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February 18, 2022

**Statement by Mr. Bhalla and Mr. Natarajan on Djibouti
(Preliminary)
Executive Board Meeting
February 23, 2022**

1. We thank the staff for their informative report and Mr. Andrianarivelo, Mr. N'Sonde, and Mr. Olhaye for their useful Buff statement. Djibouti's economy has started recovering after the lifting of containment measures and the increasing availability of vaccines. The decline in economic activity due to conflict in the region could dampen the pace of economic recovery. Infrastructure investment in the port sector has been a major driving factor of economic growth in recent years. High economic growth and surplus generated in these investments have the potential to be effectively harnessed to accelerate socio-economic progress.
2. The economy is expected to recover at a modest 4 percent pace in 2021 after a slow growth of about one percent in 2020. External support has helped to maintain macroeconomic stability by providing adequate financial cushion to undertake pandemic-related expenditure. The medium-term growth prospects depend on the resolution to the conflict in the region. We welcome the authorities' efforts to economic diversification and value addition in international trade. Inflation has risen moderately due to an increase in international food prices but is expected to fall gradually.
3. A sound macroeconomic position underpins durable and sustainable growth. In the context of the need to improve the fiscal situation, the recent measures to have a more progressive tax structure and control in spending are significant measures in the right direction. Given the central role of State-owned Enterprises (SOE) in public spending, the proposed Code of Good Governance of Public

Enterprises with better oversight reform is significant. Debt has increased sizably to fund infrastructure investment. *A granular analysis of the different types of debt, their sources, and the cost of servicing different categories of debt can provide more insight which can help to improve debt management. Staff may comment.*

4. The monetary policy has been flexible in adapting to the challenges of the dual shock. Strengthening financial sector supervision of the banks and non-bank financial institutions is required in the context of rapid growth in the financial system. We welcome the authorities' focus on improving the central bank operations and governance and recognize the potential assistance for capacity development support and technical assistance of the Fund. The forthcoming financial inclusion strategy should help enhance access and reduce disparities.

5. The national development strategy centered on inclusion, interconnectivity, and institutions provides a framework for reforms. Progress in governance reforms can help improve the business environment and promote private sector development. We are encouraged by the emphasis on technical and professional training to make progress in light industrial processing.

6. Finally, we wish the authorities the best in their endeavors.