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February 18, 2022

Statement by Ms. Mannathoko and Mr. Essuvi on Djibouti
(Preliminary)
Executive Board Meeting
February 23, 2022

We thank staff for the helpful report and Messrs. Andrianarivelo, N'Sonde and Olhaye for their informative Buff statement. The V-shaped recovery of the Djibouti economy evident in 2021 is encouraging, reflecting a recovery in external demand following the decline in GDP growth of over 6 percentage points in 2020 due to global pandemic containment measures. We encourage the authorities to scale up vaccination and related outreach in 2022 to help support the positive growth trend. As unemployment and inequality remain high, we encourage the authorities to explore the scope for a job rich recovery, including developing the marine and tourism industries, and efforts to strengthen linkages between supporting economic activities and new investments such as the construction of a ship repair yard, a new oil jetty at the Port of Damerjog and new hospitality infrastructure, in order to boost job creation alongside growth. We note that the World Bank, that has presence on the ground, reports that economic activity was relatively strong in 2021 at 5.5 percent. *Could staff comment on our latest growth or nowcasting data for 2021 and clarify why the IMF growth projections are so much lower than those of the World Bank?*

Given the tight fiscal position, we welcome the authorities' decision to freeze spending and introduce revenue measures, including a more progressive income tax structure in the 2022 budget, and encourage a continued focus on pro-poor and growth friendly fiscal consolidation, alongside ongoing fiscal discipline with strengthened SOE management and a medium-term fiscal and debt management plan that will bring debt onto a desirable trajectory. *Could staff clarify what advice they have given the authorities on tax exemptions for foreign military bases?*

We welcome the authorities' plan to establish an inter-ministerial debt committee, while progressing to finalizing the debt law; we also seek more information on the debt carrying capacity downgrade. On the debt assessment in Text Table 4 of the DSA, considering the various variables in the composite indicator (CI) score used to determine debt carrying capacity, it is *puzzling to us that debt carrying capacity has been downgraded despite high global growth, and a sharp recovery in 2021 growth, alongside little change in* *debt and import cover. In addition regarding the dominant CPIA component, almost all the 16 indicators (criteria scores) that are averaged (simple average) to give the overall 2020 CPIA score show an improvement relative to 2018 and 2019, or else show no change. Between 2019 and 2020 there were increases in a range of indicators that more than offset the 0.5-point decline in the trade indicator, so the net effect should be the same or a higher CPIA in 2020. Could staff clarify what happened in 2020 in Djibouti to justify such a sudden and sharp reduction in its CI score (carried over into 2021), including what happened to trade policy and why the lower trade indicator was not offset by increases in other indicators? Our understanding is that as seen elsewhere, the CPIA improved after 2019 reflecting increased focus on economic governance.*

We encourage the authorities to strengthen public procurement, public investment management, and cash management; to support the introduction of a treasury single account and promote the efficiency of public spending. Given the extent of capacity development and technical assistance needs in Djibouti, it would be helpful to have more information in the table: *Summary of Technical Assistance Needs* (Annex V, p.41), on what specific TA is envisaged in the near term. The repetition within each cell in the table and duplication of the same headings from 2022 through 2026, leaves the reader with a lack of clarity on the CD and TA plan.

We commend the progress made so far in the financial sector and urge further decisive actions to develop it and address its vulnerabilities, while promoting financial inclusion. The currency board arrangement has helped instill confidence and improve predictability in international transactions, and now going forward, we also welcome the authorities intent to strengthen its operations and promote financial deepening. We encourage additional work on the development of the domestic money market and financial inclusion. Improving the structure of bank balance sheets and the central bank's supervisory and regulatory functions, as well as the quality of oversight and the adequacy of capital, liquidity and earning data, will also help to enhance risk management and inform efforts to build the sector's resilience. *Could staff comment on plans around the TA request from the central bank? Is there a plan to boost the central bank's capacity to implement the 2020 FSSR recommendations? On a separate note, could staff elaborate on banking sector measures alluded to in the report that account for the sharp drop in the share of non-performing loans in gross loans in 2020?*

On structural reforms, we encourage measures to raise labor productivity and enhance competition. We find that some SIP analyses would have been helpful to inform urgent issues such as an effective post-pandemic recovery. *Could staff comment on any Djibouti specific analysis that seeks to determine how the design of capital-intensive projects could be enhanced to ensure more complementary job creation? Experience elsewhere suggests that deliberate measures can be used to complement new investments and enable positive spillovers to the labor market and rest of the economy, for example, through development or facilitation of formal sector services or inputs supporting the new investments, and other relevant activities.*

We note that the labor market also needs investment. *In paragraph 25 of the staff report, could staff clarify the advice to authorities to address labor market skill mismatches; which skill sets are underemployed and what skills shift is required? Given that the report also cites a sizable skills shortage as a key labor market constraint, we note that this may contribute to* *higher-than-normal formal sector wages amidst high unemployment; however could staff elaborate on whether this high-wage pattern also applies to lower skill formal sector jobs, and if so, what the analysis shows as the reasons behind this?*

Finally, we would like to indicate the importance of continued efforts to strengthen economic governance and of continuing the fight against corruption, in order to improve business confidence and public trust.

With these comments, we wish the authorities success in their current and future endeavors.