DJIBOUTI

Table 1	2018
Population, million	10
GDP, current US$ billion	5.2
GDP per capita, current US$	5307
International poverty rate ($1.9)[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]	63.5
Life expectancy at birth, years[b]	62.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011 PPPs.
(b) Most recent WDI value (2016)

After a short slowdown in 2017 as some of the large infrastructure projects were phased out, growth recovered in 2018 but is still below potential. Pursuing its ambition to position itself as a regional digital hub, the country is re-shifting the growth engine back to exports of transportation and logistics services after a temporary domination of public investment with high import content and financed mainly through debt accumulation. Fiscal consolidation policy and deleveraging by SOEs are tapering the fiscal and current account deficits.

Recent developments

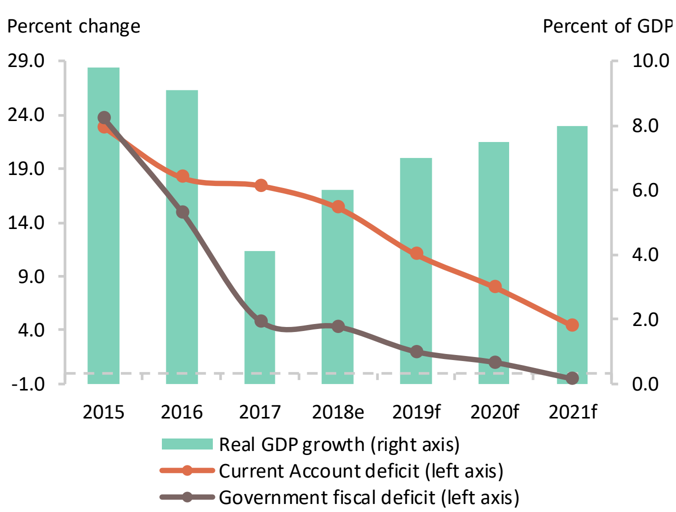
Djibouti's small economy is resuming acceleration. After growing by 4.1 percent in 2017 and 6.0 percent in 2018, output is expected increase by 7 percent in 2019 as international trade normalizes in Ethiopia following the successful political transition and the devaluation by 15 percent of the Ethiopian birr, in October 2017. Growth will be driven by export of transportation and logistics services supported by the newly commissioned trade infrastructure. Growth in the industrial sector will also remain strong as the nascent import-substitution manufacturing industry (mainly food processing and construction materials) develops.

The drivers of the growth are also changing from domestic demand and public-investment-push toward external demand and service-exports-pull. From 2014 to 2016, the fast implementation of the large public infrastructure projects added 3 to 5 percentage points to the real growth, pushing the economy to run above its potential and flagging some sustainability challenges. However, those public investments were critical to the Government ambition of positioning Djibouti as a trade, logistics and digital hub of East Africa and have significantly increased the country's growth potential. Excess capacity remains in several sectors, including in transportation and logistics that are export oriented.

The shift in the drivers of growth is having significant macroeconomic stabilization effects. On the external side, the current account deficit narrowed steadily to 15.4 percent of GDP in 2018 and is expected to reach 11.1 percent of GDP in 2019, down from 22.9 percent of GDP in 2015, as imports related to the large infrastructure projects decreased while and exports of logistics services started to pick up. The new current account deficit is composed of FDI-related projects (non debt-creating), mainly in the tourism (hotels) and housing sectors and into the new International Free Trade Zone (DIFTZ). International reserves holding by the Central Bank is expected to stabilize at 3.2 months of imports, enough for the coverage of base money and currency board requirements, while net foreign assets holding by the commercial banks will average 50 percent of GDP. Inflation has been below 1 percent in the last two years but is expected to increase to 2 percent in 2019.

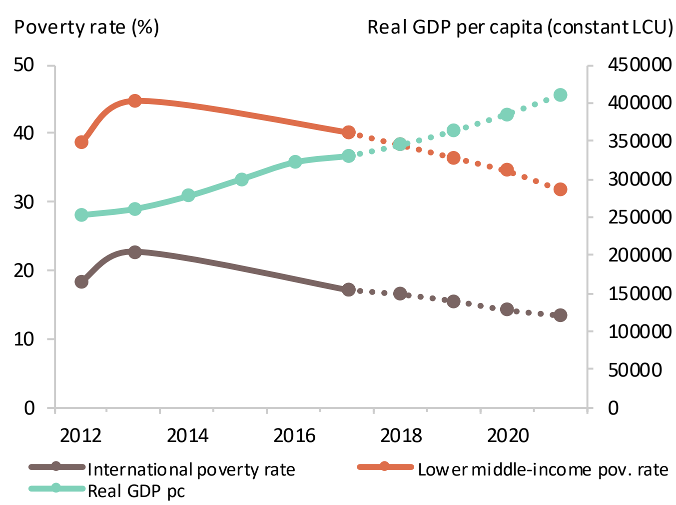
The fiscal deficit is also declining rapidly, falling from 23.7 percent of GDP in 2015 to 4.3 percent of GDP in 2018. Despite lower mobilization of nontax revenue, the fiscal stance is expected to improve further in 2019 as total expenditure continues to decline. Capital expenditure is normalizing toward its level 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 in 2019. External PPG debt rose from 43 percent of GDP in 2014 to an estimated 83.4 percent of GDP in 2018, essentially resulting from

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



Sources: World Bank. Note: see Table 2.

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.

Despite faster economic growth, poverty remains high. According to the last household survey conducted in 2017, 21.1 percent of the population lived with less than US$2.17 in 2011 PPP per day (equivalent to national poverty line) while an estimated 17.1 percent lived with less than US$1.90 per day. The regions registered an extreme poverty rate that was more than twice as high as the national rate (45.0 percent) and Djibouti city a lower rate (13.6 percent). The extreme poverty rate in the rural areas is very high at 62.6 percent. The official unemployment rate in 2017 was high at 47 percent, with significant gender differences. Younger individuals also face higher unemployment rates as compared to the older individuals.

Outlook

The medium-term economic outlook is 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 7.0 percent in 2019 before accelerating to 8.0 percent in 20120-2023. Growth will be supported by exports of transportation, logistics, and telecommunication services, as the country harvest dividends from its ambitious investment program. Over the medium term, 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 greater connectivity will drive capital inflows over the medium term and help increase the utilization of existing logistics facilities, including the recently added capacity. 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. With the critical infrastructure in place, the Government will continue to implement reform to modernize its administration, including the management of the SOEs, develop its human capital and its private sector, and open some of its protected sectors 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 16.3 percent and 15.4 percent in 2018 and 2019 respectively. The country is facing the difficult challenge of a paucity of jobs leading to very low labor market participation rates and high unemployment rates. Further reductions in poverty may be possible if economic growth translates into private sector dynamism.

Risks and challenges

Downside uncertainties are related to: (i) the high dependence on Ethiopia which is going through a transition period; (ii) high vulnerability to exogenous shocks, such as price hikes on its high food and fuel imports, and cyclones and floods; and (iii) the 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 at the periphery 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 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 e	2019 f	2020 f	2021 f
Real GDP growth, at constant market prices	9.1	4.1	6.0	7.0	7.5	8.0
Private Consumption	5.0	5.0	5.0	5.0	5.0	5.0
Government Consumption	12.4	9.3	8.2	4.8	14.0	9.1
Gross Fixed Capital Investment	12.6	13.3	0.4	6.4	0.8	5.2
Exports, Goods and Services	4.8	2.0	4.0	9.5	10.3	10.3
Imports, Goods and Services	5.0	8.0	6.0	5.5	5.8	5.8
Real GDP growth, at constant factor prices	11.0	0.6	8.6	6.8	7.1	7.6
Agriculture	4.4	3.5	3.5	3.5	3.5	3.5
Industry	4.6	5.9	7.6	7.6	7.7	7.7
Services	12.7	-0.6	9.0	6.7	7.0	7.7
Inflation (Consumer Price Index)	2.5	0.6	-0.1	2.0	2.5	3.0
Current Account Balance (% of GDP)	-18.2	-17.5	-15.4	-11.1	-8.0	-4.5
Net Foreign Direct Investment (% of GDP)	7.2	7.0	7.5	13.4	13.2	12.7
Fiscal Balance (% of GDP)	-15.0	-4.9	-4.3	-2.0	-1.0	0.5
Fiscal Balance, excl. Grants (% of GDP)	-19.7	-8.2	-6.9	-4.4	-3.4	-1.8
Total PPG Debt (% of GDP)	75.5	85.2	85.1	81.9	76.2	69.2
Primary Balance, excld. Grants (% of GDP)	-18.5	-6.7	-5.2	-2.5	-2.5	-0.6
International poverty rate ($1.9 in 2011 PPP)[a,b]	..	17.1	16.5	15.5	14.2	13.5

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.