

DJIBOUTI

Recent developments

Table 1 2018

Population, million	1.0
GDP, current US\$ billion	3.0
GDP per capita, current US\$	3044
International poverty rate (\$ 19) ^a	17.1
Lower middle-income poverty rate (\$3.2) ^a	40.2
National poverty rate ^a	21.1
Gini index ^a	41.6
School enrollment, primary (% gross) ^b	93.0
Life expectancy at birth, years ^c	62.6

Source: WDI, Macro Poverty Outlook, and official data.

Notes:

(a) Most recent value (2017), 2011 PPPs.

(b) Ministry of Education.

(c) Most recent WDI value (2017).

After a successful implementation of large infrastructure projects to support the country's vision of becoming the logistic, financial and digital hub of the Horn of Africa, Djibouti's economy has entered a stabilization phase. The country has started harvesting the fruits of its investment in terms of growth and exports while cautiously managing financial risks including those related to rapid external debt accumulation.

Economic growth is projected to reach 7.2 percent in 2019 as international trade normalizes in Ethiopia following the continuing political transition and the 2017 devaluation by 15 percent of the Ethiopian birr. Growth will be driven by export of transportation and logistics services supported by the newly commissioned trade infrastructure. Container terminal volume increased by 8.3 percent in the first seven months of 2019 to reach 520,000 TEU, while bulk cargo volume increased by 17.7 percent, to 3.5 million tons in the same period. Growth in the small secondary sector will also remain strong, supported by the nascent food processing and construction materials industries – signs that domestic value chains related to trade are emerging.

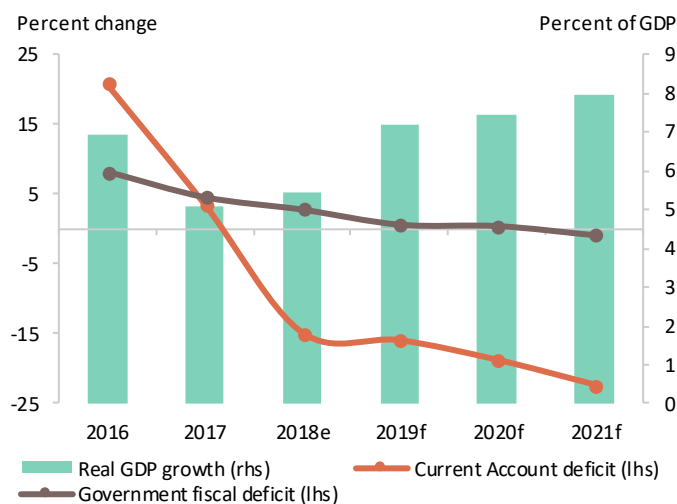
Logistics services exports and reexport activities by free zone companies have replaced public investment as main driver of growth, thus generating significant macroeconomic spillover effects to the economy. As a result, the current account balance which turned positive in 2018 as imports related to the large public projects tapered, is expected to reach a surplus of 16 percent of GDP in 2019. Excluding the free zones, the current account is expected to show a small deficit of 3 percent of GDP, which is financed by FDI inflows, mainly to the tourism (hotels) and housing sectors. International reserves holdings by the Central Bank are expected to stabilize at 3.3 months of imports, enough for currency board requirements, while

net foreign assets holding by the commercial banks will average 45 percent of GDP. Inflation has been below 1 percent in the last two years, but in the first seven months of 2019, the CPI increased by 3.0 percent on a year on year basis.

On the fiscal side, the budget deficit, already down from 20 percent of GDP in 2015 to 2.8 percent of GDP in 2018, is expected to decline further to 0.7 percent of GDP in 2019. Despite lower mobilization of nontax revenue, the fiscal stance is expected to improve further in 2019 as total expenditure continues to decline. Capital expenditure is normalizing toward its share in 2013 and current expenditures are also expected to decline in 2019, with tightening of spending in goods and services and transfers. As a result, external public and publicly guaranteed debt (PPG) reached its peak in 2018 and is expected to decline to 71 percent of GDP in 2019. External PPG debt rose from 34 percent of GDP in 2013 to an estimated 72.2 percent of GDP in 2018, mainly resulting from three non-concessional loans that the government contracted or guaranteed to build a water pipeline, a multipurpose port and a new railway link to Ethiopia. The loan related to the railway was recently restructured with an extension of the maturity date, an augmentation of the grace period and a diminution of the interest rate to match the debt service repayment schedule with the maturation of the project.

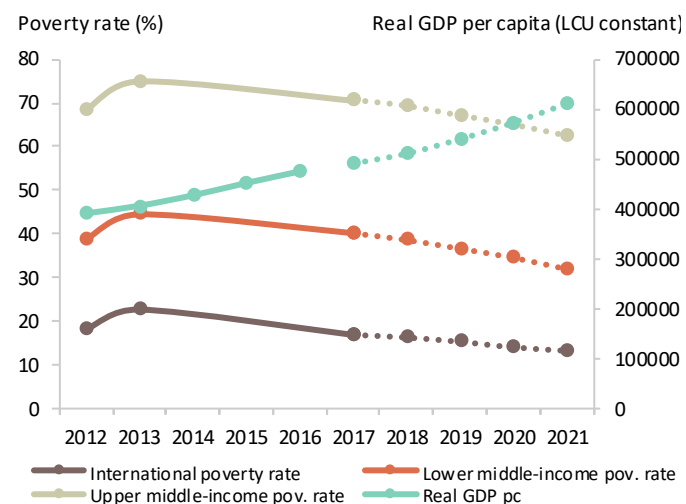
Despite faster economic growth, poverty remains high. According to the last household survey conducted in 2017, 17.1 percent of the population lived with less US\$1.90 PPP per day. The regions

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.

registered an extreme poverty rate that was more than twice as high as the national rate (41.2 percent) and Djibouti city a lower rate (9.5 percent). The poverty rate in the rural areas is very high at 57.8 percent. The reported unemployment rate is high, with significant gender differences. Younger individuals also face higher unemployment rates.

Outlook

The medium-term economic outlook remains positive, as the Government's strategy of positioning the country as a regional trade, logistics, and digital hub gains traction. GDP growth is expected to reach 7.5 percent in 2020 before accelerating to 8.0 percent in 2021-2023. Growth will remain supported by reexports by free zone companies and exports of transportation, logistics, and telecommunication services. A gradual emergence of non-traditional exports, mainly light manufacturing from the export-processing zones will increase value-added. As trade and investment flows to Ethiopia continue to develop, the need for deeper connectivity will drive

capital inflows over the medium term and help increase the utilization of existing logistics facilities. With the starting of production of natural gas in Ethiopia, an export terminal in Djibouti will generate further boosts in activity.

On the policy side, the Government will continue to implement its Vision 2035, pivoting to modernize its administration, including strengthening SOEs' management and monitoring, develop its human capital and its private sector, and open some of its protected industries to competition. The recent performance in the Doing Business and LPI ranking has increased the appetite for reform.

The extreme poverty rate at US\$1.90 per day is expected to decline to 15.5 percent in 2019, with reductions in the medium term if economic growth is mirrored by increased dynamism in the private sector. The country's monitoring of welfare has taken a significant step forward in 2019. A new National Strategy for Development of Statistics was prepared and released this year. In addition, microdata and metadata from household consumption surveys of 2017, 2012 and 2002 was made available in public domain on the World Bank's Microdata Catalog.

Risks and challenges

Downside uncertainties are related to: (i) high dependence on Ethiopia which is going through a transition period; (ii) high uncertainties in global trade and emergence of competitor ports which could weaken transit and transshipment prospects; (iii) high vulnerability to exogenous shocks, such as price hikes on its food and fuel imports, and cyclones and floods; (iv) non-prudent debt leveraging borrowing by SOEs; and (v) failure to implement reforms. Without significant implementation of policy reforms, Djibouti may become a modern port enclave in a country otherwise equipped with lagging energy, ICT and education system, with high poverty at the periphery. Reaching the poor is the main policy challenge to make growth inclusive. Unlike countries endowed with widely distributed and broadly accessible natural assets, the nature of the Djibouti's natural asset, its geographical position, is such that resources and capacity are to be pooled and invested to make it productive and distribute gains for collective benefit.

TABLE 2 Djibouti / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2016	2017	2018	2019 e	2020 f	2021 f
Real GDP growth, at constant market prices	6.9	5.1	5.5	7.2	7.5	8.0
Private Consumption	11.3	10.6	2.3	9.5	4.2	4.1
Government Consumption	25.0	3.4	3.0	3.2	3.6	3.6
Gross Fixed Capital Investment	298.1	39.2	6.9	6.8	5.0	6.0
Exports, Goods and Services	-25.6	54.4	6.0	6.0	10.0	10.5
Imports, Goods and Services	6.6	55.8	5.0	6.5	7.0	7.5
Real GDP growth, at constant factor prices	7.4	4.9	5.5	7.3	7.6	8.1
Agriculture	4.4	2.8	3.5	3.5	3.5	3.5
Industry	6.3	10.8	10.8	9.5	10.2	10.2
Services	7.6	4.1	4.7	7.0	7.2	7.8
Inflation (Consumer Price Index)	2.5	0.6	-0.1	2.0	2.5	3.0
Current Account Balance (% of GDP)	-20.9	-3.6	14.9	16.0	18.8	22.4
Net Foreign Direct Investment (% of GDP)	7.2	7.0	7.5	13.4	13.2	12.7
Fiscal Balance (% of GDP)	-8.2	-4.6	-2.8	-0.7	-0.5	0.8
Total PPG Debt (% of GDP)	63.9	71.2	72.2	70.9	68.6	66.9
Primary Balance (% of GDP)	-7.3	-3.5	-1.6	0.6	0.8	2.1
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	..	17.1	16.5	15.5	14.3	13.5
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	..	40.2	38.6	36.7	34.6	32.0
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	..	70.6	69.3	67.1	65.1	62.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

Notes: e = estimate, f = forecast.

(a) Calculations based on 2017-EDAM. Actual data: 2017. Nowcast: 2018. Forecast are from 2019 to 2021.

(b) Projection using neutral distribution (2017) with pass-through = 0.7 based on GDP per capita in constant LCU.