

**FOR
AGENDA**

EBS/08/105
Correction 1

September 16, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **Djibouti—Staff Report for the 2008 Article IV Consultation and Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility**

The attached corrections to EBS/08/105 (9/4/08) have been provided by the staff.

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views

Page 27, para. 1, line 2: for “[TBC]” read “September 10, 2008”

Page 31, Table 2, row 18 (Wages and related expenditure), columns 2–8: revised
row 20 (Housing subsidies 2/), columns 2–8: revised

Page 32, Table 2, row 15 (Wages and related expenditure), columns 2–8: revised
row 17 (Housing subsidies 2/), columns 2–8: revised

Questions may be referred to Mr. Delgado (ext. 34142), Mrs. Beidas-Strom (ext. 38922), and Mr. Pani (ext. 38536) in MCD.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (3)

Other Distribution:
Department Heads

**Djibouti —Three-Year Arrangement Under the
Poverty Reduction and Growth Facility**

Attached hereto is a letter from the Minister of Economy, Finance, and Planning In Charge of Privatization and Governor of the Central Bank of Djibouti dated September 10, 2008 (the “Letter”), with an attached Memorandum of Economic and Financial Policies (the “Memorandum”) and Technical Memorandum of Understanding (the “TMU”), requesting from the International Monetary Fund as Trustee of the Poverty Reduction and Growth Facility and Exogenous Shocks Facility Trust (the “Trustee”) a three-year arrangement under the Poverty Reduction and Growth Facility, and setting forth:

- (a) the objectives and policies of the program that the authorities of Djibouti intend to pursue during the three-year period of the arrangement;
- (b) the objectives, policies and measures that the authorities of Djibouti intend to pursue during the first year of the arrangement; and
- (c) understandings of Djibouti with the Trustee regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Djibouti will pursue for the second and third years of the arrangement.

To support these objectives and policies, the Trustee grants the requested three-year arrangement in accordance with the following provisions, and subject to the provisions applying to assistance under the Poverty Reduction and Growth Facility and Exogenous Shocks Facility Trust.

1. (a) For a period of three years from the date on which the arrangement becomes effective, Djibouti will have the right to obtain loan disbursements from the Trustee in a total amount equivalent to SDR 12.72 million, subject to the availability of resources in the Poverty Reduction and Growth Facility and Exogenous Shocks Facility Trust.
 - (b) Disbursements under this arrangement shall not exceed the equivalent of SDR 5.34 million until the beginning of the second year of the arrangement and the equivalent of SDR 8.292 million until the beginning of the third year of the arrangement.
2. During the period of the arrangement:
 - (i) the first disbursement, in an amount equivalent to SDR 3.864 million, will be available upon approval of the arrangement, at the request of Djibouti; and
 - (ii) the second disbursement, in an amount equivalent to SDR 1.476 million, will be available on or after March 31, 2009, at the request of Djibouti and subject to the paragraphs 4 and 5 below; and

- (iii) the third disbursement, in an amount equivalent to SDR 1.476 million, will be available on or after September 30, 2009, at the request of Djibouti and subject to the paragraphs 4 and 5 below;

3. The right of Djibouti to request disbursements during the second and third years of this arrangement shall be subject to such phasing and conditions as shall be determined at later reviews. The phasing and conditions for disbursements during the second year of the arrangement shall be determined at the time of the first review referred to in paragraph 4(c) of this arrangement.

4. Djibouti will not request the disbursements specified in paragraph 2 above:

(a) if the Managing Director of the Trustee finds that, with respect to the second disbursement, the data as of December 31, 2008, and with respect to the third disbursement, the data as of June 30, 2009 indicate that:

- (i) the ceiling on net credit to the government from the banking system; or
- (ii) the floor on the currency board cover;

as set out in Table 1 of the Memorandum and further specified in the paragraphs 52 and 54 of the TMU, respectively, was not observed or

(b) if the Managing Director of the Trustee finds that

- 1) with respect to the second disbursement, Djibouti, by November 30, 2008, has not carried out its intentions to submit a proposal of VAT Law to the National Assembly, with a single general rate set at 7 percent, as set out in Table 2 of the Memorandum and as further specified in paragraph 19 of the Memorandum; or
- 2) with respect to the third disbursement, Djibouti, by August 31, 2009, has not carried out its intentions to strengthen monetary control by introducing reserve requirements with respect to deposits, as set out in Table 2 of the Memorandum and as further specified in paragraph 29 of the Memorandum; or

(c) until the Trustee has determined:

- (i) with respect to the second disbursement, that the first review, and
- (ii) with respect to the third disbursement, that the second review,

of Djibouti's program, referred to in the paragraph 5 of the Letter and in paragraph 45 of the Memorandum has been completed.

Table 2. Djibouti: Central Government Fiscal Operations, 2005–11

(In millions of Djibouti francs)

	2005	2006	2007	2008	2008	2009	2010	2011
			Est.	Budget	Projections			
Revenues and grants	46,714	47,742	53,002	54,618	56,964	68,100	72,312	80,874
Tax revenue 1/	25,133	27,690	30,901	30,543	31,769	36,452	41,764	49,432
<i>Excl. overdue taxes</i>	24,714	27,027	28,775	29,618	30,569	35,552	40,864	48,532
Direct taxes	11,573	13,066	14,831	13,949	15,309	16,074	16,764	20,613
Indirect and other taxes	13,560	14,624	16,070	16,594	16,460	20,378	24,999	28,819
Indirect taxes	12,289	13,250	14,288	14,849	14,665	18,359	22,768	26,349
Other taxes	1,271	1,374	1,782	1,745	1,795	2,019	2,231	2,471
Nontax receipts (domestic)	5,552	3,849	3,633	3,800	3,625	4,057	2,847	3,149
French and U.S. contributions	8,246	10,926	10,999	11,682	11,305	11,331	11,376	11,437
Grants	7,783	5,277	7,469	8,593	10,266	16,260	16,326	16,856
Investment	4,757	1,720	6,268	6,238	6,238	10,595	11,579	12,225
Current expenditure	3,026	1,926	1,201	2,355	2,355	3,665	2,647	2,631
Budget support	0	1,631	0	0	1,673	2,000	2,100	2,000
Total expenditure	46,410	51,118	56,885	56,840	60,287	71,714	75,952	81,092
Current expenditure	34,699	40,816	40,026	38,228	42,246	47,715	49,697	56,864
Wages and related expenditure	18,607	19,926	20,801	22,124	22,124	23,809	25,663	27,851
Wages and contributions	16,862	17,879	18,747	19,852	19,852	21,401	23,154	25,254
Housing subsidies 2/	1,745	2,047	2,054	2,272	2,272	2,408	2,509	2,597
Goods and services	7,653	12,359	10,542	7,484	11,110	11,687	11,703	14,058
Civil expenditure	5,439	9,264	7,400	6,019	8,388	9,345	9,981	12,276
Military expenditure	2,214	3,095	3,142	1,465	2,722	2,342	1,722	1,781
Maintenance	640	660	1,043	651	660	900	995	1,100
Transfers 3/	3,294	4,470	4,754	4,708	5,263	6,657	7,432	9,849
Interest	543	612	614	706	734	998	1,258	1,376
Foreign-financed current spending	3,961	2,789	2,272	2,555	2,355	3,665	2,647	2,631
Investment expenditure	11,711	10,302	16,859	18,612	18,041	23,998	26,256	24,228
Domestically-financed	3,504	4,528	5,360	5,927	5,156	5,000	5,800	6,750
Foreign-financed	8,207	5,774	11,499	12,685	12,885	18,998	20,456	17,478
Grants	4,757	1,720	6,268	6,238	6,238	10,595	11,579	12,225
Loans	3,450	4,054	5,231	6,447	6,647	8,403	8,877	5,253
Overall balance (commitment basis)	304	-3,376	-3,883	-2,222	-3,322	-3,613	-3,640	-218
Change in arrears (cash payments = -)	-3,054	219	-999	-2,200	-1,950	-2,500	-2,200	-2,200
Domestic arrears	-3,151	259	-958	-2,200	-1,950	-2,500	-2,200	-2,200
External arrears (interest)	97	-40	-41	0	0	0	0	0
Overall balance (cash basis)	-2,750	-3,157	-4,882	-4,422	-5,272	-6,113	-5,840	-2,418
Financing	2,750	3,157	4,882	4,423	5,273	6,114	5,840	2,418
Domestic financing (net)	-363	-840	-309	-1,236	-1,649	-1,913	-1,160	-701
Bank financing	-267	-744	-213	-1,140	-1,553	-1,817	-1,064	-605
Central bank	-78	-1,117	-531	-889	-1,302	-1,692	-1,064	-605
Commercial banks	-189	373	318	-251	-251	-125	0	0
Nonbank financing	-96	-96	-96	-96	-96	-96	-96	-96
External financing (net)	3,594	3,756	5,011	5,659	6,922	8,027	7,000	3,119
Disbursements	4,385	4,917	6,302	6,647	8,737	9,403	8,877	5,253
Amortization payments	-791	-1,161	-1,291	-988	-1,815	-1,376	-1,877	-2,134
Current obligations	-1,152	-1,181	-1,188	-988	-1,175	-1,376	-1,877	-2,134
Net change in arrears and rescheduling 4/	361	20	-103	0	-640	0	0	0
Residual/financing gap	-481	241	180	-1	0	0	0	0
Memorandum items:								
Current expenditure for social purposes	13,531	14,199	13,737	14,999	16,543	20,497	21,560	27,574
Expenditure on goods and services and domestically-financed investment	11,157	16,887	15,902	13,411	16,266	16,687	17,503	20,808
Base fiscal balance (excl. French and U.S. contributions) 5/	-2,457	-9,866	-7,361	-6,107	-8,346	-7,229	-6,917	-7,066
Base fiscal balance (incl. French and U.S. contributions) 5/	5,789	1,060	3,638	5,575	2,959	4,103	4,460	4,371
Domestic revenue	30,685	31,539	34,534	34,343	35,394	40,509	44,611	52,582
Domestically-financed expenditure	33,142	41,405	41,895	40,450	43,740	47,737	51,527	59,648
Revenue from the military bases	8,246	10,926	10,999	11,682	11,305	11,331	11,376	11,437

Sources: Djibouti authorities; and Fund staff estimates and projections.

1/ Excluding the French contribution.

2/ Previously included in transfers.

3/ Excluding housing subsidies.

4/ Assumes Paris Club rescheduling, clearance of non-eligible Paris Club debt, and similar treatment of other non-Paris Club bilateral debt.

5/ Defined as domestic revenue minus expenditure financed from domestic sources.

Table 2. Djibouti: Central Government Fiscal Operations, 2005–11 (concluded)

(In percent of GDP)

	2005	2006	2007	2008	2008	2009	2010	2011
			Est.	Budget	Projections			
Revenues and grants	37.1	34.9	35.1	33.1	32.9	34.8	33.0	33.1
Tax revenue 1/	20.0	20.3	20.5	18.5	18.4	18.6	19.1	20.2
Excl. overdue taxes	19.6	19.8	19.1	18.0	17.7	18.2	18.7	19.9
Direct taxes	9.2	9.6	9.8	8.5	8.9	8.2	7.7	8.4
Indirect and other taxes	10.8	10.7	10.6	10.1	9.5	10.4	11.4	11.8
Indirect taxes	9.8	9.7	9.5	9.0	8.5	9.4	10.4	10.8
Other taxes	1.0	1.0	1.2	1.1	1.0	1.0	1.0	1.0
Nontax receipts (domestic)	4.4	2.8	2.4	2.3	2.1	2.1	1.3	1.3
French and U.S. contributions	6.5	8.0	7.3	7.1	6.5	5.8	5.2	4.7
Grants	6.2	3.9	4.9	5.2	5.9	8.3	7.5	6.9
Total expenditure	36.8	37.4	37.7	34.5	34.9	36.6	34.7	33.2
Current expenditure	27.5	29.9	26.5	23.2	24.4	24.4	22.7	23.3
Wages and related expenditure	14.8	14.6	13.8	13.4	12.8	12.2	11.7	11.4
Wages and contributions	13.4	13.1	12.4	12.0	11.5	10.9	10.6	10.3
Housing subsidies 2/	1.4	1.5	1.4	1.4	1.3	1.2	1.1	1.1
Goods and services	6.1	9.0	7.0	4.5	6.4	6.0	5.3	5.8
Civil expenditure	4.3	6.8	4.9	3.6	4.9	4.8	4.6	5.0
Military expenditure	1.8	2.3	2.1	0.9	1.6	1.2	0.8	0.7
Maintenance	0.5	0.5	0.7	0.4	0.4	0.5	0.5	0.4
Transfers 3/	2.6	3.3	3.1	2.9	3.0	3.4	3.4	4.0
Interest	0.4	0.4	0.4	0.4	0.4	0.5	0.6	0.6
Foreign-financed current spending	3.1	2.0	1.5	1.5	1.4	1.9	1.2	1.1
Investment expenditure	9.3	7.5	11.2	11.3	10.4	12.3	12.0	9.9
Domestically-financed	2.8	3.3	3.5	3.6	3.0	2.6	2.6	2.8
Foreign-financed	6.5	4.2	7.6	7.7	7.5	9.7	9.3	7.1
Grants	3.8	1.3	4.2	3.8	3.6	5.4	5.3	5.0
Loans	2.7	3.0	3.5	3.9	3.8	4.3	4.1	2.1
Overall balance (commitment basis)	0.2	-2.5	-2.6	-1.3	-1.9	-1.8	-1.7	-0.1
Change in arrears (cash payments = -)	-2.4	0.2	-0.7	-1.3	-1.1	-1.3	-1.0	-0.9
Domestic arrears	-2.5	0.2	-0.6	-1.3	-1.1	-1.3	-1.0	-0.9
External arrears (interest)	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-2.2	-2.3	-3.2	-2.7	-3.0	-3.1	-2.7	-1.0
Financing	2.2	2.3	3.2	2.7	3.0	3.1	2.7	1.0
Domestic financing (net)	-0.3	-0.6	-0.2	-0.7	-1.0	-1.0	-0.5	-0.3
Bank financing	-0.2	-0.5	-0.1	-0.7	-0.9	-0.9	-0.5	-0.2
Central bank	-0.1	-0.8	-0.4	-0.5	-0.8	-0.9	-0.5	-0.2
Commercial banks	-0.2	0.3	0.2	-0.2	-0.1	-0.1	0.0	0.0
Nonbank financing	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0
External financing (net)	2.9	2.7	3.3	3.4	4.0	4.1	3.2	1.3
Disbursements	3.5	3.6	4.2	4.0	5.1	4.8	4.1	2.1
Amortization payments	-0.6	-0.8	-0.9	-0.6	-1.0	-0.7	-0.9	-0.9
Current obligations	-0.9	-0.9	-0.8	-0.6	-0.7	-0.7	-0.9	-0.9
Net change in arrears and rescheduling 4/	0.3	0.0	-0.1	0.0	-0.4	0.0	0.0	0.0
Residual/financing gap	-0.4	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
GDP	125,976	136,645	151,033	164,928	172,882	195,826	218,958	244,472
Current expenditure for social purposes	10.7	10.4	9.1	9.1	9.6	10.5	9.8	11.3
Base fiscal balance (excl. French and U.S. contributions) 5/	-2.0	-7.2	-4.9	-3.7	-4.8	-3.7	-3.2	-2.9
Base fiscal balance (incl. French and U.S. contributions) 5/	4.6	0.8	2.4	3.4	1.7	2.1	2.0	1.8
Domestic revenue	24.4	23.1	22.9	20.8	20.5	20.7	20.4	21.5
Domestically-financed expenditure	26.3	30.3	27.7	24.5	25.3	24.4	23.5	24.4
Revenue from the military bases	6.5	8.0	7.3	7.1	6.5	5.8	5.2	4.7

Sources: Djibouti authorities; and Fund staff estimates and projections.

1/ Excluding the French contribution.

2/ Previously included in transfers.

3/ Excluding housing subsidies.

4/ Assumes Paris Club rescheduling, clearance of non-eligible Paris Club debt, and similar treatment of other non-Paris Club bilateral debt.

5/ Defined as domestic revenue minus expenditure financed from domestic sources.