

May 26, 1982 - 82/74

Statement by Mr. Nana-Sinkam on Djibouti
Executive Board Meeting 82/70
May 24, 1982

At the outset and on behalf of my Djibouti authorities, I would like to thank the staff for their clear and concise presentation of the current economic and financial situation in Djibouti. My authorities and myself have no major difficulties with the staff analysis and appraisal which we found to be well balanced and thoughtful.

Djibouti continues to enjoy overall internal and external financial stability with both the national treasury and balance of payments showing strong surplus positions. Indeed, the overall budgetary surplus represented the equivalent of 3 per cent of GDP in 1981 while the global balance of payments registered a surplus of SDR 4.9 million and gross official external reserves amounted to SDR 73.6 million; this is the equivalent of 5 months of imports. The decline and stagnation in economic activity which the country experienced from independence in 1977 to 1979 has been reversed, with real GDP growing at an average annual rate of about 3 per cent in both 1980 and 1981, compared to an average annual decline of 2.7 per cent during the two preceding years. The same vigor in economic growth is expected in 1982. This upsurge in economic activity is largely attributable to very favorable external developments such as the abatement of hostilities in the Ogaden region and the subsequent resumption of the traditionally flourishing transit trade with Ethiopia.

Despite the apparent strength of its economy, Djibouti is a very small developing country which is highly vulnerable to external developments and severely constrained by serious natural limitations. Indeed, the country has no known mineral resources and less than 60 square kilometers of its total area are suitable for agriculture; out of this total area, only 50 hectares are cultivated. Rainfall is scarce and unseasonal, saddling the country with the critical problem of an adequate water supply both for drinking and for agropastoral activities. As a result of the limited scope for agriculture and related activities and of the strategic location of the port city of Djibouti, a significant transit trade has developed in the country over the years as well as a sizable foreign military garrison. Accordingly, the Djibouti economy is heavily dominated by the tertiary sector which accounts for more than 75 per cent of GDP at factor cost.

In their struggle for economic development, the Djibouti authorities are fully aware that they must seek to insulate the national economy from adverse externalities. In this context, they are giving utmost priority to economic diversifications while strengthening the performance in the areas where the country has a definite comparative advantage, namely, the port and the related transit trade activities. The strong efforts undertaken to develop the port into a full container terminal with its own storage facilities to service other ports in the region by

1983, reflects the authorities' clear vision with regard to the steps to be taken in pursuing their appropriate policy. The understandings reached with Ethiopia relating to the traffic on railway linking the two countries are also reflective of the determination of the authorities to promote greater economic activity.

With respect to economic diversification, as described in the staff report, the authorities are deploying considerable efforts in the fishing and manufacturing sectors. In fishing, fishermen are being organized and supplied with modern equipment and refrigeration while in manufacturing, plans exist for additional activities in food processing and building materials for both the domestic and foreign markets. In this connection, the authorities are aware of the need to promote policies which would ensure and enhance the external competitiveness of Djibouti exports. The participation in the Preferential Free Trade Area for Eastern and Southern African States will undoubtedly help to facilitate the authorities' efforts to promote exports.

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 increasing difficulties in obtaining concessional external capital flows. This has become a particularly important problem for Djibouti as some donor countries have signified their intention to phase out support for certain types of extra budgetary recurrent expenditures. It is in this context that the authorities are planning to convene a Donor's Conference with a view to securing greater concessional financial flows. They are hopeful that the technical assistance to be provided by the World Bank and the UNDP to the Planning Division and the Central Statistical Service will contribute positively toward the successful organization of the Donor's Conference. It is also hoped that the mistake made with respect to the per capita computation will be fully recognized by the international community and the appropriate corrective actions with respect to ODA flows for Djibouti will be undertaken. You will recall, Mr. Chairman, that already during the annual meeting, the authorities wrote you to ask the technical assistance of the Fund in this domain.

With respect to domestic financial policies, Djibouti continues to follow sound fiscal and monetary policies. In the fiscal field, the cautious policy stance has resulted in the generation of sizable budgetary surpluses in both 1980 and 1981. This stance has entailed mainly measures aimed at significantly raising the level of government revenues and at exerting a tight control over public expenditures. Indeed, the tax effort has been stepped up considerably, with the ratio of tax receipts to GDP reaching 22.4 per cent in 1981. On the expenditure side, expenditures commitments are now subjected to presidential scrutiny and approval, wages and salaries in the public sector have been frozen since 1976, and government hiring has been limited. While subsidies to public enterprises do not constitute at present a source of major concern, the

authorities are aware of the need to promote greater efficiency in the operations of these enterprises and are determined to take the appropriate action in this domain.

In the monetary field, the authorities fully recognize the importance of monetary policy in the mobilization of domestic resources and in the allocation of credit to the productive sectors of the economy. Accordingly, they intend to strengthen the capabilities of the National Bank of Djibouti. The authorities are committed to follow flexible interest rate policy as can be judged from the recent adjustment in the interest rate structure.