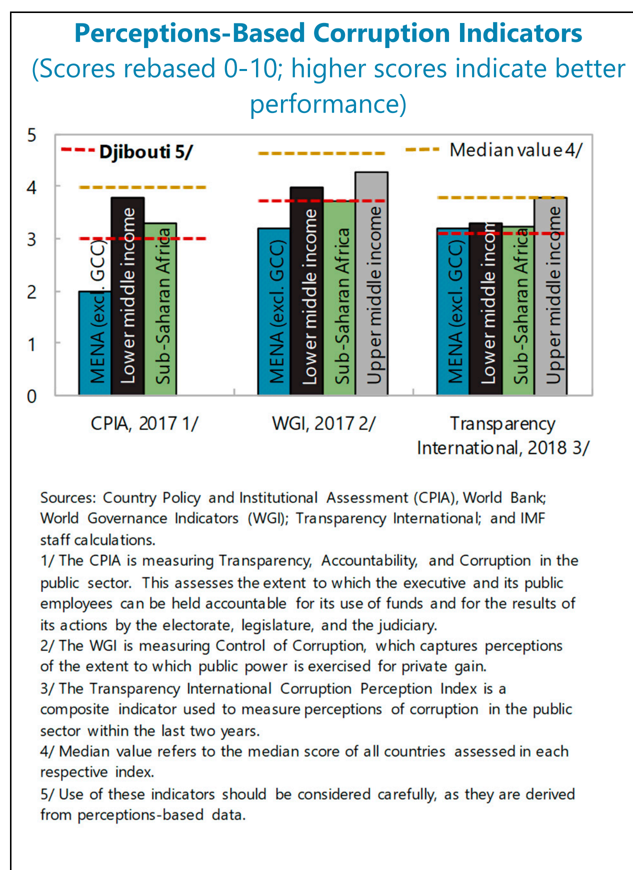
19. The authorities were more optimistic about economic prospects and had a more sanguine assessment of risks. They envisaged a continuous increase in real GDP growth to about

8½ percent by 2024. While staff recognized that, given the small size of the economy, implementation of a few large projects could lead to higher FDI and growth, it highlighted that higher sustained growth would require higher productivity gains and more ambitious structural reforms (Annex IV). The authorities expressed confidence about their capacity to service debt by mobilizing resources from SOEs. In particular, they were optimistic about the water pipeline project's ability to pay for itself according to existing debt service schedule. They were not concerned about reputational risks associated with the nationalization of the container terminal. They stood ready to negotiate a possible compensation with DP World and welcomed ongoing mediation efforts by Saudi Arabia and France.

POLICY DISCUSSIONS

20. Djibouti's main challenge is to turn public infrastructure investments into broad-based and private-sector led growth, job creation and poverty reduction. The newly developed infrastructures position the country well to become a trade and logistics hub for the sub-region. However, the development strategy has come at the cost of mounting debt vulnerabilities. Developments over the past few years also highlight the risk of creating a dual economy with fast-growing trade and logistics sectors that do not generate enough positive spillovers to fiscal revenues, job creation and poverty reduction.

21. Discussions focused on policies and reforms to address these vulnerabilities and promote higher and more inclusive growth. Staff's recommendations were embedded in a broader country engagement strategy aimed at supporting the authorities' development strategy and reinforcing institutions through policy advice and capacity-building support.



- Staff emphasized macroeconomic policies and structural reforms to maintain macroeconomic stability, including by reducing debt vulnerabilities, create space for poverty-reducing expenditure, ensure monetary, financial, and external stability, and foster private sector investment and job creation.

- Staff and the authorities also engaged on reforms to strengthen governance, a theme that cuts across several state functions and is critical to achieve development objectives. Although broadly

in line with some peer groups, the perception of corruption appears relatively high in Djibouti. Addressing governance weaknesses is key to limit the opportunities for corruption and enhance macro-financial stability, resource allocation, growth, and inclusion. Discussions focused on strengthening fiscal governance (particularly management and oversight of SOEs, public procurements, and cash management) to improve spending efficiency and reduce fiscal risks; ensuring that the regulatory framework fosters a level playing field; and promoting AML/CFT and anti-corruption frameworks that encourage transparency and accountability (see below).

22. The authorities broadly agreed with staff's recommendations. They acknowledged that structural reforms are necessary to ensure the economic profitability of the newly-created infrastructure, preserve macroeconomic stability and foster high and inclusive growth. They pointed to the progress made in improving the regulatory environment and expressed commitment to sustained efforts going forward, despite significant capacity constraints. Although cautioning about the use of perception-based indicators to assess corruption risks, the authorities recognized the importance of strengthening governance. They noted the efforts made on this front over the past decade and the central role given to these reforms in their development strategy (Vision 2035).

A. Addressing Debt Vulnerabilities and Enhancing Fiscal Space for Poverty Reduction

23. While debt appears sustainable, staff's Debt Sustainability Analysis (see accompanying Bank-Fund DSA) concludes that Djibouti is at high risk of debt distress. With the railway loan restructuring having eased debt service prospects over the next few years, debt is assessed to be sustainable, as the authorities are expected to be able to service their debt under current terms. However, the country is classified in high risk of debt distress, reflecting the fact that the present value (PV) of the external debt-to-GDP and the debt service-to-revenue ratios still breach their respective thresholds during most of the projection period.

24. A multifaceted approach is needed to address debt vulnerabilities and preserve macroeconomic stability. This includes a rapid ramp up of operations of several key projects to generate the revenues necessary for debt service. This requires addressing the bottlenecks that have prevented the realization of returns on some key projects, including for instance by operationalizing rail connections to the various ports and securing the railway and electricity supply to limit interruptions, finalizing commercial agreements with large water customers to increase the pipeline project returns, and strengthening cooperation with other partners given the regional dimension of some projects. Staff also recommended a combination of policies to reduce the pace of borrowing and, prioritize concessional financing and FDI for projects that lend themselves to such financing to limit their fiscal consequences, as well as reforms to strengthen the fiscal framework, public investment management, SOEs oversight, and debt management capacity. Spending should be better prioritized and tax policy should aim at mobilizing more revenues. Strengthening the governance of SOEs and the frameworks for public procurements, investment management and public financial management is also key to these objectives. The authorities recognized the

importance of reducing debt vulnerabilities and were broadly in agreement with staff's recommendations. They expressed confidence about their capacity to service the debt contracted for various projects by mobilizing resources from the SOEs managing these.

25. Staff recommended developing a medium-term debt strategy and strengthening debt management. Laying out high-level debt policy priorities would help anchor macroeconomic management. In this context, staff suggested introducing a formal ceiling on external PPG debt. In cooperation with the World Bank, the authorities have prepared a reform plan aimed at improving coordination between the different agencies that contract and manage debt, increasing transparency, and developing a medium-term strategy. Staff encouraged the government to advance these reforms without delay, including by operationalizing the recently-created national committee in charge of public debt issues. It also suggested strengthening the capacity to perform DSAs, publishing regular reports, and modernizing accounting practices. The authorities broadly agreed with staff's assessment but did not see the debt ceiling as an immediate priority, given the importance of strengthening inter-agency coordination first. Staff noted both aspects were important. The authorities thought the Fund could play an important role in supporting their capacity development efforts in these areas.

26. Formulating fiscal policy in the context of a medium-term framework would help achieve fiscal objectives consistent with debt sustainability. Staff advised the authorities to develop a multi-year fiscal framework that covers the central government and considers fiscal risks stemming from SOEs and PPPs. Adopting a top-down budget approach and moving progressively towards a programmatic basis for budget allocations would also help. While generally agreeing with staff, the authorities highlighted the significant resource constraints they had been facing. Against this backdrop, they agreed that Fund TA would be useful.

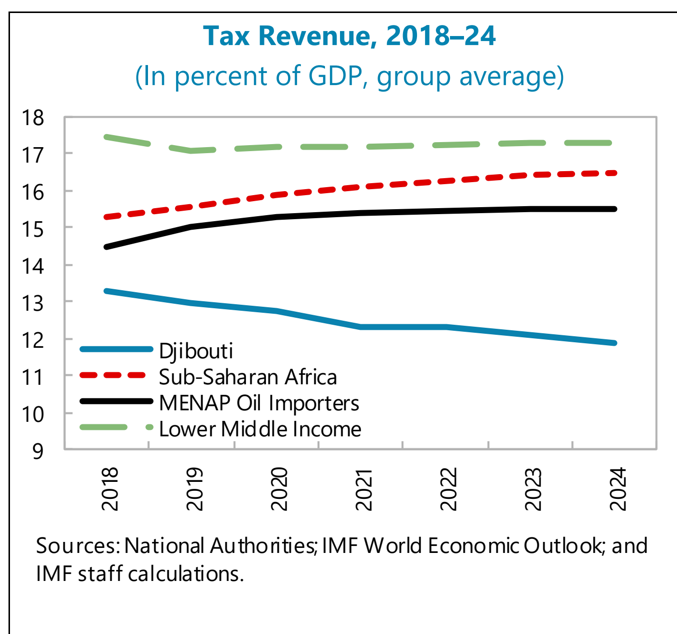
27. In this context, staff advised the authorities to adopt a fiscal anchor consistent with debt sustainability. It suggested to aim at bringing the net present value (NPV) of PPG debt-to-GDP and debt service-to-revenue ratios back to levels consistent with "moderate" risk of external (and overall) debt distress within 5–6 years. For example, reaching an NPV of PPG external debt-to-GDP ratio below 35 percent—well below the 40 percent threshold established in the DSA and equivalent to a nominal debt-to-GDP ratio of about 47 percent—would require an overall public sector primary surplus of around 0.9 percent of GDP annually, compared to an implicit public-sector primary balance of -1½ in the baseline scenario. With a central government primary deficit projected at about 0.1 percent of GDP over this period, this would require SOEs to achieve a surplus of about 1 percent of GDP. Given that the central government has limited fiscal space and that most public debt is borne by SOEs, most of the effort would likely need to come from SOEs. Nonetheless, reforms to create fiscal space at the central government level could also play a role (see below). Bringing the ratio of debt service to revenue down is also key to underpinning debt sustainability. Reforms to enhance revenue mobilization through tax and SOE reforms are fundamental in this respect (see below). While acknowledging the importance of reducing debt and debt service, the authorities also felt that the DSA thresholds were overly conservative for a small economy with large

investment needs, many of which related to projects aimed at fostering regional integration, with large potential economic returns. They also noted that the government was considering options to better manage public sector resources and investment that could help generate overall savings.

28. Tax policy reforms are needed to enhance domestic resource mobilization and generate fiscal space for priority spending and debt reduction. With support from IMF TA, the authorities prepared their first report on tax expenditures and published a summary of key findings with the 2019 budget law. Staff encouraged the authorities to broaden the scope of the report, notably to analyze the impact of FTZs regimes. Despite this gap, the report has already identified implicit costs of more than 7 percent of GDP. Staff recommended that the authorities design a strategy to rationalize special tax regimes and exemptions and broaden the tax base, while bolstering Djibouti's attractiveness as an investment destination through structural reforms (see below). The authorities noted they would reflect on an overall strategy and may request Fund TA in this area. They were confident that ongoing efforts to strengthen tax administration would help raise government revenue beyond staff's projections. In this context, staff suggested to continue building capacity in the tax and customs administrations, strengthen controls and ensure effective dispute management systems. Reforms to enhance SOEs profitability (see below) would also help mobilize additional resources for the budget through higher taxes and dividends.

Tax Revenue, 2018–24

(In percent of GDP, group average)



Sources: National Authorities; IMF World Economic Outlook; and IMF staff calculations.

29. On the spending side, staff and the authorities saw scope for better prioritizing spending. A functional expenditure review would help identify staffing needs and prioritize recruitment. Staff commended the authorities for introducing the Social Program Registry, a database of beneficiaries of social programs, and for completing the 2017 household survey. These two actions will help improve targeting and analysis of poverty-reduction programs. It encouraged the government to sustain efforts to identify the most vulnerable households and develop adequate social policies as part of the new national social protection strategy.

30. Accompanying reforms to strengthen fiscal governance are important to enhance government efficiency, reduce corruption vulnerabilities, and help attain the fiscal objectives noted above:

- *SOE governance*. Given the prominent role of SOEs in the economy, including in implementing debt-financed investments, strengthening their governance and oversight is critical to reduce costs, improve the quality of public services, and control debt accumulation. The authorities

have recently started auditing a few large SOEs. These audits should help identify the SOEs that no longer fulfil a public purpose and those that satisfy a social need but require support, setting the stage for the preparation of performance contracts and restructurings. However, progress in implementing the Code of Good Governance for SOEs adopted in 2016 has been limited. Staff recommended accelerating implementation, including the preparation of performance contracts, and reinforcing the ministry of finance's ability to monitor SOEs' financial situation. It also advised introducing limits on public guarantees and setting-up a requirement for SOEs to obtain formal government authorization to contract debt without a guarantee. The authorities emphasized their commitment to SOEs governance reform, attributing the delays in fully implementing the new Code to capacity constraints.

- *Public investment management*. Staff recommended improving procedures for selecting, evaluating, planning, implementing, and managing future investments, including PPPs, to ensure that they are economically profitable and limit fiscal risks.

- *Public procurement*. Given Djibouti's reliance on large contracts, strengthening procurement practices, including for SOEs, is important to preserve government resources and foster efficiency gains. In 2009, a new procurement law was enacted which better aligned the legal framework for public procurement with best international practices. Nonetheless, there are vulnerabilities in the current framework—including the risk of conflicts of interest associated with the concentration of procurement and regulatory control functions and the absence of a role for the civil society in dealing with complaints—and its implementation. Staff welcomed the ongoing World Bank-supported evaluation (MAPS) which should help address potential weaknesses as well as the authorities' plan to set up an online platform for public procurements to promote transparency.

- *Cash management*. Staff recommended improving cash forecasting and consolidating the government's accounts into a Treasury single account (TSA) to limit the occurrence of domestic and external arrears. Prerequisites to setting-up such an account include analyzing existing bank agreements and accounts and reviewing the IT capabilities of the central bank and the ministries concerned. The authorities noted they had already started making an inventory of bank accounts and expressed interest in follow-up TA in this area.

B. Maintaining Monetary, External and Financial Stability

31. Djibouti's currency board is appropriate. The arrangement has provided the country with an effective nominal anchor and has played a key role in instilling confidence and predictability in international transactions. The international reserves coverage, which currently stands at 3.2 months of imports (excluding re-exports flows), is broadly adequate. Staff's analysis (Annex VI) suggests that the external position is weaker than implied by fundamentals and desired policy settings, with a real effective exchange rate (REER) overvaluation of between 5 and 26 percent. However, the current account's sensitivity to real exchange rate changes is likely to be low given the structure of the economy. Against this backdrop, the authorities agreed with staff's analysis that the currency board should be maintained at the current parity and that the external position should be strengthened

through structural reforms aimed at improving external competitiveness. Policies to address debt vulnerabilities are also important to strengthen the external position.

32. Continued efforts are needed to strengthen financial stability. The Central Bank of Djibouti (CBD) has been implementing a multiyear action plan to strengthen banking regulation and supervision. In this context, it has made progress in ensuring compliance with the Basel Committee on Banking Supervision’s standards and guidelines, especially regarding the definition of capital, internal controls, risk management, and asset classification and provisioning. Staff stressed the importance of continuing these efforts, notably by implementing newly-adopted regulations for asset classification and provisioning of old claims, governance, capital adequacy buffers and exposures to affiliated parties and recommended sustained efforts to clean up banks’ balance sheets. The authorities agreed with these recommendations and noted that the Fund’s Financial Sector Stability Review (FSSR), scheduled for later this year, would provide an opportunity to conduct an in-depth assessment of the financial sector’s vulnerabilities and to design a capacity development plan to address them.

33. Staff welcomed the progress made in recent years to strengthen the AML/CFT framework. Djibouti has upgraded its legislative and regulatory framework and recently became a member of the Middle East and North Africa Financial Action Task Force (MENAFATF). The CBD has been strengthening the AML/CFT supervision of banks, exchange bureaus, and money transfer operators, and the financial intelligence unit (FIU) has stepped up its efforts to analyze suspicious transactions. Finally, the authorities should improve their understanding of money laundering and terrorism financing (ML/TF) risks, building on the ongoing national risk assessment.

34. Nonetheless additional efforts are needed to strengthen the framework's effectiveness to tackle financial crimes and avoid pressures on CBRs. Staff highlighted a number of areas for improvement including: (i) enhancing AML/CFT risk-based supervision and improving compliance of financial institutions in implementing preventive measures, particularly those related to the verification of beneficial ownership information, and detecting and reporting suspicious activities related to politically exposed persons; (ii) enhancing the transparency and availability of beneficial ownership information related to companies established in Djibouti including in the free trade zone; (iii) strengthening the FIU's operational independence and capacity to receive, analyze, and disseminate financial intelligence; (iv) ensuring that law enforcement agencies are properly using financial intelligence; and (v) properly prosecuting ML/TF offenders and subjecting them to effective sanctions. Finally, staff encouraged the CBD to continue monitoring closely correspondent banking relationships to detect possible pressures and to maintain close communication with foreign regulators. The authorities welcomed staff’s diagnostic and recommendations. They were keen on further strengthening the effectiveness of the AML/CFT framework, particularly given the upcoming MENAFATF mutual evaluation scheduled for 2023, and to sustain the recent progress made in reducing pressures on CBRs.

35. The CBD has made some progress in strengthening its governance in response to the 2012 safeguards assessment, but several recommendations remain outstanding. In recent years, a central bank’s audit function has been developed, an audit committee has been created, and

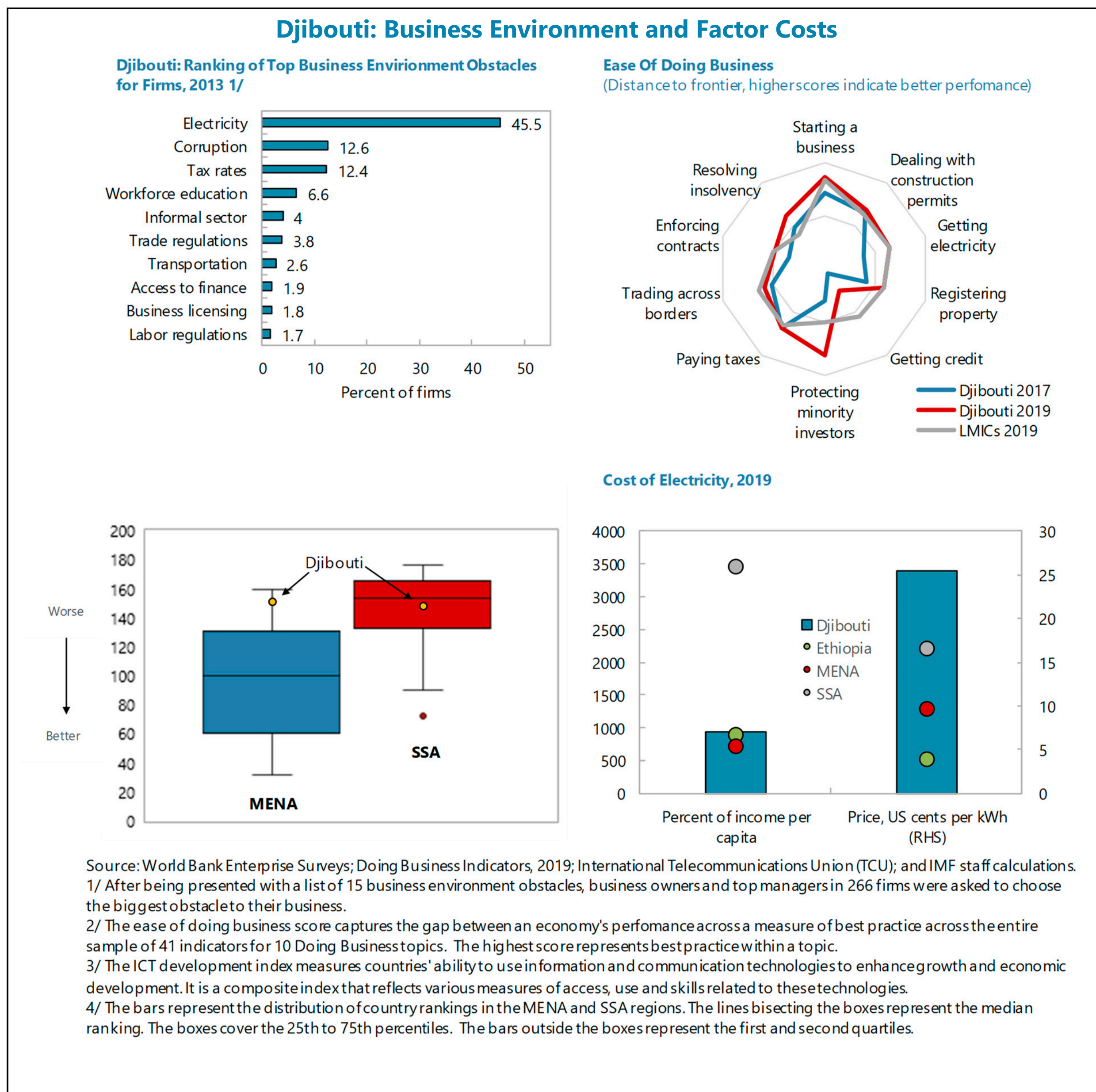
efforts have been made to publish audited financial statements. Staff welcomed these developments and recommended to further strengthen board oversight and autonomy, bolster internal control and audit, and adopt an action plan for the implementation of International Financial Reporting Standards. While generally agreeing with staff's recommendations, the authorities highlighted the need to prioritize reforms due to the resource-constrained environment.

C. Fostering Higher and More Inclusive Growth

36. The limited fiscal space together with the need to bolster external competitiveness and reduce poverty put a premium on structural reforms that promote private sector development and job creation. Djibouti's Vision 2035 aims at strengthening economic diversification through a wide range of reforms, including improving the business climate, reducing factor costs, supporting small and medium-sized enterprises (SMEs), combined with large-scale infrastructure projects. Significant progress has been made in some areas, but additional efforts are needed to address the most binding constraints that limit returns on investment, the appropriation of these returns, and access to—and the cost of—financing.

37. Staff commended the authorities on the progress made in improving the business climate and encouraged them to sustain efforts in this area. Significant progress has been made over the past couple of years in simplifying business creation, facilitating access to finance, protecting minority investors, and registering property. This has led to an improvement in Djibouti rank in the World Bank's *Doing Business* from 171st to 99th between 2017 and 2019. Staff encouraged the authorities to continue their efforts, for example by strengthening contract enforcement and property rights. Further progress along those lines, which the authorities indicated they intend to pursue, could help mitigate the potential reputational risk associated with the cancellation of DP World's contract.

38. Lowering production costs and raising labor productivity is necessary to boost external competitiveness and job creation. Electricity and telecommunication prices are high in Djibouti (panel chart). Staff expressed support for the authorities' plans to strengthen Djibouti Telecom's governance and set up an independent regulator, as a first step toward opening the telecommunication sector to competition. Regarding electricity, efforts to enhance the governance and management of the national operator and to seek efficiency gains are important to encourage private investment, lower costs and improve service quality. Djibouti's labor costs are also high compared to other countries in the region. Over time, the prudent wage policy being conducted in the public sector should contribute to lower unit labor costs. In addition, as the private sector often faces a shortage of skilled labor, it is important to improve the quality of the education system and labor productivity.



Source: World Bank Enterprise Surveys; Doing Business Indicators, 2019; International Telecommunications Union (TCU); and IMF staff calculations.
1/ After being presented with a list of 15 business environment obstacles, business owners and top managers in 266 firms were asked to choose the biggest obstacle to their business.
2/ The ease of doing business score captures the gap between an economy's perfomance across a measure of best practice across the entire sample of 41 indicators for 10 Doing Business topics. The highest score represents best practice within a topic.
3/ The ICT development index measures countries' ability to use information and communication technologies to enhance growth and economic development. It is a composite index that reflects various measures of access, use and skills related to these technologies.
4/ The bars represent the distribution of country rankings in the MENA and SSA regions. The lines bisecting the boxes represent the median ranking. The boxes cover the 25th to 75th percentiles. The bars outside the boxes represent the first and second quartiles.

39. **Strengthening the anti-corruption framework is also important to enhance the investment climate and inclusive growth.** The perception of corruption ranks high among cited obstacles to private sector activity. Staff recommended focusing reforms on improving the understanding of corruption risks and developing a strategy to address them, strengthening the independence and capacity of the National Anti-Corruption Commission, improving the capacity of law enforcement agencies and courts to enforce against corruption offenses, and enhancing the implementation of the asset declaration system by senior officials, by ensuring that all senior officials submit their disclosures and that these are published in the official gazette as required by the law. The AML framework should also be leveraged to detect and deter corruption and its proceeds.

40. Staff and the authorities agreed that improving access to—and reducing the cost of—financing was also important to support private sector development. Staff welcomed the creation of a national register of loan guarantees. It encouraged the authorities to step up efforts toward modernizing the credit bureau and operationalizing the new credit guarantee fund. These reforms should help reduce information asymmetry for banks and encourage access to finance, including for SMEs. Ongoing steps to streamline judicial procedures for commercial cases should also help. Efforts by the CBD to modernize payment systems and strengthen financial stability should also contribute to reduce risks and costs associated with financial transactions and promote financial sector development.

D. Strengthening Statistics and Building Capacity

41. Progress has been made in improving statistics, but some important shortcomings remain. Significant progress has been made in recent years in improving national accounts statistics and financial soundness indicators. Commendable efforts have also been made to strengthen the exchange of information and coordination between relevant government bodies. Staff encouraged the authorities to continue improving the quality and timeliness of statistics, especially regarding balance of payments, where large errors and omissions complicate the analysis of external sector developments. Notwithstanding recent steps taken to gather information on SOEs' financial information, further progress in this area would help better monitor the public sector's financial situation. The authorities were keen on addressing these weaknesses and hopeful that the surveys of firms in the FTZs currently being developed would help improve the understanding of trade and financial flows.

42. As part of the broader country engagement strategy, staff and the authorities agreed on priority areas for capacity-development (CD) activities. Djibouti faces significant capacity and institution-building challenges, which are being addressed with tailored Fund TA and training. Staff and the authorities agreed on a CD strategy (Annex VII) for the next 18 months that would help address the policy challenges identified above.

Priority Areas for IMF Capacity-Development Activities		
Area	Capacity Building Activity	Relevant Article IV Policy Advice
Debt management	TA on developing a medium-term debt strategy / Training on debt-sustainability analysis	Ensure debt sustainability / Strengthen debt-management capacity
Public financial management	TA on developing a medium-term fiscal framework TA on cash management	Ensure that fiscal objectives are consistent with debt sustainability Implement single treasury account
Tax policy	Follow-up TA on tax expenditure report TA on tax policy diagnosis and strategy	Broaden scope of tax expenditure report Develop and implement strategy to reduce tax expenditure and enhance fiscal space
Bank supervision and regulation	Follow-up TA on bank regulation and supervision Financial Sector Stability Review	Continue strengthening financial stability Assess vulnerabilities and design CD plan to address them
Statistics	TA and training on external sector, government finance and public sector debt, national accounts statistics, as well as data dissemination	Continue to improve data quality and timeliness

STAFF APPRAISAL

43. The newly-developed infrastructures present an opportunity for Djibouti. They position the country well to become a regional logistics and trade hub and leverage the rapid expansion in Ethiopia's trade and transshipment activities. This should allow growth to remain robust over the medium term, at about 6 percent annually.

44. Going forward, deepening structural reforms is critical to underpin debt sustainability and achieve broad-based and private-sector led growth, job creation and poverty reduction. The infrastructure boom has been accompanied by a rapid increase in external public and publicly guaranteed debt. While the railway loan restructuring has eased debt service prospects over the next few years, debt service is still projected to pick up over the medium term. Tax revenues have lagged due to large tax expenditure, limiting the government's ability to redistribute the growth dividends more widely. Notwithstanding some improvement in recent years, unemployment and poverty have remained elevated.

45. Addressing debt vulnerabilities requires a multi-faceted strategy. Debt is assessed to be sustainable, as the authorities are expected to be able to service it under current terms. Nonetheless, Djibouti faces a high risk of debt distress in light of the high net present value of external debt and debt service-to-government revenue ratio. It is therefore important to ramp up operations of key projects and boost their profitability to generate the resources necessary for debt service. High-level debt policy objectives need to be developed and supported by efforts to (i) reduce the pace of borrowing, including through strict limits on government guarantees and SOE borrowing embedded

in an explicit debt strategy; and (ii) prioritize concessional financing and FDI. In parallel, the authorities should advance reforms aimed at developing a medium-term fiscal framework and a fiscal anchor consistent with debt sustainability. Institutional reforms focused on strengthening public investment management, SOEs oversight, and debt management capacity are also paramount.

46. Enhancing domestic resource mobilization is necessary to create fiscal space for poverty-reducing spending and debt reduction. The authorities' plans to enhance tax collection and customs administration are welcome. The key priority should be to design and implement a strategy to reduce the significant implicit costs from tax exemptions and special regimes. Further efforts to better prioritize spending would also help create space for spending targeted at the most vulnerable households.

47. Strengthening fiscal governance would help enhance government efficiency. Improving SOEs governance, including by expanding the coverage of audits and accelerating preparation of performance contracts, is critical to reduce costs, improve the quality of public services, and control debt accumulation. Ongoing efforts to assess the public procurement framework and to enhance its effectiveness are also important to enhance spending efficiency. The authorities are also encouraged to improve cash management, including by adopting a treasury single account.

48. The currency board arrangement has remained appropriate. It has provided an effective nominal anchor, fostering low inflation and confidence. The external position is weaker than implied by fundamentals and desired policy settings. It should be bolstered through reforms aimed at enhancing external competitiveness via a reduction in internal costs and continued efforts to strengthen the business environment.

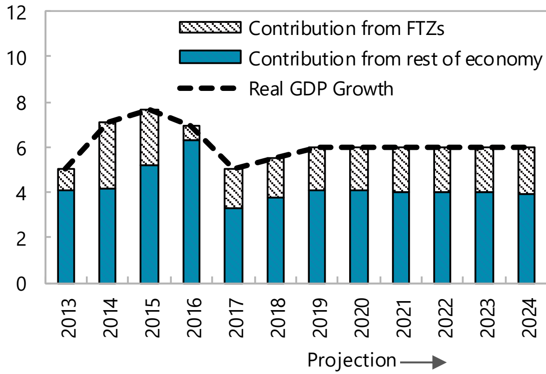
49. Financial sector policies should continue to focus on strengthening stability and inclusion. The CBD should continue to upgrade banks' regulatory environment and reinforce risk-based supervision. Ongoing efforts to modernize the credit bureau, operationalize the credit guarantee fund, and modernize the payment system are important to improve access to, and reduce the cost of, finance. The authorities should also place emphasis on making the AML/CFT framework more effective to limit opportunities for corruption and preserve CBRs.

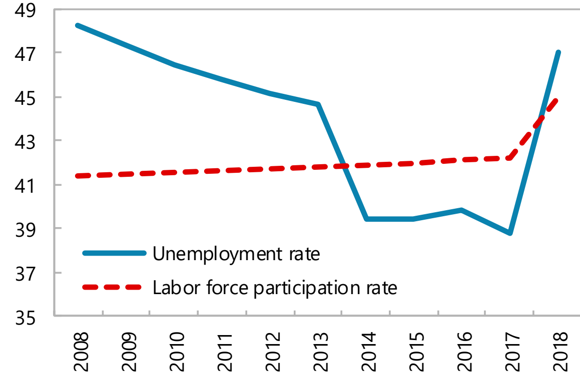
50. The authorities should continue to address impediments to private sector investment. Reforms implemented over the past few years to improve the business environment are welcome and need to be sustained to strengthen contract enforcement and property rights. Lowering production costs by fostering competition in the telecommunications' sector and making the national electricity company more efficient are paramount to boost external competitiveness and job creation. Raising labor productivity by enhancing the skills of Djiboutian nationals is also key in this respect. Fully implementing the anti-corruption framework, including by strengthening the capacity of relevant institutions, is also important to reduce the perception of corruption and enhance private investment.

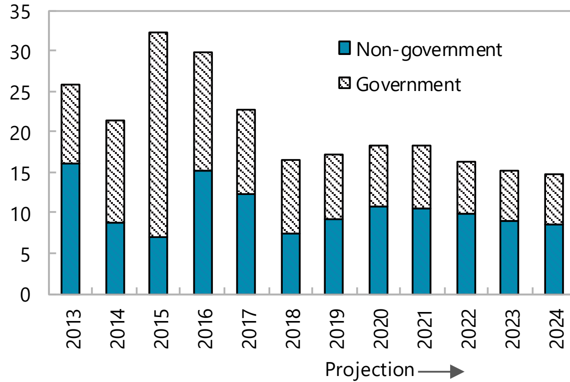
51. Continued efforts to strengthen capacity are important to enhance policy analysis and implementation. Areas identified as priorities include tax policy, public financial and debt management, financial sector regulation and supervision and statistics, particularly for the external sector.

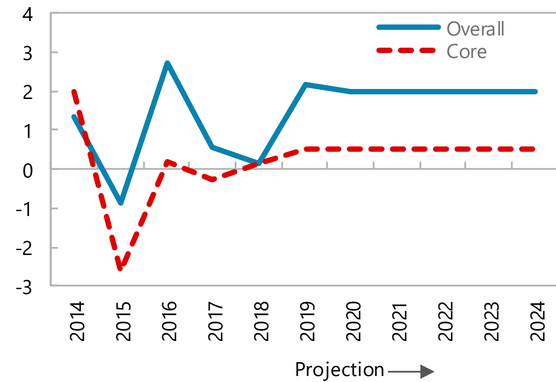
52. Staff recommends that the next Article IV consultation with Djibouti be held on the standard 12-month consultation cycle.

Figure 1. Djibouti: Selected Economic Indicators, 2013–24





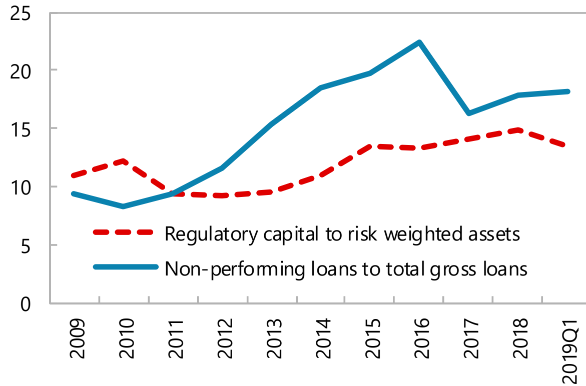




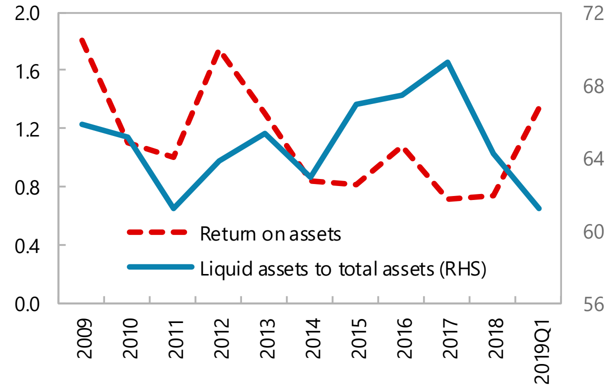
Sources: National authorities; and IMF staff estimates.

Figure 2. Djibouti: Monetary and Financial Indicators, 2009–19

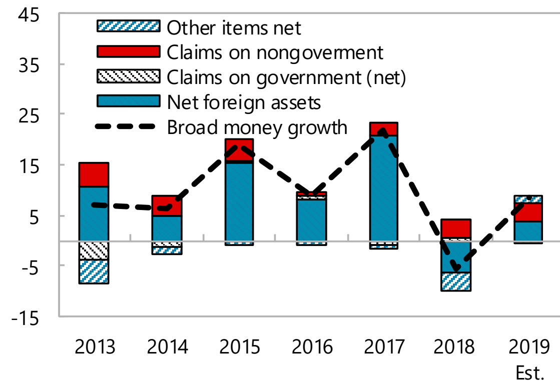
Key Banking Indicators
(In percent)



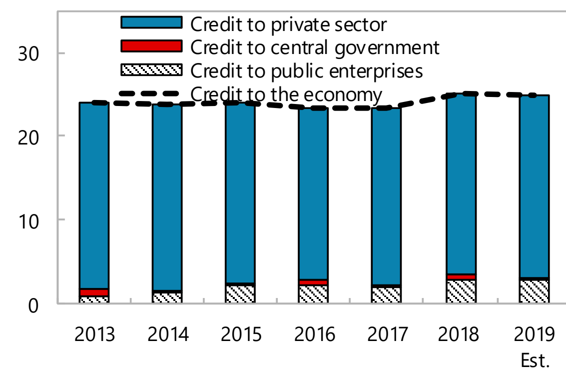
Key Banking Indicators
(In percent)



Contributions to Broad Money Growth
(In percent change)

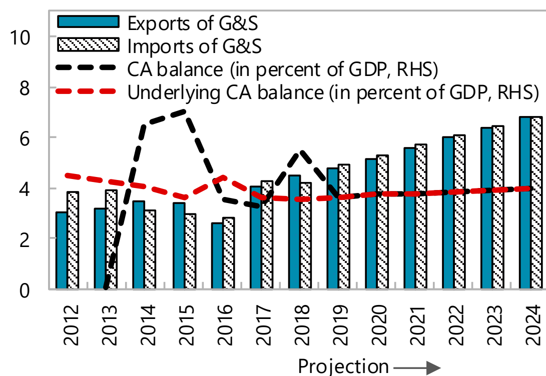


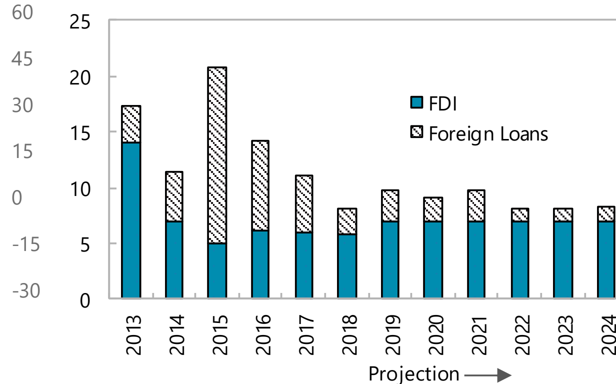
Credit to the Economy
(In percent of GDP)

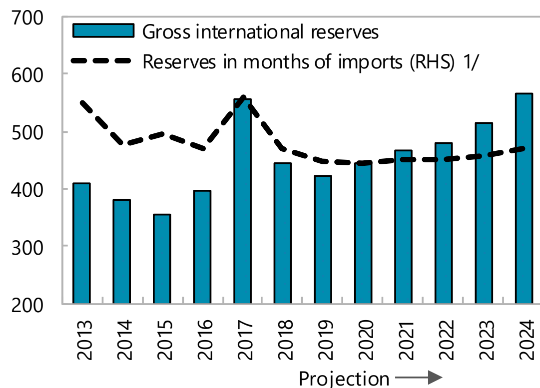


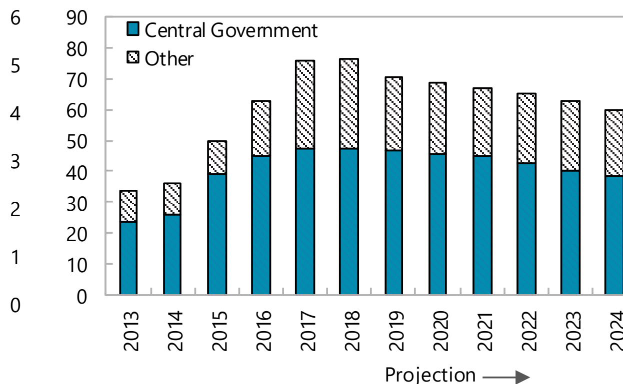
Sources: National authorities; and IMF staff estimates.

Figure 3. Djibouti: External Sector Indicators, 2012–24



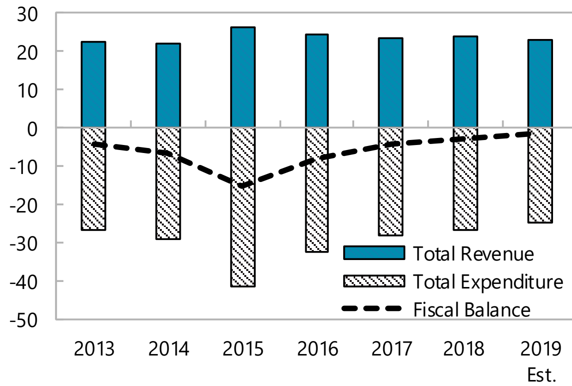


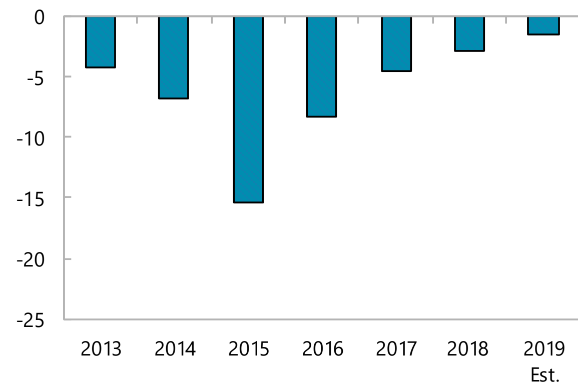


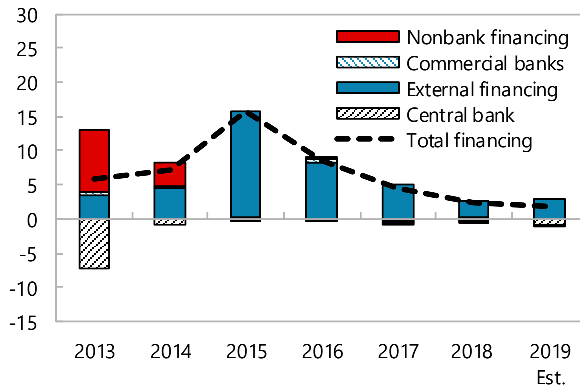


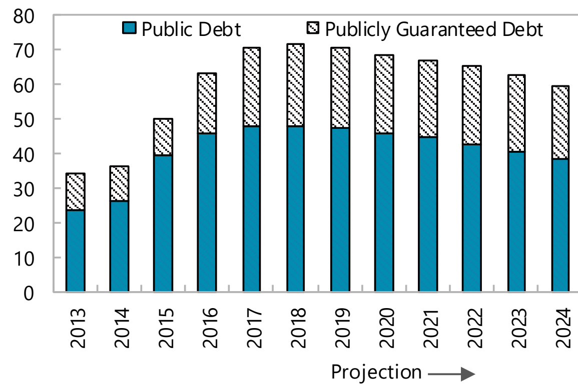
Sources: National authorities; and IMF staff estimates.
1/ Imports excludes re-imports.

Figure 4. Djibouti: Central Government Operations, 2013–19









Sources: National authorities; and IMF staff estimates.

Table 1. Djibouti: Selected Economic and Financial Indicators, 2015–24

				Est.	Proj.					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
National accounts				(Annual percentage change)						
Real GDP	7.7	6.9	5.1	5.5	6.0	6.0	6.0	6.0	6.0	6.0
Consumer prices (annual average)	-0.8	2.7	0.6	0.1	2.2	2.0	2.0	2.0	2.0	2.0
Consumer prices (end of period)	-1.6	2.4	-0.8	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Saving and investment					(In percent of GDP)					
Fixed capital investment	32.4	29.9	22.8	16.6	17.1	18.4	18.3	16.2	15.2	14.7
Non-government	7.0	15.2	12.4	7.5	9.2	10.9	10.5	9.8	8.9	8.5
Central government	25.3	14.7	10.4	9.0	8.0	7.6	7.9	6.4	6.3	6.2
Gross national savings	60.1	28.9	19.3	31.6	16.9	19.0	19.4	17.9	17.5	17.3
Savings/investment balance	27.7	-1.0	-3.6	15.1	-0.3	0.6	1.1	1.7	2.3	2.6
Central government					(In percent of GDP)					
Revenues and grants	26.3	24.2	23.6	23.9	23.1	21.7	20.7	20.3	19.6	19.0
Tax revenues	14.2	13.9	13.5	13.3	12.9	12.7	12.3	12.3	12.1	11.9
Nontax revenue	7.2	7.2	8.3	7.2	6.9	6.7	6.3	6.1	5.7	5.5
Grants	4.9	3.2	1.8	3.4	3.3	2.3	2.1	1.9	1.8	1.7
Expenditure	41.6	32.5	28.1	26.7	24.6	23.4	23.1	21.1	20.5	20.0
Current expenditure	16.3	17.7	17.7	17.7	16.7	15.8	15.2	14.7	14.3	13.8
Capital expenditure	25.3	14.7	10.4	9.0	8.0	7.6	7.9	6.4	6.3	6.2
Domestically financed	7.1	4.8	3.7	3.3	3.9	3.2	3.2	2.9	2.9	2.9
Foreign-financed	18.3	10.0	6.7	5.7	4.0	4.4	4.6	3.5	3.4	3.3
Overall balance (commitment basis)	-15.3	-8.3	-4.5	-2.9	-1.5	-1.7	-2.4	-0.8	-0.9	-1.0
Change in arrears	-0.4	-0.4	-0.1	0.4	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2
Overall balance (cash basis)	-15.7	-8.6	-4.6	-2.5	-1.8	-1.9	-2.7	-1.0	-1.1	-1.2
Financing	15.7	8.6	4.6	2.5	1.8	1.9	2.7	1.0	1.1	1.2
Domestic	0.0	0.5	-0.5	0.1	-1.0	-0.2	-0.2	0.0	0.0	0.0
External	15.7	8.1	5.1	2.4	2.8	2.2	2.8	1.0	1.1	1.2
Disbursements	16.3	8.7	5.8	3.3	2.9	3.4	3.7	2.6	2.6	2.6
Amortization	-0.7	-0.6	-0.7	-0.7	-0.9	-1.2	-0.9	-1.5	-1.4	-1.3
Other	0.0	0.0	0.0	-0.2	0.7	0.0	0.0	0.0	0.0	0.0
Memo: Overall balance, excluding large projects	-0.6	-2.0	-0.3	-1.6	-1.6	-1.5	-2.0	-1.0	-1.1	-1.2
Monetary sector				(Annual change in percent of broad money)						
Broad money	19.0	8.8	21.9	-5.6	8.4	10.3	9.2	9.5	10.2	10.2
Net foreign assets	15.4	8.0	20.7	-6.2	4.0	6.5	6.7	6.4	7.4	7.9
Net domestic assets	3.6	0.7	1.2	0.6	4.4	3.7	2.5	3.0	2.8	2.3
Of which : Claims on government (net)	0.3	0.7	-0.7	0.5	-0.4	-0.4	-0.3	0.0	0.0	0.0
Of which : Claims on non-government sector	4.3	0.8	2.8	3.7	3.3	3.3	3.3	3.3	3.2	3.2
Credit to non-government (in percent of GDP)	23.7	22.6	23.1	24.5	24.7	24.9	25.1	25.3	25.5	25.7
Currency board cover (in percent) 1/	104	107	104	108	109	109	109	108	108	108
External sector					(In millions of US dollars)					
Current account balance	678	-26	-99	441	-8	21	40	67	99	121
(In percent of GDP)	27.7	-1.0	-3.6	15.1	-0.3	0.6	1.1	1.7	2.3	2.6
Underlying current account balance 2/	-15.1	165.3	-4.4	-22.1	-8.3	20.8	40.0	66.9	99.3	120.6
(In percent of GDP)	-0.6	6.3	-0.2	-0.8	-0.3	0.6	1.1	1.7	2.3	2.6
External public and publicly guaranteed debt	1,218	1,647	1,951	2,087	2,231	2,342	2,476	2,602	2,704	2,783
(In percent of GDP)	49.8	62.9	70.5	71.4	70.5	68.4	66.9	65.0	62.5	59.5
Foreign direct investment	124	160	165	170	222	240	259	280	303	327
(In percent of GDP)	5.1	6.1	6.0	5.8	7.0	7.0	7.0	7.0	7.0	7.0
Exports of goods and services (percent change)	-2.0	-23.8	55.3	10.5	5.8	8.5	8.7	6.6	6.6	6.8
Imports of goods and services (percent change)	-4.5	-4.5	51.2	-2.8	17.8	7.3	8.1	6.0	5.9	6.3
Gross official reserves	355	398	556	445	422	443	466	480	516	564
(In months of next year's imports of goods and services, exc. re-exports)	3.1	3.2	4.3	3.2	3.0	3.0	3.0	3.0	3.1	3.2
Gross foreign assets of commercial banks	1,157	1,190	1,423	1,345	1,435	1,539	1,658	1,795	1,953	2,134
(In months of next year's imports of goods and services, exc. re-exports)	10.0	9.7	11.0	9.7	10.1	10.3	10.7	11.2	11.7	12.0
Exchange rate (DF/US$, end of period) 3/	177.7	177.7	177.7	177.7	…	…	…	…	…	…
Real effective exchange rate (yearly average, 2005=100) 3/	101.4	101.9	101.0	100.7	…	…	…	…	…	…
(Change in percent; depreciation -)	4.7	0.5	-0.9	-0.3	…	…	…	…	…	…
Memorandum items										
Nominal GDP (in millions of Djibouti francs)	434,612	465,375	491,728	519,540	562,724	608,417	657,820	711,235	768,988	831,429
Nominal GDP (in millions of US dollars) 3/	2,445	2,619	2,767	2,923	3,166	3,423	3,701	4,002	4,327	4,678
Nominal GDP per capita (US dollars) 3/	2,533	2,638	2,711	2,787	…	…	…	…	…	…
Population (million)	0.966	0.993	1.020	1.049	1.078	1.109	1.138	1.167	1.196	1.226

Sources: Djibouti authorities and IMF staff estimates and projections.

1/Ratio of central bank gross total assets over liabilities (except the government deposits at the central bank).

2/ Current account balance excluding imports and exports associated with re-export activities.

3/ Latest available.

Table 2. Djibouti: Central Government Operations, 2015–24
(In millions of Djibouti francs)

				Est.	Proj.					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenues and grants	114,222	112,771	116,138	123,930	130,027	132,036	136,065	144,712	150,800	158,252
Tax revenues	61,779	64,791	66,210	69,004	72,806	77,437	81,014	87,510	92,905	98,619
Direct taxes	26,724	27,762	27,418	28,779	31,056	33,000	34,486	37,173	39,347	41,650
Indirect and other taxes	35,055	37,029	38,792	40,225	41,749	44,437	46,529	50,338	53,558	56,969
Indirect taxes	31,280	32,215	34,806	36,621	37,748	39,635	41,427	44,936	47,857	50,967
Other taxes	3,775	4,814	3,986	3,604	4,001	4,802	5,102	5,402	5,702	6,002
Nontax revenue	31,323	33,276	41,001	37,307	38,589	40,853	41,305	43,456	44,149	45,886
Domestic	13,037	12,651	20,019	15,743	16,384	18,648	19,099	21,250	21,943	23,681
External	18,286	20,625	20,982	21,564	22,205	22,205	22,205	22,205	22,205	22,205
Grants	21,120	14,704	8,927	17,619	18,632	13,746	13,746	13,746	13,746	13,746
Development projects	8,474	6,020	4,643	12,711	6,171	6,171	6,171	6,171	6,171	6,171
Budget support	12,646	8,684	4,284	4,908	12,461	7,575	7,575	7,575	7,575	7,575
Expenditure	180,805	151,212	138,291	138,829	138,514	142,193	151,851	150,321	157,803	166,643
Current expenditure	70,685	82,577	87,025	91,841	93,774	96,243	100,177	104,730	109,735	114,893
Wages and related expenditure	31,023	34,529	37,093	39,070	39,071	41,025	43,076	45,230	47,902	50,733
Wages and contributions	27,748	31,071	33,579	35,504	35,505	37,280	39,144	41,101	43,568	46,182
Housing subsidies	3,275	3,458	3,514	3,566	3,566	3,744	3,932	4,128	4,334	4,551
Goods and services	22,999	29,550	29,776	29,975	29,310	29,896	31,179	32,518	33,940	35,425
Civil expenditure	19,055	24,828	22,923	22,952	22,952	23,411	24,347	25,321	26,334	27,388
Military expenditure	3,944	4,722	6,853	7,023	6,358	6,485	6,831	7,197	7,606	8,038
Maintenance	1,320	1,404	1,525	1,614	1,410	1,438	1,524	1,616	1,713	1,816
Transfers	12,239	12,664	13,048	13,978	14,860	15,157	15,915	16,711	17,546	18,424
Interest	1,747	3,807	5,200	6,466	8,039	7,643	7,398	7,572	7,549	7,411
Loans to central government	796	54	1,625	1,474	2,050	2,380	2,065	2,211	2,278	2,229
Large projects	951	3,753	3,575	4,992	5,989	5,263	5,334	5,361	5,271	5,182
Rail road	0	2,380	3,129	4,271	4,626	4,013	4,013	4,039	4,039	4,039
Water pipeline	951	1,373	446	721	1,363	1,251	1,321	1,321	1,232	1,143
Foreign-financed current spending	1,357	623	383	738	1,084	1,084	1,084	1,084	1,084	1,084
Capital expenditure	110,120	68,635	51,266	46,988	44,740	45,950	51,674	45,591	48,068	51,750
Capital expenditure (excl. large projects)	44,555	37,622	30,147	42,359	43,740	42,950	47,645	45,591	48,068	51,750
Domestically financed	30,704	22,173	18,225	17,243	22,005	19,360	21,123	20,956	22,024	24,286
Foreign-financed	79,416	46,462	33,041	29,745	22,735	26,590	30,551	24,634	26,045	27,464
Grants	8,474	6,020	4,643	12,711	6,171	6,171	6,171	6,171	6,171	6,171
Loans to central government	5,377	9,429	7,279	12,405	15,564	17,419	20,350	18,463	19,874	21,293
Large projects	65,565	31,013	21,119	4,629	1,000	3,000	4,029	0	0	0
Rail road	53,922	13,843	9,867	4,629	0	0	0	0	0	0
Water pipeline	11,643	17,171	11,251	0	1,000	3,000	4,029	0	0	0
Overall balance (commitment basis)	-66,582	-38,441	-22,152	-14,898	-8,487	-10,157	-15,786	-5,609	-7,003	-8,391
Change in arrears	-1,698	-1,700	-363	1,993	-1,700	-1,700	-1,700	-1,700	-1,700	-1,700
Overall balance (cash basis)	-68,280	-40,141	-22,515	-12,905	-10,187	-11,857	-17,486	-7,309	-8,703	-10,091
Financing	68,280	40,141	22,515	12,905	10,187	11,857	17,486	7,309	8,703	10,091
Domestic	193	2,356	-2,602	511	-5,546	-1,429	-1,085	-156	-94	-31
Bank	318	1,699	-2,477	636	-5,421	-1,429	-1,085	-156	-94	-31
Central bank	682	-1,760	-889	1,761	-4,085	-62	-31	-31	-31	-31
Commercial banks	-364	3,459	-1,588	-1,125	-1,335	-1,367	-1,054	-125	-63	0
Nonbank	-125	657	-125	-125	-125	0	0	0	0	0
External	68,087	37,785	25,117	12,394	15,732	13,286	18,571	7,465	8,797	10,122
External (excl. large projects)	2,523	6,772	3,999	7,766	14,732	10,286	14,542	11,868	13,199	14,525
Disbursements	70,942	40,442	28,398	17,034	16,564	20,419	24,380	18,463	19,874	21,293
Loans to central government	5,377	9,429	7,279	12,405	15,564	17,419	20,350	18,463	19,874	21,293
Large projects	65,565	31,013	21,119	4,629	1,000	3,000	4,029	0	0	0
Rail road	53,922	13,843	9,867	4,629	0	0	0	0	0	0
Water pipeline	11,643	17,171	11,251	0	1,000	3,000	4,029	0	0	0
Amortization	-2,854	-2,657	-3,210	-3,769	-4,898	-7,133	-5,809	-10,998	-11,078	-11,171
Loans to central government	-2,854	-2,657	-3,210	-3,769	-4,898	-7,133	-5,809	-6,595	-6,675	-6,768
Large projects	0	0	0	0	0	0	0	-4,403	-4,403	-4,403
Rail road	0	0	0	0	0	0	0	0	0	0
Water pipeline	0	0	0	0	0	0	0	-4,403	-4,403	-4,403
Other	0	0	0	-870	4,067	0	0	0	0	0
Memorandum										
Overall balance (excluding large projects)	-2,716	-9,128	-1,397	-8,277	-9,187	-8,857	-13,456	-7,309	-8,703	-10,091
Overall balance (excl. foreign-financed expenditures)	4,018	924	6,265	4,866	7,461	9,646	7,978	12,238	12,255	12,286

Sources: Djibouti authorities; and IMF staff estimates and projections.

Table 3. Djibouti: Central Government Operations, 2015–24
(In percent of GDP)

				Est.	Proj.					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenues and grants	26.3	24.2	23.6	23.9	23.1	21.7	20.7	20.3	19.6	19.0
Tax revenues	14.2	13.9	13.5	13.3	12.9	12.7	12.3	12.3	12.1	11.9
Direct taxes	6.1	6.0	5.6	5.5	5.5	5.4	5.2	5.2	5.1	5.0
Indirect and other taxes	8.1	8.0	7.9	7.7	7.4	7.3	7.1	7.1	7.0	6.9
Indirect taxes	7.2	6.9	7.1	7.0	6.7	6.5	6.3	6.3	6.2	6.1
Other taxes	0.9	1.0	0.8	0.7	0.7	0.8	0.8	0.8	0.7	0.7
Nontax revenue	7.2	7.2	8.3	7.2	6.9	6.7	6.3	6.1	5.7	5.5
Domestic	3.0	2.7	4.1	3.0	2.9	3.1	2.9	3.0	2.9	2.8
External	4.2	4.4	4.3	4.2	3.9	3.6	3.4	3.1	2.9	2.7
Grants	4.9	3.2	1.8	3.4	3.3	2.3	2.1	1.9	1.8	1.7
Development projects	1.9	1.3	0.9	2.4	1.1	1.0	0.9	0.9	0.8	0.7
Budget support	2.9	1.9	0.9	0.9	2.2	1.2	1.2	1.1	1.0	0.9
Expenditure	41.6	32.5	28.1	26.7	24.6	23.4	23.1	21.1	20.5	20.0
Current expenditure	16.3	17.7	17.7	17.7	16.7	15.8	15.2	14.7	14.3	13.8
Wages and related expenditure	7.1	7.4	7.5	7.5	6.9	6.7	6.5	6.4	6.2	6.1
Wages and contributions	6.4	6.7	6.8	6.8	6.3	6.1	6.0	5.8	5.7	5.6
Housing subsidies	0.8	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.5
Goods and services	5.3	6.3	6.1	5.8	5.2	4.9	4.7	4.6	4.4	4.3
Civil expenditure	4.4	5.3	4.7	4.4	4.1	3.8	3.7	3.6	3.4	3.3
Military expenditure	0.9	1.0	1.4	1.4	1.1	1.1	1.0	1.0	1.0	1.0
Maintenance	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Transfers	2.8	2.7	2.7	2.7	2.6	2.5	2.4	2.3	2.3	2.2
Interest	0.4	0.8	1.1	1.2	1.4	1.3	1.1	1.1	1.0	0.9
Loans to central government	0.2	0.0	0.3	0.3	0.4	0.4	0.3	0.3	0.3	0.3
Large projects	0.2	0.8	0.7	1.0	1.1	0.9	0.8	0.8	0.7	0.6
Rail road	0.0	0.5	0.6	0.8	0.8	0.7	0.6	0.6	0.5	0.5
Water pipeline	0.2	0.3	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.1
Foreign-financed current spending	0.3	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.1	0.1
Capital expenditure	25.3	14.7	10.4	9.0	8.0	7.6	7.9	6.4	6.3	6.2
Capital expenditure (excl. large projects)	10.3	8.1	6.1	8.2	7.8	7.1	7.2	6.4	6.3	6.2
Domestically financed	7.1	4.8	3.7	3.3	3.9	3.2	3.2	2.9	2.9	2.9
Foreign-financed	18.3	10.0	6.7	5.7	4.0	4.4	4.6	3.5	3.4	3.3
Grants	1.9	1.3	0.9	2.4	1.1	1.0	0.9	0.9	0.8	0.7
Loans to central government	1.2	2.0	1.5	2.4	2.8	2.9	3.1	2.6	2.6	2.6
Large projects	15.1	6.7	4.3	0.9	0.2	0.5	0.6	0.0	0.0	0.0
Rail road	12.4	3.0	2.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Water pipeline	2.7	3.7	2.3	0.0	0.2	0.5	0.6	0.0	0.0	0.0
Overall balance (commitment basis)	-15.3	-8.3	-4.5	-2.9	-1.5	-1.7	-2.4	-0.8	-0.9	-1.0
Change in arrears	-0.4	-0.4	-0.1	0.4	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2
Overall balance (cash basis)	-15.7	-8.6	-4.6	-2.5	-1.8	-1.9	-2.7	-1.0	-1.1	-1.2
Financing	15.7	8.6	4.6	2.5	1.8	1.9	2.7	1.0	1.1	1.2
Domestic	0.0	0.5	-0.5	0.1	-1.0	-0.2	-0.2	0.0	0.0	0.0
Bank	0.1	0.4	-0.5	0.1	-1.0	-0.2	-0.2	0.0	0.0	0.0
Central bank	0.2	-0.4	-0.2	0.3	-0.7	0.0	0.0	0.0	0.0	0.0
Commercial banks	-0.1	0.7	-0.3	-0.2	-0.2	-0.2	-0.2	0.0	0.0	0.0
Nonbank	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	15.7	8.1	5.1	2.4	2.8	2.2	2.8	1.0	1.1	1.2
External (excl. large projects)	0.6	1.5	0.8	1.5	2.6	1.7	2.2	1.7	1.7	1.7
Disbursements	16.3	8.7	5.8	3.3	2.9	3.4	3.7	2.6	2.6	2.6
Loans to central government	1.2	2.0	1.5	2.4	2.8	2.9	3.1	2.6	2.6	2.6
Large projects	15.1	6.7	4.3	0.9	0.2	0.5	0.6	0.0	0.0	0.0
Rail road	12.4	3.0	2.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Water pipeline	2.7	3.7	2.3	0.0	0.2	0.5	0.6	0.0	0.0	0.0
Amortization	-0.7	-0.6	-0.7	-0.7	-0.9	-1.2	-0.9	-1.5	-1.4	-1.3
Loans to central government	-0.7	-0.6	-0.7	-0.7	-0.9	-1.2	-0.9	-0.9	-0.9	-0.8
Large projects	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.6	-0.6	-0.5
Rail road	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Water pipeline	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.6	-0.6	-0.5
Other	0.0	0.0	0.0	-0.2	0.7	0.0	0.0	0.0	0.0	0.0
Memorandum										
Overall balance (excluding large projects)	-0.6	-2.0	-0.3	-1.6	-1.6	-1.5	-2.0	-1.0	-1.1	-1.2
Overall balance (excl. foreign-financed expenditures)	0.9	0.2	1.3	0.9	1.3	1.6	1.2	1.7	1.6	1.5

Sources: Djibouti authorities; and IMF staff estimates and projections.

Table 4. Djibouti: Balance of Payments, 2015–24

(In millions of U.S. dollars, unless otherwise indicated)

				Est.	Proj.					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Current account	678	-26	-99	441	-8	21	40	67	99	121
Current account, excluding trade for re-exports	-15	165	-4	-22	-8	21	40	67	99	121
Trade balance	456	-228	-239	307	-180	-135	-113	-87	-53	-28
Exports	3,438	2,620	4,067	4,494	4,755	5,161	5,610	5,980	6,374	6,804
Goods	2,582	1,732	3,162	3,521	3,723	4,050	4,413	4,717	5,041	5,392
Of which: re-exports	2,294	1,458	2,741	3,097	3,278	3,583	3,922	4,201	4,500	4,823
Services	856	888	905	973	1,032	1,110	1,197	1,263	1,332	1,412
Imports	-2,982	-2,848	-4,306	-4,188	-4,935	-5,296	-5,722	-6,067	-6,426	-6,832
Goods	-2,447	-2,327	-3,576	-3,603	-4,316	-4,658	-5,057	-5,387	-5,734	-6,125
Of which: imports for re-exports	-1,601	-1,650	-2,836	-2,634	-3,278	-3,583	-3,922	-4,201	-4,500	-4,823
Services	-535	-521	-731	-585	-619	-638	-666	-680	-692	-707
Income	144	142	123	101	97	93	90	91	89	86
Current transfers	78	60	17	34	75	63	63	63	63	63
Private	23	11	11	6	5	20	20	20	20	20
Official	55	49	6	27	70	43	43	43	43	43
Capital and financial account	381	1,180	528	374	-10	5	-12	-51	-64	-72
Capital transfers	48	34	26	70	70	70	70	70	70	70
Foreign direct investment	124	160	165	170	222	240	259	280	303	327
Public sector	416	426	306	107	106	183	206	126	101	79
Disbursements	445	463	336	140	162	247	266	216	194	190
Amortization	-29	-37	-30	-33	-56	-65	-60	-90	-93	-111
Commercial banks	-192	487	-1	-29	-77	-91	-106	-124	-145	-169
Other investment	-15	73	31	56	-330	-396	-441	-403	-392	-379
Errors and omissions	-1,082	-1,109	-267	-924	0	0	0	0	0	0
Overall balance (deficit -)	-23	45	162	-109	-18	25	28	16	35	49
Financing	23	-45	-162	109	18	-25	-28	-16	-35	-49
Central bank	23	-45	-162	109	18	-25	-28	-16	-35	-49
Assets	25	-43	-159	112	23	-21	-23	-14	-35	-49
Liabilities	-2	-2	-3	-3	-5	-5	-4	-2	0	0
Memorandum items										
Current account (in percent of GDP)	27.7	-1.0	-3.6	15.1	-0.3	0.6	1.1	1.7	2.3	2.6
Exports of goods and services (percent change)	-2.0	-23.8	55.3	10.5	5.8	8.5	8.7	6.6	6.6	6.8
Imports of goods and services (percent change)	-4.5	-4.5	51.2	-2.8	17.8	7.3	8.1	6.0	5.9	6.3
Central bank gross reserves (in millions of US dollars)	355	398	556	445	422	443	466	480	516	564
In months of next year's imports of goods and services	1.5	1.1	1.6	1.1	1.0	0.9	0.9	0.9	0.9	0.9
In months of next year's imports of G&S (excl. re-exports)	3.1	3.2	4.3	3.2	3.0	3.0	3.0	3.0	3.1	3.2
Currency board cover	104.1	107.1	104.1	107.9	108.8	108.6	108.5	108.4	108.2	108.0
FDI (in percent of GDP)	5.1	6.1	6.0	5.8	7.0	7.0	7.0	7.0	7.0	7.0
External public and publicly guaranteed debt										
In millions of US dollars	1,218	1,647	1,951	2,087	2,231	2,342	2,476	2,602	2,704	2,783
In percent of GDP	49.8	62.9	70.5	71.4	70.5	68.4	66.9	65.0	62.5	59.5
In percent of exports of goods and services	35.4	62.9	48.0	46.4	46.9	45.4	44.1	43.5	42.4	40.9
Debt service										
In millions of US dollars	43	69	65	65	92	129	130	159	165	180
In percent of GDP	1.8	2.6	2.3	2.2	2.9	3.8	3.5	4.0	3.8	3.9
In percent of exports of goods and services	1.3	2.6	1.6	1.4	1.9	2.5	2.3	2.7	2.6	2.7

Sources: Djibouti authorities; and IMF staff estimates and projections.

Table 5. Djibouti: Monetary Survey and Banking Sector Indicators, 2015–24

(End-of-period, in millions of Djibouti francs, unless otherwise indicated)

				Est.	Proj.					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Broad money	279,448	303,944	370,565	349,879	379,255	418,240	456,760	500,133	551,069	607,453
Currency in circulation	30,821	32,923	35,542	36,626	28,376	29,102	30,067	29,167	31,618	36,057
Deposits	248,627	271,021	335,023	313,253	350,879	389,138	426,693	470,966	519,451	571,396
Demand deposits	161,568	180,538	230,450	214,520	253,134	292,370	334,763	379,956	429,351	472,286
Djibouti francs	90,342	98,504	109,890	124,875	147,352	170,192	194,870	221,177	249,931	274,924
Foreign currency	71,226	82,034	120,560	89,645	105,781	122,178	139,893	158,779	179,420	197,362
Time deposits	87,059	90,483	104,572	98,733	97,745	96,768	91,929	91,010	90,100	99,110
Djibouti francs	44,674	53,281	53,266	56,700	56,133	55,572	52,793	52,266	51,743	56,917
Foreign currency	42,385	37,201	51,306	42,032	41,612	41,196	39,136	38,745	38,357	42,193
Net foreign assets	210,075	232,506	295,572	272,669	286,505	311,327	339,305	368,758	405,773	449,280
Central bank	54,133	62,299	91,125	72,129	67,305	70,978	75,141	77,581	83,850	92,523
Assets	63,169	70,764	99,034	79,125	75,027	78,712	82,887	85,339	91,620	100,305
Liabilities	9,036	8,465	7,909	6,996	7,722	7,734	7,746	7,758	7,770	7,782
Commercial banks	155,942	170,207	204,447	200,540	219,200	240,349	264,164	291,177	321,923	356,757
Assets	205,677	211,498	252,843	238,989	254,984	273,467	294,616	318,964	347,044	379,211
Liabilities	49,735	41,291	48,396	38,450	35,784	33,118	30,452	27,786	25,120	22,455
Net domestic assets	69,373	71,438	74,993	77,210	92,750	106,912	117,455	131,375	145,296	158,173
Claims on government (net)	1,167	3,228	1,108	2,899	1,564	197	-857	-982	-1,013	-1,045
Central bank	-3,274	-4,673	-5,205	-2,311	-2,311	-2,311	-2,311	-2,311	-2,342	-2,374
Commercial banks	4,441	7,901	6,313	5,210	3,875	2,508	1,454	1,329	1,329	1,329
Claims on nongovernment sector	102,874	105,126	113,493	127,228	138,923	151,428	165,061	179,921	196,122	213,783
Public enterprises	9,364	10,511	9,541	15,215	16,480	17,818	19,265	20,829	22,520	24,349
Private sector	93,510	94,615	103,952	112,013	122,444	133,611	145,796	159,093	173,602	189,434
Of which: in foreign currency	23,271	20,644	31,886	38,951	43,308	48,050	53,287	59,072	65,460	72,511
Capital accounts	-24,765	-27,797	-33,254	-36,285	-33,176	-33,217	-34,712	-34,449	-34,189	-35,727
Other items (net)	-9,904	-9,119	-6,354	-16,631	-14,561	-11,496	-12,036	-13,116	-15,624	-18,838
	(Annual change in percent of broad money)									
Broad money	19.0	8.8	21.9	-5.6	8.4	10.3	9.2	9.5	10.2	10.2
Net foreign assets	15.4	8.0	20.7	-6.2	4.0	6.5	6.7	6.4	7.4	7.9
Central bank	-0.6	2.9	9.5	-5.1	-1.4	1.0	1.0	0.5	1.3	1.6
Commercial banks	16.0	5.1	11.3	-1.1	5.3	5.6	5.7	5.9	6.1	6.3
Net domestic assets	3.6	0.7	1.2	0.6	4.4	3.7	2.5	3.0	2.8	2.3
Of which Claims on government (net)	0.3	0.7	-0.7	0.5	-0.4	-0.4	-0.3	0.0	0.0	0.0
Claims on nongovernment sector	4.3	0.8	2.8	3.7	3.3	3.3	3.3	3.3	3.2	3.2
Memorandum items										
Central bank										
Gross foreign assets (in U.S. dollars million)	355.4	398.2	557.2	445.2	422.2	442.9	466.4	480.2	515.5	564.4
In percent of foreign currency deposits	55.6	59.3	57.6	60.1	50.9	48.2	46.3	43.2	42.1	41.9
In percent of total deposits	25.4	26.1	29.6	25.3	21.4	20.2	19.4	18.1	17.6	17.6
Banking system										
Credit to the private sector, 12-month percent change	7.0	1.2	9.9	7.8	9.3	9.1	9.1	9.1	9.1	9.1
Share of foreign currency deposits/total deposits	45.7	44.0	51.3	42.0	42.0	42.0	42.0	41.9	41.9	41.9
Commercial banks' foreign assets/liability ratio	1.3	1.3	1.1	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Money velocity	1.6	1.5	1.3	1.5	1.5	1.5	1.4	1.4	1.4	1.4

Sources: Djibouti authorities and IMF staff estimates and projections.

Table 6. Djibouti: Financial Soundness Indicators, 2013–19Q1
(In percent, unless otherwise indicated)

	2013	2014	2015	2016	2017	2018	2019Q1
Capital adequacy							
Regulatory capital to risk-weighted assets 1/	9.4	11.0	13.5	13.3	14.1	14.9	13.5
Asset quality							
Nonperforming loans to gross loans	15.3	18.5	19.8	22.3	16.3	17.8	18.2
Nonperforming loans net of provisions to capital	30.5	39.0	38.6	35.1	17.8	23.1	26.9
Provisions to nonperforming loans	67.8	62.4	61.2	61.2	76.7	70.2	67.9
Banks exceeding maximum single borrower limit	10	11	11	10	...	...	...
Earning and profitability							
Return on assets (ROA)	1.3	0.8	0.8	1.1	0.7	0.7	1.3
Return on equity (ROE)	38.0	22.9	17.4	20.9	14.6	13.4	20.0
Interest margin to gross income	72.4	69.7	69.3	68.7	68.8	66.5	66.3
Noninterest expenditures to gross income	60.5	64.3	65.1	62.2	68.4	67.5	59.9
Salary expenditures to non-interest expenditures	41.8	48.4	42.4	42.0	40.8	43.5	46.6
Liquidity							
Liquid assets to total assets	65.3	62.9	66.9	67.5	69.2	64.2	61.2
Liquid assets to short-term liabilities	70.5	67.8	71.9	73.0	74.9	75.9	67.2
Liquid assets to demand and saving deposits	251.6	266.9	286.7	...	...	...	...
Liquid assets to total deposits	82.3	79.9	83.8	84.2	84.2	80.2	75.3

Source: Central Bank of Djibouti.

1/ The ratio of tier I capital to risk-weighted assets is equal to the regulatory capital ratio, as tier I capital equals tier II capital and there are no adjustments under current Djiboutian regulations.

Table 7. Djibouti: Sustainable Development Goals

Goals	2005	2010	2015	2016	2017	2018
Poverty						
Prevalence of undernourishment (%)	32.2	22.3	19.4	19.7	…	…
Health and Education						
Maternal mortality ratio	341.0	275.0	229.0	…	…	…
Under-five mortality rate (deaths per 1,000 live births)	89.3	76.7	65.7	63.7	61.7	…
Number of new HIV infections per 1,000 uninfected population (per 1,000 uninfected population)	3.7	2.9	3.0	2.9	2.8	…
Malaria incidence per 1,000 population at risk (per 1,000 population)	1.1	2.4	20.4	29.3	31.9	…
Inclusion						
Proportion of seats held by women in national parliaments (% of total number of seats)	10.8	13.8	12.7	12.7	10.8	26.2
Proportion of total government spending on essential services, education (%)	22.7	12.3	…	…	…	…
Proportion of population with access to electricity (%)	55.0	53.3	52.0	51.8	…	…
Internet users per 100 inhabitants	1.0	6.5	11.9	13.1	55.7	…

Sources: UN SDG Indicators Global Database; and National authorities.

Table 8. Djibouti: Inclusive Growth Indicators

	Indicator	LIC Average
Growth		
GDP per capita growth (percent; 2016-18 average)	3.7	2.1
Gross Fixed Capital Formation (percent of GDP; 2016-18 average)	39.9	23.6
Poverty and Inequality		
Poverty headcount ratio at $3.20/day (percent of population; 2017)	40.0	56.4
Multidimensional poverty (percent of population)	26.9	49.7
Prevalence of stunting (% of children under 5, 2012)	33.5	31.5
GINI Index (2017)	41.6	40.5
Child mortality (per 1,000, 2017)	62.0	62.1
Growth in mean consumption (growth, %, bottom 40th percentile)	n.a.	1.8
Human Development and Access to Services		
Human Development Index (2017)	0.5	0.5
Life expectancy at birth (years, 2017)	63.0	63.8
Access to electricity (% of population, 2016)	51.8	52.1
Net school enrollment, secondary, total (% population, 2015)	35.0	43.1
Individuals using internet (% population, 2016)	13.1	19.5
Literacy rate (% population)	n.a.	62.7
Government		
Commitment to reducing inequality index (2017)	0.42	0.33
Government spending on social safety net programs (percent of GDP, 2018)	0.2	1.3
Coverage of social safety net programs in poorest quintile (% population, 2012)	30.8	23.4
Government expenditure on education, total (% GDP, 2010)	4.5	4.5
Health expenditure, domestic general government (% of GDP, 2016)	1.6	2.0
Access to Finance		
Account at a financial institution (% age 15+, 2011)	12.3	27.5
Domestic credit to private sector (% GDP, 2017)	31.7	25.4
Loans to SMEs (% of GDP)	n.a.	3.2

	Indicator	LIC Average
Labor Markets (ILO estimates)		
Unemployment rate (% of total labor force, 2018)	11.1	5.6
Female (% of female labor force, 2018)	12.0	6.5
Youth (% of total labor force ages 15-24, 2018)	21.3	10.6
Labor force participation (% of total population ages 15+, 2018)	63.0	66.4
Female (% of female population ages 15+, 2018)	54.8	58.2
Youth (% of population ages 15-24, 2018)	45.9	47.7
Business Environment[1]		
Ease of doing business (DTF, 2018)	49.6	49.8
Registering property (DTF, 2018)	42.7	52.7
Enforcing contracts (DTF, 2018)	34.8	47.7
Paying taxes (DTF, 2018)	68.9	56.5
Getting electricity (DTF, 2018)	40.8	45.9
Trading across borders (DTF, 2018)	68.9	53.5
Governance[1]		
Government Effectiveness (WGI, 2017)	-1.0	-0.9
Regulatory Quality (WGI, 2017)	-0.7	-0.8
Rule of Law (WGI, 2017)	-1.0	-0.8
Control of Corruption (WGI, 2017)	-0.7	-0.8
Corruption Perceptions Index (2017)	31.0	29.3
Gender Equity and Inclusion		
Account at a financial institution (female vs male, %, 2011)	52.7	72.9
Female employment to population ratio (%, 2017)	46.2	55.4
Literacy rate (female vs male, %)	n.a.	75.7
Net school enrollment, secondary (female vs male, %, 2017)	83.5	89.6
Gender Gap Index (2017)	n.a.	0.7
Female seats in Parliament (share of total seats, 2018)	26.2	20.2

Better than LIC Average

Worse than LIC Average

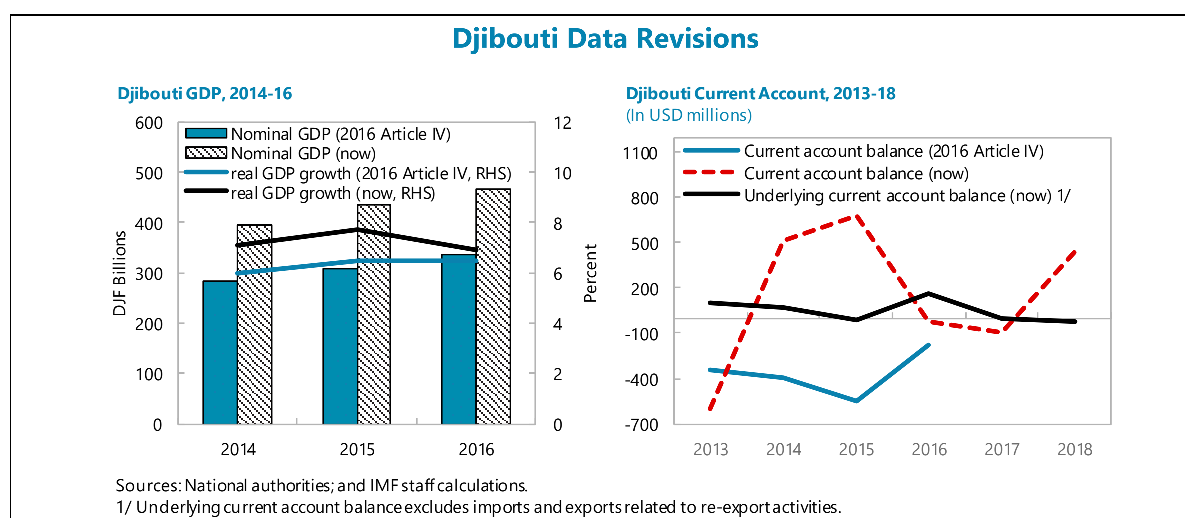
Sources: IMF World Economic Outlook, World Bank, World Economic Forum, International Labour Organization, Transparency International, UNDP, Oxfam International.

1 / Indicators use official sources and surveys to summarize perception of the quality of governance and business environments. The LIDCs are countries that have per capita income levels below a certain threshold (set at $2,700 in 2016 as measured by the World Bank's Atlas method), structural features consistent with limited development and structural transformation, and external financial linkages insufficiently close for them to be widely seen as emerging market economies.

Annex I. Data Revisions

1. **The authorities have overhauled their national account and balance of payment (BoP) statistics.** Supported by technical assistance (TA) from the IMF and the World Bank, they have made large revisions to their national accounts and BoP statistics over the last few months to reflect new information on activity in the ports and free trade zones (FTZs). Consistent with the general trade system, they have also taken into consideration the large trade flows that are channeled through Djibouti's FTZs—mainly re-exports to neighboring countries, especially Ethiopia—to compile trade, BoP and national account statistics. They have also made improvements to the financial account statistics. The new national account and BoP data cover the period 2013–17. The authorities are planning to extend the revisions back to 2008.

2. **The latest national account and external sector statistics attest to the importance of the trade and logistics activities in the Djiboutian economy.** Driven by higher value added in these sectors, nominal GDP was revised up by 38 percent compared to the last Article IV consultation. Growth over 2014–16 was also revised up from 6.3 percent at the time of the 2016 Article IV to 7.3 percent, reflecting the dynamism of the FTZs relative to the rest of the economy—value added generated in the FTZs grew by about 10½ percent during 2014–17, and it now accounts for one-fifth of the economy. Given the central role of the FTZs and the large size of re-exports, both imports and exports of goods and services have been revised up significantly (about 3.5- and 6-fold, respectively). The current account balance was revised from an average deficit of US$366 million over 2013–16 to a surplus of US$140 million. However, the latest statistics also point to higher current account balance volatility, reflecting large variations in inventories associated with re-export activities. Staff estimates that the underlying current account balance (which excludes these activities) averaged about US$80 million over 2013–16. Because of the nominal GDP revisions, fiscal revenue mobilization appears even lower as before. The revenue to GDP ratio over 2015–18 is now estimated at 24.5 percent against 32.6 percent in the last Article IV consultation staff report.



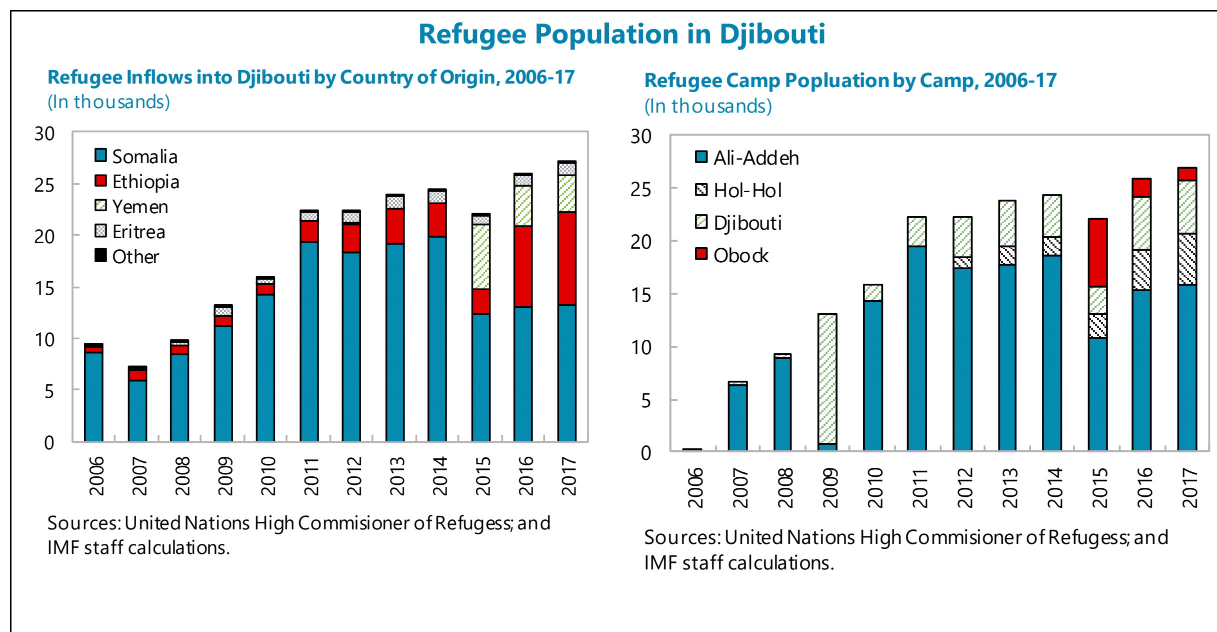
Sources: National authorities; and IMF staff calculations.
1/ Underlying current account balance excludes imports and exports related to re-export activities.

3. The new data better capture the economy's structure, but shortcomings remain. The information on activity in the FTZs is still incomplete. The BoP errors and omissions are also very large (-23 percent of GDP on average over 2013–18), pointing to a possible overestimation of the current account balance. The statistical agency (INSD), is currently conducting surveys in the FTZs to better capture and classify trade flows and activity. Improve the compilation of trade and financial flows are key to address these shortcomings and facilitate the analysis of the external position.

Annex II. Refugee Surge in Djibouti

1. Djibouti has faced significant inflows of refugees over the past decade. The country has traditionally been a destination for migrants, refugees and asylum seekers. Refugee inflows have more than tripled over the past 10 years (now representing some two-thirds of total population inflows), reflecting heightened regional geopolitical tensions and conflicts. After a reduction in 2015, the number of arrivals has increased again over the past few years, with a surge in inflows from Yemen and Ethiopia. Refugees, about half of which are from Somalia, now account for about 3 percent of Djibouti's population.

2. Against this backdrop, humanitarian costs have increasingly weighed on the country's public finances and services. Djibouti has traditionally aimed at ensuring a favorable environment for refugees, granting them with fundamental rights, including access to services such as education and health, with some also benefiting from a monthly allowance. Refugees have in some instances contributed to business creation in retail services and restaurants, but these activities have remained largely informal. Overall, notwithstanding some support from international organizations, the cost of hosting increasingly large numbers of refugees has been important.



Annex III. Implementation of 2016 Article IV Recommendations

Public Debt Policy and Debt Management	
Slow the pace of borrowing by the public sector; avoid non-concessional borrowing	Disbursements for publicly-financed megaprojects have been slowing down.
Strengthen debt management: prepare a debt management strategy; adopt a debt law and adopt a public-sector debt anchor; establish a national public debt committee; consolidate and monitor SOEs debt; publish debt data regularly; avoid arrears; and perform regular DSAs.	The World Bank conducted a Debt Management Performance Assessment (DeMPA) in 2017 that laid out a reform plan. Progress is being made slowly—for example a decree on the creation of the national public debt committee was recently enacted and efforts are being made to foster greater coordination between relevant ministerial departments and to build capacity.
Revenue Mobilization and Phasing Out of Exemptions	
Continue reforming the tax system by reviewing and reducing tax expenditures, exemptions, and special regimes, such as free zones, to expand the tax base and increase government revenue.	With support from FAD TA, the authorities have prepared a tax expenditures report. A summary of the report was attached to the 2019 Budget Law. No progress has been made in rationalizing tax exemptions and special regimes to broaden the tax base.
Spending Efficiency	
Conduct a functional expenditure review and better prioritize spending.	No progress was made in this area.
Governance of State-Owned Enterprises (SOEs)	
Reform SOEs to enhance their efficiency and the competitiveness of their services and improve their capacity to manage large investment projects.	There have been significant delays in implementing the "Code of Good Governance" for SOEs. Recent progress has been made in conducting audits of public administrative establishments and a few key large public enterprises.
Business Environment	
Improve the business environment and governance to attract investors, develop the private sector, create jobs.	Djibouti made significant progress on the World Bank Doing Business indicator thanks to reforms in the areas of: (i) starting a business (one-stop shop for business start-up), (ii) registering property (reduced registration fees, improved transparency), (iii) strengthening access to credit, (iv) protecting minority investors (improved transparency on transactions and disputes), (v) enforcing contracts (streamlined processes for commercial cases, new Code of Civil Procedure), and (vi) resolving insolvency (simplified processes). However, there hasn't been any progress on opening some sectors to competition (telecommunications, electricity).

Financial Stability	
Strengthen risk-based bank supervision, introduce a bank rating system, reduce credit concentration, better enforce prudential ratios, introduce a minimum reserve requirement, and put in place bank resolution mechanisms.	With support from Fund TA, the authorities have been reforming prudential regulations in line with Basel II/III. They have recently revised the regulations on corporate governance, credit risk management, interbank risk management and foreign exchange risk management.
Strengthen the AML-CFT framework.	The authorities have requested Fund TA support in this area. LEG participated in the Article IV mission to produce a detailed diagnostic and key policy recommendations.
Statistics and Technical Assistance	
Finalize the revision of national accounts	With support from Fund and World Bank TA, the authorities have produced GDP statistics for the period 2013–17.
Consolidate the financial statements of the public sector and central government.	No progress.

Annex IV. Economic Growth Performance and Prospects

Djibouti's economic growth performance has improved over the past three decades. Assuming ongoing structural reforms aimed at improving the business climate and enhancing competitiveness are sustained, staff's baseline scenario envisages that real GDP growth would remain strong, at about 6 percent on average over the medium term, with a slowdown in public capital accumulation offset by higher private investment and productivity gains.

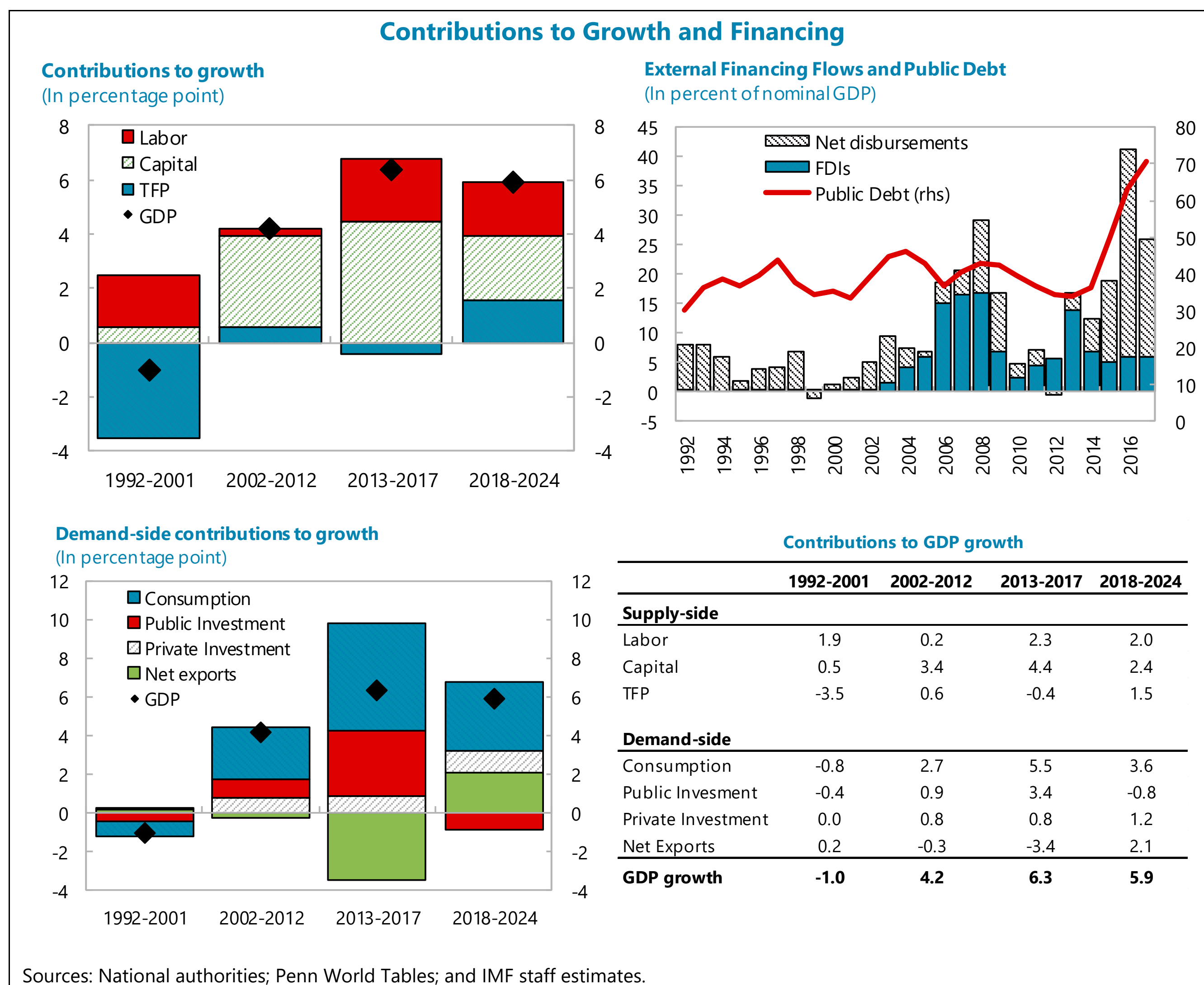
A. Stylized Facts

1. Real GDP growth in Djibouti has improved gradually over the past few decades.[1] To simplify the analysis, three subperiods can be identified:

- *Civil war and dismal growth (1992–2001).* During and for a few years after the civil war (1991–94), military and civil unrest weighted down on economic activity. Throughout the decade, public investment contributed positively to GDP growth, but private investment and consumption growth were low. There was a small positive contribution of net exports. A decomposition of growth based on production factors indicates that, although an increase in total employment (mostly in the public sector) contributed positively to overall growth, the sharp decline in total factor productivity brought average growth rate down to -1 percent annually.[2]
- *Return to stability and pickup in growth (2002–12).* During the 2000s, against the backdrop of geopolitical stabilization, Djibouti started to leverage its strategic location, encouraging the installation of foreign military bases and foreign direct investment in logistics and trade infrastructures. Key projects included a petroleum terminal, a refinery, and a container terminal. During this period, annual real GDP growth averaged about 4 percent, driven by large investments. The contribution of capital to growth increased significantly and total factor productivity improved.
- *Infrastructure investment boom (2013–17).* The authorities continued to promote investments aimed at positioning Djibouti as a regional logistics and trade hub serving fast-growing but landlocked Ethiopia as well as East-African countries. Large projects included a railway connecting Djibouti and Addis-Ababa, a large multipurpose and other specialized ports, free-trade zone, and a water pipeline. These projects were mainly financed through government-guaranteed debt. The contribution of capital to growth increased further during this period, but the contribution of total factor productivity became negative. Real GDP growth averaged about 6½ percent during this period.

[1] For 2013–17, this analysis is based on the latest national account statistics (see Annex I). For 1992–2012, since the Djiboutian authorities are still in the process of re-estimating national accounts, staff uses retropolated data based on growth rates derived from the previous set of national account data. As such, the analysis presents some caveats for these anterior years, since both the levels of the various national account aggregates and growth rates could end up being revised significantly.

[2] The growth accounting framework is based on a Cobb-Douglas production function with elasticities of output to labor and capital of respectively 0.6 and 0.4.



Contributions to GDP growth

	1992-2001	2002-2012	2013-2017	2018-2024
Supply-side				
Labor	1.9	0.2	2.3	2.0
Capital	0.5	3.4	4.4	2.4
TFP	-3.5	0.6	-0.4	1.5
Demand-side				
Consumption	-0.8	2.7	5.5	3.6
Public Invesment	-0.4	0.9	3.4	-0.8
Private Investment	0.0	0.8	0.8	1.2
Net Exports	0.2	-0.3	-3.4	2.1
GDP growth	**-1.0**	**4.2**	**6.3**	**5.9**

Sources: National authorities; Penn World Tables; and IMF staff estimates.

B. Prospects for Medium-Term Growth

2. **The authorities' growth strategy is based on continuing to develop infrastructures and implementing structural reforms to boost productivity and encourage private investment.** They have identified additional possible projects to develop trade and logistics infrastructure. They are also implementing an ambitious reform program aimed at strengthening the business environment and boost competitiveness. Key areas of progress in the past couple of years—rewarded by a marked improvement in the WB Doing Business ranking—include: (i) starting a business (one-stop shop for business start-up); (ii) registering property (reduced registration fees, improved transparency); (iii) strengthening access to credit; (iv) protecting minority investors (improved transparency on transactions and disputes); (v) enforcing contracts (streamlined processes for commercial cases, new Code of Civil Procedure); and (vi) resolving insolvency (simplified processes).

3. Given Djibouti's limited fiscal space, significant emphasis will need to be given to promoting FDI. With debt vulnerabilities having increased significantly, there is little scope for the government or SOEs to take on more debt to finance new infrastructure and growth. Against this backdrop, the key challenge for the authorities is to accelerate structural reforms to turn existing infrastructure investments into broad-based and private sector-led growth and encourage FDI as the main source of financing for economic development. This needs to be done while ensuring debt sustainability and improving the discipline and effectiveness of the SOEs to ensure that debt can be repaid in due time.

4. Staff's baseline scenario assumes that ongoing structural reforms and past efforts to develop infrastructure start bearing fruits. The recently-developed trade and logistics infrastructures position Djibouti well to leverage the rapid growth in Ethiopia (projected to average about 7½ percent over the medium term) through an increase in export growth. Under this scenario, real GDP growth would remain at close to 6 percent over the medium term. On the demand-side, consumption, private investment and net exports would drive growth. On the factor side, new infrastructures and ongoing reforms would start bearing fruits allowing TFP growth to contribute significantly to output growth, along with labor and capital growth.

5. A more ambitious reform agenda could generate even larger growth dividends. The empirical literature on the macroeconomic impact of structural reforms finds that reform episodes are typically associated with a significant pick up in post-reform productivity growth rates. Even larger productivity payoffs are observed when multiple reform episodes occur in parallel. An IMF study shows that low-income and developing countries that implemented 3 or more large-scale reforms in different areas within the same 3-year period experienced pick-ups in the average 5-year total factor productivity growth rates of close to 5½ percentage point.[3] Reforms are also likely to boost private sector investment, hence raising the contribution of capital accumulation to growth.

6. In the case of Djibouti, a more ambitious reform agenda would entail more rapid and concomitant progress on several macro-critical areas. First, the authorities should continue to advance reforms to improve the business environment. There remains significant scope to enhance the rule of law, level the playing field, and strengthen the return on existing infrastructures. Second reducing input costs through energy and telecommunication reforms is important. Progress in strengthening competition and governance, including through the restructuring of SOEs, is also key to boost foreign direct investment.

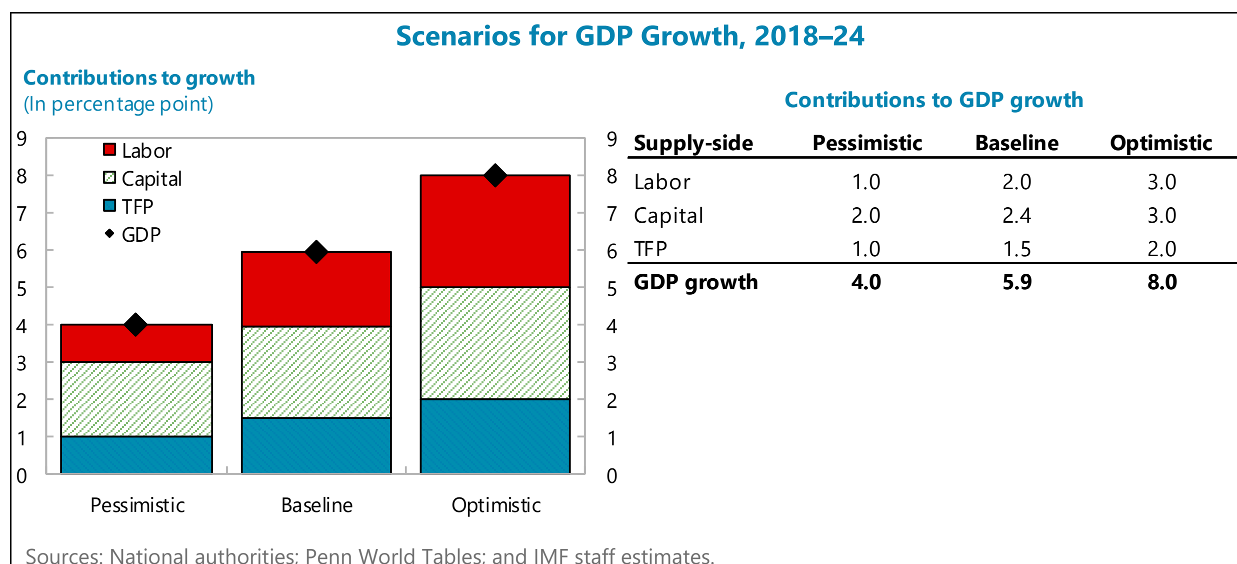
7. In a scenario where a critical mass of reforms is achieved in these areas, staff could envisage medium-term growth in the order of 7–8 percent. In this enhanced reform scenario, staff assumes an increase in the average annual growth of private-sector investment—from about 13 percent during 2018–24 under the baseline to close to 20 percent—bringing the contribution of capital to annual growth up by ⅔ percentage points. The contribution of total factor productivity could also increase by ½ percentage point compared to the baseline. An output growth of

[3] See Structural Reforms and Macroeconomic Performance: Initial Considerations for the Fund (IMF, 2015)

7–8 percent appears realistic given the country's strategic location and the potential to serve the East-African region, not only with logistics and transport-related services, but also with financial and ICT-oriented activities. More rapid and comprehensive structural reforms would, however, be necessary to foster such diversification.

8. Nonetheless, under certain circumstances, medium-term growth prospects could also be less promising. Djibouti remains highly dependent on the economic situation in Ethiopia and its specialized port and transport-related infrastructures. A slowdown in Ethiopia would have a direct impact on output growth in Djibouti. In addition to possible external shocks, economic prospects could also be affected by a slowdown in reforms or a smaller impact than expected in improving the business climate and competitiveness, with adverse consequences for private investment. Additional delays in operationalizing the new infrastructures could also slow productivity gains. An illustrative scenario with lower productivity and investment growth brings Djibouti's medium-term output growth to 4 percent in the medium-term.

Scenarios for GDP Growth, 2018–24



Contributions to GDP growth

Supply-side	Pessimistic	Baseline	Optimistic
Labor	1.0	2.0	3.0
Capital	2.0	2.4	3.0
TFP	1.0	1.5	2.0
GDP growth	**4.0**	**5.9**	**8.0**

Sources: National authorities; Penn World Tables; and IMF staff estimates.

Annex V. Updated Risk Assessment Matrix[1]

Source of Risk	Relative Likelihood	Potential Impact	Recommended Policy Response
Global Risks			
Rise in protectionism and retreat from multilateralism.	High	*Medium*. This could affect Djibouti's export and real GDP growth prospects given the country's dependence on transport and logistics services.	Accelerate structural reforms to promote private sector investment and diversify the sources of growth.
Sharp rise in risk premium.	High	*Medium-High*. This could increase the interest payment burden (part of the debt is indexed to the LIBOR) and put renewed pressures on CBRs.	Adopt a debt strategy anchored on ensuring debt sustainability; limit new borrowing and avoid financing on non-concessional terms. Strengthen public debt management and SOEs governance.
Weaker-than-expected global growth in the Euro Area, the US, China or emerging markets.	Medium-High	*Low*. This could affect Djibouti's export and real GDP growth prospects through weaker service activities related to ports. It could also lower FDI and external financing prospects.	Diversify the economy and the sources of investment finance.
Large swings in energy prices. Risks are broadly balanced, reflecting offsetting—but large and uncertain—supply and demand shocks.	Medium	*Medium*. Fluctuations in oil prices would affect the budget and external position.	Create fiscal space and strengthen the external position.
Higher frequency and severity of natural disasters	Medium-Low	*High*. Djibouti is vulnerable to climate change. It faces an arid climate and most of the production capacity is located in coastal and other low-lying areas.	Create fiscal buffers for mitigation and adaptation policies

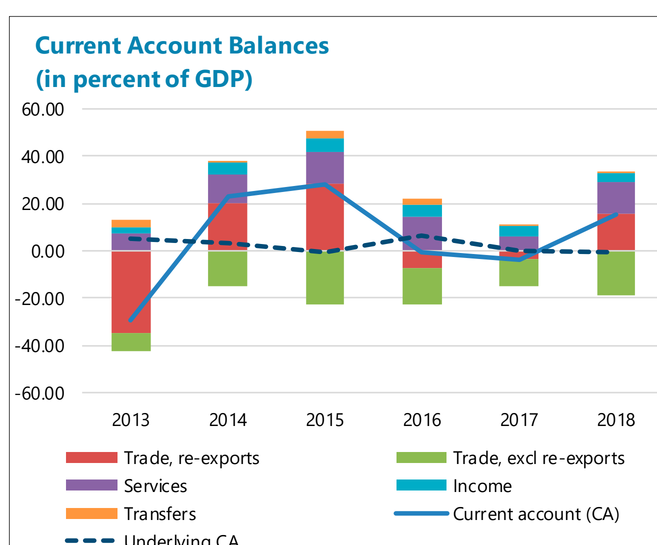
[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term (ST)" and "medium term (MT)" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Source of Risk	Relative Likelihood	Potential Impact	Recommended Policy Response
Regional Risks			
Intensification of security risks and conflicts in the region.	High	*Medium*. This could affect foreign direct investment and growth and put further pressure on the budget in the case of additional security costs and refugee inflows.	Diversify the sources of growth and maintain a prudent fiscal policy to better absorb shocks. Seek donors' assistance.
Slowdown in Ethiopian growth or reduced reliance on Djibouti ports on the part of Ethiopia	Low	*High*. This would affect export, investment, real GDP growth, and fiscal prospects as Djibouti is the main access to the sea for Ethiopia and its activity is highly dependent on Ethiopia's international trade.	Diversify economic activity (to reduce dependence on ports) and trade partners (expand trade networks to new markets in Africa and elsewhere – transshipment).
Domestic Risk			
Failure to implement reforms needed to ensure debt sustainability.	Medium	*High*. Notably if the authorities engage in new debt-financed mega-projects or fail to raise the return on infrastructures—would increase further debt vulnerabilities.	Adopt a medium-term fiscal framework with a debt anchor to ensure debt sustainability, strengthen debt management, improve governance of SOEs, strengthen investment management including selection and implementation of projects.
Lack of implementation of structural reforms	Medium	*High*. Resistance from vested interests to strengthen governance and foster private sector participation could reduce investment and export and GDP growth; weaken reserves coverage and maintain or increase poverty and inequalities.	Continue reform effort to improve the business environment, foster private sector activity, including foreign investment, and promote inclusive growth.

Annex VI. External Sector Assessment

The currency board remains appropriate. The arrangement has provided an effective nominal anchor and played a key role in instilling confidence and greater predictability in international transactions—an important consideration given Djibouti's role as a regional trade hub. On balance, staff's analysis suggests that the external position is weaker than implied by fundamentals and desired policy settings, with the magnitude of the current account gap and exchange rate misalignment subject to considerable uncertainty.[1] However, the structure of the economy is such that import and export price elasticities are low; and, there is significant room to improve external competitiveness through structural reforms aimed at improving the business environment and reducing internal costs (especially electricity and telecommunications). The international reserve coverage is broadly in line with the estimated optimal benchmark for low-income countries.

1. **Based on the latest data (Annex I), the overall current account balance has experienced large swings over 2013–18, but the underlying deficit has been less volatile.** The overall current account balance has posted large variations, with balances from -30 to +30 percent of GDP. This is largely driven by stocks variations in imports and re-exports to neighboring countries that channel through Djibouti's ports and free zones. The underlying current account balance (excluding import/re-export activities) has hovered around 2 percent of GDP over 2013–18 (about -1 percent last year).[2] The underlying trade balance has been largely negative (about -15 percent of GDP on average). This has been partially compensated by surpluses of net income, transfers, and most importantly the service balance (11 percent of GDP on average), driven by transport and logistics services exports associated with the ports and free zone activity. Errors and omissions have been large and mostly negative (except in 2013). They amounted to -33 percent of GDP on average over 2014–18. Official reserves decreased by $112 million last year, lifting the currency board's coverage to 108 percent of reserve money.



[1] The External Sector Assessment (ESR) for Djibouti is based on the IMF's External Balance Assessment (EBA-lite) methodology using the current account, real effective exchange rate and the external sustainability approaches (See Methodological Note on EBA-lite, IMF 2016: https://www.imf.org/external/np/res/eba/data.htm.

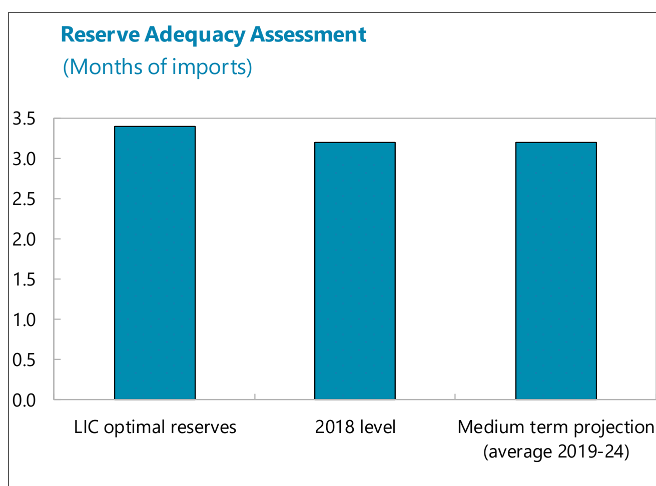
[2] Re-exports are reported in official BoP statistics. Imports for exports are estimated by staff based on customs data for imports entering warehouses and free zones (adjusted for FOB price and corrected for imports in warehouses and free zones later directed to the domestic market).

2. The underlying current account balance is projected to improve over the medium term. Imports growth (goods and services, excluding re-exports) is expected to gradually decline to about 4.5 percent annually as large-scale publicly-financed investment projects come to an end. With new logistics infrastructure in place—particularly the multipurpose port and the Djibouti-Addis Ababa railway—the country is well positioned to leverage Ethiopia's rapid growth. Against this backdrop, export growth (goods and services, excluding re-exports), which is expected to be driven by fast-growing services exports, is projected to continue to rise from 5 percent in 2018 to about 6 percent annually over the medium term. Overall, this would help bring the current account balance to 2.6 percent of GDP by 2024.

3. The improving current account path and an increase in FDI should help offset increasing amortizations on external loans. Foreign direct investment is projected to pick up gradually over the medium term, consistent with the reported interest from investors for the new free trade zone. This will be supported by the authorities' efforts to switch from debt-financed to FDI-financed investment supported by reforms to improve the business environment. Notwithstanding the projected increase in external amortizations, this would allow for international reserves to increase by about $25 million a year.

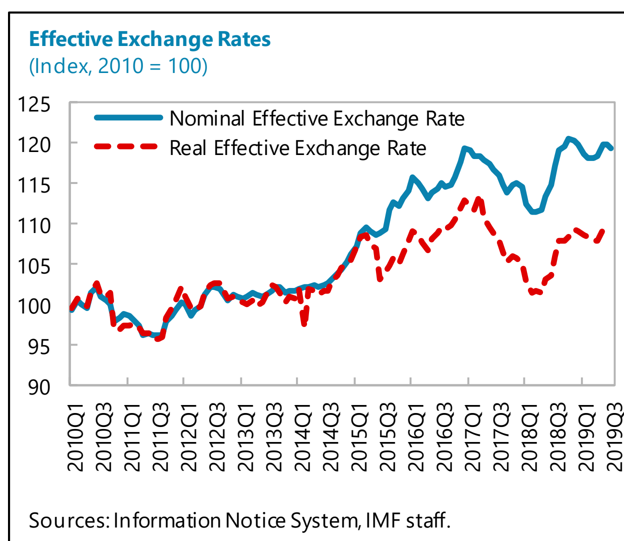
4. The net international investor position (NIIP) has been weakening over 2013–18. It has decreased from US$-0.48 billion in 2013 (-23 percent of GDP) to an estimated US$-2.15 billion (-73 percent of GDP in 2018). Djibouti is not vulnerable to sudden changes in financial market sentiment as there are no portfolio investments. However, the large external public debt, part of which has been contracted with variable interest rate and the very large errors and omissions do present risks to external sector sustainability.

5. The international reserve coverage is broadly in line with the optimal benchmark for LICs estimated by staff. Reserve buffers are needed to cope with potential terms of trade shocks, including from economic slowdowns in the main trading partners (e.g., Ethiopia), or shifts in the international financing environment. The optimal level of foreign reserves in low income credit-constrained economies, which compares the marginal benefits and costs of holding reserves versus spending them, indicates an optimal benchmark of 3.4 months of imports.[3] As of end-2018, Djibouti's international reserves covered 3.2 months of imports (excluding



[3] Based on a marginal product of capital of 6.2 percent, which is the net return on using reserves to invest in real assets, the optimal level of reserve is 3.4 month of imports.

imports for re-exports), broadly in line with the recommended reserve adequacy metric. Djibouti's reserve coverage is projected to fall to 3 months of imports in 2019 and to gradually increase back to 3.2 months of imports by 2024.



Sources: Information Notice System, IMF staff.

6. Djibouti's real effective exchange rate (REER) has remained broadly stable over the past decade, with some depreciation since staff's last external sector assessment (2016). The REER has remained broadly stable despite a rise in the NEER, which reflected mainly the strength of the dollar (to which the Djibouti franc is pegged) against major currencies and Djibouti's trading partners. Since staff's latest external assessment, the NEER has been broadly stable (+2 percent) and the REER has depreciated by about 3 percent, amid domestic deflationary pressures that led to a negative inflation differential with trade partners.

7. The external sector analysis suggests that the external position is weaker than implied by fundamentals and desired policy settings. Staff's analysis—based on the External Sustainability and the Real Effective Exchange Rate approaches (EBA-lite) —shows a REER overvaluation that ranges between 5 and 26 percent. The Current Account (CA) approach indicates a negative current account gap but appears subject to considerable uncertainty given the shortcomings in BoP statistics, including the large error and omissions and the significant revision of import data made over the past couple of years. On balance, given the uncertainty around the current account approach estimates and in spite of the improved debt position after the recent restructuring, staff assesses the external position to be weaker than fundamentals.

CA and REER, and ES assessments

	CA Approach	CA Approach (assuming errors and omissions are unrecorded imports)	REER Approach	ES Approach
Net IIP (%GDP, 2018)				-80.9
CA Actual (2018) *	-0.6	-32.0		
CA Norm *	-5.9	-5.9		
CA Gap	5.4	-26.0		
Elasticity	-0.36	-0.46		-0.36
Ln(REER) Actual			4.66	
Ln(REER) Norm			4.61	
REER Gap	**-14.7**	**57.1**	**5.0**	**26.1**

* cyclically adjusted

- ***The EBA-lite regression-based REER model*** suggests the actual REER is slightly above the norm, implying a small REER overvaluation of about 5 percent.

- ***The external sustainability approach*** method suggests an REER overvaluation of about 26 percent to stabilize the net external investor position to its 2018 level. Although the

weakening of the NIIP does not reflect the accumulation of volatile foreign liabilities that would put Djibouti at risk of financial market sentiment reversal, the deteriorating NIIP over the past few years, and the fact that the country is in high risk of debt distress as measured by the LIC-DSA, suggest that a reduction in net external liabilities is needed through a slowdown in official foreign debt, as envisaged in staff's baseline scenario.

- ***The EBA-lite regression-based CA model does not seem adequate given the uncertainties around the BOP statistics.*** The underlying CA deficit in 2018 (of about -0.8 percent of GDP) is well below the level implied by economic fundamentals (the current account norm is estimated at -6 percent of GDP). In this context, this approach suggests a REER undervaluation of about 15 percent. However, assuming that the large errors and omissions (-31 percent of GDP in 2018) correspond to unrecorded imports, the CA model would then suggest an overvaluation of 57 percent.

8. Strengthening the external sector position should be achieved primarily through a slowdown in the build-up of public sector external liabilities and structural reforms to improve external competitiveness. Djibouti depends heavily on imports of food and other staples, and the scope for domestic production of these goods is very constrained by non-price (climate) factors. Imports are therefore not elastic with respect to exchange rate movements. Imports of capital goods related to infrastructure investment are expected to decline rapidly as these projects near completion. Moreover, the main sources of foreign exchange—port services and rental fees for military bases—are not sensitive to exchange rate changes as they are set in long-term contracts. For this reason, an improvement in the external competitiveness of the economy should be achieved through structural reforms that aim to lower the cost of services, such as electricity, water and telecommunications, and to improve the business and investment environment, rather than relying on changes in the nominal exchange rate. Improving the quality of BoP statistics is critical to allow for more precise analysis of the external sector position.

Annex VII. Capacity Development Strategy[1]

As a low-income fragile country, Djibouti faces significant capacity and institution building challenges, which are being addressed with tailored Fund technical assistance (TA) and training. Consistent with the Article IV Consultation policy recommendations, capacity development (CD) priorities for the year ahead cover the following areas: tax policy, public financial and debt management, financial sector regulation and supervision, macroeconomic statistics, and AML/CFT.

A. Main Macroeconomic Challenges

1. The overarching objective for the Djiboutian authorities is to turn infrastructure investments into broad-based and private sector-led growth and job creation, while ensuring debt sustainability. To do so, macro-financial policies and structural reforms need to tackle the following challenges: fostering higher and more inclusive growth in a context of limited fiscal space; ensuring debt sustainability; improving public financial management and spending efficiency; curtailing tax expenditure; continuing to improve financial sector regulation and supervision. Tackling governance weaknesses is also an important cross-cutting theme that affects many state functions, especially public procurement, PFM, central bank governance, regulatory frameworks, contract enforcement, and AML/CFT.

B. Assessment of Capacity Development Efforts

2. CD activities in recent years have reflected demand from the authorities and were broadly aligned with the reform priorities identified in the context of Article IV consultations. The IMF has provided Djibouti with abundant TA in the following areas: fiscal issues (public financial management; tax policy and administration), banking supervision (including Islamic banking), and statistics (all sectors). IMF TA engagement has taken place through HQ-based and METAC (Middle East Technical Assistance Center) missions.

Several key accomplishments were achieved with TA support over the past year:

- Preparation of tax expenditure report
- Continued progress on upgrading bank regulatory and supervisory environment
- Preparation of national account estimates for 2015–17
- Production of financial stability indicators consistent with international standards

Nonetheless, low capacity to implement TA recommendations has remained an important challenge, and progress in public financial management and other statistical areas (trade and balance of payment statistics) has been slower.

The authorities have also taken advantage of CEF (IMF Middle East Center For Economics And Finance) training and other courses provided by the Fund (including on the new debt sustainability

[1] This note, which was prepared in consultation with functional departments, lays out capacity development achievements and challenges and aims at aligning future priorities with the team's Article IV policy recommendations.

analysis framework), but there may be room to take better advantage of the IMF's e-learning platforms.

C. Main Priorities for IMF Technical Assistance and Training

3. Given Djibouti's high CD needs and low capacity, the TA and training agenda focuses on areas for reforms with potential high payoffs for inclusive growth and macroeconomic stability. Consistent with the AIV consultation policy recommendations, the TA and training agenda aims at supporting the authorities in their efforts to ensure debt sustainability and improve debt management, broaden the tax base and strengthen public financial management, identify and manage financial sector risks, and strengthen macroeconomic statistics.

4. More specifically, the priorities for the next 18 months include:

- *Tax policy*: possible follow up on tax expenditure report and tax reform strategy to address widespread tax exemptions and special regimes (STX visits throughout FY2020).
- *Public financial management*: cash management (cash forecasting, single treasury account); public investment management (capital budgeting in the short term; PIMA later on); SOE governance; and development of a medium-term fiscal framework.
- *Debt management*: ongoing training on new IMF-WB DSA framework; TA to develop a medium-term debt strategy.
- *Macroeconomic statistics*: (i) standards (e-GDDS), (ii) national accounts statistics (ongoing METAC program); (iii) BoP (follow up to recent BPM6 missions); (iv) government finance statistics (expand coverage of fiscal accounts beyond central government; public sector debt, including SOEs)
- *Financial regulation and supervision*: risk-based financial supervision (ongoing METAC program); FSSR (FY2020) to provide overall diagnosis and underpin broader medium-term TA program.
- *AML/CFT framework*: An expert from the IMF Legal department joined the Article IV Consultation mission to identify weaknesses and make policy recommendations. Further TA could be envisaged once progress has been made.

INTERNATIONAL MONETARY FUND

DJIBOUTI

September 10, 2019

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved By
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Prepared by the staffs of the International Monetary Fund and the International Development Association.

Risk of external debt distress	*High risk of debt distress*
Overall risk of debt distress	*High risk of debt distress*
Granularity in the risk rating	*Sustainable*
Application of judgment	*No*

A recent agreement in principle to restructure a large loan contracted to finance a railway project has considerably eased debt service constraints in the short term, giving more time for the project to generate the necessary resources. Nonetheless, this Debt Sustainability Analysis (DSA) concludes that Djibouti is at high risk of debt distress. This reflects the fact that the present value (PV) of the external debt-to-GDP ratio breaches its threshold during 2019–26 and the debt service-to-revenue ratio increases and stays above its threshold from 2022 onward. The DSA also concludes that the authorities are expected to be able to service their debt under current terms debt and thus that debt is sustainable.

A multifaceted approach is nonetheless needed to underpin debt sustainability. This includes a rapid ramp up of operations of several key projects to generate the revenues necessary for debt service. A combination of policies to reduce the pace of borrowing and prioritize concessional financing and foreign direct investment (FDI), as well as reforms to strengthen the fiscal framework, public investment management, SOEs oversight, and debt management capacity are also important.

PUBLIC DEBT COVERAGE

1. The coverage of public debt used for this DSA is public and publicly guaranteed (PPG) debt. Specifically, the debt stock covers central government external debt—which accounted for 30 percent of total public debt at end-2018, excluding the loans contracted for the railway and the water pipeline—as well as government guarantees on state-owned enterprises' (SOEs) external debt.[1] SOEs' non-guaranteed external debt is not consolidated at the central government level and therefore not included in this DSA—according to the authorities, it would in any case likely be marginal and limited to short-term supplier credits. Information on domestic debt remains partial. Domestic debt contracted by the central government appears to be covered by the authorities' data (and hence included in this DSA) and remains small. SOEs domestic debt is not captured. As of December 2018, consolidated data from the monetary survey indicate gross domestic credit to public nonfinancial corporations amounted to some 3.1 percent of GDP. It is however unclear whether this is guaranteed by the central government and the debt service is unknown, as neither the Ministry of Finance nor the Ministry of Budget track these debts. This is also not captured in the debt statistics.

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	X
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	
8	Non-guaranteed SOE debt	

1	The country's coverage of public debt	The central, state, and local governments, government-guaranteed debt		
		Default	Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0 percent of GDP	0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2	
4	PPP	35 percent of PPP stock	15.43	Based on the World Bank's PPP database.
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
	Total (2+3+4+5) (in percent of GDP)		22.4	

2. Data on stocks and flows of private external debt are not available —except for a loan contracted in 2017 by a company related to the Djibouti Free Trade Zone (FTZ) and expected to be guaranteed by the government when it is refinanced in 2019–20. This and the marginal size of central government domestic debt result in external and public debt to largely overlap in this DSA over the projection period. External debt is defined based on residency, and there is a material difference with the criterion of currency denomination, as domestic financial institutions can issue credits in foreign currency—mainly U.S. dollars—to local counterparts. There is, however, no domestic debt market open to foreign investors.

[1] The government guarantees on SOE external debt stem from loans contracted by the government that have been on-lent (under loan agreements, *accords de rétrocession*) to public enterprises. Under the lending agreement, the public enterprise assumes responsibility to pay the debt service falling due on the loan. But this debt is treated in this DSA as being guaranteed by the government because the latter remains the borrower of record and would be the payer of last resort to the creditor in the event of a default by the public enterprise.

3. The debt management capacity could be strengthened in Djibouti, as noted in the last World Bank's Debt Management Performance Assessment (DeMPA). Strengthening the coverage of public debt, including by recording and monitoring all SOE debt, is crucial for a better risk assessment. The authorities plan on establishing a debt committee in 2019 which should contribute to improving coordination between government entities that contract and manage debt and addressing shortcomings in SOEs' debt oversight.

4. The contingent liability stress test accounts for risks arising from public and private partnerships (PPPs) and financial markets. The stress test involves a one-off increase in the debt-to-GDP ratio in the second year of projection. The shock is made of two components: (i) a starting value of 5 percent of GDP, representing the average cost to the government of a financial crisis in a low-income country; and (ii) an additional value to capture PPPs contingent liabilities. PPPs are limited to a few projects in Djibouti, mainly related to the ports and more recently to a submarine broadband cable. This has been incorporated in the DSA, raising its contribution to the total contingent liability tailored shock by about 15½ percent of GDP, which corresponds to 35 percent of the total PPP stock as reported in the World Bank's Private Participation in Infrastructure Database.[2]

BACKGROUND

A. Debt and Budgetary Developments

5. The rapid debt accumulation since 2013 reflects mainly loan disbursements to finance three large infrastructure projects. In 2013, the government contracted two large loans to finance the construction of the Addis Ababa–Djibouti railway and a water pipeline from Ethiopia in the amount of US$814 million.[3] In 2016, another government-guaranteed loan of US$345 million was signed to finance the construction of a multipurpose port. These three loans were extended by the Export-Import Bank of China (Exim Bank of China). During 2014–18, related disbursements reached a cumulative US$1.1 billion (around 71 percent of total disbursements over the period). As a result, total PPG debt increased from 34 percent of GDP in 2013 to 72 percent of GDP at end-2018 and external debt increased to 76 percent of GDP (Table 1). The share of government-guaranteed SOE debt—including debt contracted for the railway and the water pipeline—rose from 30 percent to 65 percent of external debt over the same period. The share of central government domestic debt in total public debt has been declining steadily and is now marginal.

6. Disbursements under the three large loans described above increased the share of U.S. dollar-denominated debt in total external debt and reinforced exposure to global financing conditions. In 2014, Djibouti's external debt was mainly denominated in Kuwaiti dinar (22 percent), U.S. dollar (20 percent), and euro (10 percent). The disbursements related to the three large projects have increased the dollar-denominated debt share to 60 percent in 2018, thereby lowering valuation risks

[2] The World Bank's Private Participation in Infrastructure Database is available at: http://ppi.worldbank.org

[3] These loans are still to be on-lent under the mechanism described in footnote 1.

associated with movements in U.S. dollar exchange rate.[4] However, the share of external debt with variable interest rate terms has also increased, as interest rates on loans for the construction and electrification of the railway are tied to the LIBOR, and therefore sensitive to changes in U.S. monetary policy.

7. The average grant element on new external borrowing has shrunk over the past few years. The average grant element on disbursements is estimated to have reached 31½ percent at end-2018. It is expected to increase temporarily in the medium-term—peaking at 37 percent in 2021—owing mainly to significant concessional financing from IDA and the Saudi Fund for Development and as projects financed on non-concessional terms reach completion and related disbursements stop. The grant element of new borrowing is then projected to decrease to 31 percent and remain stable in the medium term.

Table 1. Djibouti: External and Public and Publicly-Guaranteed Debt, 2013 and 2018 1/

	2013			2018		
	Millions of US$	Percent of GDP	Percent of external debt	Millions of US$	Percent of GDP	Percent of external debt
Total (External + Domestic)	714	35.0	…	2,253	77.1	…
External debt	694	34.0	100.0	2,231	76.3	100.0
Central government debt	482	23.6	69.5	1,353	46.3	60.6
Multilateral	311	15.2	44.8	343	11.7	15.4
IMF	31	1.5	4.5	16	0.5	0.7
IDA	134	6.5	19.2	153	5.2	6.8
Other multilateral	146	7.2	21.1	175	6.0	7.9
Official bilateral	171	8.4	24.7	1,009	34.5	45.2
Paris Club	65	3.2	9.4	47	1.6	2.1
China	-	-	-	785	26.8	35.2
Railway	-	-	-	463	15.8	20.7
Water pipeline	-	-	-	322	11.0	14.4
Other non-Paris Club	106	5.2	15.3	177	6.1	7.9
Publicly-guaranteed debt	212	10.4	30.5	671	23.0	30.1
China	25	1.2	3.6	403	13.8	18.1
Other creditors	187	9.2	27.0	268	9.2	12.0
Other external debt	-	-	-	144	4.9	6.5
Stock of external arrears	0	-	0.0	64	2.2	2.8
Domestic central government debt	20	1.0	…	22	0.8	…
In DF billions	4	1.0	…	4	0.8	…

Sources: Djibouti authorities; IMF staff calculations.
1/ This table presents the data for the debt covered in this DSA and described in paragraph 1.

8. There have been increasing pressures on central government spending over the past few years. Budget support grants declined from 2.9 to 0.9 percent of GDP during 2015–18. Reflecting large tax expenditure—special tax regimes and exemptions for free zones, military bases, new investments—tax revenues decreased from 14.2 to 13.3 percent of GDP over the same period. On the spending side, given that the central government has been servicing the loans contracted for the railway and the water pipeline projects, and since the interest rate on the railway loan is indexed to the LIBOR, the central government

[4] Under the currency board arrangement, the Djibouti franc is pegged to the U.S. dollar.

interest bill has picked up significantly over the past few years. Against this backdrop, domestically-financed capital expenditure has been cut by close to 4 percent of GDP.

9. The authorities have recently reached an understanding on the restructuring of a large loan. Delays in operationalizing the railway project have resulted in lower revenues than expected to service the related loan. The latter, which represents about 16 percent of GDP, is being serviced by the government and was due to start amortizing in 2020. Against this backdrop, the authorities conducted discussions with Exim Bank of China to restructure the loan. They indicated that a memorandum of understanding had been signed to extend the grace period (by 5 years) as well as the maturity of the loan (by 10 years) and to reduce the interest rate (to LIBOR + 210 bps, from LIBOR + 300 bps). The Djiboutian authorities also indicated that arrears on interest payments on this loan that had been accumulated during the restructuring discussion (1.2 percent of GDP) had been restructured—they have been integrated to the principal and are expected to be repaid over the extended amortization period. Pending administrative and legal processes, they expected the agreement to be finalized within the next few months. The new terms of the railway loan have reduced the PV of debt-to-GDP ratio by 4 percentage points and smoothed total debt service. The latter is now expected to peak at 4.5 percent of GDP in 2025 against 5.3 percent of GDP in 2022 before the restructuring.

10. The authorities indicated that, as of end-June 2019, external debt arrears on PPG external debt (1.6 percent of GDP) reflected delays in finalizing conversion and cancellation agreements and also included arrears of technical nature or reflecting diplomatic issues. According to the authorities, arrears had accumulated in recent years pending the formalization of conversion and cancelation agreements or due to ongoing discussions with creditors for debt conversion (0.8 percent of GDP). Arrears related to diplomatic disputes amounted to 0.5 percent of GDP. Finally, notwithstanding efforts to clear technical arrears in recent months, the authorities noted the latter amounted to 0.2 percent of GDP. Technical arrears reflect mainly limited capacity to manage treasury cash-flow pressures, and the authorities do not consider them to be indicative of a fundamental payment incapacity as these are generally cleared after a short period of time. IMF staff has recommended to quickly address capacity issue in this area, including through technical assistance on cash management. On this basis, and in accordance with paragraph 90 of the LIC DSF guidance note, external debt arrears excluding arrears related to technical or diplomatic issues stand at 0.9 percent of GDP and are therefore assessed to be below the *de minimis* threshold of 1 percent of GDP.

B. Macroeconomic Statistics, Outlook, and Risks

11. This DSA is based on newly revised national accounts and balance of payment statistics. The new national accounts reflect expanded information on the activity of the ports and key enterprises in the FTZs, allowing for a better reflection of the large value added generated by the trade and transport sectors. The new data point to an upward revision of nominal GDP by close to 38 percent compared to the data used by staff for the last DSA (2017). Consistent with the general trade system, the authorities have also taken into consideration the large trade flows that are channeled through Djibouti's FTZs for compiling external trade statistics, national accounts and balance of payment statistics. Given the central role of the FTZs in Djibouti and the large size of re-exports, both imports and exports have been revised up significantly (3.5- and 6-fold, respectively). For the analysis in the present document, debt-burden and

debt-servicing capacity indicators as well as international reserve adequacy are assessed based on ratios that exclude re-exports from total exports and imports of goods and services. Similarly, for the purpose of analyzing external sector developments, staff uses an underlying current account balance that adjusts for the large changes in imports and exports related to re-export activities (and hence for changes in FTZs inventories related to these activities), which have led to large swings in the actual current account balance on the historical period.

12. Baseline macroeconomic projections assume a significant reduction in debt-financed infrastructure projects. With core infrastructure in place, the baseline does not incorporate any additional mega-projects, implying a significant reduction in foreign-financed public capital outlays. It also envisages a broadly stable government balance excluding foreign-financed spending, as further erosion of the revenue base relative to GDP—reflecting the large tax expenditure related to fast-growing trade and transport sectors—is offset through continued efforts to re-prioritize spending. In light of this, the baseline envisages a primary fiscal deficit and an overall public sector primary deficit—i.e. including SOEs—of about ¼ and 1⅓ percent of GDP respectively on average over the medium-term. Nominal PPG debt is projected to decline gradually to about 60 percent of GDP by 2024.

13. Growth is projected to pick up modestly this year and remain robust over the medium term. Notwithstanding the reduction in public infrastructure investment, the rapid recovery in Ethiopian trade flows is expected to underpin a continued recovery this year. Overall, growth is projected to remain at about 6 percent over the medium term, driven by strong export growth—as the new transport and logistics infrastructure position the country well to leverage Ethiopia's strong growth and expand transshipment—and a pickup in FDI. Higher export growth combined with lower investment-related imports would lead to an improvement in the underlying current account balance to about 1⅓ percent of GDP on average in the medium term.

14. In the long term (2025–39), the baseline projects sustained growth driven by improved net exports and FDI inflows. The baseline assumes a successful leverage of Djibouti's position to serve as the main entry-point for goods into East Africa but also as a regional platform for logistics, banking and information technology services. The momentum generated by recent improvements in the business climate[5] is assumed to generate long-term dividends translating into sustained FDI inflows. Consequently, growth is projected to hover at about 5 percent in the long-term. The primary fiscal balance and the overall public sector primary balance are assumed to improve to slightly below zero percent of GDP. Finally, the current account surplus is assumed to improve further and average 2½ percent of GDP in the long term.

[5] Djibouti is ranked 99th in the 2019 World Bank's Doing Business from 154th in 2018 and 171th in 2017.

Table 2. Djibouti: Evolution of Selected Macroeconomic Indicators, 2017–39
(in percent of GDP, unless otherwise indicated)

	2017-2018	2019-2024	2025-2039
Real GDP growth (percent change)			
Current DSA	5.3	6.0	5.3
Previous DSA, February 2017	6.8	6.3	6.0
Primary fiscal balance			
Current DSA	-2.5	-0.3	-0.1
Previous DSA, February 2017	1.4	-0.2	-1.6
Public sector primary balance 1/			
Current DSA	-6.6	-1.4	0.5
Previous DSA, February 2017	-	-	-
Current account balance 2/			
Current DSA	-0.5	1.3	2.6
Previous DSA, February 2017	-24.6	-16.2	-12.2
External PPG debt (nominal)			
Current DSA	71.0	65.5	35.7
Previous DSA, February 2017	85.9	68.6	54.1

Source: IMF Staff.
1/ Including SOEs.
2/ Adjusted for re-export activities.

15. Debt service is set to increase over the medium term. Notwithstanding the agreement to lengthen the debt service profile of the railway loan, and with water pipeline loan set to start amortizing in 2022, debt service is projected to increase over the next few years. The baseline assumes that SOEs will generate the cash flow necessary to repay the debt contracted for the projects they manage.

16. The baseline is subject to significant uncertainty, with risks tilted to the downside:

- *On the domestic front*, delays in implementing reforms to ensure debt sustainability—notably if the authorities engage in new debt-financed mega-projects or fail to raise returns on infrastructure and SOEs profitability—could worsen debt prospects, as there is limited space for consolidation at the level of the central government. A slowdown in structural reforms or slower progress in improving governance, the business climate, and external competitiveness, could reduce FDI and export growth, entail lower growth and weaken the international reserves coverage.

- *Externally*, regional geopolitical tensions and a slowdown in international or Ethiopia's trade would have adverse effects on Djibouti's exports, investment, economic growth, and fiscal prospects. In this context, lower exports and a widening current account deficit would increase external financing needs. The cancellation of DP World contract could entail reputational risks (affecting investment prospects) as well as fiscal costs. A worsening of global financial conditions could increase interest costs and worsen external financing prospects. Renewed pressures on

CBRs could create financing disruptions. Finally, higher global oil prices than in the baseline scenario could weigh on the budget and the external position.

17. Financing assumptions have been updated to integrate more granularity on financing terms. Debt service projections are based on the financing terms of the loans for which disbursements have started and loans for which borrowing agreements have already been signed. Financing terms are aggregated by creditors, allowing for more granularity in the assessment of concessionality. The discount factor remains fixed at 5 percent, as approved by the IMF and World Bank Executive Boards in October 2013. New disbursements for the central government and the SOEs through 2039 are broadly in line with past disbursements excluding the three recent mega projects—the Doraleh multipurpose port, the railway and the water pipeline—averaging about 3 percent of GDP annually. The terms of these new disbursements are also assumed to be broadly consistent with past loans, excluding the loans for the large infrastructure projects. As such, the average grant element of new borrowing is projected to stabilize at 31 percent in the medium term.

18. The realism tools added to the new LIC DSA framework signal risks around the baseline projections. The projected three-year primary balance adjustment stands at 3.5 percentage points of GDP. It lies within the top quartile of past adjustments of primary balances in LIC countries under Fund-supported programs. The realism tools flag optimism on GDP growth projections in the baseline given the magnitude of the fiscal adjustment. Past forecast errors have been very large (as illustrated by Figure 3), also entailing additional risks. However, baseline growth projections assume that, while the decrease in capital expenditure will weigh on growth, the underlying fiscal multiplier is low due to the substantial import content of the large projects. In addition, the development in trade and transport infrastructure in recent years positions the country well to leverage the rapid growth in Ethiopia's trade. Combined with an improved business climate, this is expected to give a more prominent role to private investment, including FDI, and exports in driving growth over the medium term.

C. Country Classification and Stress Test Scenarios

19. Djibouti's debt carrying capacity is classified as medium.[6] The new debt sustainability framework encompasses a broader set of indicators to define debt carrying capacity and applicable thresholds. The underlying composite indicator accounts for the CPIA—as in previous DSA vintages—but also real GDP growth rate, import coverage of reserves–adjusted for reexports–remittances and world economic growth. Under the new framework, Djibouti's debt carrying capacity is classified as medium with the largest contributions from import coverage of reserves and the CPIA to the composite indicator.

[6] The composite indicator is calculated based on the data published in the World Economic Outlook from April 2019.

Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	2.988	1.15	41%
Real growth rate (in percent)	2.719	6.210	0.17	6%
Import coverage of reserves (in percent)	4.052	47.469	1.92	68%
Import coverage of reserves^2 (in percent)	-3.990	22.533	-0.90	-32%
Remittances (in percent)	2.022	0.000	0.00	0%
World economic growth (in percent)	13.520	3.579	0.48	17%
CI Score			2.83	100%
CI rating			Medium	

Final	Classification based on current vintage	Classification based on the previous vintage
Medium	Medium 2.83	Medium 2.74

External Debt burden Thresholds	
PV of debt in % of	
Exports	180
GDP	40
Debt service in % of	
Export	15
Revenue	18
Public Debt Burden Thresholds	
PV of total public debt in percent of GDP	55

20. This DSA applies the standard stress tests, as well as additional tailored stress tests on contingent liabilities. The standard tests account for shocks on real GDP growth, the primary balance, exports and other external financing flows. A shock on the exchange rate, consisting of a one-time 30 percent nominal depreciation is also considered. The tailored stress test on contingent liabilities encompasses a shock from a financial market crisis and the materialization of a PPPs contingent liability as discussed above. The natural disaster, commodity price and market financing tailored stress tests do not apply to Djibouti.

DEBT SUSTAINABILITY

A. External Debt Sustainability

21. Based on the guidance note of the Bank-Fund debt sustainability framework for low-income countries (LIC DSF), the results of the external DSA indicate that Djibouti is at high risk of debt distress. This reflects the fact that the present value (PV) of the external debt-to-GDP ratio breaches its threshold during 2019–26 and the debt service-to-revenue ratio increases and stays above its threshold from 2022 onward.

22. The DSA also concludes that debt is sustainable as the authorities are expected to be able to service their debt under current terms. Although the debt-service-to-revenue liquidity ratio for the external debt stands above its threshold after 2022—reflecting an increase in debt service over the next few years (as amortizations on the two loans contracted for the railway and water pipeline projects start falling due) and suggesting that liquidity risk to the debt path could re-assert themselves in the coming years—the recent understanding on the restructuring of the railway loan has considerably eased the debt service constraint in the short term, giving more time for the project to generate the necessary resources.[7]

23. The debt dynamics are sensitive to shocks. The bound tests indicate that the most extreme shock for the PV of external debt-to-GDP is the contingent liabilities which would raise the PV of the external debt-to-GDP ratio to 70 percent. The most extreme shock for the debt service-to-revenues is the primary balance. Finally, a shock to export revenues, which could stem from a slowdown in economic growth in Ethiopia or a slowdown in international trade, would be the most extreme for both the PV of debt-to-exports and the debt service-to-exports ratio, although in both cases the ratios would remain below their thresholds.

B. Public Debt Sustainability

24. The dynamics of total public debt reflect the large share of PPG external debt in total public debt. Under the baseline, reflecting the sharp rise in PPG external debt, overall public debt is projected to increase from 34 percent of GDP in 2013 to 72 percent at end-2018. The PV of debt-to-GDP stands below the 55 percent benchmark throughout the projection horizon. Simulations show that under the historical scenario, public debt dynamics worsen as the primary fiscal deficit is wider than in the baseline. According to stress tests, solvency indicators are most vulnerable to combined contingent liabilities, while the liquidity indicator is most vulnerable to a one-time depreciation shock. Given the Djibouti franc's exceptional stability vis-à-vis the dollar under the currency board, the DSA exchange rate stress scenario should be considered a tail risk event. While a bilateral movement of the U.S. dollar exchange rate vis-à-vis other major currencies could contribute to some adverse valuation effects, this should be limited given the currency board linked to the U.S. dollar and the recent increase in the share of U.S. dollar-denominated debt. A tightening of global financing conditions could, however, pose important risks, as a sizeable share of external debt is linked to the LIBOR—particularly the debt related to the railway project.

[7] Consistent with paragraph 22 of the Guidance Note on the Bank-Fund LIC DSA framework, the debt-service-to-revenue liquidity ratio is calculated as the ratio of total public sector interests and amortizations to central government revenues augmented by the net income that SOEs can use for debt service. Given that data limitations do not allow for a detailed cash flow analysis of SOEs, the net income that SOEs can use for debt service is assumed to be equal to the total debt service due by SOEs. This assumption may entail an under-estimation of SOEs' capacity to service debt, to the extent that they generate higher cash flows that could be used for debt service. However, while data on gross operating balances (a concept somewhat equivalent to the EBITDA) are available for most large SOEs, using those to estimate net income that SOEs can use for debt service would lead to a considerable over-estimation of SOEs' capacity to service debt. This is because these data do not account for the cash flows used by SOEs to self-finance large investment programs. In addition, aggregating these surpluses would entail considering that revenue from SOEs are fungible—i.e. that these are resources that can be used to service any debt—which is not the case.

C. Risk Rating and Vulnerabilities

25. Overall, this debt sustainability analysis indicates that Djibouti is at high risk of external and overall debt distress. This rating is unchanged compared to the 2016 DSA. It reflects the fact that a memorandum of understanding on the restructuring of the railway loan has been signed, and external arrears have been cleared (except for *de minimis* arrears). The restructuring has eased potential liquidity pressures over the next few years. However, under the baseline scenario, the PV of external debt-to-GDP ratio and the debt service-to-revenue ratio stand above their respective thresholds for prolonged periods of time. The DSA also shows that Djibouti's debt dynamics is particularly vulnerable to adverse contingent liabilities and overall public sector primary balance shocks.

26. Debt is considered sustainable, as the authorities are expected to be able to service their debt under current terms, but a multifaceted policy and reform approach is also important to further support debt sustainability. The authorities should implement a combination of policies aimed at reducing the scope for new borrowing, especially on non-concessional terms. Policies should include strict limits on guarantees and on-lending to contain contingent liabilities. These limits should be embedded in an explicit debt strategy that lays out high-level policy priorities and anchor macroeconomic management. The introduction of a ceiling on PPG debt would also help. Adopting a medium-term fiscal framework would support the authorities in targeting medium-term objectives that are consistent with debt sustainability. Reforms to reduce tax expenditure and enhance spending prioritization to generate fiscal space for poverty-reduction spending and debt reduction are also critical. Improving public investment management and efforts to raise returns on existing and new investments are also important to allow for additional resources to repay the debt. Strengthening the governance and oversight of state-owned enterprises is key both to control the accumulation of debt and improve the return on investments. In this context, the authorities should adopt a framework to identify, monitor and manage fiscal risks from contingent liabilities of SOEs. They should also prioritize strengthening debt and cash management to bring Djibouti's debt back to a sustainable trajectory and avoid the incurrence of arrears. Finally, accelerating reforms to improve the business climate and foster high private-sector led growth can contribute to re-establish debt sustainability.

D. Authorities' Views

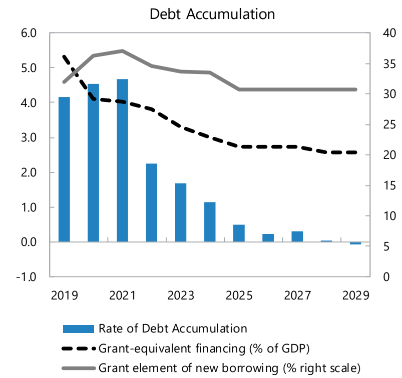
27. The authorities broadly agreed with staff assessment. They recognized the importance of reducing debt vulnerabilities and were broadly in agreement with staff's recommendations. The authorities expressed confidence about their capacity to service the debt contracted for various projects by mobilizing resources from the SOEs managing them. They highlighted that the restructuring of the railway project had contributed to ease pressures on the budget and were confident that the project would be able to rapidly generate the revenues necessary to service the related debt. They did not see the debt ceiling as an immediate priority, given the importance of strengthening inter-agency coordination first. While acknowledging that reducing debt and debt service is important, the authorities also felt that the DSA thresholds were overly conservative for a small economy with large investment needs, many of which relate to projects aimed at fostering regional integration, with large potential economic returns.

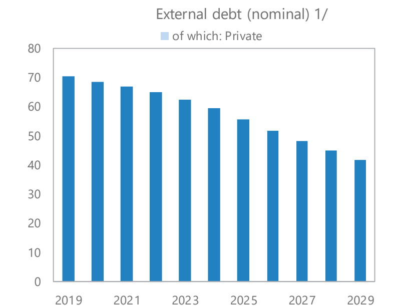
Table 3. Djibouti: External Debt Sustainability Framework, Baseline Scenario, 2016–2039

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 9/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
External debt (nominal) 1/	62.9	75.7	76.3	70.5	68.4	66.9	65.0	62.5	59.5	41.9	21.4	48.8	57.7
of which: public and publicly guaranteed (PPG)	62.9	70.5	71.4	70.5	68.4	66.9	65.0	62.5	59.5	41.9	21.4	47.8	59.3
Change in external debt	13.1	12.8	0.6	-5.9	-2.1	-1.5	-1.9	-2.5	-3.0	-3.1	-1.3		
Identified net debt-creating flows	-15.7	-9.2	-9.1	-11.0	-11.5	-11.9	-12.4	-12.9	-13.0	-11.9	-10.6	-13.7	-12.3
Non-interest current account deficit	-7.6	-1.1	-0.3	-0.9	-2.3	-2.9	-3.4	-4.0	-4.2	-3.4	-2.7	-4.9	-3.2
Deficit in balance of goods and services	1.4	5.2	5.4	5.7	3.9	3.0	2.2	1.2	0.6	0.6	0.6	1.3	1.9
Exports	44.3	47.9	47.8	46.7	46.1	45.6	44.5	43.3	42.3	42.3	42.3		
Imports	45.8	53.1	53.2	52.3	50.0	48.6	46.6	44.5	42.9	42.9	42.9		
Net current transfers (negative = inflow)	-2.3	-0.6	-1.1	-2.4	-1.8	-1.7	-1.6	-1.4	-1.3	-1.3	-1.3	-1.7	-1.6
of which: official	-1.9	-0.2	-0.9	-2.2	-1.2	-1.2	-1.1	-1.0	-0.9	-0.9	-0.9		
Other current account flows (negative = net inflow)	-6.7	-5.7	-4.5	-4.2	-4.5	-4.2	-4.0	-3.8	-3.4	-2.7	-2.0	-4.6	-3.6
Net FDI (negative = inflow)	-6.1	-6.0	-5.8	-7.0	-7.0	-7.0	-7.0	-7.0	-7.0	-7.0	-7.0	-6.3	-7.0
Endogenous debt dynamics 2/	-2.1	-2.1	-3.0	-3.1	-2.2	-2.0	-2.0	-1.9	-1.9	-1.4	-0.9		
Contribution from nominal interest rate	1.2	1.3	1.1	1.1	1.7	1.8	1.7	1.7	1.6	0.9	0.1		
Contribution from real GDP growth	-3.2	-3.0	-3.9	-4.2	-3.9	-3.8	-3.7	-3.6	-3.5	-2.3	-1.1		
Contribution from price and exchange rate changes	-0.1	-0.3	-0.1	...	...	...	...	...	...	...	...		
Residual 3/ 4/	28.8	22.0	9.7	5.1	9.5	10.4	10.5	10.3	10.0	8.8	9.3	17.1	9.1
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	53.1	52.8	53.1	53.4	51.5	49.2	46.5	32.5	17.8		
PV of PPG external debt-to-exports ratio	...	...	111.1	113.3	115.1	117.1	115.8	113.5	109.9	76.7	42.0		
PPG debt service-to-exports ratio	6.0	4.9	4.7	6.2	7.9	7.5	9.0	8.9	9.3	9.0	3.5		
PPG debt service-to-revenue ratio	11.6	10.1	10.2	13.1	16.6	16.2	18.8	18.7	19.5	19.5	7.5		
Gross external financing need (Million of U.S. dollars) 4/	-288.6	-130.8	-114.6	-157.7	-195.7	-239.3	-256.8	-308.2	-337.2	-454.9	-1128.1		
Key macroeconomic assumptions													
Real GDP growth (in percent)	6.9	5.1	5.5	6.0	6.0	6.0	6.0	6.0	6.0	5.5	5.0	5.5	6.0
GDP deflator in US dollar terms (change in percent)	0.1	0.6	0.1	2.2	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.2	2.0
Effective interest rate (percent) 5/	2.7	2.1	1.5	1.6	2.7	2.8	2.8	2.8	2.7	2.0	0.7	1.6	2.6
Growth of exports of G&S (US dollar terms, in percent)	1.6	14.2	5.4	5.7	6.8	7.0	5.4	5.3	5.7	7.6	7.1	4.7	6.0
Growth of imports of G&S (US dollar terms, in percent)	-13.2	22.7	5.7	6.6	3.3	5.1	3.6	3.3	4.3	7.6	7.1	4.5	4.4
Grant element of new public sector borrowing (in percent)	...	...	...	31.9	36.3	37.1	34.6	33.7	33.4	30.7	30.7	...	34.5
Government revenues (excluding grants, in percent of GDP)	22.7	23.2	21.9	22.3	21.8	21.0	21.3	20.6	20.2	19.5	19.5	21.7	21.2
Aid flows (in Million of US dollars) 6/	97.1	77.7	147.9	169.0	172.4	198.1	164.0	137.9	136.8	113.4	225.8		
Grant-equivalent financing (in percent of GDP) 7/	...	...	...	5.3	4.1	4.0	3.8	3.3	3.0	2.6	2.1	...	3.9
Grant-equivalent financing (in percent of external financing) 7/	...	...	...	55.4	55.8	55.0	51.8	52.5	52.7	55.3	67.0	...	53.9
Nominal GDP (Million of US dollars)	2,619	2,767	2,923	3,166	3,423	3,701	4,002	4,327	4,678	6,847	13,661		
Nominal dollar GDP growth	7.1	5.7	5.7	8.3	8.1	8.1	8.1	8.1	8.1	7.6	7.1	7.8	8.2
Memorandum items:													
PV of external debt 8/	...	...	58.0	52.8	53.1	53.4	51.5	49.2	46.5	32.5	17.8		
In percent of exports	...	...	121.4	113.3	115.1	117.1	115.8	113.5	109.9	76.7	42.0		
Total external debt service-to-exports ratio	6.0	4.9	4.7	6.2	7.9	7.5	9.0	8.9	9.3	9.0	3.5		
PV of PPG external debt (in Million of US dollars)			1552.0	1673.2	1816.5	1976.8	2059.8	2127.4	2177.3	2224.7	2429.7		
(PVt-PVt-1)/GDPt-1 (in percent)				4.1	4.5	4.7	2.2	1.7	1.2	-0.1	0.5		
Non-interest current account deficit that stabilizes debt ratio	-20.7	-13.9	-0.9	5.0	-0.3	-1.4	-1.5	-1.4	-1.2	-0.3	-1.4		

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	Yes





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections it also includes contribution from price and exchange rate changes.

4/ Residual debt-creating flows and large negative gross external financing need arise because of the large and systematically negative errors and omissions in the historical data of the balance of payment. Both the residual and gross external financing need remain substantial in projections reflecting the "Other investment" item of the balance of payment. The latter helps address the issue of error and omissions in the projection period, but is not accounted for in this table.

5/ Current-year interest payments divided by previous period debt stock.

6/ Defined as grants, concessional loans, and debt relief.

7/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

8/ Assumes that PV of private sector debt is equivalent to its face value.

9/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

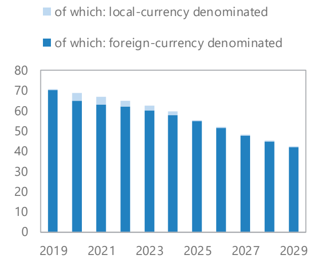
Table 4. Djibouti: Public Sector Debt Sustainability Framework, Baseline Scenario, 2016–2039

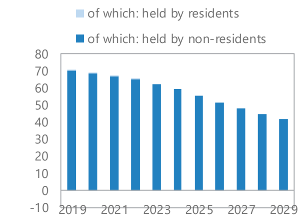
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
Public sector debt 1/	**63.9**	**71.2**	**72.2**	**70.9**	**68.6**	**66.9**	**65.0**	**62.5**	**59.5**	**41.9**	**21.4**	**48.0**	**59.4**
of which: external debt	**62.9**	**70.5**	**71.4**	**70.5**	**68.4**	**66.9**	**65.0**	**62.5**	**59.5**	**41.9**	**21.4**	**47.8**	**59.3**
Change in public sector debt	14.1	7.3	0.9	-1.2	-2.3	-1.7	-1.9	-2.6	-3.0	-3.1	-1.3		
Identified debt-creating flows	**14.1**	**7.4**	**1.0**	**-1.2**	**-2.3**	**-1.7**	**-2.0**	**-2.6**	**-3.1**	**-3.1**	**-1.3**	**2.0**	**-2.8**
Primary deficit	**16.1**	**9.5**	**3.7**	**3.1**	**1.3**	**1.7**	**1.4**	**0.6**	**0.1**	**-0.8**	**0.0**	**5.4**	**0.5**
Revenue and grants	25.9	25.1	25.3	25.6	24.0	23.1	23.2	22.3	21.9	21.1	21.1	**25.6**	**22.5**
of which: grants	3.2	1.8	3.4	3.3	2.3	2.1	1.9	1.8	1.7	1.7	1.7		
Primary (noninterest) expenditure	42.0	34.5	28.9	28.8	25.3	24.8	24.6	23.0	22.0	20.3	21.2	**31.0**	**23.1**
Automatic debt dynamics	**-2.1**	**-2.1**	**-2.7**	**-4.4**	**-3.6**	**-3.4**	**-3.4**	**-3.3**	**-3.2**	**-2.3**	**-1.4**		
Contribution from interest rate/growth differential	-2.5	-2.9	-4.1	-4.1	-3.6	-3.6	-3.6	-3.5	-2.5	-1.9	-1.1		
of which: contribution from average real interest rate	0.7	0.2	-0.4	0.0	0.4	0.2	0.2	0.2	1.0	0.5	0.0		
of which: contribution from real GDP growth	-3.2	-3.1	-3.7	-4.1	-4.0	-3.9	-3.8	-3.7	-3.5	-2.3	-1.1		
Contribution from real exchange rate depreciation	0.4	0.8	1.4	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.9**	**0.0**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**0.0**	**0.0**	**0.0**	**-0.3**	**0.0**	**0.3**	**0.3**	**0.3**	**-0.6**	**-0.5**	**-0.2**	**0.9**	**-0.2**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**53.8**	**53.3**	**53.3**	**53.4**	**51.5**	**49.2**	**46.5**	**32.5**	**17.8**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**213.0**	**208.0**	**221.5**	**231.1**	**221.9**	**220.0**	**212.5**	**153.7**	**84.1**		
Debt service-to-revenue and grants ratio 3/	**11.1**	**10.5**	**9.9**	**12.3**	**16.0**	**15.4**	**17.3**	**17.3**	**18.1**	**17.9**	**6.9**		
Gross financing need 4/	17.7	10.8	6.2	6.3	5.1	5.2	5.4	4.5	4.1	3.0	1.5		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	6.9	5.1	5.5	6.0	6.0	6.0	6.0	6.0	6.0	5.5	5.0	**5.5**	**5.9**
Average nominal interest rate on external debt (in percent)	2.7	2.1	1.6	1.7	2.7	2.8	2.8	2.8	2.7	2.0	0.7	**1.6**	**2.4**
Average real interest rate on domestic debt (in percent)	2.6	3.6	3.8	-0.3	-0.4	-1.3	-2.0	-2.0	-2.0	-2.0	-2.0	**-0.1**	**-1.6**
Real exchange rate depreciation (in percent, + indicates depreciation)	0.9	1.3	2.1	...	...	...	...	...	...	...	...	**-0.6**	**...**
Inflation rate (GDP deflator, in percent)	0.1	0.6	0.1	2.2	2.0	2.0	2.0	2.0	2.0	2.0	2.0	**2.2**	**2.0**
Growth of real primary spending (deflated by GDP deflator, in percent)	2.9	-13.7	-11.6	5.4	-6.7	3.8	5.1	-0.9	1.4	5.8	5.2	**4.9**	**2.3**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	2.1	2.2	2.7	4.4	3.6	3.4	3.3	3.2	3.1	2.3	1.4	**2.3**	**3.3**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**Yes**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central, state, and local governments, government-guaranteed debt. Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

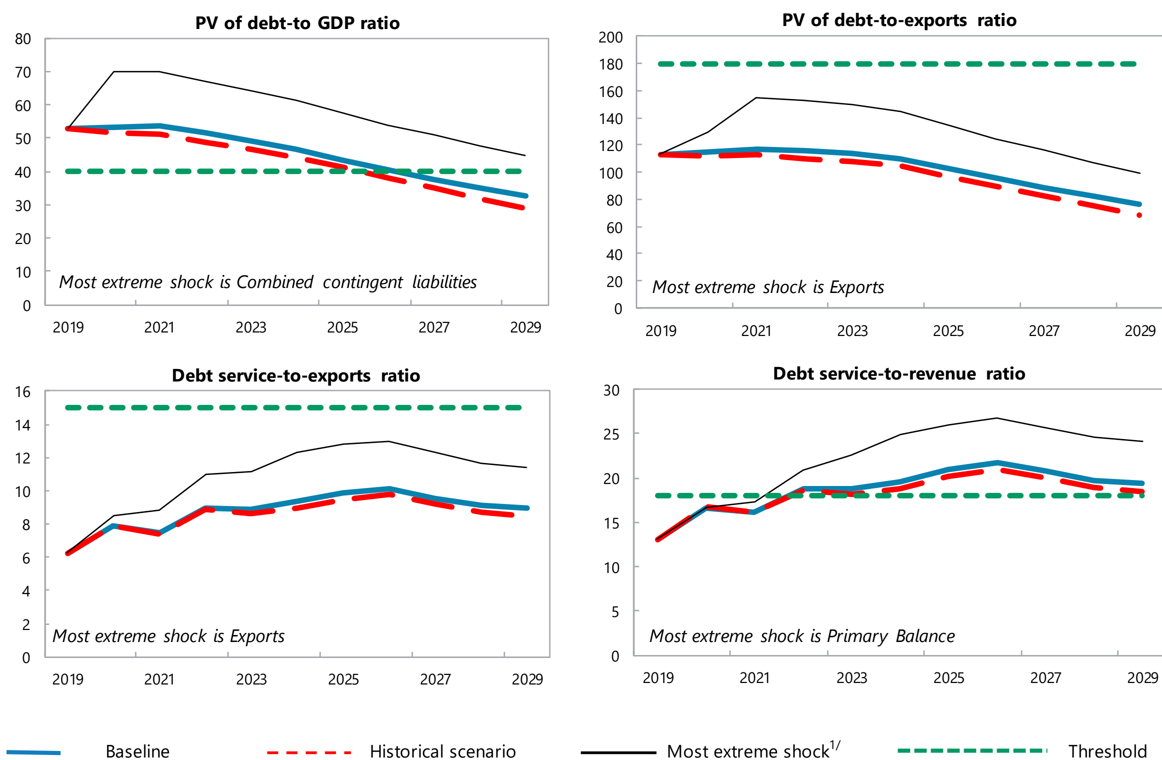
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Figure 1. Djibouti: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2019–2029



Customization of Default Settings		
	Size	**Interactions**
Tailored Tests		
Combined CLs	No	
Natural Disasters	n.a.	n.a.
Commodity Prices [2/]	n.a.	n.a.
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*		
	Default	**User defined**
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.4%	2.4%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	25	25
Avg. grace period	2	2

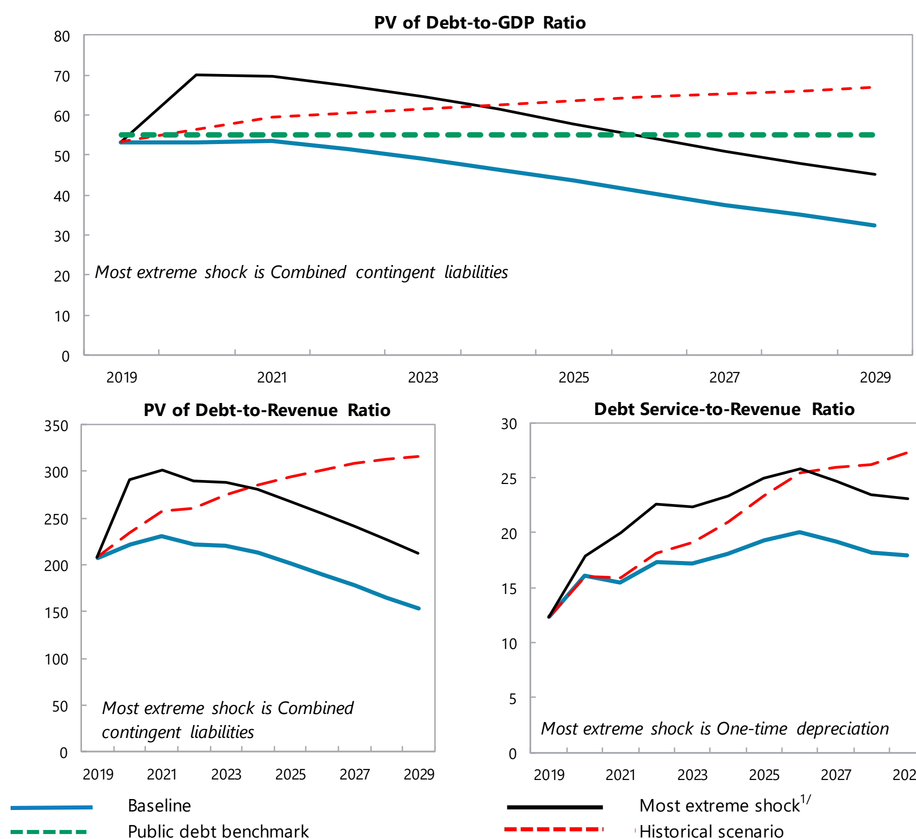
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Djibouti: Indicators of Public Debt Under Alternative Scenarios, 2019–2029



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	100%	100%
Domestic medium and long-term	0%	0%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.4%	2.4%
Avg. maturity (incl. grace period)	25	25
Avg. grace period	2	2
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.0%	0.0%
Avg. maturity (incl. grace period)	1	1
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	0%	0.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 5. Djibouti: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2019–2029

(In percent)

	Projections										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of debt-to GDP ratio											
Baseline	**52.8**	**53.1**	**53.4**	**51.5**	**49.2**	**46.5**	**43.5**	**40.4**	**37.7**	**35.0**	**32.5**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	52.8	51.7	51.2	48.8	46.6	44.2	41.1	37.9	34.9	31.8	28.8
B. Bound Tests											
B1. Real GDP growth	52.8	55.0	57.4	55.3	52.8	50.0	46.7	43.4	40.5	37.6	34.9
B2. Primary balance	52.8	61.0	68.6	66.2	63.2	59.9	56.3	52.6	49.2	46.1	43.1
B3. Exports	52.8	55.7	61.0	58.8	56.1	52.9	49.3	45.7	42.5	39.4	36.5
B4. Other flows 2/	52.8	57.7	62.4	60.1	57.3	54.0	50.3	46.6	43.3	40.1	37.1
B6. One-time 30 percent nominal depreciation	52.8	66.8	64.5	62.1	59.3	56.2	52.6	48.9	45.6	42.5	39.4
B6. Combination of B1-B5	52.8	61.5	64.7	62.3	59.4	56.0	52.2	48.5	45.1	41.8	38.7
C. Tailored Tests											
C1. Combined contingent liabilities	52.8	70.0	69.7	67.2	64.3	61.1	57.6	54.0	50.8	47.7	44.8
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**40**	**40**	**40**	**40**	**40**	**40**	**40**	**40**	**40**	**40**	**40**
PV of debt-to-exports ratio											
Baseline	**113.3**	**115.1**	**117.1**	**115.8**	**113.5**	**109.9**	**102.7**	**95.5**	**89.0**	**82.7**	**76.7**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	113.3	112.3	112.3	109.8	107.5	104.3	97.0	89.4	82.4	75.2	68.1
B. Bound Tests											
B1. Real GDP growth	113.3	115.1	117.1	115.8	113.5	109.9	102.7	95.5	89.0	82.7	76.7
B2. Primary balance	113.3	132.3	150.5	148.8	146.0	141.6	132.9	124.2	116.3	108.8	101.7
B3. Exports	113.3	129.9	154.7	152.9	149.8	144.5	134.7	124.9	116.1	107.7	99.7
B4. Other flows 2/	113.3	125.1	136.8	135.2	132.3	127.4	118.7	110.0	102.2	94.8	87.7
B6. One-time 30 percent nominal depreciation	113.3	115.1	112.3	111.0	108.8	105.4	98.6	91.8	85.6	79.6	73.9
B6. Combination of B1-B5	113.3	130.8	129.8	141.2	138.1	133.3	124.3	115.3	107.2	99.5	92.1
C. Tailored Tests											
C1. Combined contingent liabilities	113.3	151.8	152.9	151.1	148.5	144.4	136.0	127.6	119.9	112.7	105.8
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**180**	**180**	**180**	**180**	**180**	**180**	**180**	**180**	**180**	**180**	**180**
Debt service-to-exports ratio											
Baseline	**6.2**	**7.9**	**7.5**	**9.0**	**8.9**	**9.3**	**9.9**	**10.1**	**9.6**	**9.1**	**9.0**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	6.2	7.9	7.4	8.9	8.6	9.0	9.5	9.8	9.2	8.7	8.5
B. Bound Tests											
B1. Real GDP growth	6.2	7.9	7.5	9.0	8.9	9.3	9.9	10.1	9.6	9.1	9.0
B2. Primary balance	6.2	7.9	8.0	10.0	10.7	11.9	12.3	12.4	11.8	11.3	11.1
B3. Exports	6.2	8.5	8.9	11.0	11.2	12.3	12.8	13.0	12.3	11.6	11.4
B4. Other flows 2/	6.2	7.9	7.8	9.6	9.9	10.8	11.2	11.4	10.8	10.2	10.0
B6. One-time 30 percent nominal depreciation	6.2	7.9	7.5	8.8	8.7	9.0	9.5	9.8	9.3	8.8	8.7
B6. Combination of B1-B5	6.2	8.3	8.5	10.3	10.7	11.3	11.8	12.0	11.4	10.8	10.6
C. Tailored Tests											
C1. Combined contingent liabilities	6.2	7.9	8.5	10.0	9.9	10.3	10.8	11.0	10.4	9.9	9.7
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**15**	**15**	**15**	**15**	**15**	**15**	**15**	**15**	**15**	**15**	**15**
Debt service-to-revenue ratio											
Baseline	**13.1**	**16.6**	**16.2**	**18.8**	**18.7**	**19.5**	**20.9**	**21.7**	**20.8**	**19.7**	**19.5**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	13.1	16.7	16.1	18.6	18.2	18.8	20.1	21.0	20.1	18.9	18.4
B. Bound Tests											
B1. Real GDP growth	13.1	17.3	17.4	20.2	20.1	21.0	22.5	23.3	22.4	21.2	20.9
B2. Primary balance	13.1	16.6	17.3	20.8	22.5	24.9	26.0	26.7	25.7	24.5	24.1
B3. Exports	13.1	16.7	16.6	19.9	20.4	22.2	23.4	24.1	23.1	21.9	21.5
B4. Other flows 2/	13.1	16.6	16.8	20.0	20.9	22.7	23.9	24.5	23.4	22.2	21.8
B6. One-time 30 percent nominal depreciation	13.1	21.0	20.4	23.3	23.2	23.6	25.4	26.5	25.4	24.1	23.8
B6. Combination of B1-B5	13.1	17.8	18.4	21.4	22.4	23.5	24.9	25.7	24.6	23.3	22.9
C. Tailored Tests											
C1. Combined contingent liabilities	13.1	16.6	18.5	21.0	20.9	21.6	22.9	23.6	22.6	21.5	21.1
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**18**	**18**	**18**	**18**	**18**	**18**	**18**	**18**	**18**	**18**	**18**

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Includes official and private transfers and FDI.

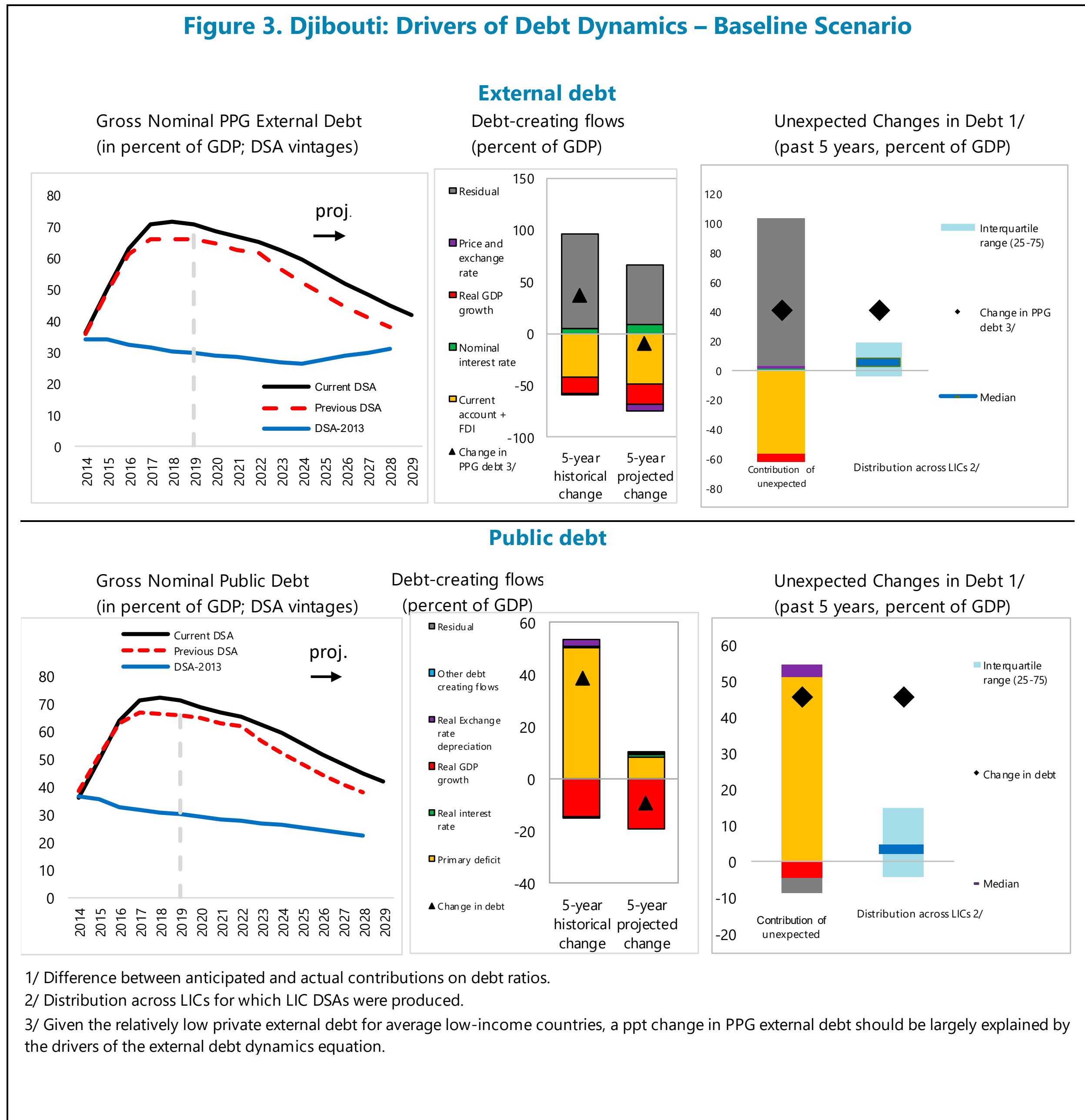
Table 6. Djibouti: Sensitivity Analysis for Key Indicators of Public Debt, 2019–2029
(In percent)

	Projections										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of Debt-to-GDP Ratio											
Baseline	**53.3**	**53.3**	**53.4**	**51.5**	**49.2**	**46.5**	**43.5**	**40.4**	**37.7**	**35.0**	**32.5**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	53.3	56.5	59.5	60.6	61.7	62.7	63.7	64.5	65.3	66.1	66.8
B. Bound Tests											
B1. Real GDP growth	53.3	55.8	59.2	58.4	57.0	55.2	52.9	50.4	48.2	46.2	44.2
B2. Primary balance	53.3	61.2	68.7	66.3	63.5	60.2	56.5	52.8	49.5	46.3	43.3
B3. Exports	53.3	55.8	60.7	58.5	55.8	52.6	49.0	45.5	42.2	39.2	36.3
B4. Other flows 2/	53.3	57.9	62.4	60.1	57.3	54.0	50.3	46.6	43.3	40.1	37.1
B6. One-time 30 percent nominal depreciation	53.3	68.3	66.5	62.0	57.5	53.0	48.2	43.5	39.2	35.2	31.4
B6. Combination of B1-B5	53.3	59.0	59.5	50.4	48.2	45.7	42.7	39.7	37.0	34.4	31.9
C. Tailored Tests											
C1. Combined contingent liabilities	53.3	70.2	69.8	67.3	64.5	61.4	57.9	54.3	51.0	48.0	45.0
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	**55.0**	**55.0**	**55.0**	**55.0**	**55.0**	**55.0**	**55.0**	**55.0**	**55.0**	**55.0**	**55.0**
PV of Debt-to-Revenue Ratio											
Baseline	**208.0**	**221.5**	**231.1**	**221.9**	**220.0**	**212.5**	**201.2**	**189.3**	**178.3**	**165.7**	**153.7**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	208.0	234.8	257.3	260.9	275.7	285.9	294.2	301.7	308.7	312.4	315.8
B. Bound Tests											
B1. Real GDP growth	208.0	231.3	254.6	250.1	253.5	250.6	243.1	234.6	226.9	217.1	207.8
B2. Primary balance	208.0	254.4	297.3	285.9	284.0	274.9	261.6	247.5	234.3	219.2	204.8
B3. Exports	208.0	231.9	262.4	252.0	249.6	240.1	226.8	212.8	200.0	185.4	171.6
B4. Other flows 2/	208.0	240.7	269.9	259.1	256.3	246.4	232.5	218.2	204.9	189.9	175.7
B6. One-time 30 percent nominal depreciation	208.0	286.4	289.6	269.0	259.1	243.4	224.5	205.0	186.8	167.7	149.5
B6. Combination of B1-B5	208.0	246.1	257.9	217.7	216.2	209.0	197.9	186.2	175.3	162.9	151.0
C. Tailored Tests											
C1. Combined contingent liabilities	208.0	291.8	301.9	290.3	288.8	280.4	267.7	254.2	241.6	227.0	213.1
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	**12.3**	**16.0**	**15.4**	**17.3**	**17.3**	**18.1**	**19.3**	**20.0**	**19.2**	**18.2**	**17.9**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 1/	12.3	16.1	15.9	18.1	19.2	21.0	23.4	25.4	25.9	26.2	27.3
B. Bound Tests											
B1. Real GDP growth	12.3	16.6	16.5	18.7	18.9	20.2	21.9	23.0	22.4	21.7	21.7
B2. Primary balance	12.3	16.0	16.4	19.2	20.7	23.0	24.0	24.6	23.7	22.6	22.2
B3. Exports	12.3	16.0	15.7	18.2	18.7	20.4	21.5	22.1	21.1	20.0	19.7
B4. Other flows 2/	12.3	16.0	16.0	18.4	19.3	20.9	22.0	22.6	21.6	20.5	20.1
B6. One-time 30 percent nominal depreciation	12.3	17.9	20.0	22.6	22.4	23.3	24.9	25.9	24.7	23.4	23.1
B6. Combination of B1-B5	12.3	15.6	15.2	17.0	17.0	17.8	19.0	19.7	18.9	17.9	17.7
C. Tailored Tests											
C1. Combined contingent liabilities	12.3	16.0	17.5	19.3	19.2	20.0	21.1	21.8	20.8	19.8	19.4
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

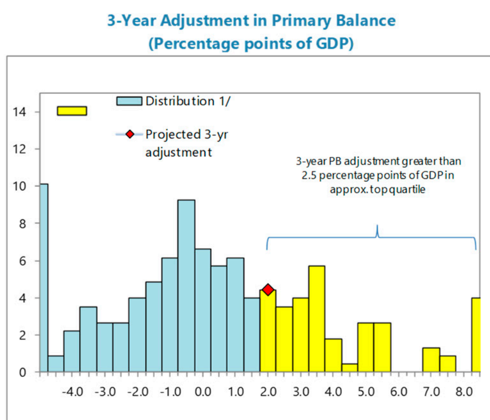
2/ Includes official and private transfers and FDI.



1/ Difference between anticipated and actual contributions on debt ratios.
2/ Distribution across LICs for which LIC DSAs were produced.
3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

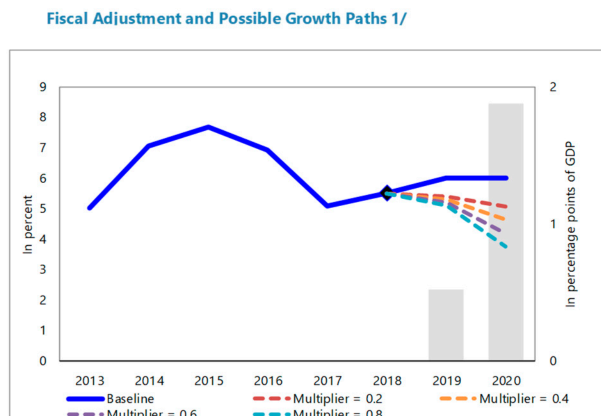
Figure 4. Djibouti: Realism Tools

3-Year Adjustment in Primary Balance (Percentage points of GDP)



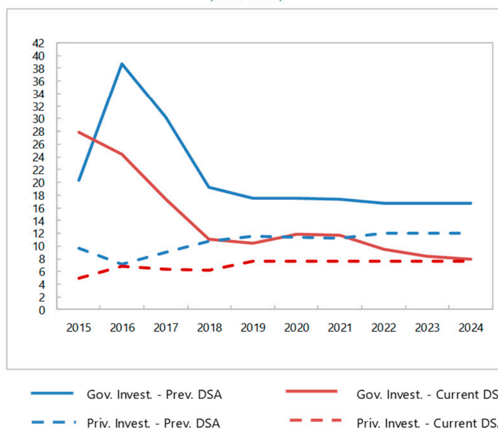
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates (% of GDP)



Contribution to Real GDP growth (percent, 5-year average)

INTERNATIONAL MONETARY FUND

DJIBOUTI

September 10, 2019

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

The Middle East and Central Asia Department
(in consultation with other departments and the World Bank)

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RELATIONS WITH THE FUND

(As of July, 2019)

Membership Status

Joined: December 29, 1978; Article VIII.

General Resources Account:

	SDR Million	Percent Quota
Quota	31.80	100.00
Fund holdings of currency	26.66	83.83
Reserve tranche position	5.15	16.21

SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	15.16	100.00
Holdings	1.38	9.11

Outstanding Purchases and Loans:

	SDR Million	Percent Quota
ECF Arrangements	8.97	28.21

Latest Financial Arrangements:

Type	Date of arrangement	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
ECF[1/]	Sep. 17, 2008	May 31, 2012	22.26	22.26
ECF[1/]	Oct. 18, 1999	Jan. 17, 2003	19.08	13.63
Stand-By	Apr. 15, 1996	Mar. 31, 1999	8.25	7.27

[1/]Formerly PRGF.

Projected Payments to the Fund[1/]

(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2019	2020	2021	2022	2023
Principal	1.25	3.38	3.09	1.25	
Charges/interest	0.07	0.14	0.14	0.14	0.14
Total	**1.32**	**3.52**	**3.23**	**1.39**	**0.14**

[1/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative: Not Applicable.

Implementation of Multilateral Debt Relief Initiative (MDRI): Not applicable

Implementation of Post-Catastrophe Debt Relief (PCDR): Not applicable

Safeguards Assessment

The most recent safeguards assessment of the Central Bank of Djibouti (CBD) was completed in 2012. The assessment recommended that the CBD: (i) strengthen independent oversight through a review of the legal framework and establishment of an audit committee; (ii) enhance transparency of its financial reporting practices by timely publication of the financial statements and adoption of International Financial Reporting Standard (IFRS); and (iii) establish an internal audit function to ensure the effectiveness of internal controls. The CBD has made progress in addressing these recommendations. In particular, the authorities have developed an internal audit function and created an audit committee and they have made efforts to publish audited financial statements.

Exchange arrangements

Djibouti has a currency board arrangement. The Djibouti franc is pegged to the U.S. dollar at the rate of DF 177.721 = US$1. Djibouti is an Article VIII member and maintains an exchange system that is free of restrictions on payments and transfers for current international transactions.

Article IV Consultation

On February 22, 2017, the Executive Board of the IMF concluded the 2016 Article IV consultation with Djibouti (IMF Country Report No. 17/87).

FSAP Participation

The FSAP, including the assessment of the AML-CFT framework, was approved by the Board in June 2009. A Financial System Stability Review (FSSR) is scheduled during FY2020.

Technical Assistance (past two years)

MCM- Improving Regulatory Framework	February 2017
STA- Multi-sector Statistical Assistance	April 2017
STA/MCM- Monetary and Financial Statistics/ Islamic Banking Supervision	May 2017
FAD- Budget Preparations and Diagnostic	May 2017
MCM- Improving Regulatory Framework	November 2017
FAD- Review of Tax Expenditure and Operations	December 2017
STA/METAC- National Accounts, Balance of Payments, and Trade Statistics	January 2018
STA- National Accounts and Prices Statistics	March 2018
MCM/STA- Improving Regulatory Framework and Financial Soundness Indicators	March 2018
FAD- Tax Policy	October 2018
STA- Balance of Payments Statistics	October 2018
MCM/METAC- Improving Regulatory Framework	November 2018
STA- Balance of Payments Statistics	April 2019

BANK-FUND COLLABORATION

Joint Management Action Plan, August 2019–December 2020 (As of June 10, 2019)			
Title	**Products**	**Approval date**	**Expected delivery**
A. Mutual Information on Relevant Work Program			
Bank work program for the next 18 months	**Economic policy analysis and advice** i. Advisory Services and Analytics (ASA) • TADAT • PEFA • MAPS • National Accounts	January 2017	July 2020
	ii. Development Policy Operation (budget support) • Telecom policy reform • Energy policy reform • Public Finance Management • Debt management • Procurement capacity	Late 2019-early 2020	December 2022
	Technical assistance i. Public Administration Modernization Project (IPF-TA) • Tax and Customs Modernization • E-government foundation and institutional building	July 2018	July 2022
	ii. Economic management and statistic (IPF-TA) • Macroeconomic forecasting tools • Fiscal policy (Budget planning, MTEF) • Debt management • Statistics	July 2021	2021
Title	**Products**	**Provisional schedule of missions**	**Expected delivery**
Fund work program for the next 18 months	**Macroeconomic policy analysis and advice** • Article IV consultation	Q3 2020	Nov 2020
	Technical assistance • Financial Sector Stability Review (FSSR)	Q3-Q4 2019	Q1 2020
	• Financial Supervision and Regulation	FY 2020	FY 2020
	• Statistics (NA, BOP, dissemination)	FY 2020	FY 2020
	• Tax Expenditure Reform	FY 2020	FY 2020
	• Public Financial Management (Budget Framework, SOEs)	FY 2020	FY 2020
	• Debt Management	FY 2020	FY 2020

B. Requests for Work Program Inputs			
Fund requests to Bank	• Periodic update on activities • Reports, macroeconomic and financial data to be shared regularly • Fund staff to participate in review of key analytical work	Ongoing	
Bank requests to Fund	• Periodic update on technical assistance activities • Macroeconomic and financial data to be shared regularly	Ongoing	
C. Agreement on Joint Products and Missions			
Joint products in the next 18 months	• Debt sustainability analysis	Q3 2020	Nov 2020

STATISTICAL ISSUES

General: Data provided to the Fund are broadly adequate for surveillance, but shortcomings remain. While progress has been made on national accounts, weaknesses in data sources continue to hamper their quality. Significant shortcomings remain on the balance of payments and, to a lesser extent, on external debt statistics. Fiscal data are reported with delays, and there are no aggregated data on the accounts of, and contingent liabilities from, public enterprises. Djibouti began participating in the General Data Dissemination System (GDDS) in February 2012.

National accounts: New national account statistics have been finalized for 2013–2017 and estimates are being prepared for 2018. These make use of new information from the ports and free trade zones, allowing for a better coverage of the economy. A population census was completed in 2009, followed by a household survey on social indicators and consumption expenditure in 2013. In 2016 the index and weight reference periods for the CPI were updated to 2013. Djibouti provides CPI data on a timely basis; however, it only covers the capital city. A new household survey has been completed in 2017.

External sector: The Central Bank of Djibouti has been improving its quality and coverage of balance of payments (BOP) statistics supported by IMF TA as part of a JSA-funded project. The general trade system has been recently adopted to compile trade in goods statistics. This change together with new data sourced from the ports and free trade zones becoming available to the statistical agency led to significant revisions in past current account balances. Efforts are required to finalize the BOP survey already underway, and to implement the BOP data validation committee. Staff capacity needs to be enhanced to continue improving the quality and timeliness of BOP statistics. Large errors and omissions illustrate the persistent challenges in the BOP.

Government finance: Fiscal data are available monthly, although with a substantial delay (about a 3-month lag). Foreign-financed capital expenditure is reported regularly. Additional efforts are needed to improve the compilation methods and coverage of fiscal data, and resume disseminating fiscal data publicly. A chart of accounts broadly aligned to the *GFSM* 2001 has been implemented since 2012 and has been used to produce the annual budget law. However, the TOFE (statement of operations)—used for fiscal planning, forecasting and reporting—remains aligned to the *GFSM 1986*. Coverage of fiscal data is limited to the institutional units of the budgetary central government and does not include extrabudgetary units, and social security funds. Coverage of debt liabilities is limited to central government, and central government guaranteed debt, and does not include the broader public-sector debt liabilities. No data is currently submitted for the IMF's annual GFS database and dissemination of fiscal statistics on the Ministry's website has lapsed.

Monetary accounts: Djibouti reports monetary and financial statistics (MFS) for the central bank and other depository corporations based on the standardized report forms (SRFs), in accordance with the Fund's *Monetary and Financial Statistics Manual and Compilation Guide* (MFSMCG). Djibouti reports some data and indicators to the Financial Access Survey (FAS), including the two indicators adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

Financial sector surveillance: Following a March 2018 TA mission, regular submission of Financial Soundness Indicators (FSIs) to the Fund started in May 2018. Djibouti reports all 12 core and 7 encouraged FSIs for deposit takers on a regular and timely basis.

Table of Common Indicators Required for Surveillance
(As of July 2019)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	n.a.	n.a.	n.a.	n.a.	n.a.
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	March, 2019	June, 2019	M	M	n.a.
Reserve/Base Money	March, 2019	June, 2019	M	M	M
Broad Money	March, 2019	June, 2019	M	M	M
Central Bank Balance Sheet	March, 2019	June, 2019	M	M	A
Consolidated Balance Sheet of the Banking System	March, 2019	June, 2019	M	M	A
Interest Rates[2]	June 2015	October 2015	M	M	A
Consumer Price Index	June 2019	July 30, 2019	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	n.a.	n.a.	n.a.	n.a.	n.a.
Revenue, Expenditure, Balance and Composition of Financing[3]– Budgetary Central Government	March 2019	March 2019	M	M	n.a.
Stocks of Central Government and Central Government-Guaranteed Debt[5]	July 2019	July 2019	M	M	n.a.
External Current Account Balance	December 2017	September 2018	A	A	A
Exports and Imports of Goods and Services	December 2017	September 2018	A	A	A
GDP/GNP	December 2015 [8]	October 2016	A	A	A
Gross External Debt	September 2016	October 2016	A	A	I
International Investment Position[6]	December 2017	September 2018	A	A	A

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (including budgetary entities, extra budgetary funds and social security funds), and state and local governments.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[7] Daily (D); Weekly (W); Monthly (M); Bi-monthly (B); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

[8] GDP data estimated by staff on the basis of partial data provided by the authorities.

Statement by Mohamed-Lemine Raghani, Executive Director for Djibouti and Abdulrahman Olhaye, Advisor to Executive Director
September 30, 2019

On behalf of our Djiboutian authorities, we would like to thank the Executive Board, Management and staff for their continued support to Djibouti's development endeavors. The authorities appreciate the constructive discussions held in Djibouti in the context of 2019 Article IV consultations. They broadly share staff's policy recommendations and remain determined to pursue needed structural reforms to fight poverty and reduce unemployment.

The authorities are implementing an ambitious development agenda to enhance intraregional interconnectedness and become a transport and logistics hub, taking advantage of Djibouti's geographical position. In this connection, the large infrastructure investment boom that took place in 2014–2017 has strengthened the country's logistic and transport capabilities. Moreover, with the launch of the *Djibouti International Free Trade Zone (DIFTZ)* that sits adjunct to the *Doraleh Multi- Purpose Port,* our authorities anticipate an acceleration in trade, investment and growth, in line with Djibouti's *Vision 2035*.

The 2019 Article IV consultation was an opportunity to take stock of Djibouti's macroeconomic situation and its development aspirations. The country also, greatly benefits from Fund technical assistance (TA) in number of areas which is instrumental to improving institutional and human capacities.

Recent Developments and Outlook

Since the last Article IV consultation, Djibouti's economic performance has continued to be sound. Real GDP growth stood at 5.1 percent in 2017 against an average of 7 percent per annum during the phase of large public investments of 2014–2017. With the resumption of Ethiopia's international trade through Djibouti, real GDP growth rebounded to 5.5 percent in 2018 in a low inflation environment of 0.1 percent. Looking ahead, the authorities anticipate real GDP growth of 7 percent this year and to remain between 7–8 percent in the medium-term notably on the back of the $4-billion gas pipeline, LNG plant and export terminal projects financed through foreign direct investments (FDI). The authorities also remain committed to implementing steadfastly their structural reform agenda to attract private investment and increase productivity.

The fiscal deficit fell sharply from 15.7 percent of GDP in 2015 to 2.5 percent of GDP in 2018 due mainly to the reduction in capital spending. Notwithstanding the limited fiscal space, the authorities have shown a strong will to stabilize the tax burden in the short term, and plan to raise it over the medium-term. They acknowledge that the scaling up in public investment expenditures between 2014 and 2017 to finance critical infrastructure projects, such as the Addis Ababa-Djibouti railway project, led to the accumulation of public

debt. The recent agreement to restructure the railway project loan with the principal creditor will significantly ease the debt service as rightly stated by staff. Going forward, there is an agreement with staff that public debt-financed investments should be curtailed, with a greater focus on projects financed by FDI and increase public-private partnerships (PPPs).

In the monetary area, the currency board continues to serve the economy of Djibouti well. Inflation remains low at 0.1 percent and external reserves are broadly adequate by covering 3.2 months of imports. Regarding the financial sector, banks are liquid and nonperforming loans (NPLs) have come down from 22.5 percent in 2016 to 18 percent in 2018. Private sector credit grew by 8.0 percent in 2018 and 10.7 percent in the first quarter of this year. Our authorities are also making progress in upgrading the banking regulatory and supervisory framework including through strengthened prudential regulations in accordance with Basel II/III. These include provisions to address corporate governance, enhance credit risk management, reduce foreign exchange exposure, and improve interbank risk management. The authorities are also advancing access to financial services through the elaboration of a national financial inclusion strategy, with the assistance of the United Nations Development Programme (UNDP).

Our authorities have made good advances in strengthening the anti-money laundering and combatting the financing of terrorism (AML/CFT) framework. Djibouti has recently become a full member of the Middle East and North Africa Financial Action Task Force (MENA-FATF). However, our authorities agree on the need for further efforts to reinforce the effectiveness of the AML/CFT framework and call for Fund TA in this area.

In line with Vision 2035, the authorities have improved the business environment, notably in the areas of business creation, access to finance and registration of properties. This progress is reflected in the large leap in Djibouti's ranking from 171st to 99th in the World Bank's Doing Business over the past two years. Building on these achievements, the authorities aim to reduce factor costs, crucial to spur small and medium-sized enterprises (SME) development and boost inclusive growth. In this context, they plan to create a conducive environment to liberalize the telecommunication sector.

Policy and Reform Agenda Going Forward

Djibouti's economic prospects remain favorable. However, the authorities are fully cognizant of the downside risks that threaten the outlook, notably related to debt overhang, regional geo-political tensions, escalating international trade disputes and a slowdown of growth in the main trading partners. To hedge against these risks, our authorities are determined to tackle debt vulnerabilities and preserve macroeconomic and financial stability while creating fiscal space for poverty-reducing spending and advancing structural reforms to strengthen governance and foster job creation.

Fiscal and Debt Policies

The authorities fully agreed with the staff on the need to raise domestic revenue mobilization. In this regard, they plan to enhance tax collection and tax administration. Moreover, the authorities appreciate the recommendations laid out in the Fund TA report on tax expenditures and reaffirm their commitment to broaden the tax base. On the spending side, the authorities will step up efforts to contain current expenditures and improve public spending efficiency while increasing social safety net, health and human capital outlays.

The government is determined to put debt-to-GDP ratio on a downward path through a multi-pronged approach and preserving debt sustainability. In this regard, they agree on the need to reduce the pace of borrowing and prioritize concessional financing and FDI. With Fund TA, they plan to strengthen debt management capacity. On the other hand, our authorities are of the view the large strategic investments undertaken in recent years will bear fruits and translate into higher regional trade and growth, which will contribute to further reducing the debt-to-GDP ratio and alleviate debt service burden over the medium term. In addition, they will endeavor to keep close oversight of public enterprise management and indebtedness.

Financial Sector

The authorities are resolved to reinforce financial sector stability. In this respect, they look forward to the Financial Sector Stability Review (FSSR) that will help elaborate a capacity building roadmap to tackle the financial vulnerabilities. The Central Bank of Djibouti (BCD) will build on recent progress made in alleviating pressures on correspondent banking relationships (CBRs)—including improving the AML/CFT framework, strengthening the Financial Intelligence Unit (FIU), and developing new banking relationships—to make additional strides in enhancing the financial sector resilience. The central bank will continue implementing the remaining recommendations under the safeguard assessment to buttress its governance and adopt international financial reporting standards.

Structural Reforms

Implementing appropriate structural reforms to achieve sustained and inclusive growth ranks high in the authorities’ agenda. The authorities aim to reduce the high cost of electricity and ICT services, which will contribute to stimulate private sector activities. In this vein, progress is being made in developing renewable energy to diversify the energy mix, reduce electricity costs, and ensure energy security. Furthermore, Djibouti, the landing point for several international fiber optics lines that facilitates end-to-end telecommunications across continents is also well placed to become a regional ICT hub.

Governance

The authorities are taking steps to address governance issues, in line with their national development strategy under Vision 2035. They will pursue their reform efforts to promote good governance and transparency in public processes and align the AML/CFT framework more closely with international standards. They are also working closely with the IMF, the World Bank and other partners to improve governance across several sectors, including enhancing governance related to SOEs, ameliorating public procurement practices and taking steps to create a Treasury Single Account (TSA).

Statistics and Capacity Building

Our authorities have undergone an intensive process to review their national accounts and balance of payments statistics. With the support of TA from both the IMF and the World Bank, the revised figures now incorporate the transshipment, logistics, freight forwarding and light manufacturing activities that take place in the ports and free trade zones. This first phase of revisions focused on the period 2013–2017 and resulted in significant upward revisions to nominal GDP. On this basis, the authorities are currently in the process of reviewing national accounts and balance of payments data extending back to 2008.

Djibouti continues to face significant capacity constraints that have often led to delays in policy and reform implementation. Given the country's ambitious development agenda, the authorities recognize the importance of enhancing human and institutional capacities to achieve their objectives. In this respect, the authorities would appreciate timely delivery of Fund and other partners' technical assistance.

Conclusion

Our Djiboutian authorities will continue to make progress in advancing their policy and reform agenda. To this end, they look forward to stronger engagement with the Fund.