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DJIBOUTI

May 2020

REQUESTS FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY AND DEBT RELIEF UNDER THE CATASTROPHE CONTAINMENT AND RELIEF TRUST—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR DJIBOUTI

In the context of the Requests for Disbursement Under the Rapid Credit Facility and Debt Relief Under the Catastrophe Containment and Relief Trust, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 8, 2020, following discussions that ended on April 18, 2020, with the officials of Djibouti on economic developments and policies underpinning the IMF arrangement under the Rapid Credit Facility. Based on information available at the time of these discussions, the staff report was completed on May 4, 2020.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Djibouti.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR 20/211

IMF Executive Board Approves a US$ 43.4 Million Disbursement to Djibouti Under the Rapid Credit Facility and Debt Relief Under the Catastrophe Containment and Relief Trust to Address the COVID-19 Pandemic

FOR IMMEDIATE RELEASE

- The IMF Executive Board approved a US$43.4 million loan to Djibouti to support the authorities' response to the COVID-19 crisis, as well as debt relief under the CCRT, which will generate additional resources of US$2.3 million over the next five months, and potentially up to US$8.2 million over the next 23 months.

- IMF support will provide additional resources for the essential health and other emergency spending, including social safety nets. It will also help catalyze additional donor support.

- The authorities are committed to use the additional IMF resources transparently and to ensure that expenditures are well-targeted and cost-effective.

Washington, DC – May 8, 2020 - The Executive Board of the International Monetary Fund (IMF) today approved a disbursement under the Rapid Credit Facility (RCF) equivalent to SDR 31.8 million (around US$43.4 million, 100 percent of Djibouti's quota) to help Djibouti meet the urgent balance of payment needs stemming from the COVID-19 pandemic. It also approved grants under the IMF's Catastrophe Containment and Relief Trust (CCRT) to cover Djibouti's debt service falling due to the IMF from today to October 13, 2020, the equivalent of SDR 1.692 million or US$2.3 million. Additional relief covering the period from October 14, 2020 to April 13, 2022 will be granted subject to the availability of resources in the CCRT, potentially bringing total relief on debt service to the equivalent of SDR 6.03 million; about US$8.2 million.

The COVID-19 pandemic has considerably weakened near-term macroeconomic prospects for Djibouti. The country is facing a large negative external demand shock due to the global recession. Domestically, virus prevention and containment measures are further affecting demand and supply. Output is projected to contract by 1 percent in 2020 and lower exports of services and foreign direct investment have opened up an urgent balance of payments financing need of the order of US$ 164 million. The pandemic has also created urgent spending needs, including in the health sector, and is set to affect negatively government revenue.

Following the Executive Board discussion. Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, made the following statement:

"The COVID-19 pandemic is having a severe impact on Djibouti, creating urgent balance of payments and fiscal financing needs. The authorities acted swiftly to contain and mitigate the spread and impact of the virus. Their prevention and containment measures and decisions to scale up health and other emergency spending to protect households and firms hit by the crisis will help limit economic and social consequences.

“The crisis and policy response will lead to a widening of the fiscal deficit this year. The IMF’s emergency financing under the RCF and debt service relief under the CCRT will provide much-needed liquidity to support the authorities’ response to the crisis and could catalyze further assistance from the international community, preferably in the form of grants. The authorities are committed to use the additional resources transparently and to ensure that expenditures are well-targeted and cost-effective.

“Once the crisis abates, temporary measures should be unwound, with policies refocusing on promoting a strong and inclusive recovery and preserving medium-term debt sustainability. It will be critical to address and prevent the recurrence of external arrears, ramp up operations of key projects, and reduce public sector borrowing. Reducing tax expenditures is also important to create space for poverty-reducing spending. Efforts to strengthen banks’ balance sheets, enhance the business environment, improve the governance and efficiency of public enterprises, and reduce production factor costs will be essential to foster strong and inclusive growth.”

More Information:

IMF Lending Tracker (emergency financing request approved by the IMF Executive Board)
https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker

IMF Executive Board calendar

https://www.imf.org/external/NP/SEC/bc/eng/index.aspx

INTERNATIONAL MONETARY FUND

DJIBOUTI

May 4, 2020

REQUESTS FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY AND DEBT RELIEF UNDER THE CATASTROPHE CONTAINMENT AND RELIEF TRUST

EXECUTIVE SUMMARY

Context. The COVID-19 pandemic has considerably weakened macroeconomic prospects for Djibouti. The country is facing a large negative external demand shock due to the global recession. Domestically, virus prevention and containment measures are affecting both demand and supply. Output is contracting, while lower exports of services and foreign direct investment have opened an urgent balance of payments need of the order of US$164 million (4.8 percent of GDP). The pandemic has also created urgent spending needs and is set to reduce government revenue.

Request for Fund support. To address the urgent balance of payments needs, the authorities have requested support under the Rapid Credit Facility's (RCF) exogenous shock window in the amount of 100 percent of quota (SDR 31.8 million), to be channeled to the budget to help finance pandemic-related health and other priority expenditure. They have also asked for debt relief under the Catastrophe Containment and Relief Trust (CCRT) for amounts falling due to the Fund in the 24-month period through April 13, 2022 (SDR 6.03 million), subject to resource availability. Staff supports these requests. The authorities are also seeking additional financing from other partners.

Outlook and risks. Medium-term economic prospects are encouraging, but there is considerable uncertainty around the baseline scenario. A more severe pandemic or a slower than expected resumption of global growth would likely have negative implications for growth and debt sustainability. Given the large balance of payments needs, a financing shortfall may result in larger drawdown in international reserves, and undesirable deeper spending cuts and weaker growth.

Policies. The immediate priority is to ramp up emergency spending to contain the virus and protect lives. Extra spending will also be needed to protect households and firms hit by the crisis, and a higher fiscal deficit should be accommodated this year. The authorities' planned ex-post audits of COVID-19 expenditure and enhanced procurement disclosures will promote the effective use of public resources. Temporary measures should be unwound once the virus is contained, with policies refocusing on promoting a strong and inclusive recovery and preserving debt sustainability. This would require addressing and preventing a recurrence of external arrears, ramping up operations of key projects, and reducing public sector borrowing, as well as efforts to strengthen bank's balance sheets, enhance the business environment, improve the governance and efficiency of public enterprises, and reduce production costs.

Approved By
Taline Koranchelian (MCD) and Gavin Gray (SPR)

The staff team comprised Stéphane Roudet (Head), Bénédicte Baduel and Sidra Rehman (all MCD). Discussions with Minister of Economics and Finance Dawaleh, Minister of Budget Cher, Central Bank Governor Ahmed and other senior officials were held remotely during April 16-18, 2020. Abdulrahman Olhaye (OED) also participated in the meetings. Research assistance was provided by Jiawei Li. The team also benefited from editorial support by Maria de Mesa.

CONTENTS

CONTEXT

1. Djibouti's macroeconomic performance and outlook have until recently been broadly favorable.[1] As a regional trade and logistics hub, the country benefitted from a recovery in Ethiopia's trade flows last year. Real GDP is estimated to have grown by about 7½ percent; the underlying current account balance (excluding trade flows related to re-export activities) continued to improve (Text Table 1); and international reserves increased by close to US$50 million, bringing the reserve coverage to 3.6 months of imports (excluding reexports-related imports). These trends were expected to continue in 2020. Fiscal and debt metrics have also been improving: the overall deficit declined to about ¾ percent of GDP in 2019, and total public and publicly guaranteed external debt dropped for the second year in a row (to about 66 percent of GDP). The understanding reached last year with China's Exim bank on the restructuring of the railway loan helped ease short-term debt service constraints. Despite some progress in strengthening banks' balance sheets in recent years and a capital adequacy ratio of 15.7 percent at end-2019, nonperforming loans (NPLs) still accounted for about 16.3 percent of bank loans, highlighting underlying vulnerabilities.

Text Table 1. Djibouti: Selected Economic and Financial Indicators, 2015–23

	Average		Est.			Proj.	
	2015-17	2018	2019	2020	2021	2022	2023
Real GDP (percent change)	6.6	8.4	7.5	-1.0	10.0	8.0	6.5
Overall fiscal balance (commitment basis, in percent of GDP)	-9.4	-2.8	-0.8	-4.5	-1.3	-2.3	-2.5
Current account balance (in percent of GDP)	7.8	18.0	26.3	-3.6	-0.3	0.7	1.5
Underlying current account balance (in percent of GDP) 1/	1.9	2.6	3.1	-3.6	-0.3	0.7	1.5
External public and publicly guaranteed debt (in percent of GDP)	61.4	69.2	66.0	72.9	67.1	64.7	62.8
Gross official reserves (Million USD)	436.6	445.2	493.8	453.8	483.8	513.8	543.8
(In months of next year's imports of goods and services, excl. re-exports)	3.5	3.1	3.6	3.1	3.2	3.2	3.2

Sources: Djibouti authorities; and IMF staff estimates and projections.
1/ Excludes exports and imports for re-exports.

IMPACT OF COVID-19

2. The COVID-19 pandemic has significantly altered Djibouti's near-term economic prospects and has given rise to an urgent balance of payments need. The shock is operating through the following main channels:

- *Loss of output due to demand and supply shocks.* The rapid growth in trade and logistics activities in recent years, underpinned by large investments in ports and transport infrastructure, has made the country more dependent on global and regional trade developments. The global recession therefore entails a large negative external demand shock for Djibouti. In addition, virus prevention and containment measures are affecting both domestic demand and supply.[2] Assuming that, in Djibouti and most other countries, these measures have the greatest impact

[1] See also IMF Country Report 19/314 for a recent analysis of Djibouti's economic developments and policies.

[2] As of April 30, 2020, 1089 confirmed COVID-19 cases had been reported in Djibouti.

- during the second quarter and activity recovers thereafter, 2020 real GDP growth is expected to fall to -1 percent, 8 percentage points below the pre-shock baseline, and 2½ percentage points below the growth rate experienced during the global financial crisis. The social consequences of the crisis are also likely to be acute given Djibouti's high poverty rate, large informal sector, and tradition of hosting and caring for sizeable refugee and migrant populations.

- *Fiscal pressures.* Additional health and other priority expenditures of about 2.4 percent of GDP will be necessary this year to address the pandemic and its economic and social consequences. The shocks are also projected to reduce government revenue in 2020, by about 0.9 percent of GDP (Text Table 2).

- *Balance of payments financing need.* Lower external demand for Djibouti's trade and logistics services and a near-cessation of travel and tourism are expected to reduce the current account balance by about 4.2 percent of GDP compared to the pre-pandemic baseline. Foreign direct investment (FDI) is also projected to drop by 40 percent (Text Table 3). The resulting balance of payments financing need consistent with maintaining an adequate international reserve coverage of 3.1 months of prospective imports (excluding re-export related flows) is assessed to be some US$ 164 million (4.8 percent of GDP).[3]

Text Table 2. Djibouti: Central Government Finances, 2019–20

(In percent of GDP)

	2019	2020		Diff.
	Est.	Pre-shock	Proj.	
Revenues and grants 1/	21.7	19.5	18.6	-0.9
Tax revenue	12.0	11.6	10.6	-1.0
Non tax revenue	6.4	6.2	6.3	0.1
Current expenditure 2/	15.5	14.6	14.9	0.3
Capital expenditure	7.1	6.7	5.8	-0.9
Covid-19 related spending	...	0.0	2.4	2.4
Overall fiscal balance (commitment	-0.8	-1.8	-4.5	-2.7

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

1/ Tax revenues are the most affected (-1 percent of GDP). Non tax revenue is resilient in nominal terms (supported by foreign non tax revenues—rents from the foreign military bases—that are unaffected) and contribute positively by 0.1 percent of GDP.

2/ Current spending, mostly rigid, increases by 0.3 percent of GDP with the shock due to a lower nominal GDP.

Text Table 3. Djibouti: Balance of Payments Financing, 2019–20

(In millions of USD)

	2019	2020		Diff.
	Est.	Pre-shock	Proj.	
Current account balance 1/	878	19	-124	-142
Of which: Exports of good and services	5437	5818	4369	-1449
Of which: Imports of good and services	4685	5856	4550	-1306
FDI	187	220	130	-90
Other (Net) 2/	...	-239	-170	68
Financing Need 3/			164	
IMF RCF disbursment			43.3	
CCRT			3.2	
Unidentified support			118	

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

1/ The large drop in net exports between 2019 and 2020 under the pre-shock scenario is mainly driven by the balance of trade for reexports. The shock is projected to have an impact on both re-exports activities and the underlying current account.

2/ Covers all balance of payment flows with the exception of current account and FDI.

3/ Financing needed after accounting for the Central Bank's NFA variations and repayment of arrears.

[3] Based on the reserve adequacy framework for LICs, the optimal level of foreign reserves, which compares the marginal benefits and costs of holding reserves with that of spending them, indicates a benchmark of 3.1 months of imports. This is slightly lower than the 3.4 months of imports estimated at the time of the 2019 Article IV Consultation, reflecting a higher opportunity cost of holding reserves amid lower global real interest rates.

ECONOMIC PROSPECTS AND RISKS

3. **Medium-term macroeconomic prospects remain encouraging.** The impact of the shock is expected to be temporary. Assuming policy responses start bearing fruit across the world, Ethiopia's trade picks up, and containment efforts in Djibouti are gradually unwound in the second half of this year, a strong recovery could be expected in 2021, with real GDP growth reaching 10 percent, while both the external and fiscal positions would improve significantly.

4. **There is considerable uncertainty around the baseline scenario and the impact of the COVID-19 pandemic on the economy could be worse.** A more severe pandemic, with disruptions to global activity lasting longer or more acute than currently envisaged would have negative spillovers on Djibouti, with negative implications for growth and debt sustainability. Domestically, a more acute epidemic amidst high poverty and weak health system capacity, could also entail additional economic costs, including lower growth, weaker government revenue and higher health spending needs. Given the estimated size of the balance of payments and fiscal needs, a financing shortfall would have significant impact on economic and social outcomes and could lead to a debt distress situation. Many of the risks already identified at the time of the last Article IV consultation also remain (Annex I).

ECONOMIC POLICIES

Discussions with the authorities focused on immediate measures to fight the pandemic, alleviate its economic and social consequences, and address the urgent balance of payments need. Once the crisis abates, the authorities are also committed to policies that will strengthen debt sustainability and reforms that foster a strong and sustainable recovery and better social outcomes.

5. **The government's response to the pandemic has been swift.** To prevent the spread of the virus, the government has taken early steps to impose border restrictions, including by interrupting all passenger flights and trains and by suspending visa issuance. Social distancing measures such as closure of schools, cancelation of public gatherings, and confinement of non-essential employees were also taken. These measures have been supported by an active communication campaign to sensitize the population. The Ministry of Health and its partners have increased their preparedness by building surveillance, testing, quarantine and health worker capacity. They have coordinated closely with the World Health Organization—with the latter providing protective and medical equipment, including tests and respirators—and other partners.

6. **Against the backdrop of the currency board, the balance of payments shock will mainly be accommodated through higher financing.** Consistent with the analysis provided in the context of the last Article IV, staff and the authorities saw Djibouti's exchange rate arrangement as appropriate. Given the comfortable build-up in reserves last year, part of these can be used to absorb part of the COVID-19 shock while maintaining the reserves coverage at 3.1 months of imports. The authorities are engaging with development partners to seek support to finance the

residual $118 million (3.5 percent of GDP) balance of payments need. The World Bank is considering their request for emergency budget support. The authorities have also noted their intention to request a debt service suspension from bilateral creditors in the context of the G20-sponsored initiative. They are committed to using the associated fiscal space for COVID-19-related spending and disclosing fully their public sector debt situation. The government has also taken steps to re-prioritize some spending to alleviate the impact of the shock (see below). A financing shortfall may, however, require a larger drawdown in international reserves as well as undesirable deeper cuts to non-COVID-19 spending and reprioritization of government outlays away from nonessential spending.

7. **Accommodating a higher fiscal deficit in 2020 is critical to fight against COVID-19.** The government's policy response has been to scale up healthcare and other emergency spending and to support families and firms affected by the outbreak (2.4 percent of GDP; see text table). Additional spending is primarily channeled through existing programs. Together with the fall in tax and non-tax revenue (0.9 percent of GDP), and notwithstanding efforts to re-prioritize spending—some 0.9 percent of GDP in capital spending have been cut compared to the initial budget—the fiscal deficit is set to reach 4.5 percent of GDP this year. This increase is critical to help mitigate economic and social consequences of the pandemic. The authorities are committed to ensure that these additional expenditures are well-targeted and cost-effective. They are using a combination of social registry data and community targeting to identify beneficiaries and are engaging with METAC technical assistance experts on designing cash transfers.

Text Table 4. Covid-19 related expenditures
(In billions DJF and percent of GDP)

	(bn of DJF)	Percent of GDP)
Health related expenditures:	**5**	**0.8**
COVID-19 related expenditures (medical supplies and wages in health	5	0.8
Support to Firms:	**3.5**	**0.6**
Increase the resources of the SMEs Guarantee Fund	1.5	0.2
Support to very small entreprises (incl. informal sector)	2	0.3
Support to households:	**4**	**0.7**
Support to covid-related unemployed to re-enter the labor market	2	0.3
Food distribution to poor households	2	0.3
Other:	**2.2**	**0.4**
Food strategic stock	2	0.3
Update poverty mapping	0.2	0.0
Total	**14.7**	**2.4**

8. **The authorities are also committed to use the resources dedicated to fight the impact of the pandemic in a transparent manner and in line with best budget practices.** Notably, they will clearly outline these measures in a supplementary budget expected to be submitted to Parliament in a few weeks. The authorities also committed to undertake an ex-post audit of COVID-19 expenditure and to subject them to enhanced public disclosure, including by publishing large procurement contracts and the beneficial ownership of selected firms (see attached Letter of Intent).

9. **Djibouti is at high risk of debt distress, but its debt is sustainable, provided that additional financing is available to close the urgent balance of payments need and the authorities sustain their efforts to enhance returns on infrastructure projects.** The updated joint IMF-World Bank Debt Sustainability Analysis (DSA; see accompanying document) shows that the present value (PV) of the external debt-to-GDP ratio breaches its threshold during 2020–26 and the debt service-to-revenue ratio increases and largely stays above its threshold from 2022 onward. This indicates a high risk of debt distress, and financial support in the form of grants would

therefore be preferable. Provided additional financing is available to address the urgent balance of payments need, the authorities are expected to be able to service their debt under current terms. Debt is therefore assessed as sustainable. This assessment takes into consideration the understanding reached with Exim Bank of China in 2019 to restructure the railway loan and accumulated arrears, which is expected to be finalized soon. It also hinges upon implementation of a range of fiscal and debt management reforms to underpin debt sustainability— including efforts to address and prevent the recurrence of external arrears.

10. The authorities reaffirmed their commitment to policies aimed at strengthening debt sustainability while creating space for poverty-reducing spending. A multifaceted approach is 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 that reduce the pace of borrowing—which should be facilitated by the projected rapid improvement in fiscal accounts starting in 2021—and prioritize concessional financing and foreign direct investment (FDI) for projects is needed.[4] Reforms to develop a medium-term fiscal framework and strengthen public investment management, and debt management capacity are also important. Strengthening SOEs oversight is also critical in this respect. The authorities have recently created a Sovereign Wealth Fund that will manage some of the government assets, including SOEs. They are committed to do so under best international governance practices and while ringfencing budget resources. The authorities are also committed to design a strategy to increase domestic revenue mobilization and create space for poverty-reducing outlays, notably by reducing tax exemptions and streamlining special regimes. IMF and World Bank technical assistance covering many of these areas will resume as soon as possible.

11. The authorities are committed to promptly resolve their outstanding external arrears. As of end-March 2020, Djibouti had an outstanding stock of arrears to bilateral creditors of the order of 3.3 percent of GDP. Part of these have been accumulated—and will be restructured—pending finalization of the railway loan restructuring with Exim Bank of China. The authorities have indicated that the remaining arrears reflect delays in finalizing conversions and cancellation agreements and arrears of a technical nature or reflecting diplomatic disagreements. They have committed to engage with their creditors to address these expeditiously. They are also taking steps to strengthen cash management, including with the support of IMF technical assistance, to prevent recurrence of arrears. In these exceptional circumstances and given the authorities' intention to make a request for debt service suspension under the G20-sponsored initiative, the RCF is expected to rapidly advance the normalization of relations with creditors by the time of any successor IMF arrangement. Against this backdrop, arrears to G20 and Paris Club creditors are deemed away for the purpose of the IMF's lending into arrears policy. With this group of creditors accounting for the bulk of the arrears, the creditor grouping is deemed representative. The authorities have a credible

[4] Indeed, the G20-sponsored debt service suspension initiative entails a commitment not to undertake non-concessional borrowing during the suspension period unless agreed with the relevant G20 countries.

plan to clear arrears to three organizations and intend to contact these creditors to seek financial assistance.

12. Financial sector policy discussions focused on steps that maintain the balance between preserving financial stability and sustaining economic activity. Staff welcomed the guidance issued to banks and the steps taken by the central bank of Djibouti (CBD) to ensure business continuity. In a pandemic environment, banks could face loan repayment difficulties. Staff and the authorities agreed that the CBD should go along with prudent renegotiation of loan terms for impacted borrowers without lowering loan classification and provisioning standards. Banks' capital and liquidity buffers should be used to absorb potential credit losses and the liquidity squeeze. Some flexibility could be used on the timing of bringing capital ratios above the minimum required once these buffers are exhausted. The CBD has committed to reinforce its monitoring of banks' liquidity risks and encourage banks to strengthen their liquidity risk controls and management practices. As the crisis abates, it will be important to strengthen banks' balance sheets and to put in place a CBD strategic plan and associated resource mapping exercise, as recommended by the recent Financial Sector Stability Review. Such a plan would set a longer-term financial sector reform vision (including to bolster the central bank governance and supervisory capacity).

13. Although the most pressing priority is to fight the pandemic, the authorities should not lose sight of reforms aimed at fostering higher and inclusive growth. Addressing impediments to private sector investment and improving external competitiveness will be important to encourage a strong recovery once the pandemic abates. 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. 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.

MODALITIES OF SUPPORT

14. Staff supports the authorities' request for assistance under the RCF in the amount of SDR 31.8 million (100 percent of quota). Djibouti faces an urgent BOP need, which, if not addressed, would result in immediate and severe economic and social disruptions. Without IMF financing (which would represent about ¼ of the estimated financing gap) and support from other donors (which could in part be catalyzed by the RCF disbursement), international reserves would fall to about 2 months of prospective imports. The emerging fiscal financing gap would prevent an adequate response to the COVID-19. Under staff's baseline, the balance of payments' difficulties are expected to be resolved within the next 12 months without major policy adjustments. Should the magnitude of the shocks faced by the economy be more pronounced or last longer, an upper-credit tranche arrangement may become necessary to support policies to achieve the necessary adjustment and catalyze additional donor support.

15. Staff also supports Djibouti's request for debt relief under the CCRT's catastrophe containment window. The country meets the income threshold with GNI per capita of US$2,180, below the small states' threshold of US$2,350. It also faces exceptional BOP needs stemming from the impact of COVID-19 and is pursuing appropriate macroeconomic policies to address the disaster. Djibouti has debt service of SDR 1.7 million falling due in the initial period of debt service relief from April 14 to October 13, 2020 (Table 7). The debt service falling due in the 24 months from April 14, 2020 (the maximum potential period of debt service relief, subject to availability of resources and decisions of the Executive Board) amounts to SDR 6.03 million. Subject to resource availability, staff supports the authorities' request for debt service relief for amounts falling due to the Fund for the 5-month period starting May 8, 2020 up to October 13, 2020.

16. Capacity to repay the Fund under the proposed access is adequate albeit subject to risks (Table 6). Notwithstanding the risks to economic prospects and debt sustainability noted above, outstanding Fund credit would peak at 11 percent of gross international reserves and 3.4 percent of exports of goods and services (excluding re-exports). Based on Djibouti's track record of economic policies and relations with the Fund, staff is confident that the authorities will cooperate with the Fund and pursue economic policies appropriate for addressing the impact of the virus.

17. The last safeguards assessment of the Central Bank of Djibouti (CBD) was in 2012. Recommendations to create an internal audit function and to adopt International Financial Reporting Standards (IFRS) have seen limited progress, but annual financial statements are now published on the CBD's website. The authorities have committed to undergo a safeguards assessment, which would need to be completed before Executive Board approval of any subsequent arrangement, and to provide Fund staff with the necessary central bank audit reports and authorize the external auditors of the central bank to hold discussions with staff.

18. The RCF funds will be disbursed to the central bank and on-lent to the government to provide space for virus-related spending. The central bank cannot, in light of the currency board, directly lend to the government; nor can it inject liquidity into domestic financial sector to provide the necessary budget financing. Against this backdrop, the authorities have made a commitment to establish a framework agreement between the central bank and the government on responsibilities for servicing financial obligations related to the RCF disbursement. A memorandum of understanding between the CBD and the Ministry of Budget will be signed to : (i) commit to maintaining the funds received from the IMF in a government account at the central bank, pending their use, (ii) require the government to hold foreign exchange balances only with the CBD, and (iii) clarify the responsibilities for repaying Fund resources.

STAFF APPRAISAL

19. The COVID-19 pandemic has considerably weakened Djibouti's economic prospects and created an urgent balance of payments need. The country is facing large negative demand and supply shocks. As a result, output growth is projected to dwindle this year and lower exports of services and foreign direct investment have created an urgent balance of payments financing need in the order of US$ 164 million. The pandemic has also created urgent spending needs and is set to affect government revenue, entailing significant budgetary pressures. While staff's baseline assumes that the impact of the pandemic will peak during the second quarter of 2020 and the economic situation will improve markedly in 2021, there are significant downside risks to this scenario, including a longer duration or depth of virus-related domestic economic disruptions as well as prolonged or more acute spillovers from the global economic and financial turmoil.

20. The authorities acted swiftly to contain and mitigate the spread and impact of the virus. The authorities' strong virus prevention and containment measures and decisions to scale up emergency spending will help mitigate economic and social consequences. Additional financing and some spending reprioritization will allow the government to accommodate a higher fiscal deficit this year. The authorities' commitments to undertake ex-post audits of COVID-19 expenditure and enhanced disclosure on procurement decisions will promote the effective use of public resources and help lower governance risks. Staff also supports the measures taken by the CBD to ensure business continuity in the financial sector. As banks' buffers are used to absorb potential credit losses and tighter liquidity, some flexibility on the timing for bringing capital and liquidity above minimum requirements could be envisaged.

21. Medium-term economic prospects are encouraging, but there is considerable uncertainty around the baseline scenario. Staff is projecting a strong recovery in 2021. However, a more severe pandemic or a more sluggish resumption of global activity would likely have negative implications for growth and debt sustainability. Given the large balance of payments needs, a financing shortfall may require a larger drawdown in international reserves and undesirable deeper spending cuts and worsen the outlook. Given the high risk of debt distress, financial support in the form of grants would be desirable.

22. As the impact of the pandemic eases, the authorities' commitment to preserve debt sustainability and foster an environment conducive to a strong and sustainable recovery will be critical. Given the high risk of debt distress, policies will need to refocus on preserving medium-term debt sustainability. The authorities' commitments to address external arrears, ramp up operations of key projects and reduce public sector borrowing, underpinned by reforms to develop a medium-term fiscal framework and strengthen public investment and debt management, are critical to the assessment that debt is sustainable, and following up on these will be essential. Addressing the large tax exemptions and special tax regimes will also be important to reduce debt while creating space for poverty-reducing spending. Redoubled efforts to strengthen banks' balance sheets, enhance the business environment, improve the governance and efficiency of public enterprises, promote competition, and reduce the costs of production factors—especially labor, electricity and telecommunications—will be of the essence to foster a strong and sustainable recovery.

23. Staff supports the authorities' request for a disbursement under the RCF and debt relief under the CCRT. While Djibouti's risk of debt distress remains high, the country's debt is assessed as sustainable and capacity to repay the Fund is adequate. Staff also assesses that Djibouti faces exceptional BOP needs stemming from the impact of COVID-19, and is pursuing appropriate macroeconomic policies to address the disaster. Staff also supports the request that the RCF disbursement be channeled to the budget to help finance pandemic-related health and other priority expenditure.

Table 1. Djibouti: Selected Economic and Financial Indicators, 2015–2025

					Est.			Proj.			
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
National accounts					(Annual percentage change)						
Real GDP	7.7	6.7	5.4	8.4	7.5	-1.0	10.0	8.0	6.5	6.0	6.0
Consumer prices (annual average)	-0.8	2.7	0.6	0.1	3.3	2.9	2.8	2.0	2.0	2.0	2.0
Consumer prices (end of period)	-1.6	2.4	-0.8	2.0	3.3	3.5	2.0	2.0	2.0	2.0	2.0
Saving and investment					(In percent of GDP)						
Fixed capital investment	33.4	30.1	23.0	16.1	15.4	14.2	14.5	15.1	14.9	13.7	12.8
Non-government	7.9	15.3	12.5	7.3	8.3	8.4	8.8	8.4	8.2	7.8	7.7
Central government	25.5	14.8	10.5	8.8	7.1	5.8	5.7	6.6	6.6	5.9	5.1
Gross national savings	62.7	29.1	18.1	34.1	41.6	10.5	14.3	15.8	16.4	15.7	15.0
Savings/investment balance	29.3	-1.0	-4.8	18.0	26.3	-3.6	-0.3	0.7	1.5	2.0	2.2
Central government					(In percent of GDP)						
Revenues and grants	26.4	24.4	23.8	23.1	21.7	18.6	18.2	17.9	17.5	17.1	16.6
Tax revenues	14.3	14.0	13.5	12.9	12.0	10.6	11.0	10.7	10.7	10.6	10.6
Nontax revenue	7.3	7.2	8.4	7.0	6.4	6.3	5.4	5.5	5.3	5.0	4.8
Grants	4.9	3.2	1.8	3.3	3.3	1.7	1.8	1.7	1.5	1.4	1.3
Expenditure	41.9	32.7	28.3	25.9	22.5	23.1	19.5	20.2	20.0	19.0	17.9
Current expenditure	16.4	17.8	17.8	17.2	15.5	14.9	13.8	13.5	13.3	13.1	12.8
Capital expenditure	25.5	14.8	10.5	8.8	7.1	5.8	5.7	6.6	6.6	5.9	5.1
Domestically financed	7.1	4.8	3.7	3.2	3.8	2.3	2.2	2.3	2.3	2.3	2.2
Foreign-financed	18.4	10.0	6.8	5.6	3.2	3.4	3.5	4.3	4.3	3.6	2.9
Covid-19 related expenditures	…	…	…	…	…	2.4	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment basis)	-15.4	-8.3	-4.5	-2.8	-0.8	-4.5	-1.3	-2.3	-2.5	-1.9	-1.3
Change in arrears	-0.4	-0.4	-0.1	0.4	0.5	-1.2	-0.2	-0.2	-0.2	-0.2	-0.2
Overall balance (cash basis)	-15.8	-8.7	-4.6	-2.4	-0.4	-5.7	-1.5	-2.5	-2.7	-2.1	-1.5
Financing	15.8	8.7	4.6	2.4	0.4	5.7	1.5	2.5	2.7	2.1	1.5
Domestic	0.0	0.5	-0.5	0.1	-0.8	0.9	-0.3	-0.1	0.0	0.0	-0.1
Of which: RCF 1/	…	…	…	…	…	1.3	0.0	0.0	0.0	0.0	-0.1
External	15.8	8.2	5.1	2.3	1.2	4.8	1.8	2.6	2.7	2.1	1.5
Disbursements	16.4	8.7	5.8	3.2	2.0	3.1	2.4	3.3	3.4	2.8	2.2
Amortization	-0.7	-0.6	-0.7	-0.7	-0.6	-0.9	-0.8	-1.4	-1.3	-1.2	-1.3
Other SOE financing (rail and water)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6	0.5	0.5	0.7
Exceptional Financing (CCRT) 1/	…	…	…	…	…	0.1	0.1	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	-0.2	-0.2	2.5	0.1	0.0	0.0	0.0	0.0
Memo: Overall balance, excluding large projects	-0.6	-2.0	-0.3	-1.5	-0.4	-5.7	-1.4	-2.1	-2.3	-2.1	-1.5
Monetary sector					(Annual change in percent of broad money)						
Broad money	19.0	8.8	21.9	-5.6	8.8	-4.4	4.2	5.1	2.2	2.2	2.2
Net foreign assets	15.4	8.0	20.7	-6.2	0.5	-7.4	-1.3	-1.3	-1.3	-1.3	-1.1
Net domestic assets	3.6	0.7	1.2	0.6	8.3	3.1	5.5	6.4	3.5	3.5	3.3
Of which: Claims on government (net)	0.3	0.7	-0.7	0.5	1.0	1.7	-0.3	0.0	0.0	0.0	-0.2
Of which: Claims on non-government sector	4.3	0.8	2.8	3.7	3.7	-0.4	6.9	6.5	4.1	4.1	4.3
Credit to non-government (in percent of GDP)	23.8	22.7	23.2	23.8	23.5	22.9	23.9	25.0	25.0	25.0	25.0
External sector					(In millions of US dollars)						
Current account balance	713	-26	-133	543	878	-124	-10	30	68	101	120
(In percent of GDP)	29.3	-1.0	-4.8	18.0	26.3	-3.6	-0.3	0.7	1.5	2.0	2.2
Underlying current account balance 2/	19.7	165.0	-38.3	79.6	102.6	-123.7	-10.4	30.3	67.5	101.3	119.6
(In percent of GDP)	0.8	6.3	-1.4	2.6	3.1	-3.6	-0.3	0.7	1.5	2.0	2.2
External public and publicly guaranteed debt	1,218	1,647	1,951	2,085	2,209	2,485	2,586	2,747	2,897	2,998	3,021
(In percent of GDP)	50.1	63.3	70.9	69.2	66.0	72.9	67.1	64.7	62.8	60.1	56.1
Foreign direct investment	144	160	165	170	187	130	212	255	300	324	350
(In percent of GDP)	5.9	6.1	6.0	5.6	5.6	3.8	5.5	6.0	6.5	6.5	6.5
Exports of goods and services (percent change)	-1.2	-23.3	53.4	10.0	19.2	-19.6	11.4	7.6	8.1	8.3	5.6
Imports of goods and services (percent change)	-4.5	-4.5	51.2	-2.8	11.9	-2.9	8.0	6.6	7.2	7.6	5.3
Gross official reserves	355	398	556	445	494	454	484	514	544	574	604
(In months of next year's imports of goods and services, exc. re-exports)	3.1	3.2	4.3	3.1	3.6	3.1	3.2	3.2	3.2	3.2	3.4
Gross foreign assets of commercial banks	1,157	1,190	1,423	1,345	1,408	1,378	1,428	1,478	1,528	1,578	1,628
(In months of next year's imports of goods and services, exc. re-exports)	10.0	9.7	11.0	9.4	10.4	9.6	9.4	9.3	9.1	8.9	9.1
Exchange rate (DF/US$, end of period) 3/	177.7	177.7	177.7	177.7	177.7	…	…	…	…	…	…
Real effective exchange rate (yearly average, 2005=100) 3/	106.4	109.5	108.6	105.3	109.5	…	…	…	…	…	…
(Change in percent; depreciation -)	3.8	2.9	-0.8	-3.1	4.0	…	…	…	…	…	…
Memorandum items											
Nominal GDP (in millions of Djibouti francs)	431,911	462,704	488,990	535,438	594,692	605,806	684,756	754,328	819,426	885,964	957,904
Nominal GDP (in millions of US dollars) 3/	2,430	2,604	2,751	3,013	3,346	3,409	3,853	4,244	4,611	4,985	5,390
Nominal GDP per capita (US dollars) 3/	2,517	2,623	2,696	2,872	3103.0	3074.9	…	…	…	…	…
Population (million)	0.966	0.993	1.020	1.049	1.078	1.109	1.138	1.167	1.196	1.226	1.226

Sources: Djibouti authorities and IMF staff estimates and projections.

1/ Using the SDR/USD exchange rate as of April 20, 2020.

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

3/ Latest available.

Table 2. Djibouti: Central Government Operations, 2015–2025
(In millions of Djibouti francs)

					Est.			Proj.			
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Revenues and grants	114,222	112,771	116,138	123,930	128,931	112,801	124,552	134,960	143,315	151,419	159,405
Tax revenues	61,779	64,791	66,210	69,004	71,420	64,101	75,198	80,889	87,482	94,275	101,399
Direct taxes	26,724	27,762	27,418	28,779	30,470	27,070	31,362	33,759	36,497	39,309	42,249
Indirect and other taxes	35,055	37,029	38,792	40,225	40,950	37,031	43,836	47,131	50,986	54,966	59,150
Indirect taxes	31,280	32,215	34,806	36,621	37,945	34,031	39,036	42,031	45,586	49,266	53,150
Other taxes	3,775	4,814	3,986	3,604	3,005	3,000	4,800	5,100	5,400	5,700	6,000
Nontax revenue	31,323	33,276	41,001	37,307	37,863	38,251	36,906	41,622	43,384	44,695	45,557
Domestic	13,037	12,651	20,019	15,743	16,536	16,128	14,783	19,499	21,261	22,572	23,434
External	18,286	20,625	20,982	21,564	21,327	22,123	22,123	22,123	22,123	22,123	22,123
Grants	21,120	14,704	8,927	17,619	19,648	10,449	12,449	12,449	12,449	12,449	12,449
Development projects	8,474	6,020	4,643	12,711	7,492	7,458	7,458	7,458	7,458	7,458	7,458
Budget support	12,646	8,684	4,284	4,908	12,156	2,991	4,991	4,991	4,991	4,991	4,991
Expenditure	180,805	151,212	138,291	138,829	133,968	139,823	133,246	152,308	163,524	168,117	171,648
Current expenditure	70,685	82,577	87,025	91,841	91,934	90,232	94,323	102,172	109,041	116,113	122,401
Wages and related expenditure	31,023	34,529	37,093	39,070	39,525	41,022	41,921	44,773	47,417	49,788	53,165
Wages and contributions	27,748	31,071	33,579	35,504	35,603	37,100	37,842	40,491	42,920	45,066	48,207
Housing subsidies	3,275	3,458	3,514	3,566	3,922	3,922	4,079	4,283	4,497	4,722	4,958
Goods and services	22,999	29,550	29,776	29,975	29,393	27,758	30,314	33,055	35,531	38,195	39,865
Civil expenditure	19,055	24,828	22,923	22,952	23,200	21,600	23,760	26,136	28,227	30,485	32,101
Military expenditure	3,944	4,722	6,853	7,023	6,193	6,158	6,554	6,919	7,304	7,710	7,764
Maintenance	1,320	1,404	1,525	1,614	1,305	745	805	869	938	1,014	1,019
Transfers	12,239	12,664	13,048	13,978	14,220	14,878	15,622	17,106	18,731	20,230	21,565
Interest	1,747	3,807	5,200	6,466	7,111	5,330	5,163	5,869	5,924	6,387	6,288
Loans to central government (projects)	796	54	1,625	1,474	1,122	1,547	1,371	1,458	1,574	1,619	1,620
Large projects	951	3,753	3,575	4,992	5,989	3,783	3,792	4,411	4,350	4,767	4,668
Rail road	0	2,380	3,129	4,271	4,626	2,622	2,622	3,217	3,190	3,643	3,633
Water pipeline	951	1,373	446	721	1,363	1,161	1,170	1,195	1,160	1,124	1,035
Foreign-financed current spending	1,357	623	383	738	380	500	500	500	500	500	500
Capital expenditure	110,120	68,635	51,266	46,988	42,034	34,891	38,923	50,136	54,483	52,004	49,247
Capital expenditure (excl. large projects)	44,555	37,622	30,147	42,359	42,034	34,891	38,034	46,582	51,817	52,004	49,247
Domestically financed	30,704	22,173	18,225	17,243	22,750	14,000	14,998	17,526	19,145	20,114	21,177
Foreign-financed	79,416	46,462	33,041	29,745	19,284	20,891	23,925	32,611	35,338	31,890	28,070
Grants	8,474	6,020	4,643	12,711	7,492	7,458	7,458	7,458	7,458	7,458	7,458
Loans to central government (projects)	5,377	9,429	7,279	12,405	11,792	13,433	15,579	21,598	25,214	24,432	20,612
Large projects	65,565	31,013	21,119	4,629	0	0	889	3,554	2,666	0	0
Rail road	53,922	13,843	9,867	4,629	0	0	0	0	0	0	0
Water pipeline	11,643	17,171	11,251	0	0	0	889	3,554	2,666	0	0
COVID-19 related expenditures	…	…	…	…	…	14,700	0	0	0	0	0
Overall balance (commitment basis)	-66,582	-38,441	-22,152	-14,898	-5,037	-27,022	-8,694	-17,348	-20,209	-16,698	-12,243
Change in arrears	-1,698	-1,700	-363	1,993	2,871	-7,374	-1,700	-1,700	-1,700	-1,700	-1,700
Domestic	-1,636	-1,700	-128	-712	-1,670	-2,000	-1,700	-1,700	-1,700	-1,700	-1,700
External	-62	0	-235	2,705	4,541	-5,374	0	0	0	0	0
Overall balance (cash basis)	-68,280	-40,141	-22,515	-12,905	-2,166	-34,396	-10,394	-19,048	-21,909	-18,398	-13,943
Financing	68,280	40,141	22,515	12,905	2,166	34,396	10,394	19,048	21,909	18,398	13,943
Domestic	193	2,356	-2,602	511	-4,947	5,496	-1,813	-432	-63	0	-794
Bank	318	1,699	-2,477	636	2,570	5,496	-1,813	-432	-63	0	-794
Central bank	682	-1,760	-889	1,761	2,171	6,863	-759	-307	0	0	-794
Of which: RCF 1/	…	…	…	…	…	7,694	0	0	0	0	-794
Commercial banks	-364	3,459	-1,588	-1,125	399	-1,367	-1,054	-125	-63	0	0
Nonbank	-125	657	-125	-125	-7,517	0	0	0	0	0	0
External	68,087	37,785	25,117	12,394	7,113	28,900	12,207	19,480	21,971	18,398	14,737
External (excl. large projects)	2,523	6,772	3,999	7,766	7,113	23,759	11,319	15,925	19,305	18,398	14,737
Disbursements	70,942	40,442	28,398	17,034	11,792	18,574	16,467	25,153	27,880	24,432	20,612
Loans to central government (projects)	5,377	9,429	7,279	12,405	11,792	13,433	15,579	21,598	25,214	24,432	20,612
Large projects	65,565	31,013	21,119	4,629	0	5,141	889	3,554	2,666	0	0
Rail road	53,922	13,843	9,867	4,629	0	5,141	0	0	0	0	0
Water pipeline	11,643	17,171	11,251	0	0	0	889	3,554	2,666	0	0
Amortization	-2,854	-2,657	-3,210	-3,769	-3,519	-5,561	-5,796	-10,230	-10,311	-10,436	-12,462
Loans to central government (projects)	-2,854	-2,657	-3,210	-3,769	-3,519	-5,561	-5,796	-5,827	-5,909	-6,034	-5,875
Large projects	0	0	0	0	0	0	0	-4,403	-4,403	-4,403	-6,588
Rail road	0	0	0	0	0	0	0	0	0	0	-2,185
Water pipeline	0	0	0	0	0	0	0	-4,403	-4,403	-4,403	-4,403
Other SOE financing (rail and water) 2/	0	0	0	0	0	0	0	4,403	4,403	4,403	6,588
Exceptional Financing (CCRT) 1/	…	…	…	…	…	562	761	155	0	0	0
Other	0	0	-70	-870	-1,160	15,326	774	0	0	0	0
Memorandum											
Overall balance (excluding large projects)	-2,716	-9,128	-1,397	-8,277	-2,166	-34,396	-9,505	-15,493	-19,243	-18,398	-13,943
Overall balance (excl. foreign-financed expenditures)	4,018	924	6,265	4,866	10,006	-20,463	6,573	6,605	6,471	6,534	7,169

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

1/ Using the SDR/DJF exchange rate as of April 20, 2020.

2/ Represents debt service of railway and water pipeline loans covered by the SoEs managing these projects.

Table 3. Djibouti: Central Government Operations, 2015–2025
(In percent of GDP)

					Est.			Proj.			
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Revenues and grants	26.4	24.4	23.8	23.1	21.7	18.6	18.2	17.9	17.5	17.1	16.6
Tax revenues	14.3	14.0	13.5	12.9	12.0	10.6	11.0	10.7	10.7	10.6	10.6
Direct taxes	6.2	6.0	5.6	5.4	5.1	4.5	4.6	4.5	4.5	4.4	4.4
Indirect and other taxes	8.1	8.0	7.9	7.5	6.9	6.1	6.4	6.2	6.2	6.2	6.2
Indirect taxes	7.2	7.0	7.1	6.8	6.4	5.6	5.7	5.6	5.6	5.6	5.5
Other taxes	0.9	1.0	0.8	0.7	0.5	0.5	0.7	0.7	0.7	0.6	0.6
Nontax revenue	7.3	7.2	8.4	7.0	6.4	6.3	5.4	5.5	5.3	5.0	4.8
Domestic	3.0	2.7	4.1	2.9	2.8	2.7	2.2	2.6	2.6	2.5	2.4
External	4.2	4.5	4.3	4.0	3.6	3.7	3.2	2.9	2.7	2.5	2.3
Grants	4.9	3.2	1.8	3.3	3.3	1.7	1.8	1.7	1.5	1.4	1.3
Development projects	2.0	1.3	0.9	2.4	1.3	1.2	1.1	1.0	0.9	0.8	0.8
Budget support	2.9	1.9	0.9	0.9	2.0	0.5	0.7	0.7	0.6	0.6	0.5
Expenditure	41.9	32.7	28.3	25.9	22.5	23.1	19.5	20.2	20.0	19.0	17.9
Current expenditure	16.4	17.8	17.8	17.2	15.5	14.9	13.8	13.5	13.3	13.1	12.8
Wages and related expenditure	7.2	7.5	7.6	7.3	6.6	6.8	6.1	5.9	5.8	5.6	5.6
Wages and contributions	6.4	6.7	6.9	6.6	6.0	6.1	5.5	5.4	5.2	5.1	5.0
Housing subsidies	0.8	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.5	0.5	0.5
Goods and services	5.3	6.4	6.1	5.6	4.9	4.6	4.4	4.4	4.3	4.3	4.2
Civil expenditure	4.4	5.4	4.7	4.3	3.9	3.6	3.5	3.5	3.4	3.4	3.4
Military expenditure	0.9	1.0	1.4	1.3	1.0	1.0	1.0	0.9	0.9	0.9	0.8
Maintenance	0.3	0.3	0.3	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Transfers	2.8	2.7	2.7	2.6	2.4	2.5	2.3	2.3	2.3	2.3	2.3
Interest	0.4	0.8	1.1	1.2	1.2	0.9	0.8	0.8	0.7	0.7	0.7
Loans to central government (projects)	0.2	0.0	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.2
Large projects	0.2	0.8	0.7	0.9	1.0	0.6	0.6	0.6	0.5	0.5	0.5
Rail road	0.0	0.5	0.6	0.8	0.8	0.4	0.4	0.4	0.4	0.4	0.4
Water pipeline	0.2	0.3	0.1	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Foreign-financed current spending	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Capital expenditure	25.5	14.8	10.5	8.8	7.1	5.8	5.7	6.6	6.6	5.9	5.1
Capital expenditure (excl. large projects)	10.3	8.1	6.2	7.9	7.1	5.8	5.6	6.2	6.3	5.9	5.1
Domestically financed	7.1	4.8	3.7	3.2	3.8	2.3	2.2	2.3	2.3	2.3	2.2
Foreign-financed	18.4	10.0	6.8	5.6	3.2	3.4	3.5	4.3	4.3	3.6	2.9
Grants	2.0	1.3	0.9	2.4	1.3	1.2	1.1	1.0	0.9	0.8	0.8
Loans to central government (projects)	1.2	2.0	1.5	2.3	2.0	2.2	2.3	2.9	3.1	2.8	2.2
Large projects	15.2	6.7	4.3	0.9	0.0	0.0	0.1	0.5	0.3	0.0	0.0
Rail road	12.5	3.0	2.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Water pipeline	2.7	3.7	2.3	0.0	0.0	0.0	0.1	0.5	0.3	0.0	0.0
COVID-19 related expenditures	...	...	...	...	...	2.4	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment basis)	-15.4	-8.3	-4.5	-2.8	-0.8	-4.5	-1.3	-2.3	-2.5	-1.9	-1.3
Change in arrears	-0.4	-0.4	-0.1	0.4	0.5	-1.2	-0.2	-0.2	-0.2	-0.2	-0.2
Domestic	-0.4	-0.4	0.0	-0.1	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2
External	0.0	0.0	0.0	0.5	0.8	-0.9	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-15.8	-8.7	-4.6	-2.4	-0.4	-5.7	-1.5	-2.5	-2.7	-2.1	-1.5
Financing	15.8	8.7	4.6	2.4	0.4	5.7	1.5	2.5	2.7	2.1	1.5
Domestic	0.0	0.5	-0.5	0.1	-0.8	0.9	-0.3	-0.1	0.0	0.0	-0.1
Bank	0.1	0.4	-0.5	0.1	0.4	0.9	-0.3	-0.1	0.0	0.0	-0.1
Central bank	0.2	-0.4	-0.2	0.3	0.4	1.1	-0.1	0.0	0.0	0.0	-0.1
Of which: RCF 1/	...	...	...	...	...	1.3	0.0	0.0	0.0	0.0	-0.1
Commercial banks	-0.1	0.7	-0.3	-0.2	0.1	-0.2	-0.2	0.0	0.0	0.0	0.0
Nonbank	0.0	0.1	0.0	0.0	-1.3	0.0	0.0	0.0	0.0	0.0	0.0
External	15.8	8.2	5.1	2.3	1.2	4.8	1.8	2.6	2.7	2.1	1.5
External (excl. large projects)	0.6	1.5	0.8	1.5	1.2	3.9	1.7	2.1	2.4	2.1	1.5
Disbursements	16.4	8.7	5.8	3.2	2.0	3.1	2.4	3.3	3.4	2.8	2.2
Loans to central government (projects)	1.2	2.0	1.5	2.3	2.0	2.2	2.3	2.9	3.1	2.8	2.2
Large projects	15.2	6.7	4.3	0.9	0.0	0.8	0.1	0.5	0.3	0.0	0.0
Rail road	12.5	3.0	2.0	0.9	0.0	0.8	0.0	0.0	0.0	0.0	0.0
Water pipeline	2.7	3.7	2.3	0.0	0.0	0.0	0.1	0.5	0.3	0.0	0.0
Amortization	-0.7	-0.6	-0.7	-0.7	-0.6	-0.9	-0.8	-1.4	-1.3	-1.2	-1.3
Loans to central government (projects)	-0.7	-0.6	-0.7	-0.7	-0.6	-0.9	-0.8	-0.8	-0.7	-0.7	-0.6
Large projects	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.6	-0.5	-0.5	-0.7
Rail road	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.2
Water pipeline	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.6	-0.5	-0.5	-0.5
Other SOE financing (rail and water) 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6	0.5	0.5	0.7
Exceptional Financing (CCRT) 1/	...	...	...	...	...	0.1	0.1	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	-0.2	-0.2	2.5	0.1	0.0	0.0	0.0	0.0
Memorandum											
Overall balance (excluding large projects)	-0.6	-2.0	-0.3	-1.5	-0.4	-5.7	-1.4	-2.1	-2.3	-2.1	-1.5
Overall balance (excl. foreign-financed expenditures)	0.9	0.2	1.3	0.9	1.7	-3.4	1.0	0.9	0.8	0.7	0.7

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

1/ Using the SDR/DJFexchange rate as of April 20, 2020.

2/ Represents debt service of railway and water pipeline loans covered by the SoEs managing these projects.

Table 4. Djibouti: Balance of Payments, 2015–2025
(In millions of U.S. dollars, unless otherwise indicated)

					Est.			Proj.			
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Current account	713	-26	-133	543	878	-124	-10	30	68	101	120
Current account, excluding trade for re-exports	20	165	-38	80	103	-124	-10	30	68	101	120
Trade balance	544	-145	-160	375	752	-181	-50	-6	38	82	105
Exports	3,526	2,703	4,147	4,563	5,437	4,369	4,865	5,234	5,657	6,129	6,474
Goods	2,582	1,732	3,162	3,522	4,182	3,350	3,636	3,880	4,184	4,525	4,747
Of which: re-exports	2,294	1,458	2,741	3,097	3,748	2,922	3,185	3,420	3,711	4,035	4,241
Services	943	971	985	1,041	1,255	1,019	1,230	1,353	1,474	1,605	1,727
Imports	-2,982	-2,848	-4,306	-4,188	-4,685	-4,550	-4,916	-5,240	-5,620	-6,048	-6,369
Goods	-2,447	-2,327	-3,576	-3,603	-3,952	-3,849	-4,194	-4,496	-4,854	-5,259	-5,556
Of which: imports for re-exports	-1,601	-1,650	-2,836	-2,634	-2,972	-2,922	-3,185	-3,420	-3,711	-4,035	-4,241
Services	-535	-521	-731	-585	-733	-701	-722	-744	-766	-789	-813
Income	-27	-80	-127	-29	-72	-96	-126	-133	-142	-156	-164
Current transfers	196	198	154	197	198	153	166	169	172	175	179
Private	142	150	147	169	130	136	138	141	144	147	151
Official	55	49	6	27	68	17	28	28	28	28	28
Capital and financial account	401	1,180	528	374	-825	-34	36	1	-38	-71	-85
Capital transfers	48	34	26	70	60	60	60	60	60	60	60
Foreign direct investment	144	160	165	170	187	130	212	255	300	324	350
Public sector	416	426	306	106	98	208	166	160	151	101	32
Disbursements	445	463	336	140	136	261	221	245	237	203	179
Amortization	-29	-37	-30	-33	-39	-53	-55	-85	-87	-101	-147
Commercial banks	-192	487	-1	-29	50	80	60	60	60	60	60
Other investment	-15	73	31	57	-1219	-512	-462	-534	-608	-617	-587
Errors and omissions	-1,137	-1,109	-233	-1,025	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (deficit -)	-23	45	162	-109	54	-158	26	31	30	30	34
Financing	23	-45	-162	109	-54	158	-26	-31	-30	-30	-34
Central bank	23	-45	-162	109	-54	35	-34	-32	-30	-30	-34
Assets	25	-43	-159	112	-49	40	-30	-30	-30	-30	-30
Liabilities	-2	-2	-3	-3	-5	-5	-4	-2	0	0	-4
Exceptional financing											
Repayment of arrears	…	…	…	…	…	-42	0	0	0	0	0
Financing need	…	…	…	…	…	164	9	1	0	0	0
IMF (RCF Disbursment) 1/	…	…	…	…	…	43.3	0	0	0	0	0
CCRT 1/ 2/	…	…	…	…	…	3	4	1	0	0	0
Financing gap	…	…	…	…	…	118	4.4	0	0	0	0
Memorandum items											
Current account (in percent of GDP)	29.3	-1.0	-4.8	18.0	26.3	-3.6	-0.3	0.7	1.5	2.0	2.2
Exports of goods and services (percent change)	-1.2	-23.3	53.4	10.0	19.2	-19.6	11.4	7.6	8.1	8.3	5.6
Imports of goods and services (percent change)	-4.5	-4.5	51.2	-2.8	11.9	-2.9	8.0	6.6	7.2	7.6	5.3
Central bank gross reserves (in millions of US dollars)	355	398	556	445	494	454	484	514	544	574	604
In months of next year's imports of goods and services	1.5	1.1	1.6	1.1	1.3	1.1	1.1	1.1	1.1	1.1	1.1
In months of next year's imports of G&S (excl. re-exports)	3.1	3.2	4.3	3.1	3.6	3.1	3.2	3.2	3.2	3.2	3.4
FDI (in percent of GDP)	5.9	6.1	6.0	5.6	5.6	3.8	5.5	6.0	6.5	6.5	6.5
External public and publicly guaranteed debt											
In millions of US dollars	1,218	1,647	1,951	2,085	2,209	2,485	2,586	2,747	2,897	2,998	3,021
In percent of GDP	50.1	63.3	70.9	69.2	66.0	72.9	67.1	64.7	62.8	60.1	56.1
In percent of exports of goods and services	34.5	60.9	47.1	45.7	40.6	56.9	53.2	52.5	51.2	48.9	46.7
Debt service											
In millions of US dollars	43	69	65	67	68	106	109	143	146	164	213
In percent of GDP	1.8	2.7	2.4	2.2	2.0	3.1	2.8	3.4	3.2	3.3	4.0
In percent of exports of goods and services	1.2	2.6	1.6	1.5	1.2	2.4	2.2	2.7	2.6	2.7	3.3

Sources: Djibouti authorities; and IMF staff estimates and projections.
1/ Using the SDR/USD exchange rate as of April 20, 2020.
2/ Assumes debt relief under CCRT for the next 6 months, and if resources are available up to the next 18 months.

Table 5. Djibouti: Monetary Survey and Banking Sector Indicators, 2015–2025

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

					Est.	Proj.					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Broad money	279,448	303,944	370,565	349,879	380,601	363,894	379,340	398,705	407,315	416,080	425,067
Currency in circulation	30,821	32,923	35,542	36,626	37,667	23,267	23,761	24,269	24,811	25,265	26,124
Deposits	248,627	271,021	335,023	313,253	342,934	340,627	355,580	374,436	382,504	390,814	398,942
Demand deposits	161,568	180,538	230,450	214,520	230,768	228,460	249,021	268,943	277,011	285,322	288,175
Djibouti francs	90,342	98,504	109,890	124,875	132,873	131,545	143,384	154,854	159,500	164,285	165,928
Foreign currency	71,226	82,034	120,560	89,645	97,894	96,915	105,638	114,089	117,511	121,037	122,247
Time deposits	87,059	90,483	104,572	98,733	112,167	112,167	106,558	105,493	105,493	105,493	110,767
Djibouti francs	44,674	53,281	53,266	56,700	62,693	62,693	59,559	58,963	58,963	58,963	61,911
Foreign currency	42,385	37,201	51,306	42,032	49,473	49,473	47,000	46,530	46,530	46,530	48,856
Net foreign assets	210,075	232,506	295,572	272,669	274,395	246,061	241,477	236,440	231,097	225,753	221,203
Central bank	54,133	62,299	91,125	72,129	81,978	67,862	73,941	79,568	84,887	90,207	96,321
Assets	63,169	70,764	99,034	79,125	87,761	80,652	85,984	91,316	96,647	101,979	107,310
Liabilities	9,036	8,465	7,909	6,996	5,783	12,790	12,043	11,748	11,760	11,772	10,990
Commercial banks	155,942	170,207	204,447	200,540	192,417	178,199	167,536	156,872	146,209	135,546	124,883
Assets	205,677	211,498	252,843	238,989	250,172	244,841	253,727	262,613	271,499	280,385	289,271
Liabilities	49,735	41,291	48,396	38,450	57,756	66,642	86,191	105,740	125,290	144,839	164,388
Net domestic assets	69,373	71,438	74,993	77,210	106,206	117,832	137,863	162,265	176,218	190,327	203,863
Claims on government (net)	1,167	3,228	1,108	2,899	6,343	12,698	11,613	11,456	11,425	11,394	10,569
Central bank	-3,274	-4,673	-5,205	-2,311	734	8,456	8,424	8,393	8,362	8,331	7,505
Commercial banks	4,441	7,901	6,313	5,210	5,609	4,242	3,188	3,063	3,063	3,063	3,063
Claims on nongovernment sector	102,874	105,126	113,493	127,228	140,037	138,593	163,584	188,383	204,641	221,258	239,224
Public enterprises	9,364	10,511	9,541	15,215	17,337	17,159	20,253	23,323	25,336	27,393	29,617
Private sector	93,510	94,615	103,952	112,013	122,699	121,434	143,331	165,061	179,305	193,865	209,607
Of which: in foreign currency	23,271	20,644	31,886	38,951	48,145	72,648	88,188	104,314	113,316	122,518	132,466
Capital accounts	-24,765	-27,797	-33,254	-36,285	-39,249	-39,296	-41,072	-40,756	-40,445	-42,273	-42,322
Other items (net)	-9,904	-9,119	-6,354	-16,631	-925	5,838	3,738	3,181	598	-52	-3,608
	(Annual change in percent of broad money)										
Broad money	19.0	8.8	21.9	-5.6	8.8	-4.4	4.2	5.1	2.2	2.2	2.2
Net foreign assets	15.4	8.0	20.7	-6.2	0.5	-7.4	-1.3	-1.3	-1.3	-1.3	-1.1
Central bank	-0.6	2.9	9.5	-5.1	2.8	-3.7	1.7	1.5	1.3	1.3	1.5
Commercial banks	16.0	5.1	11.3	-1.1	-2.3	-3.7	-2.9	-2.8	-2.7	-2.6	-2.6
Net domestic assets	3.6	0.7	1.2	0.6	8.3	3.1	5.5	6.4	3.5	3.5	3.3
Of which Claims on government (net)	0.3	0.7	-0.7	0.5	1.0	1.7	-0.3	0.0	0.0	0.0	-0.2
Claims on nongovernment sector	4.3	0.8	2.8	3.7	3.7	-0.4	6.9	6.5	4.1	4.1	4.3
Memorandum items											
Central bank											
Gross foreign assets (in U.S. dollars million)	355.4	398.2	557.2	445.2	493.8	453.8	483.8	513.8	543.8	573.8	603.8
In percent of foreign currency deposits	55.6	59.3	57.6	60.1	59.6	55.1	56.3	56.9	58.9	60.9	62.7
In percent of total deposits	25.4	26.1	29.6	25.3	25.6	23.7	24.2	24.4	25.3	26.1	26.9
Banking system											
Credit to the private sector, 12-month percent change	7.0	1.2	9.9	7.8	9.5	-1.0	18.0	15.2	8.6	8.1	8.1
Share of foreign currency deposits/total deposits	45.7	44.0	51.3	42.0	43.0	43.0	42.9	42.9	42.9	42.9	42.9
Commercial banks' foreign assets/liability ratio	1.3	1.3	1.1	1.4	1.2	1.1	1.1	1.0	0.9	0.9	0.9
Money velocity	1.5	1.5	1.3	1.5	1.6	1.7	1.8	1.9	2.0	2.1	2.3

Sources: Djibouti authorities and IMF staff estimates and projections.

Table 6. Djibouti: Indicators of Capacity to Repay the Fund, 2020–2030 1/

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Fund obligations based on existing credit (In millions of SDRs)											
Principal 2/	2.3	3.1	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.02	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Fund obligations based on existing and prospective credit(In millions of SDRs)											
Principal	2.3	3.1	1.3	0.0	0.0	3.2	6.4	6.4	6.4	6.4	3.2
Charges and interest	0.02	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Total obligations based on existing and prospective credit											
In millions of SDRs	2.3	3.1	1.3	0.0	0.0	3.2	6.4	6.4	6.4	6.4	3.2
In millions of U.S. dollars	3.2	4.3	1.8	0.0	0.0	4.5	9.0	9.0	9.0	9.0	4.5
In percent of gross international reserves	0.7	0.9	0.3	0.0	0.0	0.7	1.4	1.3	1.3	1.2	0.6
In percent of exports of goods and services	0.2	0.3	0.1	0.0	0.0	0.2	0.4	0.3	0.3	0.3	0.1
In percent of debt service 3/	3.0	3.9	1.2	0.0	0.0	2.1	3.7	3.6	3.5	3.3	1.6
In percent of GDP	0.1	0.1	0.0	0.0	0.0	0.1	0.2	0.1	0.1	0.1	0.1
In percent of quota	7.4	9.7	4.0	0.0	0.0	10.0	20.0	20.0	20.0	20.0	10.0
Outstanding Fund credit on current and prospective credit 3/											
In millions of SDRs	36.1	33.1	31.8	31.8	31.8	28.6	22.3	15.9	9.5	3.2	0.0
In millions of U.S. dollars	49.9	45.9	44.3	44.4	44.5	40.2	31.3	22.4	13.4	4.5	0.0
In percent of gross international reserves	11.0	9.5	8.6	8.2	7.8	6.7	4.9	3.3	1.9	0.6	0.0
In percent of exports of goods and services	3.4	2.7	2.4	2.3	2.1	1.8	1.3	0.9	0.5	0.1	0.0
In percent of debt service 3/	47.0	42.1	31.0	30.4	27.2	18.9	13.0	9.1	5.2	1.6	0.0
In percent of GDP	1.5	1.2	1.0	1.0	0.9	0.7	0.5	0.4	0.2	0.1	0.0
In percent of quota	113.6	103.9	100.0	100.0	100.0	90.0	70.0	50.0	30.0	10.0	0.0
Net use of Fund credit (in millions of SDRs)											
Total	29.5	-3.1	-1.3	0.0	0.0	-3.2	-6.4	-6.4	-6.4	-6.4	-3.2
Disbursements	31.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases	2.3	3.1	1.3	0.0	0.0	3.2	6.4	6.4	6.4	6.4	3.2
Memorandum items:											
Nominal GDP (in millions of U.S. dollars)	3,409	3,853	4,244	4,611	4,985	5,390	5,828	6,301	6,780	7,296	7,852
Exports of goods and services (in millions of U.S. dollars)	1,447	1,680	1,814	1,946	2,094	2,232	2,414	2,610	2,808	3,022	3,252
Gross International Reserves (in millions of U.S. dollars)	454	484	514	544	574	604	636	671	709	750	793
Debt service (in millions of U.S. dollars) 3/	106	109	143	146	164	213	241	247	256	272	276
Quota (millions of SDRs)	31.8	31.8	31.8	31.8	31.8	31.8	31.8	31.8	31.8	31.8	31.8

Sources: IMF staff estimates and projections.
1/ Includes one disbursment of 100 percent of quota under the Rapid Credit Facility in 2020.
2/ Assumes debt relief under CCRT for the next 6 months, and if resources are available up to the next 18 months.
3/ Total external public debt service includes IMF repurchases and repayments.

Table 7. Djibouti: Debt Service to the Fund Eligible for Debt Relief, May 2020-April 2022
(In SDR)

Description	Scheduled Due Date	Total Amount Due	Eligible for CCRT	Debt Relief as % of Quota	Debt Relief as Cum. % of Quota
					(In Percent)
PRGT Repayment (ECF)	5/28/2020	624,600	624,600	2.0	2.0
PRGT Repayment (ECF)	7/15/2020	147,600	147,600	0.5	2.4
PRGT Repayment (ECF)	7/16/2020	295,200	295,200	0.9	3.4
PRGT Repayment (ECF)	8/13/2020	624,600	624,600	2.0	5.3
PRGT Repayment (ECF)	11/30/2020	624,600	624,600	2.0	7.3
PRGT Repayment (ECF)	1/14/2021	147,600	147,600	0.5	7.7
PRGT Repayment (ECF)	1/18/2021	295,200	295,200	0.9	8.7
PRGT Repayment (ECF)	2/11/2021	624,600	624,600	2.0	10.6
PRGT Repayment (ECF)	5/31/2021	624,600	624,600	2.0	12.6
PRGT Repayment (ECF)	7/15/2021	147,600	147,600	0.5	13.1
PRGT Repayment (ECF)	8/12/2021	624,600	624,600	2.0	15.0
PRGT Repayment (ECF)	11/30/2021	624,600	624,600	2.0	17.0
PRGT Repayment (ECF)	2/14/2022	624,600	624,600	2.0	19.0

Source: IMF.

Annex I. Risk Assessment Matrix (April 2020)[1]

Source of Risks	Relative Likelihood	Possible Impact if Risk Is Realized	Policy response
Global and Regional Risks			
Prolonged COVID-19 outbreak	High	**Staff assessment: High** The shock could severely impact growth and the BoP through a lower activity and exports of trade and logistics services. This would also impact the fiscal position through lower tax revenues and SOEs dividends (ports in particular). FDI could also fall further. This would widen budget and BOP financing gaps.	Cooperate with specialized donors to contain spread of coronavirus and strengthen health care system. Mobilize donor support to close financing gaps.
Widespread social discontent and political instability	High	**Staff assessment: Medium** Social tensions globally could spill over to Djibouti, with implications for social and economic stability.	Adopt policies / reforms to foster higher and more inclusive growth and strengthen social safety nets.
More global protectionism	High	**Staff assessment: Medium/ High** This could affect Djibouti's export and real GDP growth prospects given the country's dependence on transport and logistics services. The impact would be higher if global protectionism has significant spillovers on Ethiopia's trade and activity.	Accelerate structural reforms to promote private sector investment and diversify the sources of growth.
Oversupply in the oil market	High	**Staff assessment: Low** This could affect the budget and external position positively.	Use the favorable oil price environment to create fiscal space for pandemic-related emergency outlays and to strengthen the debt and external position.

[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.[1]

Source of Risks	Relative Likelihood	Possible Impact if Risk Is Realized	Policy response
Intensified geopolitical tensions and security risks globally and regionally	Medium	**Staff assessment: 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.
		Country-Specific Risks	
Worsening of the COVID-19 shock, notably by a propagation of the virus in Djibouti.	Medium	**Staff assessment: High** Potential high human cost given weak health system. Would reduce growth further and widen the fiscal and external financing gaps.	Continue to implement adequate preventive measures and to plan for mitigation measures.
Failure to implement reforms needed to ensure debt sustainability.	Medium	**Staff assessment: High** Notably if the authorities fail to raise the return on infrastructures or to reduce borrowing going forward—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	**Staff assessment: 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.

Appendix I. Letter of Intent

Mrs. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C.
USA

Djibouti, May 1, 2020

Dear Mrs. Georgieva:

1. The COVID-19 pandemic is having severe effects on both the health prospects for the population and on the economic situation in Djibouti. The government has implemented various prevention and containment measures, supported by an active communication campaign. A crisis cell has been created under the leadership of the Head of State. Air, land, and sea borders have been restricted, and all passenger flights and trains to (and from) Djibouti have been stopped. Visa issuance has been suspended. Confinement of all non-essential employees has now been in place for several weeks, and further steps have been taken to encourage social distancing, such as closure of schools and cancelation of public gatherings. The Ministry of Health has enhanced its surveillance, testing, quarantine and medical assistance capacity.

2. Notwithstanding these exceptional measures, the number of cases testing positive has continued to increase over the past few weeks to reach 1089 on April 30 and we expect to reach a peak within another few weeks. Our country is confronted with large external and internal shocks that are affecting the economy severely. Lower global and regional demand for Djibouti's trade and logistics services—which the economy critically depends on—and a reduction in foreign investment are putting pressure on external accounts. In this context, we are experiencing an exceptional balance of payments need arising from the pandemic with an estimated balance of payments need resulting from the crisis projected at US$ 164 million, 4.8 percent of GDP, and 33 percent of end-2019 official external reserves. At the same time, the containment measures we are enforcing are weighing both on domestic supply and demand. This is having significant effects on the limited budgetary resources of the State, affecting many critical sectors of the economy, creating greater pressures on our vulnerable populations. It is important to emphasize that the shock wave of the COVID-19 crisis is all the more extensive and deep as our country shelters a sizeable floating population of homeless people, refugees and migrants from the countries of the sub-region (Ethiopia, Somalia, Yemen), living for a large majority off informal activities and small jobs that are heavily affected by the containment measures.

3. More specifically, we currently anticipate that: (i) real output growth in 2020 will decline to -1 percent, compared with a pre-crisis projection of 7 percent; (ii) budget revenues will fall by 0.9 percent of GDP and current spending will increase in relation to GDP (by 0.3 percentage points);

(iii) COVID-related expenditures will amount to 2.4 percent of GDP, concentrated in rising health spending (+0.8 percent of GDP) and emergency outlays to firms (+0.6 percent of GDP) and households (+0.7 percent of GDP); and (iv) with the current account balance projected to decrease by some 4.2 percent of GDP and FDI set to settle much lower than previously thought, a balance of payments need will emerge of the order of magnitude noted above.

4. Against this backdrop, and given the large balance of payments need created by the COVID-19 pandemic, we hereby request a disbursement from the IMF in an amount of 100 percent of quota (SDR 31.8 million) under the exogenous shock window of the Rapid Credit Facility (RCF) to help Djibouti. We also ask that the full amount of this disbursement be channeled to the budget to mitigate the adverse impact of the pandemic on the budget. This emergency support will help finance urgent COVID-19-related expenditures, notably in the area of health and the measures proposed to bolster macroeconomic and financial stability. We also request grant assistance under the Catastrophe Containment window of the Catastrophe Containment and Relief Trust (CCRT) to cover our debt service to the IMF falling due from May 8, 2020 through April 13, 2022, or as much as is available from resources. This debt relief will free up budgetary resources to address public health needs and support economic activity in key sectors; it will also help contain the exceptional balance of payments need resulting from the pandemic. The debt service falling due from May 8, 2020 through April 13, 2022 (the maximum potential period of debt service relief, subject to availability of resources and decisions of the Executive Board) amounts to SDR 6.03 million.

5. We also intend to request a debt service suspension from official bilateral creditors along the terms recently announced by the G20. In this respect, we commit to spend freed resources on COVID-related health or economic relief and to closely monitor such spending. We will also disclose debt by public sector borrowing entities (per GFSM 2014) to the IMF and the World Bank Group within 3 months, but no later than September 1, 2020.

6. We remain firmly committed to Djibouti's currency board arrangement. We would therefore like to accommodate the balance of payments shock mainly through higher financing, and we are already actively seeking support from other partners. In addition, because we benefit from an adequate international reserve position, we can use a small part of these to absorb the shock while maintaining the reserve coverage at an appropriate level. We have also taken steps to re-prioritize some spending to alleviate the impact of the shock. A financing shortfall may, however, force us to allow for a larger drawdown in international reserves and to undertake undesirable additional cuts to non-COVID-19 spending.

7. The Government is committed to continuing its efforts to address the health and economic damage caused by the COVID-19 outbreak. We are seeking to create budgetary space for health sector outlays and other emergency spending such as support families and firms affected by the outbreak that is critical to sustain activity and prevent a disastrous social outcome, broadly expected to cost some 2.4 percent of GDP. While we have suspended or curtailed outlays seen as less essential, emergency spending and the projected drop in government revenue will lead to an increase in the budget deficit on the order of 2.7 percent of GDP. To foster transparency of

accounting and management of resources, we will outline the new measures in a supplementary budget expected to be submitted to Parliament in May. We are also committed to continuing to adhere to the best fiscal management practices and to ensuring that the best possible use is made of the resources provided by the IMF and our other partners. To do so, we will (i) publish on the Ministry of Budget's website, once they are signed, procurement contracts of COVID-19 expenditures in excess of US$ 100,000 as well as the beneficial ownership of the selected companies, and (ii) commission an independent ex-post audit of COVID-19-related spending in about a year's time and publish the results

8. The increase in the deficit is expected to be temporary and, as the impact of the crisis eases, we are committed to take steps to underpin debt sustainability while creating space for poverty-reducing spending. In particular, we will ramp up the 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. As has been the case over the past couple of years, we will reduce the pace of borrowing, prioritize concessional financing and foster foreign direct investment (FDI) for projects. This will be supported by our ongoing efforts to develop a medium-term fiscal framework and to strengthen public investment management, and debt management capacity. Strengthening SOEs oversight is also critical in this respect. We have recently created a Sovereign Wealth Fund that will manage some of the government assets, including SOEs. We are committed to do so under best international governance practices and while ringfencing budget resources. We are committed to increase domestic revenue mobilization, notably by reducing tax exemptions and streamlining special regimes. We will draw, among other things, on IMF technical assistance to design and implement a strategy to do so.

9. We are also committed to promptly resolve our outstanding external arrears by continuing to engage with creditors. As of end-March 2020, we had an outstanding stock of arrears to bilateral creditors of the order of 3.3 percent of GDP. Part of these have been accumulated—and will be restructured—pending finalization of the railway loan restructuring with Exim Bank of China. Other arrears reflect delays in finalizing conversions and cancellation agreements and arrears of a technical nature or reflecting diplomatic disagreements. We commit to engage with all relevant creditors with a view to finalize ongoing discussions on conversions and cancellation agreements expeditiously and to clear all other arrears, including to multilateral creditors, during the current year.

10. Maintaining financial stability is another key priority. Very early on, the central bank of Djibouti (CBD) took steps to keep its functions fully operational. It has also been working with financial institutions to ensure business continuity. As the crisis could lead to an increase in loan repayment difficulties, banks may need to restructure an increasing number of loans. The CBD has encouraged them to do so when needed to sustain economic activity, while continuing to respect

proper loan classification and using capital and liquidity buffers to cushion the impact of the crisis. The CBD will work with lenders to define reasonable timelines to meet banks' capital requirements. It will reinforce its monitoring of banks' liquidity risks and encourage banks to strengthen their liquidity risk controls and management practices. As the crisis abates, it will take steps to strengthen banks' balance sheets and, in collaboration with the government, will design and implement a strategic plan and associated resource mapping exercise to set a longer-term financial sector reform vision (including to bolster the central bank governance and supervisory capacity) along the lines recommended by the recent Financial Sector Stability Review.

11. The CBD is committed to undergo an update of the safeguards assessment to be completed before the approval of any new arrangement by the IMF Executive Board. It will continue to provide IMF staff with access to its most recently completed audit reports and to authorize the CBD's external auditors to hold discussions with IMF staff. As RCF disbursements will be disbursed to the central bank and be on-lent to the government, the CBD and the Ministry of Budget will agree on a Memorandum of Understanding that will establish a framework agreement on responsibilities for servicing financial obligations related to the RCF disbursement.

12. We are working closely with IMF staff in seeking to maintain broad macroeconomic stability during the current pandemic and will continue to do so in the post-pandemic recovery period. We do not intend to introduce measures or policies that would exacerbate balance of payments difficulties. We do not intend to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, trade restrictions for balance of payments purposes, or multiple currency practices, or to enter into bilateral payments agreements which are inconsistent with Article VIII of the Fund's Articles of Agreement. We are actively seeking additional support from the IMF by accessing the emergency financing facilities and are submitting a request for support on the order of SDR 31.8 million (100 percent of quota). We are confident that strong IMF support for our country will help catalyze wider support from other development partners.

13. We hereby grant our permission to publish this Letter of Intent, the staff report and related documents for the request for disbursement under the RCF and debt relief under the CCRT.

Sincerely,

/s/
Mr. Abdoulkarim Aden Cher
Minister of Budget
of Djibouti

/s/
Mr. Ahmed Osman
Governor of the Central Bank of Djibouti

INTERNATIONAL MONETARY FUND

DJIBOUTI

May 4, 2020

REQUESTS FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY AND DEBT RELIEF UNDER THE CASTASTROPHE CONTAINMENT AND RELIEF TRUST—DEBT SUSTAINABILITY ANALYSIS[1]

Approved By
Taline Koranchelian and Gavin Gray (IMF) and Marcello Estevão (IDA)

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

Risk of external debt distress	*High*[2]
Overall risk of debt distress	*High*
Granularity in the risk rating	*Sustainable*
Application of judgment	*No*
Macroeconomic projections	*Economic prospects for 2020 significantly weakened by COVID-19 pandemic (growth forecast at -1 percent; marked deterioration in fiscal and external positions). Shock expected to be temporary, followed by strong recovery and rapid reduction in imbalances.*
Financing strategy	*Similar to previous DSA, with a slowing path for new borrowing and similar terms. In addition, the crisis has created a financing need that is assumed to close with an IMF disbursement under the RCF and a grant under the CCRT, as well as donor support at favorable terms. As a result, the average grant element of new borrowing is projected to stabilize below 31 percent in the medium term.*
Realism tools flagged	*Large unexpected increase in public debt in last 5 years.*
Mechanical risk rating under the external DSA	*High*
Mechanical risk rating under the public DSA	*High*

[1] The debt coverage has not changed since the last DSA (September 2019).

[2] As per the last DSA update, Djibouti's debt-carrying capacity is classified as medium. The October 2019 WEO and the 2018 CPIA result in a composite indicator of 2.21, which corresponds to a weak debt carrying capacity, while the previous debt-carrying capacity was medium. Since two consecutive weak signals are required to downgrade the debt carrying capacity, the current classification is medium.

This updated 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 2020–26 and the debt service-to-revenue ratio increases and largely stays above its threshold from 2022 onward. However, the authorities are expected to be able to service their debt under current terms. Debt is therefore assessed as sustainable.

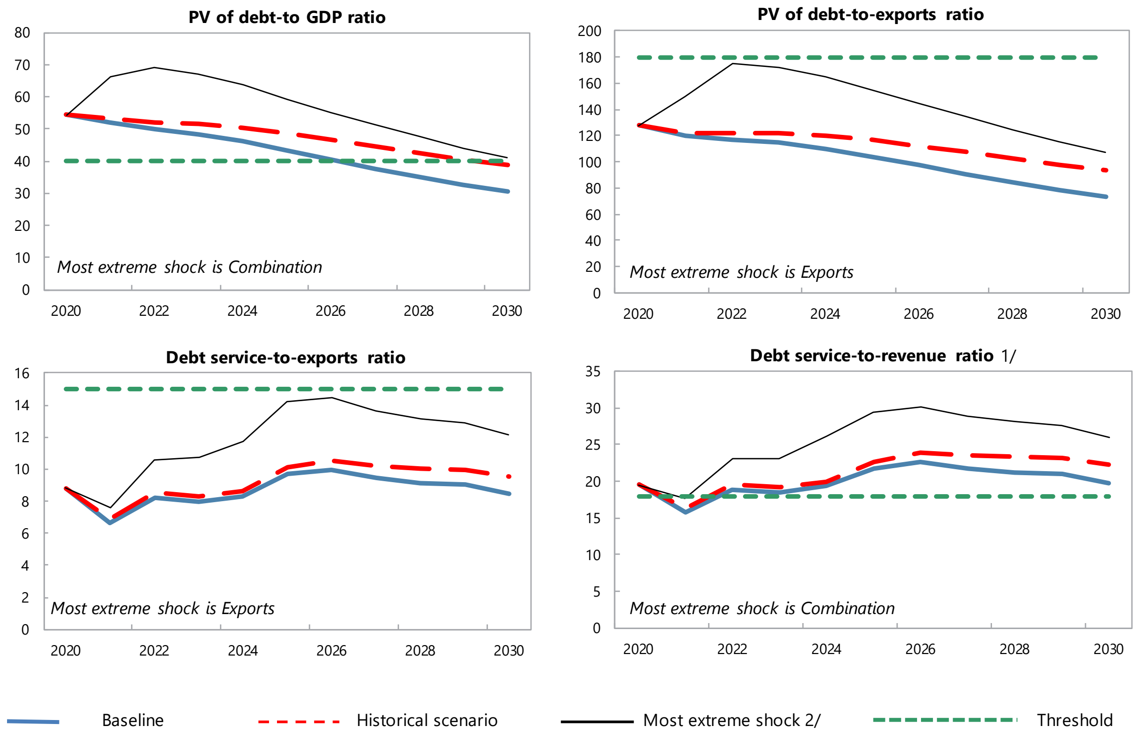
Compared to the previous DSA (September 2019), it points to a deterioration in debt indicators, reflecting the impact of the COVID-19 pandemic on macroeconomic prospects. The baseline macroeconomic assumptions for this update are consistent with those underpinning the authorities' request for IMF support under the RCF and the CCRT:

- *Djibouti is facing large negative demand and supply shocks that are projected to reduce 2020 real GDP growth to -1 percent. The shocks are expected to be temporary and followed by a strong recovery—10 percent growth in 2021, stabilizing around 6 percent by 2025.*
- *Additional health and other priority expenditures will be necessary this year to address the pandemic and its economic and social consequences, and the shocks are projected to reduce government revenue. As a result, the government fiscal deficit will increase to 4.5 percent of GDP this year before gradually declining to 1.3 percent over the medium term. Baseline projections assume a significant reduction in debt-financed infrastructure projects implemented by SOEs. For the purpose of the debt service-to-revenue ratio, the net income that SOEs can use for debt service is assumed to be equal to the total debt service due by SOEs (see footnote 1 in Figure 1).*
- *Lower external demand is expected to temporarily widen the underlying current account balance (excluding re-exports) this year, to about 3.6 percent of GDP. Foreign direct investment (FDI) is also projected to drop by 40 percent. The resulting balance of payments financing need of about 4.8 percent of GDP is assumed to be financed through IMF support under the RCF and the CCRT, as well as donor support at favorable terms.*

The debt sustainability assessment takes into consideration the understanding reached with Exim Bank of China in 2019 to restructure the railway loan and accumulated arrears, which is expected to be finalized soon. It also hinges upon the implementation of a range of fiscal and debt management reforms. This includes efforts to address and prevent recurrence of external arrears and to rapidly ramp up operations of several key projects to generate the revenues necessary for debt service. A combination of policies to reduce the pace of borrowing and prioritizing concessional financing and FDI, as well as reforms to strengthen the fiscal framework, public investment management, SOEs oversight, and debt management capacity are also necessary.

The authorities are committed to promptly resolve their outstanding external arrears, which are assessed to be below the de minimis threshold of 1 percent of GDP. As of end-March 2020, Djibouti had an outstanding stock of arrears to bilateral creditors in the order of 3.3 percent of GDP. The authorities have indicated that arrears reflect delays in finalizing conversions and cancellation agreements and arrears of a technical nature (due to weak debt management capacity and not indicative of a fundamental payment incapacity) or reflecting diplomatic disagreements. They have expressed a commitment to engage with their creditors to address these expeditiously. 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 0.97 percent of GDP and are therefore assessed to be below the de minimis threshold of 1 percent of GDP.

Figure 1. Djibouti: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2020–2030



Customization of Default Settings	Size	Interactions
Tailored Tests		
Combined CLs	No	
Natural Disasters	n.a.	n.a.
Commodity Prices [3/]	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	2.3%	2.3%
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.

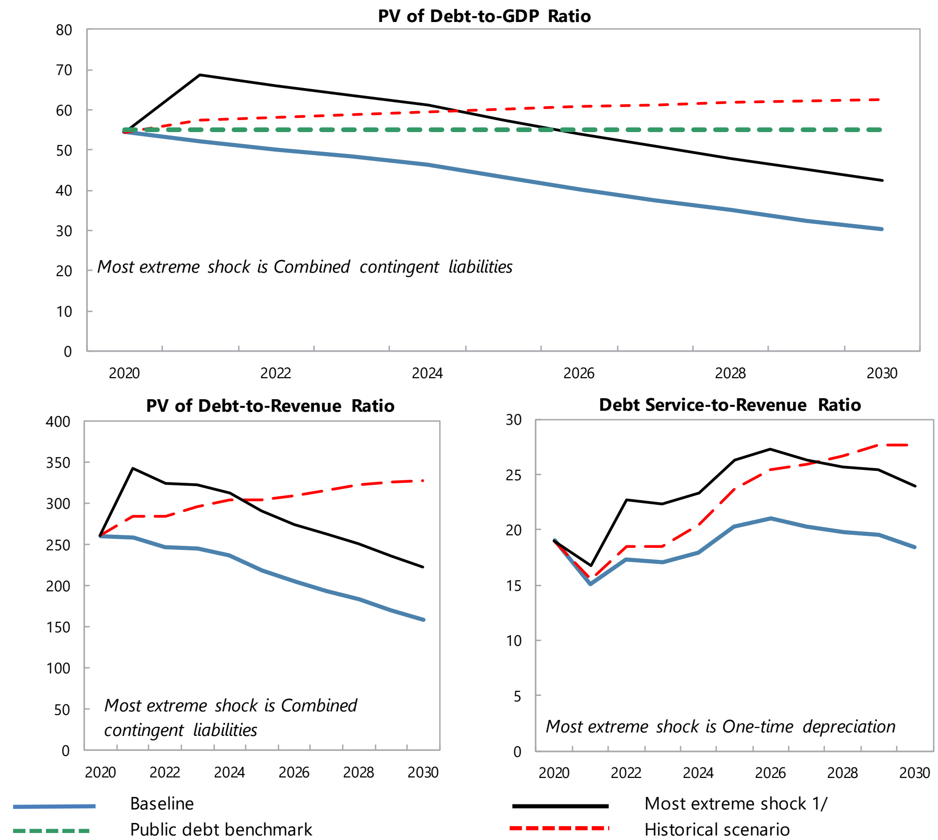
Sources: Country authorities; and staff estimates and projections.

1/ 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.

2/ The most extreme stress test is the test that yields the highest ratio in or before 2030. 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 extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

3/ 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, 2020–2030



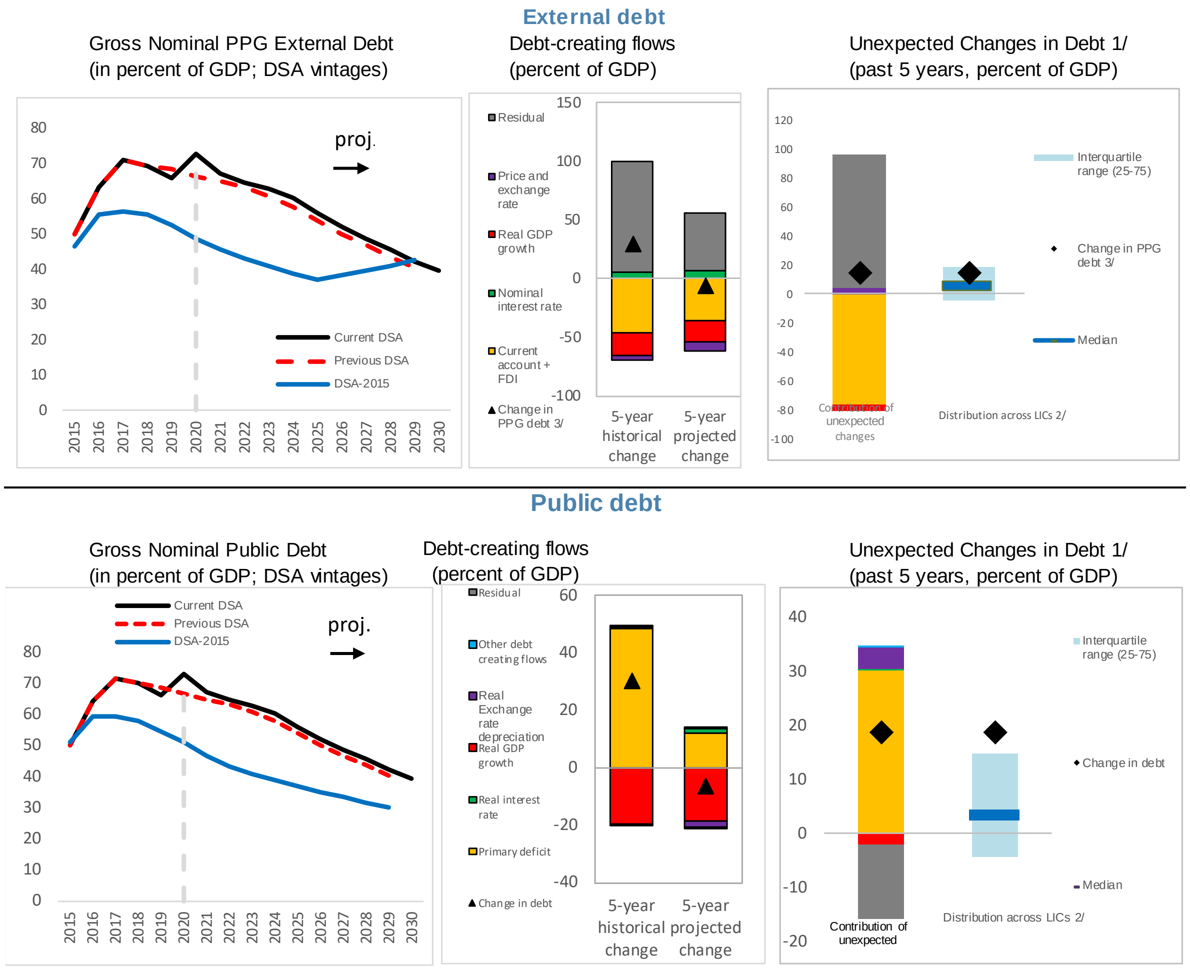
Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	100%	100%
Domestic medium and long-term	0%	0%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.3%	2.3%
Avg. 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 2030. 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.

Figure 3. Djibouti: Drivers of Debt Dynamics – Baseline Scenarios



Sources: Country authorities; and staff estimates and projections.

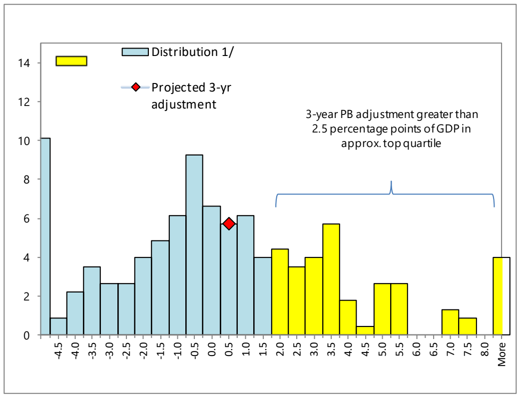
1/ Difference between anticipated and actual contributions on debt ratios.

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.

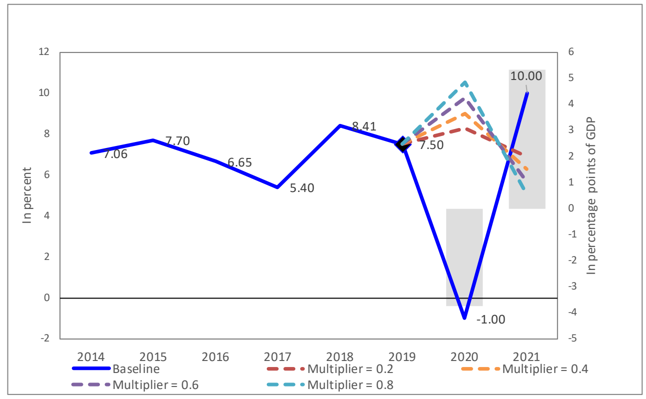
Figure 4. Djibouti: Realism Tools

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



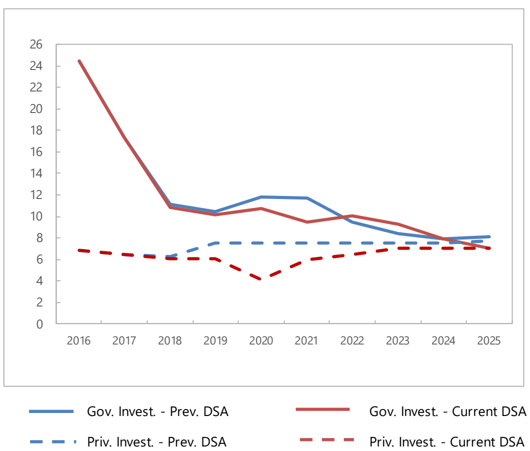
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

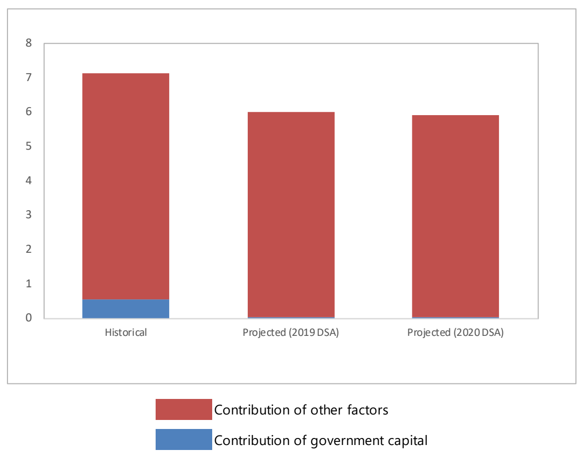


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates (% of GDP)



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



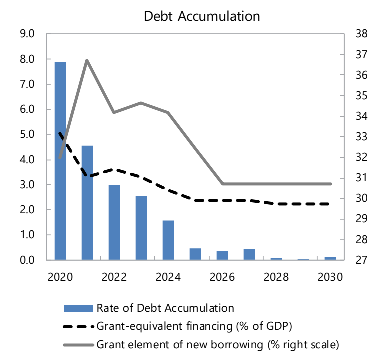
Sources: Country authorities; and staff estimates and projections.

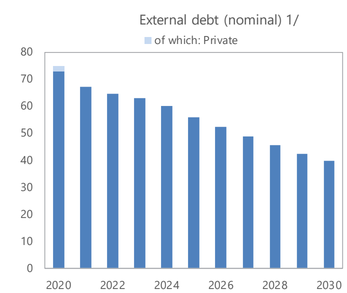
Table 1. Djibouti: External Debt Sustainability Framework, Baseline Scenario, 2017–2040

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 9/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
External debt (nominal) 1/	76.2	74.0	70.3	75.0	67.1	64.7	62.8	60.1	56.1	39.6	20.8	51.5	55.9
of which: public and publicly guaranteed (PPG)	70.9	69.2	66.0	72.9	67.1	64.7	62.8	60.1	56.1	39.6	20.8	50.1	57.3
Change in external debt	12.9	-2.2	-3.6	4.7	-7.9	-2.4	-1.9	-2.7	-4.1	-2.8	-1.2		
Identified net debt-creating flows	-8.0	-14.9	-16.0	0.5	-11.9	-11.6	-11.8	-12.0	-12.1	-10.9	-9.7	-10.9	-10.5
Non-interest current account deficit	0.1	-3.7	-3.9	2.1	-1.1	-2.2	-2.9	-3.5	-3.3	-3.0	-2.4	-2.7	-2.3
Deficit in balance of goods and services	2.4	2.9	0.7	5.3	1.3	0.1	-0.8	-1.6	-1.9	-1.9	-1.9	0.2	-0.5
Exports	51.1	48.7	50.5	42.4	43.6	42.7	42.2	42.0	41.4	41.4	41.4		
Imports	53.4	51.6	51.2	47.8	44.9	42.9	41.4	40.4	39.5	39.5	39.5		
Net current transfers (negative = inflow)	-5.6	-6.5	-5.9	-4.5	-4.3	-4.0	-3.7	-3.5	-3.3	-3.3	-3.3	-4.4	-3.7
of which: official	-0.2	-0.9	-2.0	-0.5	-0.7	-0.7	-0.6	-0.6	-0.5	-0.5	-0.5		
Other current account flows (negative = net inflow)	3.3	-0.1	1.3	1.3	1.9	1.6	1.6	1.7	1.9	2.3	2.9	1.5	1.9
Net FDI (negative = inflow)	-6.0	-5.6	-5.6	-3.8	-5.5	-6.0	-6.5	-6.5	-6.5	-6.5	-6.5	-5.0	-6.1
Endogenous debt dynamics 2/	-2.1	-5.5	-6.5	2.2	-5.2	-3.4	-2.4	-2.0	-2.2	-1.4	-0.9		
Contribution from nominal interest rate	1.3	1.1	0.9	1.5	1.4	1.5	1.5	1.5	1.1	0.8	0.2		
Contribution from real GDP growth	-3.2	-5.8	-5.0	0.7	-6.6	-4.9	-3.9	-3.5	-3.3	-2.2	-1.0		
Contribution from price and exchange rate changes	-0.2	-0.8	-2.4	...	...	...	...	...	...	...	...		
Residual 3/ 4/ 10/	20.9	12.7	12.4	4.2	4.0	9.2	9.9	9.3	8.0	8.1	8.5	13.7	7.7
of which: exceptional financing	0.0	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	47.4	54.3	52.1	50.0	48.4	46.2	43.2	30.4	17.0		
PV of PPG external debt-to-exports ratio	...	...	94.0	127.9	119.4	117.0	114.6	110.0	104.2	73.3	41.1		
PPG debt service-to-exports ratio	4.6	4.5	4.0	8.8	6.6	8.2	8.0	8.3	9.7	8.5	3.5		
PPG debt service-to-revenue ratio	10.1	10.4	10.3	19.5	15.7	18.8	18.4	19.3	21.7	19.8	8.1		
Gross external financing need (Million of U.S. dollars) 4/	-96.8	-216.3	-251.0	70.4	-144.0	-199.2	-279.5	-323.2	-314.0	-467.7	-1160.3		
Key macroeconomic assumptions													
Real GDP growth (in percent)	5.4	8.4	7.5	-1.0	10.0	8.0	6.5	6.0	6.0	5.5	5.0	6.4	5.9
GDP deflator in US dollar terms (change in percent)	0.3	1.0	3.3	2.9	2.8	2.0	2.0	2.0	2.0	2.0	2.0	2.4	2.3
Effective interest rate (percent) 5/	2.1	1.6	1.3	2.2	2.1	2.4	2.5	2.5	2.0	1.9	0.8	1.7	2.3
Growth of exports of G&S (US dollar terms, in percent)	12.9	4.3	15.3	-14.4	16.1	8.0	7.3	7.6	6.6	7.6	7.1	5.8	5.2
Growth of imports of G&S (US dollar terms, in percent)	22.7	5.7	10.2	-5.0	6.3	5.2	4.9	5.4	5.7	7.6	7.1	7.3	3.8
Grant element of new public sector borrowing (in percent)	...	...	...	32.0	36.7	34.2	34.7	34.2	32.4	30.7	30.7	...	34.0
Government revenues (excluding grants, in percent of GDP)	23.4	21.3	19.6	19.2	18.3	18.6	18.2	18.1	18.4	17.8	17.8	21.4	18.5
Aid flows (in Million of US dollars) 6/	77.7	147.1	189.3	135.8	156.8	155.5	153.9	137.5	106.6	102.2	202.6		
Grant-equivalent financing (in percent of GDP) 7/	...	...	...	5.0	3.3	3.6	3.3	2.8	2.4	2.2	1.8	...	3.4
Grant-equivalent financing (in percent of external financing) 7/	...	...	...	41.7	56.1	48.8	49.6	51.1	51.4	51.6	62.9	...	49.8
Nominal GDP (Million of US dollars)	2,751	3,013	3,346	3,409	3,853	4,244	4,611	4,985	5,390	7,852	15,590		
Nominal dollar GDP growth	5.7	9.5	11.1	1.9	13.0	10.2	8.6	8.1	8.1	7.6	7.1	8.9	8.3
Memorandum items:													
PV of external debt 8/	...	...	51.7	56.4	52.1	50.0	48.4	46.2	43.2	30.4	17.0		
In percent of exports	...	...	102.5	132.9	119.4	117.0	114.6	110.0	104.2	73.3	41.1		
Total external debt service-to-exports ratio	4.6	4.5	4.0	8.8	6.6	8.2	8.0	8.3	9.7	8.5	3.5		
PV of PPG external debt (in Million of US dollars)			1587.5	1851.3	2006.1	2121.8	2230.3	2303.3	2326.1	2383.3	2655.7		
(PVt-PVt-1)/GDPt-1 (in percent)				7.9	4.5	3.0	2.6	1.6	0.5	0.1	0.5		
Non-interest current account deficit that stabilizes debt ratio	-12.8	-1.6	-0.3	-2.6	6.8	0.2	-1.0	-0.8	0.8	-0.2	-1.1		

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 - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) 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.

10/ Exceptional financing includes debt relief for the first 6-month tranche and the next 18 months. The next 18 months of debt service relief is expected subject to availability of CCRT resources.

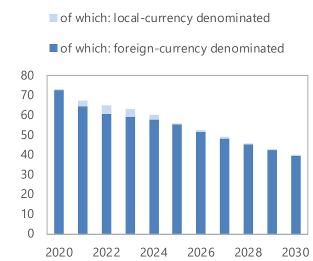
Table 2. Djibouti: Public Sector Debt Sustainability Framework, Baseline Scenario, 2017–2040

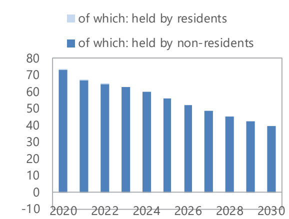
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
Public sector debt 1/	**71.6**	**69.9**	**66.5**	**73.1**	**67.1**	**64.7**	**62.8**	**60.1**	**56.1**	**39.6**	**20.8**	**50.3**	**57.3**
of which: external debt	**70.9**	**69.2**	**66.0**	**72.9**	**67.1**	**64.7**	**62.8**	**60.1**	**56.1**	**39.6**	**20.8**	**50.1**	**57.3**
Change in public sector debt	7.4	-1.7	-3.5	6.7	-6.0	-2.4	-1.9	-2.7	-4.1	-2.8	-1.2		
Identified debt-creating flows	**7.4**	**-1.7**	**-3.5**	**6.6**	**-6.1**	**-2.5**	**-2.0**	**-2.8**	**-4.1**	**-2.8**	**-1.2**	**1.5**	**-2.5**
Primary deficit	**9.5**	**3.4**	**2.6**	**6.4**	**1.1**	**2.3**	**1.8**	**0.6**	**-0.7**	**-0.5**	**0.1**	**5.6**	**0.9**
Revenue and grants	25.2	24.6	22.9	20.9	20.1	20.3	19.8	19.5	19.7	19.1	19.1	**25.1**	**19.8**
of which: grants	1.8	3.3	3.3	1.7	1.8	1.7	1.5	1.4	1.3	1.3	1.3		
Primary (noninterest) expenditure	34.7	28.0	25.5	27.3	21.2	22.6	21.5	20.1	19.1	18.6	19.2	**30.7**	**20.6**
Automatic debt dynamics	**-2.1**	**-5.1**	**-6.1**	**0.3**	**-7.0**	**-4.8**	**-3.8**	**-3.3**	**-3.4**	**-2.2**	**-1.3**		
Contribution from interest rate/growth differential	-3.1	-6.0	-5.1	1.7	-6.4	-4.8	-3.8	-3.3	-3.0	-1.9	-1.1		
of which: contribution from average real interest rate	0.2	-0.5	-0.2	1.0	0.2	0.2	0.2	0.2	0.4	0.3	-0.1		
of which: contribution from real GDP growth	-3.3	-5.6	-4.9	0.7	-6.6	-5.0	-4.0	-3.6	-3.4	-2.2	-1.0		
Contribution from real exchange rate depreciation	1.0	0.9	-1.0	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.0**	**0.0**	**0.0**	**-0.1**	**-0.1**	**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) 7/	0.0	0.0	0.0	-0.1	-0.1	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**	**-1.3**	**-0.5**	**0.1**	**0.1**	**0.1**	**-0.4**	**-0.3**	**-0.2**	**0.9**	**-0.4**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**47.9**	**54.5**	**52.1**	**50.0**	**48.4**	**46.2**	**43.2**	**30.4**	**17.0**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**209.5**	**260.6**	**258.9**	**246.3**	**244.9**	**236.7**	**218.7**	**159.0**	**89.2**		
Debt service-to-revenue and grants ratio 3/	**10.5**	**10.0**	**9.9**	**19.0**	**15.1**	**17.3**	**17.0**	**17.9**	**20.3**	**18.4**	**7.5**		
Gross financing need 4/	10.9	4.8	4.9	10.3	4.0	5.8	5.1	4.1	3.3	3.0	1.5		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	5.4	8.4	7.5	-1.0	10.0	8.0	6.5	6.0	6.0	5.5	5.0	**6.4**	**5.8**
Average nominal interest rate on external debt (in percent)	2.1	1.7	1.4	2.3	2.2	2.4	2.5	2.5	2.0	1.9	0.8	**1.7**	**2.2**
Average real interest rate on domestic debt (in percent)	3.9	2.9	-1.4	-1.3	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	**-0.2**	**-1.9**
Real exchange rate depreciation (in percent, + indicates depreciation)	1.6	1.4	-1.5	...	...	...	...	...	...	...	...	**-0.7**	**...**
Inflation rate (GDP deflator, in percent)	0.3	1.0	3.3	2.9	2.8	2.0	2.0	2.0	2.0	2.0	2.0	**2.4**	**2.2**
Growth of real primary spending (deflated by GDP deflator, in percent)	-13.4	-12.6	-2.1	6.0	-14.6	15.1	1.6	-1.1	0.5	6.7	5.2	**4.8**	**2.7**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	2.2	5.1	6.1	-0.3	7.0	4.7	3.7	3.3	3.4	2.2	1.3	**4.5**	**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.

7/ Debt relief considered under CCRT recorded in the table.

Table 3. Djibouti: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2020–2030

(In percent)

	Projections										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of debt-to GDP ratio											
Baseline	54	52	50	48	46	43	40	38	35	33	30
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	54	53	52	51	50	48	47	45	43	41	39
B. Bound Tests											
B1. Real GDP growth	54	56	57	55	52	49	46	43	40	37	34
B2. Primary balance	54	60	65	63	60	56	53	49	46	43	41
B3. Exports	54	56	60	58	55	52	48	45	41	38	36
B4. Other flows 2/	54	58	62	60	57	53	49	46	42	39	36
B6. One-time 30 percent nominal depreciation	54	65	61	59	56	52	49	46	43	40	37
B6. Combination of B1-B5	54	66	69	67	64	59	55	51	48	44	41
C. Tailored Tests											
C1. Combined contingent liabilities	54	69	66	64	61	57	54	51	48	45	42
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	128	119	117	115	110	104	97	91	85	79	73
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	128	122	122	122	120	117	112	108	103	98	93
B. Bound Tests											
B1. Real GDP growth	128	119	117	115	110	104	97	91	85	79	73
B2. Primary balance	128	138	152	148	142	135	127	119	112	104	98
B3. Exports	128	150	176	172	165	155	144	134	125	115	107
B4. Other flows 2/	128	133	145	142	136	128	119	110	103	95	88
B6. One-time 30 percent nominal depreciation	128	119	113	111	106	101	94	88	82	76	71
B6. Combination of B1-B5	128	153	140	161	154	145	135	126	117	108	100
C. Tailored Tests											
C1. Combined contingent liabilities	128	158	154	151	145	138	130	123	115	108	102
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	9	7	8	8	8	10	10	9	9	9	8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	9	7	9	8	9	10	11	10	10	10	10
B. Bound Tests											
B1. Real GDP growth	9	7	8	8	8	10	10	9	9	9	8
B2. Primary balance	9	7	9	9	10	12	12	12	11	11	11
B3. Exports	9	8	11	11	12	14	14	14	13	13	12
B4. Other flows 2/	9	7	9	9	10	12	12	11	11	11	10
B6. One-time 30 percent nominal depreciation	9	7	8	8	8	9	10	9	9	9	8
B6. Combination of B1-B5	9	7	10	10	11	13	14	13	12	12	11
C. Tailored Tests											
C1. Combined contingent liabilities	9	7	9	9	9	11	11	10	10	10	9
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	20	16	19	18	19	22	23	22	21	21	20
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	20	16	20	19	20	23	24	23	23	23	22
B. Bound Tests											
B1. Real GDP growth	20	17	21	21	22	25	25	25	24	24	22
B2. Primary balance	20	16	20	21	23	27	28	27	26	26	25
B3. Exports	20	16	19	20	22	26	26	25	24	24	23
B4. Other flows 2/	20	16	20	20	23	26	27	26	25	25	23
B6. One-time 30 percent nominal depreciation	20	20	24	23	24	26	28	27	26	26	24
B6. Combination of B1-B5	20	18	23	23	26	29	30	29	28	28	26
C. Tailored Tests											
C1. Combined contingent liabilities	20	16	21	21	22	24	25	24	23	23	21
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 4. Djibouti: Sensitivity Analysis for Key Indicators of Public Debt, 2020–2030

(In percent)

	Projections										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	PV of Debt-to-GDP Ratio										
Baseline	55	52	50	48	46	43	40	38	35	33	30
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	55	**57**	**58**	**59**	**60**	**60**	**61**	**61**	**62**	**62**	**63**
B. Bound Tests											
B1. Real GDP growth	55	**57**	**60**	**59**	**59**	**57**	55	53	52	50	49
B2. Primary balance	55	**60**	**65**	**63**	**60**	**56**	53	50	46	43	41
B3. Exports	55	**56**	**60**	**58**	**56**	52	48	45	42	38	36
B4. Other flows 2/	55	**58**	**62**	**60**	**57**	53	49	46	42	39	36
B6. One-time 30 percent nominal depreciation	55	**67**	**62**	**58**	54	49	45	41	37	33	30
B6. Combination of B1-B5	55	**60**	**57**	50	48	45	42	39	36	34	31
C. Tailored Tests											
C1. Combined contingent liabilities	55	**69**	**66**	**64**	**61**	**58**	54	51	48	45	43
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	55	55	55	55	55	55	55	55	55	55
	PV of Debt-to-Revenue Ratio										
Baseline	261	259	246	245	237	219	205	194	184	171	159
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	261	284	285	297	304	305	309	316	323	326	328
B. Bound Tests											
B1. Real GDP growth	261	283	290	298	298	285	277	273	269	261	254
B2. Primary balance	261	299	320	318	308	286	269	256	243	228	214
B3. Exports	261	281	297	295	285	262	245	231	218	202	187
B4. Other flows 2/	261	288	305	303	292	268	250	236	222	206	191
B6. One-time 30 percent nominal depreciation	261	336	309	297	279	252	230	211	194	174	156
B6. Combination of B1-B5	261	296	282	252	244	226	211	201	190	176	165
C. Tailored Tests											
C1. Combined contingent liabilities	261	342	325	323	313	291	275	263	251	236	223
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	19	15	17	17	18	20	21	20	20	20	18
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2040 1/	19	16	19	19	20	24	25	26	27	28	28
B. Bound Tests											
B1. Real GDP growth	19	16	20	19	21	24	26	25	26	26	25
B2. Primary balance	19	15	18	19	22	26	26	25	25	24	23
B3. Exports	19	15	18	19	20	24	24	24	23	22	21
B4. Other flows 2/	19	15	18	19	21	24	25	24	23	23	22
B6. One-time 30 percent nominal depreciation	19	17	23	22	23	26	27	26	26	25	24
B6. Combination of B1-B5	19	15	18	17	18	21	21	21	20	20	19
C. Tailored Tests											
C1. Combined contingent liabilities	19	15	20	19	20	22	23	22	22	21	20
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.

Statement by Mr. Raghani, Executive Director for Djibouti and Mr. N'Sonde and Mr. Olhaye, Advisors to the Executive Director

I. Introduction

On behalf of our Djiboutian authorities, we thank the Executive Board, Management and Staff for their continued and valued support. Our authorities are appreciative of the speedy response to their requests for emergency assistance during this exceptionally difficult period.

The coronavirus (COVID-19) pandemic has severely impacted Djibouti. The number of COVID-19 cases is still rising. Growth is fading as global slowdown coupled with vital mitigation and containment measures are affecting Djibouti's logistics sector and trade services, the backbone of its economy. Furthermore, the impact of the pandemic is curtailing FDI. Consequently, the external and fiscal positions have deteriorated in a significant manner while the short-term outlook is worsening rapidly, giving rise to urgent and large financing needs. Against this backdrop, the authorities request a disbursement under the Rapid Credit Facility (RCF) in the amount of SDR 31.8 million (100 percent of quota) to cope with the economic impact of the shock. In the same vein, they request debt relief under the Catastrophe Containment and Relief Trust (CCRT) in an amount up to SDR 6.03 million to cover payments due to the Fund until April 13, 2022.

II. Economic Performance Prior to the Pandemic

Growth was strong in 2019 at 7.5 percent, driven by critical large-scale investments in transshipment, trading and logistics sectors over the recent years, positioning Djibouti as the regional trade and logistics hub. Investments in tourism and telecommunications have further contributed to growth. On the fiscal front, the deficit had fallen sharply to 0.8 percent of GDP in 2019 due to subsequent reduction in capital spending. The authorities have been steady in their commitment to strengthen debt sustainability. Moreover, they have reached a good understanding with Exim Bank of China on restructuring an important railway loan.

III. Impact of the Pandemic

The COVID-19 outbreak and the ensuing global economic recession has led Djibouti's trade and logistics-based economy to weaken even before the country's first coronavirus case was reported on March 23rd. In response, the authorities quickly put in place strict containment and mitigation measures. In particular, they have banned all cross-border travel, closed schools and restaurants, cancelled all public events, including religious gatherings, and imposed a stay-at-home order for non-essential employees.

Containment measures are having a severe adverse impact on Djibouti's large informal sector, which accounts for an important source of income for a significant population of refugees and migrants. At the same time, Djibouti has been hit hard by flash floods recently, which have resulted in landslides, human casualties and destruction of homes, and left key roadways damaged. Food security in the region is also threatened by desert locust swarms.

As a result of the pandemic and the unavoidable containment and mitigation measures, the economy is projected to contract sharply by 1 percent of GDP in 2020, a more than 8percentage point downward swing from 2019. The fiscal deficit is expected to widen markedly this year on the back of increased expenditures of 2.4 percent of GDP stemming notably from additional health costs and emergency spending to support businesses and households. Domestic revenues are projected to drop by an estimated 0.9 percent of GDP. Furthermore, depressed demand for Djibouti's port and associated services and weaker tourism sector will reduce the current account balance by 4.2 percent of GDP. The balance of payments needs resulting from the crisis is projected at US$ 164 million, equivalent to 4.8 percent of GDP. Moreover, the risks of a deeper economic recession remain high.

IV. Policy Responses to the Pandemic

Under the leadership of the Head of State, H.E. Ismael Omar Guelleh, a high-level task force was formed to coordinate, implement and oversee essential containment and mitigation measures described above, with a focus on containing the spread of the virus, minimizing the human losses and mitigating the economic fallout. Notable progress has been made on containment and prevention (contact tracing and isolation), and testing, including through household door-to-door operations.

On the fiscal front, the authorities aim to create more space to accommodate additional health spending, enhance support for businesses and households, and increase social spending for the most vulnerable populations, including the large number of refugees, homeless and migrant populations. In this regard, spending has been rationalized during this period to focus primarily on COVID-19 related expenditures. Later this month, the Parliament is expected to adopt a supplementary budget. Our authorities are committed to ensuring transparency in the use of emergency funding. In this vein, they will publish on the Ministry of Budget's website all COVID-19 related expenditures in excess of US$ 100,000 and commission an independent ex-post audit of pandemic-related spending.

The authorities recognize the fine balance that must be struck between allowing a fiscal deficit in the short-term and maintaining debt sustainability. In this connection, they reaffirm their determination to place the debt-to-GDP ratio on a downward trajectory by maximizing revenue generation from key investment projects once the pandemic subsides. What is more, they will continue to prioritize concessional financing and FDI for funding key projects while bolstering their public financial and debt management capacities. The authorities are also exploring other avenues to enhance domestic resource mobilization with the technical assistance of the IMF and the World Bank, including streamlining special free-zone regimes. It is worth noting that these arrangements have played a pivotal role in attracting business and spurring private sector development in Djibouti.

The authorities remain committed to engaging actively with concerned creditors to resolve outstanding external arrears while working with the Fund to improve cash management. They also intend to further enhance debt management capacities with the support of development partners, including the Fund and the World Bank. As regards monetary and financial sector policies, the central bank (Banque Centrale de Djibouti, BCD) is dutifully focused on maintaining price and financial stability while supporting economic activity. To reassure financial institutions, BCD has encouraged prudent renegotiation of loan terms when warranted. The central bank also continues to stress the importance of loans' classification and the use of capital and liquidity buffers to maintain appropriate liquidity and preserve the financial stability. At the same time, supervisory and surveillance measures have been intensified to further assess banks' liquidity positions and urge them to strengthen liquidity risk controls and enhance their management oversight. The authorities also remain committed to undertake an update of safeguards assessment prior to any new arrangement with the Fund.

V. Conclusion

After being hit by natural disasters in recent years, Djibouti is now confronting the impact of the COVID-19 crisis. Our Djiboutian authorities have taken important containment and mitigation actions that have yielded positive outcomes. The economic effects of the pandemic, including on the sizeable informal sector and the most vulnerable populations, are proving to be extremely challenging. This leads our authorities to request emergency financing and for debt service relief from the Fund. They would like to reassure on their adherence to best practices on fiscal management and transparency and their commitment to maintain adequate communication with the Fund to ensure that the emergency assistance is effectively utilized for its purpose. They are also engaging with development partners to seek additional financing to fill the remaining financing gap caused by the pandemic.

In this context, our Djiboutian authorities would greatly appreciate the Executive Board's approval of their requests.