

January 13, 1981 - 81/6

Statement by Mr. Nana-Sinkam on Djibouti  
Executive Board Meeting 81/8  
January 14, 1981

This is the first Article IV consultation with Djibouti and I would like at the outset to convey to the staff the deep appreciation of my Djibouti authorities for the excellent and comprehensive reports on the country's current economic and financial situation. My authorities and myself have no major difficulties with the staff analysis and appraisal which we found to be well balanced and very thoughtful.

Djibouti, which gained independence in June 1977, is a small developing country strategically located in the eastern gate of the Red Sea. Its total population is estimated at about 300,000 people of which two thirds live in the capital city. The country has no known mineral resources and less than one quarter of one per cent of its total area of 23,200 square kilometers (i.e, less than 60 square kilometers) is suitable for agriculture and out of this total arable land, only 50 hectares are presently under cultivation. Rainfall is scarce and unseasonal which saddles the country with the critical problem of adequate water supply both for drinking and for agropastoral activities. It is against these adversities that Djibouti must wage the battle for economic development and bring about conditions for a continuous improvement in the living standards of its population at large.

Djibouti's economy is heavily dominated by the service sector which accounts for about 40 per cent of GDP. Understandably this situation has come about as a result of the limited scope for agriculture and the strategic location of the port city of Djibouti which has made possible the development of a significant transit trade and also a sizable foreign military garrison and technical assistance personnel. Since independence the country has enjoyed overall internal and external financial stability with both the national treasury and balance of payments showing strong surplus positions. However, during the same period, the pace of economic activity slowed considerably with real GDP dropping from about DF 22 million in 1976 to DF 19 million in 1977 and stagnating at that level in both 1978 and 1979. As is clearly pointed out in the staff papers, this stagnation is attributable to adverse external developments beyond the control of the Djibouti authorities: the recurrent drought conditions which adversely affected agropastoral activities, the rapid development of strong competition from ports in neighboring countries and the disruption of the traditionally flourishing transit trade following the Ogaden war.

The Djibouti authorities are fully aware that they must seek to insulate the national economy from adverse external developments. In this context, they are determined to pursue policies which are conducive to the rapid realization of conditions for strong and continuous economic growth and development.

With respect to production and investment policies, the authorities' utmost objective is to expand the productive base of the economy and generate employment opportunities compatible with the growth in the labor force. The authorities are fully aware that one of the first prerequisites to the achievement of their overall development objective is solving the problem of water supply. Accordingly they have given top priority to the exploration and development of water resources and have commissioned a hydrogeological survey which is conducted by a German team of experts. It is hoped that the results of the survey will be highly positive which would make it possible to undertake agricultural activities on a much more significant scale than is presently feasible.

The authorities have also stepped up their efforts to protect and increase the livestock herds as well as to bring about a more efficient exploitation of hides and skins, the country's only commodity exports. Strong efforts have also been deployed in the area of fishing with a view to bring fishing output to its full potential.

Another prerequisite to the achievement of the overall objective of strong and sustained economic growth and development relates to capital formation. Now that the required past independence adjustment process is well under way, the authorities can focus in a much clearer and more efficient fashion on the problem of stepping up the efforts to raise the level of investment. It is in this context that a planning unit has been established with a view to elaborating appropriate development plans. The authorities have rightly decided to orient investment outlays to those areas in which Djibouti has a definite comparative advantage, namely, the port. The intention to develop the port into a full container terminal with its own storage facilities to service the other ports in the region reflects the authorities' clear vision with regard to the appropriate policies pursued. Its implementation will undoubtedly contribute to alleviate the adverse impact of competition from neighboring ports and also enhance domestic port activities and employment opportunities. While the authorities have a clear vision of the various development priorities and projects, the required investment programs may be hindered by financing problems especially in light of the low level of domestic savings and the difficulties of obtaining concessional external financial flows because of the apparent high level of per capita income. In this connection, it is worth emphasizing that the present low level of domestic savings in the face of an estimated per capita income of \$1,000 in 1979 is not an anomaly. Indeed, the \$1,000 per capita income estimate is largely accounted for by the very high income of the expatriate population. As is well known, savings by expatriates are deposited abroad.

Thus if this fact is fully taken into account, it clearly appears that the income of Djibouti nationals is indeed very low and the level of domestic savings is not lower than what is generally observed in

developing countries having a comparable level of development process. The \$1,000 per capita income estimate is thus dangerously misleading and has, rightfully so, been a source of serious concern for my Djibouti authorities. Indeed, this unrealistic estimate has aggravated the difficulties the country has experienced in getting external financial assistance on concessionary terms. My authorities are ready to work out with the staff the necessary disaggregation and come up with a much more acceptable and meaningful per capita statistic. With regard to domestic financial policies, Djibouti has followed sound fiscal and monetary policies over the period under review.

In the fiscal field, the cautious policy stance has resulted in the generation of large budgetary surpluses in each of the last three years. This has come about through strong measures aimed at raising the level of government revenues and a tight control over expenditures and as the result of scarce investment opportunities at present, particularly in the agricultural sector. On the revenue side: (a) significant efforts have been undertaken to increase income taxes as well as consumption taxes; (b) Djibouti with its large expatriate population and its service oriented economy exhibits a high level of consumption and this has been a considerable source for government revenues. On the expenditure side: (a) emphasis has been put on tight expenditure control by freezing wages and salaries in the public sector, and; (b) government hiring has been limited.

As underlined above, what is lacking in the agricultural field is investment opportunity. "The authorities have not ruled out large-scale development of agriculture," as stated by the staff on page 4, penultimate sentence in the first full paragraph. The authorities are expecting anxiously the results of the hydrogeological survey being conducted by the German experts, which hopefully reveal agricultural possibilities, thanks to underground water.

In the monetary field, the authorities are in agreement with the staff that monetary policy should play a crucial role in the mobilization of domestic resources and in the allocation of credit to the productive sectors of the economy. It is without any doubt that with the strengthening of the capabilities of the monetary institutions, the authorities will not hesitate to play a more active role whenever they deem it warranted by the prevailing conditions.

Contrary to what is said in the third sentence on page 6 of the staff report, the authorities do not share the staff observations that the existence of differentials between interest rates in Djibouti francs and other currencies at a time when the DF is fully convertible into those currencies had given rise to anomalies and distortions in the financial market. The authorities do recognize that these differentials may result in anomalies and distortions, but they do not think this has been the case, and there does not seem to be any proof that such anomalies have in fact been observed in the system.