

DJIBOUTI

Key conditions and challenges

Table 1 2020

Population, million	10
GDP, current US\$ billion	3.4
GDP per capita, current US\$	3400.0
International poverty rate (\$ 19) ^a	17.0
Lower middle-income poverty rate (\$3.2) ^a	39.8
National poverty rate ^a	21.1
Gini index ^a	41.6
School enrollment, primary (% gross) ^b	73.8
Life expectancy at birth, years ^b	67.1
Total GHG Emissions (mtCO2e)	1.5

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

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

(b) WDI for School enrollment (2020); Life expectancy (2019).

Djibouti's economic activity recovered in 2021, driven by a rebound in global and regional trade demand for transshipment and logistics. GDP growth is estimated to have reached 5.1 percent compared to 0.5 percent in 2020. In line with the economic recovery, poverty is expected to resume its downward trend in 2021 after a modest increase in 2020. Djibouti's growth prospects depend critically on Ethiopia's political and economic conditions, as well as continued reforms to maintain the country's competitive edge in transportation.

Djibouti is strategically located at the southern entrance to the Red Sea, along some of the world's busiest shipping lanes. Djibouti also plays an important security role in the Horn of Africa, hosting several military bases for foreign countries with forces supporting global anti-piracy efforts.

Over the past decade, the Djibouti economy grew rapidly by over 6 percent per year, on average. Growth was driven by externally financed, large-scale investments in transport and port infrastructure, to make the most of its strategic location and deep-water port that serves as key regional refueling, trade and transshipment center. The economic expansion of Ethiopia, Djibouti's large landlocked neighbor, has also fueled Djibouti's growth by stimulating trade and logistic activities. Djibouti will increasingly need deep trade facilitation reforms to maintain its regional competitive advantage on cost and throughput.

Djibouti's economy weathered the initial impact of the COVID-19 pandemic, averting a contraction. This good performance primarily reflects a relatively quick recovery of key domestic market-oriented in the latter half of 2020 after the lifting of a two-month lockdown imposed in March 2020. Strong trade activity in Ethiopia also boosted re-export activities and transportation and logistics services.

Djibouti's development strategy based on sizable investments financed by non-concessional public debt has put the country at high risk of external debt distress. To reduce debt vulnerabilities and increase the fiscal space for necessary spending in social sectors, Djibouti needs to prioritize concessional borrowing, strengthen debt management, improve the management of SOEs and broaden its tax base.

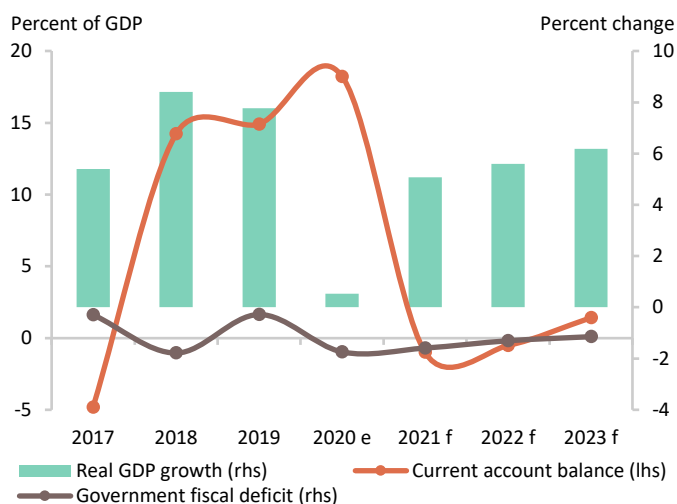
Poverty, while declining overall, remains another major problem. In 2017, an estimated 39 percent of the population lived below the lower-middle income poverty line (US\$3.2 per day) and 17 percent in extreme poverty (below the international poverty line of US\$1.9 per day). Heavy reliance on food imports is a key vulnerability for the country.

Recent developments

Djibouti's economy is estimated to grow by 5.1 percent in 2021, driven by a rebound of transport and logistics services demand from Ethiopia. The resumption of the Ethiopia-Djibouti railway activities - which connects Ethiopia to Djibouti Ports - that had been affected by the COVID-19 pandemic - were the main driver of the rebound. On a year-to-year basis, headline inflation recorded a moderate increase of 0.6 percent at the end of June 2021.

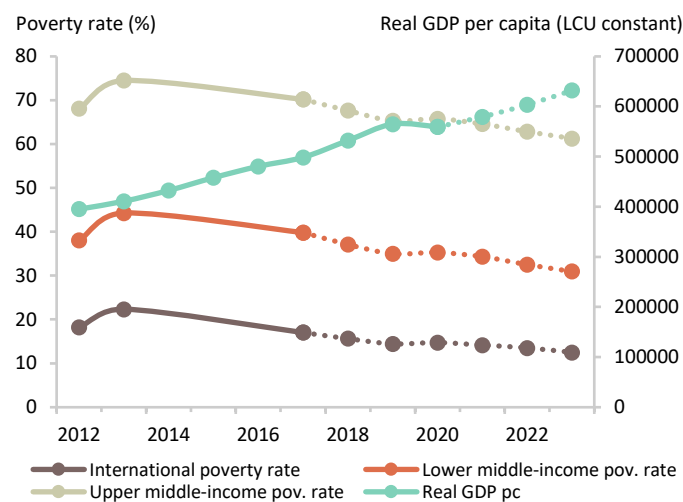
In line with the recovery, poverty which stood at 17 percent in 2017 at the \$1.90 per day poverty line, is expected to decline to around 14.1 percent in 2021, compared to 14.7 in 2020 and 14.4 in 2019. Indeed, recent

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.

phone surveys show a steady recovery in employment and food security indicators, among others. However, while preliminary employment data show a continuing recovery trend, some groups of the population remain affected— particularly those in the informal sector. Inequalities are also apparent as poorer households are less likely to get tested for COVID-19, raising potential concerns on equity in the road to recovery from the pandemic.

On the fiscal side, the overall deficit is expected to remain low at 1.6 percent of GDP in 2021. This is driven by a contraction in spending on goods and services and the government's measures to rationalize wages and salaries and capital expenditure. Revenues are also witnessing a 50 percent decline in grants, lower SOEs dividends compared to 2020 reflecting the lagged impact of Covid. The fiscal gap is projected to be covered by external financing, including from fiscal savings from the G20 Debt Service Suspension Initiative.

The current account surplus is expected to turn from a positive 11.6 percent of GDP to a negative 1 percent of GDP, as import of goods and services (mostly for infrastructure projects) growth is expected to outpace exports of goods. Rising FDI and

external public debt disbursements are expected to partially absorb the trade deficit resulting from high imports. Notwithstanding a decline by US\$65 million compared to December 2020, gross official reserves were estimated at US\$611.1 million (equivalent to 5.2 months of imports) at end-June 2021, and currency board coverage at 106 percent, above the minimum required.

Outlook

Despite the considerable uncertainty, the economic outlook remains positive. GDP growth is expected to reach 5.6 percent in 2022 and 6.2 percent in 2023. Key drivers will be the rebound of global trade that would drive re-exports and demand for Djibouti's transshipment and logistics. Construction and public works activities are also expected to drive growth, boosted by the ongoing and planned constructions, such as the redevelopment of the old port land into a business complex, the construction of a Ship Repair Yard and the development of the Damerjog Industrial free zone. The fiscal deficit is projected to

stay above 1 percent of GDP in 2022 and 2023 with an expected increase in capital expenditure (in line with the implementation of the second phase of the Vision 2035) and the announced additional targeted measures to support businesses and households, including a halving of the minimum flat-rate tax. After their decline in 2021, grants are expected to remain stable over 2022-2023. The current account will remain in deficit in 2022, reflecting a surge in capital goods imports for infrastructure projects. The main risks to the outlook remain the escalation of political and social tensions in Ethiopia and its spillover which could ignite tensions from its early 1990s civil war and disrupt the main rail and road freight transport corridor connecting Addis to Djibouti. The current projected GDP levels suggests that poverty should resume its downwards trend from 14.7 percent in 2020 to 12.5 percent in 2023, provided Djibouti's growth and job creation rates are both inclusive and equitable. Policy action may need to place particular attention to groups of the population, such as those in the informal sector, that are at risk of being left behind in the road to recovery from the pandemic.

TABLE 2 Djibouti / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	8.4	7.8	0.5	5.1	5.6	6.2
Private Consumption	4.8	5.0	-5.0	5.5	4.7	4.9
Government Consumption	1.9	-0.5	-2.1	-8.0	1.6	-0.7
Gross Fixed Capital Investment	-30.8	26.4	-37.2	7.1	7.9	11.3
Exports, Goods and Services	10.3	12.9	7.5	5.7	6.1	6.3
Imports, Goods and Services	-15.3	13.9	-0.5	5.0	6.1	6.1
Real GDP growth, at constant factor prices	8.8	7.2	0.5	5.1	5.6	6.2
Agriculture	15.3	0.7	3.5	3.5	3.5	3.5
Industry	45.3	9.4	2.0	5.0	8.2	8.2
Services	3.0	6.8	0.1	5.1	5.0	5.7
Inflation (Consumer Price Index)	-0.1	3.3	1.8	1.6	2.0	2.0
Current Account Balance (% of GDP)	14.2	28.9	11.6	-1.0	-0.5	1.4
Fiscal Balance (% of GDP)	-1.8	-0.3	-1.7	-1.6	-1.3	-1.1
Debt (% of GDP)	69.2	65.3	73.3	71.5	70.0	63.6
Primary Balance (% of GDP)	-0.6	0.9	-1.2	-0.7	0.0	0.1
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	15.6	14.4	14.7	14.1	13.5	12.5
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	37.1	35.0	35.3	34.3	32.5	31.0
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	67.7	65.3	65.8	64.6	62.8	61.3
GHG emissions growth (mtCO2e)	1.7	2.5	0.9	1.9	1.8	1.9
Energy related GHG emissions (% of total)	26.0	27.3	27.2	27.7	28.2	28.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.

(a) Calculations based on 2017-EDAM. Actual data: 2017. Nowcast: 2018-2020. Forecast are from 2021 to 2023.

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