| DJIBOUTI | 2017 |
|---|---|
| Population, millions | 0.957 |
| GDP, current US$, billion | 1.844 |
| GDP per capita, current US$ | 1,927.60 |
| Poverty rate, national line | 21.1 |
| Poverty rate, US$ 1.90 a day | 16 |
| Gini coefficient | 0.42 |
| Life expectancy at birth (2016) | 62.5 |
| School enrolment, primary (% gross) | 96 |

Sources: World Bank, WDI

*Strengthened re-export capacity from newly operating railway and improved port facilities combined with construction in the new free-trade zone reinvigorated growth, which is headed towards 7 percent over the medium-term. Fiscal and external balances are expected to improve, and the high level of debt is prompting corrective action. Spurring a broader transformation from the success of the transit trade model is the overarching challenge, with 21 percent of the population in extreme poverty in 2017 and 47 percent of the workforce not employed.*

# Recent developments

Growth is projected to reach 6.7 percent in 2018, up from an estimated 5.7 percent in 2017; stimulated by re-export capacity from newly operating railway and improved port facilities, combined with construction of the new export-processing free-zone. On the demand side, the growth is expected to be supported by improved net exports accompanied with investment growth. Logistics services related to port activities and increase in industrial activities are expected to drive growth on the supply side. Inflation is expected to average around 2 percent this year from 0.6 percent in 2017, as demand picks up.

The general government balance is expected to be in a surplus of 0.6 percent of GDP in 2018, enabled by the tapering of capital expenditure to around 6 percent of GDP, compared to 26 percent in 2016. Meanwhile, government revenues are expected to steady at around 32 percent of GDP in 2018. The primary government balance (excluding grants) is expected to remain in a small deficit of 0.4 percent of GDP in 2018, before turning into surplus over the medium term with further fiscal consolidation and as the economy grows.

A current account deficit of 9.9 percent of GDP is expected in 2018, reflecting a continued improvement relative to higher 2 digits deficits in the previous years. Although export performance is improving, import of capital goods is expected to remain significant, as investments pick up in relation to the new export processing free-zone. FDI inflow of 11.5 percent in 2018, triggered by the new free trade zone, will continue to finance the bulk of the current account deficit. Foreign reserves are expected to remain sufficient for around five months of imports; net foreign assets, estimated at 70 percent of GDP, are sufficient for coverage of broad money and currency board requirements. The banking sector remains broadly healthy owing to Central Bank's strengthening of its oversight. While the liquidity to asset ratio has been increasing, the loan portfolio of commercial banks remains weak as NPLs sharply increased from 11.7 percent of total loans in 2012 to 22.5 percent in 2016 and are estimated at 16.5 percent in 2017. The authorities attribute the increase to the introduction of stricter loan classification requirements. Public debt is expected to decline from the peak of about 95 percent of GDP in 2017 to about 82 percent in 2018, as the government limits new borrowing.

An estimated 16 percent of the population lived below the international poverty line of US$1.90 per day in 2017. The most recent official national extreme poverty rate, calculated using a survey conducted in 2017, stood at 21.1 percent. The 2017 data showed that the poverty rate in regions was more than twice as high as the national average (45.0 percent) while the poverty rate in Djibouti-ville was much lower (13.6 percent). The extreme poverty rate in the rural areas is very high, estimated at 62.6 percent in 2017.

### *Outlook*

The near-term outlook suggests a continuous strengthening of growth, above 7 percent in 2019-2020, with re-export capacity and pick-up in Ethiopian trade transit, as the effect of the Ethiopian Birr devaluation on its imports eases. In addition, with recent leadership change in Ethiopia, the Ethiopian economy is expected to become more open, which would stimulate trade-transit in Djiboutian ports, even given the potential emergence of other Horn of Africa ports including Berbera and Assab.

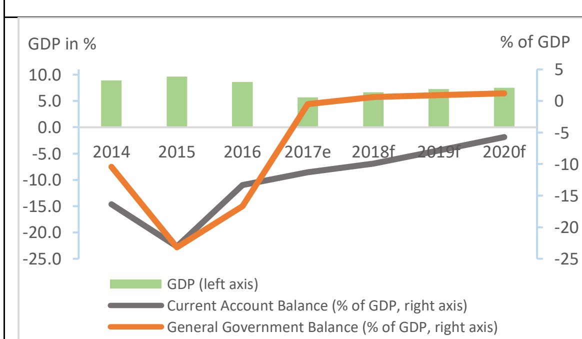
The fiscal surplus is projected to expand to about 1 percent of GDP in 2019-2020 with further consolidation and as the economy grows. The current account deficit will decline below 6 percent of GDP by 2020, with the expected pick-up in logistics services exports and activity in the new export processing free-zone. In the near term, services export and other services such as commerce, telecommunication, tourism activities and fisheries, light manufacturing and transport, are expected to support growth. While public debt is projected to further decline, it will remain above 60 percent of GDP over the forecast period, due to the railway loan with China for which an agreement for restructuring has not been reached. FDI inflows and capital transfers will continue to finance the deficit. Reserves will sustain the peg of the Djibouti Franc to the US$ at 177.72 DF per dollar. Inflation is projected to reach 3 percent by 2020, spurred by higher demand in the housing and services sectors.

The international poverty rate (at US$1.9 USD 2011 PPP a day) is projected to be around 13 percent in 2019, with further decline in the medium term if economic growth is mirrored by increased dynamism in the private sector. The country's monitoring of welfare is expected to take a significant step forward: data from 2017 household consumption survey is expected to be published over the coming months; efforts are also underway to make previous surveys conducted by the Statistics office in Djibouti more widely available.

## *Challenges and Risks*

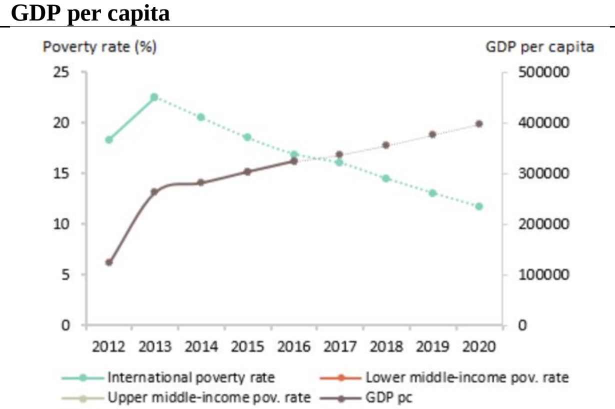
Consolidating the gains from the transit trade model through containing public debt and creating jobs to reduce unemployment and alleviate poverty remains the key challenge. Addressing this challenge would require: (1) strengthening institutional capacity for better debt management and improving public services delivery to strengthen human capital; (2) reforming the tax system to enlarge the tax base and enhance domestic revenues mobilization to boost fiscal space for social investments; (3) further easing the business regulatory system and addressing structural constraints related to high costs of production. The heavy external dependence makes the economy vulnerable to external shocks such as food and/or fuel price hikes. Upside risks include: (i) Djibouti's gains from the China Belt and Road Initiative; (ii) restructuring of the railway loan; and (iii) deepened economic integration with Ethiopia and spillovers from major new projects by its neighbor, such as in the energy sector.

**Figure 1. Growth, Fiscal and Current account balances**




*Sources: Government od Djibouti and World Bank staff projection*

**Figure 2. International Poverty rate (1.9$ a day) and GDP per capita**



| Table 2. Djibouti / Macro poverty outlook indicators | | | | | | |
|---|---|---|---|---|---|---|
| (Annual percent change unless indicated otherwise) | | | | | | |
| | **2015** | **2016** | **2017 e** | **2018 f** | **2019 f** | **2020f** |
| **Real GDP growth, at constant market prices** | 9.7 | 8.6 | 5.7 | 6.7 | 7.3 | 7.5 |
| Private Consumption | 15 | -18 | 38 | 4.5 | 7.2 | 6.3 |
| Government Consumption | 7.4 | 12.4 | 9.3 | 11.2 | 4.7 | 7.7 |
| Gross Fixed Capital Investment | 45.4 | 27.2 | -39.7 | 1.2 | 1.1 | 0.9 |
| Exports, Goods and Services | 10.5 | 4.8 | 4.9 | 9.8 | 10.1 | 10.3 |
| Imports, Goods and Services | 28.9 | -5 | 8 | 6 | 5.5 | 5.8 |
| **Real GDP growth, at constant factor prices** | 9.7 | 8.6 | 5.7 | 6.7 | 7.3 | 7.5 |
| Agriculture | 0.7 | 3 | 3.5 | 2.7 | 4.7 | 4 |
| Industry | 5.5 | 4.7 | 3.1 | 10 | 8.5 | 7.1 |
| Services | 10.8 | 9.5 | 6.3 | 6.1 | 7.1 | 7.6 |
| **Inflation (CPI, period average)** | 2.2 | 2.5 | 0.6 | 2 | 2.5 | 3 |
| **Current Account Balance (% of GDP)** | -23.1 | -13.3 | -11.3 | -9.9 | -7.8 | -5.7 |
| Net Foreign Direct Investment (% of GDP) | 7.2 | 9.1 | 10.8 | 11.5 | 11.4 | 11.2 |
| **Government Balance (% of GDP)** | -23.2 | -16.7 | -0.5 | 0.6 | 0.9 | 1.2 |
| **Government Balance, excl. grants (% of GDP)** | -27.8 | -21.5 | -4.0 | -2.1 | -1.6 | -1.1 |
| **Debt (% of GDP)** | 75.9 | 93.4 | 94.8 | 81.9 | 75.1 | 68.4 |
| **Primary Balance, excl. grants (% of GDP)** | -27.2 | -20.3 | -2.4 | -0.4 | 0.1 | 0.7 |
| **Poverty Headcount ratio at US$ 1.9 2011 PPP (%)** | 18.5 | 16.9 | 16 | 14.5 | 13 | 11.7 |

Sources: World Bank, Macroeconomics, Trade and Investment Global Practice, and Poverty Global Practice.

Note: e= estimate; f = forecast.