DJIBOUTI

Table 1	2021
Population, million	1.0
GDP, current US$ billion	3.6
GDP per capita, current US$	3576.5
International poverty rate ($1.9)[a]	17.0
Lower middle-income poverty rate ($3.2)[a]	39.8
Upper middle-income poverty rate ($5.5)[a]	70.2
Gini index[a]	41.6
School enrollment, primary (% gross)[b]	73.8
Life expectancy at birth, years[b]	67.1
Total GHG Emissions (mtCO2e)	1.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017), 2011 PPPs.
b/ Most recent WDI value (2019).

The withdrawal of COVID-19 movement restrictions facilitated Djibouti's economic rebound in 2021, to an estimated 4.3%. Growth is projected to remain moderate in 2022 but to expand briskly thereafter thanks to infrastructure projects, reducing the incidence of poverty from 14.7% in 2020 to a projected 12.4% in 2024. Regional stability and commitment to fiscal consolidation and structural reforms remain critical for Djibouti's growth prospects. As a net importer of food and energy, Djibouti is vulnerable to commodity price shocks, which is further exacerbated by the war in Ukraine.

Key conditions and challenges

In the decade leading up to the COVID-19 pandemic, Djibouti's economy was growing rapidly by over 6 percent per year on average, driven by externally financed, large-scale investment in transport and port infrastructure, which aimed at making the most out of the country's strategic location and deep-water port to serve as a key regional refueling, trade and transshipment center.

This development strategy has come at the cost of rising debt vulnerabilities. Djibouti's public and publicly guaranteed debt rose sharply from 37.5 percent of GDP in 2010 to an estimated 74 percent in 2021. Rising debt service cost of fast-maturing debts has crowded out much needed spending in social sectors. Health and social expenditures represent 5 percent and 3 percent of the government's budget, respectively compared to more than 30 percent for public infrastructure.

The pandemic and the conflict in neighboring Ethiopia had a heavy toll on Djibouti's economy and fiscal accounts (including Ports related SOEs revenues), further constraining the government's debt service capacity. Since February 2022, Djibouti's external and public debt are assessed as unsustainable. Over the medium term, debt service is set to increase, as different payments come to maturity, including the deferred debt services linked to the DSSI.

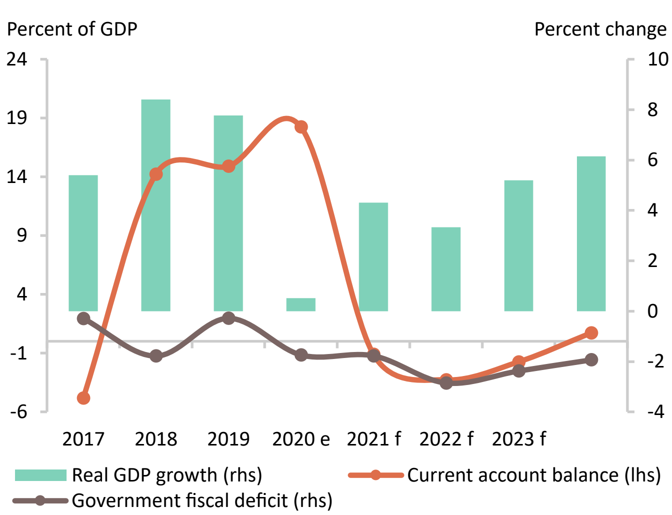
Heavy reliance on food and energy imports presents a key vulnerability. Global commodity price shocks are immediately felt in Djibouti's relatively small and undiversified economy, putting upward pressure on inflation and potentially jeopardizing food and energy security. The conflict between Ukraine and Russia–two of the world's largest producers of wheat–may exacerbate some of these sources of fragility.

In 2017 (latest available data), 39 percent of the population lived below the lower-middle income poverty line ($3.20 a day, 2011 PPP) and 17 percent in extreme poverty (below the international poverty line of $1.90 a day, 2011 PPP). Djibouti is one of the most unequal countries in the MENA region, with an estimated Gini coefficient of 41.6 in 2017. Poor data landscape, both in terms of quality and availability, hinders the ability to plan.

Recent developments

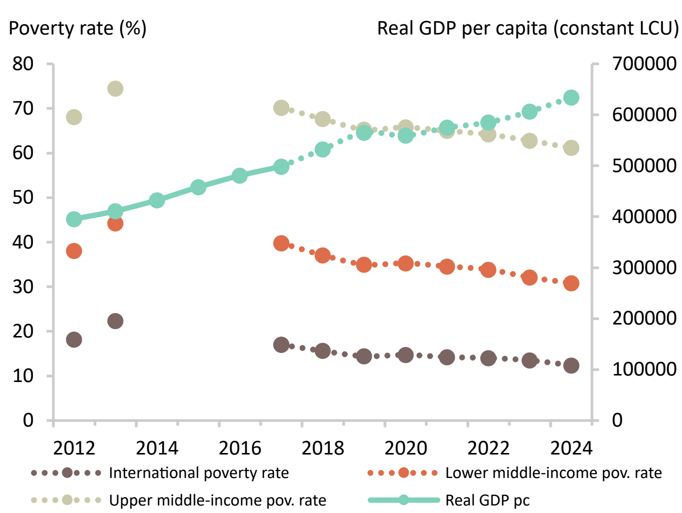
GDP growth rebounded to 4.3 percent in 2021 from 0.5 percent in 2020 (lowest growth since 2000), driven by the withdrawal of COVID-19 movement restrictions, which allowed the resumption of major public works, such as the transformation of the old port into a shopping center, preparatory works for the construction of a shipyard repair factory, and development of Damerjog Industrial Development Free Trade Zone (DDID FTZ). Government transfers and income support initiatives also bolstered household

FIGURE 1 Djibouti / Real GDP growth, fiscal, and current account balances



Sources: Government of Djibouti and World Bank staff projections.

FIGURE 2 Djibouti / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

consumption, but a softening of maritime transport and services overall (connected to the Ethiopian crisis) have somewhat offset the growth momentum. Headline inflation rose to 2.5 percent at end-2021 (y/y), reflecting the recovery of domestic demand, high global commodity prices, and recurrent shortages in imports of fresh food from Ethiopia.

The overall fiscal deficit stood at 1.8 percent of GDP in 2021, nearly the same as in 2020. New tax exemptions, lower international aid, and continued pandemic-related tax reliefs more than cancelled out the fiscal space created by the DSSI (US$57.7 million or 1.6 percent of GDP) and expenditure rationalization (including subsidies and transfers to SOEs).

The current account position deteriorated sharply from a surplus of 11.6 percent of GDP in 2020 to a deficit of 1.1 percent in 2021, driven by the slowdown in exports to Ethiopia and increased imports due to stronger domestic demand. On the upside, a US$40 million SDRs allocation from the IMF helped maintain a strong reserve coverage, at 5 months of imports as of end-2021.

Outlook

Growth is projected to soften to 3.3 percent in 2022 reflecting spillover effects of regional instability, and namely if the crisis in Ethiopia protracts further. Economic activity is expected to strengthen in 2023 and 2024 boosted by new infrastructure projects. Djibouti's medium-term outlook is subject to downside risks, including the emergence of new COVID-19 variants, persistent disruption in global transports and logistics value chains (particularly important for port-related SOEs activities), and continuation or possible intensification the Ethiopian crisis. As a net importer of food and energy, the economic consequences of the the war in Ukraine would likely affect Djibouti's external account through higher import bills.

The 2022 Finance Law proposes several revenue and expenditure measures to create fiscal space for debt services. Tax measures include the revision of income tax brackets, reduction in the VAT threshold, and one-off tax payments for companies exempted under the investment code or established in free zones. On the expenditure side, the Law foresees a 5 percent reduction of subsidies to SOEs, freeze of new recruitments in the public service, and the centralization of central government's tenders and purchases of goods and services. While encouraging, these measures will only partially offset the debt service requirements, hence the government is expected to engage with its creditors to explore additional way to address debt obligations and strengthen domestic revenue mobilization, including by rationalizing tax exemptions and negotiating more favorable bilateral deals on rents paid by military bases.

With continued economic growth, poverty ($1.90 per day) is expected to resume its downward trend from 14 percent in 2022 to 12.4 percent in 2024. As existing household budget surveys do not capture a large proportion of the population that are either undocumented, nomadic, or displaced, the above poverty estimates are lower bound. Policy choices in the macro-fiscal space and the structure of the economy in upcoming years will be consequential to the poverty reduction path in Djibouti.

TABLE 2 Djibouti / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	7.8	0.5	4.3	3.3	5.2	6.2
Private Consumption	5.0	-5.0	4.7	4.6	4.6	5.0
Government Consumption	-0.5	-2.1	8.3	-0.5	9.4	4.3
Gross Fixed Capital Investment	26.4	-37.2	5.3	1.8	7.6	7.1
Exports, Goods and Services	12.9	7.5	4.3	3.6	4.6	7.0
Imports, Goods and Services	13.9	-0.5	5.5	3.9	5.5	7.0
Real GDP growth, at constant factor prices	7.2	0.5	4.3	3.3	5.2	6.2
Agriculture	0.7	3.5	3.5	3.5	3.5	3.5
Industry	9.4	2.0	4.5	4.2	6.5	9.0
Services	6.8	0.1	4.3	3.1	4.9	5.5
Inflation (Consumer Price Index)	3.3	1.8	1.2	2.0	2.0	2.0
Current Account Balance (% of GDP)	28.9	11.6	-1.1	-3.3	-1.7	0.7
Fiscal Balance (% of GDP)	-0.3	-1.7	-1.8	-2.8	-2.4	-1.9
Debt (% of GDP)	65.3	73.3	73.5	74.3	75.1	75.3
Primary Balance (% of GDP)	0.9	-1.2	-0.9	-1.8	-1.4	-0.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	14.4	14.7	14.2	14.0	13.5	12.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	35.0	35.3	34.5	33.8	32.1	30.8
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	65.3	65.8	65.0	64.2	62.8	61.2
GHG emissions growth (mtCO2e)	1.6	0.3	0.8	0.8	0.8	0.8
Energy related GHG emissions (% of total)	31.0	31.1	31.3	31.6	31.8	32.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on 2017-EDAM.Actual data: 2017. Nowcast: 2018-2021. Forecasts are from 2022 to 2024.
b/ Projection using neutral distribution (2017) with pass-through = 0.7 based on GDP per capita in constant LCU.