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February 18, 2022

**Statement by Mr. Alhosani and Ms. Merhi on Djibouti
(Preliminary)
Executive Board Meeting
February 23, 2022**

We thank staff for the excellent set of papers and Mr. Andrianarivelo, Mr. N'Sonde, and Mr. Olhaye for their comprehensive Buff statement.

We are pleased to note that the Djiboutian economy is recovering after being hit hard by the simultaneous shocks of COVID 19, flash floods and the spillovers from the conflict in Ethiopia. Medium-term growth prospects are strong. As mentioned in the informative Buff, trade is gaining ground, port activity is picking up, and that Ethiopia-Djibouti railway freight and passenger traffic are bouncing back. Risks are tilted to the downside and are mainly related to food insecurity, climate change, and spillovers from the conflict in Ethiopia. However, we welcome the authorities' determination to tackle existing vulnerabilities and mitigate the impact of downside risks should they materialize. Policy discussions appropriately focused on macro-economic policies to stabilize the economy, improve fiscal policy, strengthen financial stability while ensuring a durable and inclusive recovery from the pandemic and regional conflict. We would like to offer the following comments for emphasis:

- **Fiscal policy will need to strike the right balance between supporting the recovery and development spending and restoring debt sustainability.** We agree with staff that efforts to mobilize revenues should be complemented by efforts to better track and rationalize expenditures, including through strengthened controls and spending reviews. We welcome, in this regard, the authorities plan to step up tax collection through a more progressive income tax as well as rationalizing revenue expenditure in the free zones. We also support their efforts to revamp administrative public enterprises and enhance SOEs oversight. A medium-term fiscal framework and debt management strategy will help to manage fiscal risks.
- **On Debt sustainability, we note that Djibouti remains at a high risk of debt distress** and that its debt-carrying capacity is weak. Despite the debt rescheduling through the Debt Service Suspension Initiative and debt service relief through the

Fund's Catastrophe Containment and Relief Trust, liquidity and solvency risks remain. *Like other Directors, we would also be interested to hear staff views on the potential need for a debt restructuring in the short-term, and if the authorities are considering the G20 Common Framework.*

- **On monetary and financial policies, continued efforts are needed to strengthen financial stability.** We encourage the authorities to continue to address the gaps identified in the monetary policy and financial stability framework by the 2020 Financial Sector Stability Review (FSSR). We agree with staff that adjustments to the operation of the currency board could reinforce financial stability, however, we take note of the capacity constraints at the Central Bank of Djibouti which limits the ability to overextend the CBD's operations currently. We also share staff's recommendation on the need to improve financial sector supervision in line with the Basel regulatory framework and encourage the authorities to strengthen their AML-CFT framework, and support in this regard their request of Fund TA as they prepare for the MENA-FATF mutual evaluation of their AML/CFT regime.
- **Finally, we encourage the authorities to step up their structural reforms' agenda to spur growth.**

With these remarks, we wish the authorities the best in their reform efforts.