July 2012
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Djibouti: Fourth Review Under the Extended Credit Facility Arrangement and Request for Waivers of Nonobservance of Performance Criteria—Staff Report and Press Release.

In the context of the fourth review under the extended credit facility arrangement and request for waivers of nonobservance of performance criteria, the following documents have been released and are included in this package:

- The staff report for the Fourth Review Under the Extended Credit Facility Arrangement and Request for Waivers of Nonobservance of Performance Criteria, prepared by a staff team of the IMF, following discussions that ended on June 1, 2011, with the officials of Djibouti on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 23, 2011. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Press Release summarizing the views of the Executive Board.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Djibouti*
Technical Memorandum of Understanding*

*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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DJIBOUTI

Fourth Review Under the Extended Credit Facility Arrangement and Request for Waivers of Nonobservance of Performance Criteria

Prepared by the Middle East and Central Asia Department
(In consultation with other departments)

Approved by Adnan Mazarei and Dhaneshwar Ghura

June 23, 2011

- **Fourth review under the Extended Credit Facility (ECF):** Discussions were held in Djibouti during May 22–June 1st, 2011. The staff team comprised Messrs. Sdralevich (head) and Davies, and Ms. Gicquel (all MCD), and Mr. Million (SPR). The mission met with the governor of the Central Bank of Djibouti (CBD), the minister of finance, senior government officials and representatives of public enterprises, the private sector, and the donor community. World Bank staff attended some of the meetings. Mr. Thiam (resident representative) assisted the mission.
- **Fund relations:** The ECF arrangement (September 2008–June 2012) was approved in September 2008 in the amount of SDR 12.72 million (80 percent of quota). The first review of the program took place on June 17, 2009, and the second and third reviews were completed on January 7, 2011 together with the 2010 Article IV consultations. Djibouti's outstanding purchases and loans from the Fund were SDR 10.84 million (68.15 percent of quota) as of May 31, 2011.
- **Exchange rate regime:** The CBD operates a currency board arrangement pegged to the U.S. dollar at the rate of Djibouti Franc 177.721 per US dollar. Djibouti has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on payments and transfers for current international transactions.
- **Safeguards assessment:** A mission took place in June-July 2008.
- **Financial Sector Assessment Program:** The report was discussed by the Board on June 17, 2009.

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EXECUTIVE SUMMARY

1. **President Guelleh was re-elected for a third term.** The April election took place following anti-government protest and was initially boycotted by the opposition.

2. **Economic activity and inflation are picking up.** Growth in 2010 fell to 3.5 percent, due mainly to the suspension of port transshipment activity, disappointing FDI, and weak transit trade from Ethiopia. But these factors should reverse in 2011, pushing GDP growth to almost 5 percent. Driven by international food and oil prices, inflation is projected to increase from 4 percent in 2010 to almost 9 percent in 2011. This year, the current account deficit is expected to deteriorate as activity picks up, but, with a recovery in capital inflows, international reserves are projected to strengthen.

3. **The ECF program is broadly on track.** Fiscal discipline was maintained in 2010 and in the first months of 2011, and all the quantitative performance criteria for end-December 2010 were met. But, in 2011, due to the elections and government transition, the authorities did not observe the two performance criteria on the non-accumulation of domestic arrears and non-accumulation of external arrears, as they delayed some wage and pension payments and paid in May debt service that was due in March to Paris Club creditors. The structural benchmarks were met, except for the end-March 2011 benchmark on cabinet approval of a new customs code (which was approved in June) and the continuous benchmark on web posting of fiscal reports, which suffered from delays due to the elections.

4. **In 2011, the authorities intend to**:

- **Maintain fiscal discipline**, with a budget surplus for the year (compared to a small deficit in the original program) needed to catch up with the payment of some domestic arrears, originally scheduled for 2010, and lower external financing;
- **Create fiscal space for subsidies on food and fuel** to soften the impact of high international prices on poor households and help contain inflation;
- **Resume structural reforms** to strengthen tax revenue and public financial management, bank supervision, and central bank governance;
- **Tackle high unemployment** through job market initiatives and structural reforms to lower input costs, particularly of energy.

5. **Staff supports the authorities' requests.** Staff supports the completion of the fourth review under the ECF and the waivers of nonobservance of the performance criteria on the non-accumulation of domestic arrears and the non-accumulation of external arrears.

I. Background

1. **As expected, the April elections confirmed President Guelleh for a third term.** The constitution was changed last year to allow for unlimited re-election of the president. Mr. Guelleh obtained 80 percent of the votes, with the remainder going to the only other candidate, an independent. Following the crackdown of anti-government demonstrations in February and March, the opposition initially boycotted the elections, but decided just before the polls to support the challenger to Mr. Guelleh. Most ministers in the recently appointed government are new and with a background in the public administration or in business, including the minister of finance.

2. **Mr. Guelleh faces difficult challenges at home and abroad.** Domestically, his main challenge is to tackle poverty and unemployment and maintain high rates of economic growth. Abroad, he has to manage a delicate balance in the complex regional political situation, particularly in the south vis-à-vis Somalia; in the north with Eritrea, with which the conflict has been suspended thanks to Qatari mediation, but not resolved; and in the east, with a possible humanitarian crisis in Yemen.

II. Recent Economic Developments and Program Performance

3. **Economic activity weakened in 2010 but is expected to recover this year.** GDP growth in 2010 is estimated at 3½ percent, down from 5 percent in 2009, due mainly to the suspension of port transshipment activity, disappointing foreign direct investment (FDI), and the impact of the devaluation of the birr on transit trade from Ethiopia (Figure 1). Port activity and FDI should rebound in 2011 and push growth to almost 5 percent for the year. The current account deficit fell to about 5 percent of GDP in 2010, but is expected to deteriorate to over 10 percent in 2011 in line with recovering economic activity, international food and fuel prices surge, and FDI-related imports increase (Figure 2).

Djibouti: Main Macroeconomic Indicators, 2008-12

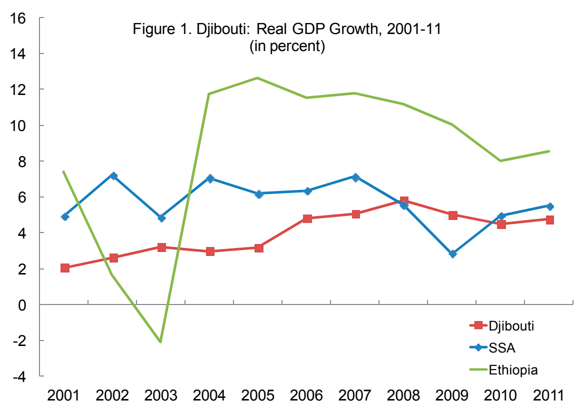
	2008	2009	2010	2011 Proj.	2012 Proj.
Real GDP growth	5.8	5.0	3.5	4.8	5.1
Inflation, average	12.0	1.7	4.0	8.5	1.9
Current account balance (percent of GDP)	-24.3	-9.1	-4.8	-10.4	-11.6
Gross official reserves 1/	3.6	5.2	4.1	3.8	3.7
Memorandum Items:					
Ethiopia: Real GDP growth	11.2	10.0	8.0	8.5	8.0

Sources: Djibouti authorities; and IMF staff estimates.

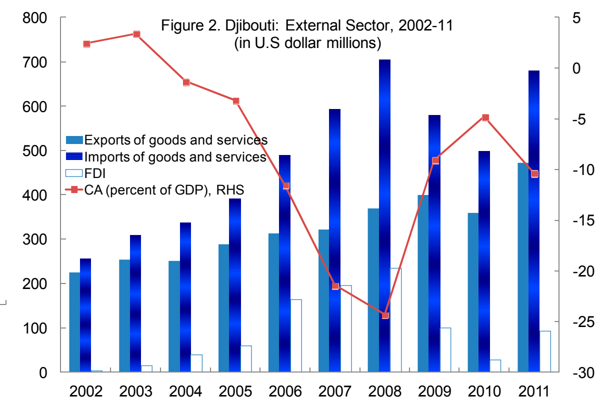
1/ In months of following year's imports.

However, international reserves of $231 million at end-2010 are projected to rise to over $240 million in 2011 thanks to the expected increase in capital inflows and ECF disbursements. As a result, currency board cover is expected to remain above the program floor of 105 percent.[1]

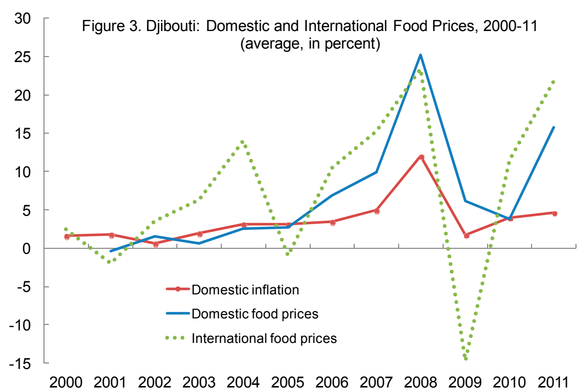
4. **World food and oil prices are pushing inflation up.** Inflation is projected to rise from 4 percent in 2010 to almost 9 percent in 2011, before tapering off to below 2 percent in 2012 as international prices are expected to weaken (Figure 3). In 2011, the acceleration of prices will likely further worsen the real effective exchange rate, which has been appreciating since 2008 due to the strength of the U.S. dollar and the rise in domestic prices (Figure 4).



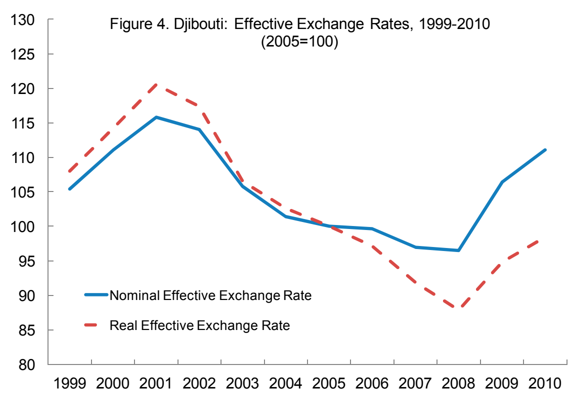
Source: IMF *World Economic Outlook*, April 2011.



Source: Djibouti authorities; and Fund staff estimates and projections.



Source: IMF *World Economic Outlook*, April 2011; Djibouti authorities; and Fun d staff projections.



Source: IMF *Information Notice System*.

5. **The authorities maintained fiscal discipline in 2010, but fiscal performance weakened in the first months of 2011.** The 2010 fiscal deficit matched the program target of 0.5 percent of GDP, thanks to spending discipline in the face of lower-than-expected tax revenues. Also, the authorities avoided extra-budgetary spending. However, they postponed

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[1] Currency board cover is defined as gross foreign assets of the CBD in percent of monetary liabilities (reserve money and government deposits at the CBD).

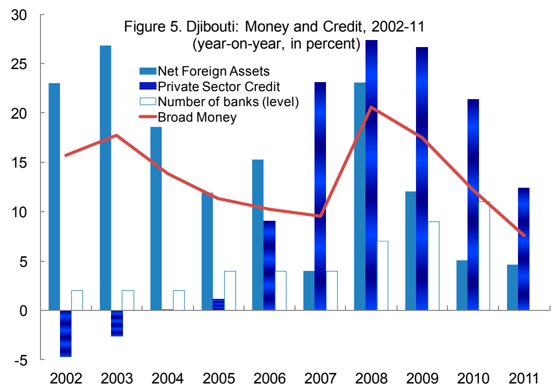
to this year the repayment of some domestic arrears scheduled to be paid in 2010.[2] In the first quarter of 2011, fiscal performance was weaker than expected, resulting in a slight deficit, instead of the programmed surplus, due mostly to weak tax and nontax revenue recovery in the run-up to the elections, which was not fully matched by spending cuts. In February and March of this year, the authorities exceeded the ceiling on the stock of domestic arrears by about 0.1 percent of GDP, leading to the nonobservance of the continuous performance criterion on domestic arrears.[3] Moreover, mainly owing to capacity and coordination problems in the government, they paid in May external debt service due in March, amounting to about 0.06 percent of GDP to two Paris Club creditors, leading to the nonobservance of the continuous criterion on the non-accumulation of external arrears.

6. **After years of strong growth, broad money and credit to the private sector contracted in the first quarter of 2011.** This reversal is likely due to capital flight triggered by domestic and regional political instability, the repatriation of some deposits held at the *Banque Indosuez Mer Rouge* (BIS-MR)[4] following its sale to the Bank of Africa (BoA) group, and delays in the execution of projects in the run-up to the elections. But the latest monetary data point to a return of capital, and the recovery of credit and money growth; overall trends for the year are thus expected to be positive (Figures 5 and 6). The banking sector, according to end-2010 indicators, remains overall healthy, with high profitability and nonperforming loans of about 6 percent of total loans.

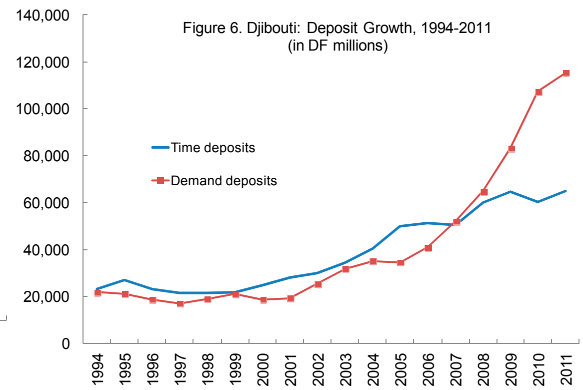
[2] These arrears are part of the stock of domestic arrears accumulated in the 1990s and early 2000s, which were settled in 2003 by a presidential decree envisaging a ten-year repayment plan.

[3] The ECF program allows the month-to-month carryover of a month of wages (reflecting the government's delay in paying public employees) and up to a quarter of social contributions (which accrue monthly but are paid by the government on a quarterly basis). Within the year, the sum of these two amounts defines the ceiling of the performance criterion on the non-accumulation of domestic arrears. The ceiling is designed to limit the total amount of payments delayed each month, to avoid the use of this technical float for deficit financing purposes. Delayed payments are not considered legally in arrears until the closure of the budget cycle, i.e., until March of the following year.

[4] The former BIS-MR, now BoA, is the second largest bank. BoA and the partially French-owned *Banque Commerce et Industrie* hold more than 80 percent of banking system assets.



Source: Djibouti authorities; and Fund staff estimates and projections.



Source: Djibouti authorities; and Fund staff estimates and projections.

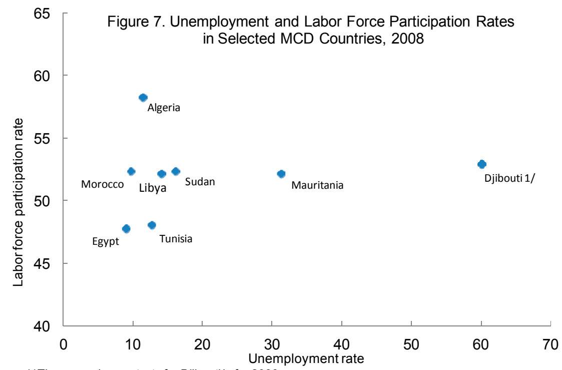
7. **The program is broadly on track.** All the quantitative performance criteria for end-December 2010 have been met. As described above, in 2011 the authorities however did not observe the continuous performance criteria on the non-accumulation of domestic arrears and the non-accumulation of external arrears. Structural benchmarks were met (including some due end-June 2011) except for the end-March 2011 structural benchmark on a new customs code consistent with COMESA rules, which, due to the government transition, has been approved by the cabinet in June, and the continuous benchmark on web-posting of the fiscal reports, which suffered from delays in preparation of the fiscal data due to the elections.

III. Policy Discussions

8. **Discussions focused on the policy challenges facing the authorities during the remainder of 2011.** In the real sector, the authorities' main concerns remain how to tackle unemployment and lower input costs, particularly of energy, and to promote investment and private sector development. In the fiscal sector, the challenges are maintaining fiscal discipline despite the impact of high food and fuel prices on subsidy spending and transfers to the electricity company, and reviving fiscal reform in tax revenue administration and public financial management after the pause of the elections. Public debt issues center on resuming the regular repayment of existing domestic arrears and preventing the new accumulation of external arrears. In the monetary and financial sector, the emphasis is on strengthening bank supervision through the implementation of the new banking law.

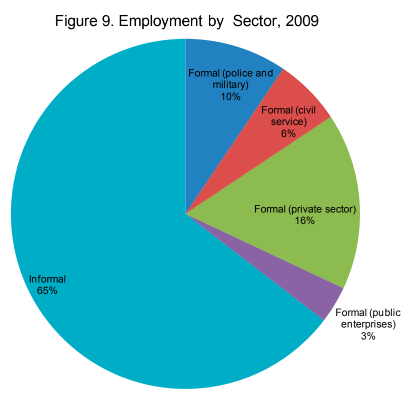
A. Employment and Input Costs

9. **Tackling unemployment is at the forefront of the new government's agenda.** A recent labor survey confirmed that unemployment rates are extremely high compared to other Middle East and Northern Africa countries (Figure 7), and that unemployment affects in particular the youth (Figure 8). The authorities are strengthening professional education to tackle the mismatch between the labor skills and demand, particularly in the most dynamic sectors of the economy such as the port activities. Aware that the public sector cannot absorb the growing supply of university graduates (Figure 9), they have launched micro financing and loan-guarantee programs to support self-employment of new graduates, especially in the services sector.



1/ The unemployment rate for Djibouti is for 2009.
Source: IMF *World Economic Outlook*, April 2011; World Bank *World Development Indicators;* and Fund staff estimates.

Source: Djibouti authorities.



Source: Djibouti authorities.

10. **The authorities made progress toward tackling high input costs, which hinder the development of the private sector.** The interconnection with the Ethiopian electrical grid is now operational, and will help the state-owned energy company *Electricité de Djibouti* (EDD) absorb losses due to high oil prices (electricity tariffs are set for a breakeven at 75 dollars per barrel) and, later, lower electricity tariffs. EDD is evaluating plans to build a thermal power station, at a cost of $130 million (9 percent of GDP), to replace the existing, ageing facilities.[5] In the water sector, the authorities are developing plans to expand the increasingly scarce water supply through desalinization plants.

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[5] To secure continued provision of fuel to EDD and consumers, the authorities put Djibouti's Libya Oil under government administration.

B. Fiscal Issues

Fiscal policy

11. **The authorities are targeting a surplus of 0.4 percent of GDP in 2011, compared to a deficit of 0.1 percent of GDP under the original 2011 program.** Given the program objective of improving the government's position vis-à-vis the banking sector and the slightly worse net external financing prospects, a surplus is needed to allow for the payments of some of the domestic arrears that were to be settled in 2010, and that are now scheduled to be paid in the second and third quarters of 2011. This target is also consistent with maintaining debt sustainability and financing the repayment of the domestic arrears scheduled for 2011.

12. **The revised fiscal target is attainable despite a slow first quarter and spending pressures triggered by high commodity prices.** Compared to the original program, the revised program balance requires an additional effort of about 0.4 percent of the revised 2011 GDP (which is slightly higher than the original program due to higher deflator). Revenue-side gains will amount to about 0.3 percent of GDP: the authorities expect to make up fully for the disappointing tax revenues in the first months of 2011 and, in addition, count on dividends from state-owned companies projected to be higher than programmed by 0.5 percent of GDP for the year, based on payments already received. These extra revenues will compensate the costs of the recently introduced freeze on diesel pump prices, reflected in nontax revenues lower by 0.2 percent of GDP. On the expenditure side, net gains of about 0.1 percent of GDP will come from postponing domestically-financed investment for 0.3 percent of GDP, despite the transfer of about 0.2 percent of GDP to cover part of EDD's losses, which was not included in the 2011 budget.

13. **The subsidies on fuel add to the existing food subsidies (Box 1).** Based on the available information, subsidies in Djibouti are projected at about 0.8-0.9 percent of GDP in 2011 (up from 0.5 percent in 2009). Subsidies are mostly aimed at softening the impact of high commodity prices on the poor and containing the inflationary pressures from imported prices.

14. **The authorities are committed to improving the transparency of direct and indirect subsidies.** They agree that subsidies are not a first-best solution, but consider that they are simple and relatively effective instruments to support the poor while targeted social safety nets are developed. To improve transparency, they will attach the budget of the farm program to the future budget laws, starting with the revised 2011 budget law. The authorities also plan to gradually eliminate the diesel subsidies once world oil prices decline sufficiently.

Box 1. Subsidies

Djibouti's subsidy programs are mainly aimed at helping the poor by improving access to food and containing the price of food items and transportation. According to available information, Djibouti's subsidies appear to be relatively small, with an annual cost of about 0.8-0.9 percent of GDP. However, this amount only covers the costs of these programs that have been shared by the authorities with staff. Furthermore, there is very limited tracking of implicit subsidies in smaller programs such as microfinance.

Food

In 2008, the authorities exempted five basic food items (rice, edible oil, sugar, flour and powder milk) from indirect taxes to offset the increase in world food prices. The exemptions, which were never removed, were estimated to produce a loss of revenues amounting to $5 million in 2009 (0.5 percent of GDP).

In 2009, the government leased agricultural land in Ethiopia and Sudan to address the population's structural lack of access to food and stabilize domestic food prices. 3000 hectares in Ethiopia and 2000 hectares in Sudan were leased free of charge for 45 (renewable) years to grow wheat, sorghum, and vegetables for consumption in Djibouti. The program, managed by an agency controlled by the ministry of agriculture, delivered the first 6000 tons of wheat and 2000 tons of sorghum in 2010. The agreements with the host countries consider the land as Djibouti's national territory and exempt products from taxes or duties; labor must be hired locally.

The food program subsidies are difficult to calculate. Food is sold to consumers at administered prices through a private company, with an estimated revenue loss of about 0.1-0.2 percent of GDP at current production levels. Staff has not been able to properly estimate the program's direct cost to the budget, since the relevant allocations are included among capital spending but are not separately reported, and financial statements are not available. However, the authorities estimate budget costs of the farm program at 0.05 percent of GDP in 2011. Extra-budgetary spending on inputs and equipments for the program (amounting to about 0.4 percent of GDP) was one of the causes of the 2009 fiscal slippage.

In the medium term, the program is intended to provide 30-40 percent of Djibouti's key food items and be financially self-sustaining. To this end, the authorities plan a substantial expansion of the program: besides additional 2000 hectares in Ethiopia, for which permits have already been obtained, additional 20,000 hectares would produce rice, sugar, and cash crops such as kiwi and strawberries, which could be sold on international markets.

Petroleum products

In 2011, the authorities have stabilized diesel prices at a level that would make public transportation costs politically acceptable. They *de facto* suspended a smoothing mechanism which adjusts pump prices with a lag relative to international prices. The revenue loss is estimated at 0.2 percent of GDP for the year.

Also starting this year, the government has been selling kerosene, which is used for cooking mainly by the poor, at a subsidized price. Total budget cost is estimated at $0.3 million (0.03 percent of GDP) for 2011.

Fiscal sector reforms

15. **Progress on structural fiscal reform slowed in 2011 as the administration focused on the elections:**

- **Tax revenues**: the authorities are on track to strengthen VAT administration (*structural benchmarks for end-2011*). The ministry of finance will enforce the obligation to fill tax returns for companies benefitting from tax exemptions and prepare an estimate of tax expenditures (*new structural benchmark for June 2012*). The cabinet has approved in June the new customs code (*structural benchmark for end-March 2011*). The authorities plan to introduce the software ASYCUDA to all external trade in 2011 (*new structural benchmark for end-December 2011*).

- **Public financial management:** the authorities are holding regular treasury planning meetings (with the participation of health and education ministries) to maintain tight control on spending. They are contacting governments in northern Africa to acquire the software needed for the GFS 2001-compatible budget reclassification (*end-June 2011 structural benchmark*), but lack of financing will delay the purchase. The ministry of finance is finalizing the recruitment of additional staff in the budget department to address lagging work on the introduction of the medium-term budgetary framework. To lay the basis for regular updates of the cross-debt with public enterprises, the authorities will conclude stock-taking agreements with EDD, the water company ONEAD, and Djibouti Telecom (*new structural benchmark for end-September 2011*).

- **Fiscal data:** the ministry of finance committed to strengthen data production, following significant delays in fiscal data preparation in the period around the elections, which prevented the regular web posting of fiscal reports (continuous structural benchmark).

C. Public Debt

16. **External public debt is projected to decline from 56 percent at end-2010 to 53 percent of GDP at end-2011, but Djibouti remains at high risk of debt distress.**[6] The authorities are revising their medium-term public investment plan linked to the national poverty reduction strategy (*Initiative Nationale de Développement Social*, INDS). To improve debt sustainability, they will rigorously prioritize these projects, for which they intend to seek only concessional financing.

17. **The remaining bilateral Paris Club agreements were signed in the last quarter of 2010**. To comply with the comparability of treatment requirement, the authorities are seeking similar terms with non-Paris Club creditors. They have already signed agreements with Saudi Arabia and are in negotiation with Kuwait and the UAE.

18. **The authorities committed to avoiding further accumulation of external arrears**. The temporary accumulation of external arrears to two Paris Club creditors was due to insufficient administrative capacity, coordination problems within the administration in the period around the elections, and insufficient communication with the creditors. In the future,

[6] The revised DSA confirms the results of the exercise included in the 2010 Article IV Staff Report.

the authorities committed to follow rigorously the external debt service schedule and strengthen the tracking vis-à-vis creditors of executed debt service payments.

19. **The authorities intend to catch up with delays in repaying domestic arrears.** They will repay the arrears scheduled for 2011 (including the arrears accumulated to public utilities in 2009), the remaining domestic arrears scheduled for 2010, and the government's 2009 dividend advance from BCI. The authorities will finalize in the coming months the convention on the reconciliation of cross-debt with the main public enterprises (government arrears and unpaid taxes) (*new structural benchmark for end-September 2011*).

D. Financial Sector Policies

20. **The CBD has made good progress in improving banking supervision.** The recent internal reorganization envisages a unit comprising a supervision section (*structural benchmark for June 2011*) with two additional staff (*structural benchmark for June 2011*), and an AML/CFT section, charged with applying the recently updated legislation. With the help of Fund-financed technical assistance from Banque de France, the CBD is now working on the implementation framework of the banking law approved in January 2010 by the National Assembly (submission to the Assembly was a *structural benchmark for end-2010*). The CBD will approve a roadmap for the implementation of the new banking law (*new structural benchmark for end-September 2011*).

21. **Measures to reinforce CBD governance are on track.** In the coming weeks, the CBD Board will set a calendar of Board meetings for 2011 (*structural benchmarks for end-June*), and will publish the audit opinion for the 2010 accounts (*structural benchmark for end-December 2011*).

IV. Program Issues and Risks

22. **The quantitative targets and structural benchmarks set under the 2011 program have been updated.** The quantitative performance criteria on the budget balance and net credit to the government for end-June 2011, and the quantitative performance criterion on the budget balance for end-December 2011 have been revised to take into account the authorities' target of a small surplus for 2011, the delays in tax revenues in the first months of the year, and the consequent changes in the quarterly distribution of spending and financing. The floor on social spending has been revised upward to align it with the planned budget expenditure. The structural benchmark on the acquisition of the software for the budget reclassification has been moved to December 2011 reflecting delays in donor financing. The program envisages additional structural benchmarks on: (i) fiscal expenditure reporting; (ii) introduction of customs software; (iii) public enterprise cross-debt; and (iv) a roadmap for the application of the banking law.

23. **The program is fully financed.** The authorities are expected to mobilize sufficient exceptional financing from multilateral and bilateral creditors on concessional terms. Donors

will continue to support Djibouti mainly through grant and loan project financing, while expected budget support is relatively limited.[7]

24. **The program is vulnerable to a number of risks:**

- **Wavering political commitment**, including due to vested interests or a flare-up of domestic social unrest;

- **Administrative capacity constraints**, combined with shortfalls in technical assistance from donors, which could possibly affect the authorities' ability to implement reform;

- **Unsustainable spending pressures** deriving from: (a) higher transfers to EDD due to a surge in oil prices; (b) an uncontrolled expansion of the food subsidy program; (c) the resumption of hostilities with Eritrea and increase in defense spending; and (d) a humanitarian crisis in Yemen;

- **Weaker-than-projected increase in international reserves,** in case capital inflows are insufficient to finance the growing current account deficit.

V. Staff Appraisal

25. **The program is broadly on track**. The authorities have maintained fiscal discipline, made sufficient progress on their structural reform program, and committed to adequate policies for 2011. Staff therefore supports the authorities' request for the completion of the fourth review and the waivers of nonobservance of the performance criteria on the non-accumulation of domestic arrears and non-accumulation of external arrears, in light of the minor deviation from the program objectives and the corrective actions undertaken by the authorities.

26. **The authorities' focus on lowering unemployment is appropriate.** The shift to initiatives to support increased employment in the private sector is welcome. But to facilitate foreign investments and the development of a dynamic private sector, the authorities need to push ahead with structural reform, including improvement in the business environment.

27. **Lowering the cost of energy requires a medium-term strategy.** The interconnection with the Ethiopian grid is an important step forward, but the authorities need to develop a coherent energy policy to meet Djibouti's energy needs while limiting budget costs and protecting debt sustainability. In the immediate future, they should carefully

[7] Due to the elections, the donor conference previously planned for early 2011 was tentatively moved to the end of the year.

evaluate alternatives to the construction of a new power plant, financing of which would significantly delay the improvement in public debt dynamics.

28. **Under the currency board regime, which has served the country well, macroeconomic stability hinges on sound fiscal policy.** Staff welcomes the authorities' commitment to go beyond the original government budget balance target for 2011 in order to catch up with the payment of some domestic arrears scheduled for 2010. To achieve this target, the authorities will have to remain vigilant about spending pressures, notably arising from transfers to the electricity company and an uncontrolled expansion of subsidies. Spending discipline will also depend on the continued avoidance of extra-budgetary spending.

29. **Reform in the fiscal sector is crucial for underpinning fiscal discipline.** Deepening tax revenue reforms, notably in the VAT administration and the reduction of tax exemptions, is necessary to increase revenue potential. Progress in public financial management is encouraging, but more needs to be done, particularly on strengthening the budget process (including by increasing transparency of budget planning and execution) and tracking domestic arrears and public sector cross debt. The authorities need to improve treasury management to avoid the increase in the stock of domestic arrears and rigorously execute external debt service payments.

30. **Djibouti's subsidy programs are useful to address the populations' needs, especially with regard to food security.** But, given the tight government financing constraints, fiscal space for any increase in subsidy spending would have to be found through higher revenues or lower non-priority spending items. Furthermore, to increase efficiency of public spending, the costing, transparency, and accountability of these subsidies (both direct and indirect) should be improved, particularly with regard to the farm program, which could potentially entail significant costs to the budget. With regard to subsidies on oil products, diesel subsidies should be gradually phased out by making the smoothing mechanism fully operational, to allow for the transmission of permanent international oil price increases and the recovery of foregone fiscal revenues. In the medium term, subsidies should be phased out in favor of well-targeted social safety nets.

31. **The CBD needs to focus on implementing the new banking law.** Building on its internal restructuring, the CBD should now develop a solid implementation framework and adequately train its staff. The financial system appears sound, but, in light of the high credit growth and increase in the number of banks in recent years, the authorities should carefully monitor banking sector developments and be vigilant on the increase in risks, both systemic and to individual banks.

32. **The authorities should be commended for maintaining fiscal discipline during the electoral period, and for confirming their commitment to program objectives for 2011.** With the elections over, the authorities should focus on catching up with tax recovery to achieve the ambitious fiscal target for 2011; push forward reforms in the public administration, especially in the fiscal sector; and urgently resume data reporting and publication with appropriate timeliness and coverage, which is key for the implementation and monitoring of the ECF program.

Table 1. Djibouti: Selected Economic and Financial Indicators, 2008–16
(Quota: SDR 15.9 million)
(Population: 0.818 million; 2009)
(Per-capita nominal GDP: $1,383; 2010)
(Poverty rate: 42 percent; 2002)

	2008	2009	2010	2011	2012	2013	2014	2015	2016
	Act.	Act.	Prel. Act.	Rev. Prog.		Proj.			
	(Annual percent change, unless otherwise indicated)								
National accounts									
Real GDP (annual change in percent)	5.8	5.0	3.5	4.8	5.1	5.8	5.8	5.8	5.8
Consumer prices (annual average)	12.0	1.7	4.0	8.5	1.9	2.5	2.5	2.5	2.5
Consumer prices (end of period)	9.2	2.2	2.8	9.0	1.8	2.3	2.3	2.3	2.3
	(In percent of GDP)								
Investment and saving									
Total fixed capital investment	46.7	35.5	20.8	25.4	33.2	32.9	32.2	32.5	34.0
Private	32.9	18.3	9.0	13.8	20.6	19.7	18.9	19.2	20.6
Public	13.8	17.2	11.7	11.6	12.6	13.2	13.2	13.2	13.3
Gross national savings	22.4	26.4	16.0	15.1	21.6	20.2	18.9	18.9	20.3
Savings/investment balance	-24.3	-9.1	-4.8	-10.4	-11.6	-12.7	-13.3	-13.5	-13.6
Public finances									
Total revenue and grants	41.9	37.0	35.5	35.6	34.9	34.7	34.1	33.6	33.0
Of which: Tax revenue	20.0	20.1	20.2	20.2	20.3	21.0	21.3	21.7	21.9
Expenditure and net lending 1/	40.6	41.6	36.0	35.3	35.0	34.8	34.2	33.7	33.3
Of which: Current expenditure	26.8	24.3	24.3	23.6	22.3	21.6	21.0	20.5	19.9
Investment expenditure	13.8	17.2	11.7	11.6	12.6	13.2	13.2	13.2	13.3
Overall balance (commitment basis, incl. grants) 1/	1.3	-4.6	-0.5	0.4	0.0	-0.1	-0.1	-0.1	-0.2
Domestic financing	-0.6	-0.2	0.1	-1.2	-0.8	-2.0	-1.8	-1.7	-1.4
External financing	2.6	5.9	1.3	2.0	2.4	2.2	1.9	1.9	1.7
Change in domestic arrears (decrease -) 2/	-3.2	-1.2	-0.8	-1.2	-1.6	0.0	0.0	0.0	0.0
	(Annual percent change, unless otherwise indicated)								
Monetary sector									
Net foreign assets	23.1	12.1	5.1	4.6	5.0	7.0	7.8	7.9	7.3
Net domestic assets	10.0	43.1	38.6	15.9	12.5	11.8	10.0	9.8	10.8
Claims on the private sector	27.3	26.6	21.4	12.4	12.8	15.4	14.1	13.6	12.7
Broad money	20.6	17.5	12.2	7.6	7.1	8.5	8.5	8.5	8.4
Velocity of broad money (ratio)	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Average commercial lending interest rate (in percent)	11.4	11.7	10.1	…	…	…	…	…	…
	(In millions of U.S. dollars, unless otherwise indicated)								
External sector									
Exports of goods and services	369	399	359	472	529	569	605	649	718
Imports of goods and services	-704	-578	-497	-679	-756	-841	-907	-950	-1,044
Current account balance (in percent of GDP)	-24.3	-9.1	-4.8	-10.4	-11.6	-12.7	-13.3	-13.5	-13.6
FDI in percent of GDP	23.8	9.5	2.4	7.2	13.2	12.3	11.6	11.9	12.3
Stock of external public and publicly guaranteed debt (in percent of GDP)	60.2	59.8	56.1	53.0	53.0	52.2	51.3	50.5	49.8
Gross official reserves 3/	174	218	231	242	257	282	316	354	390
(in months of next year's imports of goods and services)	3.6	5.2	4.1	3.8	3.7	3.7	4.0	4.1	3.9
Memorandum items:									
Nominal GDP (in millions of Djibouti francs)	174,617	186,447	200,578	228,098	244,354	265,012	287,450	311,866	338,128
Currency board cover (in percent) 4/	120.9	135.4	122.4	115.6	114.7	111.3	111.0	110.9	110.6
Exchange rate (DF/US$) end-of-period	177.7	177.7	177.7	…	…	…	…	…	…
Real effective exchange rate (yearly average, 2005=100)	87.8	94.9	98.5	…	…	…	…	…	…
(Change in percent; depreciation -)	-4.4	8.0	3.8	…	…	…	…	…	…

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

1/ In 2009 includes externally financed projects of public enterprises guaranteed by the government amounting to 3.7 percent of GDP.

2/ Does not include repayment of arrears to public enterprises accumulated in 2009. Repayment of these arrears is included in current expenditure in 2010-12 .

3/ In 2009, includes special and general allocation of SDR 14 million.

4/ Gross foreign assets of the CBD in percent of monetary liabilities (reserve money and government deposits at CBD).

Table 2. Djibouti: Central Government Fiscal Operations, 2008–11
(In millions of Djibouti francs)

	2008	2009		2010		2011							
	Act.	CR/10/277	Act.	Prog.	Prel. Act.	Prog	Prel. Est.	Prog.	Rev. Prog.	Prog.	Rev. Prog.	Prog.	Rev. Prog.
						Q1		Q2		Q3		Q4	
Revenues and grants	73,092	69,763	68,953	72,493	71,124	20,807	16,254	34,636	32,982	56,906	57,377	80,527	81,299
Tax revenue	35,005	37,699	37,449	41,344	40,582	11,829	10,216	21,836	20,804	33,742	33,742	46,001	46,001
Direct taxes 1/	15,673	16,254	17,229	18,292	18,726	6,219	4,879	10,732	9,700	15,181	15,181	20,603	20,603
Indirect and other taxes	19,331	21,445	20,220	23,052	21,857	5,610	5,337	11,104	11,105	18,561	18,561	25,398	25,398
Indirect taxes	17,721	19,384	18,330	20,780	19,828	4,853	4,602	9,984	9,984	16,841	16,841	22,947	22,947
Other taxes	1,610	2,061	1,890	2,272	2,029	756	735	1,121	1,121	1,720	1,720	2,451	2,451
Nontax domestic revenues	4,618	7,183	9,010	8,194	8,872	2,677	1,136	4,819	4,819	6,500	6,971	8,849	9,621
Nontax external revenues 2/	10,631	10,652	10,546	11,791	10,965	4,646	3,657	4,646	4,024	7,154	7,154	12,736	12,736
Grants	22,838	14,320	11,948	11,165	10,705	1,656	1,245	3,335	3,335	9,510	9,510	12,941	12,941
Development projects	13,105	11,252	9,798	9,968	9,831	1,400	1,035	2,830	2,830	6,962	6,962	9,713	9,713
Budget support for current expenditures	9,733	3,068	2,150	1,197	874	255	210	505	504	2,548	2,548	3,228	3,228
Total expenditure 3/	70,903	73,208	77,483	73,464	72,140	19,552	16,373	37,760	35,610	58,809	58,151	80,640	80,416
Current expenditure	46,738	44,785	45,362	49,309	48,649	14,054	13,261	27,201	26,754	41,181	41,681	53,364	53,864
Wages and related expenditure	19,857	24,065	24,058	25,497	25,464	6,795	6,767	13,610	13,610	20,396	20,396	27,231	27,231
Wages and contributions	19,857	22,408	21,634	22,924	22,911	6,130	6,128	12,276	12,276	18,410	18,410	24,555	24,555
Housing subsidies	…	2,408	2,424	2,573	2,553	665	639	1,333	1,333	1,986	1,986	2,676	2,676
Goods and services	16,467	11,581	13,122	14,471	14,359	4,966	4,206	8,597	7,900	13,216	13,216	15,684	15,684
Of which: repayment of arrears to public enterprises 4/	0		0	500	500		0		0		0	1,300	1,300
Civil expenditure	12,044	10,116	10,700	11,444	11,349	4,500	3,956	7,200	6,900	10,941	10,941	12,657	12,657
Of which: extrabudgetary spending			0	0	0	0	0	0	0	0	0	0	0
Military expenditure 5/	4,424	1,465	2,422	3,027	3,010	466	250	1,397	1,000	2,275	2,275	3,027	3,027
Maintenance	660	1,113	650	1,172	1,152	68	198	674	574	1,013	1,013	1,354	1,354
Transfers 6/	5,503	5,961	5,528	6,089	6,055	1,660	1,572	3,317	3,667	4,976	5,476	6,639	7,139
Interest	558	864	803	883	745	309	248	499	499	809	809	1,005	1,005
Foreign-financed current spending	1,374	1,201	1,201	1,197	874	255	210	505	504	771	771	1,451	1,451
Investment expenditure	24,164	28,423	32,121	24,155	23,491	5,499	3,112	10,558	8,856	17,628	16,470	27,276	26,552
Domestically financed	5,709	7,037	10,181	10,187	10,068	1,987	666	4,500	2,798	6,200	5,042	10,748	10,024
Of which: extrabudgetary spending			0	0	0	0	0	0	0	0	0	0	0
Foreign-financed	18,455	21,386	21,940	13,968	13,423	3,511	2,446	6,058	6,058	11,428	11,428	16,528	16,528
Grants	13,105	11,252	9,798	9,968	9,831	1,400	1,035	2,830	2,830	6,962	6,962	9,713	9,713
Loans	5,350	10,134	12,142	4,000	3,592	2,111	1,411	3,228	3,228	4,466	4,466	6,815	6,815
Overall balance (commitment basis, incl. grants) 3/	2,189	-3,445	-8,530	-971	-1,016	1,255	-119	-3,124	-2,628	-1,903	-774	-113	883
Overall balance (commitment basis, excl. grants)	-20,649	-17,765	-20,478	-12,136	-11,721	-401	-1,364	-6,459	-5,963	-11,413	-10,284	-13,054	-12,058
Change in arrears (cash payments = -)	-5,591	-2,500	-2,154	-2,183	-1,626	383	342	573	0	437	-300	-2,200	-2,800
Overall balance (cash basis, incl. grants)	-3,402	-5,945	-10,684	-3,154	-2,642	1,638	223	-2,551	-2,628	-1,466	-1,074	-2,313	-1,917
Financing	3,360	5,945	10,666	3,154	2,698	-1,638	-233	2,551	2,628	1,466	1,074	2,313	1,917
Domestic financing (net)	-1,103	-2,133	-424	313	158	-3,507	-985	-42	440	-2,111	-1,936	-2,696	-2,696
Bank financing	-1,007	-2,037	-328	409	254	-3,459	-937	6	488	-2,015	-1,840	-2,600	-2,600
Central bank	-1,267	-1,912	-1,594	909	842	-3,209	-944	506	488	-1,265	-1,340	-1,600	-1,600
Commercial banks	260	-125	1,266	-500	-588	-250	7	-500	0	-750	-500	-1,000	-1,000
Nonbank financing	-96	-96	-96	-96	-96	-48	-48	-48	-48	-96	-96	-96	-96
External financing (net)	4,463	8,078	11,090	2,841	2,540	1,869	752	2,593	2,188	3,576	3,010	5,009	4,613
Disbursements	5,616	10,134	12,142	4,000	3,592	2,111	1,411	3,228	3,228	4,466	4,466	6,815	6,815
Amortization payments	-1,153	-2,056	-1,052	-1,159	-1,052	-242	-659	-635	-1,040	-889	-1,455	-1,806	-2,202
Discrepancy	0	0	-18	0	56	0	-10	0	0	0	0	0	0
Memorandum items:													
Current expenditure for social purposes 7/	16,058	20,511	25,864	15,988	4,361	2,232	3,296	4,465	6,541	6,697	10,024	8,930	14,451
Base fiscal balance 8/	-10,451	-5,740	-7,883	-8,761	-8,389	-955	-1,365	-3,892	-2,449	-5,393	-3,940	-6,511	-5,515
Domestic revenue	39,623	44,882	46,459	49,538	49,454	14,506	11,352	26,655	25,623	40,242	40,713	54,850	55,622
Domestically financed expenditure	50,073	50,621	54,342	58,299	57,843	15,461	12,717	30,547	28,072	45,635	44,652	61,361	61,137

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

1/ Includes €7.5 million of ITS personal income taxes from the French millitary, as per leasing agreement.
2/ Annual leasing fees from French (€30 million) and US (US$30 million) military bases, which include the payment of TIC on behalf of French soldiers. From Q3 2010, includes US$3 million from Japanese military base.
3/ In 2009, includes externally financed projects of public enterprises guaranteed by the government amounting to 3.7 percent of GDP.
4/ In 2010-12 includes the repayment of arrears to public enterprises accumulated in 2009.
5/ Includes €5 million (out of a total of €30 million) of foreign-financed current spending from French military as per leasing agreement. The budget classifies this amount as domestic investment spending.
6/ Excludes housing subsidies.
7/ Revised from 2010 to exclude salaries. In 2011 includes only social spending as defined in TMU.
8/ Defined as domestic revenue minus expenditure financed from domestic sources.

Table 3. Djibouti: Central Government Fiscal Operations, 2008–11
(In percent of GDP)

	2008	2009	2010		2011				
	Act.	Act.	Prog.	Prel. Act.	Prel. Est.	Rev. Prog.	Rev. Prog.	Prog.	Rev. Prog.
					Q1	Q2	Q3	Q4	
Revenues and grants	41.9	37.0	35.6	35.5	7.1	14.5	25.2	36.2	35.6
Tax revenue	20.0	20.1	20.3	20.2	4.5	9.1	14.8	20.7	20.2
Direct taxes 1/	9.0	9.2	9.0	9.3	2.1	4.3	6.7	9.3	9.0
Indirect and other taxes	11.1	10.8	11.3	10.9	2.3	4.9	8.1	11.4	11.1
Indirect taxes	10.1	9.8	10.2	9.9	2.0	4.4	7.4	10.3	10.1
Other taxes	0.9	1.0	1.1	1.0	0.3	0.5	0.8	1.1	1.1
Nontax domestic revenues	2.6	4.8	4.0	4.4	0.5	2.1	3.1	4.0	4.2
Nontax external revenues 2/	6.1	5.7	5.8	5.5	1.6	1.8	3.1	5.7	5.6
Grants	13.1	6.4	5.5	5.3	0.5	1.5	4.2	5.8	5.7
Development projects	7.5	5.3	4.9	4.9	0.5	1.2	3.1	4.4	4.3
Budget support for current expenditures	5.6	1.2	0.6	0.4	0.1	0.2	1.1	1.5	1.4
Total expenditure	40.6	41.6	36.1	36.0	7.2	15.6	25.5	36.3	35.3
Current expenditure	26.8	24.3	24.2	24.3	5.8	11.7	18.3	24.0	23.6
Wages and related expenditure	11.4	12.9	12.5	12.7	3.0	6.0	8.9	12.3	11.9
Wages and contributions	11.4	11.6	11.3	11.4	2.7	5.4	8.1	11.0	10.8
Housing subsidies	0.0	1.3	1.3	1.3	0.3	0.6	0.9	1.2	1.2
Goods and services 3/	9.4	7.0	7.1	7.2	1.8	3.5	5.8	7.1	6.9
Of which: repayment of arrears to public enterprises 4/	0.0	0.0	0.2	0.2	0.0	0.0	0.0	0.6	0.6
Civil expenditure	6.9	5.7	5.6	5.7	1.7	3.0	4.8	5.7	5.5
Of which: extrabudgetary spending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Military expenditure 5/	2.5	1.3	1.5	1.5	0.1	0.4	1.0	1.4	1.3
Maintenance	0.4	0.3	0.6	0.6	0.1	0.3	0.4	0.6	0.6
Transfers 6/	3.2	3.0	3.0	3.0	0.7	1.6	2.4	3.0	3.1
Interest	0.3	0.4	0.4	0.4	0.1	0.2	0.4	0.5	0.4
Foreign-financed current spending	0.8	0.6	0.6	0.4	0.1	0.2	0.3	0.7	0.6
Investment expenditure	13.8	17.2	11.9	11.7	1.4	3.9	7.2	12.3	11.6
Domestically financed 5/	3.3	5.5	5.0	5.0	0.3	1.2	2.2	4.8	4.4
Of which: extrabudgetary spending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign-financed	10.6	11.8	6.9	6.7	1.1	2.7	5.0	7.4	7.2
Grants	7.5	5.3	4.9	4.9	0.5	1.2	3.1	4.4	4.3
Loans	3.1	6.5	2.0	1.8	0.6	1.4	2.0	3.1	3.0
Overall balance (commitment basis, incl. grants) 3/	1.3	-4.6	-0.5	-0.5	-0.1	-1.2	-0.3	-0.1	0.4
Overall balance (commitment basis, excl. grants) 3/	-11.8	-11.0	-6.0	-5.8	-0.6	-2.6	-4.5	-5.9	-5.3
Change in arrears (cash payments = -)	-3.2	-1.2	-1.1	-0.8	0.1	0.0	-0.1	-1.0	-1.2
Overall balance (cash basis)	-1.9	-5.7	-1.5	-1.3	0.1	-1.2	-0.5	-1.0	-0.8
Financing	1.9	5.7	1.5	1.3	-0.1	1.2	0.5	1.0	0.8
Domestic financing (net)	-0.6	-0.2	0.2	0.1	-0.4	0.2	-0.8	-1.2	-1.2
Bank financing	-0.6	-0.2	0.2	0.1	-0.4	0.2	-0.8	-1.2	-1.1
Central bank	-0.7	-0.9	0.4	0.4	-0.4	0.2	-0.6	-0.7	-0.7
Commercial banks	0.1	0.7	-0.2	-0.3	0.0	0.0	-0.2	-0.4	-0.4
Nonbank financing	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External financing (net)	2.6	5.9	1.4	1.3	0.3	1.0	1.3	2.3	2.0
Disbursements	3.2	6.5	2.0	1.8	0.6	1.4	2.0	3.1	3.0
Amortization payments	-0.7	-0.6	-0.6	-0.5	-0.3	-0.5	-0.6	-0.8	-1.0
Discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
GDP 7/	174,617	186,447	203,504	200,578	228,098	228,098	228,098	222,271	228,098
Base fiscal balance 8/	-6.0	-4.2	-4.3	-4.2	-0.6	-1.1	-2.4	-2.9	-2.4
Domestic revenue	22.7	24.9	24.3	24.7	5.0	11.2	17.6	24.7	24.4
Domestically financed expenditure	28.7	29.1	28.6	28.8	5.6	12.3	20.0	27.6	26.8

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

1/ Includes €7.5 million of ITS personal income taxes from the French military, as per leasing agreement.

2/ Annual leasing fees from French (€30 million) and US (US$30 million) military bases, which include the payment of TIC on behalf of French soldiers.
behalf of French soldiers. From Q3 2010, includes US$3 million from Japanese military base.

3/ In 2009, includes externally financed projects of public enterprises guaranteed by the government amounting to 3.7 percent of GDP.

4/ In 2010-12 includes the repayment of arrears to public enterprises accumulated in 2009.

5/ Includes €5 million (out of a total of €30 million) of foreign-financed current spending from French military as per leasing agreement.
The budget classifies this amount as domestic investment spending.

6/ Excludes housing subsidies.

7/ 2010 GDP was revised compared to program.

8/ Defined as domestic revenue minus expenditure financed from domestic sources.

Table 4. Djibouti: Balance of Payments, 2008–11
(In millions of U.S. dollars, unless otherwise indicated)

	2008	2009	2010		2011	
	Act.	Act.	Prog.	Est.	Prog.	Rev. Prog.
Current account (including grants)	-239	-95	-79	-54	-143	-133
(In percent of GDP)	-24.3	-9.1	-6.9	-4.8	-11.4	-10.4
Credit	369	399	417	359	481	472
Exports of goods, f.o.b.	69	77	81	81	98	120
Exports of services	300	322	336	278	383	353
Of which: services to foreign military bases	166	180	187	187	195	218
maritime transportation	65	66	69	35	81	52
Debit	-704	-578	-586	-497	-697	-679
Imports of goods, f.o.b.	-574	-451	-452	-364	-542	-520
Of which: investment goods	-284	-198	-50	-75	-97	-95
crude oil and petroleum products	-128	-86	-115	-114	-122	-161
Imports of services	-130	-128	-134	-134	-155	-159
Net income from abroad 1/	93	81	89	84	70	71
Of which: income related to the lease of military bases	60	59	66	62	72	72
Net current transfers from abroad	3	3	2	0	3	3
Private (net)	-8	-8	-9	-9	-9	-9
Official (net)	11	11	11	9	12	12
Capital and financial account 2/ 3/	318	151	89	104	139	121
Net capital transfers	45	58	-25	76	-53	21
Foreign direct investment	234	100	74	27	161	92
Public sector (net)	121	49	19	21	37	41
Disbursements	133	68	41	41	68	68
Repayments	-12	-19	-22	-20	-31	-27
Of which: Eligible for Paris Club rescheduling	-60	-7	-5	-5	-2	-2
Commercial banks (- = increase in NFA)	-82	-56	21	-21	-6	-33
SDR allocation	0	21		0		0
Errors and omissions	-91	-47	0	-41	0	0
Overall balance (deficit -)	-13	9	10	9	-4	-11
Financing	13	-9	-10	-9	4	11
Central bank	-49	-27	-23	-17	-15	-13
Assets	-43	-44	-20	-13	-12	-12
Liabilities	-6	17	-3	-4	-3	-1
Of which: SDR allocation		-21				
Exceptional financing	62	19	12	8	19	23
Budget support from donors (grants and loans)	48	5	0	0	10	10
Change in overdue obligations (decrease-)	-60	0	0	0	0	0
Expected debt relief	66	9	8	8	4	4
Paris Club	61	7	5	5	2	2
Non-Paris Club	5	3	3	3	2	2
IMF	8	4	4	0	4	9
ECF financing	6	2	4	0	4	9
Memorandum items:						
Central bank gross foreign assets 3/	173.7	217.5	237.1	230.6	249.0	242.1
In months of next year's imports of goods and services	3.6	5.2	4.1	4.1	3.6	3.8
Currency board cover	120.9	135.4	136.0	122.4	127.2	115.6
FDI in percent of GDP	23.8	9.5	6.4	2.4	12.9	7.2
Official external debt (including public and publicly guaranteed debt)						
In millions of U.S. dollars	591	627	665	634	714	680
In percent of GDP	60.2	59.8	58.0	56.1	57.1	53.0
In percent of exports of goods and services	160	157	160	176	148	144
Debt service						
In millions of U.S. dollars	26	25	27	24	34	34
In percent of GDP	2.6	2.4	2.4	2.1	2.7	2.6
In percent of exports of goods and services	6.9	6.3	6.5	6.6	7.1	7.2

Sources: Djibouti authorities; and Fund staff estimates and projections.
1/ Includes the French and U.S. contributions for the military bases and outflows of interest due on Paris and non-Paris Club debt.
2/ Excludes exceptional financing.
3/ In 2009, includes special and general allocation of SDR 14 million.

Table 5. Djibouti: Monetary Survey and Banking Sector Indicators, 2008-11
(End-of-period, in millions of Djibouti francs, unless otherwise indicated)

	2008	2009	2010		2011	
	Act.	Act.	Prog.	Prel. Act.	Prog.	Rev. Prog.
Broad money	142,310	167,191	180,988	187,589	196,700	201,857
Currency in circulation	17,624	19,629	19,706	20,084	21,417	21,612
Deposits	124,686	147,562	161,282	167,505	175,283	180,245
Demand deposits	64,612	83,049	99,417	107,207	108,048	115,361
Djibouti francs	40,296	62,511	65,337	72,251	71,009	77,746
Foreign currency	24,316	20,538	34,080	34,956	37,039	37,615
Time deposits	60,074	64,513	60,342	60,298	65,581	64,884
Djibouti francs	38,238	23,497	18,337	18,657	19,928	20,076
Foreign currency	21,836	41,016	42,006	41,641	45,652	44,808
Net foreign assets	117,498	131,673	131,183	138,351	134,166	144,778
Central bank	27,093	35,182	34,564	38,149	36,403	34,893
Assets 1/	30,873	38,658	42,144	40,979	44,251	43,034
Liabilities 1/	3,780	7,372	7,580	6,726	7,848	8,141
Commercial banks	90,405	100,381	96,619	104,092	97,763	109,884
Assets	102,308	119,169	127,511	132,369	131,336	140,311
Liabilities	11,903	18,788	30,892	28,277	33,573	30,427
Net domestic assets	24,812	35,518	49,805	49,238	62,534	57,079
Claims on government (net)	3,236	2,908	3,317	4,762	717	561
Central bank	1,459	-135	774	706	-826	-894
Commercial banks	1,777	3,043	2,543	2,455	1,543	1,455
Claims on nongovernment sector	44,730	57,342	70,718	69,058	84,918	77,294
Public enterprises	1,519	2,625	2,643	2,646	2,662	2,665
Private sector	43,211	54,717	68,074	66,412	82,256	74,629
Capital accounts	-9,786	-10,697	-11,100	-11,187	-11,822	-11,912
Other items (net)	-13,368	-14,035	-13,129	-13,395	-11,279	-8,864
	Change from previous year; in percent of broad money					
Broad money	20.6	17.5	8.3	12.2	8.7	7.6
Currency in circulation	1.8	1.4	0.0	0.3	0.9	0.8
Net foreign assets	18.7	10.0	-0.3	4.0	1.6	3.4
Central bank	6.3	5.7	2.0	1.8	1.0	-1.7
Commercial banks	12.3	7.0	-2.3	2.2	0.6	3.1
Net domestic assets	1.9	7.5	8.5	8.2	7.0	4.2
Of which: Claims on government (net)	-0.8	-0.2	0.2	1.1	-1.4	-2.2
Claims on nongovernment sector	7.7	8.9	8.0	7.0	7.8	4.4
Memorandum items:						
Monetary authorities						
Net international reserves (in U.S. dollars million) 1/	30.0	56.9	62.8	42.2	53.3	32.7
Gross foreign assets (in U.S. dollars million) 1/	173.7	217.5	237.1	230.6	249.0	242.1
In percent of foreign currency deposits	66.9	62.8	55.4	53.5	53.5	52.2
In percent of total deposits	24.8	26.2	26.1	24.5	25.2	23.9
Banking system						
Credit to the private sector, 12-month percent change	27.3	26.6	24.4	21.4	20.8	12.4
Money velocity	1.2	1.1	1.1	1.1	1.1	1.1

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

1/ In 2009, includes special and general allocation of SDR 14 million.

Table 6. Djibouti: Financial Soundness Indicators, 2000–10

(In percent, unless otherwise indicated)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 Prel.
Capital adequacy											
Tier I capital to risk-weighted assets	17.3	18.5	21.7	19.1	15.0	15.7	17.4	8.1	8.5	9.5	9.3
Regulatory capital to risk-weighted assets	2.3	2.6	2.5	2.7	2.1	2.0	4.2	3.7	3.5	3.2	2.9
Reported total capital to risk weighted assets (K1-1)	114.2	99.5	96.5	104.5	101.5	106.2	102.7	80.9	85.4	86.4	86.2
Asset quality 1/											
Nonperforming loans to gross loans	19.7	26.9	30.6	29.2	28.8	27.8	15.6	10.9	8.6	6.7	6.2
Nonperforming loans net of provisions to capital	49.6	50.4	59.0	60.5	67.0	73.7	23.5	20.8	17.2	14.9	15.4
Provisions to nonperforming loans	54.7	55.5	52.3	52.5	55.1	56.6	74.9	75.5	77.4	76.6	75.3
Banks exceeding maximum single borrower limit 2/	1	0	0	2	1	0	1	1	1	2	2
Earning and profitability											
Reported return on assets (ROA)	4.8	4.2	2.1	2.8	2.1	1.9	1.8	1.8	1.6	1.4	1.3
Reported return on equity (ROE) 3/	13.1	11.7	7.9	8.5	21.1	28.2	43.9	49.4	53.0	55.1	54.3
Interest margin to gross income	33.5	31.7	26.3	22.3	22.7	40.5	49.9	47.1	43.1	45.7	45.4
Noninterest expenditures to gross income	59.0	60.0	64.7	71.2	72.2	59.1	47.6	51.8	55.7	44.2	41.9
Salary expenditures to non-interest expenditures	60.9	62.9	61.8	60.7	54.0	56.6	56.4	50.4	41.4	53.8	50.2
Liquidity											
Liquid assets to total assets	47.5	58.5	64.9	70.5	74.3	76.6	75.4	72.1	65.7	67.5	64.9
Liquid assets to short-term liabilities	285.6	455.1	494.0	726.0	710.5	736.2	670.3	660.5	626.8	596.4	619.8
Liquid assets to demand and saving deposits	164.0	180.1	188.7	175.8	209.1	226.6	597.9	615.3	491.3	647.0	567.9
Liquid assets to total deposits	61.4	72.0	78.8	81.4	85.4	87.7	87.1	82.9	75.2	78.1	75.9

Source: Central Bank of Djibouti and Fund staff estimates.

1/ Nonperforming loans include three loan classifications: watch, doubtful, and loss. Revised from 2006 to exlcude old NPLs of a liquidated bank.

2/ Maximum single borrower limit is defined as 25 percent of capital (K3-1).

3/ Based on minimum capital.

Table 7. Djibouti : Reviews and Disbursements, 2008–12

Date	Action/Status	Disbursement	In percent of Quota /1
September 2008	Board Approval of ECF arrangement.	3.864 million SDR	24.00
June 2009	First review completed (June 2009) on end-December 2008 performance criteria.	1.476 million SDR	9.28
December 2010	Second and third reviews completed (January 2011) on end-June and end-December 2009 performance criteria.	2.952 million SDR	18.56
June 2011	Completion of the fourth review on end-December 2010 performance criteria.	1.476 million SDR	9.28
December 2011	Completion of the fifth review on end-June 2011 performance criteria.	1.476 million SDR	9.28
June 2012	Completion of the sixth review on end-December 2011 performance criteria.	1.476 million SDR	9.28
	Total	12.720 million SDR	80.00

Source: Fund staff estimates and projections.

1/ Djibouti's quota is SDR 15.9 million.

Table 8. Djibouti: Indicators of Capacity to Repay the Fund, 2007-22

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
					Projections											
Fund obligations based on existing credit																
(in millions of SDRs)																
Principal	1.82	2.73	2.73	2.18	1.64	0.91	-	0.92	1.07	1.36	1.66	1.66	0.74	0.59	0.30	-
Charges and interest	0.09	0.08	0.06	0.01	0.01	0.04	0.04	0.04	0.04	0.04	0.03	0.03	0.03	0.02	0.02	0.02
Fund obligations based on existing and prospective credit																
(in millions of SDRs)																
Principal	1.82	2.73	2.73	2.18	1.64	0.91	-	0.92	1.07	1.51	2.40	2.54	1.62	1.48	1.03	0.15
Charges and interest	0.09	0.08	0.06	0.01	0.01	0.05	0.05	0.05	0.05	0.05	0.04	0.04	0.03	0.03	0.02	0.02
Total obligations based on existing and prospective credit																
In millions of SDRs	1.9	2.8	2.8	2.2	1.7	1.0	0.1	1.0	1.1	1.6	2.4	2.6	1.7	1.51	1.05	0.17
In billions of DF	0.5	0.8	0.8	0.6	0.5	0.3	0.0	0.3	0.3	…	…	…	…			
In percent of government revenue	1.0	1.1	1.1	0.8	0.6	0.3	0.0	0.3	0.3	…	…	…	…	…	…	…
In percent of exports of goods and services	0.9	1.2	1.1	0.9	0.6	0.3	0.0	0.3	0.3	…	…	…	…	…	…	…
In percent of debt service 1/	10.4	13.8	12.3	10.5	6.9	3.0	0.2	2.9	3.5	…	…	…	…			
In percent of GDP	0.3	0.5	0.4	0.3	0.2	0.1	0.0	0.1	0.1	…	…	…	…			
In percent of quota	12.0	17.6	17.5	13.8	10.4	6.0	0.3	6.1	7.0	9.8	15.3	16.2	10.4	9.50	6.60	1.07
Outstanding Fund credit																
In millions of SDRs	10.18	11.32	10.07	10.83	12.15	12.71	12.71	11.79	10.72	9.21	6.81	4.27	2.65	1.17	0.14	(0.01)
In billions of DF	2.77	3.18	2.76	2.94	3.44	3.60	3.59	3.32	3.02	…	…	…	…	…	…	…
In percent of government revenue	5.22	4.35	4.00	4.13	4.23	4.22	3.91	3.39	2.88	…	…	…	…	…	…	…
In percent of exports of goods and services	4.85	4.85	3.89	4.60	4.10	3.83	3.55	3.09	2.62	…	…	…	…	…	…	…
In percent of debt service 1/	55.23	55.55	44.55	52.07	51.08	40.31	40.64	35.62	33.69	…	…	…	…	…	…	…
In percent of GDP	1.84	1.82	1.48	1.46	1.51	1.47	1.35	1.16	0.97	…	…	…	…	…	…	…
In percent of quota	64.01	71.16	63.30	68.14	76.39	79.95	79.95	74.16	67.43	57.94	42.84	26.87	16.68	7.37	0.89	
Net use of Fund credit (millions of SDRs)	-1.82	1.14	-1.25	0.77	1.31	0.57	0.00	-0.92	-1.07	-1.51	-2.40	-2.54	-1.62	-1.48	-1.03	-0.15
Disbursements	0.00	3.86	1.48	2.95	2.95	1.48	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-	-	-
Repayments and Repurchases	1.82	2.73	2.73	2.18	1.64	0.91	0.00	0.92	1.07	1.51	2.40	2.54	1.62	1.48	1.03	0.15
Memorandum items:																
Nominal GDP (in billions of DF)	151	175	186	201	228	244	265	287	312	338	…	…	…	…	…	…
Exports of goods and services (in billions of DF)	57	66	71	64	84	94	101	108	115	128	…	…	…	…	…	…
Government revenue (in billions of DF)	53	73	69	71	81	85	92	98	105	112	…	…	…	…	…	…
Debt service (in billions of DF) 1/	5	6	6	6	7	9	9	9	9	9	…	…	…	…	…	…
DF/SDR (period average)	272	281	274	271	283	283	282	282	281	281	…	…	…	…	…	…

Sources: IMF staff estimates and projections.

1/ Total debt service includes IMF repurchases and repayments.

APPENDIX

LETTER OF INTENT AND MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Djibouti, June 23, 2011

Mr. John Lipsky
Acting Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Sir:

1. This letter of intent is to inform you of the progress made by Djibouti in 2010 and early 2011 within the framework of the Extended Credit Facility (ECF). It also presents the government's intentions concerning the economic policies and reforms envisaged for the remainder of 2011.

2. The objectives of the ECF-supported program approved in 2008 remain valid. These objectives are consistent with our determination to turn Djibouti into a hub for trade, logistics, and related services, as well as financial services. The ECF-supported program will remain aligned with the National Initiative for Social Development (INDS) which sets out Djibouti's strategy in regard to economic development and poverty reduction.

3. Preliminary data suggest that the program is on track. The FY 2010 deficit meets the program target of 0.5 percent of GDP, achieved through expenditure control (including the absence of extrabudgetary expenditures) in the context of lower-than-anticipated tax revenue (Table 1). The other performance criteria and indicative targets for end-December 2010 were also met with the exception of social spending which was slightly below the target. However, although the end-2010 performance criterion for new gross domestic arrears has been observed, overall net repayment of arrears in 2010 fell short of the program amount, due to delays in payment of a portion of the stock of historic arrears, notwithstanding larger payments of military pensions, to Djibouti-Telecom, and to private suppliers. Furthermore, the continuous performance criteria on non-accumulation of external arrears and the accumulation of new domestic arrears (due to delays in wage and pension payments) were breached in early 2011. Structural benchmarks are now met (Table 2), except for (i) the timely production and publication on the Ministry of Finance's website of the TOFE (continuous structural benchmark,) during the first half of 2011, on account of the delay in the preparation of fiscal data and (ii) the adoption by the cabinet of a new customs code before end-March 2011 (*structural benchmark for end-March 2011*); the code was approved in June. We did not contract any nonconcessional debt during 2010 or the first months of 2011.

4. To achieve the ECF objectives, our program for 2011 is predicated on: (i) the pursuit of prudent fiscal policy consistent with the safeguarding of social expenditure; (ii) the strengthening of public financial management; (iii) the maintenance of debt sustainability;

(iv) the modernization of the financial sector; and (v) the enhancement of the competitiveness of the economy through further structural reform.

I. Recent Economic Developments and Outlook for 2011

5. The suspension of transshipment activity and the slowdown in trade with Ethiopia weakened growth in 2010, which fell to 3.5 percent compared to 5 percent in 2009. Inflationary pressures intensified in 2010, mainly as a result of increases in world food prices, and in the prices of a number of commodities, as well as in the transportation cost of merchandise to Ethiopia. Consequently, the average inflation rate increased to 4 percent in 2010 compared to 1.7 percent in 2009. Competitiveness, as measured by the real effective exchange rate, improved through 2008. Since then, the trend has reversed on account of the appreciation of the Djibouti franc relative to the euro, lower inflation levels notwithstanding.

6. Growth is expected to rise to 4.8 percent in 2011 thanks to the resumption of transshipment activity, the stabilization of the situation in Ethiopia, and intensification of services, particularly in banking and telecommunications (mobile telephony and internet). In 2011, inflation is projected to rise to 8.5 percent on account of the considerable increase in global food and fuel prices.

7. The current account deficit stabilized at 4.8 percent of GDP in 2010. However, the deficit is expected to rise again in 2011 to 10.4 percent, on account of an increase in imports associated with the resumption of FDI, as well as the impact resulting from rising food and oil prices on world markets. International reserves, after having increased by approximately US$20 million during the years 2009-2010, attaining a level of US$231 million at end-2010, will slightly increase in 2011 thanks inter alia to the resumption of investments and disbursements under the ECF. The stock of external debt has continued to decline, reaching approximately 56 percent of GDP at end-2010 and is expected to decline to 53 percent by end-2011.

8. Despite the positive growth rates achieved in recent years, the food security situation remains critical, due to high world food prices, and poor rainfall over the past four years which has adversely affected the harvests of small farmers. The sizes of herds are 30-50 percent smaller than their 2003 levels, and according to the most recent national nutritional survey (March 2011), malnutrition is still affecting over 12,000 children under five throughout the country. The food security situation in urban areas is serious: 14.5 percent of the urban population (Djibouti Ville and the five regional capitals) are facing food insecurity.

II. Government Finance

A. Fiscal Policy

9. Our fiscal policy remains focused on three key areas, namely: fiscal rebalancing for the purposes of maintaining debt sustainability and non-monetary financing of fiscal deficits;

the safeguarding of fiscal space for social expenditure; and the strengthening and modernization of fiscal management.

10. Fiscal performance improved in 2010 compared to 2009. We have strengthened tax revenue collection, in particular of direct taxes, thanks mainly to the payment of taxes by the port companies; and of domestic nontax revenue, specifically collection of dividends. The decline in the level of spending in 2010 is attributable to a decrease in current expenditure, as well as in capital expenditure. We kept the wage bill within the limits of the program through our policy of freezing recruitment in the public sector (except, as envisaged under the program, for health and education personnel and the year-on-year slide in nominal wages, apart from promotions).

11. The 2011 budget law, which was adopted by the National Assembly at end-2010 (*prior action for the second and third reviews*), envisaged a deficit target of around 0.1 percent of GDP. In order to make up for the delays in domestic arrears payments planned in 2010, we intend to achieve a budget surplus of around 0.4 percent of GDP by means of a rigorous fiscal policy, through efforts focusing on revenue and expenditure. Our goal is to achieve a stable revenue/GDP ratio of 20.2 percent in 2011 compared to 2010 through improvements in tax and customs administration. With regard to expenditures, we will continue to freeze recruitment and will limit the growth in government wages. The new employment programs in the public sector will be managed through staff redeployment. Expenditures on goods and services will continue to include repayment of accumulated domestic arrears vis-à-vis *Electricité de Djibouti* (EDD) and *Office National de l'Eau et de l'Assainissement de Djibouti* (ONEAD) in 2009. Social spending and investment will rise in line with the poverty reduction objectives of the INDS. However, we intend to defer some capital expenditure in the amount of 0.2 percent of GDP, with the option to execute such expenditures this year in the event that revenues perform better than anticipated. Financing will be primarily external, which will allow the government to replenish its deposits with the domestic banking system, and in particular at the CBD.

12. To cope with rising commodity prices, we will rely primarily on a policy of subsidizing food and fuel prices to mitigate their impact on the population. Cereal production (approximately 8000 tons in 2010) in Ethiopia and Sudan, managed by the Djiboutian Company for Food Security, is sold on the local market at subsidized prices, with the aim of stabilizing domestic food prices, at an estimated budget cost of DF 103 million. Regarding the energy sector, starting in 2011, we have stabilized the price of diesel by reducing excises for a total loss of tax revenue of about DF 400 million. We also fixed the price of kerosene at an affordable level for the most vulnerable segments of the population by means of a subsidy of about DF 60 million for 2011. To enhance the transparency of subsidies, we will prepare a summary financial statement for FY 2010 of the food security program by end-June 2011. We will make available on a regular basis the operating accounts of the food security company. With regard to energy products, we are committed to withdraw subsidies when world oil prices have stabilized, while developing better targeted social safety nets.

13. One of the major challenges we face is unemployment, which affects a significant portion of our workforce, and especially the youth. To ensure a better match between training and employer needs, we have, on the occasion of the appointment of the new government, undertaken institutional reorganization by assigning vocational training to the Ministry of National Education. We also opened a logistics training center to encourage training in skilled jobs to meet the needs of high-tech sectors such as port, transport and energy. To facilitate the employment of young graduates outside the civil service, we established an insertion fund and we are funding through the state budget credit facilities to support the creation of companies (seven business projects were already approved and have been launched). In addition, we established a guarantee fund as collateral for loans that will be granted within this framework.

B. Fiscal Reforms

14. In 2011, we intend to press ahead with fiscal reforms, with the aim of strengthening the capacity of tax revenue collection, expenditure control, as well as budget planning and management.

15. In order to enhance budget revenue, we adopted in June the customs code aiming at its modernization consistently with the COMESA zone code (*structural benchmark for March 2011*). We also intend to: (i) include in the 2012 budget the lowering of the VAT threshold from DF 80 million to DF 50 million (*structural benchmark for December 2011*), and strengthen the unit in charge of the VAT with qualified human resources (*structural benchmark for December 2011*); (ii) improve the information system through the extension of the single identifier system (NIF) so as to include firms subject to declaration of direct taxes, and strengthen coordination of the units in charge of managing the VAT and direct taxes; (iii) enhance the operational efficiency of the tax center opened in 2011 in the municipality of Balbala in accordance with a grass-roots policy designed to equip each major region in the country with similar centers (payment offices) in the context of the decentralization process; (iv) launch the work of the commission established in the context of the LFI (budget law) and including the tax, customs, and ANPI offices, which should review the conditions for granting exemptions for new investments, albeit without modifying those incentives already granted, and produce a list of beneficiaries; (v) subject beneficiary enterprises to reporting requirements, put in place necessary staff entrusted with estimating tax expenditures, and prepare a report on these expenditures to be annexed to the 2012 revised budget law (*structural benchmark for end-June 2011*); and (vi) install the ASYCUDA customs revenue management software with effect from the month of August at the port level, and comprehensively by end-December 2011 (*structural benchmark for end-December 2011*). Furthermore, the ASYCUDA system will integrate the NIF through an interface with the Directorate General of Taxes so as to better identify taxpayers.

16. The budget slippage at end-2009 prompted us to strengthen expenditure control and public financial management. With regard to expenditure control, in 2010 we strengthened the coordination among the main structures of the ministry of finance through the

establishment of a department in charge of auditing and monitoring the accounts of public institutions within the treasury directorate, the establishment of a centralized accounting agency for hospitals, as well as strengthening the status of government accounting staff in public enterprises. In addition, the ministry of finance has implemented preventive expenditure control measures such as continuous unannounced inspections at five ministries during 2010 in order to update the single roster of civil servants, in addition to the physical inventory of government assets. With respect to financial transparency and management, we prepared bimonthly cash-flow programming exercises on a commitment basis, broadened to include the Ministries of Education and Health, and we also annexed the budgets of the water and youth funds to the 2011 budget law.

17. In 2011, we plan to continue these efforts by: (i) pursuing the policy of transferring the balances of public accounts and projects funded by donors to the single treasury account; (ii) pressing ahead with preparations to introduce a medium-term fiscal framework (MTEF) for the 2013 budget law by finalizing the recruitment of qualified professionals for the Budget Directorate (*structural benchmark for end-June 2011*) and, if necessary, by amending the organic and budget laws for the 2013 budget, thanks to support from our partners, in particular the IMF and UNDP; (iii) posting of the monthly fiscal reporting table (TOFE) on the internet site of the ministry of finance with a maximum lag of two months (*continuous structural benchmark*); and (iv) revitalizing efforts to implement the new budget nomenclature, currently delayed by financing difficulties, to be introduced in the context of the 2013 budget, with the help of an appropriate software program that we plan to purchase during 2011 (*structural benchmark for end-December 2011*).

18. We remain determined to reduce the stock of domestic arrears, including those accumulated in 1995-2001, with the possible support of donors, and to prevent further accumulation. We will: (i) tighten controls over the public expenditure chain in order not to accumulate further arrears, except for those due to the one-month delay in payment of wages to civil servants and three months of contribution to the retirement fund, which we intend to reduce to the extent that available resources permit; (ii) monitor regularly the status of domestic arrears and the execution of payments to public utilities (which will be reported to Fund staff on a quarterly basis) in the context of bimonthly cash-flow programming exercises; and (iii) continue to remain cautious in the programming of budget allocations related to current expenditure and social spending, as well as to external financing resources that have not yet been signed.

19. We intend to: (i) prepare by end-June 2011 a summary table on the cross-debts situation of public enterprises, and to pursue the process of consolidating cross-debt between the government and the public enterprises concerned by signing the agreements on cross-debt (*structural benchmark for end-September 2011*); and (ii) repay over the period 2010-12 the full amount of cumulative payments arrears recorded in 2009, using specific budget lines in expenditure on goods and services.

III. External Debt

20. Progress made in relations with Paris Club creditors has made it possible to finalize bilateral agreements and implementation of the second phase of the October 2008 agreement. We have signed bilateral agreements with France, Germany, and Spain. In accordance with the clause on comparability of treatment under the Paris Club agreement, we have signed bilateral agreements with Saudi Arabia, and we have contacted the United Arab Emirates and Kuwait in order to begin negotiations with a view to obtaining treatment similar to that accorded by the Paris Club.

21. To preserve debt sustainability, we will continue to contract only concessional loans and we will strictly prioritize projects to be financed, including in the context of the INDS. In this context, under the auspices of the Minister of Finance, we will enhance coordination among the various ministerial departments in connection with government borrowing programs, as well as the related policies and actions. The arrears accumulated to Paris Club creditors, resulting from internal coordination problems, were all paid in May 2011. In future, we undertake to avoid all accumulation of external arrears, and to this end, we will strengthen the tracking of debt service payments, including by systematically checking the execution of these payments with creditors.

IV. Monetary and Financial Policies

22. Our monetary policy will remain anchored by the currency board arrangement, which serves our economy well by ensuring price stability. We undertake to maintain the coverage of all our foreign currency-denominated liabilities and a rate of coverage higher than 105 percent of reserve money and government deposits at the CBD.

23. The growth in credit and deposits in 2009 and 2010 was very high on account of the arrival of new banks and continuing demand for credit by the private sector. However, these strong trends were reversed in first quarter 2011 on account of a decrease in overdrafts on checking accounts, which represent 57 percent of credit to the private sector, linked to uncertainty during the electoral period. While the banking sector has grown substantially in recent years, the financial sector has remained sound, with a relatively low level of NPLs and disputed claims, and has experienced an expansion in financial products and electronic banking transactions.

24. Conscious that banking system growth increases the existing pressure on bank supervision and regulation, we are implementing our reform program in accordance with the main recommendations of the Financial System Assessment Program. We have undertaken efforts to strengthen supervision by reorganizing the structure in charge of supervision and creating a unit dedicated to supervision, in accordance with recommendations made by technical assistance missions from the IMF and Banque de France (*structural benchmark for end-June 2011*). We have also recruited two staff members (*structural benchmark for end-June 2011*), in addition to the senior official already hired for the unit, and we have begun

training the staff members in techniques indispensible for effective off-site and on-site supervision. We also conducted the on-site inspection of two banks during 2010, and of three banks during the first half of 2011, and we intend to inspect three other banks and three exchange bureaus by the end of the year, in addition to exercising continuous off-site supervision of banks. The preparation of the operating manuals for the banking law and of the supervision tools should be in place by end-December 2011.

25. With regard to the strengthening of banking regulations, the draft laws on Islamic finance and financial cooperatives were submitted in December 2010 to the National Assembly, which adopted them in January 2011. Furthermore, all banks are now submitting financial statements allowing for the identification of risks such as those related to credit, liquidity, and exchange transactions, in addition to their internal audit reports; the imposition of penalties on banks that fail to meet the requirements for disclosure of their financial statements on a regular basis has been tightened. We have also improved regulations governing microfinance. The banking law submitted to the National Assembly at the end of last year (*structural benchmark for end-December 2010*), and adopted in January 2011, makes provision for raising the required minimum capital, which will be trebled and increased to DF 1 billion over a period of up to three years, in addition to tightening licensing procedures. Furthermore, we are preparing for the introduction of reserve requirements, which will constitute an important new tool for liquidity management by CBD.

26. We are mindful of the challenges associated with the implementation of the various banking laws approved in the first half of 2011. Accordingly, we will make every effort to develop a roadmap based on a precise timetable to enforce these laws (*structural benchmark for end-September 2011*). In this context, the finalization of the operating manuals for the banking law and the supervision tools should be put in place by end-December 2011.

27. We are going to pursue our efforts to develop the financial sector and to promote access to finance. With the help of our development partners (World Bank, AfDB, Islamic Development Bank, and UNDP), we will continue to work to: (i) improve access to microfinance for individuals and small and medium enterprises by establishing a dedicated unit within the CBD; (ii) improve the management of existing units such as the bank risk unit, and move towards the establishment of a credit bureau; (iii) facilitate mobile banking operations; and (iv) strengthen the payments system. Technical assistance provided by IMF will facilitate the implementation of the new banking law.

28. To ensure the integrity of the CBD's operations, we are implementing the recommendations of the IMF safeguards assessment mission. Starting with the 2010 report, audit reports will be completed within six months of the end of the financial year, and the letter setting forth the audit opinion, as well as the financial accounts, will be published on the CBD's internet site (*structural benchmark for end-December 2011*). We have strengthened internal control by updating existing procedures and set up an internal audit unit separated from CBD operations. The Board of Directors will adopt in the coming weeks an official timetable of quarterly meetings of the board of directors in accordance with our

undertakings in this matter. We have broadened the powers of the CBD board (*structural benchmark for end-June 2011*) and for this purpose, we have created an audit committee within the board for the purpose of monitoring internal controls.

29. We are currently remedying the weaknesses in the area of AML/CFT. The CBD, working with the ministry of justice, has submitted to the National Assembly a draft amendment Law on AML and two separate draft laws on combating terrorism and combating terrorist financing, respectively. The draft laws were adopted by the National Assembly in May 2011.

V. COMPETITIVENESS AND STRUCTURAL REFORMS

30. By virtue of the currency board arrangement, Djibouti's attractiveness for investors depends crucially on the competitiveness of its economy, which is still hampered by the high costs of the principal production inputs and weakness of the business climate. Accordingly, we are strongly committed to pursuing our structural reform program, which aims at lowering energy and water costs, and improving the legal and regulatory framework.

31. We have made major progress in regard to structural reforms, especially on the Investment and Commercial Codes and the law on industrial property. The Labor Code is now in force, and collective agreements for the various sectors and enterprises were finalized at end-2010 as anticipated. The sections of the new Commercial Code that had yet to be finalized, namely laws on corporations and bankruptcy, were completed at end-2010. The Commercial Code as a whole was approved by the Council of Ministers in December 2010 and is expected to be adopted by the National Assembly in 2011.

32. We are pursuing the reforms in the energy and water sectors. The consulting firm IDEA has completed the report on the restructuring and adjustment of human resources for the EDD. We are pursuing the implementation of the validated recommendations of the final study. The interconnection with Ethiopia's electric power grid has now been completed, enabling Djibouti to achieve a substantial reduction in energy costs. We will define a consistent national energy strategy agreed with donors. With World Bank support, we will conduct a study which will make to determine the various options for thermal energy. Finally, in the water sector, the ONEAD is considering a major donor-financed seawater desalination investment program.

VI. DATA

33. The continuing quality issues affecting our statistical database continue to hamper our efforts to design and monitor economic policy. With the support of our development partners, we intend to enhance the quality, coverage, and timeliness of economic data, particularly with regard to national accounts, balance of payments, and government finance. First of all, the government focused in early 2010 on strengthening the legal framework through a law on the organization of statistical activity and the structure of the national statistical system, which has been approved by the National Assembly in June 2011. With

regard to the statistical base, we had completed the general population census in 2009. With the support of our development partners, the survey of economic activities should be completed in 2011, which will enable us to incorporate the data into national accounts estimates. A harmonized consumer price index is being finalized within the COMESA and will be implemented as of January 2012 after the household consumption survey scheduled for end-September 2011.

VII. Program Monitoring

34. The quantitative performance criteria for end-June 2011 (pertaining to the fifth review) and end-December 2011 (pertaining to the sixth review) have been slightly revised to reflect the changing macroeconomic scenario, and will continue to guide program implementation (table 1 and TMU). Some of the program reforms will be the subject of structural benchmarks (tables 2 and 3).

VIII. Conclusion

35. In light of the overall performance of the program. and based on the policies set forth in this letter, we hereby request waivers for the non-observance of the criterion relating to the non-accumulation of external arrears and criterion relating to the non-accumulation of new domestic arrears, and the completion of the fourth review of the ECF, with the disbursement of SDR 1.476 million.

36. The government believes that the policies and measures set forth in this letter are sufficient to achieve the ECF program objectives. We will rapidly adopt all additional measures necessary to attain the program objectives. We will consult with Fund staff at our own or the Fund's initiative prior to adopting such measures or changes to the policies described in the attached MEFP. We will provide the IMF with such information as the Fund may request regarding progress made in implementing its economic and financial development policies, and in the context of efforts to achieve the program objectives.

Yours sincerely,

/s/	/s/
Ilyas Moussa Dawaleh	Djama M. Haïd
Minister of Economy and Finance,	Governor
in charge of Industry and Planning	Central Bank of Djibouti

Table 1. Djibouti: Quantitative Performance Criteria and Indicative Targets, 2010-12 1/

(In millions of Djibouti francs; unless otherwise indicated)

(Cumulative flows)

	2010			2011									2012
	Dec. 31			Mar. 31			Jun. 30		Sept. 30		Dec. 31		Mar. 31
	Performance Criteria			Indicative Targets			Performance Criteria		Indicative Target		Performance Criteria		IT
	Prog.	Adj. Prog.	Prel. Act.	Prog.	Adj. Prog.	Prel. Act.	Prog.	Rev. Prog	Prog.	Rev. Prog	Prog.	Rev. Prog.	
Performance Criteria													
I. Ceiling on accumulation of new domestic arrears 2/ 3/	2,279		1,987	2,079		2,340	2,260	2,260	2,135	2,135	2,279	2,279	2,279
II. Ceiling on accumulation of new external arrears 3/ 4/	0		0	0		0	0	0	0	0	0	0	0
III. Ceiling on net credit to government from the banking system	409	882	253	-3,459	-2,448	-937	6	488	-2,015	-1,840	-2,600	-2,600	9
IV. Floor on government budget balance (ordonnancement) 5/	-971	-1,036	-1,016	1,255	944	-119	-3,124	-2,628	-1,903	-774	-113	883	-85
V. Ceiling on new medium- and long-term nonconcessional loans contracted or guaranteed by the government and by the CBD 3/	0		0	0		0	0	0	0	0	0	0	0
VI. Floor on currency board cover 3/ 6/	105		122	105		115	105	105	105	105	105	105	105
Indicative targets													
I. Floor on social spending	13,346		13,161	2,232		3,296	4,465	6,541	6,697	10,024	8,930	14,451	…
Memorandum items 1/ :													
Adjuster #1 Projected French, U.S., and Japan military base payments	11,276		10,965	4,646		3,657	4,646	4,024	7,154	7,154	12,736	12,736	6,350
Adjuster #2 External budgetary grants and loans	1,197		874	255		210	505	504	2,548	2,548	3,228	3,228	650
Adjuster #3 Externally financed public investment loans (PIP)	4,000		3,592	2,111		1,411	3,228	3,228	4,466	4,466	6,815	6,815	1,935

1/ See the Technical Memorandum of Understanding for definitions and adjustor calculations.
2/ Arrears on the wage bill and to private suppliers, public enterprises, and pension funds.
3/ To be impemented on a continuous basis.
4/ Includes arrears on direct and guaranteed debt, continuous.
5/ Includes extra-budgetary expenditure.
6/ Gross foreign assets of the BCD in percent of monetary liabilities (reserve money plus government deposits at BCD).

Table 2. Djibouti: Structural Benchmarks under the Extended Credit Facitliy (ECF)

Measure	Date	Motivation	Status
Budget and revenue management			
1. Strengthening of budget transparency with the monthly publication of the TOFE on the Ministry of Finance website.	Continuous	Fiscal transparency	Not met. The data for December 2010 and January and February 2011 were published after delay, due to a break in the publication of the monthly TOFE.
2. Adoption by the Cabinet of a customs code consistent with the COMESA zone code	March 2011	Regional trade integration	Not met. Adopted in June 2011.
3. Recruitment of qualified staff in the budget Department for the preparation of the MTBF.	June 2011	PFM-Budget process	The recruitment process has been initiated with the publication of the job advert for the four positions (1 lawyer and 3 economists).
4. Acquisition of the software for the introduction of the new budget classification	June 2011 (now December 2011)	PFM-Budget process	The authorities have started consultations with countris in North Africa for the acquisition of the software, but it will be necessary to postpone the deadline to December 2011 because of financing difficulties.
5. Inclusion in the 2012 budget of the lowering of VAT basis from 80 to 50 million FD	December 2012	Strengthening of tax revenue	
6. Increase of human ressources in the unit in charge of VAT	December 2011	Strengthening of tax revenue	
Strengthening of supervision and regulation			
7. Presentation of the banking law to the National Assembly	December 2010	Strengthening banking system regulation	Met. The bill was adopted by the Cabinet in December 2010 and submitted to the National Assembly.
8. Creation of a unit dedicated to supervision, including AML/CFT supervision	June 2011	Strengthening bank supervision and AML/CFT	Met. The unit was created in May 2011 as part of the reorganization of the CBD
9. Recruitment of two staff for the unit dedicated to supervision	June 2011	Strengthening bank supervision and AML/CFT	Met. The two staff have been recruited to strengthen the supervision unit.
Strengthening of the safeguard framework			
10. Adoption of an official timetable for biannual meetings of the Board of Directors and extension of its rights to oversee internal control	June 2011	Strengthening Central Bank governance	The Board of Directors have agreed to set up a committee tasked with monitoring internal control
11. Approval of audit reports and publishing the audit opinion on the CBD website six months after the end of the fiscal year	December 2011	Strengthening Central Bank governance	The external auditors (Ernst & Young) have completed the audit of the final accounts of 2010

Table 3. Djibouti: Extended Credit Facility - Additional Structural Benchmarks

Measures	Date	Motivation
(Reformulation of an existing benchmark) Monthly publication of the TOFE on the Ministry of Finance website with a maximum lag of two months	Continuous	Fiscal transparency
Budget and revenue management		
1. Prepare a report estimating fiscal expenditures due to exemptions	June 2012	Strengthening of tax revenue
2. Set up the customs revenue management software SYDONIA for all external trade transactions in Djibouti	December 2011	Strengthening of tax revenue
3. Sign cross-debt agreements with EDD, ONEAD, Djibouti Telecom	September 2011	Financial management
Strengthening of supervision and regulation		
4. Develop a roadmap with a precise timetable for the application of the banking laws	September 2011	Strengthening of banking supervision

ATTACHMENT
TECHNICAL MEMORANDUM OF UNDERSTANDING

I. INTRODUCTION

1. This memorandum defines: (a) the quantitative performance criteria, adjustors, and structural benchmarks for the program supported by the Extended Credit Facility (ECF), which are shown in the Letter of Intent and the related tables; and (b) the scope and frequency of data to be provided for program monitoring purposes.

II. QUANTITATIVE INDICATORS

A. Definitions and Concepts

2. **Test dates**. Quantitative performance criteria are set for June 30, 2011 and December 31, 2011, and must be met at the end of each period, unless otherwise specified.

3. **Government**. For the purposes of the program, "government" is defined as the central government, excluding the social security system.

B. Quantitative Performance Criteria and Indicative Targets

Quantitative Performance Criterion 1: Continuous ceiling on accumulation of new domestic arrears

4. Definition: *New domestic arrears* are defined as payments which are authorized (*ordonnancé*) and are past due date on the wage bill and to private suppliers, public enterprises, and pension funds, incurred as of January 1 of the year and up to the end of the complementary period. The wage bill includes all gross salaries, wages, allowances, benefits, and payments, including housing assistance, that the government agrees to pay to civil servants, to military and security personnel (whether permanent or temporary), and to all other government employees, regardless of the means of payment used (cash, check, or other instrument) or the payment agent (the Treasury or another agency acting on behalf of the government). The ceiling on domestic arrears applies to the total unpaid amount subject to the technical lag (reported in the TOFE as "new arrears"), which must not exceed the sum of one month's wages or three months' pension fund contributions. The ceiling, set for each quarter in Table 1, should be respected on a continuous basis and will be monitored on a monthly basis.

Quantitative Performance Criterion 2: Continuous ceiling on accumulation of new external arrears

5. Definition: *External arrears* are defined as overdue payments (principal and interest) on external debt contracted or guaranteed by the central government or the Central Bank of Djibouti (CBD), excluding debt subject to rescheduling or cancellation. Technical arrears

(as defined in the loan contract) are not considered external arrears for program monitoring purposes. The ceiling should be respected on a continuous basis.

Quantitative Performance Criterion 3: Ceiling on net banking system credit to the government

6. Definition: *Net banking system credit to the government* is defined as the sum of net bank financing, namely, claims on the government minus government deposits with the financial system.

Quantitative Performance Criterion 4: Floor government budget balance on the commitment-basis (ordonnancement)

7. Definition: *The government budget balance on a commitment-basis* is defined as the overall balance (on a commitment basis, including grants) shown in the fiscal reporting table (TOFE), representing the difference between total revenue (including grants) and total expenditure, including extra-budgetary expenditure.

Quantitative Performance Criterion 5: Continuous ceiling on contracting or guaranteeing new medium- and long-term nonconcessional external debt by the government, the CBD, and public enterprises

8. Definition: Medium- and long-term nonconcessional external debt contracted or guaranteed by the government, the CBD, and public enterprises, is defined as foreign debt defined by the residency of the creditor, maturing in at least one year, contracted or guaranteed by the government, the CBD, and public enterprises, with a grant component (Net Present Value, NPV, compared with the nominal value) of at least 35 percent, based on the currency- and maturity-specific discount rates announced by the OECD (benchmark commercial interest reference rates - CIRR). The ten-year CIRR is applied to debt maturing in at least 15 years; the six-month CIRR is applied to debt maturing in less than 15 years. For program purposes, the definition of debt is set out in Executive board No. 6230-(79/140), as amended by Decision No. 14416(09/91), including commitments contracted or guaranteed for which value has not been received. The ceiling should be respected on a continuous basis.

Quantitative Performance Criterion 6: Continuous floor on currency board coverage

9. Definition: *Currency board coverage* is defined as the gross foreign assets of the CBD, divided by the sum of government deposits at the CBD and reserve money. The gross foreign assets of the CBD represent the value of the external assets of the CBD, consisting of: (a) monetary gold; (b) SDR holdings; (c) the IMF reserve position; (d) foreign currency holdings; and (e) claims on nonresidents, such as deposits abroad. The foreign assets of the CBD exclude assets that are committed or otherwise encumbered, including but not limited to assets used as collateral or guarantees for foreign liabilities of third parties (assets not immediately available). The floor should be respected on a continuous basis.

Indicative Target 1: Floor on social spending

10. Definition: *Social spending* is defined as subsidies and transfers to public entities, including health organizations, sports clubs, non-profit entities; and transfers to households in the form of scholarships.

III. Program Adjustors

11. The quantitative performance criteria can be adjusted as follows:

Adjustor 1: French, U.S. and Japanese payments related to the use of military bases

12. Definition: *The ceiling net banking system credit to the government* will be lowered (raised) by the amount of any excess (shortfall) compared with the projected French , U.S. and Japanese payments for 2011, related to the use of military bases (as reported in Table 1 of LOI). *The floor on the government budget balance on a commitment-basis* will be lowered (raised) by the amount of any shortfall (excess) compared with the expected French, U.S. and Japanese payments for 2011, related to the use of military bases (as reported in Table 1 of LOI).

Adjustor 2: Foreign budgetary grants and loans

13. Definition: *The ceiling on net banking system credit to the government* will be lowered (raised) by one-half of any excess (shortfall) in the total amount of the foreign budgetary grants and loans actually disbursed, compared with the program projections (as reported in Table 1 of LOI). *The floor on the government budget balance on a commitment basis* will be lowered (raised) by one-half of any shortfall (excess) in the total amount of the foreign budgetary grants actually disbursed, compared with the program projections (as reported in the Quantitative Indicative Targets Table 1 of LOI).

Adjustor 3: Foreign project loans

14. Definition: *The floor on government budget balance on a commitment basis* will be lowered (raised) by any excess (shortfall) in the total amount of the foreign project loans actually disbursed, compared with the pertinent program projections (as reported in Table 1 of LOI).

IV. Reporting Obligations

15. The authorities will provide the IMF with all data necessary for monitoring economic developments and the results of the program, including but not limited to the specific information below. Any revision of data reported previously will be quickly forwarded to the staff with appropriate explanations.

Real, monetary, and financial sectors:

16. The balance sheet of the central bank, the consolidated balance sheet of the commercial banks, and the monetary survey, within four weeks of the end of the reporting period (the end of each month).

17. The consumer price index, within four weeks of each month-end.

Fiscal sector, including social spending:

18.

- The monthly TOFE data on operations, revenue, expenditure, and budget financing items, including data on capital budget execution, with details on the externally financed portion and the counterpart funds of the central government for which donor terms apply;
- The extra-budgetary expenditure recorded at least quarterly in the TOFE;
- Execution of FSN expenditure, on, at least, a quarterly basis, shown as a separate line in TOFE;
- Repayment of the domestic arrears accumulated in 2009, on at least quarterly basis, shown as a separate line in TOFE;
- Committed expenditure for which payment authorizations (*ordonnancement*) have not been issued (on a quarterly basis).
- Total payments to the public utilities for services executed in the current year, both in DF and as a percentage of the total budgeted for the year, on a quarterly basis.

These data will be provided within 30 days of each month-end.

Arrears:

19. Data on domestic arrears (*ordonnancement* basis) related to: (1) the current year (monthly flows of new accumulations of arrears in all categories); and (2) the stock at the end of the previous year. Consolidated data for (1) and (2) will be reported monthly, within no more than four weeks.

20. External arrears data related to: (1) the current year, and (2) the stock at the end of the pr*evious year; c*onsolidated data for (1) and (2) will be reported monthly, within no more than four weeks.

External sector, external assistance and debt:

21. The quarterly balance of payments statistics, end of each quarter with a two quarter lag.

22. The monthly data on foreign grants and loans received by the government and by public enterprises, by creditor and by disbursement currency, within four weeks of each month-end.

23. The monthly data on the evolution of external debt, including arrears and rescheduling operations, within six weeks of each month-end.

24. The monthly list of medium- and long-term external loans contracted and guaranteed by the government for each month, with the following details on each loan: the creditor, the borrower, the amount, the currency, the maturity, the grace period, and the interest rate arrangements. These data will be reported within four weeks of each month-end.

25. The quarterly data on the balance of the external debt stock, by creditor, debtor, and currency, within six weeks of the end of each quarter.

INTERNATIONAL MONETARY FUND

DJIBOUTI

Fourth Review under the Extended Credit Facility Arrangement and Request for Waivers of Nonobservance of Performance Criteria—Informational Annex

Prepared by the Middle East and Central Asia department
(In consultation with other departments)

June 23, 2011

- **Relations with the Fund.** Describes financial and technical assistance from the Fund and provides information on the safeguards assessment and the exchange rate system. Outstanding purchases amounted to SDR 10.84 million (68.15 percent of quota) as of May 31, 2011.

- **Joint managerial Action Plan—June 2011–May 2012.** Describes the Fund and World Bank Group's joint work programs.

- **Statistical Issues.** Assesses the quality of statistical data. Data provided to the Fund are broadly adequate for surveillance and program monitoring purposes but significant deficiencies remain.

- **Table of Common Indicators Required for Surveillance.** Provides information on statistical data for surveillance purposes.

Contents   Page

ANNEX I. DJIBOUTI: RELATIONS WITH THE FUND
(As of May 31, 2011)

I. Membership Status: Joined: December 29, 1978; Article VIII

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	15.90	100.00
Fund holdings of currency	14.80	93.08
Reserve Tranche Position	1.10	6.92
Lending to the Fund		
Notes Issuance		
Holdings Exchange Rate		

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	15.16	100.00
Holdings	10.86	71.64

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ECF Arrangements	10.84	68.15

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF [1/]	Sep 17, 2008	Sep 16, 2011	12.72	8.29
ECF [1/]	Oct 18, 1999	Jan 17, 2003	19.08	13.63
Stand-By	Apr 15, 1996	Mar 31, 1999	8.25	7.27

[1]/ Formerly PRGF

VI. Projected Payments to Fund[2]/
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2011	2012	2013	2014	2015
Principal	1.64	0.91		0.92	1.07
Charges/Interest	0.01	0.04	0.04	0.04	0.04
Total	**1.65**	**0.95**	**0.04**	**0.96**	**1.11**

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

VII. Implementation of HIPC Initiative: Not Applicable

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

IX. Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

X. Safeguards assessments

A safeguards assessment mission was conducted during June/July 2008 in the context of the new ECF arrangement. The safeguards assessment of the Banque Centrale de Djibouti (BCD), which was completed in 2009, found that serious risks are present in most areas. These risks are partly mitigated by the currency board arrangement and the relatively straightforward nature of the BCD's operations. Priority measures recommended by the assessment focus on formalizing Board oversight, enhancing the external and internal audit mechanisms, and improving financial reporting transparency through publication and a sequenced transition to International Financial Reporting Standards. Implementation of most of these recommendations has been delayed. However, recently the BCD authorities have started to implement some of these reforms.

XI. Exchange arrangements

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

XII. Article IV Consultation

The staff report for the 2010 Article IV consultation was discussed by the Executive Board on January 7, 2011.

XIII. FSAP Participation

The FSAP, including the assessment of the AML-CFT framework, was completed and approved by the Board in June 2009. Key findings were (i) the banking sector does not appear to pose an immediate systemic threat, but it is vulnerable to a deterioration of credit quality and interest rate movements; (ii) the CBD's regulatory and supervisory framework is rudimentary and not well-suited to handle the entry of new banks; (iii) the CBD should introduce a reserve requirement and bolster its capacity to provide emergency liquidity support, (iv) the CBD should, in cooperation with the banking community, develop a comprehensive modernization strategy of the national payments system that responds to the needs of the growing economy; (v) the assessment of AML/CFT noted a combination of weak capacity to address ML/FT and multiple vulnerability factors. The CBD has started to implement some of these recommendations.

XIV. Technical Assistance

FAD—Budget control and cash management of the treasury	April 2000
FAD—Direct tax reform	September 2000
FAD/MCD—Budget control and cash management of the treasury	February 2001

FAD—Tax administration and possible introduction of a VAT	April 2002
STA—Government finance statistics	May 2001
STA—National accounts and balance of payments statistics	January 2002
STA—Balance of payment statistics	November 2003
MFD—Banking supervision	December 2002
MFD—Banking supervision	December 2003
STA—Money and banking statistics	November/December 2004
FAD—Tax and customs administration	January/February 2005
MFD—Central banking accounting	October 2005
FAD—Tax administration	January 2007
FAD—Tax policy	January 2007
LEG—AML/CFT	June 2007
STA—Balance of payments statistics	June 2007
FAD—Tax policy	June 2007
FAD—Tax administration	July 2007
MCM—Central Bank Accounting	November 2007
STA—Monetary and Financial Statistics	December 2007
FAD—Public Fiscal Management	February 2008
MCM—Central Bank Accounting	February 2008
STA—Monetary and Financial Statistics	January 2009
FAD—Public Financial Management	May 2009
MCM—Central Bank Supervision	April, September 2010
MCM—Liquidity Management	May 2010
FAD—Medium Term Fiscal Framework	January 2011
FAD—VAT Assessment and Tax Policy	February-March 2011

XV. Resident Representative

The IMF had a resident representative in Djibouti from 1998. The last resident representative left the post in April 2007. A new resident representative, Samba Thiam, took up the post in November 2010.

ANNEX II. DJIBOUTI: JOINT MANAGERIAL ACTION PLAN
JUNE 2011–MAY 2012

Title	Products	Provisional Timing of Missions	Expected Delivery Date
1. Bank Work Program	Governance Questionnaire	November 2010	July 2011
	Country Assistance Strategy		June 2012
	Growth Model Study		December 2011
	PEFA	December 2010	July 2011
	Monitoring and Evaluation System for the INDS		December 2011
2. Fund Work Program	TA on Banking supervision	September 2011	
	TA on Public Financial Management		October 2011
	TA on reserves / DSA		November 2011
	5th Review of the ECF	October 2011	December 2011
	6th Review of the ECF	March 2012	May 2012
	Strengthening national account statistics		
3. Joint Bank/Fund Program	Joint work on INDS		December 2011
	Participation in the Donor Conference		December 2011

ANNEX III. DJIBOUTI: STATISTICAL ISSUES

General: *Data provided to the Fund are broadly adequate for surveillance*. There are, however, serious shortcomings in the areas of national accounts, the balance of payments (BOP), external debt, and recently in fiscal data. Djibouti does not yet participate in the General Data Dissemination System (GDDS), but has submitted metadata.

National accounts: Despite the creation of the National Statistical Office (DISED) in 2002 and several TA missions to enhance the capacity of the statistical system and the efficient use of available resources, the authorities do not compile national accounts data, mostly due to low implementation capacity. Djibouti urgently needs assistance in this area as this significantly hampers surveillance. A population census, completed in 2009, to be followed by a comprehensive household expenditure and economic surveys should help to integrate the data in the estimated national accounts. This will also help to revise the CPI basket weights and to update various social indicators, and, in particular, to provide new poverty and income distribution estimates.

External sector: Substantial progress has been made in improving balance of payments statistics in line with recommendations made by Fund's TA missions over the past few years. However, significant issues remain, which were highlighted by a June 2007 BOP mission. Problems were identified in compiling trade statistics, coverage of direct investment transactions in the BOP, and estimating workers' remittances. Improvements could also be made to several items such as freight transportation, investment income, transactions related to foreign military bases, and other investment of private sector (use of IBS data). Despite the introduction of a new system for the management of external debt in 2002, debt statistics continue to be provided irregularly and with a delay.

Government finance: Fiscal data are available on a monthly basis although with a substantial delay (2 month lag). Moreover, these data do not cover a number of extra-budgetary accounts, including three pension funds, as well as extra-budgetary expenditure and arrears to public enterprises. Foreign-financed capital expenditure is reported regularly, however some foreign-financed current expenditures and their financing (i.e., grants and loans) are reported with a substantial lag. Moreover, additional efforts are needed to improve the compilation and coverage of fiscal data, particularly at the institutional level, in order to fulfill the recommendations made by a government finance statistics mission in 2001. The MOF is reporting neither annual data for dissemination in the *GFS* Yearbook nor high-frequency data for publication in the *International Finance Statistics* (*IFS*).

Monetary accounts: Monetary statistics are generally adequate and cover the central bank and the aggregated balance sheet of all commercial banks. Djibouti received three monetary and financial statistics missions (2004-2009) on compiling monetary and financial statistics in accordance with the Fund's *Monetary and Financial Statistics Manual (MFSM).* Over this period, the CBD has implemented some of the recommendations, in particular those concerning the establishment of a sectorization of the economic entities of Djibouti. However, majority of the recommendations have not been implemented, mainly because of staffing constraints at the CBD.

Annex IV. Djibouti: Table of Common Indicators Required for Surveillance
As of May, 2011

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	na	na	na	na	na
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	March 2011	May 2011	M	M	NA
Reserve/Base Money	March 2011	May 2011	M	M	M
Broad Money	March 2011	May 2011	M	M	M
Central Bank Balance Sheet	March 2011	May 2011	M	M	A
Consolidated Balance Sheet of the Banking System	March 2011	May 2011	M	M	A
Interest Rates[2]	March 2011	May 2011	M	M	A
Consumer Price Index	April 2011	May 2011	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	March 2011	May 2011	M	M	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	March 2011	May 2011	M	M	NA
Stocks of Central Government and Central Government-Guaranteed Debt[5]	March 2011	May 2011	A	A	NA
External Current Account Balance	March 2011	May 2011	A	A	A
Exports and Imports of Goods and Services	March 2011	May 2011	Q	Q	A
GDP/GNP	March 2011 [8]	May 2011	A	A	A
Gross External Debt	March 2011	May 2011	A	A	I
International Investment Position[6]	June 2010	September 2010	A	A	A

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (excluding extra budgetary funds and social security funds, and state and local governments).
[5] Including currency and maturity composition. .
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D); Weekly (W); Monthly (M); Bi-monthly (B); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).
[8] GDP data estimated by staff on the basis of partial data provided by the authorities.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

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FOR IMMEDIATE RELEASE
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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fourth Review Under Djibouti's Extended Credit Facility Arrangement and Approves US$2.35 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) completed today the fourth review of Djibouti's economic performance under the Extended Credit Facility arrangement (ECF).[8] The Board's decision, which was taken on a lapse of time basis,[9] enables the immediate disbursement of SDR 1.476 million (about US$2.35 million), bringing total disbursements under the program to SDR 9.768 million (US$15.53 million).

The Board also granted the authorities' request for two waivers of nonobservance of the continuous performance criteria on the non-accumulation of domestic arrears and the non-accumulation of external arrears on the grounds of the minor deviation from the program objectives and the corrective measures undertaken by the authorities. These focus mainly on improvements in liquidity management and a more rigorous execution of external debt service payments. The Djibouti authorities remain committed to the program, especially fiscal discipline and structural reforms in tax revenue, public financial management, bank supervision, and central bank governance.

The ECF arrangement for Djibouti was approved in September 17, 2008 (see Press Release No 08/211) for an amount to SDR 12.72 million (about US$ 20.22, or 80 percent of the country's quota in the Fund). On January 7, 2011, the ECF arrangement was extended by 9 months, through June 16, 2012 (see Press Release No. 11/3).

8 The Extended Credit Facility (ECF) has replaced the Poverty Reduction and Growth Facility (PRGF) as the Fund's main tool for medium-term financial support to low-income countries by providing a higher level of access to financing, more concessional terms, enhanced flexibility in program design features, and more focused streamlined conditionality. Financing under the ECF currently carries a zero interest rate, with a grace period of 5½ years, and a final maturity of 10 years (http://www.imf.org/external/np/exr/facts/ecf.htm). The Fund reviews the level of interest rates for all concessional facilities every two years.

9 The Executive Board takes decisions under its lapse-of-time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.