FOR AGENDA



SM/84/7

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January 5, 1984

To: Members of the Executive Board

From: The Acting Secretary

Subject: Djibouti - Staff Report for the 1983 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Djibouti.

This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Carstens, ext. 74887 or Mr. Kuhn, ext. 74865.

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INTERNATIONAL MONETARY FUND

DJIBOUTI

Staff Report for the 1983 Article IV Consultation

Prepared by the Staff Representatives for the
1983 Consultation with Djibouti

Approved by Oumar B. Makalou and S. Kanesa-Thasan

January 4, 1983

## I. Introduction

The 1983 Article IV consultation discussions with Djibouti were held in the city of Djibouti during the period October 16-30, 1983. The representatives of Djibouti included Mr. Ibrahim M. Sultan, Minister of Finance and National Economy; Mr. Ahmed H. Liban, Minister of Agriculture and Rural Development; Mr. Ibrahim K. Chehem, Governor of the National Bank of Djibouti; Mr. Ismail Ghedi, Director of the Cabinet of the President; Mr. Luc Aden, Director of the Treasury; and other senior officials of ministries and agencies concerned with economic and financial matters. The staff representatives, all from the African Department, were Messrs. Reimer O. Carstens (head), Jean P. Briffaux, Ms. Carol Hoban, Mr. Michael Kuhn (EP), and Mrs. Marie-José Bauer (secretary).

Djibouti has accepted the obligations of Article VIII, Sections 2, 3, and 4, of the Articles of Agreement.

## II. Recent Economic and Financial Developments

Djibouti is a small, arid country with limited agricultural potential, little proven mineral wealth, and some small-scale industrial activity, but an active service sector. About two thirds of the total population, officially estimated at about 330,000, live in the capital city of Djibouti; the other one third comprises nomads who depend on livestock for their subsistence. Over three fourths of domestic production derives from tertiary activity associated with the port of Djibouti, the railway to neighboring Ethiopia, the international airport of Djibouti, the private banking system, which handles some off-shore business, and the presence of a relatively large number of foreign military and civilian personnel. To finance both current and capital expenditures, the Government has depended heavily on foreign grants and concessional loans, which have made it possible to sustain large trade deficits.

Although the economic data base is quite weak, there appears to be little doubt that the economy of Djibouti suffered a decline in the years immediately after independence in June 1977, reinforced by the outbreak of hostilities between neighboring Ethiopia and Somalia. In 1979 Djibouti started to recover as the result of increased investment, especially in the construction and commercial sectors. Coupled with increased capital expenditure by the public sector, these developments have contributed toward an estimated average growth rate of real gross domestic product (GDP) of 3.4 percent per annum in 1979-81 (Table 1). However, since 1982 growth has been much lower, reflecting the income reduction in terms of Djibouti francs of certain foreign personnel. Real per capita GDP has been on a downward trend since independence, because the population increased at a substantially higher rate, partly as the result of immigration from neighboring countries. This movement, together with the steady entry into the labor market of school leavers, has tended to intensify the problem of unemployment in recent years.

Fiscal performance following independence was broadly satisfactory up to 1981, and the surpluses achieved, averaging 4.1 percent of GDP per annum during 1979-81, were invested abroad, which resulted in the accrual of relatively substantial investment income. However, in 1982 financial imbalances began to emerge in the operations of the public sector, reflecting partly the slowdown of economic growth but also some special factors, among others a reduction in the rate of collection of direct taxes and broad exemptions granted under the investment code. At the same time, expenditures rose by 19.6 percent from 46.5 percent of GDP in 1981 to 55.6 percent of GDP in 1982. This reflected largely an increase in investment expenditures, but also the inclusion for the first time of the expenditures for the national army in the budget, while foreign grants earmarked to cover defense expenditures were reduced; there was also a noticeable rise in subsidies to public and semipublic enterprises. As a result of these divergent developments, the Government's transactions recorded a deficit of about DF 5.3 billion in 1982 or 8.4 percent of GDP. The deterioration in the Central Government's operations has been compounded by a pronounced drop in foreign grants from DF 11.2 billion in 1981 to DF 7.9 billion in 1982. The estimated deficit for 1983 of DF 5.0 billion (7.6 percent of GDP) represents only a marginal improvement over the performance in 1982, despite a substantial reduction in expenditures by 12.3 percent, as foreign grants continued to decline to about DF 4.8 billion. In order to finance the overall deficits, deposits with domestic and foreign banks were drawn down and loans negotiated.

Since independence the Government has fostered the creation of public and semipublic enterprises in Djibouti to provide social and economic services in various fields, particularly where private sector participation was nonexistent or deemed inadequate. The combined financial accounts of these enterprises show modest operating surpluses up to 1980, but they have incurred losses since then, which were financed in 1981

Table 1. Djibouti: Selected Economic and Financial Indicators, 1979-83

| | 1979 | 1980 | 1981 | 1982 | 1983 Est. | 1984 Proj. |
|---|---|---|---|---|---|---|
| | (Annual percentage changes, unless otherwise specified) | | | | | |
| National income and prices | | | | | | |
| GDP at constant prices | 4.0 | 3.4 | 2.9 | 1.6 | 1.2 | 1.6 |
| GDP at current prices | 19.5 | 15.2 | 8.0 | -0.1 | 3.8 | 6.1 |
| GDP deflator | 14.9 | 11.5 | 4.9 | -1.6 | 2.6 | 4.5 |
| Consumer prices | 10.6 | 11.8 | 5.7 | -2.4 | 1.4 | 3.1 |
| Government finance (Jan.-Dec.) | | | | | | |
| Budget revenue | 19.0 | 42.6 | 2.4 | 6.8 | -4.8 | 6.3 |
| Total expenditure | 29.6 | 41.9 | -0.6 | 19.6 | -12.3 | -2.4 |
| Grants | 29.5 | 60.8 | -17.5 | -29.2 | -38.5 | -22.4 |
| Money and credit 1/ | | | | | | |
| Net foreign assets of deposit money banks | 26.3 | 11.6 | 36.4 | -63.5 | 44.3 | -- |
| Claims on private sector | 59.2 | 34.2 | 23.4 | 38.6 | 28.9 | -- |
| Government deposits | 29.0 | 42.2 | 17.3 | -25.8 | -58.0 | -- |
| Money and quasi-money | 23.5 | 8.7 | 6.8 | 23.0 | 11.9 | -- |
| External sector | | | | | | |
| Exports, f.o.b. | -15.2 | 31.0 | 15.9 | -9.1 | 12.1 | 7.5 |
| Imports, f.o.b. | 14.9 | 32.4 | 24.6 | 8.9 | -11.0 | 7.8 |
| Nominal effective exchange rate (increase reflects appreciation; index 1980 = 100) | 99.6 | 101.9 | 122.3 | 144.0 | 156.0 | -- |
| | (In percent of GDP, unless otherwise specified) | | | | | |
| Total consumption | 107.8 | 106.8 | 109.4 | 111.9 | 108.1 | 106.4 |
| Of which: public | (34.3) | (34.7) | (35.8) | (38.4) | (37.4) | (36.3) |
| Investment | 12.3 | 16.9 | 17.8 | 23.0 | 15.3 | 17.1 |
| Resource gap | 20.0 | 23.7 | 27.3 | 34.9 | 23.4 | 23.5 |
| Budget revenue | 24.8 | 30.8 | 29.1 | 31.0 | 28.5 | 28.5 |
| Total expenditure (including net lending) | 41.0 | 50.5 | 46.5 | 55.6 | 47.0 | 43.2 |
| Grants | 16.6 | 23.2 | 17.7 | 12.6 | 7.4 | 5.4 |
| Overall budget surplus/deficit (-) | 3.1 | 5.9 | 3.4 | -8.4 | -7.6 | -5.9 |
| External current account surplus/deficit (-) | | | | | | |
| Including grants | 3.8 | 9.4 | 4.1 | -12.4 | -5.4 | -6.4 |
| Excluding grants | -13.4 | -14.8 | -14.7 | -25.2 | -12.9 | -11.8 |
| External debt outstanding and disbursed | 7.2 | 7.7 | 5.6 | 11.3 | 12.0 | 14.8 |
| Debt service | 0.7 | 0.9 | 1.0 | 1.0 | 1.3 | 1.3 |
| Debt service ratio | 1.8 | 2.1 | 2.3 | 2.4 | 2.9 | 3.0 |
| | (In millions of SDRs) | | | | | |
| Overall balance of payments (deficit -) | 8.9 | 18.0 | 4.9 | 4.3 | -17.2 | -10.9 |

1/ Monetary statistics do not distinguish between transactions with residents and nonresidents.

entirely and thereafter partially out of foreign grants from both the European Economic Community and Saudi Arabia. These losses were the result of, among other things, a deliberate government policy of not permitting price adjustments to reflect fully the increases in costs of specific goods and services, notably electricity, petroleum products, wheat flour, and port services.

Up to 1981 Djibouti's balance of payments was characterized by large balance of trade deficits that were more than offset by the sum of net receipts on services and official unrequited transfers. As a result overall surpluses were realized, and official net foreign exchange reserves reached a peak in early 1982 equivalent to about SDR 84.5 million, corresponding to some six months of imports. In 1982 exports, most of which are re-exports to foreigners stationed in Djibouti, fell by 8.5 percent, mainly as a consequence of the reduction in purchasing power of these foreigners. Meanwhile, total imports remained essentially unchanged, so imports not destined for re-export increased sharply from about 24.5 percent to 30.5 percent of GDP. This increase reflected partly the rise in investment-related imports of capital goods, as well as the strong effective appreciation of the Djibouti franc. At the same time, net receipts from services and official transfers declined sharply, and the current account turned from a surplus amounting to 4.1 percent of GDP in 1981 to a deficit of 12.4 percent of GDP in 1982. The deficit was financed by drawings on foreign loans and an inflow of private capital, and the overall balance of payments remained in surplus. However, in 1983 the continued financial imbalances in the public sector have led to an overall balance of payments deficit of SDR 17.2 million, as drawings on foreign loans slowed and the flow of private capital was reversed.

Monetary developments during the period 1979-81 mainly reflected favorable developments in the balance of payments and in the substantial external budgetary support, with increasing net foreign assets of both the Treasury and the commercial banks; credit to the private sector grew at an average rate of 38.9 percent, while the growth rate of broad money was 13.0 percent. In 1982 this pattern was broken as government deposits with the commercial banks declined and net foreign assets fell. Money growth accelerated to 23.0 percent as growth in credit to the private sector continued at a rate of about 40 percent despite the slowdown in economic activity. For Djibouti this apparent divergency is not unusual, because these figures comprise both operations with residents and non-residents and in 1982 a large part of credit was apparently extended to traders from neighboring countries, in particular from the Yemen Arab Republic. During the first nine months of 1983, credit to the private sector expanded at a lower annual rate of 28.9 percent, and money growth slowed down again to 11.9 percent. The rate of inflation, measured by changes in consumer prices for expatriates and dominated by the development of import prices and exchange rate movements, declined from 5.6 percent in 1981 to -2.4 percent in 1982 but rose again in 1983 to at least 1.0 percent.

Djibouti's central bank, the National Bank of Djibouti, which was established in 1977, does not as yet perform any typical central banking functions apart from some administrative work. The commercial banks, which are all foreign-owned, determine the structure of interest rates, which is characterized by relatively large spreads between average deposit and lending rates. Only some of the rates, pertaining to operations in foreign currencies, are adjusted in line with interest rate developments abroad. Rates on operations in Djibouti francs are adjusted less frequently, and these rates sometimes diverge significantly from those of operations in foreign currencies.

The public and publicly guaranteed external debt of Djibouti is still small and consists mostly of concessionary loans; at the end of 1982 outstanding disbursed debt amounted to SDR 36.3 million or 11.3 percent of GDP, with a debt service equivalent to 2.4 percent of exports of goods, services, and private transfers. However, the debt service ratio is likely to at least double by 1987, as the grace periods of recently contracted loans begin to expire.

Djibouti maintains an exchange system free of restrictions on current international payments and a liberal trade system. The Treasury issues the Djibouti franc, which is pegged to the U.S. dollar, the intervention currency, at DF 177.721 = US$1.00, against 100 percent convertible foreign exchange cover. This cover has fostered confidence in the local currency and, together with the liberal system of trade and payments, has contributed significantly toward the attractiveness of Djibouti as a regional banking and trading center. The effective nominal exchange rate, which depreciated for a number of years following independence, has recently tended to appreciate in line with the U.S. dollar. In the absence of reliable price indices, there is no real effective exchange rate. Between the latest Executive Board consideration of Djibouti's exchange rate policies in May 1982 and November 1983, the nominal effective exchange rate appreciated by 21 percent.

## III. Report on the Discussions

### 1. Production and development policies

The Djibouti representatives said that their basic problem was how to achieve a satisfactory and sustainable rate of growth and a reduction in unemployment while maintaining a climate of monetary confidence and stability and thus the attractiveness of the country for commercial and financial interests. They noted that the dominant service sector has neither been able to generate sustainable high rates of economic growth nor earn enough foreign exchange to match the country's expenditure on imports. In addition, as an entrepôt and a regional commercial and financial center, the country is vulnerable to external disturbances that tend to affect the performance of the service sector. However,

the Djibouti representatives stressed that there was some scope for strengthening the economic base through the further encouragement of small-scale industrial activity as well as the implementation of various projects in the agricultural, livestock, fishing, and transportation sectors. To accomplish this, sustained inflows of foreign resources, on the order of some US$100 million per annum, will be needed in the years ahead in order to help finance the various projects outlined in the document prepared for the Donors' Conference held in late November 1983.

The Donors' Conference, the Djibouti representatives said, was convened with a view to broadening international support for the development effort and thus to reversing the declining trend of official concessionary assistance. In preparation for the conference the Djibouti authorities strengthened the planning machinery, including the Central Statistical Service, through a technical assistance project financed jointly by the World Bank and the United Nations Development Program (UNDP). These efforts resulted in the preparation of a six-year Investment Program 1983-88, which was distributed to potential donors and organizations well in advance of the conference. Participants at the conference praised the preparations undertaken by the Djibouti authorities, and they generally supported the proposed investment program that had been prepared in close cooperation with the UNDP. They regarded the various investment and development projects as appropriate for achieving the objective of reducing the structural maladjustments in the economy and the underlying weakness in the balance of payments. In a series of meetings outside the plenary session, the Djibouti authorities, implementing agencies, and donors' representatives reviewed possible financing arrangements as well as modifications to pledges, as it turned out that certain projects had attracted more financing than needed. Negotiations to this end are continuing, and it was thus not clear at the end of the conference to what extent the goal of obtaining new financing resources equivalent to US$310 million was attained. The size of the 1983-88 investment program is US$570 million, of which US$240 million had been secured prior to the conference and US$20 million was to be financed from domestic budgetary resources. In addition to promises of financial assistance, there were a number of countries and international organizations that expressed their intention to support Djibouti's investment program with enlarged technical assistance which the Djibouti representatives considered of particular importance given problems encountered in the past with absorbing all financial assistance provided.

Given the negative savings performance of the economy, the financing of Djibouti's development for the immediate future will continue to depend not only on the availability of concessional financing but also on inflows of foreign private capital. Consequently, the authorities are also continuing efforts to raise the level of private capital inflows. A special unit created in the Ministry of Industry, with technical assistance from agencies of the United Nations, concentrates on preliminary identification of economically feasible projects. The investment

code is being reviewed with a view to strengthening incentives for small private investment. Additionally, a number of institutional innovations, including the introduction of a rediscount facility for medium- and long-term credit, is being actively considered, and a development bank equipped to assist small- and medium-sized enterprises commenced operations in January 1983.

To make the economy less vulnerable to exogenous shocks, the authorities are determined to promote diversification while making every effort to strengthen the performance of the established sectors. To improve the port of Djibouti's competitiveness, various projects have been completed or are envisaged: following a survey of other ports in the region, the port management plans to extend its operations into transshipments; the cold storage capacity has been expanded; and an international container facility has been put into operation. As part of a policy to organize a complete "road-rail-air-sea" transport system, the authorities are also working to improve performance of the railway to Ethiopia, which presently operates at much less than half its capacity. Following a recent agreement with the Ethiopian Government on profit and loss sharing, a rehabilitation program for the railway will be undertaken.

The diversification of the economy is being pursued mainly through projects in the fishing and manufacturing sectors. The Government received grants from the United States and the International Fund for Agricultural Development to provide modern equipment and more refrigeration capacity to fishermen organized in a cooperative venture. In the manufacturing sector (where small-scale production for the domestic market has until now been confined to food products, beverages, furniture, building materials, bottling of gas, and maintenance, installation, and other essential services) plans exist for additional production of food items and building materials for the domestic market as well as for other industries (including possibly a cement factory) that will cater to domestic and external markets. In connection with the latter type of industries, the Djibouti representatives stated that they had participated actively in the negotiations of the Preferential Trade Area for Eastern and Southern African States and that they had been accorded a few special concessions. They recognized, however, that, following the appreciation of the domestic currency along with the U.S. dollar in recent years, wages and other costs were relatively higher in Djibouti than in neighboring countries. Therefore, they agreed with the staff that it was necessary to follow incomes and other policies that would enhance external competitiveness in the coming years. In addition to the fishing and manufacturing sectors, government attention has been directed to developing water resources, mainly to meet the needs of the growing population, and to tapping geothermal and even solar energy, the latter on an experimental basis.

## 2. Domestic financial policies

In both 1982 and 1983 overall budgetary deficits were incurred in spite of the Government's ability to raise some additional revenue through taxation of consumption and to control current expenditure, including wages and salaries. Total tax receipts as a percent of GDP have increased markedly since independence, reaching 25.2 percent in 1983, which, given the structure of Djibouti's economy, represents a substantial effort. The Djibouti representatives stated that they are trying to improve tax administration but are determined to avoid the need for any drastic increase in taxation through rigorous control of current budgetary expenditure. To this end, expenditure commitments are now subjected to presidential scrutiny and approval. Moreover, with the exception of a limited salary adjustment for lower-income government workers in mid-1980, no general wage and salary awards have been granted since 1976. The Djibouti representatives stated that, even though this had resulted in some erosion of real incomes of government employees, continued restraint was needed, as the underlying budgetary position was fragile and as some donor countries were phasing out support not only for certain budgetary expenditures but also for some public enterprises.

In an effort to reverse the trend toward large overall deficits of the past two years, the 1984 budget provides for a reduced overall deficit of DF 4.1 billion equivalent to 5.9 percent of GDP compared with 7.6 percent in 1983. Budgetary revenue is expected to rise by 6.3 percent, reflecting additional receipts from increases in selected taxes. Total expenditure, on the other hand, is projected to decline somewhat, reflecting most of all a sharp decline in budgetary investment expenditure as well as the application of stricter expenditure controls and the continued use of quarterly ceilings on budgetary disbursements. About half of the projected overall deficit will be financed from proceeds of previously contracted foreign loans and the other half from government deposits abroad.

In recent years the consolidated financial position of the public enterprises has tended to weaken, reflecting management problems as well as the maintenance of certain prices at relatively low levels. The Djibouti representatives stated that the pricing policies for certain commodities and services were guided by considerations like the low incomes of the majority of the population and, in the case of the port and the airport, the need to safeguard regional competitiveness. Furthermore, the relatively small financial losses emanating from these pricing policies have so far largely been covered by foreign grants extended specifically for this purpose. They expressed the hope that it would be possible to continue to secure such grants and that pricing policies would, as far as possible, be aimed at limiting the operating losses to available financing. In this context they noted that prices of petroleum products were raised in January 1983. An adjustment in

electricity tariffs was implemented in early 1983, which introduced a progressive rate schedule with a view to limiting the total amount of subsidies and to assuring that the poorest segments of the population benefited the most. The Djibouti representatives agreed that, together with more realistic pricing policies, concerted efforts at strengthening the economic performance of the public enterprises was needed, in order to enhance the sector's contribution to national development. This was true in particular for the recently implemented projects in the industrial and tourism sectors, where prolonged startup problems were absorbing larger-than-anticipated financial resources.

The National Bank of Djibouti's impact on monetary and credit policies remains quite limited. The authorities are, however, planning to strengthen it through organizational improvements, so that it could be in a position to take over some of the functions typically performed by a central monetary institution that are currently performed largely by the Treasury in cooperation with the Commercial Bankers' Association. Already the central bank has been directed to examine the possibility of introducing a rediscount facility aimed primarily at providing medium- and long-term financing. Under this facility commercial banks would be able to obtain refinancing through the central bank. Technical assistance has been provided in this respect by France. The authorities' intention is that initially total credit to be provided under the facility would be modest so as to avoid a further deterioration of the official external reserve position, especially since it is not intended to reduce the foreign exchange cover for the local currency issue below 100 percent. The representatives agreed with the staff that, in order to avoid the danger of automatic refinancing of low priority and marginal products, it would be necessary to elaborate guidelines to be strictly observed in determining projects that would qualify for refinancing under the facility. These could be similar to those already elaborated for the new development bank, which successfully began operations in January 1983.

The Commercial Bankers' Association determines credit policies and the structure of interest rates for both transactions in Djibouti francs and the margins applied on Eurocurrency rates for transactions in U.S. dollars and other foreign currencies. In 1981 the basic rate for local currency lending was raised from 8.5 percent to 12.5 percent. Given the low rates of inflation since 1982, real domestic deposit rates have been mostly positive; this may change in 1984, when inflation might be twice as high as in 1983, with the result that some real deposit rates could again be negative. The Djibouti representatives agreed that once the central bank was fully operational such a situation could be more readily avoided and policies to increase national savings more effectively implemented than under the current arrangement.

3. External financial policies

With regard to the balance of payments, the Djibouti representatives considered that, in view of the structurally large trade deficit, external financial viability in the medium term would continue to depend on sustained inflows of both private and public financial resources as well as on the pursuit of appropriate demand-management policies. On the basis of present policies and exchange rates, an overall balance of payments deficit of about SDR 16.7 billion (4.4 percent of GDP) is in prospect for 1984. The trade deficit is projected to widen slightly, while the capital account is expected to strengthen. Unrequited official transfers are anticipated to continue to decline. The positive outcome of the recent Donors' Conference could reverse this trend as of 1985.

Commenting on recent developments and prospects for the immediate future, the Djibouti representatives were of the opinion that the pledges of the Donors' Conference, coupled with the various measures aimed at encouraging private investment, should in due course result in a sustained strengthening of the capital and transfer accounts. As for the projected 1984 increase in imports, they agreed that the recent appreciation of the Djibouti franc in line with the U.S. dollar was a major contributory factor. Nonetheless, they believed that the overall effect of this factor was considerably mitigated by the restraint on wages and salaries in the public sector. Moreover, despite the recent decline in official foreign reserves, they consider the reserves as still comfortable and are not worried about the balance of payments prospects for 1984. In addition, given the importance of continuing to foster confidence in the local currency, they consider the continued peg to the U.S. dollar as important. The Djibouti representatives reaffirmed their commitment to continue to pursue a trade and payments system free from restrictions on international transactions.

## IV. Staff Appraisal

In recent years Djibouti's service-dependent, enclave-type economy has been growing at a hesitant pace, particularly in comparison with the population growth. The outlook for 1984 points to a continuation of current trends with a modest expansion in economic activity, implying a continuation of the downward trend in average living standards. To generate a more acceptable rate of growth in the years ahead, while also strengthening the balance of payments situation, the authorities need to pursue cautious economic and financial policies with a view in particular to enabling Djibouti to maintain its relatively high standing in the international community, as proven by the success of the recent Donors' Conference. Increased current revenue needs to be generated by improved tax administration and by a reduction in exemptions which are pervasive. On the expenditure side rigorous controls should be continued. In addition, it is crucial that steps, including pricing actions, be

taken to improve the financial position of public enterprises so that they could contribute to the development effort rather than be a means of supporting consumption. Moreover, investment policy should be in line with available resources and the absorptive capacity of the economy and should also favor productive investments that would contribute to strengthening the tax base and the balance of payments over the medium term.

Though the rise of domestic prices slowed from an average of 10 percent in 1979-81 to an average of less than 1 percent in 1982-83, the reduction in inflation is explained principally by the appreciation of the Djibouti franc vis-à-vis the currencies of its principal trading partners, particularly the French franc. In fact, the magnitude of the appreciation of the Djibouti franc vis-à-vis the French franc has been such that domestic prices might well have been expected to decline. The downward rigidity of domestic prices may be the result of monopolistic and oligopolistic practices.

While a stable exchange rate is obviously an important element in promoting confidence in the currency of a country with an open economy, it clearly should not, at the same time, jeopardize the attainment of other important objectives like the diversification of the economy. An overvaluation of the Djibouti franc has occurred as the result of its link to the U.S. dollar. A more appropriate exchange arrangement along with flexibility in domestic pricing and a policy of caution in domestic financial management are called for.

For the immediate future the Government intends to include several new measures in the 1984 budget law. The rates of some taxes will be increased and certain current expenditures reduced. However, the measures presently under consideration may be insufficient and need to be reinforced to restore better balance between revenue and expenditure so as to provide the needed resources to finance development. In view of the prospect of a further decline in the level of foreign grants in 1984 and the rapid pace at which the Central Government has been utilizing its foreign exchange reserves since 1982, the Government could be tempted to resort to more extensive external borrowing than in the past. Great caution is needed in this regard, taking into account the fact that the debt service ratio, though still quite moderate, has been increasing and will continue to do so when current grace periods end. Djibouti would, therefore, need to follow a policy of sustained internal adjustment and continued avoidance of external borrowing on commercial terms. Such efforts would deserve enhanced support from external donors, and the staff welcomes the outcome of the Donors' Conference of late November 1983.

Finally, as regards money and credit, there is a need for supervision and guidance of the activity of the increasing number of financial institutions. These responsibilities are currently only partially

carried out by the Treasury, the National Bank, and the Commercial Bankers' Association of Djibouti. The functions of these three bodies should be more clearly defined as soon as possible, with a view to improving the information on bank activities and imposing certain rules regarding credit and interest rates. In this connection it is worth noting that the interest rates on bank deposits denominated in Djibouti francs are lower than those on deposits denominated in foreign exchange. This does not promote financial savings on the part of small savers, and greater flexibility in adjusting the rates on deposits in Djibouti francs, taking into account current inflation rates and interest rates paid on foreign deposits, appears to be required in the future.

It is noted that the authorities have accepted that the next Article IV consultation be held on an 18-month cycle.

## Djibouti--Relations with the Fund
(As of December 1, 1983)

| | |
|---|---|
| Date of membership: | December 29, 1978 |
| Quota: | SDR 5.7 million (Djibouti consented to the proposed increase in its quota to SDR 8.0 million on November 19, 1983). |
| Status: | Article VIII, Sections 2, 3, and 4 |
| Exchange system: | The Djibouti franc (DF) is pegged to the U.S. dollar, the intervention currency, at the rate of DF 177.721 = US$1. |
| SDR/Local currency equivalent: | SDR 1 = DF 188.25 |
| Fund transactions | |
| Fund holdings of currency: | SDR 4.47 million (78.3 percent of quota) |
| SDR holdings: | SDR 0.43 million (36.6 percent of net cumulative allocation of SDR 1.18 million) |

### Recent staff visits

The last Article IV consultation discussions were held during January 10-23, 1982; Executive Board discussions of the staff reports (SM/82/60 and SM/82/75) took place on May 24, 1982.

CBD technical assistance missions visited Djibouti April 29-30, 1981, and November 13-15, 1981. Bureau of Statistics technical assistance missions visited Djibouti January 11-25, 1981, February 27-March 6, 1981, and March 26-April 15, 1981.

### Technical assistance

CBD provided the National Bank of Djibouti with a technical advisor during the period from May 21, 1979 to November 26, 1981.

## Djibouti--Relations with the World Bank

The World Bank has two ongoing projects in Djibouti:

- A technical assistance project, financed jointly by IDA and by a grant from the UNDP, aims at strengthening the Central Planning Unit and the Central Statistical Service, both in the Presidency.
- A highway sector project concentrates on highway rehabilitation and maintenance.

An urban project and an education project are in the initial stage of preparation. Moreover, the World Bank expects to be involved in an exploratory project on geothermal energy.

## DJIBOUTI - Basic Data

### Area, population, and GDP per capita

| | |
|---|---|
| Area | 23,200 square kilometers |
| Population (1982) | 330,000 (government estimate)<br>42,000 refugees (HCR estimate) |
| GDP per capita (1982) | SDR 864<br>(adjusted downward by the World Bank to SDR 435 for comparison purposes) |

| | 1979 | 1980 | 1981 | 1982 | 1983 Est. | 1984 Proj. |
|---|---|---|---|---|---|---|
| | (In millions of Djibouti francs, unless otherwise noted) | | | | | |
| GDP at constant 1978 prices | 44,141 | 45,632 | 46,966 | 47,726 | 48,300 | 49,064 |
| GDP at market prices | 50,716 | 58,447 | 63,131 | 63,097 | 65,480 | 69,500 |
| GDP deflator (1978 = 100) | 114.9 | 128.1 | 134.4 | 132.2 | 135.6 | 141.7 |
| Consumer price index (Oct. 1978 = 100) | 110.6 | 123.6 | 130.7 | 127.5 | 129.3 | 133.3 |
| Use of resources 1/ | | | | | | |
| Gross domestic expenditure | 60,855 | 72,292 | 80,339 | 85,100 | 80,776 | 85,854 |
| Private consumption | 37,237 | 42,148 | 46,480 | 46,343 | 46,289 | 48,710 |
| Public consumption | 17,403 | 20,256 | 22,601 | 24,229 | 24,459 | 25,238 |
| Investment | 6,215 | 9,888 | 11,258 | 14,528 | 10,028 | 11,906 |
| Resource gap | 10,139 | 13,845 | 17,208 | 22,003 | 15,296 | 16,354 |
| Government finance | | | | | | |
| Budgetary revenue | 12,566 | 17,922 | 18,346 | 19,587 | 18,654 | 19,820 |
| Total revenue excluding grants | 13,918 | 19,426 | 20,313 | 21,880 | 20,905 | 22,144 |
| Total expenditure including net lending 2/ | 20,794 | 29,513 | 29,330 | 35,077 | 30,763 | 30,037 |
| Surplus/deficit (-) before grants | -6,876 | -10,087 | -9,017 | -13,197 | -9,858 | -7,893 |
| Grants | 8,433 | 13,560 | 11,189 | 7,926 | 4,875 | 3,785 |
| Overall surplus/deficit (-) | 1,557 | 3,473 | 2,172 | -5,271 | -4,983 | -4,108 |

1/ At current market prices.
2/ Includes extrabudgetary operations.

DJIBOUTI - Basic Data (concluded)

| | 1979 | 1980 | 1981 | 1982 | 1983 Est. (Sept.) | 1984 Proj. |
|---|---|---|---|---|---|---|
| | (In millions of Djibouti francs) | | | | | |
| Money and credit 1/ | | | | | | |
| Foreign assets (net) | 18,563 | 23,057 | 25,425 | 18,984 | 16,507 | -- |
| Monetary authorities | 11,859 | 15,576 | 15,224 | 15,262 | 11,458 | -- |
| Deposit money banks | 6,704 | 7,481 | 10,201 | 3,722 | 4,959 | -- |
| Domestic credit | -912 | -1,889 | -1,612 | 6,675 | 14,815 | -- |
| Claims on Government (net) | -8,293 | -11,792 | -13,836 | -10,272 | -5,801 | -- |
| Claims on private sector | 7,381 | 9,903 | 12,224 | 16,947 | 20,616 | -- |
| Money and quasi-money | 18,299 | 19,882 | 21,239 | 26,126 | 28,458 | -- |
| | (In millions of SDRs) | | | | | |
| Balance of payments | | | | | | |
| Trade balance | -39.5 | -53.2 | -73.7 | -98.0 | -66.5 | -72.1 |
| Exports, f.o.b. | 65.1 | 85.3 | 98.9 | 89.9 | 100.8 | 108.4 |
| Imports, f.o.b. | -104.6 | -138.5 | -172.6 | -187.9 | -167.3 | -180.4 |
| Services (net) | 10.0 | 15.9 | 29.4 | 16.9 | 21.3 | 27.4 |
| Unrequited transfers (net) | 38.0 | 61.0 | 56.6 | 41.1 | 26.1 | 20.6 |
| Current account balance | 8.5 | 23.7 | 12.3 | -40.0 | -19.1 | -24.1 |
| Capital movements | 1.0 | -7.6 | -14.1 | 40.2 | -2.3 | 13.2 |
| Public | -1.0 | 6.2 | -0.7 | 20.8 | 4.0 | 13.2 |
| Private (including errors and omissions) | 2.0 | -13.8 | -13.4 | 19.4 | -6.3 | (--) |
| Valuation adjustment | -0.6 | 1.9 | 6.7 | 4.1 | 4.2 | (--) |
| Overall balance (deficit -) | 8.9 | 18.0 | 4.9 | 4.3 | -17.2 | -10.9 |
| Reserves (end of period) | 50.7 | 68.7 | 73.6 | 77.9 | 60.7 | 49.8 |
| Outstanding external public debt (including public enterprises) | | | | | | |
| Disbursed (end of period) | 15.9 | 19.9 | 16.8 | 36.3 | 41.3 | 56.0 |
| Debt service | 1.7 | 2.4 | 3.3 | 3.1 | 4.1 | 4.6 |
| Exchange rates: | | | | | | |
| Djibouti francs per SDR | | | | | | |
| End of period | 234.12 | 226.67 | 206.86 | 196.05 | 184.00 | -- |
| Annual average | 229.62 | 231.31 | 209.56 | 196.21 | 186.60 | 184.0 |
| Import-weighted nominal effective rate (1980 = 100) 2/ | 99.6 | 101.9 | 122.3 | 144.0 | 156.0 | -- |

1/ Monetary statistics do not distinguish between transactions with residents and nonresidents.

2/ An increase in the index indicates an appreciation of the Djibouti franc.