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Correction 1

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January 12, 1984

To: Members of the Executive Board
From: The Secretary
Subject: Djibouti - Staff Report for the 1983 Article IV Consultation

The following correction has been made in SM/84/7 (1/5/84):

Page 1, Date: for "January 4, 1983" read "January 4, 1984"

A corrected page is attached.

Att: (1)

Other Distribution:
Department Heads

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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-Thanan

January 4, 1984

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