



# DJIBOUTI

June 2024

## 2024 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR DJIBOUTI

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2024 Article IV consultation with Djibouti, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its March 22, 2024 consideration of the staff report that concluded the Article IV consultation with Djibouti.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 22, 2024 following discussions that ended on January 25, 2024, 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 March 8, 2024.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Djibouti.

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

### Selected Issues

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**International Monetary Fund**  
**Washington, D.C.**



## IMF Executive Board Concludes 2024 Article IV Consultation with Djibouti

FOR IMMEDIATE RELEASE

**Washington, DC – June 4, 2024:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation<sup>1</sup> with Djibouti on March 22, 2024.

After the negative shock of the pandemic and a weak recovery in 2021, the November 2022 peace agreement in Ethiopia bolstered the Djiboutian economy. Growth is expected to have reached about 7 percent in 2023, supported by the rebound in port activity and construction. Inflation is expected to have averaged around 1.8 percent in 2023 and projected to remain subdued.

The economic outlook remains cautiously optimistic for 2024 and the medium-term albeit subject to considerable uncertainty. Regional risks, including potential trade disruptions, pose challenges in a context of tight budgetary resources. Stronger-than-expected trade from Ethiopia could support growth, and fully addressing the debt burden could improve debt sustainability and create fiscal space.

### Executive Board Assessment<sup>2</sup>

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Djibouti's recovery in 2023, supported by the peace agreement in Ethiopia, which generated a significant expansion in port activities, train traffic, construction, and energy production. However, given the considerable external risks—including Ethiopia's economic trajectory, possible increases in regional migration and refugees, and potentially increased disruptions in the Red Sea—Directors agreed that concerted efforts were needed to address fiscal vulnerabilities, enhance governance, boost job creation, and implement structural reforms.

Directors highlighted the need to address fiscal vulnerabilities through a comprehensive long-term strategy. They emphasized that the debt service moratorium with China provides a window of opportunity for Djibouti to continue to engage with creditors transparently on a strategy to fully address the unsustainable debt burden. In this context, Directors supported increasing the capacity of fiscal institutions to enhance tax collection and policy coherence, and called for a careful review and rationalization of tax incentives and VAT exemptions, while also ensuring that revenues from military base leases reflect their real value. Directors recommended better targeting fuel subsidies to free up resources for key social spending.

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

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

Directors welcomed the authorities' efforts toward reforming State-Owned Enterprises. They emphasized the need for better financial oversight and governance of SOEs, and noted that the authorities' upcoming review and restructuring of the administrative SOEs would be an important first step. Directors stressed that the authorities should build strong and broad-based support and provide adequate resources to ensure their successful implementation.

Directors encouraged improvements in banking regulation and oversight to strengthen the financial sector, especially given the ongoing MENAFATF evaluation. They also agreed that the careful design and introduction of a reserve requirement by the Central Bank of Djibouti (CBD) would be a positive first step to further strengthen the central bank's liquidity management toolkit.

Directors urged the authorities to move forward with a robust set of structural reforms, including to enhance private sector job creation, tackle informality, improve education and training, and lower telecom and energy costs. Bolstering resilience to climate shocks also remains crucial. Directors emphasized the importance of enhancing the transparency of policy making, especially by improving data quality.

It is expected the next Article IV consultation with Djibouti will be held on the standard 12-month consultation cycle.

Table 1. Djibouti: Selected Economic and Financial Indicators, 2020–29

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
		Est.	Proj.							
<b>National accounts</b>										
Real GDP	1.3	4.5	3.9	7.0	6.5	6.0	5.5	5.5	5.5	5.5
Consumer prices (annual average)	1.8	1.2	5.2	1.8	1.8	2.0	2.1	2.2	2.2	2.2
Consumer prices (end of period)	0.3	2.5	3.6	3.3	1.8	2.0	2.1	2.2	2.2	2.2
<b>Saving and investment</b>										
Fixed capital investment	29.7	29.7	30.4	30.6	30.8	31.1	31.5	32.0	32.4	33.3
Non-government	22.3	23.8	24.1	24.2	24.4	24.8	25.1	25.6	26.1	26.9
Central government	7.4	7.0	6.3	6.5	6.4	6.4	6.4	6.3	6.3	6.5
Gross national savings	41.2	23.1	48.0	54.2	35.9	35.1	34.4	38.0	38.2	38.5
Savings/investment balance	11.5	-6.6	17.6	23.5	5.1	4.0	2.9	6.1	5.8	5.2
<b>Central government</b>										
Revenues and grants	22.9	20.1	18.6	17.5	17.5	17.5	17.6	17.6	17.4	17.3
Tax revenues	11.7	11.6	11.2	10.8	11.2	11.5	11.8	12.0	12.0	12.0
Nontax revenue	7.9	6.7	6.5	5.5	5.3	5.0	4.8	4.6	4.4	4.3
Grants	3.4	1.8	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Expenditure	25.5	23.2	20.0	20.2	20.5	20.1	19.8	19.5	19.6	19.4
Current expenditure	18.4	15.8	15.1	14.1	14.4	14.0	13.7	13.4	13.5	13.3
Capital expenditure	7.1	7.4	5.0	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Domestically financed	4.0	4.7	3.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Foreign-financed	3.1	2.9	2.0	3.9	3.9	3.9	3.9	3.9	3.9	3.9
Covid-19/emergency expenditures	2.5	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment basis)	-2.5	-3.1	-1.4	-2.6	-3.0	-2.6	-2.2	-1.8	-2.2	-2.1
Change in arrears	0.1	0.4	1.2	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-2.4	-2.7	-0.3	-2.3	-3.0	-2.6	-2.2	-1.8	-2.2	-2.1
<b>Monetary sector</b>										
Broad money	19.4	5.3	-1.7	3.2	6.3	5.9	6.0	6.1	6.7	6.7
Net foreign assets	20.1	-2.4	-7.7	0.8	2.6	2.2	2.7	2.5	2.7	2.6
Net domestic assets	-0.7	7.7	6.0	2.4	3.7	3.7	3.3	3.6	4.0	4.0
Of which: Claims on government (net)	0.4	2.3	-0.6	0.0	0.0	-0.2	-0.3	-0.3	-0.2	-0.2
Of which: Claims on non-government sector	2.4	2.8	5.8	2.5	3.7	3.8	3.9	4.0	4.1	4.3
Credit to non-government (in percent of GDP)	26.3	26.9	28.6	28.1	28.2	28.4	28.6	28.9	29.3	29.9
<b>External sector</b>										
Current account balance	366	-224	656	946	223	187	148	334	344	328
(In percent of GDP)	11.5	-6.6	17.6	23.5	5.1	4.0	2.9	6.1	5.8	5.2
Underlying current account balance 1/	87	-224	172	554	-77	-113	-152	34	44	28
(In percent of GDP)	2.7	-6.6	4.6	13.8	-1.8	-2.4	-3.0	0.6	0.7	0.4
External public and publicly guaranteed debt	2,356	2,416	2,453	2,527	2,596	2,636	2,628	2,621	2,491	2,332
(In percent of GDP)	74.0	71.4	65.8	62.8	59.5	55.9	51.5	47.7	42.0	36.9
Foreign direct investment	158	167	187	183	195	206	218	230	242	256
(In percent of GDP)	5.0	4.9	5.0	4.5	4.5	4.4	4.3	4.2	4.1	4.0
Exports of goods and services (percent change)	-28.3	39.7	10.0	2.5	0.7	3.3	5.9	8.5	5.5	3.3
Imports of goods and services (percent change)	-28.1	60.1	-7.1	-3.5	15.4	4.0	6.8	5.7	5.6	3.7
Gross official reserves	677	578	581	573	617	664	713	769	826	890
(In months of next year's imports of goods and services, exc. re-exports)	2.9	5.5	7.2	4.7	5.1	5.3	5.6	6.1	6.5	7.0

Gross foreign assets of commercial banks	1,753	2,026	1,751	1,782	1,808	1,820	1,845	1,861	1,890	1,915
(In months of next year's imports of goods and services, exc. re-exports)	7.6	19.3	21.8	14.7	15.0	14.5	14.6	14.7	14.8	15.1
Exchange rate (DF/US\$, end of period)	177.7	177.7	177.7	177.7	177.7	177.7	177.7	177.7	177.7	177.7
Real effective exchange rate (yearly average, 2010=100)	111.4	106.3	...	...	...	...	...	...	...	...
(Change in percent; depreciation -)	0.9	-4.6	...	...	...	...	...	...	...	...
<i>Memorandum items</i>										
Nominal GDP (in millions of Djibouti francs)	566,068	601,732	662,164	714,919	775,565	837,952	906,961	977,082	1,053,140	1,123,567
Nominal GDP (in millions of US dollars)	3,185	3,386	3,726	4,023	4,364	4,715	5,103	5,498	5,926	6,322
Nominal GDP per capita (US dollars)	3,224	3,378	3,667	3,907	4,184	4,465	4,775	5,085	5,420	5,718
Population (million)	0.988	1.002	1.016	1.030	1.043	1.056	1.069	1.081	1.093	1.106
Sources: Djibouti authorities and IMF staff estimates and projections.										
1/ Current account balance excluding imports and exports associated with re-export activities.										



# DJIBOUTI

## STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

March 8, 2024

### KEY ISSUES

**Context.** Following years of high growth led by public investment, consecutive exogenous shocks have weighed heavily on Djibouti's economy and on its debt. Nonetheless, with the peace deal in Ethiopia, growth rebounded strongly in 2023. The normalization of the external environment together with Djibouti's ongoing debt rescheduling discussions with main creditors are expected to reopen policy space, but restoring debt sustainability would require fully addressing the debt burden through a balanced mix of reforms, new concessional financing, and debt relief.

**Outlook and risks.** Growth, estimated at 7 percent in 2023, is set to remain strong at 6.5 percent in 2024. Inflation is expected to have averaged around 1.8 percent in 2023 and projected to remain subdued. While Djibouti is well-positioned to benefit from a rebound in trade, its strong dependence on Ethiopian trade exposes the country to trade shocks and the outlook in Ethiopia. Recent tensions in the Red Sea have so far had a limited impact but could affect port traffic through higher container or insurance prices and lower transshipments, which remain a small fraction of total activity.

**Policy recommendations.** In the short term, concluding debt renegotiations and clearing arrears will be essential to restoring debt sustainability. In the medium and long term, entrenching sustainability will require strengthening the revenue base, including from SOEs. Key policy recommendations:

- Conclude debt renegotiations and arrears clearance with all creditors and pursue holistic revenue mobilization and governance reform programs.
- Improve State-Owned Enterprise (SOE) governance to make SOEs a key contributor to central government revenues and to contain risks of SOE borrowing, and level the playing field to facilitate private sector development.
- Prioritize investments in human capital, including health and education, to support inclusive and resilient growth based on a more diversified economy.

Approved By  
**Taline Koranchelian**  
**(MCD) and Bergljot**  
**Barkbu (SPR)**

Discussions were conducted in Djibouti during January 14–25, 2024. The team met with Prime Minister Mohamed, Central Bank Governor Osman, Minister of Budget Robleh, Minister of Economics and Finance Dawaleh, as well as other senior officials and private sector representatives. The staff team comprised Joyce Wong (head), Filippo Gori, Olanrewaju Kassim, Naima Smaini (all MCD), Theodore Bikoi (STA), and Sebastien Leduc (FAD). Abdulrahman Olhaye (OED) participated in the discussions. Rhea Gupta, Dalia Aita, and Maria de Mesa provided research and editorial assistance.

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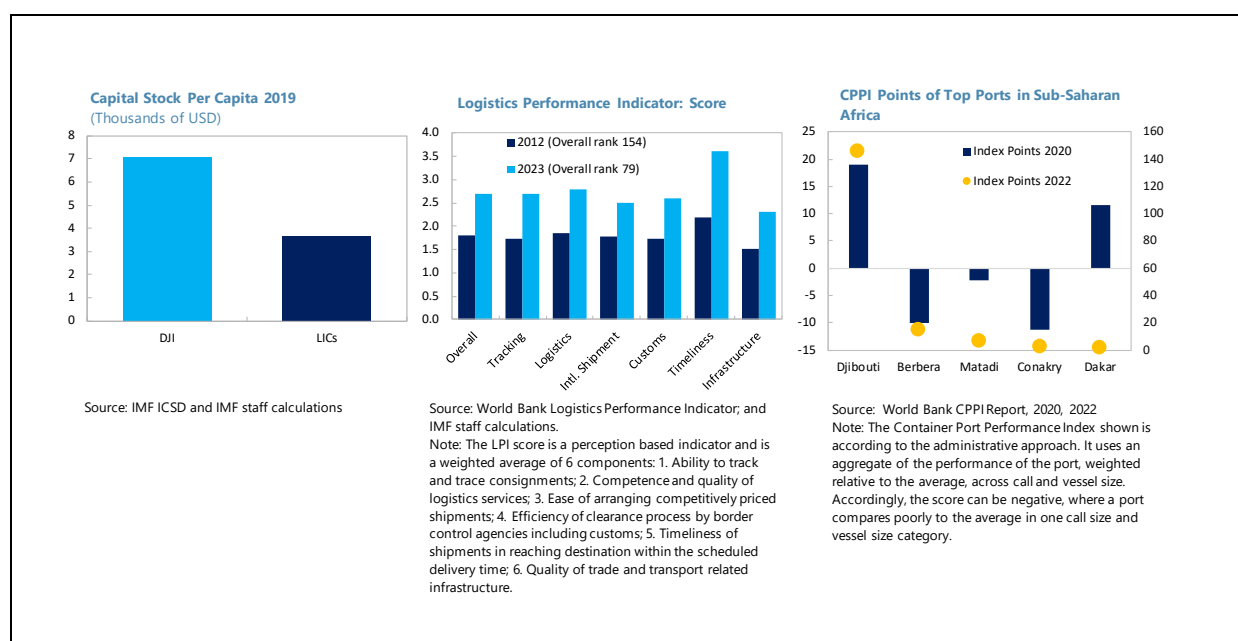
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## CONTEXT

**1. Djibouti's concerted investments in logistics during the last decade have increased the efficiency of its port and overall growth.** Located on the Horn of Africa, Djibouti enjoys a strategic position at the crossroads of Africa, the Arabian Peninsula, and Asia. The country has leveraged this position to become the main port of landlocked Ethiopia. This required significant infrastructure investments including, in 2013, a multipurpose port and a railway connecting Djibouti and Addis Ababa. As a result, growth averaged over 6 percent in 2013–2019 and ports performance increased significantly. Currently, the World Bank ranks Djibouti top amongst all container ports in Sub-Saharan Africa with a rise in ranking from 93 to 24 in two years. However, economic activity moderated significantly in 2020–21, following the pandemic and the conflict in Ethiopia.



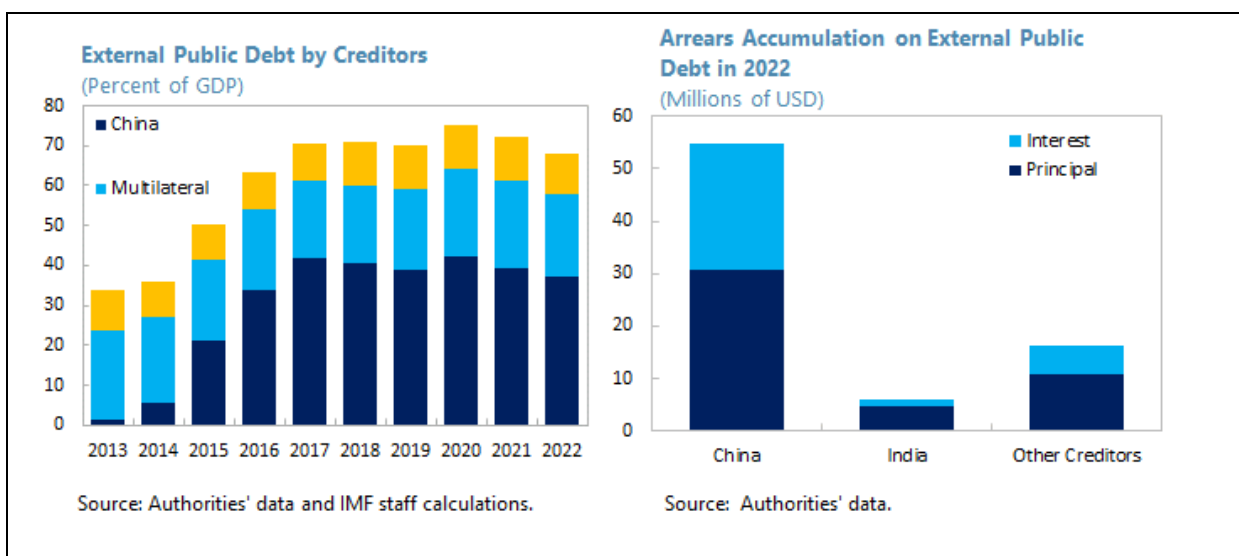
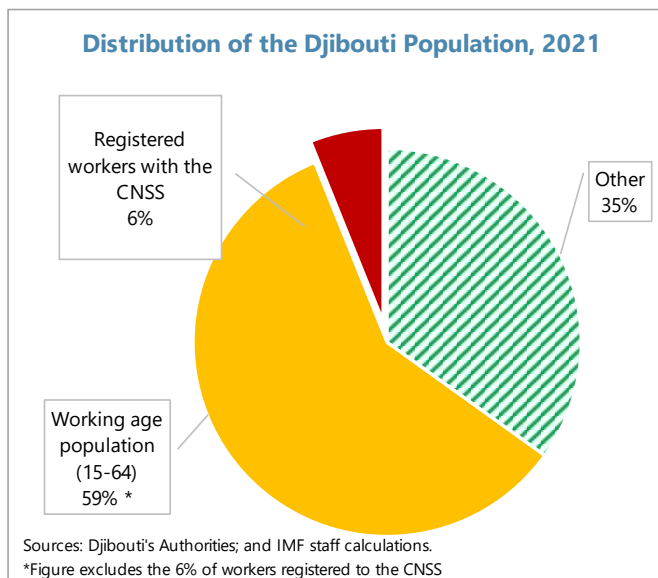
**2. Debt increased concurrently.** External public debt to GDP increased from 33.9 percent at end 2013 to 68 percent at end 2022, mainly due to loan-financed investments by SOEs. In particular, the port and the railway noted above, together with a water pipeline to Ethiopia, were financed by a loan from Exim Bank China for a total of USD 1.2 billion (about 30 percent of 2023 GDP).

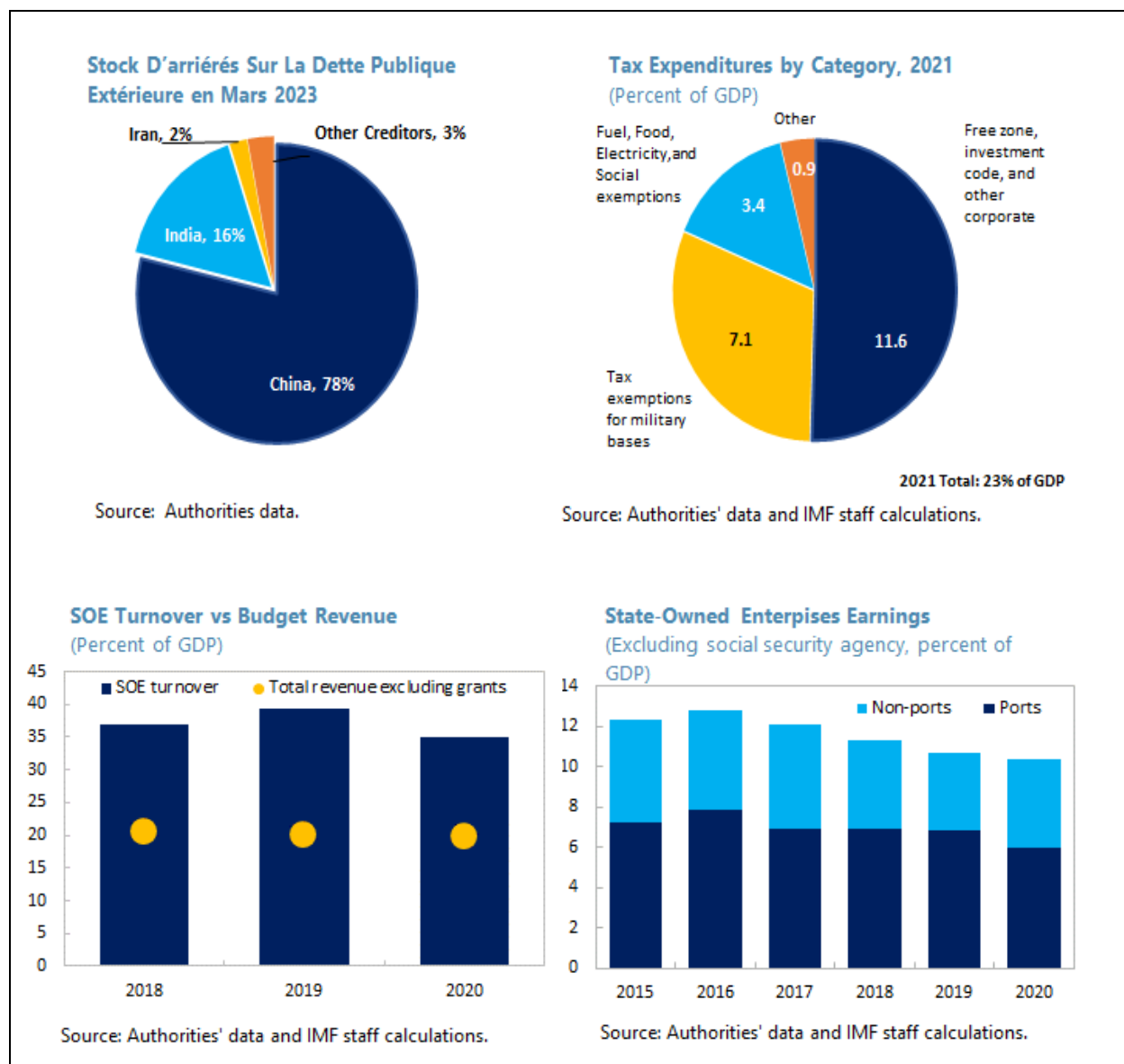
**3. The combined shocks of the pandemic, the conflict in Ethiopia, and commodity price increases shrunk fiscal space as lower-than expected return on some projects sent debt into distress.** Revenues to GDP declined from 26.5 percent in 2013 to 18.6 percent in 2022. In recent years, the increases in food and energy prices have translated into foregone revenues to keep prices stable. At the same time, significant tax expenditures deprive the central government budget from much-needed resources. In addition, SOEs, which are the largest contributor to GDP, retain most of their earnings and pay little in taxes or dividends. As sequential shocks hit, growth bottomed out at 1.3 percent in 2020, with only a partial recovery in 2021 and 2022, dragged down by the conflict. As

the water and railway projects’ returns dropped, Djibouti stopped servicing part of its debt in 2021. The total stock of external arrears reached 6 percent of GDP in Q2 2023. The government also accumulated arrears totaling 0.6 percent of GDP to domestic providers.

**4. In addition, higher growth has not translated into sufficient job creation (Selected Issues Paper).** Port activity accounts for 80 percent of variation in GDP growth in the country.

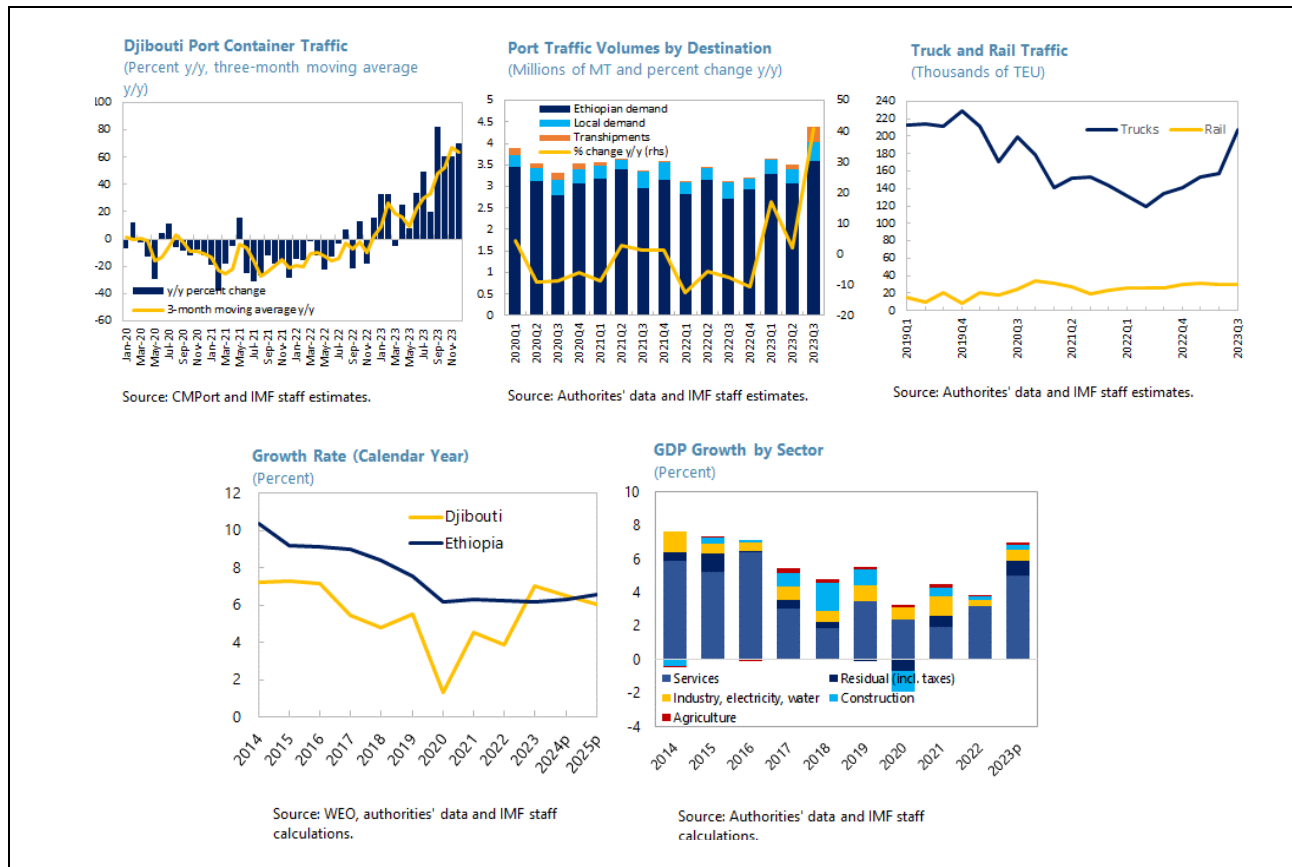
However, modern, capital-intensive ports do not offer significant employment opportunities. In this context, during the period 2015-2021, the transport sector generated less than seven thousand new jobs (in a working age population of 700,000), with respect to a cumulated real GDP growth of more than 35 percent. As a result, the last officially estimated unemployment rate remains elevated at 47 percent, while only 10 percent of the working age population is engaged in formal employment. The government sees the need to overhaul the growth model, shifting reliance on port activity, centered around a single client—Ethiopia—towards a more diversified and inclusive economy, with a bigger role for the private sector and more significant job creation.



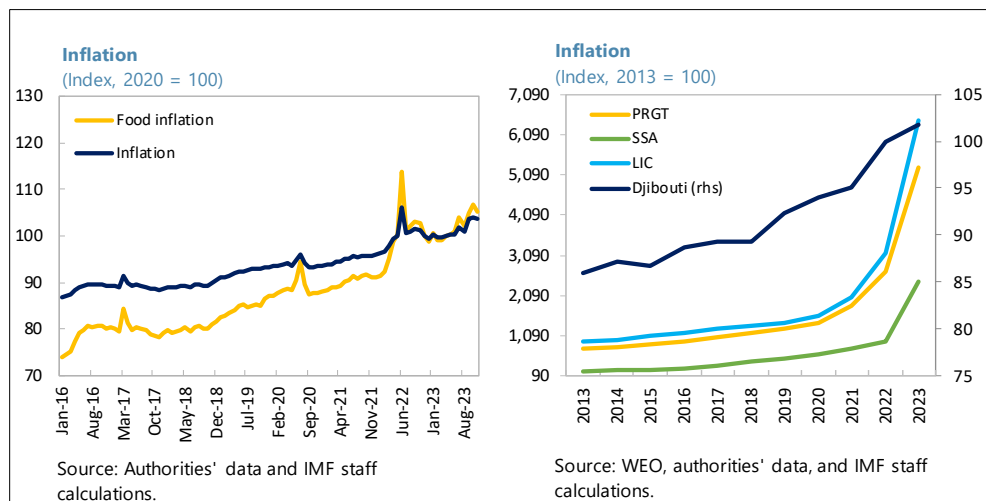


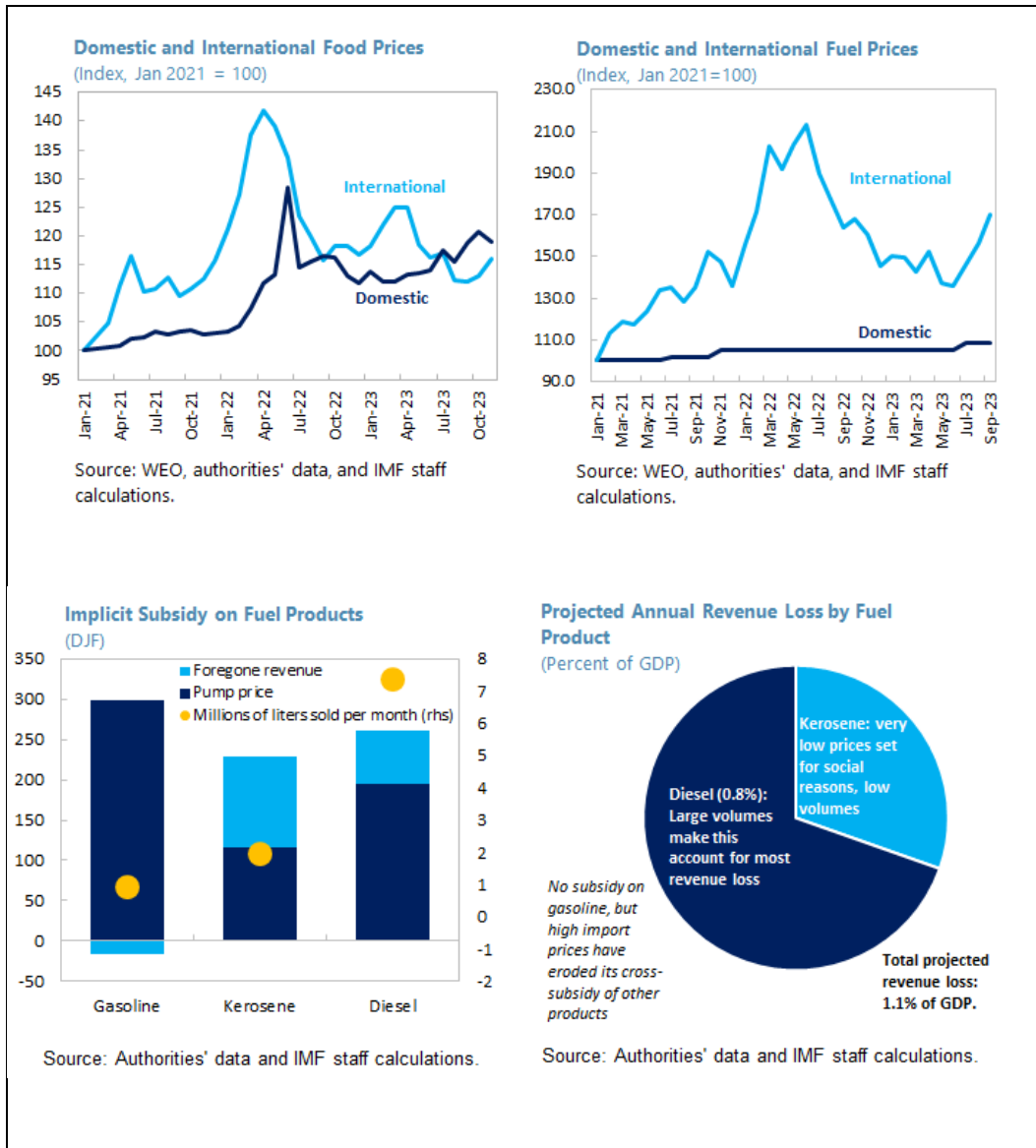
## RECENT DEVELOPMENTS

**5. Growth rebounded strongly in 2023.** After the negative shock of the pandemic and a weak recovery in 2021, the November 2022 peace agreement in Ethiopia bolstered the Djiboutian economy. Growth is expected to have reached about 7 percent in 2023, supported by the rebound in port activity and construction. Port activity grew by 31 percent y-o-y in the first three quarters of 2023, supporting train traffic, which increased by 16 percent y-o-y during that time. Furthermore, construction activity resumed with cement sales increasing by 80 percent y-o-y in the first three quarters of 2023. Likewise, energy production grew by 16.3 percent y-o-y in Q2 2023.

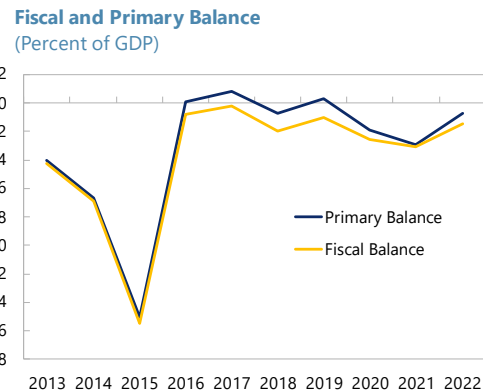


**6. Inflation, which has traditionally been moderate in Djibouti, is estimated to have slowed to 1.8 percent in 2023.** In the past, low inflation resulted from the combination of the currency board, protecting domestic prices from exchange rate passthrough, and active fiscal policies to stabilize energy and basic food prices. The much higher 5.2 percent average inflation rate in 2022 was largely driven by the increase in food inflation, which reached 10.7 percent reflecting passthrough from a 14.8 percent increase in global food prices, as the country only has 4 percent of arable land. However, inflation moderated significantly in 2023, especially during the first half of the year, following an 11.2 percent decrease in food prices in June. While there were some seasonal pick-ups in Q4 for some food products, overall price dynamics have started to converge toward historical norms.





**7. The primary deficit in 2023 is estimated to have increased to 1.3 percent of GDP from 0.7 percent of GDP in 2022.** The larger deficit was mostly driven by one percentage point of GDP drop in revenues, largely due to lower domestic non-tax revenues. Total expenditures are assessed to have remained broadly in line with 2022 estimates. Nonetheless, the composition shifted significantly from current expenditures to capital, likely linked to the acceleration in the construction of social housing.

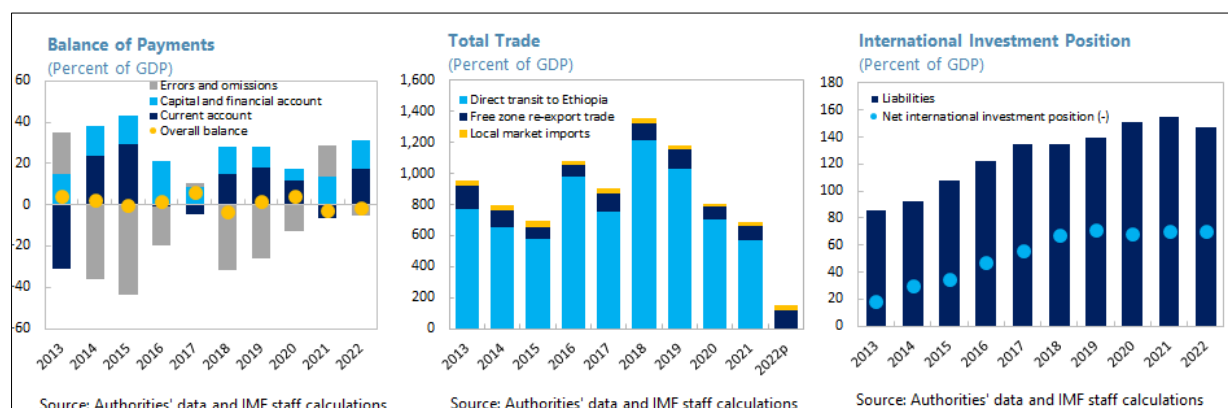


Source: Authorities; and IMF staff calculations.

**8. The authorities reached a preliminary debt service moratorium agreement with Exim Bank**

**China in October 2023.** Discussions are ongoing, including on the terms, especially on interest rates and maturity profile, during the moratorium. They have also started negotiations with India, their second largest creditor and are in discussions with the Paris Club.

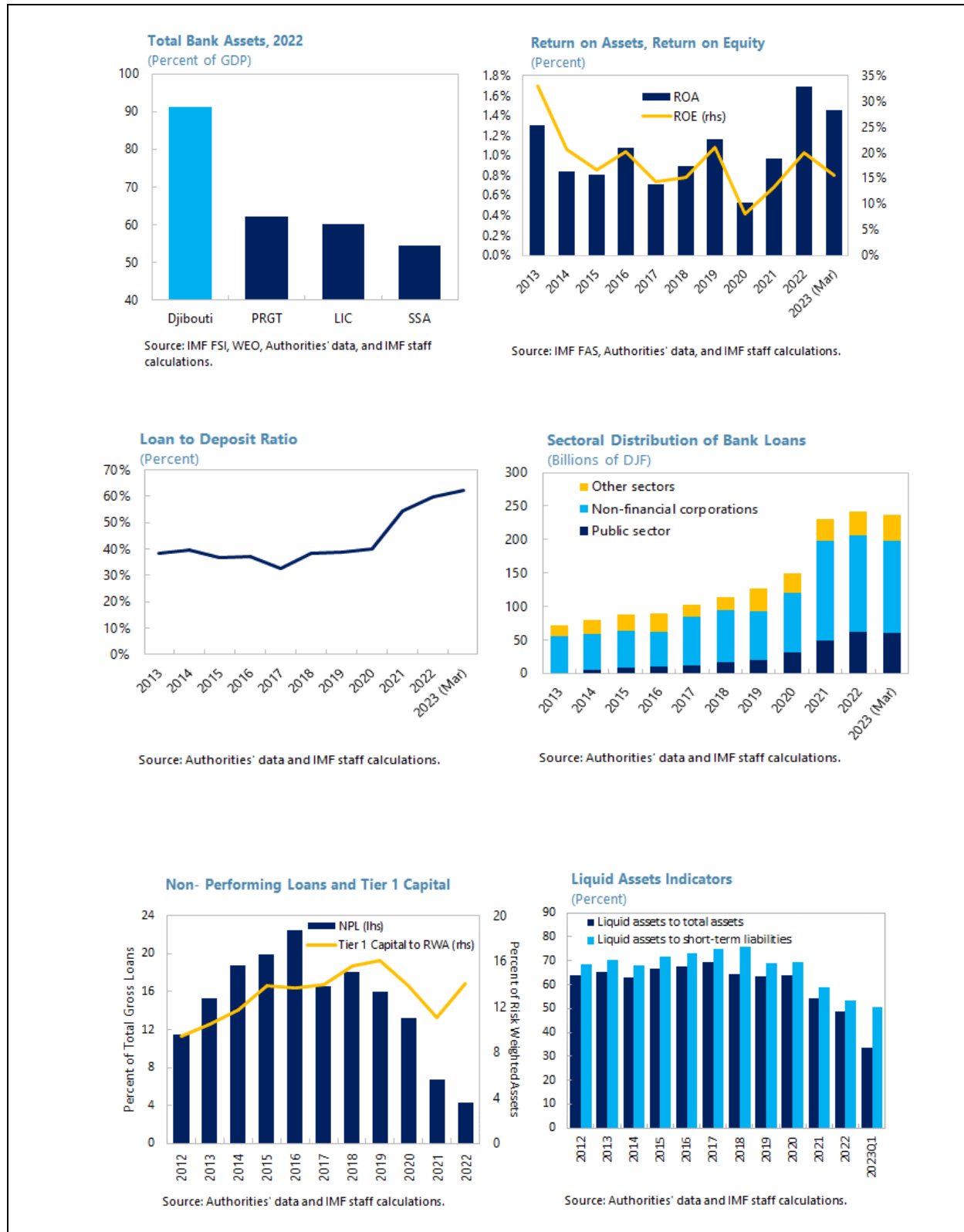
**9. The external surplus is estimated to have increased in 2023 and reserve levels remain adequate.** As of end 2023, the current account balance is estimated to have reached 23.5 percent of GDP, up from 17.6 percent of GDP in 2022. The trade balance is also estimated to have widened to 22.4 percent of GDP from 15.5 percent of GDP in 2022. Reexports accounted for around 92 percent of export goods, with port activity continuing to center around transit to neighboring Ethiopia. Official reserves are estimated to stand at USD 573 million as of end 2023, covering 4.7 months of imports (excluding reexports). Staff assesses Djibouti's external position in 2023 to substantially stronger than the level implied by fundamentals and desirable policies, though the external sector analysis is greatly impacted by data quality (Annex I)



**10. The financial sector remains resilient.** Banking concentration has decreased in recent years, as Djibouti's commercial banks increased from two in 2005 to 13 by 2021. Over time, the market shares of legacy banks declined with the rising number of new players contributing to a decline in overall systemic risk. As of September 2022, the BCIMR, BOA-Mer Rouge, and CAC International Bank collectively held 49 percent of the market share in assets and 43 percent in credit. Additionally, their resources represented 63 percent of the total financial instruments managed by the banking sector. Credit quality also appears to have improved although growing exposure to SOEs warrants monitoring. Over the past two years nonperforming loans (NPLs) dropped by two-thirds to around 4.5 percent in Q1 2023, reflecting both a decline in nonperforming exposures and an increase in credit provision. Finally, bank capitalization increased to 17.5 percent by April 2023, from about 14 percent in end-2021.

**11. Nonetheless, bank liquidity has weakened.** Bank liquidity ratios declined to 50 percent in the first quarter of 2023 from about 60 percent in 2021 on average, primarily reflecting a gradual erosion of liquid assets. Banks' short-term deposit base is also relatively large compared to peer countries and mostly held overseas (in Ethiopia and Somalia). While this has historically been the case and not a recent development, it could expose the banking sector to liquidity risks that could

become of systemic nature, should multiple parent groups enter distress or face disruptions in payments systems.



## OUTLOOK AND RISKS

**12. The outlook is cautiously optimistic and remains highly dependent on the evolution of activity in Ethiopia and the latter's plans to diversify its trading partners.** The recovery is expected to continue in 2024, with growth projected at 6.5 percent, albeit subject to considerable uncertainty (below). Activity is expected to be supported by continued growth in Ethiopia and construction. Over the medium term, growth is set to converge toward its pre-pandemic (2017–2019) average, stabilizing at 5.5 percent. With about 95 percent of Djibouti's port activity fueled by Ethiopian trade, both growth and the external balance will be largely driven by growth prospects in Ethiopia. In addition, demand for housing will likely support private and public investment in construction. After last year's drop, inflation is expected to converge upwards to about 2 percent in line with international trends.

**13. Nonetheless, significant regional risks cloud the outlook.** Ethiopia's recent default on its debt could hamper trade through Djibouti. Most of the containers destined to Ethiopia come into Djibouti from China and Saudi Arabia, avoiding the Red Sea; however, an escalation of tensions in the area could further affect transshipments which account a small portion of port activity. The impact of increasing refugees/asylum seekers on resources, particularly water, education and health services, could bring new challenges for social stability, especially in a context of tight budgetary resources.<sup>1</sup> In the medium term, Ethiopia's intention to diversify its ports could lower traffic to Djibouti. On the upside, stronger-than-expected trade from Ethiopia can support growth, and fully addressing the debt burden could improve debt sustainability and create fiscal space.

### **Authorities' Views**

**14. The authorities agreed with the outlook and the balance of risks.** They noted their plans for continued diversification of Djibouti's economy, including into the construction sector and expanding port-related activities. They believed that, in the medium term, Djibouti will likely remain the central port for Ethiopia but they were keenly aware of the need to expand the port's service offerings including for transshipments, repairs, and refuel, and reduce trade concentration. The authorities also agreed that tensions in the Red Sea pose risks for transshipments. Given the high level of uncertainty, there was agreement that the baseline is subject to important risks.

## POLICY DISCUSSIONS

*Amidst a challenging regional context, the finalization of the debt negotiations with creditors will open a window of opportunity for the authorities to develop a sustainable and coherent strategy for public finances. Achieving and entrenching debt sustainability will require a balanced mix of fiscal and structural reforms, strengthened public debt management, new concessional financing, and debt relief, as well as a strategic view towards revenue mobilization and budgeting. Ensuring that SOEs contribute*

<sup>1</sup> As of August 2023, Djibouti hosted 22,031 refugees and 9,038 asylum seekers, mostly from Somalia, Ethiopia, and Yemen.



to the central government budget, together with strengthening governance, must be the lynchpin of any growth strategy. AML/CFT reforms and data improvements will enhance transparency and improve business climate. Diversifying the economy and strengthening professional skills in the labor force will be essential to boost formal employment.

## A. Fiscal Policies

**15. The central government fiscal stance has remained broadly adequate, but there is room to enhance long-term planning to entrench fiscal sustainability.** While characterized by weak revenue mobilization and the need to increase spending on development goals, staff views the central government's current fiscal stance as broadly adequate at the current moment. Nonetheless, restoring and entrenching debt sustainability will require a balanced mix of (i) fiscal and structural reforms, (ii) debt relief, (iii) new concessional financing, and (iv) strengthened public debt management. Accelerating the design and implementation of strategy for revenue mobilization anchored on a long-term vision, together with stronger fiscal institutions and governance will create essential foundations to sustain much needed development expenditures.

**16. The debt service moratorium with China provides a window of opportunity for Djibouti to continue to engage with its creditors on a strategy to fully address the unsustainable debt burden.** Djibouti's overall and external public debt remain in debt distress and are unsustainable (see DSA) due to outstanding arrears. The moratorium with China Exim Bank provides debt service relief, but an illustrative scenario points to a limited impact on debt levels, which are expected to remain high over the medium term. Finalizing debt negotiations with all creditors, including the refinancing of arrears will open important policy space and help entrench sustainability.

**17. Control over SOE borrowing is key to anchor debt.** SOE borrowing accounted for 80 percent of external debt growth since 2013. In 2023, the government provided guarantees to three loans contracted by the state-owned *Djibouti Port and Free Zones Authority* (DPFZA) totaling about USD 250 million.<sup>2</sup> Staff supports the revisions to the decree defining the responsibilities of the public sector debt committee (*Comité National d'Endettement Public*),<sup>3</sup> which issues a reasoned opinion on any borrowing project involving the state. This imposes controls over SOE borrowing and going forward, the committee should carefully weigh the risks of non-concessional borrowing in times of

<sup>2</sup> These are USD 120 million with Afreximbank and USD 35 million with *Banque pour le Commerce et l'Industrie Mer Rouge* (BCIMR) to further develop the *Damerjog Industrial Development Free Trade Zone*, and another USD 95.6 million from Afreximbank and FMO to develop the shipyard.

<sup>3</sup> The *décret n° 2022-081/PR/MB portant modification du Décret n°2019-085/PR/MB portant création d'un Comité National d'Endettement Public (CNEP)* modified and replaced previous provisions. The committee is in charge of designing, coordinating and implementing the national policy on public debt. It includes the Prime Minister (president), the Minister of Economy and Finances, in charge of the Industry (vice-president), the minister of Budget (vice president), the Minister of Foreign Affairs and International Cooperation, the Governor of the Central Bank, the Secretary General of the Government, the economic adviser of the President of the Republic and the President of the *Autorité des Ports et des Zones Franches*. The Direction of Public Debt of the Ministry of Budget is in charge of its secretariat.

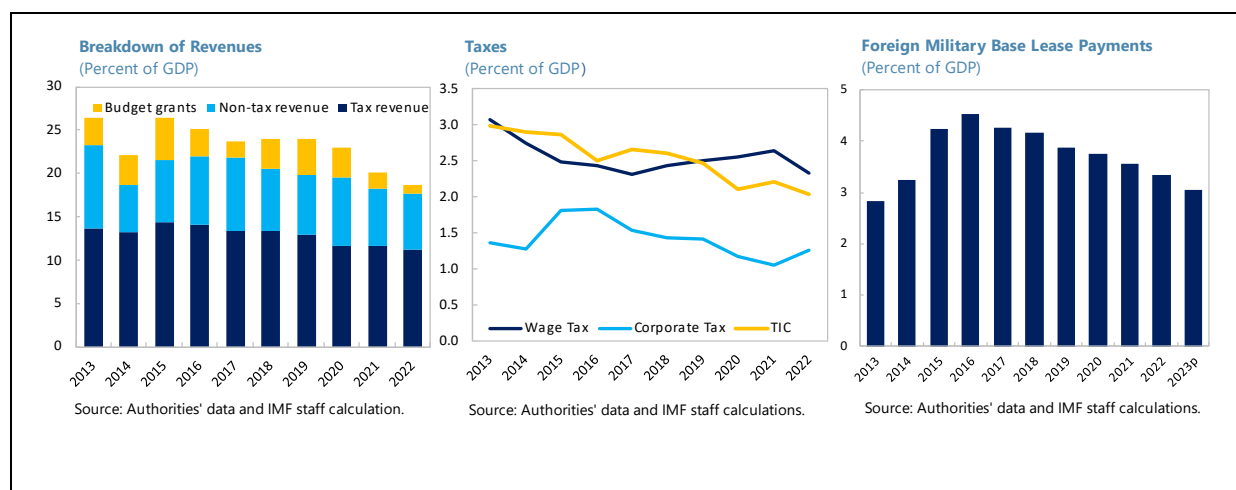
high interest rates to avoid creating additional debt service challenges. As a next step, the authorities could consider an anchor for debt—for instance, a target debt level to be reached by a certain year, or a targeted path for fiscal deficits—to ensure multiyear fiscal policy coherence. This could be complemented by a ceiling on overall SOE debt together with a requirement of a balance sheet analysis for each SOE borrowing request. Such a rules-based framework would help prioritization of investment projects while also strengthening planning and budgeting. Another option that could be explored is the development of a medium-term debt strategy.

**18. Ensuring that profit-making SOEs contribute to the budget, while limiting transfers to loss-makers, would help support important budgetary needs including health and education.**

Staff commended the authorities' prudence in recent years in limiting transfers from the budget to the Sovereign Wealth Fund, given the prevalent shocks. Going forward, a clear dividend policy, along mutually agreed performance parameters, would help support the budget while ensuring that SOEs have adequate resources to fund operational and investment costs.

**19. A holistic and coherent long-term vision towards revenue mobilization would support durable reforms.**

Recent measures have improved the tax system at the margin but left core issues—such as tax incentives (including exemptions) and the poor performance of the VAT—largely unaddressed. There is an important window of opportunity, given the moratorium on debt service, to design and implement a holistic plan for revenue mobilization, with well-timed and consistent implementation (*Selected Issues Paper*). A first step could be to consolidate all tax provisions within a single legislation, making it the sole-source of tax policies in the country. Submitting all tax preferences for parliamentary approval with systematic inclusion in the tax expenditures report would help end discretionary concessions and promote transparency and accountability. The ongoing review of military base leases should not only ensure their fair value today but also include an indexation mechanism to protect future revenues. The five foreign military bases occupy some of the most valuable real estate in the country, yet payments have been fixed in nominal terms since 2016.



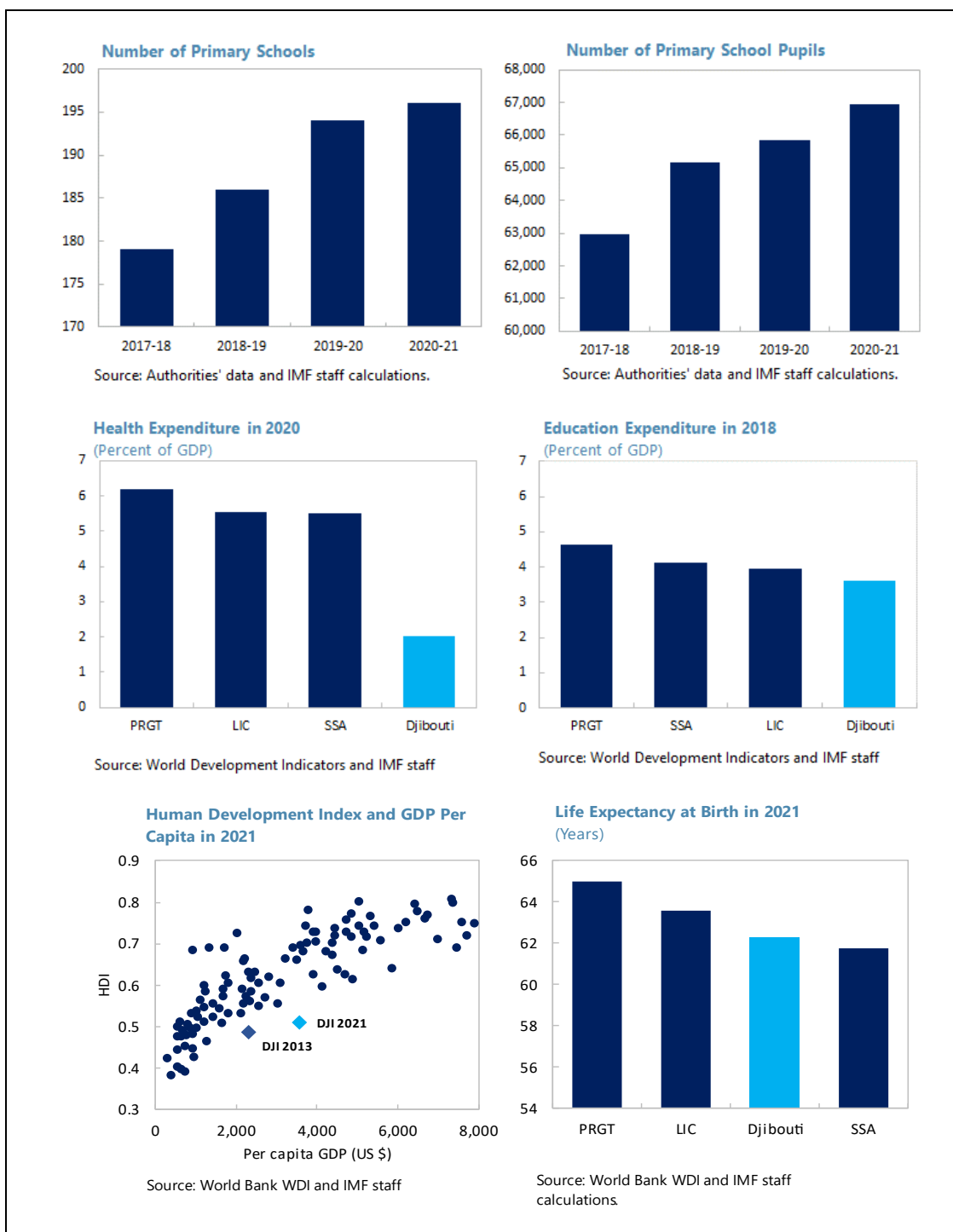
**20. Strengthening fiscal institutions would provide essential buffers in the case of downside shocks.** Staff welcomed the upcoming creation of a Large-Taxpayer Office in the *Direction Générale des Impôts*, which will help focus scarce resources in areas of highest return. The authorities' efforts at electronic filing and continued move towards digitalizing revenue administration are also welcome. As next steps, staff urged the authorities to reinforce the decision power of the Ministry of Budget on tax policy issues. To support this, staff stressed that the creation of a tax policy unit, which would help ensure coherence and consistency in policy design and implementation.

**21. There are important tradeoffs to stabilizing energy prices.** While this may protect the vulnerable, it does so at a high cost with adverse distributional impacts, as a large part is likely benefiting the rich who do not need such support. Better targeting support would increase efficiency, especially considering that spending on education and health remains below peers, despite significant improvements in education in recent years. Increasing health spending would also further strengthen Djibouti's progress towards Sustainable Development Goals.

### **Authorities' Views**

**22. The authorities acknowledged that, while the debt service moratorium provides important flow relief, Djibouti's debt sustainability rests with the full outcome of the restructuring with all creditors.** They recognized that the repayment terms after the moratorium will be central for any debt sustainability analysis and noted that both the government of Djibouti and Exim Bank of China are keen to continue negotiating on a long-term solution. The authorities do not agree on the methodology used in the calculation presented by the mission during the DSA. They tend to agree with the 2019 DSA methodology which excludes Djibouti's sizable re-exports in the reserve coverage calculation of CI scores. These methodological differences are especially important since these re-exports are financed not with central bank reserves but with the FX in commercial banks. The authorities noted that discussions are ongoing with the Exim Bank of India and they have also contacted the Paris Club.

**23. The authorities fully agreed with the need for a unified vision for tax policy.** They, however, did not see the requirement for parliamentary approval of all tax preferences as necessary, as such decisions are within the purview of the Executive branch. There was agreement that the creation of a tax policy unit would help support informed decision-making. They also agreed with the need to develop capacity in the ministry of budget and urged the IMF to explore ways to continue supporting Djibouti not only in policy design but also in actual implementation.



## B. State-Owned Enterprise Governance Reform

**24. Given the prominence of State-Owned Enterprises (SOEs) in Djibouti, a stronger grasp on their activities and assets is key to ensure their budgetary and economic contribution.** In the 2023 PEFA, Djibouti received the score D+ for the overall management of its assets. The drivers of the score C for the subcategory management of financial assets include (i) the lack of a tally of

SOEs with information on the number of shares, their value, other shareholders of these companies and the composition of capital, (ii) the lack of a report on the performance of shares in SOEs and dividends perceived, (iii) no comprehensive monitoring of the financial relationships between the State and SOEs (subsidies, transfers, parafiscal taxes, taxes, dividends), and (iv) the lack of the notion of financial performance. Accelerating efforts to close these gaps would enhance financial oversight and ensure that action can be taken against poorly performing SOEs, which historically has resulted in the need for subsidies.

**25. The adoption of the Code of Good Governance of SOEs in 2016 was an important improvement of governance of SOEs and accelerating its implementation will be key.** Since its creation, the Executive Secretariat of the State Portfolio (*Secrétariat Exécutif chargé du Portefeuille de l'Etat*) has been under-resourced. Staff strongly stressed the importance of empowering it with strong political buy-in and adequate resources to allow it to fully meet its mandate. Accelerating efforts for a strategic review of the more than 77 SOEs would help to better understand the specific role, rationale for ownership, and value-added of each SOE. Staff strongly supported the authorities' plans to consolidate administrative SOEs (EPA)—31 out of the 77 estimated SOEs—and urges accelerating the technical work.

**26. Enhancing financial transparency of SOEs would increase accountability, lower vulnerabilities to corruption, and ensure economic value creation.** At the moment, the majority of SOEs do not produce their financial accounts on time nor do they share them with their supervisory body. In particular, the SEPE only has accounts from 14 SOEs out of the 77 and not even for all years. The incentives for compliance by SOEs are weak as this lack of submission does not carry consequences. Therefore, the SOEs that have submitted financial statements offer only a very partial view of mostly small entities with low profitability. To improve compliance, the authorities could consider penalties for SOEs that do not submit financial statements, including but not limited to making financial statements submission a precondition for budget approval or withholding budget transfers.

### **Authorities' Views**

**27. The authorities welcomed staff's recommendations to strengthen governance of SOEs.** They were cognizant of the sizable potential that SOEs can represent not only for the budget but also as an engine of growth for the economy. They expect to accelerate the implementation of the Code of Governance this year, but acknowledged that challenges remain. The authorities further emphasized the need for a coherent state strategy for SOE ownership, including the need to tally, consolidate, and restructure. In this regard, they noted that the efforts to reform EPAs will be key to set an example and stressed that they are in the process of instituting independent boards for ten pilot SOEs.

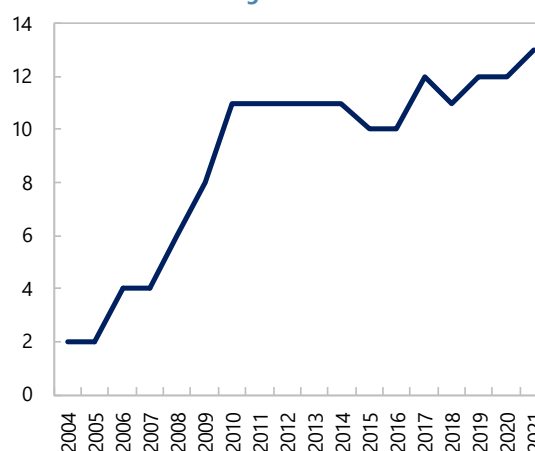
## C. Monetary and Financial Sector Policies

**28. The CBD plans to introduce a reserve requirement are welcome but should be carefully designed.** The large offshore component of the banking sector suggests the need for enhanced supervision of banks' management of liquidity risks and prudential liquidity oversight. Staff welcomed the CBD' discussions with banks on introducing a reserve requirement, which should be a tool for liquidity management and thus, remunerated. The level of the reserve requirement could be calibrated to liquidity needs under a bank stress scenario. The CBD also has room to further increase policy discretion, including through scaling up the currency coverage ratio through retained earnings, or

measures such as retained earnings on FX reserves and the imposition of a bank supervisory levy. The parity of the Djibouti franc against the U.S. dollar remains appropriate given the country's status as a trade hub and the authorities have not introduced any measures giving rise to exchange restrictions or multiple currency practices.

The parity of the Djibouti franc against the U.S. dollar remains appropriate given the country's status as a trade hub and the authorities have not introduced any measures giving rise to exchange restrictions or multiple currency practices.

Number of Banking Institutions



Source: IMF FAS, Authorities' data and IMF staff calculations.

**29. Improving banking regulation and central bank oversight will help strengthen the banking sector.** Alongside the growth of the banking sector, the Central Bank of Djibouti (CBD) has increased its capacity and operations. Nonetheless, more could be done. The 2020 FSSR found that oversight is hampered by the lack of strategic focus and resources, and inadequate internal processes. Accelerating reforms in these areas would further support the CBD's oversight. Options could include establishing and monitoring a regulatory liquidity coverage ratio (LCR), together with emergency liquidity assistance (ELA), financed by a bank levy in the context of the currency board or via a private sector fund, to provide interbank lending in case of liquidity crises.

**30. Improvements to the AML/CFT framework are crucial, also in view of the MENAFATF's ongoing assessment.** Staff urged the authorities to step-up their efforts to ensure the passage of the three draft legal amendments to AML/CFT Laws provided through IMF TA, decrees for implementing targeted financial sanctions, and for the organization and operation of the Financial Intelligence Unit of Djibouti. Addressing existing weaknesses in the understanding of risk and using a risk-based approach to mitigation are important. Closing gaps in effectiveness of AML/CFT supervision of financial and designated non-financial sectors, the financial intelligence function, and investigations and prosecutions, is another priority.

**31. An update safeguards assessment of the Bank Centrale de Djibouti (BCD) was completed in August 2023.** The assessment found that the BCD faces significant capacity constraints that have contributed to weak controls in many areas such as currency management and cybersecurity; furthermore, the internal audit and risk management functions are not yet

operational. Additional areas for improvement include strengthening governance arrangements, amending the BCD Law to strengthen autonomy, and enhancing the transparency of the financial statements through adoption of IFRS and timely publication of audited financial statements. While initial steps were taken to address these recommendations, additional efforts are needed.

### **Authorities' Views**

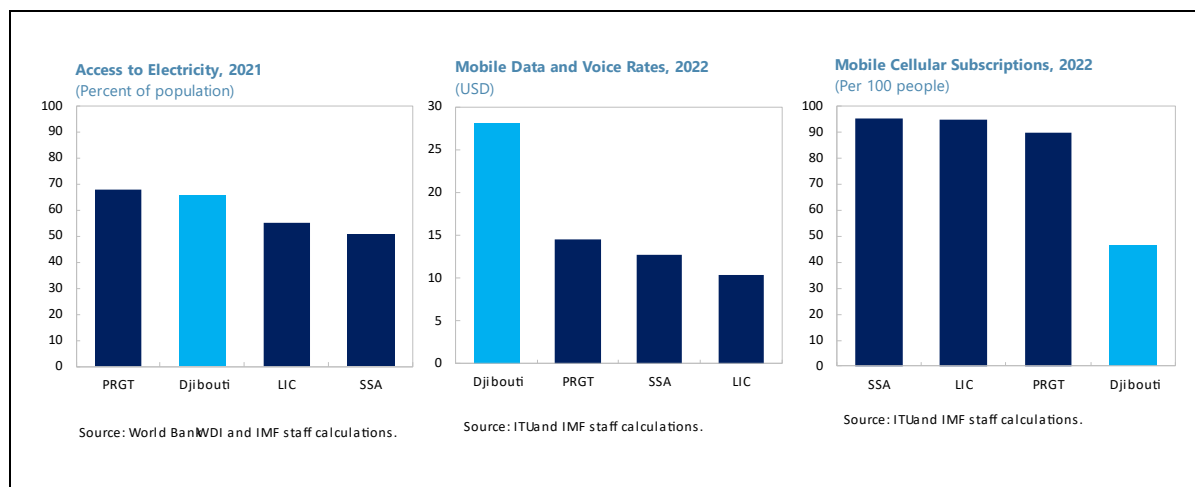
**32. The CBD agreed with the recommendations to continue expanding the supervisory and policy toolkits.** They agreed with the importance of improving CBD's supervisory capacity, and the positive role of IMF TA in helping to alleviate capacity constraints. On the reserve requirement, the CBD noted their commitment to its introduction as a liquidity and prudential management tool, on which they are working, in consultation with banks, on its calibration. The authorities stressed the importance of the first ever FATF mutual evaluation and recognize the need for swiftly implementing its recommendations. The authorities noted that efforts are being made on the AML/CFT front, by creating a national coordination unit, a draft national strategy, and sharing conclusions of the national risk assessment (NRA) with the regulated private sector, and that a new NRA is planned for 2024-2025. They are still reviewing the AML/CFT legal amendments provided by staff and are planning to increase resources and set up a specialized unit in the Central Bank of Djibouti for conducting inspections.

## **D. Structural Reforms**

**33. The authorities are cognizant that key constraints to inclusive growth include high telecom and energy costs, informality, and weak private sector job creation.**

- Staff strongly welcomed the authorities' plans to halve the costs of telecoms by March 2024. The authorities are also exploring a minority stake sale of Djibouti Telecom. In this regard, strong corporate governance and financial transparency will be essential to attract private interest. The recent entrance of *AfriFiber* should help promote competition together with the authorities' plans to open the market to a second operator in telecoms.
- Djibouti's significant levels of informality—only 67,000 people are registered in social security among a working age population of about 700,000—merit attention. A multifaceted strategy to investigate barriers to formalization could be a first step to identify possible remedies. The strategy could include a review, potentially with IMF TA support, of regulatory measures (minimum wage, contract laws) as well as tax policies and procedures (labor taxes, taxes on SMEs, and ease of compliance).
- The high levels of capital investments in tertiary sectors in recent years have resulted in limited job creation, while at the same time, gaps between the skills needed by large companies—in areas such as logistics, transportation—and those supplied by the education system have increased structural unemployment (*Selected Issues Paper*). The authorities are exploring ways to diversify the economy into more labor-intensive sectors including construction, commerce and retail, and tourism. Expanding vocational training and adult learning programs, while also

developing work-based learning and apprenticeships would help improve labor market outcomes.



**34. Improving the coverage and quality of statistics will be essential to support evidence-based policy making (Box 1).** Investment in statistical capacity and skills and the timely compilation of macroeconomic statistics would greatly support evidence-based policymaking. Staff welcomed the recent increase in human capital at the statistical agency and urges the authorities to accelerate the ongoing census. High net errors and omissions (NEOs) have historically impacted the external account analysis in Djibouti. NEOs appear linked to large reexports to Ethiopia, which, in some years exceed the value of Djibouti's total imports. This is driven by the fact that some goods intended for reexport are kept in warehouses in the free trade zone for potentially years awaiting price increases. In addition, due to liquidity constraints in Ethiopia, part of the settlement of reexport transactions have not been captured by banks, causing an underestimation of the financial account and creating a disconnect between BOP outturns and reserves.

**35. Resilience to climate shocks remain crucial.** Staff welcomes the authorities' recent acquisition of Djibouti's inaugural sovereign insurance product aimed at mitigating the impact of climatic shocks. The authorities remain committed to generating 100 percent of its electricity from renewable energy under its Vision 2035 development strategy and expect that pending projects would allow the country to become an energy exporter in the medium term.

### **Authorities' Views**

**36. The authorities greatly appreciated staff's analysis of the growth and labor market constraints in Djibouti.** They agreed that high energy costs are hampering Djibouti's ability to reap advantages from its numerous underwater cables, including for data centers. In this regard, the authorities cited the importance of attracting renewables projects to lower costs and decrease dependence on imported energy. The authorities were also cognizant of the importance of lowering telecom prices and noted their desire to potentially open a second telecom license. They agreed on the need for educational reforms to ensure that both young people and adults have the right skills



demanded by the labor market, stressing also the importance of professional integration program which help funnel people into the marketplace. The authorities acknowledged the weaknesses in statistics, especially in the area of external sector and labor markets and noted their commitment to restart unemployment series in the context of the upcoming household survey (Box 1).

## STAFF APPRAISAL

- 37. Djibouti stands at a critical juncture, navigating domestic, regional, and global challenges.** The country's sustained logistics investments over the past decade, though growth-enhancing, have led to a notable increase in external debt. As the country faced the consecutive shocks of the COVID-19 pandemic, the conflict in Ethiopia, and commodity price increases, fiscal space narrowed, showing the need for a more resilient growth model.
- 38. Growth rebounded strongly in 2023, on the back of the November 2022 peace agreement in Ethiopia.** Economic growth was sustained by the expansion in port activities, train traffic, construction, and energy production. Inflation remained subdued, closing the year at 3.3 percent. Staff projects that the recovery will continue in 2024, albeit at a slower pace, converging down to potential in the medium-term.
- 39. The outlook remains cautiously optimistic, subject to considerable risks.** Given Djibouti's deep connections with Ethiopia, prospects will be contingent on the trajectory of Ethiopian economic activity and the growth of the Addis-Djibouti corridor. The outlook is subject to sizable risks including the recent default in Ethiopia, potentially increased disruptions in the Red Sea, and possible increases in regional migration and refugees. Medium-term prospects could be challenged by Ethiopia's plans for port diversification, potentially impacting Djibouti's port traffic.
- 40. Concerted efforts to address fiscal vulnerabilities, enhance governance, boost job creation and implement structural reforms will be pivotal for sustained economic growth and development.** The debt service moratorium with China provides a window of opportunity for the authorities to continue to engage with its creditors on a strategy to fully address the debt burden. Such a strategy would entail a balanced mix of strengthened public debt management, new non-concessional financing, and debt relief aimed at durably restoring debt sustainability.
- 41. The authorities' commitment to SOE reform is commendable and endowing these efforts with strong political buy-in and resources will be key.** A three-pronged approach to SOE reforms with (i) better financial oversight and a clear dividend strategy, (ii) stronger governance, and (iii) a review and restructuring of the numerous entities would help lay the foundation for a better management of state-owned assets while ensuring their proper contribution to all Djiboutians.
- 42. Addressing Djibouti's fiscal vulnerabilities requires a comprehensive and sustainable strategy.** Accelerating the design and implementation of a revenue mobilization plan centered on strengthening fiscal institutions, including reinforcing the decision power of the Ministry of Budget on tax issues, and reviewing and consolidating tax laws would help ensure coherent and consistent policy design and implementation. Tackling key issues such as tax incentives and VAT

underperformance will be essential. Ensuring that the military base leases are adjusted to reflect their real value would also provide important resources. Improving targeting of fuel subsidies could increase efficiency and create fiscal space for human capital expenditure.

**43. Improvements in banking regulation and oversight are imperative to strengthen Djibouti's banking sector.** The overall systemic risk has declined relative to the previous assessment. The careful design and introduction of a reserve requirement by the Central Bank of Djibouti (CBD) would be a positive first step to further strengthen the central bank's liquidity management toolkit. The findings of the upcoming MENAFATF evaluation will provide important foundation for reforms aimed at enhancing the AML/CFT framework. Swift passage of legal amendments is encouraged.

**44. Lowering telecom and energy costs, tackling informality, and enhancing private sector job creation would relieve important constraints to inclusive growth in Djibouti.** Staff welcomes the authorities' plans to halve the price of telecoms and explore private participation in Djibouti Telecom. Addressing informality through regulatory reviews and an evaluation of tax policies and procedures remain crucial. Promoting vocational training as well as expanding adult learning programs and apprenticeships could fill the skills gap while supporting the broader goal of diversifying the economy.

**45. High quality data coverage will support policy making and strengthen sector analyses.** Improvement in compilation method as well as swift publication of data will strengthen economic analysis across different sectors. Staff commends the recent increase in human capital in the statistical agency and encourages an acceleration of the ongoing census. Enhancing data quality will also enable better assessment of climate shocks on the Djiboutian economy.

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

### Box 1. Statistical Capacity in Djibouti

*Djibouti continues to face shortcomings in data availability, but data is broadly adequate for surveillance. Nonetheless, these issues do hamper evidence-based policymaking. Gaps are especially felt in the areas of the labor market, the economic distribution of households, and the financial sector, given the latter's expansion in recent years. This box presents some recent progress.*

**Djibouti's General Census of the Population and Housing (RGPH-3) is underway.** This census will update the data of the 2nd RGPH which was conducted in 2009. It will allow to update the structure and socio-economic characteristics of Djibouti's population and classify populations (nomads, migrants, refugees, homeless). Furthermore, the sampling frames for future households' surveys such as Djibouti's Household Survey (EDAM) and the Survey on demography and health (EDS) will be updated and a national Geographic Information System (GIS) will be created. Field data collection is expected to begin in April 2024. The authorities are also expecting that the Census will help kickstart their work on collecting unemployment data, which has not been published since 2017.

**The authorities are working on beginning the compilation of data on other financial institutions.** This will be based on standardized report forms (4SR) and expected to be supported by IMF TA. In addition to commercial banks, the Djibouti financial sector includes insurance companies (Islamic "Takaful" and conventional) and specialized financial institutions (a Development Fund for instance), whose inclusion in monetary and financial statistics must be specified.

Figure 1. Djibouti: Selected Macroeconomic Indicators

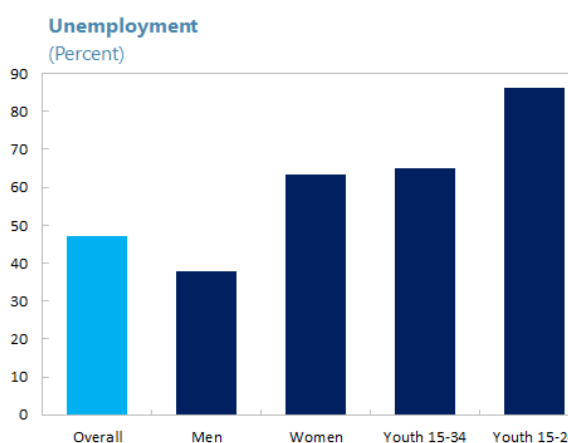
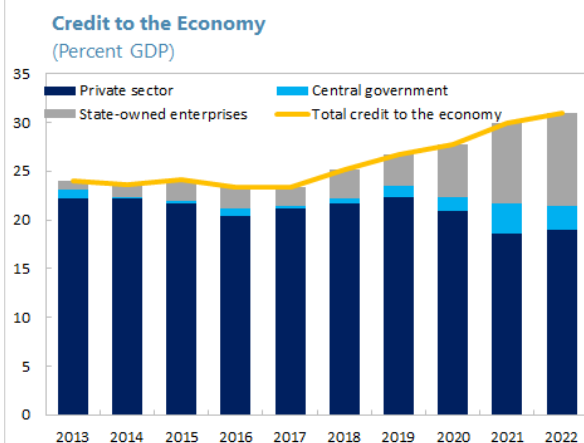
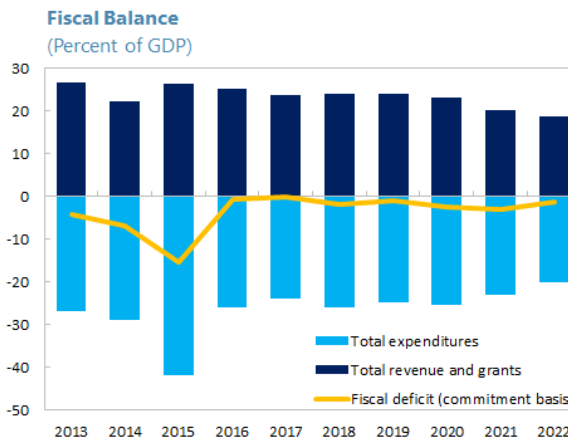
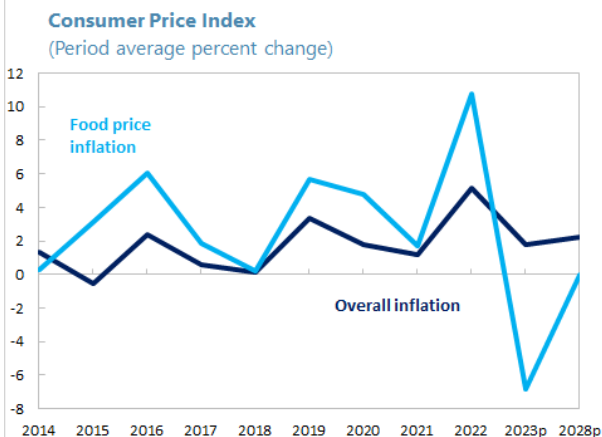
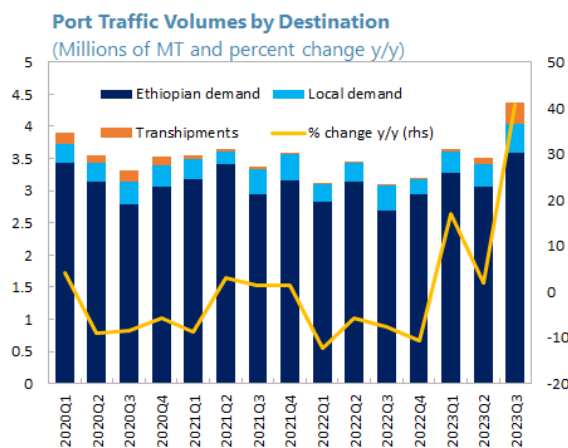
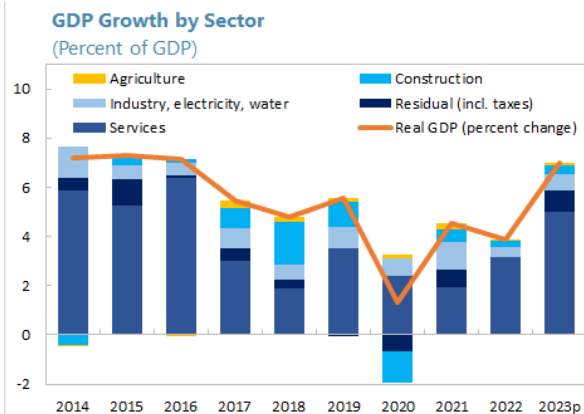
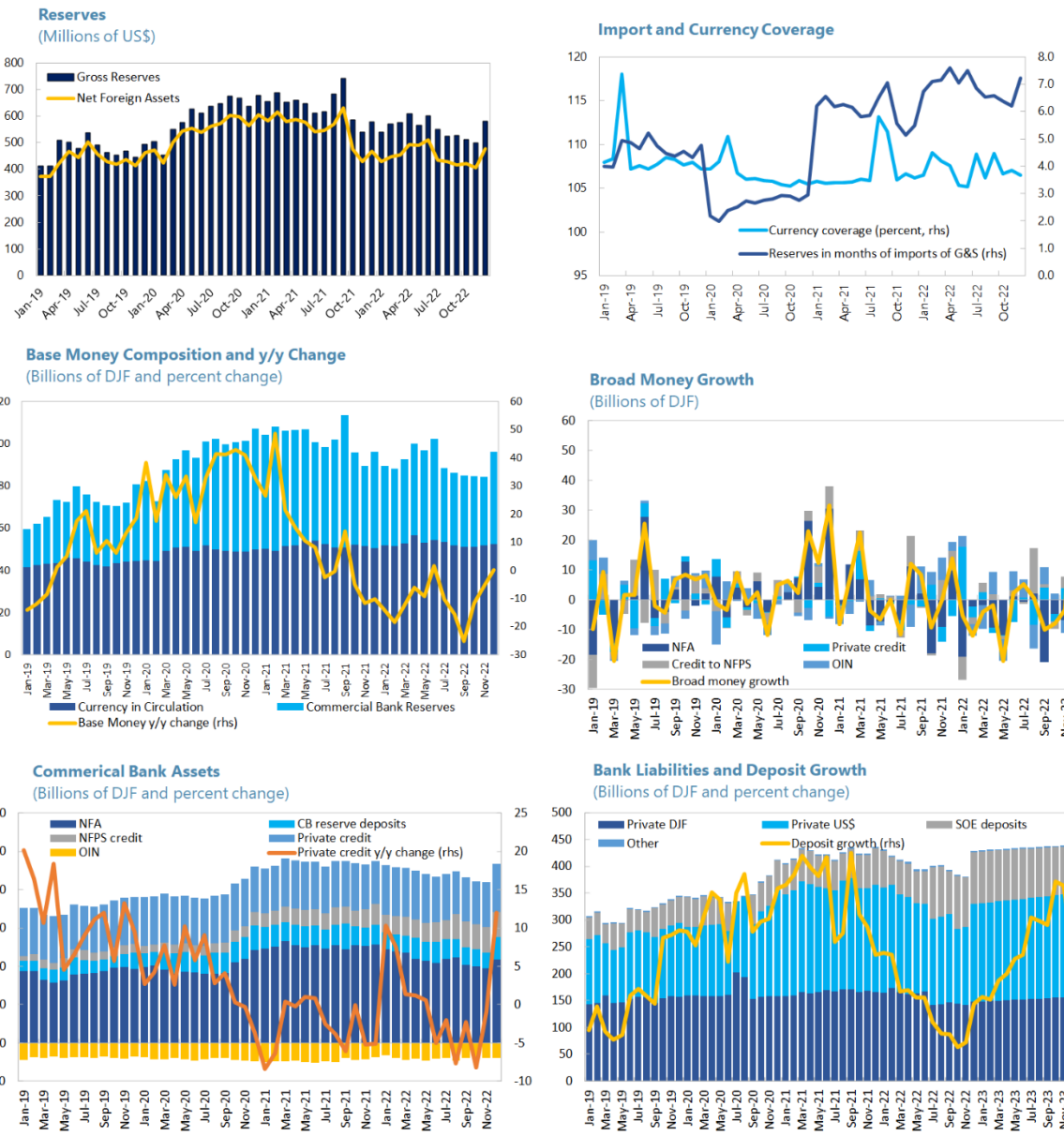


Figure 2. Djibouti: Monetary and Financial Indicators, 2019-2022



Source: IMF staff calculations, and authorities' data.

Table 1. Djibouti: Selected Economic and Financial Indicators, 2019–29

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
			Est.	Proj.							
<b>National accounts</b>											
	(Annual percentage change)										
Real GDP	5.5	1.3	4.5	3.9	7.0	6.5	6.0	5.5	5.5	5.5	5.5
Consumer prices (annual average)	3.3	1.8	1.2	5.2	1.8	1.8	2.0	2.1	2.2	2.2	2.2
Consumer prices (end of period)	3.3	0.3	2.5	3.6	3.3	1.8	2.0	2.1	2.2	2.2	2.2
<b>Saving and investment</b>											
	(In percent of GDP)										
Fixed capital investment	29.8	29.7	29.7	30.4	30.6	30.8	31.1	31.5	32.0	32.4	33.3
Non-government	20.5	22.3	23.8	24.1	24.2	24.4	24.8	25.1	25.6	26.1	26.9
Central government	9.3	7.4	7.0	6.3	6.5	6.4	6.4	6.4	6.3	6.3	6.5
Gross national savings	48.1	41.2	23.1	48.0	54.2	35.9	35.1	34.4	38.0	38.2	38.5
Savings/investment balance	18.3	11.5	-6.6	17.6	23.5	5.1	4.0	2.9	6.1	5.8	5.2
<b>Central government</b>											
	(In percent of GDP)										
Revenues and grants	23.9	22.9	20.1	18.6	17.5	17.5	17.5	17.6	17.6	17.4	17.3
Tax revenues	13.0	11.7	11.6	11.2	10.8	11.2	11.5	11.8	12.0	12.0	12.0
Nontax revenue	6.9	7.9	6.7	6.5	5.5	5.3	5.0	4.8	4.6	4.4	4.3
Grants	4.0	3.4	1.8	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Expenditure	24.9	25.5	23.2	20.0	20.2	20.5	20.1	19.8	19.5	19.6	19.4
Current expenditure	16.7	18.4	15.8	15.1	14.1	14.4	14.0	13.7	13.4	13.5	13.3
Capital expenditure	8.2	7.1	7.4	5.0	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Domestically financed	4.2	4.0	4.7	3.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Foreign-financed	4.0	3.1	2.9	2.0	3.9	3.9	3.9	3.9	3.9	3.9	3.9
Covid-19/emergency expenditures	...	2.5	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment basis)	-1.0	-2.5	-3.1	-1.4	-2.6	-3.0	-2.6	-2.2	-1.8	-2.2	-2.1
Change in arrears	0.5	0.1	0.4	1.2	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-0.5	-2.4	-2.7	-0.3	-2.3	-3.0	-2.6	-2.2	-1.8	-2.2	-2.1
<b>Monetary sector</b>											
	(Annual change in percent of broad money)										
Broad money	8.8	19.4	5.3	-1.7	3.2	6.3	5.9	6.0	6.1	6.7	6.7
Net foreign assets	0.5	20.1	-2.4	-7.7	0.8	2.6	2.2	2.7	2.5	2.7	2.6
Net domestic assets	8.3	-0.7	7.7	6.0	2.4	3.7	3.7	3.3	3.6	4.0	4.0
Of which: Claims on government (net)	1.0	0.4	2.3	-0.6	0.0	0.0	-0.2	-0.3	-0.3	-0.2	-0.2
Of which: Claims on non-government sector	3.7	2.4	2.8	5.8	2.5	3.7	3.8	3.9	4.0	4.1	4.3
Credit to non-government (in percent of GDP)	25.5	26.3	26.9	28.6	28.1	28.2	28.4	28.6	28.9	29.3	29.9
<b>External sector</b>											
	(In millions of US dollars)										
Current account balance	564	366	-224	656	946	223	187	148	334	344	328
(In percent of GDP)	18.3	11.5	-6.6	17.6	23.5	5.1	4.0	2.9	6.1	5.8	5.2
Underlying current account balance 1/	-270	87	-224	172	554	-77	-113	-152	34	44	28
(In percent of GDP)	-8.8	2.7	-6.6	4.6	13.8	-1.8	-2.4	-3.0	0.6	0.7	0.4
External public and publicly guaranteed debt	2,135	2,356	2,416	2,453	2,527	2,596	2,636	2,628	2,621	2,491	2,332
(In percent of GDP)	69.1	74.0	71.4	65.8	62.8	59.5	55.9	51.5	47.7	42.0	36.9
Foreign direct investment	175	158	167	187	183	195	206	218	230	242	256
(In percent of GDP)	5.7	5.0	4.9	5.0	4.5	4.5	4.4	4.3	4.2	4.1	4.0
Exports of goods and services (percent change)	12.9	-28.3	39.7	10.0	2.5	0.7	3.3	5.9	8.5	5.5	3.3
Imports of goods and services (percent change)	13.7	-28.1	60.1	-7.1	-3.5	15.4	4.0	6.8	5.7	5.6	3.7
Gross official reserves	494	677	578	581	573	617	664	713	769	826	890
(In months of next year's imports of goods and services, exc. re-exports)	4.8	2.9	5.5	7.2	4.7	5.1	5.3	5.6	6.1	6.5	7.0
Gross foreign assets of commercial banks	1,408	1,753	2,026	1,751	1,782	1,808	1,820	1,845	1,861	1,890	1,915
(In months of next year's imports of goods and services, exc. re-exports)	13.6	7.6	19.3	21.8	14.7	15.0	14.5	14.6	14.7	14.8	15.1
Exchange rate (DF/US\$, end of period)	177.7	177.7	177.7	177.7	177.7	177.7	177.7	177.7	177.7	177.7	177.7
Real effective exchange rate (yearly average, 2010=100)	110.4	111.4	106.3	...	...	...	...	...	...	...	...
(Change in percent; depreciation -)	4.6	0.9	-4.6	...	...	...	...	...	...	...	...
<b>Memorandum items</b>											
Nominal GDP (in millions of Djibouti francs)	548,954	566,068	601,732	662,164	714,919	775,565	837,952	906,961	977,082	1,053,140	1,123,567
Nominal GDP (in millions of US dollars)	3,089	3,185	3,386	3,726	4,023	4,364	4,715	5,103	5,498	5,926	6,322
Nominal GDP per capita (US dollars)	3,173	3,224	3,378	3,667	3,907	4,184	4,465	4,775	5,085	5,420	5,718
Population (million)	0.974	0.988	1.002	1.016	1.030	1.043	1.056	1.069	1.081	1.093	1.106

Sources: Djibouti authorities and IMF staff estimates and projections.

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

Table 2a. Djibouti: Central Government Operations, 2019–2029

(In millions of Djibouti francs)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
			Est.				Proj.				
Revenues and grants	131,361	129,738	121,016	123,342	125,168	135,418	146,769	159,185	172,082	183,668	194,116
Tax revenues	71,273	65,947	69,836	73,833	77,369	86,863	96,365	106,568	117,250	126,377	134,828
Direct taxes	30,468	28,652	29,388	33,183	33,013	36,839	41,898	45,348	51,297	55,290	58,987
Indirect and other taxes	40,805	37,295	40,448	40,650	44,356	50,024	54,467	61,220	65,953	71,087	75,841
Indirect taxes	37,800	34,656	37,588	37,672	41,193	46,534	50,277	56,685	61,068	65,821	70,223
Other taxes	3,005	2,639	2,860	2,978	3,163	3,490	4,190	4,535	4,885	5,266	5,618
Nontax revenue	37,894	44,626	40,158	42,754	39,205	40,799	42,025	43,547	45,062	46,760	48,053
Domestic	16,599	23,363	18,687	21,330	17,205	18,799	20,025	21,547	23,062	24,760	26,053
External	21,295	21,263	21,471	21,424	22,000	22,000	22,000	22,000	22,000	22,000	22,000
Grants	22,161	18,964	11,022	6,755	7,000	7,756	8,380	9,070	9,771	10,531	11,236
Development projects	10,005	7,561	5,641	4,573	5,000	0	0	0	0	0	0
Budget support	12,156	11,403	5,381	2,182	3,100	7,756	8,380	9,070	9,771	10,531	11,236
Expenditure	136,751	144,139	139,436	132,736	144,086	158,770	168,510	179,498	190,062	206,385	217,666
Current expenditure	91,929	103,982	95,154	99,717	100,725	111,731	117,687	124,489	130,801	142,510	149,519
Wages and related expenditure	35,413	35,764	37,418	42,381	42,421	46,020	49,721	53,816	57,977	62,490	66,669
Wages and contributions	35,603	35,764	37,417	37,960	38,000	41,224	44,540	48,208	51,935	55,977	59,721
Housing subsidies	3,922	3,893	4,271	4,421	4,421	4,796	5,182	5,609	6,042	6,513	6,948
Goods and services	29,286	44,606	32,186	35,911	31,045	33,679	36,388	39,384	42,429	45,732	48,790
Civil expenditure	23,093	39,157	30,426	31,527	27,000	29,290	31,647	34,253	36,901	39,773	42,433
Military expenditure	6,193	5,449	5,805	4,384	4,045	4,388	4,741	5,132	5,528	5,959	6,357
Maintenance	1,305	1,280	1,176	1,072	850	922	996	1,078	1,162	1,252	1,336
Transfers	14,220	14,890	15,118	15,622	16,444	16,500	16,500	16,500	17,500	17,500	17,500
Interest	7,111	3,549	941	4,731	9,965	14,610	14,081	13,710	11,733	15,536	15,224
Foreign-financed current spending	380	0	0	0	0	0	0	0	0	0	0
Capital expenditure	44,822	40,157	44,282	33,019	43,361	47,039	50,823	55,009	59,262	63,875	68,146
Domestically financed	22,839	22,498	28,234	20,080	15,176	16,464	17,788	19,253	20,742	22,356	23,851
Foreign-financed	21,983	17,659	17,574	12,939	28,185	30,576	33,035	35,756	38,520	41,519	44,295
Grants	10,005	7,561	5,641	4,573	5,000	0	0	0	0	0	0
Loans to central government (projects)	11,792	10,098	9,609	11,271	21,782	22,071	18,325	15,239	9,968	1,305	1,044
COVID-19 related expenditures	...	14,354	4,000	0	0	0	0	0	0	0	0
Primary balance (commitment basis)	1,721	-10,852	-17,479	-4,663	-8,953	-8,741	-7,659	-6,603	-6,247	-7,181	-8,325
Overall balance (commitment basis)	-5,390	-14,401	-18,420	-9,394	-18,918	-23,352	-21,741	-20,313	-17,980	-22,716	-23,549
Change in arrears	2,871	686	2,120	7,713	2,819	0	0	0	0	0	0
Domestic	-1,670	-1,947	2,120	4,000	-25	0	0	0	0	0	0
External	4,541	2,662	0	3,713	2,844	0	0	0	0	0	0
Overall balance (cash basis)	-2,519	-13,715	-16,300	-1,681	-16,099	-23,352	-21,741	-20,313	-17,980	-22,716	-23,549
Financing	11,978	17,805	18,049	1,681	48,482	36,013	30,613	17,625	26,790	12,959	8,330
Domestic	-6,107	2,667	7,389	-5,722	-230	-172	-900	-1,504	-1,504	-1,504	-1,504
Bank	2,570	-101	11,297	-2,883	-230	-172	-900	-1,504	-1,504	-1,504	-1,504
Central bank	2,171	1,842	13,909	-514	0	0	-752	-1,504	-1,504	-1,504	-1,504
Of which: SDR Allocation 1/	0	0	7,642	0	0	0	0	0	0	0	1
Commercial banks	399	-189	-1,791	-1,595	-230	-172	-148	0	0	0	0
Nonbank	-8,677	2,065	-4,489	-1,008	0	0	0	0	0	0	0
External	18,085	15,138	10,660	7,403	48,712	36,186	31,513	19,129	28,295	14,464	9,834
Disbursements	25,153	46,040	15,681	12,578	65,255	60,465	63,627	54,418	54,226	45,812	48,034
Loans to central government (projects)	11,792	10,098	9,609	11,271	21,782	22,071	18,325	15,239	9,968	1,305	1,044
Exceptional Financing (CCRT)	...	562	761	155	0	0	0	0	0	0	0
Amortization	-3,519	-2,877	-2,430	-3,942	-12,380	-12,606	-15,485	-18,301	-22,488	-22,526	-19,943
Other	-17,124	35,380	0	0	0	0	0	0	0	0	0
<i>Memorandum</i>											
Overall balance (excl. foreign-financed expenditures)	9,839	-3,617	-4,367	6,685	7,086	7,224	11,294	15,442	20,540	18,802	20,746

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

1/ Using the SDR/DJF exchange rate as of October 28, 2021.

**Table 2b. Djibouti: Central Government Operations, 2019–29**  
(In percent of GDP)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
			Est.				Proj.				
Revenues and grants	23.9	22.9	20.1	18.6	17.5	17.5	17.5	17.6	17.6	17.4	17.3
Tax revenues	13.0	11.7	11.6	11.2	10.8	11.2	11.5	11.8	12.0	12.0	12.0
Direct taxes	5.6	5.1	4.9	5.0	4.6	4.8	5.0	5.0	5.3	5.3	5.3
Indirect and other taxes	7.4	6.6	6.7	6.1	6.2	6.5	6.5	6.8	6.8	6.8	6.8
Indirect taxes	6.9	6.1	6.2	5.7	5.8	6.0	6.0	6.3	6.3	6.3	6.3
Other taxes	0.5	0.5	0.5	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Nontax revenue	6.9	7.9	6.7	6.5	5.5	5.3	5.0	4.8	4.6	4.4	4.3
Domestic	3.0	4.1	3.1	3.2	2.4	2.4	2.4	2.4	2.4	2.4	2.3
External	3.9	3.8	3.6	3.2	3.1	2.8	2.6	2.4	2.3	2.1	2.0
Grants	4.0	3.4	1.8	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Development projects	1.8	1.3	0.9	0.7	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Budget support	2.2	2.0	0.9	0.3	0.4	1.0	1.0	1.0	1.0	1.0	1.0
Expenditure	24.9	25.5	23.2	20.0	20.2	20.5	20.1	19.8	19.5	19.6	19.4
Current expenditure	16.7	18.4	15.8	15.1	14.1	14.4	14.0	13.7	13.4	13.5	13.3
Wages and related expenditure	6.5	6.3	6.2	6.4	5.9	5.9	5.9	5.9	5.9	5.9	5.9
Wages and contributions	6.5	6.3	6.2	5.7	5.3	5.3	5.3	5.3	5.3	5.3	5.3
Housing subsidies	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Goods and services	5.3	7.9	5.3	5.4	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Civil expenditure	4.2	6.9	5.1	4.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Military expenditure	1.1	1.0	1.0	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Maintenance	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Transfers	2.6	2.6	2.5	2.4	2.3	2.1	2.0	1.8	1.8	1.7	1.6
Interest	1.3	0.6	0.2	0.7	1.4	1.9	1.7	1.5	1.2	1.5	1.4
Foreign-financed current spending	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	8.2	7.1	7.4	5.0	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Domestically financed	4.2	4.0	4.7	3.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Foreign-financed	4.0	3.1	2.9	2.0	3.9	3.9	3.9	3.9	3.9	3.9	3.9
Grants	1.8	1.3	0.9	0.7	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Loans to central government (projects)	2.1	1.8	1.6	1.7	3.0	2.8	2.2	1.7	1.0	0.1	0.1
COVID-19 related expenditures	...	2.5	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance (commitment basis)	0.3	-1.9	-2.9	-0.7	-1.3	-1.1	-0.9	-0.7	-0.6	-0.7	-0.7
Overall balance (commitment basis)	-1.0	-2.5	-3.1	-1.4	-2.6	-3.0	-2.6	-2.2	-1.8	-2.2	-2.1
Change in arrears	0.5	0.1	0.4	1.2	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-0.3	-0.3	0.4	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	0.8	0.5	0.0	0.6	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-0.5	-2.4	-2.7	-0.3	-2.3	-3.0	-2.6	-2.2	-1.8	-2.2	-2.1
Financing	2.2	3.1	3.0	0.3	6.8	4.6	3.7	1.9	2.7	1.2	0.7
Domestic	-1.1	0.5	1.2	-0.9	0.0	0.0	-0.1	-0.2	-0.2	-0.1	-0.1
Bank	0.5	0.0	1.9	-0.4	0.0	0.0	-0.1	-0.2	-0.2	-0.1	-0.1
Central bank	0.4	0.3	2.3	-0.1	0.0	0.0	-0.1	-0.2	-0.2	-0.1	-0.1
Of which: SDR allocation 1/	0.0	1.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	0.1	0.0	-0.3	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonbank	-1.6	0.4	-0.7	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	3.3	2.7	1.8	1.1	6.8	4.7	3.8	2.1	2.9	1.4	0.9
Disbursements	4.6	8.1	2.6	1.9	9.1	7.8	7.6	6.0	5.5	4.4	4.3
Loans to central government (projects)	2.1	1.8	1.6	1.7	3.0	2.8	2.2	1.7	1.0	0.1	0.1
Large projects	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rail road	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Water pipeline	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional Financing (CCRT)	...	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-0.6	-0.5	-0.4	-0.6	-1.7	-1.6	-1.8	-2.0	-2.3	-2.1	-1.8
Other	-3.1	6.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum</i>											
Overall balance (excl. foreign-financed expenditures)	1.8	-0.6	-0.7	1.0	1.0	0.9	1.3	1.7	2.1	1.8	1.8

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

1/ Using the SDR/DJF exchange rate as of October 28, 2021.



**Table 3a. Djibouti: Balance of Payments, 2019–29**  
(In millions of U.S. dollars, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Est.			Proj.							
Current account	564	366	-224	656	946	223	187	148	334	344	328
Current account, excluding trade for re-exports	-270	87	-224	172	554	-77	-113	-152	34	44	28
Trade balance	386	270	-323	578	901	181	143	101	284	292	273
Exports	5,150	3,695	5,160	5,674	5,817	5,856	6,047	6,404	6,948	7,331	7,575
Goods	3,996	2,785	4,147	4,601	4,720	4,869	5,043	5,388	5,926	6,303	6,544
Of which: re-exports	3,980	2,464	2,724	4,318	4,345	4,520	4,755	5,098	5,446	5,822	6,070
Services	1,153	910	1,013	1,073	1,098	986	1,003	1,016	1,023	1,027	1,031
Imports	-4,764	-3,425	-5,483	-5,096	-4,916	-5,675	-5,904	-6,304	-6,664	-7,039	-7,302
Goods	-4,138	-2,911	-4,870	-4,328	-4,320	-5,097	-5,315	-5,681	-6,031	-6,427	-6,690
Of which: imports for re-exports	-3,145	-2,185	-2,724	-3,834	-3,952	-4,220	-4,455	-4,798	-5,146	-5,522	-5,770
Services	-626	-514	-613	-769	-596	-577	-589	-623	-633	-611	-612
Income	-94	-99	-59	68	-92	-104	-110	-116	-123	-130	-137
Current transfers	272	195	158	10	137	146	155	163	172	182	192
Private	17	10	11	12	31	33	35	36	38	41	43
Official	255	184	148	-2	124	132	140	147	155	164	173
Capital and financial account	302	179	452	499	-946	-223	-187	-148	-334	-344	-328
Capital transfers	44	37	77	26	36	39	41	43	46	48	51
Foreign direct investment	175	158	167	187	183	195	206	218	230	242	256
Public sector	153	254	83	42	274	99	16	-71	-63	-158	-201
Disbursements	213	310	111	71	367	236	192	119	74	10	6
Amortization	-60	-57	-28	-28	-93	-137	-176	-190	-137	-168	-206
Commercial banks	-49	-261	-195	14	-22	-24	-25	-27	-28	-30	-32
Other investment	-22	-8	-387	-703	-1,135	-477	-456	-431	-637	-661	-667
o/w SDR allocation 1/	...	...	43	0	0	0	0	0	0	0	1
Errors and omissions	-810	-406	521	-196	0	0	0	0	0	0	0
Overall balance (deficit -)	55	140	-102	-51	8	-45	-47	-50	-56	-56	-64
Financing	-55	-140	102	51	-8	45	47	50	56	56	64
Central bank	-55	-187	136	-3	-8	45	47	50	56	56	64
Change in gross reserves	-49	-183	99	-3	8	-45	-47	-50	-56	-56	-64
Other central bank liabilities	-7	-4	37	-6	0	0	-4	-8	-8	-8	-8
Change in arrears (+ accumulation)	...	0	0	53							
Exceptional financing	...	47	4	1	0	0	0	0	0	0	0
IMF 2/	...	43	0	0	0	0	0	0	0	0	0
CCRT	...	3	4	1	0	0	0	0	0	0	0
Financing Gap	...	0	-38	0	0	0	0	0	0	0	0
Memorandum items											
Current account (in percent of GDP)	18.3	11.5	-6.6	17.6	23.5	5.1	4.0	2.9	6.1	5.8	5.2
Exports of goods and services (percent change)	12.9	-28.3	39.7	10.0	2.5	0.7	3.3	5.9	8.5	5.5	3.3
Imports of goods and services (percent change)	13.7	-28.1	60.1	-7.1	-3.5	15.4	4.0	6.8	5.7	5.6	3.7
Central bank gross reserves (in millions of US dollars)	494	677	578	581	573	617	664	713	769	826	890
In months of next year's imports of G&S (excl. re-exports)	4.8	2.9	5.5	7.2	4.7	5.1	5.3	5.6	6.1	6.5	7.0
FDI (in percent of GDP)	5.7	5.0	4.9	5.0	4.5	4.5	4.4	4.3	4.2	4.1	4.0
External public and publicly guaranteed debt											
In millions of US dollars	2,135	2,356	2,416	2,453	2,527	2,596	2,636	2,628	2,621	2,491	2,332
In percent of GDP	69.1	74.0	71.4	65.8	62.8	59.5	55.9	51.5	47.7	42.0	36.9
In percent of exports of goods and services	41.5	63.8	46.8	43.2	43.4	44.3	43.6	41.0	37.7	34.0	30.8
Debt service											
In millions of US dollars	68	54	53	50	149	219	264	280	216	268	305
In percent of GDP	2.2	1.7	1.6	1.3	3.7	5.0	5.6	5.5	3.9	4.5	4.8
In percent of exports of goods and services	1.3	1.5	1.0	0.9	2.6	3.7	4.4	4.4	3.1	3.7	4.0

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

1/ Using SDR/USD exchange rate as of October 28, 2021.

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

**Table 3b. Djibouti: Balance of Payments, 2019–29**

(In percent of GDP, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Est.			Proj.							
Current account	18.3	11.5	-6.6	17.6	23.5	5.1	4.0	2.9	6.1	5.8	5.2
Current account, excluding trade for re-exports	-8.8	2.7	-6.6	4.6	13.8	-1.8	-2.4	-3.0	0.6	0.7	0.4
Trade balance	12.5	8.5	-9.5	15.5	22.4	4.1	3.0	2.0	5.2	4.9	4.3
Exports	166.7	116.0	152.4	152.3	144.6	134.2	128.2	125.5	126.4	123.7	119.8
Goods	129.4	87.4	122.5	123.5	117.3	111.6	107.0	105.6	107.8	106.4	103.5
Of which: re-exports	128.8	77.4	80.4	115.9	108.0	103.6	100.9	99.9	99.1	98.2	96.0
Services	37.3	28.6	29.9	28.8	27.3	22.6	21.3	19.9	18.6	17.3	16.3
Imports	-154.2	-107.5	-161.9	-136.8	-122.2	-130.0	-125.2	-123.5	-121.2	-118.8	-115.5
Goods	-134.0	-91.4	-143.8	-116.1	-107.4	-116.8	-112.7	-111.3	-109.7	-108.5	-105.8
Of which: imports for re-exports	-101.8	-68.6	-80.4	-102.9	-98.3	-96.7	-94.5	-94.0	-93.6	-93.2	-91.3
Services	-20.3	-16.1	-18.1	-20.6	-14.8	-13.2	-12.5	-12.2	-11.5	-10.3	-9.7
Income	-3.0	-3.1	-1.7	1.8	-2.3	-2.4	-2.3	-2.3	-2.2	-2.2	-2.2
Current transfers	8.8	6.1	4.7	0.3	3.4	3.3	3.3	3.2	3.1	3.1	3.0
Private	0.6	0.3	0.3	0.3	0.8	0.7	0.7	0.7	0.7	0.7	0.7
Official	8.2	5.8	4.4	0.0	3.1	3.0	3.0	2.9	2.8	2.8	2.7
Capital and financial account	9.8	5.6	13.4	13.4	-23.5	-5.1	-4.0	-2.9	-6.1	-5.8	-5.2
Capital transfers	1.4	1.2	2.3	0.7	0.9	0.9	0.9	0.8	0.8	0.8	0.8
Foreign direct investment	5.7	5.0	4.9	5.0	4.5	4.5	4.4	4.3	4.2	4.1	4.0
Public sector	5.0	8.0	2.4	1.1	6.8	2.3	0.3	-1.4	-1.1	-2.7	-3.2
Disbursements	6.9	9.7	3.3	1.9	9.1	5.4	4.1	2.3	1.4	0.2	0.1
Amortization	-1.9	-1.8	-0.8	-0.8	-2.3	-3.1	-3.7	-3.7	-2.5	-2.8	-3.3
Commercial banks	-1.6	-8.2	-5.8	0.4	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Other investment	-0.7	-0.3	-11.4	-18.9	-28.2	-10.9	-9.7	-8.4	-11.6	-11.2	-10.6
o/w SDR allocation 1/	...	...	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	-26.2	-12.7	15.4	-5.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (deficit -)	1.8	4.4	-3.0	-1.4	0.2	-1.0	-1.0	-1.0	-1.0	-0.9	-1.0
Financing	-1.8	-4.4	3.0	1.4	-0.2	1.0	1.0	1.0	1.0	0.9	1.0
Central bank	-1.8	-5.9	4.0	-0.1	-0.2	1.0	1.0	1.0	1.0	0.9	1.0
Change in gross reserves	-1.6	-5.7	2.9	-0.1	0.2	-1.0	-1.0	-1.0	-1.0	-0.9	-1.0
Other central bank liabilities	-0.2	-0.1	1.1	-0.2	0.0	0.0	-0.1	-0.2	-0.2	-0.1	-0.1
Change in arrears	...	0.0	0.0	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	0.0	1.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF (RCF Disbursement) 2/	...	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CCRT	...	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	...	0.0	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items											
Exports of goods and services (percent change)	12.9	-28.3	39.7	10.0	2.5	0.7	3.3	5.9	8.5	5.5	3.3
Imports of goods and services (percent change)	13.7	-28.1	60.1	-7.1	-3.5	15.4	4.0	6.8	5.7	5.6	3.7
Central bank gross reserves (in millions of US dollars)	493.8	676.7	578.1	581.2	572.8	617.4	663.9	713.5	769.3	825.5	889.8
In months of next year's imports of goods and services	1.7	1.5	1.4	1.4	1.2	1.3	1.3	1.3	1.3	1.4	1.4
In months of next year's imports of G&S (excl. re-exports)	4.8	2.9	5.5	7.2	4.7	5.1	5.3	5.6	6.1	6.5	7.0
External public and publicly guaranteed debt											
In percent of GDP	69.1	74.0	71.4	65.8	62.8	59.5	55.9	51.5	47.7	42.0	36.9
In percent of exports of goods and services	41.5	63.8	46.8	43.2	43.4	44.3	43.6	41.0	37.7	34.0	30.8
Debt service											
In percent of GDP	2.2	1.7	1.6	1.3	3.7	5.0	5.6	5.5	3.9	4.5	4.8
In percent of exports of goods and services	1.3	1.5	1.0	0.9	2.6	3.7	4.4	4.4	3.1	3.7	4.0

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

1/ Using SDR/USD exchange rate as of October 28, 2021.

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

**Table 4. Djibouti: Summary Accounts of the Banking System, 2019–29**  
(End-of-period, in millions of Djibouti francs, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Act.			Proj.							
<b>I. Central Bank</b>											
Net foreign assets	81,978	107,332	83,192	84,807	83,308	91,234	100,255	110,573	122,001	133,493	146,415
(In millions of US\$)	461.3	604.1	468.1	477.2	468.8	513.4	564.1	622.2	686.5	751.1	823.8
Gross Foreign Reserves	87,761	120,291	102,743	103,293	101,793	109,719	117,988	126,802	136,725	146,713	158,131
<i>Currency Coverage, in percent 1/</i>	107.2	105.4	106.2	106.5	105.6	105.5	105.1	104.8	104.8	104.4	104.3
Fund Credit Outstanding	1,898	8,977	8,065	7,521	7,521	7,521	6,769	5,265	3,761	2,256	752
SDR Allocation	3,725	3,880	11,352	10,794	10,794	10,794	10,794	10,794	10,794	10,794	10,794
Net domestic assets	-1,244	-240	12,863	11,275	12,161	11,869	11,106	9,505	7,500	6,197	4,293
Net credit to the central government	734	2,548	14,962	13,826	13,826	13,074	13,074	11,570	10,066	8,562	7,057
Other Items and Capital Account	-1,978	-2,788		-2,552	-1,665	-1,958	-1,969	-2,065	-2,565	-2,364	-2,764
Base Money	80,735	107,127	96,055	96,082	95,469	103,102	111,360	120,078	129,501	139,690	150,708
Currency in circulation	44,165	49,939	50,445	52,357	57,114	62,254	67,857	73,964	80,621	87,877	95,786
Reserve Deposits	36,570	57,188	45,610	43,726	38,355	40,848	43,503	46,113	48,880	51,813	54,922
<b>II. Consolidated Banking System</b>											
Net foreign assets	274,395	350,708	339,967	303,108	307,018	319,581	330,828	345,478	359,831	376,464	393,777
(In millions of US\$)	1,544	1,973	1,913	1,706	1,728	1,798	1,861	1,944	2,025	2,118	2,216
<i>Of which: Commercial banks NFA</i>	192,417	243,376	256,775	218,301	223,710	228,347	230,573	234,905	237,830	242,971	247,362
Net domestic assets	106,206	103,650	138,452	167,230	178,363	196,195	215,506	233,593	254,672	279,275	305,657
Credit to the nonfinancial public sector	23,680	38,778	68,077	79,506	82,276	85,101	87,200	88,694	90,189	91,682	93,177
<i>Of which: Net credit to the central government</i>	6,343	7,968	18,590	15,860	15,630	15,458	14,558	13,054	11,550	10,045	8,541
Credit to the private sector	122,699	118,202	112,134	125,588	134,426	149,213	165,626	183,845	204,068	226,516	251,432
In francs	74,554	76,426	76,365	79,557	85,155	94,522	104,920	116,461	129,272	143,491	159,275
In foreign currency	48,145	41,776	35,768	46,032	49,271	54,691	60,707	67,384	74,797	83,024	92,157
Other Items and Capital Account	-40,174	-53,330	-41,759	-37,865	-38,339	-38,119	-37,321	-38,946	-39,585	-38,922	-38,953
Broad money	380,601	454,358	478,419	470,338	485,381	515,776	546,333	579,071	614,503	655,739	699,434
Currency held by the public	37,667	43,839	44,078	43,741	47,812	52,163	56,954	62,164	67,908	74,174	81,167
franc deposits	195,567	200,970	213,657	219,472	223,325	234,888	246,766	258,945	272,146	287,878	305,949
Foreign currency deposits	147,367	209,550	220,685	207,125	214,244	228,725	242,613	257,963	274,449	293,686	312,317
(12-month percentage change)											
Currency in circulation	6.3	13.1	1.0	3.8	9.1	9.0	9.0	9.0	9.0	9.0	9.0
Base money	18.7	32.7	-10.3	0.0	-0.6	8.0	8.0	7.8	7.8	7.9	7.9
Franc money (M2)	6.9	5.0	5.3	2.1	3.0	5.9	5.8	5.7	5.9	6.5	6.9
Broad money (M3)	8.8	19.4	5.3	-1.7	3.2	6.3	5.9	6.0	6.1	6.7	6.7
Franc deposits	7.7	2.8	6.3	2.7	1.8	5.2	5.1	4.9	5.1	5.8	6.3
Foreign currency deposits	11.9	42.2	5.3	-6.1	3.4	6.8	6.1	6.3	6.4	7.0	6.3
Credit to the private sector	9.5	-3.7	-5.1	12.0	7.0	11.0	11.0	11.0	11.0	11.0	11.0
Credit in francs	2.0	2.5	-0.1	4.2	7.0	11.0	11.0	11.0	11.0	11.0	11.0
Credit in foreign currency	23.6	-13.2	-14.4	28.7	7.0	11.0	11.0	11.0	11.0	11.0	11.0
Memorandum items:											
Foreign currency deposits (percent of total private deposits)	43.0	51.0	50.8	48.6	49.0	49.3	49.6	49.9	50.2	50.5	50.5
Foreign curr. credit to priv. sector (percent of total)	39.2	35.3	31.9	36.7	36.7	36.7	36.7	36.7	36.7	36.7	36.7
Commercial Banks' Credit to Private Sector (percent of GDP)	22.4	20.9	18.6	19.0	18.8	19.2	19.8	20.3	20.9	21.5	22.4
Velocity of Broad Money (M3/GDP)	1.44	1.25	1.26	1.41	1.47	1.50	1.53	1.57	1.59	1.61	1.61

Sources: Central Bank of Djibouti; and Fund staff estimates and projections.

1/ Gross foreign assets as a percentage of base money and other domestic liabilities of the central bank.

## Annex I. External Sector Assessment

**Overall Assessment:** Djibouti's external position in 2023 was substantially stronger than the level implied by fundamentals and desirable policies. The EBA Lite Model points to a current account gap of 27.6 percent of GDP, implying a REER undervaluation of 28.2 percent. Using the REER index model, staff finds an overvaluation of 3.0 percent, implying a current account gap of -2.9 percent. Both assessments are subject to considerable uncertainty given statistical challenges. In particular, reexports to Ethiopia play a key role in Djibouti's current account. In 2023, reexports stood at 92 percent of export goods and 91.4 percent of import goods. Reserves are assessed to be adequate.

**Potential Policy Responses:** The real effective exchange rate remained broadly constant in 2023. The stability provided by the currency board plays a key role in promoting confidence and providing predictability in international transactions. However, the structure of the economy is such that import and export price elasticities are low and there is significant room to improve external competitiveness through structural reforms aimed at promoting a level playing field between SOEs and private businesses, reducing internal costs (especially electricity and telecommunications), and investing in education and skills. Improving the quality of external sector statistics is critical to allow for more precise analysis of the external sector position.

### Foreign Assets and Liabilities: Position and Trajectory

**Background.** Djibouti's net international investment position stood at -82.8 percent of GDP in 2023, compared to -75.4 percent of GDP in 2022, reflecting debt and direct investment inflows for the construction of the trade hub. Gross external assets stood at about 54.5 percent of GDP in 2023, after reaching 68.5 percent in 2022, reflecting mainly foreign assets of deposit-taking corporations, which channel a large share of the domestic deposit base to overseas affiliates. Gross liabilities stood at about 137.3 percent of GDP, with external public and publicly guaranteed debt amounting to 62.8 percent of GDP. The stock of foreign direct investment accounted for the rest. Over the five-year period from 2018 to 2023, liabilities increased by 40.7 percent. The country's net external position is expected to stabilize as infrastructure projects slow.

**Assessment.** Djibouti's net debtor position has weakened on the back of large increases in public and publicly guaranteed external debt service. The recent debt agreement has supported an improvement, but the sizable external public debt presents risks to external sector sustainability.

	CA model 1/	REER model 1/
	(in percent of GDP)	
<b>CA-Actual</b>	<b>23.6</b>	
Cyclical contributions (from model) (-)	-0.2	
Natural disasters and conflicts (-)	0.0	
<b>Adjusted CA</b>	<b>23.8</b>	
<b>CA Norm</b> (from model) 2/	<b>-3.8</b>	
Adjustments to the norm (-)	0.0	
<b>Adjusted CA Norm</b>	<b>-3.8</b>	
<b>CA Gap</b>	<b>27.6</b>	<b>-2.9</b>
o/w Relative policy gap	4.2	
Elasticity	-1.0	
<b>REER Gap</b> (in percent)	<b>-28.2</b>	<b>3.0</b>

1/ Based on the EBA-lite 3.0 methodology  
2/ Cyclically adjusted, including multilateral consistency adjustments.

2023 (% GDP)	<b>NIIP: -82.8</b>	<b>Gross Assets: 54.5</b>	<b>Debt Assets: 0.63</b>	<b>Gross Lib: -137.4</b>	<b>Debt Lib: -62.8</b>
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### Current Account

**Background.** The headline current account has been strongly positive over most of the past year (with an estimated surplus of 23.5 percent of GDP in 2023), in part because available data generally record substantially more reexports than imports for reexports, albeit with large errors and omissions. Exports of services increased by 2.3 percent while imports of services declined by 22.5 percent.

**Assessment.** The CA model finds a positive current account gap in 2023 of 27.6 percent, implying that the external position was stronger than the level implied by fundamentals. However, the shortcomings in BoP statistics, including large errors and omissions suggest considerable uncertainty. The CA model suggests a CA norm of -3.8 percent of GDP against a cyclically adjusted CA of 23.8 percent of GDP (Table 1). The policy gap, which is assessed at 4.2 percent of GDP, is driven by a combination of lower-than-desired public health spending, private credit, and credit growth compared to desirable policies.

### Real Exchange Rate

**Background.** The real effective exchange rate (REER) remained stable in 2023, with a minor increase of 1.5 percent. Djibouti's nominal effective exchange rate appreciated over the past decade, reflecting the relative strength of the U.S. dollar to which the Djibouti franc is pegged.

**Assessment.** The REER Index model implies a CA gap of -2.9 percent, equivalent to an overvaluation of about 3.0 percent in 2023. On the other hand, the CA model implies a REER gap of -28.2 percent, a sizable undervaluation. Just as last year, these assessments are subject to significant statistical uncertainty.

### Capital and Financial Accounts: Flows and Policy Measures

**Background.** Djibouti's capital and financial account inflows are dominated by long-term official financing and FDI inflows. Outflows represent the accumulation of foreign assets by the banking system, which increased over USD 31 million in 2023. Djibouti maintains open capital account policies.

**Assessment.** Capital and financial account flows in Djibouti appear sustainable supported by the debt service moratorium. The accumulation of net foreign assets by the banking system provides some buffers in the event of adverse shocks.

### FX Intervention and Reserves Level

**Background.** Official reserves are a function of dollar inflows and the demand for franc-denominated assets. Reserve adequacy in the context of the currency board is best measured by the coverage ratio. As of 2023, Djibouti's international reserves covers 4.7 months of imports when imports for reexports are excluded, above the 3-months of imports rule of thumb and the recommended reserve adequacy metric (1.9) for a small state with a fixed exchange rate regime.

**Assessment.** Reserve coverage is adequate for maintaining the currency board, but there is currently little margin for the central bank to pursue discretionary policies.

## Annex II. Risk Assessment Matrix (February 2024)<sup>1</sup>

Risks	Likelihood	Economic Impact	Channels	Policy Responses
<b>Country Specific</b>				
<b>Conflict resurgence in neighboring Ethiopia.</b> A resurgence in the civil conflict involving ethno-regional militias and the federal government in Ethiopia can lead to a sustained decline in the demand for Djibouti's trade services and generate other spillovers.	Medium	High	Lower service exports, investment, and weaker external balance. Rising pressure on the budget and reserves.	Adopt a medium-term fiscal adjustment plan covering the entire public sector, including SOEs. Accelerate structural reforms to promote economic activity outside of the ports and free zones.
<b>Increased competition from other regional ports.</b> Over the medium run, ports in Somalia, Eritrea, Kenya, and Sudan could erode Djibouti's market share of Ethiopian trade and set back Djibouti's position as a leading regional trade and logistics hub.	Medium	High	If a large share in the projected rebound in Ethiopia's international trade is serviced by other ports in the region, Djibouti port-related activities may be left with excess capacity and subdued profitability.	Promote efficiency at the ports and related services. Accelerate structural reforms to promote economic diversification outside of the ports and free zones.
<b>Conjunctural shocks and scenarios (Global)</b>				
<b>Intensification of regional conflicts.</b> Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	High	Medium	Subdued economic growth, rising inflation, and weaker external balance. Rising pressure on the budget and reserves. Risk of social tensions.	Expand the budget envelope by reducing tax expenditures and increasing SOE contribution with taxes and dividends.
<b>Abrupt global slowdown or recession.</b> Global and idiosyncratic risk factors cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation triggering sudden stops in EMDEs. <ul style="list-style-type: none"> <li>U.S.: Amid tight labor markets, inflation remains elevated, prompting the Fed to keep rates higher for longer and resulting in more abrupt financial, housing, and commercial real estate market correction.</li> <li>Europe: Intensifying fallout from Russia's war in Ukraine, supply disruptions, tight financial conditions,</li> </ul>	Medium	Medium	Lower service exports, investment, and weaker external balance. Rising pressure on the budget and reserves	Expand the budget envelope by reducing tax expenditures and increasing SOE contribution with taxes and dividends.  Adopt a medium-term fiscal adjustment plan covering the entire public sector including SOEs.  Pursue medium-term reforms to increase resilience.

<sup>1</sup> The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Risks	Likelihood	Economic Impact	Channels	Policy Responses
<p>and real estate market corrections exacerbate economic downturn.</p> <ul style="list-style-type: none"> <li>China: Sharper-than-expected contraction in the property sector weighs on private demand, further amplifies local government fiscal strains, and results in disinflationary pressures and adverse macro-financial feedback loops</li> </ul>				
<b>Structural Risks (Global)</b>				
<p><b>Deepening geoeconomic fragmentation.</b> Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth</p>	<b>High</b>	<b>Medium</b>	Regional tensions would further reduce the demand for Djibouti's trade services and increase pressures on security and social spending.	Expand the budget envelope by reducing tax expenditures and increasing SOE contribution with taxes and dividends. Adopt a medium-term fiscal adjustment plan covering the entire public sector including SOEs.
<p><b>Extreme climate events.</b> Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.</p>	<b>Medium</b>	<b>High</b>	Djibouti is one of the most vulnerable countries to climate change, including through drought, flooding of urban areas from rising sea levels, and regional migration.	Provide targeted support to the vulnerable. Mobilize resources for climate change adaptation. Pursue PFM reforms to increase the efficiency of public spending.

## Annex III. Capacity Development Strategy

*Capacity development should focus on (i) supporting revenue mobilization, public and financial management, and medium-term debt management, to entrench debt sustainability, (ii) facilitating SOE reform to make SOEs play a central role in any long-term vision for revenue mobilization and level the playing field to facilitate private sector development, (iii) assisting the implementation of the recommendations of the ongoing MENA FATF evaluation together with the recommendations and reviews provided to the authorities via IMF CD and (iv) increasing data coverage and quality. CD should remain closely integrated with surveillance.*

- 1. Fiscal sector technical assistance should focus on supporting a holistic and long-term vision towards revenue mobilization and debt sustainability.** The recent trend of frequent tax policy and revenue administration changes and reversals, in which the authorities seem to have engaged to address the decline in revenues, has increased uncertainty for businesses and households, while not resulting in the expected returns. Technical assistance from FAD and METAC should, in close coordination with the country team, pursue work on tax policy and revenue administration including through identification of specific reforms consistent with building and implementing a holistic and long-term vision.
- 2. Governance reforms should focus on SOEs.** SOEs are currently the largest contributor to Djibouti's GDP. However, their numerous exemptions and low dividends hamper their contribution to the authorities' inclusive growth goals. Implementing the framework defined in the Code of Good Governance of State-Owned Enterprises would enhance governance of SOEs and thereby also support revenue mobilization objectives, by ensuring SOEs' contributions with taxes and dividends. In particular, enhancing transparency of SOEs' financial accounts would allow for an in-depth analysis of their possible role. While the authorities have so far not shared any request for technical assistance in the governance field, SOE reform would substantially contribute to achieving fiscal objectives, which were identified by the authorities as high priority objectives.
- 3. Priorities for the central bank and AML/CFT authorities include swift implementation of the recommendations of the ongoing MENAFATF evaluation, as well as enhanced financial sector supervision, governance, and currency board operations.** The authorities received technical assistance from LEG to improve their principal AML/CFT laws, and through simulated diagnostic exercises to examine effectiveness of the AML/CFT system in a range of areas including on the understanding of risk and using a risk-based approach, AML/CFT supervision of financial and designated non-financial sectors, and the financial intelligence function. Staff should encourage the authorities to swiftly put the legal amendments in place, and to address gaps identified on effectiveness by implementing the recommendations made. Staff will follow up on the status of these proposed legal amendments and recommendations provided to the authorities in preparation of the MENAFATF evaluation. Going forward, the authorities should also implement the recommendations of the MENAFATF mutual evaluation report.

<b>Summary of Capacity Developments Needs</b>		
	Technical Assistance	
	FY24–26	FY27–29
Fiscal – Priority 1	Tax Policy-Tax Policy Efficiency Revenue Administration- Revenue Administration and Governance	Tax Policy-Tax Policy Efficiency Revenue Administration- Revenue Administration and Governance
Monetary/ Financial – Priority 1	Financial Supervision and Regulation-Regulatory & Prudential Framework	Financial Supervision and Regulation-Risk Based Supervision
Legal – Priority 1	Financial Integrity-AML/CFT Measures: Legal and Regulatory Framework	Financial Integrity-AML/CFT Implementation: Financial Intelligence, Risk-based Supervision, ML Investigations & Prosecutions
Statistics – Priority 1	Compilation and dissemination-Financial Institutions	Compilation and dissemination-Balance of Payments



## Annex IV. Implementation of 2022 Article IV Recommendations

Recommendation	Implementation
<b>Restoring Debt Sustainability and Opening Fiscal Space to Promote Inclusive Growth</b>	
<ul style="list-style-type: none"> <li>• Prioritize domestic revenue mobilization.</li> <li>• Rationalize expenditures and pursue public financial management reforms to create space for social spending</li> <li>• Strengthen governance and oversight of SOEs</li> <li>• Strengthen debt management</li> <li>• Advance in discussions with creditors</li> </ul>	<ul style="list-style-type: none"> <li>• The creation of a Large-Taxpayers' Unit has been announced.</li> <li>• In the process of renegotiating military base leases.</li> <li>• The implementation of the code of good governance has continued, with the Executive Secretariat working on choosing pilot institutions for board reforms.</li> <li>• Agreement in principle reached with EXIM Bank of China.</li> </ul>
<b>Monetary and Financial Sector Policies to Strengthen Stability and Inclusion</b>	
<ul style="list-style-type: none"> <li>• Finalize key prudential instruments</li> <li>• Improve the AML/CFT legislative framework and boost supervisory capacity of the central bank, including AML/CFT risk-based supervision</li> </ul>	<ul style="list-style-type: none"> <li>• Exploring the design and introduction of a reserve requirement.</li> <li>• Draft AML/CFT legislative amendments were provided through IMF TA. Continued efforts are needed to enhance AML/CFT supervision.</li> </ul>
<b>Structural Reforms to Generate Growth Dividends and Create Jobs</b>	
<ul style="list-style-type: none"> <li>• Seek ways to lower telecom prices including by pursuing competition in the sector</li> <li>• Continue to digitalize government services</li> <li>• Improving coverage and quality of statistics</li> </ul>	<ul style="list-style-type: none"> <li>• Plans for cutting telecom costs by half</li> <li>• Exploring a minority stake sale of Djibouti Telecom</li> <li>• Expanding efforts towards e-filing</li> <li>• Expanded human capital at the statistical agency</li> </ul>



# DJIBOUTI

## STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

March 8, 2024

Prepared By

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

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## RELATIONS WITH THE FUND

(As of December 2023)

**Membership Status:** Joined: December 29, 1978; Article VIII

### General Resources Account:

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

### SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	45.64	100.00
Holdings	1.86	4.08

### Outstanding Purchases and Loans:

	SDR Million	Percent Quota
RCF Loans	31.80	100.00

### Latest Financial Arrangements:

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

### Projected Payments to the Fund<sup>1</sup>

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

	2024	2025	2026	2027	2028
Principal		3.18	6.36	6.36	6.63
Charges/interest	1.69	1.64	1.64	1.64	1.64
<b>Total</b>	<b>1.69</b>	<b>4.82</b>	<b>8.00</b>	<b>8.00</b>	<b>8.00</b>

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

**Implementation of HIPC Initiative:** Not Applicable

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

**Implementation of Catastrophe Containment and Relief (CCR):**

<b>Date of Catastrophe</b>	<b>Board Decision Date</b>	<b>Amount Committed (SDR million)</b>	<b>Amount Disbursed (SDR million)</b>
N/A	May 08, 2020	1.69	1.69
N/A	Oct 02, 2020	1.69	1.69
N/A	Apr 01, 2021	1.40	1.40
N/A	Oct 06, 2021	0.62	0.62
N/A	Dec 15, 2021	0.62	0.62

### **Safeguards Assessment**

An safeguards assessment update of the Bank Centrale de Djibouti (BCD) was completed in August 2023. It found that the BCD faces capacity constraints that contribute to weak controls in many areas such as currency management and cybersecurity; furthermore, the internal audit and risk management functions are not yet operational. Additional areas for improvement include strengthening governance arrangements, amending the BCD Law to strengthen autonomy, and enhancing the transparency of the financial statements through adoption of IFRS and timely publication of audited financial statements. While initial steps were taken to address these recommendations, additional efforts are needed.

### **Exchange arrangements**

Djibouti's exchange rate arrangement is a currency board. The Djibouti franc is pegged to the U.S. dollar at the rate of DJF 177.721 = US\$1. Djibouti has accepted the obligations under Article VIII, Sections 2(a), 3 and 4, and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions and multiple currency practices.

### **Article IV Consultation**

On February 17, 2023, the Executive Board of the IMF concluded the 2022 Article IV consultation with Djibouti (IMF Country Report No. 23/32).

### **FSAP Participation**

A Financial Sector Stability Review (FSSR) was completed in January 2020. The FSSR identified the following shortcomings: (i) banks' large foreign exposures with uncertain liquidity profiles exacerbate banks' risk profiles; (ii) few banks have locally designed liquidity risk management frameworks (including formalized liquidity risk appetite, tolerance, limits and contingency plans to address liquidity and funding shortfalls under stress); (iii) the absence of a CBD system wide liquidity monitoring; (iv) CBD 2013 instruction on liquidity has been suspended; and (iv) there is no Liquidity Coverage Framework in place. The CBD is in the process of addressing these shortcomings with the support of a long-term IMF expert.

## **RELATIONS WITH THE WORLD BANK**

(As of January, 2024)

The activities of the World Bank Group in Djibouti can be found at:

<https://www.worldbank.org/en/country/djibouti>

# STATISTICAL ISSUES

(As of March 2024)

## I. Assessment of Data Adequacy for Surveillance

**General:** Data provided to the Fund are broadly adequate for surveillance, but shortcomings remain. While progress has been made on national accounts, weaknesses in data sources continue to hamper their quality. Shortcomings remain in the balance of payments (BOP) data, including large errors and omissions. Fiscal data are reported with delays.

**National Accounts:** Concepts and definitions are in accordance with the *System of National Accounts 2008*. Volume estimates are compiled using 2013 as the fixed base year, which is older than the five-year cycle to update the base year recommended by international standards. National account statistics have been revised for 2013–2019 and actual data are available up to 2022. Djibouti's General Census of the Population and Housing (RGPH-3) is underway, which will also be used to update the country's social and development indicators.

**Price Statistics:** The CPI is produced on a timely basis. In 2023, the weight reference period for the CPI was updated to 2017. Geographic coverage of the new CPI was expanded to include three geographical regions and five towns. The sampling frames for future household surveys such as Djibouti's Household Survey (EDAM) and the Survey on Demography and Health (EDS) will be updated and a national Geographic Information System (GIS) will be created. Field data collection is expected to begin in April 2024.

**External Sector Statistics:** The Central Bank of Djibouti has been improving the quality and coverage of BOP statistics supported by IMF TA. Consistent with IMF advice, the authorities adopted the general trade system for the compilation of trade in goods statistics beginning in the year 2013. This change incorporates the large trade flows that are channeled through Djibouti's FTZs—mainly re-exports to neighboring countries, especially Ethiopia—into the external sector and national accounts statistics. While this measure better reflects the volume of activity at Djibouti's trade hub, it also means that most reported imports and exports reflect goods that are not used or financed domestically. The authorities are working with the ports authority to improve data coverage of the FTZs in order to address significant gaps between recorded imports and reexports of the FTZs, which can produce large swings in the headline current account. Staff capacity needs to be enhanced to continue improving the quality and timeliness of BOP statistics. Large errors and omissions illustrate the persistent challenges in the BOP.

**Government Finance Statistics:** Fiscal data are available monthly, albeit with an often-significant delay. Foreign-financed capital expenditure is reported regularly. Additional efforts are needed to improve the compilation methods and coverage of fiscal data, and resume disseminating fiscal data publicly. A chart of accounts broadly aligned to the *GFSM 2001* has been implemented since 2012 and has been used to produce the annual budget law. However, the TOFE (statement of

operations)—used for fiscal planning, forecasting and reporting—remains aligned to the *GFSM 1986*. Coverage of fiscal data is limited to the institutional units of the budgetary central government and does not include extrabudgetary entities such as the country’s SOEs, ports authority, sovereign wealth fund, or social security fund. However, the authorities have recently begun to provide detailed information on the accounts of key state-owned enterprises. Coverage of debt liabilities is timely and covers central government direct borrowing as well and central government guaranteed debt. The authorities report that non-guaranteed external borrowing is minimal, and domestic SOE borrowing is limited. No data is currently submitted for the IMF’s annual GFS database and dissemination of fiscal statistics on the Ministry’s website has lapsed.

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

**Financial Sector Surveillance:** Following a March 2018 TA mission, regular submission of Financial Soundness Indicators (FSIs) to the Fund started in May 2018. Djibouti reports 12 core and 6 additional FSIs for deposit takers on a regular and timely basis.

## II. Data Standards and Quality

Djibouti participates in the Enhanced General Data Dissemination System (e-GDDS) and first posted its metadata in the [Dissemination Standards Bulletin Board](#) in February 2012. Djibouti is not yet publishing data through a National Summary Data Page (NSDP) and has not published a data ROSC.

**Table 1. Djibouti: Table of Common Indicators Required for Surveillance**  
(As of March 6, 2024)

	Date of Latest Observation	Date Received	Frequency of Data <sup>7</sup>	Frequency of Reporting <sup>7</sup>	Frequency of Publication <sup>7</sup>
Exchange Rates	Not applicable	Not applicable	n.a.	n.a.	n.a.
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	December 2023	February 2024	M	M	M
Reserve/Base Money	December 2023	February 2024	M	M	M
Broad Money	December 2023	February 2024	M	M	M
Central Bank Balance Sheet	December 2023	February 2024	M	M	A
Consolidated Balance Sheet of the Banking System	December 2023	February 2024	M	M	A
Interest Rates <sup>2</sup>	March 2022	December 2022	M	M	A
Consumer Price Index	January 2023	April 2023	M	M	M
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – General Government <sup>4</sup>	Not applicable	Not applicable	n.a.	n.a.	n.a.
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – Budgetary Central Government	September 2022	December 2022	M	M	n.a.
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	June 2022	December 2022	M	M	I
External Current Account Balance	December 2022	August 2023	Q	Q	Q
Exports and Imports of Goods and Services	December 2022	August 2023	Q	Q	Q
GDP/GNP	2022	November 2023	A	A	A
Gross External Debt	June 2022	December 2022	A	A	I
International Investment Position <sup>6</sup>	December 2022	August 2023	A	A	A

<sup>1</sup>Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

<sup>2</sup> Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup> Foreign, domestic bank, and domestic nonbank financing.

<sup>4</sup> The general government consists of the central government (including budgetary entities, extra budgetary funds and social security funds), and state and local governments. Due to capacity constraints, authorities are not at the moment able to provide this data.

<sup>5</sup> Including currency and maturity composition.

<sup>6</sup> Includes external gross financial asset and liability positions vis-à-vis nonresidents.

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





# DJIBOUTI

March 15, 2024

## 2024 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved By  
**Taline Koranchelian and  
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Manuela Francisco and Nadir  
Mohammed (IDA)**

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

<b>Risk of external debt distress</b>	<i>In debt distress</i>
<b>Overall risk of debt distress</b>	<i>In debt distress</i>
<b>Granularity in the risk rating</b>	<i>Unsustainable</i>
<b>Application of judgment</b>	<i>No</i>

*Djibouti's overall and external public debts are assessed to be in distress and unsustainable. The assessment reflects the accumulation of sizeable external arrears and large and protracted breaches of the sustainability thresholds of the PV of Overall and External Debt-to-GDP and External Debt Service-to-Revenues ratios. The DSA suggests that Djibouti is susceptible to export and primary balance shocks; more prolonged and protracted shocks to the economy would also present downside risks to the debt outlook.<sup>1</sup>*

*According to preliminary information, however, the authorities have reached an agreement with Exim Bank China for a temporary debt service moratorium. This reopens important policy space but restoring debt sustainability would require a balanced mix of structural and fiscal reforms, strengthened public debt management, new concessional financing, and debt relief.*

*A Medium-Term Debt Strategy is essential to entrench debt sustainability. In particular, it would be helpful to anchor debt—for instance through a target debt level, to be reached by a certain year, or a targeted path for fiscal deficits, to ensure fiscal policy coherence. In addition, reining in borrowing by state-owned enterprises (SOEs), which has accounted for 80 percent of external borrowing since 2013, will be key. These could take the form of a ceiling on overall SOE debt together with a requirement of a balance sheet analysis for each SOE borrowing request. Such a rules-based framework would help prioritization of investment projects while also strengthening planning and budgeting.*

<sup>1</sup> Djibouti's current composite indicator (CI) is 2.16, which corresponds to a weak debt-carrying capacity as confirmed by the October 2023 World Economic Outlook assumptions and the 2022 World Bank's Country Policy and Institutional Assessment (CPIA).

## PUBLIC DEBT COVERAGE

**1. The coverage of public debt used for this DSA is public and publicly guaranteed (PPG) debt.** Specifically, the debt stock covers central government debt and government guarantees on external debt of SOEs. Data on non-guaranteed external debt held by SOEs is not available and therefore standard assumptions are used. Information on domestic debt remains partial.<sup>2</sup> Domestic debt contracted by the central government is covered by the authorities' data (and hence included in this DSA) and remains small. SOEs' domestic debt is not captured. With support from the World Bank, the authorities have enhanced debt transparency since 2022 by regularly publishing information on all new or restructured public or publicly guaranteed loans, including those extended to State-Owned Enterprises (SOEs). This DSA applies the standard stress tests and additional tailored stress tests on contingent liabilities (Text Table 4).<sup>3</sup>

**Text Table 1. Djibouti: Public Debt Coverage**

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

The country's coverage of public debt	The central government, central bank, government-guaranteed debt		
	Default	Used for the analysis	Reasons for deviations from the default settings
2 Other elements of the general government not captured in 1.	0 percent of GDP	0.0	
3 SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2.0	
4 PPP	35 percent of PPP stock	4.2	
5 Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5.0	
Total (2+3+4+5) (in percent of GDP)		11.2	

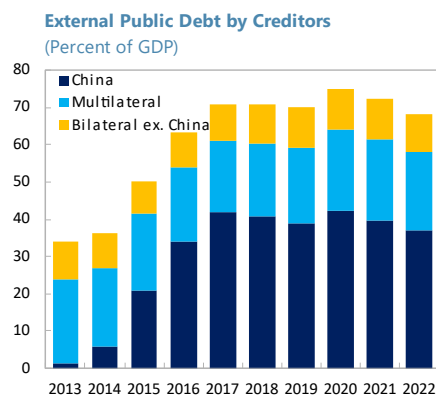
## BACKGROUND ON DEBT

**2. Debt accumulated rapidly between 2013 and 2022 as Djibouti expanded its role as port to Ethiopia and a regional hub for trade and logistics.** Debt to GDP grew from 34.9 percent in 2013 to 68 percent by end 2022. The increase was mostly accounted for by large infrastructure projects such as the Djibouti-Addis Ababa railway, the construction of the Doraleh multi-purpose

<sup>2</sup> External debt is defined on a residency basis.

<sup>3</sup> The contingent liability shock of 11.2 percent consists of three components: (i) a potential additional SOE external liability at the default value given lack of more detailed information (2 percent of GDP); (iii) potential additional PPP liabilities (4.2 percent of GDP); and (iv) a financial sector contingent liability at the default value (5 percent of GDP).

port and Port of Goubet, as well as a water pipeline from Ethiopia. These three projects were financed by a loan from Exim Bank China for a total of USD 1.2 billion (about 59 percent of GDP). More recently, in July 2023, the central government borrowed EUR 79.2 million from the European Investment Bank (EIB) to support water desalination, clean drinking water access, and wastewater treatment. It also provided guarantees to two loans contracted by SOE Great Horn Investment Holding: USD 120 million with Afreximbank and USD 35 million with Banque pour le Commerce et l'Industrie Mer Rouge (BCIMR) to further develop the Damerjog Industrial Development Free Trade Zone and USD 95.5 million from Invest International to develop the Ship Repair Yard. In total, the 2023 borrowing represents around 8 percent of GDP. While the SDFP Committee authorized an *ex ante* exception to the SDFP zero-NCB ceiling for the Shipyard project, the two other loans, contracted at non-concessional terms, do not comply with the SDFP zero-NCB ceiling. In 2022, Djibouti sought an *ex ante* waiver to the PPAs' limit on non-concessional borrowing for the Afreximbank/BCIMR loan, which was not granted by the SDFP Committee due to insufficient evidence of project viability and low loan concessionality.<sup>4</sup>



Source: Authorities' data and IMF staff calculations.

**3. As a result of non-concessional borrowing at a time of high interest rates, debt service costs increased.** The share of external debt at variable interest rates also increased. The construction and railway electrification loans were tied to the LIBOR, thus increasing exposure to global financing conditions. The interest rate on the 2023 abovementioned loan from Afreximbank and BCMIR is 6.97 percent, while the interest rate on the loan from Invest International is EURIBOR 3 months plus 1.85 percent and the interest rate on the loan from the EIB is EURIBOR 3 months. As a result, the weighted-average interest rate on Djibouti's debt stock will rise from 0.9 percent in 2022 to an average of 2.8 percent over the ten-year projection horizon.

<sup>4</sup> The SDFP has been instrumental in heightening awareness of Djibouti's debt vulnerabilities, while also moderating the pace of indebtedness and enhancing the legal and regulatory framework for debt management. Djibouti had satisfactory implementation of the SDFP in FY22. Government measures include amending the decree establishing the National Debt Committee to broaden its scope, issuing regulations mandating its approval for new debt or guarantees, and instituting quarterly publication of debt statistics to bolster transparency.

**Text Table 2. Djibouti: External and Public and Publicly-Guaranteed Debt, 2013 and 2022 1/**

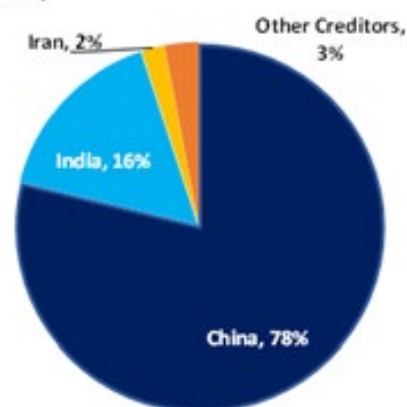
	2013			2022		
	Millions of US\$	Percent of GDP	Percent of external debt	Millions of US\$	Percent of GDP	Percent of external debt
Total (External + Domestic)	714	34.9	...	2,453		...
External debt	694	33.9	100.0	2,453	68.1	100.0
Central government debt 2/	482	23.6	69.5	1,747	48.5	71.2
Multilateral	311	15.2	44.8	532	14.8	21.7
IMF	31	1.5	4.5	42	1.2	1.7
IDA	134	6.5	19.2	230	6.4	9.4
Other multilateral	146	7.1	21.1	260	7.2	10.6
Official bilateral	171	8.4	24.7	1,215	33.7	49.5
Paris Club	63	3.1	9.0	55	1.5	2.3
China	-	-	-	854	23.7	34.8
Other non-Paris Club	109	5.3	15.7	307	8.5	12.5
Publicly-guaranteed debt	212	10.4	30.5	706	19.6	28.8
China	25	1.2	3.6	478	13.5	19.5
Other creditors	187	9.2	27.0	228	6.1	9.3
Domestic central government debt	20	1.0	2.9	0	0.0	0.0

Sources: Djibouti authorities; IMF staff calculations.

1/ This table presents the data for the debt covered in this DSA and described in paragraph 1.

2/ Includes guaranteed loans with arrears although no information is available on whether the guarantee was called or not.

**4. Due to the expiration of debt relief initiatives after the pandemic, debt service increased sharply, coinciding with a growth slowdown linked to the conflict in Ethiopia.** The Catastrophe Containment and Relief Trust (CCRT) and the Debt Service Suspension Initiative (DSSI) decreased debt service in 2020–21 and restructured arrears. The first round of the DSSI rescheduled debt service of about 2 percent of GDP in 2020 and the second round provided further relief of about 1.6 percent in 2021. Total PPG debt service is expected to increase from 1.3 percent of GDP in 2022 to an average of 4.6 percent over the ten-year horizon, with a peak at 5.5 percent in 2025.

**Stock of Arrears on External Public Debt**

Source: Authorities data.

**5. As a result, the authorities halted debt service, leading to arrears accumulation.** By end June 2023, the total stock of arrears reached around 6 percent of GDP. Exim Bank China, Djibouti's main creditor, accounted for 78 percent of these arrears and Exim Bank India for 16 percent, while other creditors, including Paris Club creditors, accounted for 5 percent.

**6. Djibouti's debt was assessed as unsustainable in the 2021 Article IV and in debt distress in 2022.** The former followed the eruption of the conflict in Ethiopia while the latter took place on the back of the halting of debt service and arrears accumulation.

## RECENT DEVELOPMENTS SUPPORT AN IMPROVED OUTLOOK

**7. Growth rebounded strongly in 2023.** After the negative shock of the pandemic and a weak recovery in 2021, the November 2022 peace agreement in Ethiopia bolstered the Djiboutian economy. Growth is expected to have reached about 7 percent in 2023, supported by the rebound in port activity and construction. Port activity grew by 31 percent y-o-y in the first three quarters of 2023, supporting train traffic which increased by 16 percent y-o-y during that time. Furthermore, construction activity has restarted with cement sales increasing by 80 percent y-o-y in the first three quarters of 2023. Likewise, energy production grew by 16.3 percent y-o-y in Q2 2023.

**8. The outlook is cautiously optimistic and remains highly dependent on the evolution of activity in Ethiopia and the latter's plans to diversify its trading partners.** The recovery is expected to continue in 2024, with growth projected at 6.5 percent, albeit subject to considerable uncertainty (below). Activity is expected to be supported by continued growth in Ethiopia and construction. Despite disruptions in the Red Sea, preliminary data point to strong port activity in January 2024 due to a significant increase in transshipment activity, with carriers expanding operations to circumvent the affected areas. Over the medium term, growth is set to converge toward its pre-pandemic (2017–2019) average, stabilizing at 5.5 percent. With about 95 percent of Djibouti's port activity fueled by Ethiopian trade, both growth and the external balance will be largely driven by growth prospects in Ethiopia. Investments in renewable energy infrastructure, highlighted by the recent inauguration of a 60 MW wind farm in Ghoubet, are enhancing Djibouti's energy capacity, reducing energy costs, and broadening energy access, thereby attracting additional private investment. Ongoing, and planned construction projects, including the redevelopment of old port land into a business complex, the establishment of a Ship Repair Yard, and the development of the Damerjog Industrial Free Zone, are poised to fortify Djibouti's status as a regional trade and logistics hub, stimulating Foreign Direct Investment (FDI). In addition, demand for housing will support private and public investment in construction. After the disinflationary tendency of the last year, inflation is expected to converge upwards to about 2 percent in line with international trends.

**9. Nonetheless, significant regional risks cloud the outlook.** Ethiopia's recent default on its debt could hamper trade through Djibouti. While most of the containers destined to Ethiopia come into Djibouti from China and Saudi Arabia, avoiding the Red Sea, an escalation of tensions in the area could further affect transshipments which account for a small portion of port activity. The impact of increasing refugees/asylum seekers on resources, particularly water, and education and health services, could bring new challenges for social stability, especially in a context of tight budgetary resources.<sup>5</sup> In the medium term, Ethiopia's intention to diversify its ports could lower traffic to Djibouti. On the upside, stronger-than-expected trade from Ethiopia can support growth, and addressing the legacy debt burden could restore debt sustainability and create fiscal space.

<sup>5</sup> As of August 2023, Djibouti hosted 22,031 refugees and 9,038 asylum seekers, mostly from Somalia, Ethiopia, and Yemen.

**10. The central government overall deficit is expected to average around 2.2 percent on the 10-year projection horizon with a primary deficit at 0.8 percent of GDP.** The macroeconomic framework assumes a gradual increase in revenues to GDP following the implementation of some of the recommendations from the extensive technical assistance already provided (including the implementation of the Large Taxpayers Office for the VAT, planned for Q1 2024), as well as currently delivered and scheduled for the upcoming year by the IMF, in areas including tax policy or budget preparation. Nonetheless, given recent trends, assumptions on revenue yields remain conservative to reflect the need for a holistic revenue strategy. No nominal increase is assumed to military leases although authorities are in the process of renegotiating them. Expenditures are expected to decrease as a share of GDP, from a combination of the pursuit of the decrease of the current expenditure to GDP ratio and a stabilization of the capital expenditure to GDP ratio.

**11. SOEs are expected to remain broadly balanced in the medium term.** Their primary balance is projected to remain negative in the first two years on the back of the new 2023 investments but forecasted to become positive from 2025 onward. Spending restraint by SOEs is a key driver of the fiscal consolidation for the public sector in the medium-term.

**12. The current account balance is expected to return to its pre-pandemic surplus.** However, surpluses are projected to narrow following several years of exports superior to imports and therefore decreasing inventories.

**13. Under the baseline, financing projections assume a declining trend in borrowing as most infrastructure projects have been completed.** The projections incorporate the abovementioned loans contracted in 2023 for a total amount of USD 336.3 million, as well as a staff projected pipeline of USD 30 million per year at concessional rates. Some uncertainty remains around these assumptions given the lack of a Medium-Term Debt Strategy.

**14. The authorities are in ongoing discussions to resolve the accumulated external arrears.** They have reached a preliminary debt service moratorium with Exim Bank China in October 2023. Discussions are ongoing, including on the terms, especially on interest rates and maturity profile, during the moratorium. They have also started negotiations with India, their second largest creditor and are in discussions with the Paris Club.

**Text Table 3. Djibouti: Evolution of Selected Macroeconomic Assumptions, 2022–2028**

	2022	2023	2024	2025	2026	2027	2028	Long-term 1/
<b>Growth (percent)</b>								
Current	3.9	7.0	6.5	6.0	5.5	5.5	5.5	5.3
February 2023 DSA	2.5	4.0	6.0	5.5	5.0	5.0	5.0	5.0
<b>Primary Fiscal Balance (percent of GDP)</b>								
Current	-0.7	-1.3	-1.1	-0.9	-0.7	-0.6	-0.7	-1.0
February 2023 DSA	-3.1	-1.9	-1.7	-1.6	-1.5	-1.3	-1.0	-1.0
<b>Public Sector Primary Deficit 2/ (percent of GDP)</b>								
Current	0.4	5.9	1.7	0.4	-0.8	0.7	-0.2	0.6
February 2023 DSA	-2.6	-4.0	-2.9	-0.9	-0.6	-0.5	-0.1	-0.1
<b>Current Account Balance (percent of GDP)</b>								
Current	17.6	23.5	5.1	4.0	2.9	6.1	5.8	12.3
February 2023 DSA	-0.7	-5.0	-3.8	-2.3	-0.6	0.5	1.1	1.3
<b>Inflation (average, percent)</b>								
Current	5.2	1.8	1.8	2.0	2.1	2.2	2.2	2.1
February 2023 DSA	2.8	2.8	2.5	2.5	2.5	2.5	2.5	2.5

Source: IMF Staff

1/Average 2029-2043

2/ Includes SOEs

## COUNTRY CLASSIFICATION

**15. Djibouti's debt-carrying capacity is classified as weak.** The current composite indicator (CI) is estimated at 2.16, close to the previous CI at 2.21. The debt-carrying capacity thus remains classified as weak. The CI is calculated based on the data published in the World Economic Outlook from October 2023 and the 2022 World Bank's Country Policy and Institutional Assessment (CPIA).

**16. While this is a standardized methodology, it is worth noting that Djibouti's nontraditional imports affect the composite indicator and debt-carrying capacity.** Djibouti is a hub for Ethiopia, and about 95 percent of imports are re-exported to Ethiopia. Since these reexports are not expected to be a direct draw on the countries reserve., the value of the CI score appears underestimated.

**Text Table 4. Djibouti: Calculation of the Composite Indicator Index and Threshold Tables**

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.101	1.19	55%
Real growth rate (in percent)	2.719	4.433	0.12	6%
Import coverage of reserves (in percent)	4.052	10.757	0.44	20%
Import coverage of reserves <sup>2</sup> (in percent)	-3.990	1.157	-0.05	-2%
Remittances (in percent)	2.022	3.217	0.07	3%
World economic growth (in percent)	13.520	2.856	0.39	18%
<b>CI Score</b>			<b>2.16</b>	<b>100%</b>
<b>CI rating</b>			<b>Weak</b>	

Final	Classification based on current vintage	Classification based on the previous vintage
Weak	Weak 2.16	Weak 2.21

External Debt burden Thresholds	
<b>PV of debt in % of</b>	
Exports	140
GDP	30
<b>Debt service in % of</b>	
Exports	10
Revenue	14
<b>Public Debt burden Thresholds</b>	
PV of total public debt in percent of GDP	35

## EXTERNAL DEBT SUSTAINABILITY ASSESSMENT

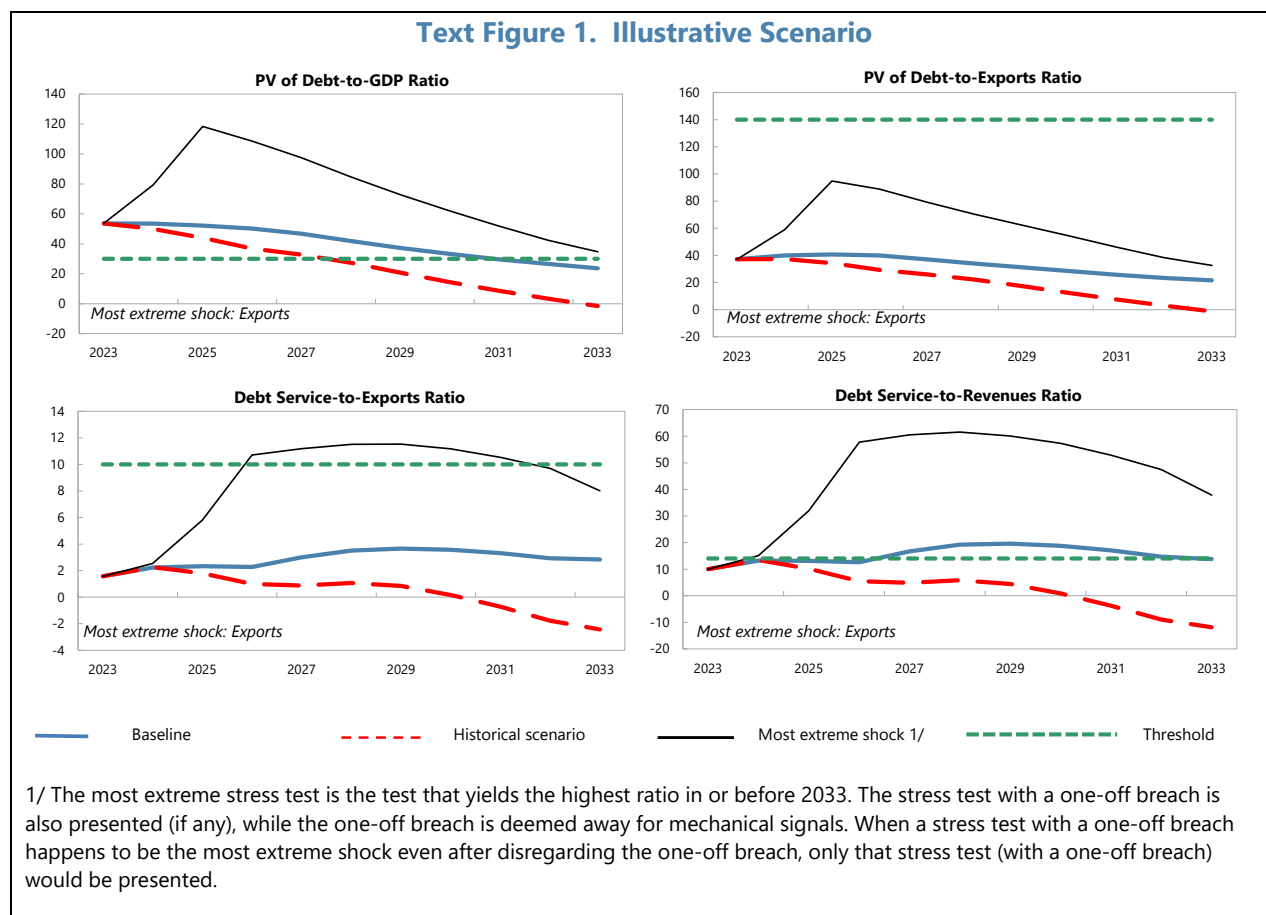
**17. Under the baseline, two of the four external debt burden indicators breach their respective thresholds through the medium term.** The PV of external debt-to-GDP ratio peaks at 61.1 percent in 2023 and declines to reach 29.4 percent in 2031. It keeps declining and remains below the threshold from 2031. The debt service-to-revenue ratio is above the threshold until 2032. It is below the threshold from 2033 onward. The PV of debt-to-exports and debt service-to-export ratios are below the relevant thresholds throughout the projection horizon.

**18. Standard stress test results highlight the sensitivity of debt burden indicators to exports (Figure 1).** Under the most extreme shock scenario (shock to export growth), the PV of debt-to-GDP breaches the threshold over the entire medium-term projection period. This is expected, given Djibouti's outsized exports to GDP due to its re-exporting role.

**19. The DSA also presents an illustrative scenario incorporating some of the parameters of the agreement with Exim Bank China (Text Figure 1).** The illustrative scenario assumes that the arrears to Exim Bank China (5 percent of GDP or USD 160 million) are added to the existing stock of debt and refinanced into a bond with 23 years of maturity at up to 4 percent. No penalties are levied on the arrears. Arrears to other creditors, totaling USD 50 million, are assumed to remain for now. Under the scenario, the PV of External Debt-to-GDP ratio remains above the sustainability threshold over the medium term since the agreement provides flow relief and the assumptions imply PV neutrality.



Text Figure 1. Illustrative Scenario



## OVERALL RISK OF PUBLIC DEBT DISTRESS

**20. The dynamics of total public debt are similar to external debt since domestic debt is limited (Figure 3).** Under the baseline scenario, the PV of debt-to-GDP keeps declining from its peak in 2023 (67.9 percent), falls below the 35 percent threshold in 2031, at 34.2 percent, and is below threshold from then on, amounting to 27.5 percent of GDP in 2033. The difference in trajectory with the historical scenario reflects the considerable slowdown in the pace of investments now that most infrastructure investments have been undertaken. According to stress tests, solvency and liquidity indicators are most vulnerable to an exports shock.

## RISK RATING AND VULNERABILITIES

**21. Djibouti remains in debt distress, and debt is deemed unsustainable.** While the macroeconomic outlook has significantly improved since the truce in Ethiopia, restoring debt sustainability will require a balanced mix of fiscal and structural reforms, including through improved SOE contributions to revenues and strengthened public debt management, new non-concessional financing, and debt relief.

**22. At the same time, the preliminary agreement with China allows for important fiscal room as the government overhauls its tax policy and administration and shifts towards a job-rich growth model.** In addition, the recent publication of the PEFA demonstrates a willingness to pursue a more prudent fiscal strategy, supported by renewed engagement with FAD TA on revenue mobilization. The upcoming Large Taxpayers' Office and continued digitalization of the revenue administration are also important steps forward. Beyond fiscal reforms, there are also further mitigating factors such as no roll-over risks associated with short-term debt, relatively modest interest rates on most debt and access to concessional financing.

**23. To reduce debt vulnerabilities and entrench sustainability, a holistic and long-term vision towards revenue mobilization is needed.** Given the moratorium, there is an important window of opportunity to design and implement a holistic plan for revenue mobilization, with well-timed and consistent implementation (*Selected Issues Paper*). A first step could be to consolidate all tax provisions within a single legal instrument, making it the sole-source of tax policies in the country. Reinforcing the decision power of the Ministry of Budget on tax policy issues would also be key. This would help ensure coherence and consistency in policy design and implementation.

**24. SOEs will have to play a direct role contributing to revenues.** SOEs are currently the largest contributor to Djibouti's GDP but benefit from numerous exemptions and pay little dividends. They have also accounted for 80 percent of external borrowing since 2013, and therefore largely contributed to the significant increase in debt levels. Staff supports the authorities' revisions to the public sector debt committee (*Comité National d'Endettement Public*), which issues a reasoned opinion on any borrowing project involving the state. Going forward, the authorities are cognizant of the need to exert care when borrowing at non-concessional terms in times of high interest rates to avoid creating additional debt service challenges. Enhancing the transparency of SOEs' financial accounts would also allow for an in-depth analysis of their possible role and more accountability.

**25. Access to concessional loans and grants will be key to lower risks.** The authorities would benefit from keeping new borrowing on concessional terms. Given the high risks and vulnerability to external shocks, including climate change, it would be prudent to build additional buffers and prepare contingency plans to return debt to the baseline should fiscal slippages and external shocks materialize.

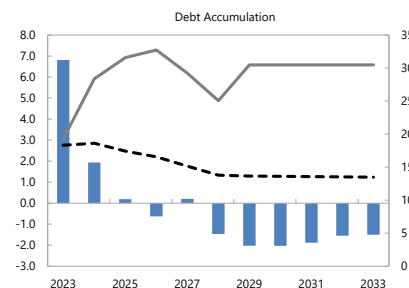
### **Authorities' Views**

**26. The authorities acknowledged that, while the debt service moratorium provides important flow relief, Djibouti's debt sustainability rests with the full outcome of the restructuring with all creditors.** They recognized that the repayment terms after the moratorium will be central for any debt sustainability analysis and noted that both the government of Djibouti and Exim Bank of China are keen to continue negotiating on a long-term solution. The authorities do not agree on the methodology used in the calculation presented by the mission during the DSA. They tend to agree with the 2019 DSA methodology which excludes Djibouti's sizable re-exports in the reserve coverage calculation of CI scores. These methodological differences are especially important since these re-exports are financed not with central bank reserves but with the FX in commercial banks. The authorities noted that discussions are ongoing with the Exim Bank of India and they have also contacted the Paris Club.

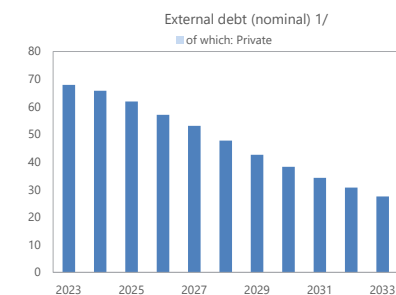
**Table 1. Djibouti: External Debt Sustainability Framework, Baseline Scenario, 2020–2043**  
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 9/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
<b>External debt (nominal) 1/</b>	74.0	71.4	65.8	67.9	65.8	61.9	57.1	53.1	47.7	27.5	10.0	60.5	47.9
<i>of which: public and publicly guaranteed (PPG)</i>	74.0	71.4	65.8	67.9	65.8	61.9	57.1	53.1	47.7	27.5	10.0	60.5	47.9
Change in external debt	4.8	-2.6	-5.5	2.1	-2.1	-3.9	-4.8	-4.0	-5.4	-3.2	-0.8		
<b>Identified net debt-creating flows</b>	-18.6	-2.7	-29.1	-32.3	-13.6	-12.0	-10.3	-13.2	-12.6	-9.9	-7.3	-17.3	-13.5
<b>Non-interest current account deficit</b>	-12.3	5.9	-18.2	-25.1	-7.3	-5.9	-4.6	-7.4	-7.3	-5.0	-3.0	-8.0	-7.8
Deficit in balance of goods and services	-8.5	9.5	-15.5	-22.4	-4.1	-3.0	-2.0	-5.2	-4.9	-3.4	-1.8	-3.6	-5.6
Exports	116.0	152.4	152.3	144.6	134.2	128.2	125.5	126.4	123.7	109.2	92.9		
Imports	107.5	161.9	136.8	122.2	130.0	125.2	123.5	121.2	118.8	105.8	91.0		
Net current transfers (negative = inflow)	-6.1	-4.7	-0.3	-3.4	-3.3	-3.3	-3.2	-3.1	-3.1	-3.0	-3.0	-5.8	-3.1
<i>of which: official</i>	-5.8	-4.4	0.0	-3.1	-3.0	-3.0	-2.9	-2.8	-2.8	-2.7	-2.7		
Other current account flows (negative = net inflow)	2.3	1.0	-2.4	0.8	0.2	0.4	0.6	0.9	0.7	1.5	1.9	1.4	0.9
<b>Net FDI (negative = inflow)</b>	-5.0	-4.9	-5.0	-4.5	-4.5	-4.4	-4.3	-4.2	-4.1	-4.0	-4.0	-6.5	-4.2
<b>Endogenous debt dynamics 2/</b>	-1.3	-3.7	-6.0	-2.7	-1.9	-1.8	-1.5	-1.6	-1.2	-0.9	-0.3		
Contribution from nominal interest rate	0.8	0.7	0.6	1.5	2.2	1.9	1.7	1.3	1.5	0.7	0.2		
Contribution from real GDP growth	-0.9	-3.1	-2.5	-4.3	-4.1	-3.7	-3.1	-2.9	-2.7	-1.6	-0.6		
Contribution from price and exchange rate changes	-1.2	-1.2	-4.0	...	...	...	...	...	...	...	...		
<b>Residual 3/ 4/ 10/</b>	23.4	0.1	23.6	34.4	11.5	8.1	5.5	9.2	7.2	6.7	6.5	20.5	10.0
<i>of which: exceptional financing</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
<b>Sustainability indicators</b>													
<b>PV of PPG external debt-to-GDP ratio</b>	...	...	59.1	61.1	58.1	53.9	49.3	45.9	41.2	23.6	8.1		
<b>PV of PPG external debt-to-exports ratio</b>	...	...	38.8	42.2	43.3	42.1	39.3	36.3	33.3	21.6	8.7		
<b>PPG debt service-to-exports ratio</b>	1.5	1.0	0.9	2.7	4.1	4.3	4.3	3.0	3.5	2.8	1.0		
<b>PPG debt service-to-revenue ratio</b>	6.6	6.6	5.6	17.0	24.5	24.5	23.8	16.7	19.2	13.8	4.5		
Gross external financing need (Million of U.S. dollars) 4/	-495.0	85.5	-813.4	-1035.8	-270.7	-220.9	-174.6	-425.6	-417.9	-464.8	-806.9		
<b>Key macroeconomic assumptions</b>													
Real GDP growth (in percent)	1.3	4.5	3.9	7.0	6.5	6.0	5.5	5.5	5.5	5.5	5.5	5.2	5.8
GDP deflator in US dollar terms (change in percent)	1.8	1.7	5.9	0.9	1.8	1.9	2.6	2.1	2.2	0.0	0.0	1.7	1.2
Effective interest rate (percent) 5/	1.1	1.1	0.9	2.5	3.5	3.1	2.9	2.4	3.0	2.4	2.4	1.6	2.8
Growth of exports of G&S (US dollar terms, in percent)	-28.3	39.7	10.0	2.5	0.7	3.3	5.9	8.5	5.5	1.7	3.8	8.2	3.8
Growth of imports of G&S (US dollar terms, in percent)	-28.1	60.1	-7.1	-3.5	15.4	4.0	6.8	5.7	5.6	1.8	3.9	12.2	4.6
Grant element of new public sector borrowing (in percent)	...	...	...	19.2	28.4	31.6	32.7	29.2	25.1	30.5	30.5	...	29.0
Government revenues (excluding grants, in percent of GDP)	25.7	23.6	23.7	22.7	22.6	22.6	22.7	22.6	22.5	21.8	20.9	20.9	22.6
Aid flows (in Million of US dollars) 6/	221.3	147.7	164.5	201.3	232.7	222.2	200.6	159.2	106.4	108.3	163.8		
Grant-equivalent financing (in percent of GDP) 7/	...	...	...	2.8	2.8	2.5	2.2	1.8	1.3	1.2	1.1	...	1.8
Grant-equivalent financing (in percent of external financing) 7/	...	...	...	27.0	37.9	43.7	47.2	48.8	57.6	69.8	78.5	...	54.7
Nominal GDP (Million of US dollars)	3,185	3,386	3,726	4,023	4,364	4,715	5,103	5,498	5,926	7,832	13,378		
Nominal dollar GDP growth	3.1	6.3	10.0	8.0	8.5	8.0	8.2	7.7	7.8	5.5	5.5	7.0	7.0
<b>Memorandum items:</b>													
PV of external debt 8/	...	...	59.1	61.1	58.1	53.9	49.3	45.9	41.2	23.6	8.1		
in percent of exports	...	...	38.8	42.2	43.3	42.1	39.3	36.3	33.3	21.6	8.7		
Total external debt service-to-exports ratio	1.5	1.0	0.9	2.7	4.1	4.3	4.3	3.0	3.5	2.8	1.0		
PV of PPG external debt (in Million of US dollars)	...	...	2203.6	2457.5	2535.3	2543.7	2513.8	2524.0	2443.2	1847.8	1082.9		
(PVt-PVt-1)/GDPt-1 (in percent)	...	...	6.8	1.9	0.2	-0.6	0.2	-1.5	-1.5	-0.3	-0.3		
Non-interest current account deficit that stabilizes debt ratio	-17.1	8.5	-12.6	-27.1	-5.1	-2.0	0.2	-3.4	-1.9	-1.8	-2.1		

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No



■ Debt Accumulation  
 - - - Grant-equivalent financing (% of GDP)  
 — Grant element of new borrowing (% right scale)



Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

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

10/ Exceptional financing includes CCRT resources.

**Table 2. Djibouti: Public Sector Debt Sustainability Framework, Baseline Scenario, 2020–2043**  
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
<b>Public sector debt 1/</b>	74.3	71.5	65.9	67.9	65.8	61.9	57.1	53.1	47.7	27.5	10.0	60.9	47.9
of which: external debt	74.0	71.4	65.8	67.9	65.8	61.9	57.1	53.1	47.7	27.5	10.0	60.5	47.9
<b>Change in public sector debt</b>	4.7	-2.8	-5.6	2.0	-2.2	-3.9	-4.8	-4.0	-5.4	-3.2	-0.8	10.6	-2.1
<b>Identified debt-creating flows</b>	4.9	-0.9	-5.7	0.8	-1.6	-2.4	-3.3	-1.9	-3.0	-2.1	-0.5	13.6	0.6
<b>Primary deficit</b>	6.2	2.9	0.4	5.9	1.7	0.4	-0.8	0.7	-0.2	-0.3	0.1	29.9	23.6
Revenue and grants	29.0	25.5	24.8	23.6	23.6	23.6	23.7	23.7	23.6	23.5	22.8		
of which: grants	3.4	1.8	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0		
Primary (noninterest) expenditure	35.2	28.4	25.2	29.5	25.3	24.1	22.9	24.4	23.4	23.2	22.9	43.4	24.2
<b>Automatic debt dynamics</b>	-1.3	-3.7	-6.0	-5.0	-3.3	-2.9	-2.5	-2.6	-2.8	-1.8	-0.6		
Contribution from interest rate/growth differential	-1.0	-5.6	-6.6	-5.0	-3.3	-2.9	-2.5	-2.6	-2.8	-1.8	-0.6		
of which: contribution from average real interest rate	-0.1	-2.4	-4.0	-0.7	0.9	0.9	0.7	0.4	-0.1	-0.2	-0.1		
of which: contribution from real GDP growth	-0.9	-3.2	-2.7	-4.3	-4.2	-3.7	-3.2	-3.0	-2.8	-1.6	-0.6		
Contribution from real exchange rate depreciation	-0.3	1.9	0.7	...	...	...	...	...	...	...	...		
<b>Other identified debt-creating flows</b>	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.9	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other) 7/	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (arrears recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
<b>Residual</b>	-0.1	-2.0	0.1	1.2	-0.6	-1.5	-1.4	-2.1	-2.4	-1.2	-0.3	-6.8	-1.4
<b>Sustainability indicators</b>													
<b>PV of public debt-to-GDP ratio 2/</b>	...	...	59.2	61.1	58.1	53.9	49.3	45.9	41.2	23.6	8.1		
<b>PV of public debt-to-revenue and grants ratio</b>	...	...	239.2	258.6	246.3	228.1	208.0	193.3	174.9	100.4	35.6		
<b>Debt service-to-revenue and grants ratio 3/</b>	6.7	7.0	5.6	16.4	23.6	23.6	22.8	16.0	18.4	13.2	4.3		
Gross financing need 4/	8.1	4.6	1.7	9.7	7.3	6.0	4.6	4.5	4.2	2.8	1.1		
<b>Key macroeconomic and fiscal assumptions</b>													
Real GDP growth (in percent)	1.3	4.5	3.9	7.0	6.5	6.0	5.5	5.5	5.5	5.5	5.5	5.2	5.8
Average nominal interest rate on external debt (in percent)	1.1	1.1	0.9	2.5	3.5	3.1	2.9	2.4	3.0	2.4	2.4	1.6	2.8
Average real interest rate on domestic debt (in percent)	0.0	-0.2	-3.7	1.3	0.4	-0.5	-2.5	-2.1	-2.1	0.0	0.0	0.6	-0.6
Real exchange rate depreciation (in percent, + indicates depreciation)	-0.4	2.8	1.0	...	...	...	...	...	...	...	...	0.7	...
Inflation rate (GDP deflator, in percent)	1.8	1.7	5.9	0.9	1.8	1.9	2.6	2.1	2.2	0.0	0.0	1.7	1.2
Growth of real primary spending (deflated by GDP deflator, in percent)	14.0	-15.9	-7.9	25.5	-8.7	0.9	0.4	12.6	1.1	5.6	5.2	-2.1	5.3
Primary deficit that stabilizes the debt-to-GDP ratio 5/	1.5	5.7	6.0	3.8	3.9	4.3	4.0	4.7	5.2	3.0	1.0	4.4	4.1
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, central bank, government-guaranteed debt. Definition of external debt is Residency-based.

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

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

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

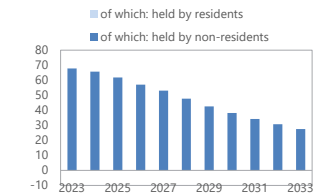
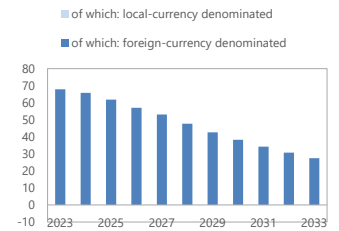
5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio (-): a primary surplus, which would stabilize the debt ratio only in the year in question.

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

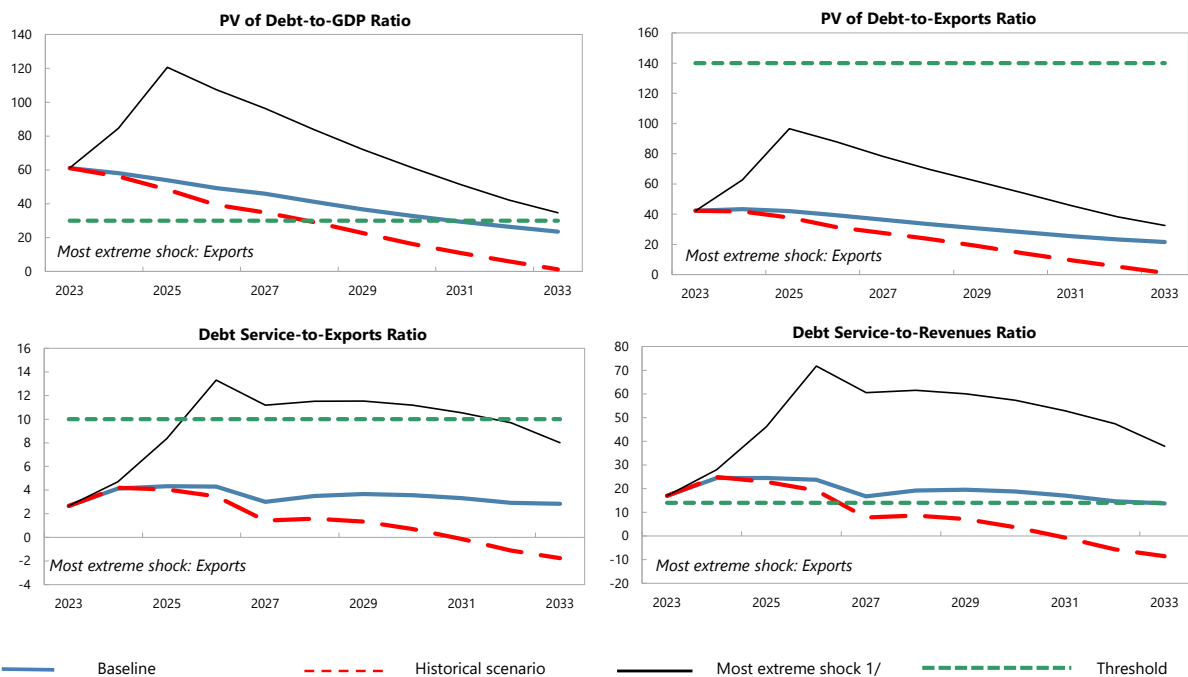
7/ Debt relief under CCRT is recorded in the table

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No

Public sector debt 1/



**Figure 1. Djibouti: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2023–2033**



Customization of Default Settings		
	Size	Interactions
<b>Tailored Stress</b>		
Combined CL	No	
Natural disaster	n.a.	n.a.
Commodity price	n.a.	n.a.
Market financing	n.a.	n.a.

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

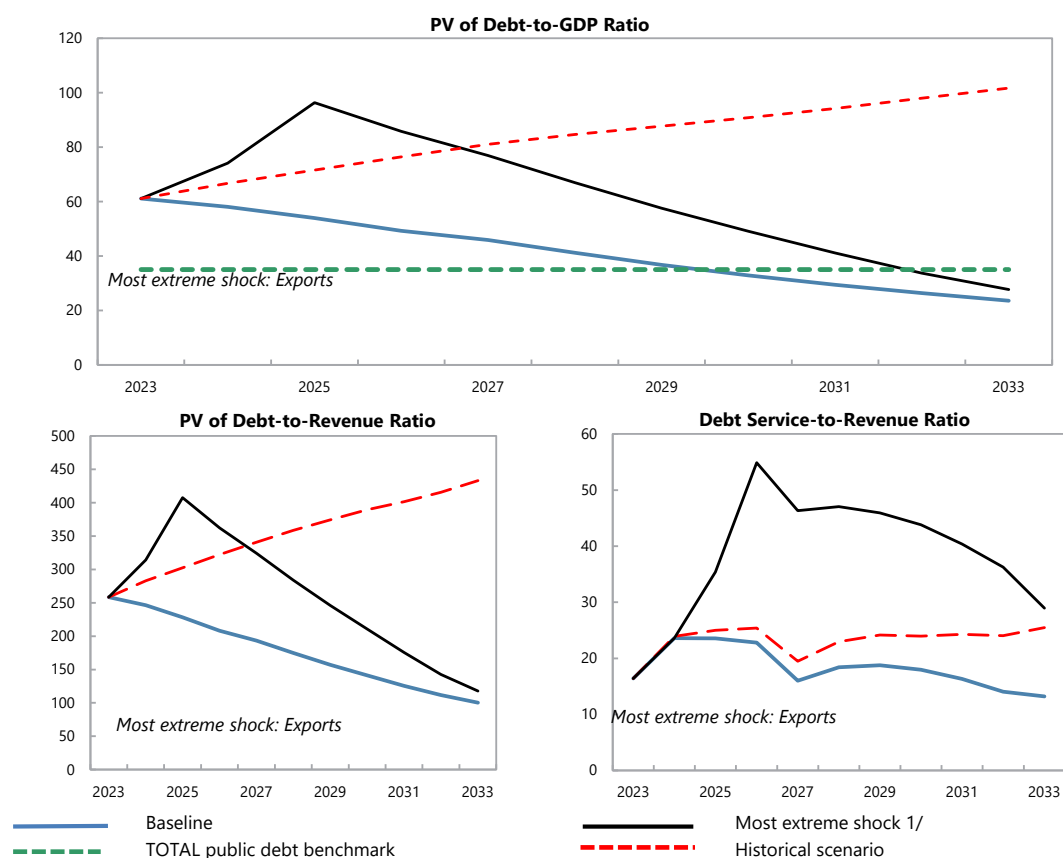
Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
<b>Shares of marginal debt</b>		
External PPG MLT debt	100%	
<b>Terms of marginal debt</b>		
Avg. nominal interest rate on new borrowing in USD	1.9%	6.4%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	27	10
Avg. grace period	6	1

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

**Figure 2. Djibouti: Indicators of Public Debt Under Alternative Scenarios, 2023–2033**



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
<b>Shares of marginal debt</b>		
External PPG medium and long-term	100%	100%
Domestic medium and long-term	0%	0%
Domestic short-term	0%	0%
<b>Terms of marginal debt</b>		
<b>External MLT debt</b>		
Avg. nominal interest rate on new borrowing in USD	1.9%	1.9%
Avg. maturity (incl. grace period)	27	27
Avg. grace period	6	6
<b>Domestic MLT debt</b>		
Avg. real interest rate on new borrowing	0.0%	0.0%
Avg. maturity (incl. grace period)	1	1
Avg. grace period	0	0
<b>Domestic short-term debt</b>		
Avg. real interest rate	0.0%	0.0%

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

**Table 3. Djibouti: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2023–2033**  
(In percent)

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
<b>PV of debt-to GDP ratio</b>											
<b>Baseline</b>	<b>61</b>	<b>58</b>	<b>54</b>	<b>49</b>	<b>46</b>	<b>41</b>	<b>37</b>	<b>33</b>	<b>29</b>	<b>26</b>	<b>24</b>
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2023-2033 2/	61	56	48	39	35	29	23	16	11	6	1
<b>B. Bound Tests</b>											
B1. Real GDP growth	61	61	59	54	50	45	40	36	32	29	26
B2. Primary balance	61	76	90	84	79	74	68	64	60	56	52
B3. Exports	61	85	121	107	96	84	72	62	51	42	35
B4. Other flows 3/	61	63	63	57	53	47	41	36	32	28	24
B5. Depreciation	61	73	66	60	56	51	45	41	36	33	30
B6. Combination of B1-B5	61	77	74	67	61	54	47	42	36	31	28
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	61	66	61	56	53	48	43	39	36	33	30
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Threshold</b>	30	30	30	30	30	30	30	30	30	30	30
<b>PV of debt-to-exports ratio</b>											
<b>Baseline</b>	<b>42</b>	<b>43</b>	<b>42</b>	<b>39</b>	<b>36</b>	<b>33</b>	<b>31</b>	<b>28</b>	<b>25</b>	<b>23</b>	<b>22</b>
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2023-2033 2/	42	42	38	31	28	24	19	14	10	5	1
<b>B. Bound Tests</b>											
B1. Real GDP growth	42	43	42	39	36	33	31	28	25	23	22
B2. Primary balance	42	57	70	67	63	60	57	55	52	49	48
B3. Exports	42	63	97	88	78	70	62	54	46	38	33
B4. Other flows 3/	42	47	49	46	42	38	34	31	28	25	22
B5. Depreciation	42	43	41	38	35	32	30	27	25	23	21
B6. Combination of B1-B5	42	55	51	53	48	44	40	36	31	28	25
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	42	49	48	45	42	39	36	33	31	29	27
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Threshold</b>	140	140	140	140	140	140	140	140	140	140	140
<b>Debt service-to-exports ratio</b>											
<b>Baseline</b>	<b>3</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>3</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>3</b>	<b>3</b>	<b>3</b>
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2023-2033 2/	3	4	4	3	1	2	1	1	0	-1	-2
<b>B. Bound Tests</b>											
B1. Real GDP growth	3	4	4	4	3	4	4	4	3	3	3
B2. Primary balance	3	4	5	5	4	4	4	4	5	5	5
B3. Exports	3	5	8	13	11	12	12	11	11	10	8
B4. Other flows 3/	3	4	5	6	4	5	5	5	4	4	4
B5. Depreciation	3	4	4	4	3	3	3	3	3	3	3
B6. Combination of B1-B5	3	4	7	7	5	6	6	6	5	5	4
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	3	4	4	4	3	4	4	4	3	3	3
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Threshold</b>	10	10	10	10	10	10	10	10	10	10	10
<b>Debt service-to-revenue ratio</b>											
<b>Baseline</b>	<b>17</b>	<b>25</b>	<b>25</b>	<b>24</b>	<b>17</b>	<b>19</b>	<b>20</b>	<b>19</b>	<b>17</b>	<b>15</b>	<b>14</b>
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2023-2033 2/	17	25	23	19	8	9	7	4	-1	-6	-9
<b>B. Bound Tests</b>											
B1. Real GDP growth	17	26	27	26	18	21	21	21	19	16	15
B2. Primary balance	17	25	27	28	21	23	23	22	24	25	24
B3. Exports	17	28	46	72	61	62	60	57	53	47	38
B4. Other flows 3/	17	25	28	31	24	26	26	25	23	20	17
B5. Depreciation	17	31	31	28	19	23	23	22	20	17	16
B6. Combination of B1-B5	17	27	37	37	29	31	31	30	27	24	18
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	17	25	25	25	18	20	20	19	18	15	14
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Threshold</b>	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

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

3/ Includes official and private transfers and FDI.

Table 4. Djibouti: Sensitivity Analysis for Key Indicators of Public Debt, 2023–2033

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
<b>PV of Debt-to-GDP Ratio</b>											
<b>Baseline</b>	<b>61</b>	<b>58</b>	<b>54</b>	<b>49</b>	<b>46</b>	<b>41</b>	<b>37</b>	<b>33</b>	<b>29</b>	<b>26</b>	<b>24</b>
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2023-2033 2/	61	67	72	76	81	85	88	91	94	98	102
<b>B. Bound Tests</b>											
B1. Real GDP growth	61	62	61	57	55	51	47	44	42	40	38
B2. Primary balance	61	76	90	84	79	74	68	64	60	56	52
B3. Exports	61	74	96	86	77	67	58	49	41	34	28
B4. Other flows 3/	61	63	63	57	53	47	41	36	32	28	24
B5. Depreciation	61	75	68	61	55	49	43	38	33	29	25
B6. Combination of B1-B5	61	76	74	49	45	41	36	32	29	26	23
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	61	66	61	56	53	48	43	39	35	32	29
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>TOTAL public debt benchmark</b>	35	35	35	35	35	35	35	35	35	35	35
<b>PV of Debt-to-Revenue Ratio</b>											
<b>Baseline</b>	<b>259</b>	<b>246</b>	<b>228</b>	<b>208</b>	<b>193</b>	<b>175</b>	<b>157</b>	<b>141</b>	<b>125</b>	<b>112</b>	<b>100</b>
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2023-2033 2/	259	283	302	322	341	358	374	389	402	415	433
<b>B. Bound Tests</b>											
B1. Real GDP growth	259	261	257	241	230	215	201	190	178	168	160
B2. Primary balance	259	322	380	354	334	312	291	275	255	237	222
B3. Exports	259	314	407	362	324	284	246	211	175	143	118
B4. Other flows 3/	259	268	268	242	222	199	177	156	136	118	104
B5. Depreciation	259	319	288	257	234	209	184	163	141	122	105
B6. Combination of B1-B5	259	324	315	206	191	173	155	139	123	110	98
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	259	278	258	237	221	202	184	168	151	137	125
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>Debt Service-to-Revenue Ratio</b>											
<b>Baseline</b>	<b>16</b>	<b>24</b>	<b>24</b>	<b>23</b>	<b>16</b>	<b>18</b>	<b>19</b>	<b>18</b>	<b>16</b>	<b>14</b>	<b>13</b>
<b>A. Alternative Scenarios</b>											
A1. Key variables at their historical averages in 2023-2033 2/	16	24	25	25	19	23	24	24	24	24	25
<b>B. Bound Tests</b>											
B1. Real GDP growth	16	25	26	25	18	21	21	20	19	17	16
B2. Primary balance	16	24	26	27	20	22	22	21	23	24	23
B3. Exports	16	24	35	55	46	47	46	44	40	36	29
B4. Other flows 3/	16	24	27	30	23	25	25	24	22	19	16
B5. Depreciation	16	26	31	30	21	24	25	24	21	18	17
B6. Combination of B1-B5	16	23	23	23	16	18	19	18	16	14	13
<b>C. Tailored Tests</b>											
C1. Combined contingent liabilities	16	24	24	24	17	19	19	19	17	15	14
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

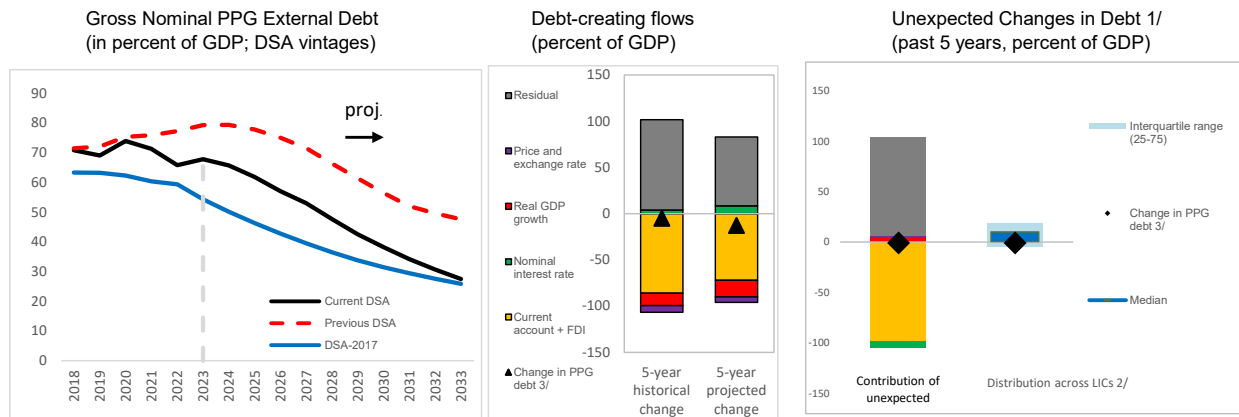
1/ A bold value indicates a breach of the benchmark.

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

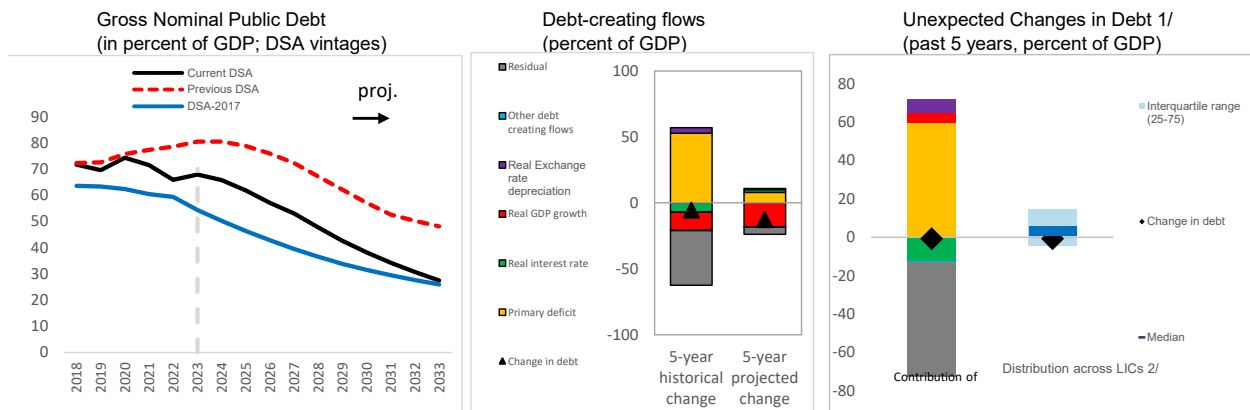
3/ Includes official and private transfers and FDI.



**Figure 3. Djibouti: Drivers of External Debt Dynamics – Baseline Scenario**



**Public debt**



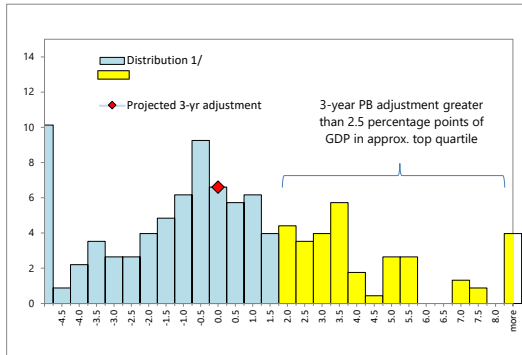
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

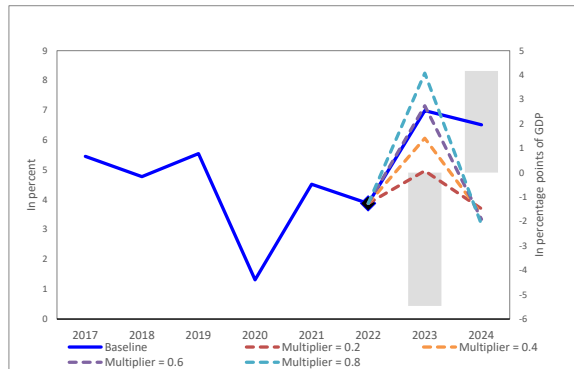
**Figure 4. Djibouti: Realism Tools**

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



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

**Fiscal Adjustment and Possible Growth Paths 1/**

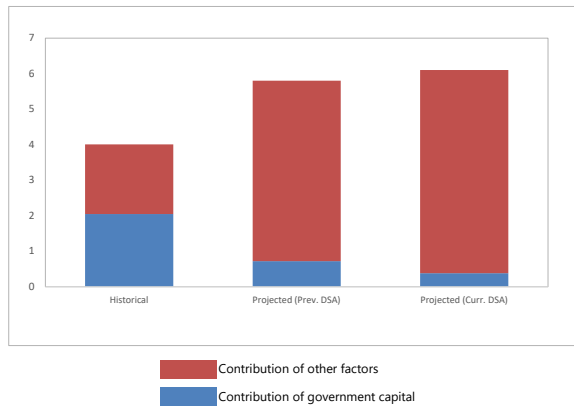


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

**Public and Private Investment Rates  
(percent of GDP)**



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



**Statement by Mr. Matungulu, Alternate Executive Director for Djibouti and Mr. Olhaye,  
Advisor to the Executive Director  
March 22, 2024**

## **Introduction**

*Djibouti has effectively leveraged its unique geostrategic location and achieved remarkable economic growth over the past decade. Despite the country's small size and volatility in the Horn of Africa, the authorities have managed to attract significant FDI and transformed the country into a top regional transport and logistics hub. As result, the latest Container Ports Performance Index, a joint World Bank Group and S&P Global Insight publication, has ranked Djibouti as the most efficient port in Africa and 24<sup>th</sup> globally. However, the economy has recently faced multiple shocks, including the COVID-19 pandemic, a conflict in Ethiopia, Djibouti's principal trading partner, flash floods, drought, escalating regional tensions, and an influx of refugees and asylum seekers. Despite these significant challenges, the authorities have developed a record of macroeconomic resilience and effective policy response to external shocks. Against this background, growth rebounded strongly in 2023, driven by robust port and construction activity. Going forward, the authorities aim to generate new revenue streams and diversify economic activities to create more jobs, enhance economic resilience and foster a prosperous, inclusive, and sustainable growth. In this perspective, they are determined to strengthen fiscal sustainability, rein in public debt, advance SOE reforms, improve monetary policy and shore up their AML/CFT regime.*

*In the above key policy areas, our Djiboutian authorities broadly agree with staff's assessment and policy advice. The authorities would like to thank staff for the constructive and candid policy discussions held in the context of the 2024 Article IV consultations.*

## **Recent Macroeconomic Developments, Outlook, and Risks**

**Despite facing multiple shocks, Djibouti's economy continues to demonstrate resilience and is exhibiting a strong recovery.** The November 2022 peace agreement in Ethiopia contributed to a resurgence of economic activity. The port sector recorded a 34 percent y-o-y growth, reinforced by increased train freight traffic. Additionally, the construction and public works sector has been strong, as evidenced by an 80 percent increase in cement sales. GDP growth rebounded strongly as a result and is projected at 7 percent for 2023. Furthermore, the dynamism and vibrancy of economic activity in 2023 has led to an increase of local trade and energy consumption by 7 percent and 9 percent, respectively. Primarily driven by reexports to Ethiopia, the trade and current account balances have substantially improved, and official reserves are comfortable, covering approximately 5 months of imports.

**Our authorities are in agreement with staff’s assessment of Djibouti’s broadly positive medium-term outlook.** The primary drivers of economic growth, the transport and logistics sectors are projected to strengthen in 2024, supported by Ethiopia’s anticipated robust economic recovery. Additionally, increasing demand for hospitality infrastructure, housing, and commercial real estate, will further boost growth in the construction and public works sector. Over the medium-term, the authorities aim to diversify the economy beyond the transport and logistics sectors, launching a new phase of development focused on boosting human capital and reducing the cost of electricity and telecommunications to foster the development of labor-intensive tourism and manufacturing. In parallel, the authorities intend to continue strengthening the backbone of the economy and accelerate the development of additional port and logistic-related sectors as illustrated with the creation of the Djibouti Ship Repair Yard, the largest in the region, which is expected to generate over 3,000 direct and indirect jobs.

Notwithstanding the positive outlook, our authorities are cognizant that important risks remain, including a possible escalation of tensions in the Red Sea and the Horn of Africa, which may reduce Djibouti’s transshipment activities—albeit a smaller portion of port activity as is well noted in the staff report. Other downside risks include the negative impact of increasing asylum seekers on scarce resources, notably water and education and health services. Faced with these risks, the authorities reiterate their commitment to economic diversification over the medium-term.

### **Fiscal Policy Reforms and Debt Management**

**The central government is committed to boosting domestic revenue mobilization, notably with the implementation of holistic tax policies and deployment of sounder fiscal institutions.** The authorities agree that strengthening customs duties and domestic tax revenue collection is essential. In this respect, enhancing property and commercial real estate taxes will be important. The authorities therefore intend to accelerate the development and implementation of a more comprehensive revenue mobilization strategy. They recognize the need to ensure that enhancing property taxes and rationalizing tax incentives does not stifle the robust activity of the burgeoning construction sector. In this context, the authorities see merit in notably creating a tax policy unit, establishing a Large-Taxpayer Office, and enhancing management capacity in the ministry of budget with Fund TA. Areas of focus include accelerated digitalization of revenue and tax incentives administration. Regarding the ongoing review of military base leases, an important source of government revenue, negotiations with key partners have commenced. The authorities are optimistic that mutually beneficial terms will soon be achieved with concerned partners, including on an indexation mechanism to protect future revenues.

**The authorities are bolstering their public debt management capacity.** They have developed a Debt and Public Investment Program notably aimed at strengthening debt statistics management, as well as boosting the debt management capacity of the Public Debt Department within the Ministry of Budget. The authorities are also making progress on a Medium-Term Debt Strategy (MTDS) to strengthen debt sustainability. Importantly, the National Debt Committee instituted by Presidential Decree in 2022 and chaired by the Prime Minister, including all the relevant line ministries and key stakeholders, continues to make positive strides on the design, coordination, and implementation of the national public debt policy.

**Advancing negotiations with all creditors and achieving more favorable debt treatment conditions are top government priorities.** After a constructive dialogue and several months of negotiations, our authorities have achieved a significant breakthrough on debt restructuring with Exim Bank of China, a key development partner. The outcome is a debt moratorium over the next four years (2024- 2027) for two large infrastructure undertakings, the rail and water supply projects. This is a major step towards improving the government's medium-term fiscal and financial situation and boosting economic stabilization. The government appreciates the resulting significant reduction of public debt servicing burden. In this connection, considering the deep economic and strategic ties between the two nations, our authorities are optimistic that favorable debt restructuring terms for the longer-term will be achieved in due course, reinforcing cooperation for mutual benefit. To address the outstanding debt repayment arrears, the authorities are fully committed to continue constructive engagement in the coming months with all creditors, including Exim Bank of India and the Paris Club.

**The Djiboutian authorities continue to heed staff's policy advice on enhancing debt sustainability but are of the view that a reassessment of the proposed "unsustainable" debt rating suggested for the country is warranted.** Specifically, our authorities have reservations on the methodology used in the 2024 DSA which, contrary to the one applied in 2019, does not sufficiently reflect the country's unique economic features. It should notably be pointed out that Djibouti's import bill is largely driven by re-exports to Ethiopia and fully funded with commercial banks' FX. Our authorities had therefore urged staff to maintain approach consistency and carry out the 2024 DSA with the tested DSA methodology they used in 2019. In this context, the authorities are reiterating their determination to prevent a further deterioration of Djibouti's fiscal and debt sustainability over the medium-term as illustrated by the projected reduction of the primary budget deficit to 0.7 percent of GDP by 2029 (from 1.3 percent of GDP in 2023). In the authorities' view, fully accounting for the enhanced fiscal restraint, the promising debt rescheduling prospects, and strong growth outlook, in addition to the government's determination to prioritize concessional funding sources going forward, would positively affect Djibouti's debt risk classification. Our authorities therefore call for such comprehensive DSA and eventual debt reclassification to be undertaken as soon as conditions permit.

## **State-Owned Enterprise (SOE) Reforms**

**Regarding the strengthening of SOE governance, our authorities highly appreciate staff's useful reform proposals.** They are committed to strengthen the oversight and governance of public state companies, and to preserve these entities' debt carrying capacity. In this connection, the inter-ministerial debt committee, supported by the Public Debt Directorate and with participation from the Executive Secretariat in charge of the State Portfolio (SEPE), is making positive strides, including deepening, and refining available diagnostic tools to improve performance monitoring for SOEs, and establishing independent boards of directors for ten pilot enterprises. The authorities are also committed to implementing the SOE Code of Governance this year; they welcome the capacity development assistance provided by multiple multilateral and bilateral development partners in support of their SOE reform program. The authorities are also focused on advancing reforms of Public Administrative Establishments (EPAs).

## **Monetary Policy**

**The Central Bank of Djibouti (CBD) concurs with staff's call to further reinforce the institution's supervisory and policy toolkits and intensify AML/CFT reform efforts.** As noted by staff, the monetary authorities have made considerable progress in these areas, notably illustrated by a reduction of systemic risks in the banking sector since the last Article IV Consultations. Progress was also made on upgrading CBD's supervisory and prudential risk oversight framework, with much appreciated IMF TA. Going forward, the Central Bank is committed to introduce a reserve requirement, essential to enhance the effectiveness of liquidity management. The government is also fully focused on improving Djibouti's AML/CFT framework and looks forward to the recommendations of the just completed first FATF mutual evaluation mission; it is committed to swiftly implement associated recommendations. Notable progress has been made in creating a related national coordination unit and in preparing a draft national strategy for AML/CFT reform. In addition, CBD is committed to enhance the effectiveness of its Financial Intelligence Unit, vital to pursue AML/CFT associated investigations in close coordination with appropriate enforcement institutions.

## **Structural Reforms**

**The authorities recognize the critical importance of reducing the high cost of electricity and telecommunications services in support of economic diversification beyond the ports and transport sectors, and of addressing increasing climate change challenges to foster inclusive growth and sustainable development.** The government has revisited its development plan, *Djibouti 2035 Vision*, and the country's medium-term National Development Plan, accordingly.

After the strong push to build up infrastructure, taking advantage of the country's geostrategic location, the authorities are now focusing on addressing other key structural challenges, including boosting social and labor inclusiveness, increasing human capital, strengthening health infrastructure, and reducing key operating costs (i.e., electricity and telecommunications) to further boost overall economic competitiveness and advance economic diversification. In the same vein, the authorities are enhancing governance and addressing climate change challenges.

## **Conclusion**

Djibouti continues to advance reforms to strengthen macroeconomic stability and promote stronger growth amid an increasingly challenging external environment. The authorities will continue to leverage the country's geostrategic position while adapting their strategy to evolving geopolitical conditions and promoting economic diversification. They are committed to working closely with development partners in this new phase of their development efforts and look forward to closer and deeper collaboration with the Fund going forward.