

# DJIBOUTI

## Key conditions and challenges

**Table 1** 2020

|   |        |
|---|--------|
| Population, million                                   | 1.0    |
| GDP, current US\$ billion                             | 3.4    |
| GDP per capita, current US\$                          | 3425.5 |
| International poverty rate (\$ 19) <sup>a</sup>       | 17.0   |
| Lower middle-income poverty rate (\$3.2) <sup>a</sup> | 39.8   |
| National poverty rate <sup>a</sup>                    | 21.1   |
| Gini index <sup>a</sup>                               | 41.6   |
| School enrollment, primary (% gross) <sup>b</sup>     | 73.8   |
| Life expectancy at birth, years <sup>b</sup>          | 66.6   |

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

Notes:

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

(b) Most recent WDI value (2018).

*Djibouti's economy weathered the initial impact of the pandemic well, averting a contraction. Output expanded by 0.5 percent in 2020, driven by buoyant free zone re-exports and exports of transportation, logistics, and telecommunication services to and from Ethiopia in the latter half of the year. Yet, extreme poverty increased slightly to 14.7 percent in 2020. Djibouti's growth prospects, while favorable, depends critically on Ethiopia's political and economic conditions. High global food prices raise concern about Djibouti's food security.*

As a small state with a population of less than one million, Djibouti has leveraged its strategic location 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 including France, the United States and NATO. It also hosts refugees from Yemen and Somalia as well as asylum seekers from Ethiopia who are fleeing political crises and natural disasters.

Over the past decade, Djibouti economy grew rapidly by over 6 percent per year, on average, driven by externally-financed, large-scale investment in transport and port infrastructure, to make the most out of its strategic location and deep-water port to serve as key regional refueling, trade and transshipment center. The economic expansion of Ethiopia, the largest landlocked neighbor, has also fueled Djibouti's growth by stimulating trade and logistic activities, most notably through re-exports by Ethiopian companies in the free zones. However, the development strategy based on sizable investments 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 peak at about 72 percent in 2017. The country is assessed

at high risk of external debt distress. The repayment burden of its fast-maturing debts has limited the fiscal space for much-needed spending in social sectors.

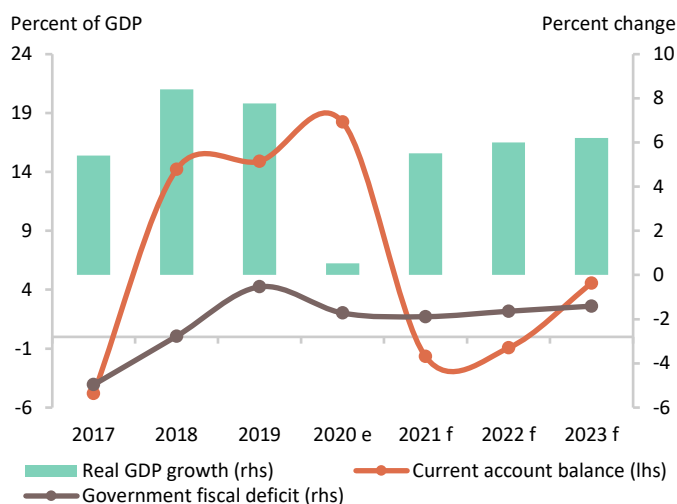
Rapid growth has allowed Djibouti to acquire a lower-middle income status, but poverty, while declining overall, remains a major problem. Due to its arid climatic conditions, Djibouti's agriculture sector has very limited potential to create employment and feed the population. In 2017, an estimated 39 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 weathered the Covid-19 crisis relatively well. Despite a sharp fall, GDP growth remained positive at 0.5 percent in 2020, as a recovery of key domestic market-oriented sectors (construction, trade and energy) and strong economic activity in Ethiopia boosted re-export activities and transportation and logistics services in the latter half of the year. Inflation remained low at 1.8 percent in 2020, down from 3.3 percent in 2019.

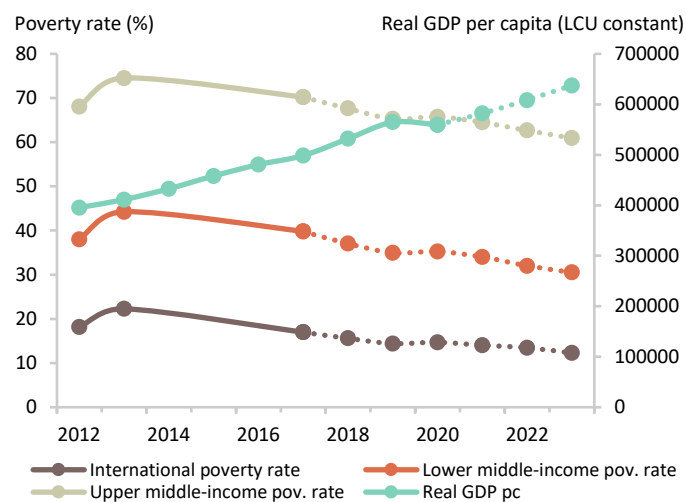
The fiscal deficit rose to an estimated 1.7 percent of GDP in 2020 from 0.5 percent in 2019. The deterioration of the fiscal position was less than initially expected. Although revenue declined, COVID-related

**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. Notes: see Table 2.

spending increases—hiring of doctors and other medical staff, food vouchers for vulnerable household and support to struggling firms—were more than compensated for by the delays in the execution of ongoing and new investment projects. The participation in the G-20 debt service suspension initiative (DSSI) has also provided Djibouti valuable fiscal space to absorb the fiscal impact of COVID-19. Revenue performance improved in the latter half of 2020, owing to buoyant customs and direct tax revenues. The lease of land used as military bases by foreign armed forces also provided a stable source of nontax revenue. The deficit was financed by concessional borrowing, pushing up public debt to 70 percent of GDP in 2020, from 66.9 percent in 2019.

The current account surplus, including the free zones, rose sharply, due to robust exports and a compression of imports, especially of capital goods. Strong foreign direct investment, IMF Rapid Credit Facility and other disbursing budget support increased reserves from 3.7 months of imports in 2019 to 4.6 months in 2020, resulting in the currency board arrangement coverage of 105 percent, well above the minimum required. The banking sector remained stable and sound and in ample liquidity with a solvency ratio of 14.2

percent in September 2020, a ratio of non-performing loans to gross loans down by more than 2 points compared to the previous year, and a provisioning rate of NPL of 78 percent.

The poverty rate increased modestly from 14.4 percent in 2019 to 14.7 percent (international poverty rate). In July 2020, phone surveys revealed that 19 percent of urban households' breadwinners had lost their jobs largely due to the pandemic. Nonetheless, subsequent surveys showed that employment has been trending back to its pre-COVID levels. The phone surveys also showed that 12 percent of the households are severely food insecure, while 27 percent are moderately insecure, according to the Household Food Insecurity Access Scale, and that poorer households contended with more severe food security challenges.

## Outlook

The medium-term outlook is positive. Output growth is set to reach 5.5 percent in 2021 and average 6.1 percent a year over 2022-23, as a recovery of global trade would drive re-exports and demand for Djibouti's transshipment, logistics, and

telecommunication services. The resumption of infrastructure projects, such as the construction of a ship repair yard, is also expected to support non-trade growth and create jobs, while further increasing Djibouti's competitive advantage as a regional trade and logistic hub in the medium run. The current account will likely slip into a deficit in 2021-22, reflecting a surge in capital goods imports for infrastructure projects. A return to fiscal consolidation is not expected in the near future, as the authorities recently announced additional targeted measures to support businesses and households, including a halving of the minimum flat-rate tax and tax exemptions to the ICT, transport and tourism sectors. The fiscal deficit would start narrowing in 2023, provided that the Covid-related fiscal measures are phased out.

There is considerable uncertainty surrounding the economic outlook. Given its heavy reliance on trade, Djibouti's economy is vulnerable to the global economic conditions. In particular, a potential economic and political deterioration in Ethiopia would have knock-on effects on Djibouti's growth. Given the country's reliance on food imports, persistently high global food prices are a cause of concern, as they were during the global financial crisis in 2008-09.

**TABLE 2 Djibouti / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

|   | 2018  | 2019 | 2020 e | 2021 f | 2022 f | 2023 f |
|---|-------|------|--------|--------|--------|--------|
| <b>Real GDP growth, at constant market prices</b>                         | 8.4   | 7.8  | 0.5    | 5.5    | 6.0    | 6.2    |
| Private Consumption   | 4.8   | 5.0  | -5.0   | 4.9    | 4.9    | 4.9    |
| Government Consumption  | 1.9   | -0.5 | -2.1   | -0.5   | 3.5    | -2.3   |
| Gross Fixed Capital Investment  | -30.8 | 26.4 | -37.2  | 3.9    | 2.9    | 12.1   |
| Exports, Goods and Services   | 10.3  | 12.9 | 7.5    | 5.5    | 6.0    | 6.0    |
| Imports, Goods and Services   | -15.3 | 13.9 | -0.5   | 4.8    | 5.5    | 5.5    |
| <b>Real GDP growth, at constant factor prices</b>                         | 8.8   | 7.2  | 0.5    | 5.5    | 6.0    | 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    | 5.6    | 5.5    | 5.8    |
| <b>Inflation (Consumer Price Index)</b>                                   | -0.1  | 3.3  | 1.8    | 2.0    | 2.0    | 2.0    |
| <b>Current Account Balance (% of GDP)</b>                                 | 14.2  | 14.9 | 18.2   | -1.7   | -0.9   | 4.5    |
| <b>Fiscal Balance (% of GDP)</b>  | -2.8  | -0.5 | -1.7   | -1.9   | -1.6   | -1.4   |
| <b>Debt (% of GDP)</b>  | 69.9  | 66.9 | 70.0   | 67.7   | 64.5   | 62.1   |
| <b>Primary Balance (% of GDP)</b>   | -1.6  | 0.8  | -0.4   | -0.4   | -0.1   | -0.1   |
| <b>International poverty rate (\$1.9 in 2011 PPP)<sup>a,b</sup></b>       | 15.6  | 14.4 | 14.7   | 14.0   | 13.5   | 12.3   |
| <b>Lower middle-income poverty rate (\$3.2 in 2011 PPP)<sup>a,b</sup></b> | 37.1  | 35.0 | 35.3   | 34.0   | 32.0   | 30.5   |
| <b>Upper middle-income poverty rate (\$5.5 in 2011 PPP)<sup>a,b</sup></b> | 67.7  | 65.3 | 65.8   | 64.5   | 62.7   | 61.0   |

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: 2018-2020. 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.