

**DJIBOUTI**



# ECONOMIC MONITOR

Navigating through  
the Pandemic and  
Regional Tensions

Winter 2021



**WORLD BANK GROUP**  
Middle East and North Africa Region



# Djibouti Economic Monitor

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and Regional Tensions

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# ABBREVIATIONS AND ACRONYMS

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AfDB	African Development Bank	IMF	International Monetary Fund
AGOA	The African Growth and Opportunity Act	INGO	International non-governmental organization
CBA	Currency Board Arrangement	INSTAD	Institut National de la Statistique de Djibouti
DCT	Doraleh Container Terminal	LCU	Local Currency Unit
DMP	Doraleh Multi-Purpose Port	MASS	Ministry of Social Affairs and Solidarity
DPCR	Agences Djiboutienne des Routes	MW	megawatt
DSSI	Debt Service Suspension Initiative	MWH	megawatt hour
DTS	Droit de tirage spécial	PIB	Produit Intérieur Brût
EDAM	Enquête Djiboutienne auprès des Ménages x pour les Indicateurs Sociaux	SDR	Special Drawing Rights
FDI	Foreign Direct Investment	SGTD	Société de Gestion du Terminal à conteneurs de Doraleh
FMI	Fonds Monétaire International	SOEs	State Owned Enterprises
GDP	Gross Domestic Product		
ILO	International Labour Organization		







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The recent macroeconomic developments (Chapter I) Macroeconomic Outlook and Risks (Chapter II) were prepared by Rick Emery Tsouck Ibounde. The Covid-19 impact on the labor market (Chapter III) was prepared by Bilal Malaeb (Poverty Economist, EMNPV) based on high-frequency data that the World Bank and the Institute of Statistics (INSTAD) of Djibouti produced in June, September, and December 2020, and March 2021.

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# EXECUTIVE SUMMARY

**S**everely impacted by the COVID-19 pandemic in 2020, Djibouti's economic activity has shown signs of recovery in 2021. GDP growth rate in 2020 dropped to a decade low of about 0.5 percent but rebounded in 2021 to a projected 5.1 percent. The recovery is mostly driven by a withdrawal of COVID-19 related lockdown measures in late 2020, which has facilitated a rebound in investment and construction. Broad containment of the virus and continued government support have also bolstered household consumption. It is worth noticing that the economic rebound was dampened by a fall in the Ethiopian demand for logistics services during the second half of 2021.

**Inflation has risen with international commodity prices.** Headline inflation has risen by 2.6 percent in October 2021 (year-on-year), and core inflation 3.2 percent because of several factors. These include the passthrough of higher global oil and food prices and factors which pushed up domestic prices, such as the strong demand-side pressures following real sector recovery in 2021, and periodic shortages of imported fresh products from Ethiopia.

**Public finances are under pressure.** The overall deficit of the central government is expected to remain low at 1.6 percent of GDP in 2021. This owes to measures such as the rationalization of wages and salaries, transfers to public agencies, and the expectation that higher dividends from companies operating in Ports and Free zones will partially offset the fall in tax revenues resulting from generous new

exemptions introduced in the 2021 Finance Act. Public and publicly-guaranteed debt, however, remains high, and again rose above 70 percent of GDP after falling slightly in 2018–2019. Djibouti is assessed at high risk of debt distress with unsustainable outlook. The 2020 Debt Service Suspension Initiative (DSSI), whereby Djibouti's debt service to official creditors were deferred, provided budget buffers to Djibouti in both 2020 and 2021.

**The current account will more likely swing to deficit.** The current account surplus is expected to turn from a positive 11.6 percent of GDP in 2020 to a negative 1 percent of GDP in 2021, as import growth of goods and services (mostly for infrastructure projects) is expected to outpace exports. The financial account is estimated to have recorded a net outflow after a US\$200 million bond emission by the local subsidiary of Bank of China to support a mining project in Central Africa. Nonetheless, thanks to the recent International Monetary Fund (IMF) Special Drawing Rights (SDRs) allocation (equivalent to US\$40 million transferred to Djibouti in August 2021), the currency board arrangement has avoided stress.

**Amid the covid-related recovery, the prolonged conflict in Ethiopia has increased downside risks for Djibouti's economic outlook.** The declaration of a six-month state of emergency in November 2021 by the Ethiopian federal government has delayed prospects of a peaceful short-term resolution of the conflict. A prolonged conflict in Ethiopia would affect railway and road corridors through

which most trade between Djibouti and Ethiopia takes place. It would deteriorate further Ethiopian's trade and growth in both the short and medium terms and have substantial spillover on Djibouti's economy. In light of the severe uncertainty regarding the neighboring conflict, this first edition of the *Djibouti Economic Monitor* considers two scenarios for the medium-term outlook: (1) a baseline scenario, whereby the conflict in Ethiopia is expected to find a peaceful solution within six months; and (2) a downside scenario, that assumes the conflict intensifies and lasts through December 2022. Economic activity is expected to rebound in 2023 with the end of the conflict.

**Based on our two scenarios of the conflict in Ethiopia, real GDP growth in Djibouti could hover between 4.3 and 2.7 percent in 2022** (baseline and downside scenarios, respectively). Under the baseline scenario, the overall fiscal deficit would widen to 2.7 percent of GDP in 2022 and 2.8 percent of GDP in 2023 mostly due to lower tax revenues and dividends from port-related SOEs. Under the downside scenario, the adverse effect of the prolonged conflict in Ethiopia on bilateral trade, security expenditure to secure borders, and rising social expenditure to support flows of refugees, would widen the overall fiscal deficit to 3.7 percent of GDP in 2022 and 3.6 percent of GDP in 2023.

**Djibouti has very limited fiscal buffers to face a prolonged crisis in Ethiopia, as the country is already at high risk of debt distress and has a narrow tax base.** Domestic revenue has fallen by 3 percent of GDP to about 18.7 percent of GDP in 2020, mostly because of rising and widespread tax expenditures (these represent at least 127 percent of tax revenue or 15 percent of GDP), non-tax

compliance behavior, and a large informal sector. On the debt side, liquidity tensions are likely to arise due to the payment of deferred debt service linked to the DSSI, the maturing of the two loans on the water pipeline project connecting Djibouti to Ethiopia loan in 2022, and the Addis Ababa-Djibouti railway project in 2025. An estimated financing gap resulting from the Ethiopian crisis would be US\$70.7 million in 2022 and US\$52.1 million in 2023 under the baseline scenario. Under the downside scenario, the financing gap is expected to increase to US\$91.3 million in 2022 and US\$72.4million in 2023. In such a context, the government would need to engage with its bilateral creditors to negotiate further debt restructurings and explore additional measures to strengthen domestic revenue mobilization, including by rationalizing tax exemptions and negotiating more favorable bilateral deals on rents paid by military bases.

**The pandemic severely and negatively impacted households overall, although some welfare indicators are trending upwards**—see Special Focus (Chapter 3). The Special Focus details the employment and welfare trends among urban households during the crisis and the recovery in Djibouti. The analysis is based on high-frequency data that the World Bank and the Institute of Statistics of Djibouti produced in June, September, and December 2020, and March 2021. It reveals that from a labor market and welfare perspective, the COVID-19 pandemic has taken a toll on households in Djibouti. Although, welfare indicators, including subjective wellbeing and food security, are on a positive trend, vulnerable and marginalized populations must receive special policy attention to build back better.



# RÉSUMÉ ANALYTIQUE

**G**ravement affectée par la pandémie de COVID-19 en 2020, l'activité économique de Djibouti s'est redressée en 2021.

La croissance du PIB en 2020 qui était tombée à 0,5 %, son plus bas niveau de la décennie, a vigoureusement rebondi en 2021, à environ 5,1 %. La reprise a été principalement tirée par le retrait des mesures de confinement liées à la COVID-19 en fin d'année 2020, qui a facilité un rebond de l'investissement et des activités de construction de bâtiments et d'infrastructures. Le soutien continu du gouvernement a également stimulé la consommation des ménages. Le rebond a cependant été atténué par une baisse de la demande éthiopienne de services logistiques au cours du second semestre 2021.

**L'inflation a augmenté avec les prix internationaux des matières premières.** L'inflation globale a observé une hausse de 2,6 % en octobre 2021 (en glissement annuel) et l'inflation sous-jacente de 3,2 % en raison de plusieurs facteurs. Il s'agit notamment de la répercussion des prix mondiaux du pétrole et des denrées alimentaires plus élevés et des facteurs qui font monter les prix intérieurs, tels que les fortes pressions du côté de la demande à la suite de la reprise du secteur réel en 2021, et les pénuries périodiques d'importations de produits frais d'Éthiopie.

**Les finances publiques sont sous pression.** Le déficit global de l'administration centrale devrait rester faible à 1,6 % du PIB en 2021. Ce serait le résultat des mesures de rationalisation des salaires et traitements et des transferts aux établissements

publics qui devraient partiellement compenser la baisse attendue des recettes fiscales résultant de nouvelles exonérations généreuses introduites dans la loi de finances 2021. La dette publique et garantie par l'État reste cependant élevée et a dépassé 70 % du PIB après avoir légèrement diminué en 2018-2019. Djibouti est évalué pays à risque élevé de surendettement avec des perspectives non soutenables. L'initiative de suspension du service de la dette (ISSD) du G20, par laquelle, le service de la dette de Djibouti aux créanciers officiels a été différé, a fourni des liquidités et des marges budgétaires à Djibouti en 2020 et 2021.

**Le compte courant devrait devenir déficitaire.** La balance courante devrait passer d'un excédent de 11,6 % du PIB à un déficit de 1 % du PIB, car la croissance des importations de biens et services (principalement pour les projets d'infrastructure) devrait surpasser celle des exportations. Le compte financier aurait enregistré une sortie nette après une émission obligataire de 200 millions de dollars par la filiale locale de Bank of China pour soutenir un projet minier en Afrique centrale. Néanmoins, grâce à la récente allocation de DTS du FMI (équivalent à 40 millions de dollars américains transférés à Djibouti en août 2021), le système de caisse d'émission a évité des tensions.

**En pleine reprise post Covid-19, le conflit en Éthiopie a considérablement accru les risques de détérioration des perspectives économiques de Djibouti.** La déclaration de l'état d'urgence de six mois en novembre 2021 par le gouvernement fédéral

éthiopien a assombri les perspectives d'un règlement pacifique à court terme du conflit. Un conflit prolongé en Éthiopie affecterait les corridors ferroviaires et routiers par lesquels la plupart des échanges commerciaux entre Djibouti et l'Éthiopie ont lieu. Cela détériorerait davantage le commerce et la Croissance de l'Éthiopie à court et à moyen terme et aurait des retombées importantes sur l'économie djiboutienne.

Compte tenu de l'incertitude extrême entourant le conflit voisin, cette première édition du Bulletin de conjoncture de la Banque mondiale pour Djibouti envisage deux scénarios pour les perspectives à moyen terme : (1) un scénario de référence, dans lequel le conflit en Éthiopie devrait trouver une solution pacifique au cours des six premiers mois de 2022 ; et (2) un scénario pessimiste, qui suppose que le conflit s'intensifie et dure jusqu'en décembre 2022. L'activité économique devrait rebondir en 2023 avec la fin du conflit.

**Sur la base de nos deux scénarios du conflit en Éthiopie, la croissance du PIB réel à Djibouti pourrait osciller entre 4,3 et 2,7 pour cent en 2022 (respectivement scénarios de référence et pessimiste).** Dans le scénario de référence, le déficit budgétaire global se creuserait pour atteindre 2,7 % du PIB en 2022 et 2,1 % du PIB en 2023, principalement en raison de la baisse des recettes fiscales et des dividendes des entreprises publiques liées aux ports. Dans le scénario pessimiste, l'effet négatif du conflit prolongé en Éthiopie sur le commerce bilatéral, les dépenses de sécurité pour sécuriser les frontières et l'augmentation des dépenses sociales pour soutenir les flux de réfugiés, creuseraient le déficit budgétaire global à 3,2 % du PIB en 2022 et à 2,6 % du PIB en 2023.

**Djibouti dispose de marges budgétaires très limitées pour faire face à une crise prolongée en Éthiopie.** Le pays court déjà un risque élevé de surendettement et dispose d'une assiette fiscale étroite. Les recettes fiscales sont inférieures au potentiel et sont passées de 14 % du PIB en 2015 à 10,7 % du PIB en 2020, principalement en raison de

l'augmentation et de l'ampleur des dépenses fiscales (celles-ci représentent 127 % des recettes fiscales ou 15 % du PIB), un taux de recouvrement faible et un vaste secteur informel. Du côté de la dette, des tensions de liquidité sont susceptibles de survenir en raison du paiement du service de la dette différé lié à l'Initiative de suspension du service de la dette (ISSD, du début de l'amortissement du prêt pour le pipeline d'eau reliant Djibouti à l'Éthiopie en 2022 et du prêt pour le chemin de fer Addis-Abeba-Djibouti en 2025. Le gap de financement estimé résultant de la crise éthiopienne serait de 70,7 millions de dollars US en 2022 et de 52,1 millions de dollars US en 2023 dans le scénario de référence. Dans le scénario pessimiste, le gap budgétaire devrait être de 91,3 millions de dollars US en 2022 et de 72,4 millions de dollars US en 2023. Dans un tel contexte, le gouvernement devrait engager des négociations avec ses créanciers bilatéraux pour de nouvelles restructurations de dette et explorer des mesures supplémentaires pour renforcer la mobilisation des recettes intérieures, notamment en rationalisant les exonérations fiscales et en négociant des accords bilatéraux plus favorables sur les loyers payés par les bases militaires.

**La pandémie de Covid-19 a gravement affecté les ménages dans l'ensemble, bien que certains indicateurs de bien-être aient tendance à s'améliorer — voir chapitre spécial (chapitre 3).** Le chapitre spécial détaille les tendances de l'emploi et du bien-être des ménages urbains pendant la crise et la reprise à Djibouti. L'analyse est basée sur des données à haute fréquence que la Banque mondiale et l'Institut National de la Statistique de Djibouti (INSTAD) ont produites en juin, septembre et décembre 2020 et mars 2021. Elle révèle que du point de vue du marché du travail et du bien-être, la pandémie de COVID-19 a fait des ravages dans les ménages à Djibouti. Bien que les indicateurs de bien-être, y compris le bien-être subjectif et la sécurité alimentaire, soient sur une tendance positive, les populations vulnérables et marginalisées devraient faire l'objet d'une attention politique particulière.

# الموجز التنفيذي

**ت**أثرت جيبوتي بشدة بجائحة كوفيد-19- في عام 2020، وتعاثى النشاط الاقتصادي في جيبوتي في عام 2021. إذ انخفض معدل نمو الناتج المحلي الإجمالي في عام 2020 إلى أدنى مستوياته خلال عقد من الزمن بنحو 0.5%، لكنه انتعش بشدة في عام 2021 ليلعب نسبة 5.1% المتوقعة. ويرجع الانتعاش أساساً إلى إلغاء إجراءات الإغلاق المتعلقة بالكوفيد في أواخر عام 2020، مما سهل انتعاش الاستثمار والبناء. وقد أدى الاحتواء واسع النطاق للفيروس والدعم الحكومي المستمر إلى تعزيز استهلاك الأسر المعيشية. وتجدر الإشارة إلى أن الانتعاش الاقتصادي قد تضاعف بسبب انخفاض الطلب الإثيوبي على الخدمات اللوجستية خلال النصف الثاني من عام 2021.

ارتفع التضخم مع ارتفاع أسعار السلع الأساسية. ارتفع معدل التضخم العام بنسبة 2.6% في أكتوبر 2021 (على أساس سنوي)، وارتفع التضخم الأساسي بنسبة 3.2% بسبب عدة عوامل. وتشمل تلك العوامل تأثير الأسعار المحلية لارتفاعات أسعار النفط والغذاء العالمية، بالإضافة إلى عوامل أخرى مثل الضغوط القوية من جانب الطلب في أعقاب انتعاش القطاع الحقيقي في عام 2021، والنقص الدوري في واردات المنتجات الطازجة من إثيوبيا.

المالية العامة تعاني من ضغوط. من المتوقع أن يظل العجز الإجمالي للحكومة المركزية منخفضاً عند 1.6 في المائة من الناتج المحلي الإجمالي في عام 2021. ويرجع ذلك إلى تدابير مثل ترشيد الأجور والرواتب، والتحويلات إلى الشركات المملوكة للدولة، وتوقع أن تتمكن الجهات الحكومية من تعويض الانخفاض في الإيرادات الضريبية الناتجة عن الإعفاءات الجديدة السخية التي تم إدراجها في مشروع قانون المالية لعام 2021. ومع ذلك، لا يزال الدين العام، والدين المكفول، للقطاع العام مرتفعاً، وارتفع مرة أخرى فوق 70 في المائة من الناتج المحلي الإجمالي بعد انخفاض طفيف في الفترة 2018-2019، الأمر الذي جعل من قدرة جيبوتي على تحمل ديون جديدة ضعيفة. وقد وفرت مبادرة تعليق خدمة الدين لعام 2020، التي تم بموجبها تأجيل مدفوعات سعر الفائدة الخاصة بجيبوتي للدائنين الرسميين، بعض السيولة والموازنات الوقائية لعامي 2020 و2021.

الحساب الجاري سوف يتأرجح إلى العجز. من المتوقع أن يتحول فائض الحساب الجاري من نسبة إيجابية تبلغ 11.6 في المائة من إجمالي الناتج المحلي في عام 2020 إلى نسبة سالبة تبلغ 1 في المائة من إجمالي الناتج المحلي في عام 2021، حيث من المتوقع أن يتجاوز نمو واردات السلع والخدمات (معظمها خاصة بمشاريع البنية التحتية) نمو الصادرات. وتشير التقديرات إلى أن الحساب المالي قد سجل تدفقات خارجية صافية بعد إصدار سندات بقيمة 200 مليون دولار أمريكي من قبل فرع محلي لبنك الصين لدعم مشروع تعدين في وسط إفريقيا. ومع ذلك، وبفضل التخصيص الأخير من صندوق النقد الدولي الخاص بحقوق السحب الخاصة (ما يعادل 40 مليون دولار أمريكي تم تحويلهم إلى جيبوتي في أغسطس 2021)، لم يعاني مجلس العملة من أي الضغوط.

وفي خضم الانتعاش الكبير المرتبط بفيروس كورونا، أدى التصعيد المفاجئ للصراع في إثيوبيا إلى زيادة المخاطر السلبية للتوقعات الاقتصادية لجيبوتي. كما أدى إعلان حالة الطوارئ لمدة ستة أشهر في نوفمبر 2021 من قبل الحكومة الفيدرالية الإثيوبية إلى تأخير فرص التوصل إلى حل سلمي على المدى القصير. وسيؤثر النزاع المطول في إثيوبيا على السكك الحديدية وممرات الطرق التي تتم من خلالها معظم التجارة بين جيبوتي وإثيوبيا. وسيؤدي ذلك إلى مزيد من التدهور في تجارة إثيوبيا ونموها على المديين القصير والمتوسط، كما سيكون له تأثير كبير على اقتصاد جيبوتي. وفي ضوء حالة عدم اليقين الشديدة فيما يتعلق بالصراع في الدولة المجاورة، تتناول هذه النسخة الأولى من المرصد الاقتصادي لجيبوتي سيناريوين للتوقعات متوسطة الأجل: (1) سيناريو الأساس، حيث من المتوقع أن يجد الصراع في إثيوبيا حلاً سلمياً في غضون ستة أشهر؛ و (2) سيناريو سلبي، يفترض أن الصراع يشد ويستمر حتى ديسمبر 2022، ومن المتوقع أن ينتعش النشاط الاقتصادي في عام 2023 بنهاية الصراع.

استناداً إلى هذين السيناريوهين الخاصين بالصراع في إثيوبيا، يمكن أن يتراوح نمو إجمالي الناتج المحلي الحقيقي في جيبوتي بين 4.3 و2.7 في المائة في عام 2022 (سيناريوهان الأساس والسلبي، على التوالي). ووفقاً

من القرض الخاص بخط أنابيب المياه الذي يربط جيبوتي وإثيوبيا في عام 2022، وقرض السكك الحديدية بين أديس أبابا وجيبوتي في عام 2025. وستبلغ فجوة التمويل المقدرة الناتجة عن الأزمة الإثيوبية 70.7 مليون دولار أمريكي في عام 2022 و52.1 مليون دولار أمريكي في عام 2023 وفقاً لسيناريو الأساس. أما في ظل السيناريو السلبي، فإنه من المتوقع أن تبلغ فجوة التمويل 91.3 مليون دولار أمريكي عام 2022 و72.4 مليون دولار أمريكي في عام 2023.

أثرت الجائحة بشدة وبصورة سلبية على معيشة الأسر بشكل عام، على الرغم من بدء ارتفاع مؤشرات الرفاهية — انظر الى الفصل الخاص في التقرير (الفصل 3). ويركز الفصل الخاص على تفاصيل اتجاهات العمالة والرفاهية بين الأسر الحضرية خلال فترتي أزمة جائحة كورونا والانتعاش في جيبوتي. ويعتمد التحليل على البيانات كثيرة التواتر التي أصدرها البنك الدولي ومعهد الإحصاء في جيبوتي في شهر يونيو وسبتمبر وديسمبر 2020 ومارس 2021. ويكشف أنه من منظور سوق العمل والرفاهية، فإن جائحة كوفيد-19 أثرت على الأسر المعيشية في جيبوتي. وعلى الرغم من أن مؤشرات الرفاهية، بما في ذلك الرفاهية الذاتية والأمن الغذائي، تميل إلى الاتجاه الإيجابي، يجب أن يتلقى السكان الضعفاء والمهمشين اهتماماً خاصاً في السياسات لإعادة البناء بشكل أفضل.

للسيناريو الأساس، ستزداد نسبة العجز المالي الكلي إلى 2.7% من إجمالي الناتج المحلي في عام 2022 و2.8% من إجمالي الناتج المحلي في عام 2023 بسبب انخفاض الإيرادات الضريبية والعائدات من الشركات المملوكة للدولة ذات الصلة بالموائن. وفي ظل سيناريو السلبي، فإن التأثير السلبي للنزاع طويل الأمد في إثيوبيا على التجارة الثنائية، والإنفاق الأمني لتأمين الحدود، وزيادة الإنفاق الاجتماعي لدعم تدفقات اللاجئين، من شأنه أن يزيد من العجز المالي الكلي ليبلغ 3.7 في المائة من الناتج المحلي الإجمالي في عام 2022 و3.6 في المائة من الناتج المحلي الإجمالي في عام 2023.

جيبوتي لديها هوامش أمان مالي محدودة للغاية لمواجهة أزمة طويلة الأمد في إثيوبيا، حيث أن البلاد معرضة بالفعل لخطر كبير من ضائقة الديون ولديها قاعدة ضريبية ضيقة. فقد انخفضت الإيرادات المحلية بنسبة 3 في المائة من إجمالي الناتج المحلي إلى حوالي 18.7 في المائة من إجمالي الناتج المحلي في عام 2020، ويرجع ذلك في الغالب إلى ارتفاع النفقات الضريبية (تمثل هذه النفقات 127 في المائة على الأقل من الإيرادات الضريبية أو 15 في المائة من إجمالي الناتج المحلي)، وسلوك عدم الامتثال الضريبي، وكبر حجم القطاع غير الرسمي. ومن المرجح أنه فيما يتعلق بالديون قد تنشأ مشكلات خاصة بالسيولة بسبب تأجيل سداد خدمة الديون المرتبطة بمبادرة تعليق خدمة الدين، واستحقاق كل



# INTRODUCTION

**This first edition of the *Djibouti Economic Monitor* (DEM) launches a program of reports with semi-annual frequency that analyze the trends and constraints to Djibouti's development.**

Each issue will provide an update of recent economic developments (Chapter 1) and present the outlook as forecast by World Bank Staff together with key risks surrounding the outlook (Chapter 2). In addition, the DEM will also include a Special Focus section where we will delve in more depth on a topic of interest to the public. The Special Focus of the first issue of the DEM discusses the impact of the COVID-19 on the labor market and household welfare (Chapter 3).

**The DEM aims to share information and stimulate debate among those interested in improving the economic management of Djibouti.**

It aims to do so in a way that is accessible to non-specialists to be helpful to a wide range of stakeholders. It offers another voice on economic issues in Djibouti and an additional platform for engagement, learning, and exchange.

**In the decade before the COVID-19 pandemic, Djibouti's economy was growing rapidly by over 6 percent per year on average, driven by externally financed, large-scale investment in transport and port infrastructure.** These investments aimed to make the most out of the country's strategic location

and deep-water port to serve as a key regional refueling, trade and transshipment center. Nonetheless, this development strategy 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 72 percent in 2017. The repayment burden of its fast-maturing debts has constrained the fiscal space for much needed spending in social sectors.

**Public finances remain under pressure.** The overall fiscal deficit widened to 1.6 percent of GDP in 2021 up from 0.5 percent in 2019. The participation in the G-20 debt service suspension initiative (DSSI) has provided Djibouti invaluable fiscal space to absorb the fiscal impact of COVID-19 in 2020 and 2021<sup>1</sup>. However, with the payment of the deferred debt service, the beginning of the amortization of the Djibouti-Ethiopia water pipeline, and railway loans in 2022 and 2025, respectively, the country will be confronted with substantial fiscal pressures from 2022 onwards. A protraction of the conflict in Ethiopia represents one of the major risks to Djibouti's medium-term outlook.

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<sup>1</sup> The authorities have reported that they have realized about US\$40 million (1.2 percent of GDP) of fiscal savings in 2020 and US\$23 million (0.7 percent of GDP) from January to March 2021.



# RECENT ECONOMIC DEVELOPMENTS

## Real Sector

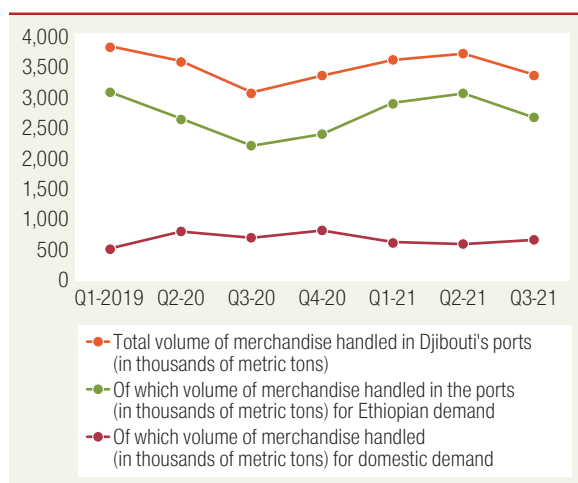
**Djibouti's economic activity recovered in 2021 after having been disrupted in 2020 by the COVID-19 pandemic.** GDP growth is estimated to have grown by about 5 percent in 2021 compared to 0.5 percent in 2020. High frequency data available at the end of September 2021 show that the recovery is driven by a withdrawal of Covid-related lockdown measures in late 2020, which has facilitated a rebound in investment and construction and triggered a broad-based growth in the domestically oriented sector. Construction output, in particular, is estimated to have expanded by 22 percent year-on-year at the end of September 2021. This performance is attributable to the resumption of major public works, including key structuring projects of the Djibouti Ports and Free Zones Authority (APZF). These projects include the transformation of the old port into a shopping center, preparatory works for the construction of the shipyard repair factory, and the development of Damerjog Industrial Development Free Trade Zone (DDID FTZ). The telecommunication and the electricity sectors rebounded as the number of GSM subscribers and

electricity consumption grew by 15 percent and 8 percent, respectively, over the first half of 2021. The hotel sector occupation rate increased by 18 percent over the same period. In the agriculture sector, the number of exported cattle increased by 70 percent after having contracted by 44 percent in 2020, following the easing of COVID-19 restrictions in Gulf Cooperation Council countries, the main destination of Djibouti's cattle.

**The economic rebound was dampened by a fall in the Ethiopian demand for logistics during the second half of 2021.** The cumulative throughput volume of merchandise processed at the entrance to Djibouti's ports for the Ethiopian demand (80 percent of the total volume) that had been rebounding from the fourth quarter of 2020 to the second quarter of 2021 declined precipitously in the third quarter of 2021, reflecting the spillover of the Ethiopian conflict.

As shown in figures 1.2 and 1.3, the decline in Ethiopian demand is particularly noticeable through the drop in the volumes of containers and hydrocarbon bulk cargo handled by Djibouti's ports, which is estimated to have fallen by 19 percent and 12 percent in 2021 compared to 2020, respectively.

**FIGURE 1.1** • The Volume of Merchandise Handled by Djibouti's Ports for the Ethiopian Demand Fell in the Second Half of 2021



Source: Djibouti Ports and free zones authority (DPFZ) and World bank staff calculations.

Overall, the services sector is estimated to remain the largest contributor to GDP in 2021 with 3.8 percentage points (figure 1.3). Industry contributed 0.9 percentage points from a rebound in construction, up from 0.3 recorded in 2020. The agriculture sector's (less than 2 percent of GDP) contribution to GDP remained stable at 0.04 percentage points.

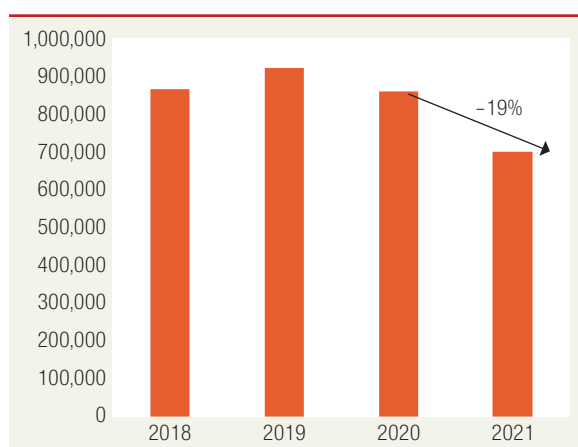
On the demand side (figure 1.4), private consumption became the largest contributor to GDP after a plunge in 2020, thanks to Government stimulus measures in the second half of the year and throughout 2021 (figure 1.4). Additional COVID-19 recovery measures under the 2021 budget also supported the rebound of private consumption. These include cash transfers and food distributions, and financial support granted to micro-small and medium-sized enterprises and the informal sector.

## Inflation

**Inflation has risen pushed by international commodity prices and supply chain disruptions.**

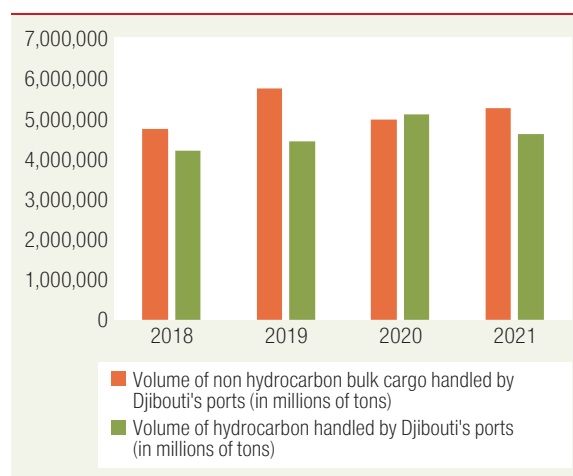
Year-on-year headline inflation rose by 2.6 percent in October 2021 with a 3.2 percent increase in core inflation while fresh food (+0.5 percent) and energy (+0.8 percent) prices grew moderately over the same period. The uptick in headline inflation observed from June to October 2021, after a continuous decrease between the end of 2019 and June 2021, resulted from a combination of several factors: (i) the passthrough of higher global oil and food prices (oil and food represent 40 percent of Djibouti's imports in value; (ii) higher demand-side pressure following real sector recovery; and (iii) periodic shortages in imports

**FIGURE 1.2** • The Volume of Containers Processed by Djibouti's Ports Fell by 19 Percent in 2021...



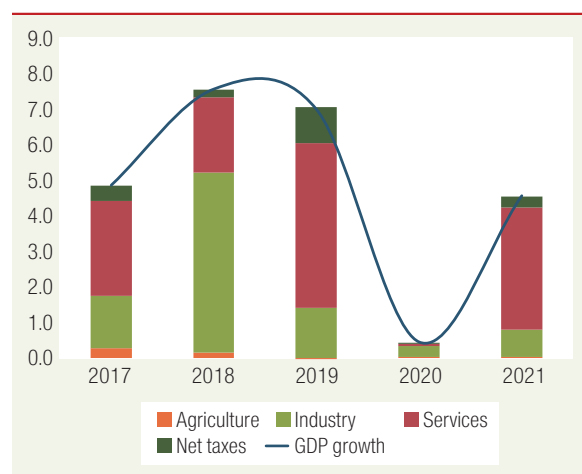
Source: Djibouti Ports and Free Zones authority (DPFZ) and World bank staff calculations.

**FIGURE 1.3** • ...as Well as the Volume of Bulk Hydrocarbon



Source: Djibouti Ports and Free Zones authority (DPFZ) and World bank staff calculations.

**FIGURE 1.4 • Domestic Services Sector Drove the Recovery**



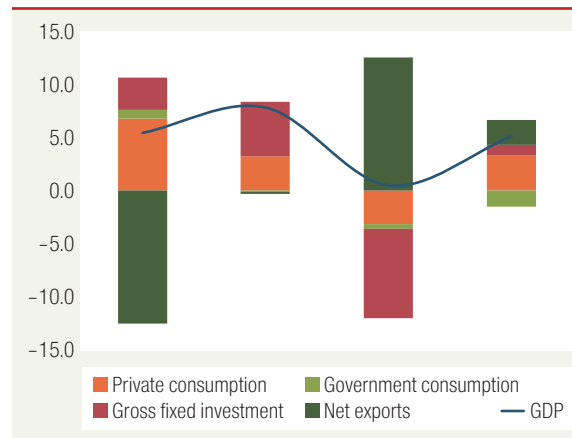
Source: Authors' calculation and projections based on data from National authorities.

of fresh products from Ethiopia. The volatility of fresh food prices, mostly imported from Ethiopia, reflects structural constraints to trade along the Djibouti-Ethiopia corridors and inherent to the Ethiopian agriculture value chain (e.g., lack of availability and accessibility of storage and packaging infrastructure, climatic hazards, plant diseases, price volatility, and lack of guarantees for farmers).

## Fiscal Developments

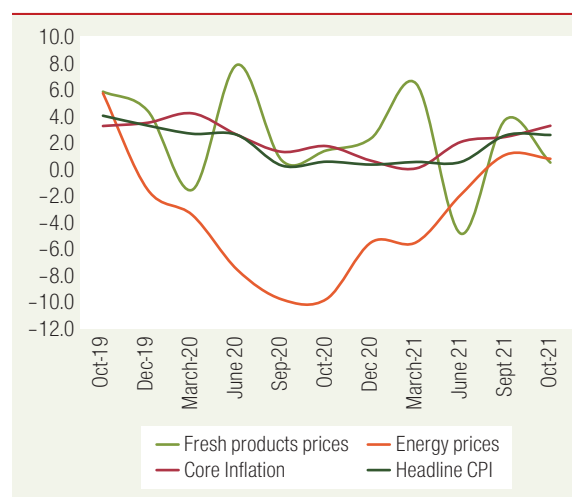
**Revenues are under pressure.** As of July 31, 2021, total nominal revenue including grants increased by only 0.2 percentage points compared to the same period last year, as higher dividends from companies operating in Ports and Free zones, transferred to the central government's budget, partially offset the drop in grants. These declined by 50 percent in nominal terms, reflecting some reduction in the funds made available by the international community in response to COVID-19. Tax revenue remained sluggish at 5.9 percent of GDP during the same period, mainly due to the introduction of additional tax expenditure measures related to PPP projects and some reductions in the surtaxes on Khat and petroleum products introduced in the 2021 Finance Act. Overall, total revenue is estimated to have

**FIGURE 1.5 • Private Consumption Became the Largest Contributor to Growth in 2021**



Source: Authors' calculation and projections based on data from National authorities.

**FIGURE 1.6 • Year-on-Year Headline Inflation Is Driven by Domestic and Global Recovery**



Source: INSTAD and WB staff calculations.

declined by 0.5 percentage points by the end of 2021.

**Authorities have put forward an encouraging set of measures to rationalize public expenditures.** Despite increases in nominal terms for both current and capital expenditures, the ratio of total expenditure to GDP is estimated to have declined in 2021 driven by the launch of government's measures

**TABLE 1.1 • Summary Government Fiscal Situation in 2020-2021 (in % of GDP)**

	2020	2021 Budget	July-2020 <sup>a</sup>	July-2021 <sup>a</sup>	2021 <sup>b</sup> Proj.
Overall Balance	-1.7	-1.3	-2.0	-1.1	-1.6
Primary Balance	-1.2	-0.8	-1.5	-1.1	-0.7
Total Revenues and Grants	21.4	20.7	10.4	10.6	18.7
Tax Revenues	10.7	11.5	5.9	5.9	11.0
Non-Tax revenues	6.7	6.3	4.1	4.2	6.0
Grants	3.9	2.8	0.7	0.5	1.7
Expenditures	23.1	22.0	12.2	11.8	20.3
Current Expenditures	14.6	14.3	9.2	9.1	13.7
Wages and Compensation	6.1	6.0	3.5	3.5	5.5
Goods and Services	4.8	4.6	3.5	3.7	4.4
Interest Payments	0.6	0.5	0.5	0.1	0.9
Current Transfers	3.1	3.1	1.8	1.8	3.0
Capital Expenditures	5.8	7.0	2.2	2.3	5.9
Government Financing	2.1	1.6	1.5	0.5	1.8
External (Net)	4.6	2.0	2.2	0.7	2.2
Domestic (Net)	-2.5	-0.5	-0.7	-0.3	-0.4

Source: INSTAD and WB staff calculations.

<sup>a</sup> Cumulative budget performance from January to July each year.

<sup>b</sup> World Bank staff projections.

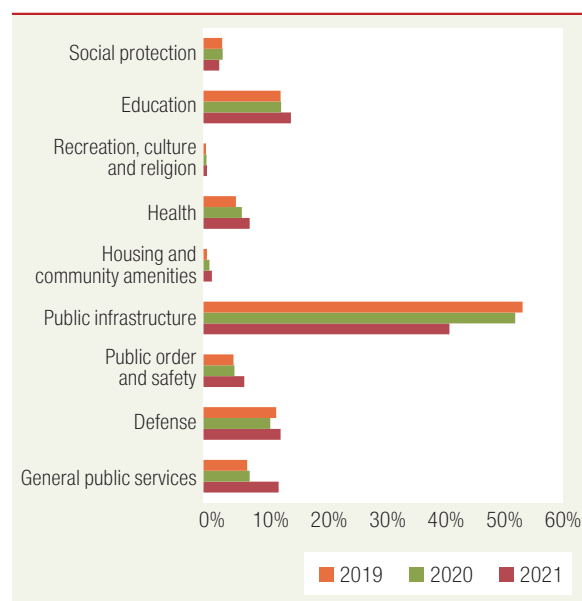
to reduce fiscal subsidies to Public agencies, currently estimated at 2 percent of GDP, as well as to merge some key public agencies (Etablissements Publics Administratifs – EPA) and transfer some other's administrative functions to the central government. These measures are expected to be complemented by the revision of special civil servants' status and harmonization of the salary indexes.

**As part of the pandemic response reprioritization efforts, public expenditure was redirected from infrastructure to health.** Capital and operating costs for public infrastructure remain the largest component of expenditure at 41 percent of the total budget in 2021, but this is significantly less than the 52 percent recorded in the 2020 budget. The education sector (including basic education, vocational training, higher education, and research), accounts for 15 percent of budget allocations, while defense and general public services each represent about 13 percent. Allo-

cations to the health sector increased to 8 percent in the 2021 budget (6 percent in 2020) mainly due to the purchase of equipment for the COVID-19 pandemic response. The increase in Health allocations over the past six years has mainly focused on construction, equipment, and human resources. There is a need in the future to improve access to care of the poorest populations, equity in the allocation of resources and good governance of the health system.

**On balance, the fiscal deficit remains modest.** The overall deficit is estimated to remain low at 1.6 percent of GDP in 2021. The fiscal gap is projected to be covered by external financing from bilateral and multilateral donors. Fiscal savings resulting from the G20's Debt Service Suspension Initiative (DSSI – estimated at US\$57.7 million or 1.6 percent of GDP in 2021) has substantially contributed to reduce the financing need thus making it easier to finance the deficit.

**FIGURE 1.7 • Public Infrastructure Remained the Largest Budget Component in 2021**



Source: 2021 Finance Bill and WB staff calculations.

## Public Debt

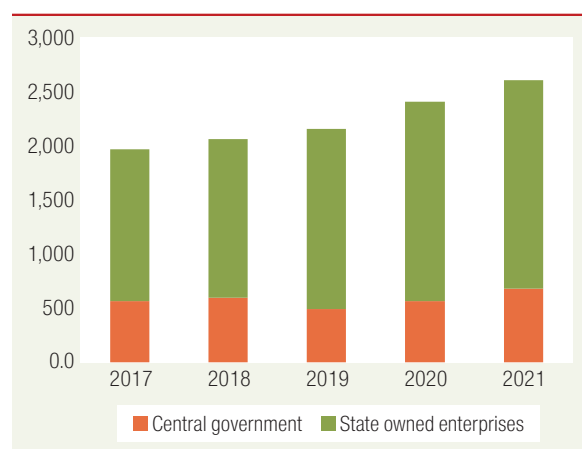
**Public debt edges up again.** Djibouti's public and publicly guaranteed debt (PPG) is estimated to reach 71.4 percent of GDP at end-December 2021, mostly due to new financing from bilateral partners and international financial institutions to support the 2nd National Development Plan "Djibouti ICI<sup>2</sup>"

2020–2024. The high stock of public debt is mainly a result of previously contracted non-concessional loans by SOEs (port, railway, and water companies). While the external debt-to-GDP ratio was on a downward trend from 71.5 percent of GDP in 2017 to 64.4 percent in 2019, it rebounded to 71 percent in 2020, mostly due to external financing to support the COVID-19 response and the contraction of GDP. The composition of Djibouti's public debt has remained relatively stable with external debt representing over 70 percent of total public debt. Bilateral public debt represents 72 percent of total outstanding public debt while multilateral debt is at 26 percent.

**Djibouti is assessed as at high risk of debt distress with unsustainable outlook because of its continued high level of SOE debt, projected narrow tax base and weak GDP growth.** Prompt and strong measures are required to improve debt sustainability, including reducing the pace of SOE borrowing, reforming SOE sector governance, prioritizing concessional financing, reducing the cost of electricity and telecommunications to attract more foreign direct investments(FDI), and rationalizing the plethora of tax incentives.

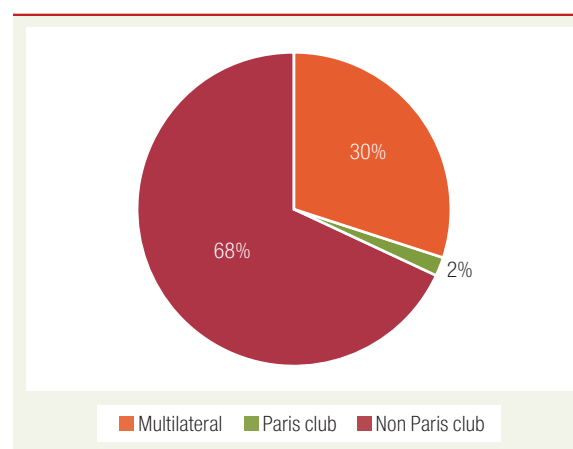
<sup>2</sup> The 2nd National Development Plan is articulated around three pillars : (i) Inclusion, (ii) Connectivity and (iii) Institutions.

**FIGURE 1.8 • On-Lending to SOEs Is Driving Up Public Debt**



Source: Department of Public Debt and WB staff calculations.

**FIGURE 1.9 • Two Thirds of Djibouti's Public Debt Is Owed to Bilateral Creditors**



Source: Department of Public Debt and WB staff calculations.

## Monetary Sector

**Monetary policy is determined by a currency board arrangement (CBA) that was set up in 1949.** Under the CBA, the national currency, the Djibouti franc, is pegged to the US dollar through a fixed exchange rate. Djibouti does not have a quantitative-based nominal anchor of its monetary policy. In this context, the role of the Central Bank is focused on ensuring that its monetary supply is adequately backed up with foreign currency reserves and monitoring of banks' liquidity risks and the strengthening of their liquidity risk controls and management.

**International support in response to the pandemic has helped to maintain strong reserve coverage under the currency board arrangement (CBA).** At the end of September 2021, Net foreign assets increased by 23 percent compared to September 2020. Net foreign Assets were boosted by IMF Rapid Credit Facility and AfDB disbursing budget support in the second half of 2020 and by a US\$40 million SDR allocation from the IMF to support the global recovery from the COVID-19 crisis in August 2021. The IMF SDR allocation drove up the CBA coverage of imports to 109 percent (5.4 months of imports), the highest level reached since June 2017.

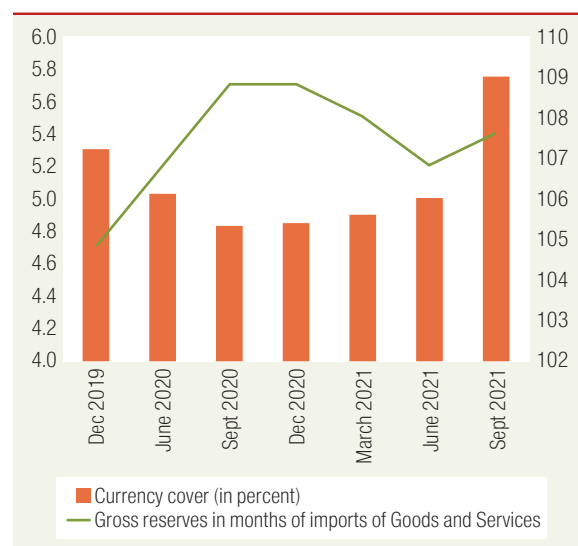
### Strong credit growth and sound banks.

Private sector credit grew by about 3 percent between December 2020 and July 2021, as household credit growth remained at a standstill and trade finance remained weak. Credit to state-owned enterprises, however, grew by 24 percent over the same period, however, boosted by the rebound in the construction and commerce sectors. The banking sector remained stable and sound with ample liquidity and a solvency ratio exceeding 15 percent in September 2021, nonperforming loans to gross loans down by more than 2 percentage points compared to the previous year, and a provisioning rate of NPL of 78 percent.

## External Sector

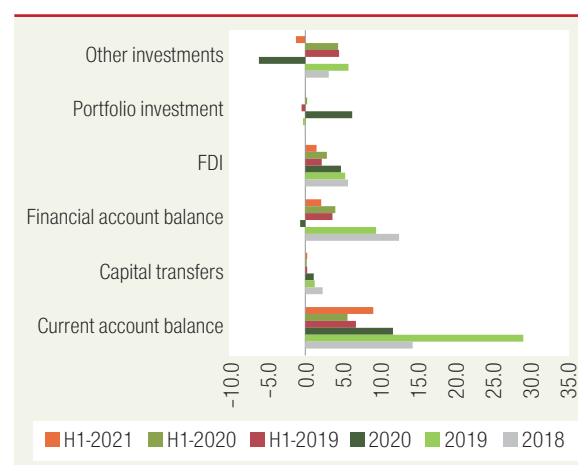
**The current account surplus rose in the first Half of June 2021, driven by robust re-exports to Ethiopia that offset the compression of imports of capital goods.** The rebound of exports turned the

**FIGURE 1.10 • The Currency Board Arrangement (CBA) Cover Rebounded in September 2021, Boosted by the IMF SDR Allocations**



Source: Central Bank of Djibouti and WB staff calculations.

**FIGURE 1.11 • The External Current Account (percent of GDP) Improved During the First Half of 2021, Driven by Re-Exports to Ethiopia**



Source: Central bank of Djibouti and WB staff calculations.

trade balance to a surplus (3 percent of GDP) in the first half of June 2021 from a deficit in the same period last year (-1.4 percent). Net revenues also rebounded with increased profits resulting from buoyant free zone



re-exports and exports of transportation activities.<sup>3</sup> While increasing by more than 3 percentage points of GDP y-o-y<sup>4</sup>, the current account is estimated to sign a deficit of 1 percent of GDP in 2021, as the growth of imports (mostly for infrastructure projects) outpaced exports that have been contracting due to the escalation of the civil war in Ethiopia.

**The slump in Foreign Direct Investment resulting from the pandemic and local banking sector's investment abroad contributed to a contraction in the financial account.** FDI dropped

by 24 percent in nominal terms. A US\$200 million bond emission by the local subsidiary of Bank of China to support a mining project in the Central African Republic also contributed to the shrinkage of the financial account.

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<sup>3</sup> China Merchants Ports-CMHI- holds 23.5% of PORT DE DJIBOUTI S.A., PDSA.

<sup>4</sup> Vis-à-vis the first half of 2020.



# MACROECONOMIC OUTLOOK AND RISKS

**Djibouti's economic outlook is critically tied to developments in the political and economic situation in Ethiopia as the economies are closely integrated.** Djibouti has provided the principal maritime harbor for imports and exports to and from Ethiopia since 1999. The bulk of Djibouti's port activities are driven by Ethiopia's import and export transactions. Onward transit and re-exports to Ethiopia represent about 80 percent of the throughput volume of merchandise handled in Djibouti's ports and 40 percent of the volume of Djibouti's imports comes from Ethiopia (mainly electricity, water, and food). Therefore, disruptions in the Ethiopian trade have serious repercussions on Djibouti's economy. Moreover, Djibouti's two thermal power plants produce on average only 20 percent of the country's electricity needs. The remainder has been imported since 2011 from Ethiopia thanks to the interconnection line connecting the countries which allows the transmission of 95 MW of electricity. Djibouti also imports about 10,000 m<sup>3</sup> of water per day from Ethiopia. Food products (mostly vegetables and fruits) and Khat (an herbal stimulant widely consumed in Djibouti) represent 18 percent and 47 percent of imports in value from Ethiopia, respectively.

**While the immediate impacts of the unrest in Ethiopia have so far been limited, major economic challenges could arise if the situation prolongs.** While Ethiopia's conflict has had a contained impact on Djibouti's economy for much of 2021 (see section on recent developments), high frequency data available at the end of September 2021 (figure 1.1 in Chapter 1) suggest that as the crisis prolongs, the effects on trade, transport and logistics services become more consequential.

**The escalation of the unrest in Ethiopia in November 2021 has increased downside risks for Djibouti's economic outlook.** The declaration of a six-month state of emergency by the federal government on November 2, 2021, has increased uncertainty. Furthermore, the loss of Ethiopia's preferential access to the US market, following President's Biden's decision to revoke the AGOA privileges as of January 1, 2022, is expected to further limit Ethiopian's trade access and growth in the short- and medium-terms which will have a substantial and negative spillover onto Djibouti's economy. In 2020, Ethiopia exported about US\$300 million of goods (including apparel and leather) under the AGOA framework.

**Overall, the main transmission channels of a prolonged crisis in Ethiopia to Djibouti's economy are expected to be the following:**

- Growth slowdown, or even contraction, in Ethiopia. This could take place on account of declining confidence, clipped by the state of emergency and the US Government's sanctions (which could potentially trigger a domino effect in other bilateral and multilateral partners, which would then lead to further contraction of the demand side of trade and transport activities in the Free Zones). As was the case during the 1991 war, flows of humanitarian aid that would transit by Djibouti's Ports (Djibouti hosts the regional World Food Program office) are expected to partially mitigate the drop in Ports and Free zones' activities.
- Prologued unrest could also adversely impact the traffic on the railways and road corridors between Ethiopia and Djibouti, with potentially disruptive effects on food and water supplies, as well as electricity. The gap in power supply resulting from lower electricity imports from Ethiopia could be offset by increasing the thermal production—albeit at a higher cost (due to high-cost imported heavy fuel)—and the production of wind power, as the 60MW onshore wind farm of Ghoubet is expected to become operational in 2022. Similarly, to mitigate any potential disturbances in the water supply from Ethiopia, the National Office for Water and Sanitation (ONEAD) would need to accelerate its seawater desalination program. The first desalination plant was inaugurated in May 2021 as part of the desalination program's Phase 1 that is reported to have increased Djibouti's capacity to produce safe water by 22,500 m<sup>3</sup> per day. The second phase is expected to double the capacity to 45,000 m<sup>3</sup>. But this would still leave a deficit of 18,000 m<sup>3</sup> safe water per day in Djibouti. The country could also explore the possibility to import food from other neighboring countries to offset an eventual drop in Ethiopia's exports.
- Under a scenario of protracted disruptions in the railway and transports corridors and soaring uncertainty, prices would also be on the rise,

triggered by demand-pull inflation, as aggregate demand would largely outpace a suddenly-deflated supply of basic goods and services.

- Humanitarian and security costs resulting from potential large migratory movements fleeing Ethiopia would further pressure the fiscal accounts, adding to the already vulnerable situation created by the COVID-19 pandemic. According to the National Office of Assistance to Refugees (ONARS), as of July 2021, the number of refugees from Ethiopia has increased by 8.4 percent over the last seven months and by 12.6 percent in the last 13 months. The Government is working with partners on a contingency plan.

**While considerable uncertainty remains, two scenarios are currently considered for the short and medium terms outlook (2022–2023):**

In the baseline scenario, the conflict in Ethiopia would find a peaceful solution within the announcement of the six-month state emergency, that is by the first quarter of 2022. Under this scenario, socio-economic conditions would progressively move toward normalcy, and rebuilding would start in the second half of 2022. The likelihood of this scenario is supported by the intensification of calls by the international community for a ceasefire and political dialogue. Under the downside scenario, international diplomacy would fail in the short term and the conflict would worsen and last until December 2022.

**The overall impact of a prolonged unrest in Ethiopia is expected to be considerable.** External trade has already been disrupted by the extended conflict in Ethiopia and continued disruptions of global maritime transport and logistics services have induced higher container prices. Road transports, Électricité de Djibouti (EDD), the electricity utility and the National Office of Water and Sanitation (ONEAD) may experience financial challenges. Reduced Maritime and transport activities and re-exports to Ethiopia would slow down further growth, deteriorate the external current account, and worsen fiscal pressures. FDI inflows would continue to be constrained by the rising risk premia for the region.

**Construction and public works would remain the main drivers of Djibouti's growth, under both scenarios.** These intrinsically domestically-oriented sectors would be boosted by the ongoing and planned redevelopment of the old port land into the new "Red Sea World" complex, the construction of a Ship Repair Yard and the development of the Damerjog Oil Storage Terminal, among others. Real sector productivity is also predicted to benefit from: i) the development of the onshore wind farm in Ghoubet that should increase the supply of electricity, and ii) the delivery of the third phase of the Ali Sabieh cement facility which will contribute to reduce the price of cement.

**Specific macroeconomic and fiscal effects are highlighted as follows:**

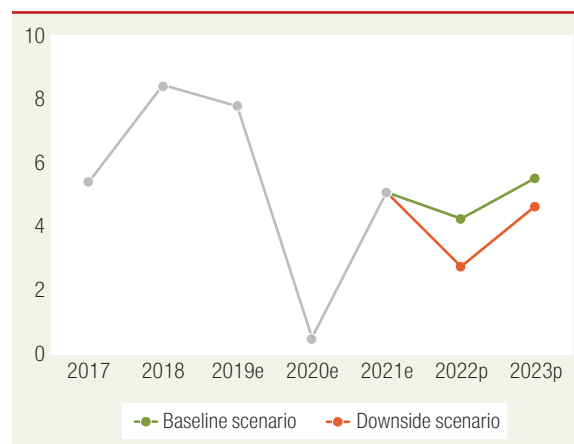
## Real Sector

**Under the baseline scenario, GDP growth is projected to ease to 4.3 percent in 2022 from 5.1 percent in 2021,** mostly tracking Ethiopia's slowdown that is expected to reduce demand for Djibouti's transport and logistics. On the other hand, Government's measures to mitigate the crisis, coupled with the increased humanitarian flows transiting by Djibouti's ports and free zones, are expected to partially offset the drop in traditional Ethiopian demand. Construction and domestic oriented services sectors are expected to maintain their momentum. Against this background, GDP per capita growth is projected to soften to 2.8 percent, compared to 3.6 percent in 2021. Growth is expected to rebound in 2023, with the resumption of reconstruction efforts in Ethiopia, in the latter part of 2023 under the baseline scenario (conflict ending before the end of Q2 2022). Under the downside scenario, instead, Djibouti would grow only by 2.7 percent in 2022, and still rebound in 2023.

## Fiscal Sector

**Djibouti has very limited fiscal buffers to face a prolonged crisis in Ethiopia, as the country is already at high risk of debt distress and has a narrow tax base.** Tax revenue is below potential and has declined from 14 percent of GDP in 2015 to 10.7 percent in 2020 mostly because of rising tax

**FIGURE 2.1 • GDP Growth (in Percent) Could Hover between 4.3 and 2.7 Percent in 2022**



Source: Authors' calculation based on data from National authorities and projections.

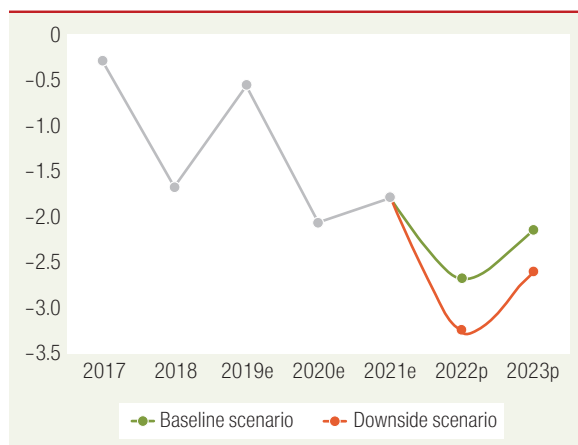
expenditures, non-tax compliance behavior and a large informal sector. Also, debt service is expected to increase with the end of the DSSI and the starting of the amortization of the Djibouti-Ethiopia water pipeline and railway loans, maturing in 2022 and 2025. Additional financing needs resulting from the prolonged crisis in Ethiopia would cause a need for supplemental assistance from bilateral and multilateral creditors.

**Under the baseline scenario, the adverse effects of the conflict in Ethiopia combined with border security pressures and rising social expenditure<sup>5</sup> would lead to a widening the overall fiscal deficit to 2.7 percent of GDP in 2022** from 1.6 percent of GDP in 2021. The deficit is expected to be financed by bilateral and external borrowing. The estimated gap resulting from the Ethiopian crisis would be equivalent to US\$70.7 million in 2022 and US\$52.1 million in 2023<sup>6</sup>. Under the downside scenario, the deficit would balloon to 3.5 percent in 2022 and a fiscal gap would exceed US\$91 million in 2022 and US\$72 million in 2023. Should this scenario materialize, the government would need to engage with its bilateral creditors to negotiate further debt restructurings, so as to ease debt service and reduce

<sup>5</sup> Prompted to support the inflows of refugees.

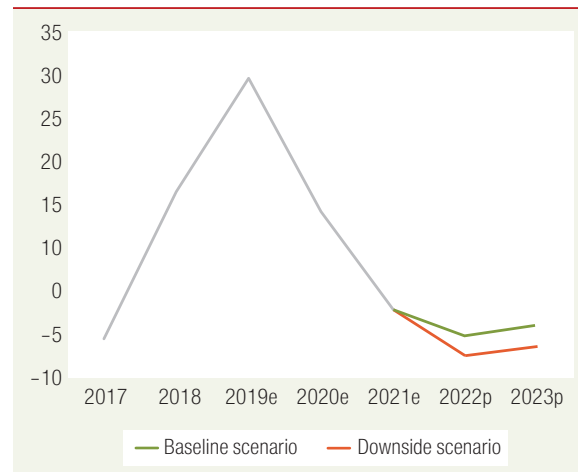
<sup>6</sup> WB staff estimates.

**FIGURE 2.2** • The Overall Fiscal Deficit is Expected to Widen by 1 to 2 Percentage in 2022 and 2023 Compared to 2021



Source: Authors' calculation based on data from National authorities and projections.

**FIGURE 2.3** • The External Current Account Balance Would Deteriorate Further in 2022 and 2023



Source: Authors' calculation based on data from National authorities and projections.

liquidity pressures. Authorities would also need to explore additional measures to strengthen domestic revenue mobilization, including by rationalizing tax exemptions and negotiating more favorable bilateral deals on rents paid by military bases.

## External Sector

**Under the baseline scenario, the current account deficit is projected to deteriorate to 4.4 percent in**

**2022 from 1 percent in 2021** driven by lower than expected demand for logistics and transport services from Ethiopia and continued disruptions of the Global maritime transport logistics. Under a downside scenario with further contraction of Ethiopian demand, the current account deficit would widen to 7.1 percent of GDP in 2022 and 8.8 percent in 2023. Such a trend is a renewed call for decision-makers to urgently focus on structural reforms and supply side policies to improve long-run competitiveness and support exports' attractiveness.

**TABLE 1.2 • Djibouti Selected Economic Indicators**

		Historical data					Baseline scenario		Downside scenario	
		2017	2018	2019e	2020e	2021e	2022p	2023p	2022p	2023p
<b>Real economy: annual percent change, unless indicated otherwise</b>										
Real GDP	g	5.4	8.4	7.8	0.5	5.1	4.3	5.5	2.7	4.6
GDP per capita (real LCU)	g	3.7	6.7	6.1	-1.0	3.6	2.8	4.1	1.3	2.9
Private Consumption (growth)	g	10.6	4.8	5.0	-5.0	5.5	4.7	4.9	4.1	4.3
Government Consumption	g	3.5	1.9	-0.5	-2.1	-8.0	1.9	-1.4	1.6	-0.7
Gross Fixed Investment (growth)	g	10.6	-30.8	26.4	-37.2	7.1	4.7	11.4	-6.6	5.5
Exports (growth)	g	54.4	10.3	12.9	7.5	5.7	3.3	5.3	3.6	4.9
Imports (growth)	g	55.5	-15.3	13.9	-0.5	5.0	3.5	5.3	3.5	4.7
<i>Contributions to Real GDP</i>										
Agriculture	% gdp	1.2	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Industry	% gdp	12.4	16.6	16.9	17.1	17.1	17.2	17.6	17.3	17.5
Services	% gdp	79.3	75.4	74.7	74.4	74.5	74.4	73.9	74.3	74.1
Unemployment Rate (ILO Definition)	l	14.8	15.0	15.0	17.6	18.7	19.7	20.7	19.1	20.1
Consumer Price Index (year-average)	g	0.6	-0.1	3.3	1.8	1.6	2.5	2	3.5	3.0
<b>Fiscal Account, percent of GDP unless otherwise indicated</b>										
<b>Total Revenues and Grants</b>	% gdp	23.8	23.3	23.3	21.4	18.7	18.5	18.8	18.2	18.4
<i>Tax Revenues</i>	% gdp	13.6	13.0	12.9	10.7	11.0	10.7	10.9	10.6	10.7
<i>Non-Tax Revenues</i>	% gdp	8.4	7.0	6.6	6.7	6.0	5.8	5.9	5.6	5.7
<i>Grants</i>	% gdp	1.8	3.4	4.0	3.9	1.7	2.0	2.0	2.0	2.0
<b>Total Expenditures</b>	% gdp	24.0	25.1	23.6	23.1	20.3	21.1	20.9	21.5	21.0
Current Expenditures	% gdp	17.7	17.0	15.2	14.6	13.7	15.3	15.0	15.8	15.2
<i>Wages and Compensation</i>	% gdp	6.9	6.6	6.0	6.1	5.5	5.7	5.6	5.9	5.7
<i>Goods and Services</i>	% gdp	6.4	5.9	4.9	4.8	4.4	4.7	4.7	4.9	4.6
<i>Interest Payments</i>	% gdp	1.1	1.2	1.2	0.6	0.9	1.6	1.6	1.4	1.6
<i>Current Transfers</i>	% gdp	3.4	3.3	3.1	3.1	3.0	3.3	3.1	3.6	3.3
Capital Expenditures	% gdp	6.2	7.9	8.1	5.8	5.9	5.8	5.9	5.7	5.8
<b>Overall Balance (commitment basis)</b>	% gdp	-0.3	-1.8	-0.3	-1.7	-1.6	-2.7	-2.1	-3.2	-2.6
Primary Balance	% gdp	0.8	-0.6	0.9	-1.2	-0.7	-1.1	-0.5	-1.9	-1.0
Change in arrears		0.0	-0.1	0.3	0.3	0.2	0.0	0.0	0.0	0.0
<b>Overall Balance (cash basis)</b>		-0.3	-1.7	-0.6	-2.1	-1.8	-2.7	-2.1	-3.2	-2.6
<b>Government Financing</b>	% gdp	0.3	1.7	0.6	2.1	1.8	0.7	0.8	0.6	0.7
External (Net)	% gdp	0.8	1.6	1.9	4.6	2.2	-0.3	-0.2	-0.3	-0.4
Domestic (Net)	% gdp	-0.5	0.1	-1.3	-2.5	-0.4	1.0	1.0	0.9	1.1
<b>Financing Gap</b>	% gdp						2.0	1.3	2.6	1.9

*(continued on next page)*

**TABLE 1.2 • Djibouti Selected Economic Indicators** *(continued)*

		Historical data					Baseline scenario		Downside scenario	
		2017	2018	2019e	2020e	2021e	2022p	2023p	2022p	2023p
<b>Money and Prices</b>										
Broad Money (% of GDP) <sup>2</sup>	% gdp	75.8	65.3	64.4	75.5	87.3				
Real Exchange Rate Index (2015=100)	l	102.0	105.4	101.9	88.9	103.8				
Domestic Credit to the Private Sector (% of GDP)	% gdp	21.3	20.9	20.8	19.7	20.1				
Consumer Price Index (year-average)	g	0.6	-0.1	3.3	1.8	1.6	2.5	2.0	3.5	3.0
<b>Balance of Payments, percent of GDP unless indicated otherwise</b>										
Current Account Balance	% gdp	-4.8	14.2	28.9	11.6	-1.0	-4.4	-3.0	-7.1	-5.8
Imports, Goods and Services	% gdp	156.5	139.0	143.3	98.7	118.1	139.8	147.3	136.3	147.3
Exports, Goods and Services	% gdp	150.7	151.5	166.8	105.8	118.9	135.0	144.8	143.9	152.6
External Government Debt	% gdp	71.5	68.4	64.9	71.0	74.1	70.8	64.9	74.8	72.7
Exchange Rate (per USD, average)	l	177.7	177.7	177.7	177.7	177.7				
<b>Other memo items</b>										
GDP nominal in US\$ (millions)	l	2751	3013	3325	3384	3518	3536	3889	3512	3812

Source: Government data and World Bank staff calculations.



# COVID-19 PANDEMIC IMPACT ON THE LABOR MARKET

**This special focus discusses the welfare and labor market effects of COVID-19 in Djibouti.**

Djibouti recorded its first confirmed case of COVID-19 on 18 March 2020. By March 27, the government had suspended all international flights, closed schools and universities and ordered a general lockdown. The government then eased the restrictions on movement by mid-May 2020, as seen by the stringency index (figure 2.1) which had declined consistently between June 2020 and March 2021.

**Tragically, as much as for many other countries, the pandemic generated profound effects on the Djiboutian economy and welfare.**

The COVID-19 pandemic tragically cost the world millions of lives. It wreaked havoc on the welfare of uncountable households. And it reversed years of hardly gained development outcomes across the world. Djibouti is no exception to all this. As shown in Chapter 1, the pandemic, and its associated lockdown measures, has caused a significant drop in GDP growth. Inevitably, this came along with a temporary drop in employment and worsening of welfare indicators among households in the country.

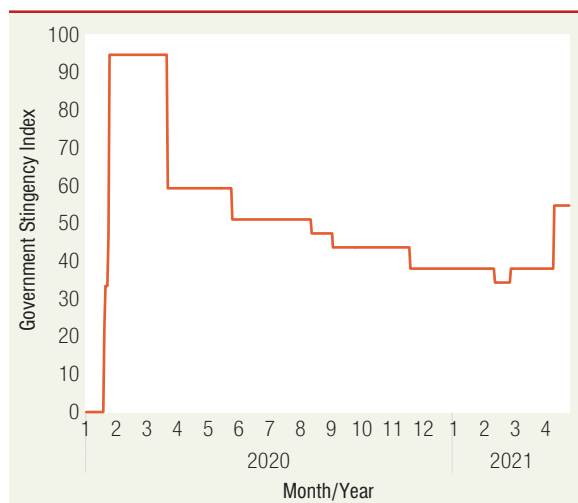
**The poorest are the most affected.** The chapter shows that while overall, labor market and welfare indicators improved in Djibouti after the

initial impact of the COVID-19 pandemic, poorer households, those working in the informal sector, and refugees, face notable challenges in the labor market, their income, resources, food security, and overall welfare. The analysis is based on high-frequency data that the World Bank and the National Institute of Statistics (INSTAD) of Djibouti collected in June, September, and December 2020, and March 2021. The survey assesses the labor market outcomes of the breadwinner only, identified by the respondent as the principal economic support of the household. Therefore, these figures cannot be interpreted as overall labor market indicators but are nevertheless indicative of labor market impacts and recovery path.

**Employment had been severely affected by the lockdown and suspension of economic activities, but has since followed a positive recovery trend (figure 3.2).** The lockdown measures were eased by June 2020, when 22 percent of workers who had been employed before the pandemic were still without a job. For most of them, the situation progressively improved in the following months, and by April 2021, only 5 percent of these workers had not returned to work. By then, a large majority of households (85 percent) reported to be active on

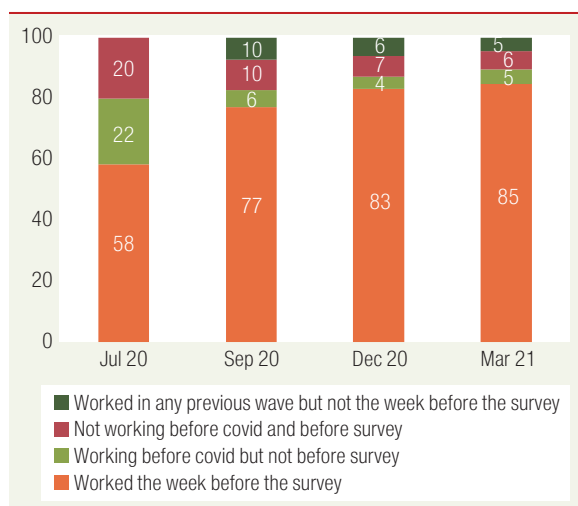
the workforce, showing a continuously increasing trajectory since June 2020.

**FIGURE 3.1 • Stringent Initial Government Response to the Pandemic Eased Over Time**



Source: Oxford COVID-19 Government Response Tracker, Blavatnik School of Government, University of Oxford – Last updated 20 October 2021, 12:50 (London time). OurWorldInData.org/coronavirus • CC BY.

**FIGURE 3.2 • Initial Drop in Breadwinners Work Status and a Subsequent Recovery Trend, June 2020–March 2021**



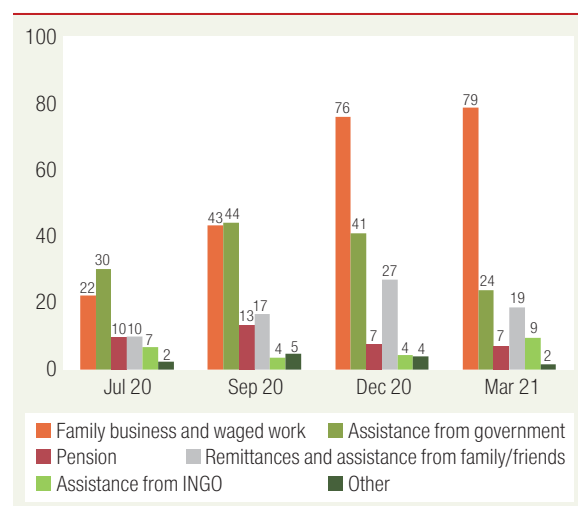
Source: Authors' calculation based on Djibouti COVID-19 phone survey, 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, and 4<sup>th</sup> waves.

Notes: Statistics are based on cross-sectional proportions and not only the longitudinal sample. Breadwinners are divided into four categories: 1) those working in the week before the survey, 2) those working before COVID-19 but were not working in the week before the survey, 3) those that were neither working before COVID-19 nor in the week before the survey, 4) those who worked in any previous wave but were not working the week before the survey.

**While the overall trend signals a path towards recovery in employment, inequalities among different workers persist.** In December 2020, only one in five urban Djiboutian breadwinners declared working less than before the pandemic and only half of those who worked less declared not receiving any pay. This proportion was noticeably higher among poor breadwinners—as identified by their proxy-means test. Similarly, informal sector breadwinners' reported workload consistently trailed that of the formal sector, which in turn trailed that of the public sector employees. By March 2021, 16 percent of informal workers worked less than usual. 62 percent of them reported receiving no pay at all, and 25 percent receiving partial payment. In comparison, 14 percent of formal workers declared working less than usual. 44 percent of them declared having received no pay and 31 percent a partial payment. Among women who reported working less than usual, an estimated 66 percent reported not receiving any pay, compared to 50 percent of men.

**During the crisis, households relied on several income sources, including remittances and assistance from family or friends to mitigate the effects of the crisis.** As of June 2020, only

**FIGURE 3.3 • Reliance on Income from Family Business and Wage-Work Increased with the Economic Recovery**



Source: Authors' calculation based on Djibouti COVID-19 phone survey, 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, and 4<sup>th</sup> waves.

Note: Statistics are based on cross-sectional proportions and not only the longitudinal sample.

## BOX 1 DJIBOUTI HIGH-FREQUENCY PHONE SURVEYS

The data used in this Economic Monitor is based on high-frequency data collected by the World Bank and the Institute of Statistics of Djibouti in June, September, and December 2020, and March 2021. This sample includes urban households and is drawn from the social register of the Ministry of Social Affairs and Solidarity, so it excludes representation of the richest 20 percent of the population. Data from the national social registry of the Ministry of Social Affairs, restricted to urban households having at least one phone number and interviewed after July 1, 2017 (to increase the response rates), serves as the sampling frame for the Djiboutian sample of this survey. The social registry is an official database of households in Djibouti that may benefit from poverty alleviation efforts including being the target of public transfers. This data has been collected since 2014 and consists of about 70,000 households, with most of the fieldwork conducted from 2017 onwards. Even though this database over-represents the poor, it provides an up-to-date sampling frame. The social registry collects a wealth of socioeconomic characteristics of households along with working phone numbers of household heads or spouses of household heads. The use of biometric information to record household level data avoids duplicate entries.

**TABLE A1 • Sample of Djibouti Nationals Broken Down by Survey Domain in 4<sup>th</sup> Wave**

Survey domain	Share of urban population (Household budget survey – EDAM, 2017) (%)	Sample size		
		Panel (# households)	Replacement (# households)	Total (# households)
Balbala	54.1	310	229	539
Rest of Djibouti City	35.5	327	200	527
Other urban areas	10.4	295	200	495
<b>Total</b>	<b>100.0</b>	<b>932</b>	<b>629</b>	<b>1,561</b>

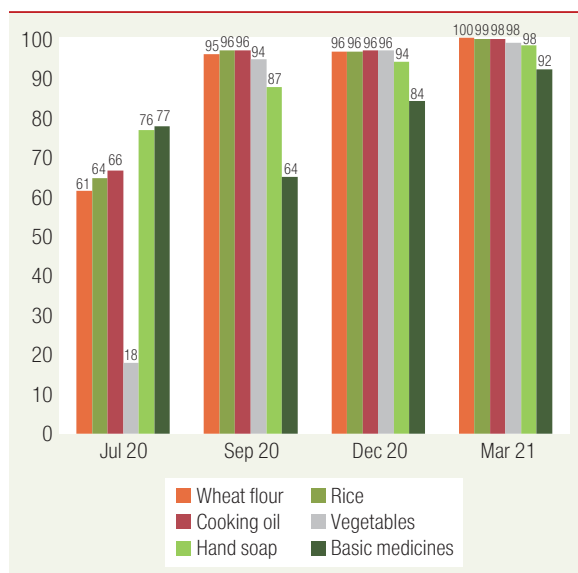
Both cross-sectional and panel weights are designed to adjust for differences in selection probability due to either design or non-response. In addition, further adjustments in sampling weights were made to ensure that produced indicators are representative of the country's population, by poverty status and by location. The sampling frame of the Djibouti nationals, the social registry of the Ministry of Social Affairs, over-represents the poor and has an incomplete coverage of the upper distribution of income. To correct for these biases, we rely on a post-calibration approach, using the household budget survey of 2017 (EDAM 2017) as the reference data source. This is because the EDAM 2017 survey was representative of the country's population by poverty status and survey domains. However, the EDAM 2017 survey is restricted to the first four consumption quintiles to ensure sufficient overlap of the universes covered by both surveys. The poverty status variable in the social registry database is based on consumption per capita, which is imputed for each household by the Ministry of Social Affairs and Solidarity (MASS) based on observable characteristics and using the Proxy Means test formula based on the household budget survey of 2013.

20 percent of households declared having labor income as an income source, and 30 percent having assistance from government. By March 2021, assistance from the government had subsided while income from business and wage-work increased to 79 percent.

**The pandemic's disruptions were obviously not limited to the labor market effects and included access to goods and services.** At the onset of the pandemic, in Djibouti, access to goods, especially food items, was challenging. In June 2020, around 82 percent of households reported not having access to vegetables. 87 percent of them reported

that the reason was price increases. 39 percent of the households declared not having access to wheat flour, 36 percent to rice, and 34 percent to cooking oil. Access to most goods improved substantially over the subsequent months to near full access by all households. The slowest recovery observed was for basic medicines, for which around 23, 36, 16, and 8 percent of households declared lacking access respectively in June, September, December 2020, and March 2021. A similar trend is observed in services. Access to healthcare among those who needed it was around 60 percent in June 2020 and then gradually increased to 96 percent in March 2021.

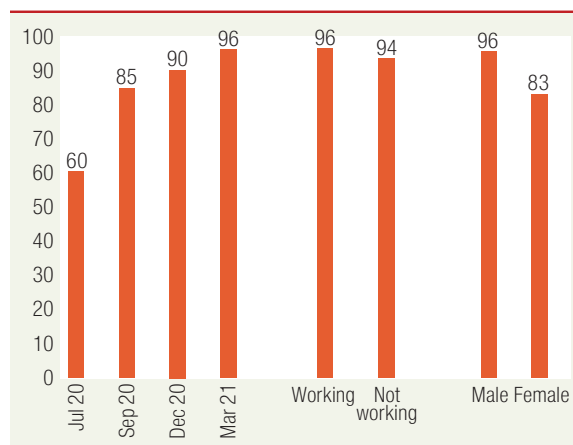
**FIGURE 3.4 • Access to Basic Goods Was Adversely Affected but Continues to Recover**



Source: Authors' calculation based on Djibouti COVID-19 phone survey, 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, and 4<sup>th</sup> waves.

Note: Statistics are based on cross-sectional proportions and not only the longitudinal sample.

**FIGURE 3.5 • More Households Declare Having Enough Resources for the Next 30 Days with Notable Differences by Characteristics**



Source: Authors' calculation based on Djibouti COVID-19 phone survey, 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, and 4<sup>th</sup> waves.

Notes: Statistics are based on cross-sectional proportions and not only the longitudinal sample. The distinction by sectors of employment (public, formal, informal) concerns all the households whose breadwinner was working before the survey. The category "working" refers to households whose breadwinner was working the week before the survey while "not working" refers to the households whose breadwinners did not work the week before the survey.

As with the labor market effects of the pandemic, welfare outcomes have been negatively impacted both through employment channels as well as through changes and supply chain disruptions. According to the national poverty line, poverty in Djibouti is estimated to be around 21.1 percent of the population, and 17 percent at the international poverty line (1.90\$ per person per day). While consumption measures are difficult to gather through rapid phone surveys, indicative data of household welfare are collected, namely on their declared ability to afford their needs for the next month, and their food security status. While in June 2020, around 70 percent of households declared not having enough resources to meet their basic needs for the next 30 days, in March 2021, this proportion fell to around 60 percent.

**Notable differences in the ability to meet basic needs exist depending on the sector of work of the breadwinner, their work status, and the initial poverty status of the household.** For instance, in March 2021, it was observed that nearly double the proportion of households who work in the public sector can meet their basic needs than those in

the formal and informal sectors. For households with a breadwinner who is currently working, 41 percent can meet their basic needs compared to 28 percent among those whose breadwinner is not working. Similarly, poorer households are less likely to meet their basic needs than non-poor households.

**Food security data also display an initial shock followed by some improvement.** In September 2020, 40 percent of the households declared being worried about not having enough food due to a lack of economic resources. Many households tended to skimp on food quality, as 42 percent of the households were unable to eat preferred food and ate fewer kinds of food. By December 2020, around 15 percent of households declared that their children ate less than three meals per day, 9 percent going to bed hungry or skipping a meal in the last 30 days. In March 2021, 8 percent of the respondents declared themselves eating less than three meals per day in the last week or going to bed hungry, and 6 percent skipping a meal in the last 30 days.

**The refugees, particularly those based in refugee villages (settlements), have been severely**

**affected by the pandemic.** The December 2020 survey, which included a sample of refugees in Djibouti to examine their welfare and economic outcomes, reveals that economic activity has decreased among refugees. Urban refugees only had 49 percent of their breadwinners working during the week before the survey (compared to 68 percent of urban refugees). The village-based refugee breadwinners were also more likely to report a decrease of workload (38 percent) than urban refugees (15 percent). In addition, refugee breadwinners appear to be engaged in

more vulnerable activities as most of the refugees work in the informal sector (87 percent) while half of the national breadwinners do. Overall, it appears that refugee households face heightened economic hardship, which reflects their already vulnerable pre-COVID-19 condition. In particular, village-based refugees' food security trails significantly behind urban refugees, as a larger proportion of those living in settlements declared their children having skipped at least a meal in the past 30 days, during the month of December 2020.



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# ANNEX: DJIBOUTI HIGH FREQUENCY DATA

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TABLEAU : PRINCIPAUX INDICATEURS DE L'ACTIVITÉ ÉCONOMIQUE

		Valeur				Valeur							
Unité	T1 2019	T2 2019	T3 2019	T4 2019	T1 20	T2 20	T3 20	T4 20	T1 21	T2 21	T3 21	T4 21	
Secteur primaire													
Pêche	Tonnes	460	555	592	665	453	592	725	564	757	ND	ND	
Elevage													
Bétaïls (exportés)	Par tête	187,742	122,601	361,206	78,915	43,176	129,669	129,550	28,625	113,186	181,388	ND	
Bétaïls (inspectés)	Par tête	49,199	43,877	44,561	33,084	71,508	81,930	100,999	171,342	42,348	41,033	ND	
Secteur secondaire													
Energie													
Production	MWH	107,234	167,436	197,592	132,888	115,642	173,411	203,079	134,979	109,994	176,636	211,389	
Consommation	MWH	94,508	116,822	155,589	135,325	95,079	116,945	161,636	143,375	100,115	128,509	160,003	
Nombre d'abonnés		63,076	63,907	64,755	65,568	66,475	67,094	68,199	69,315	70,139	71,220	72,447	
BTP													
Permis de construire		131	109	110	101	139	94	148	203	193	155	182	
Secteur Tertiaire													
Transport Maritime													
TOTAL (DJIB +ETH+ transbordements)	M. tonnes	3,792,969	3,953,735	3,675,575	3,773,790	3,926,490	3,554,051	3,050,121	3,323,384	3,578,735	3,678,520	3,338,118	
Demande locale (Djibouti)	M. Tonnes	527,836	454,439	529,048	487,741	625,803	806,947	704,318	820,206	628,257	599,169	666,526	
Conteneur traités à l'entrée (SGTD+DMP)		299,021	310,541	273,626	248,237	369,446	629,631	461,252	547,273	430,260	504,157	469,204	
Marchandises en vrac à l'entrée (PDSA+ DMP+adjourah)		78,354	37,225	95,218	133,317	109,922	76,999	77,937	165,406	71,723	21,974	86,363	
L'exportation des marchandises (Djibouti)		14,291	7,064	5,508	12,025	7,852	4,635	8,174	3,273	442	1,839	183	
Hydrocarbures		136,170	99,609	154,696	94,162	138,583	95,682	156,955	104,254	125,833	71,199	110,777	

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**TABLEAU : PRINCIPAUX INDICATEURS DE L'ACTIVITÉ ÉCONOMIQUE** (continued)

Unité	Valeur				Valeur							
	T1 2019	T2 2019	T3 2019	T4 2019	T1 20	T2 20	T3 20	T4 20	T1 21	T2 21	T3 21	T4 21
<b>Demande éthiopienne</b>	<b>3,054,010</b>	<b>3,262,154</b>	<b>2,906,170</b>	<b>3,205,278</b>	<b>3,132,152</b>	<b>2,627,396</b>	<b>2,193,736</b>	<b>2,378,528</b>	<b>2,881,362</b>	<b>3,038,465</b>	<b>2,648,470</b>	
Conteneurs traités à l'entrée. (DCT+DMP)	592,146	562,557	635,301	587,908	603,671	263,455	441,357	466,426	631,454	473,611	828,199	
Marchandises en vrac à l'entrée. (PDSA+DMP+ladjourah)	1,158,991	1,485,940	1,109,035	1,382,634	1,356,998	1,263,478	653,292	730,698	1,256,504	1,583,432	784,468	
Exportations des marchandises éthiopie	41,269	52,565	42,432	15,628	14,336	8,887	15,508	21,903	22,535	25,877	26,194	
Hydrocarbures	1,261,604	1,161,092	1,119,402	1,219,108	1,157,147	1,091,576	1,083,579	1,159,501	970,870	955,545	1,009,608	
Transbordement (conteneurisé)	211,046	236,114	238,553	80,486	158,433	119,128	151,635	123,122	68,487	40,517	21,995	
Transbordement (vrac)	77	1,028	1,804	285	10,102	580	432	1,528	629	368	1,127	
<b>Transport Routier</b>												
Agences Djiboutienne des routes (DPCR)	99,459	97,896	98,912	101,175	105,515	92,853	92,754	96,466	100,950	102,085	97,570	
<b>Transport Aérien</b>												
Nombre des passagers	85,239	83,105	94,229	83,101	69,147	3,978	33,317	43,489	49,899	51,680	67,146	
<b>Transport ferroviaire</b>												
Nombre des passagers	27,155	3,111	38,762	24,561	21,357	0	0	0	16,168	45,760	38,716	
Conteneurs	15,567	9136	19979	7898	20,542	18,385	25,204	34,244	30,956	26,977	19,466	
<b>Commerce extérieur</b>												
Mise à la consommation locale	32,769,356	38,431,133	38,769,069	36,187,562	31,551,552	31,264,883	31,388,160	39,035,963	41,578,366	36,159,867	41,012,869	
Réexportations	174,037,657	238,587,872	233,992,647	158,676,269	116,990,000	109,029,000	110,375,000	101,578,000	131,428,045	142,439,424	179,327,242	
<b>Télécommunications</b>												
Abonnés Internet	33,778	32,902	33,391	33,488	23,490	23,577	25,368	25,402	22,827	15,160	15,889	
Abonnés GSM ( telephone mobile)	405,791	407,289	411,639	414,809	422,238	416,020	423,034	434,035	463,341	501,391	490,063	

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TABLEAU : PRINCIPAUX INDICATEURS DE L'ACTIVITÉ ÉCONOMIQUE (continued)

	Valeur					Valeur							
	Unité	T1 2019	T2 2019	T3 2019	T4 2019	T1 20	T2 20	T3 20	T4 20	T1 21	T2 21	T3 21	T4 21
Tourisme													
Nombre de nuitées	Nombre	40,854	43,622	42,511	44,804	46,323	29,002	36,290	41,235	46,300	43,076	45,284	
Finances publiques													
Recettes budgétaires	Millions FDJ	26,650	55,091	76,908	109,283	25,360	54,230	82,933	112,575	29,898	52,981		
Impôts directs	Millions FDJ	6,397	13,809	20,339	30,470	7,345	13,370	21,031	28,381	6,810	13,356		
Impôts indirects	Millions FDJ	8,083	17,711	25,713	37,945	8,136	15,430	25,248	34,719	8,463	16,650		
Dépenses courantes	Millions FDJ	21,687	46,521	69,885	91,934	28,337	52,126	70,500	90,567	26,137	49,598		
Solde budgétaire (base ordon.)	Millions FDJ	11,184	10,388	-2,427	-5,037	-5,320	-7,298	-3,200	-15,380	-2,765	-8,534		
Masse monétaire													
Masse monétaire	Millions FDJ	328,673	357,083	357,415	380,601	384,696	374,127	372,242	454,359	475,804	465,306		
Avoir extérieur net	Millions FDJ	251,660	271,227	264,198	275,833	278,881	283,395	276,307	348,247	368,017	351,832		
Crédit à l'Etat	Millions FDJ	-3,690	-2,513	3,123	7,016	7,105	6,152	23,078	39,452	11,481	11,816		
Crédit à l'Economie	Millions FDJ	134,316	132,890	137,414	140,036	143,545	139,810	125,485	149,013	160,935	162,585		
Dettes publiques													
Arriérés sur la dette extérieur	Millions FDJ	8,181	7,929	11,062	11,316	14,158	14,700	14,165	14,158	14,158	14,553		
Intérêts sur dette extérieur	Millions FDJ	2,605	2,898	6,193	8,031	10,664	10,721	10,671	10,664	10,664	10,721		
* Juste parc de Balbala													

\* Juste parc de Balbala

Source: République de Djibouti, Ministère de l'économie et des finances, chargé de l'industrie, Direction de l'Economie et du Plan.





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