

GREEN/23/7

February 15, 2023

**Green Statement by Mr. Betancur Mora and Mr. Chicas Cienfuegos on Djibouti - 2022  
Article IV Consultation (SM/23/32)**

We thank staff for the report, which **highlights the importance of the Fund’s surveillance mandate in countries experiencing debt sustainability challenges**. We note that there is a broad agreement in the staff recommendations and some differences regarding the macroeconomic outlook between the authorities and the IMF staff. Overall, we support the staff’s appraisal.

Djibouti grew at a fast pace in the last decade, hand in hand with high public investments. However, external debt grew rapidly from 34% in 2013 to above 70% in 2021, mainly due to the increase in SOEs borrowing. Despite the sharp fiscal consolidation, significant external debt arrears have accumulated since the expiration of the Debt Service Suspension Initiative. Meanwhile, 16% of the population is experiencing food insecurity, and access to health and education is limited in comparison to peers.

**The country requires a balanced mix of policies to tackle urgent social challenges and debt distress.** We share the authorities’ view that the implementation of new infrastructure projects and the recovery from the conflict in Ethiopia can enhance the macroeconomic outlook significantly. Nonetheless, creating fiscal space in the short-term will also require further revenue mobilization and expenditure austerity measures. Such fiscal space is necessary, inter alia, to expand the social safety net in order to protect the most vulnerable population. Going forward, strengthening the business environment for private sector initiatives will boost sustained GDP growth and reduce the exposure to adverse shocks hitting the main trade partners within the region.

**Tax and public expenditure policies need to keep adjusting rapidly to generate fiscal space and meet debt obligations.** We support staff’s call to assess the convenience of narrowing tax incentives and increasing lease payments from foreign military bases to stop the downward trend in government revenues observed in recent years. While the ongoing efforts to boost tax compliance are welcome, the expected increase in revenues is still highly uncertain, suggesting that a gradual rationalization of fuel subsidies is needed. We are encouraged by the authorities’ willingness to increase the efficiency of public spending. The debt restructuring conversations with creditors—hopefully within the G20 Common Framework—will be smoother after strong signals of fiscal discipline and the design of a credible medium-term strategy to honor financial obligations in a timely manner. The latter should be complemented by the upcoming Public Expenditure and Financial Accountability assessment, which

will provide guidance on how to develop solid annual cash flow plans to reduce arrears and buttress transparency in SOEs' finances.

**Creating conditions for a more active and productive private sector will boost GDP growth while contributing to stabilizing social and financing needs.** An appropriate implementation of the authorities' financial inclusion and digitalization strategies can contribute significantly to inclusive growth and formalization. Besides, ongoing governance efforts to strengthen transparency will add to investors' confidence.

**Macroeconomic stability would benefit from trade partner diversification efforts and a sounder financial supervisory and regulatory framework.** On the former, continuing to build on international commercial relations with Asian and Gulf markets will gradually increase economic resilience. On the latter, we concur with staff that CBD supervisory capacity has room to improve and waivers from prudential requirements need to phase out. Further, the adoption of a Liquidity Coverage Ratio, recommended in the 2020 Financial Sector Stability Review, seems crucial given the banks' asset composition. The TA provided by the IMF will serve these objectives.