International Monetary Fund

IMF Executive Board Completes Sixth and Final Review Under the Extended Credit Facility Arrangement for Djibouti and Approves US$9.5 million Disbursement

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The Executive Board of the International Monetary Fund (IMF) has completed the sixth and last review of Djibouti's performance under the economic program supported by the Extended Credit Facility[1] arrangement (ECF). Completion of the review enables the immediate disbursement of SDR 6.246 million (about US$9.5 million), bringing total disbursements under the arrangement to SDR 22.26 million (US$33.9 million).

In completing the review the Executive Board approved the authorities' request for waivers of nonobservance of the end-December 2011 performance criteria on the fiscal balance and on the net banking system credit to the government. Furthermore, the Board also approved a waiver of nonobservance of the continuous performance criterion on the accumulation of new domestic arrears (related to delays in social security payments). These waivers were granted on the grounds of temporary or minor deviations from the program objectives and the corrective measures undertaken by the authorities.

The ECF arrangement for Djibouti was approved on September 17, 2008 (see Press Release No. 8/211) for an amount equivalent to SDR 12.72 million (about US$19.4 million, or 80 percent of the country's quota in the Fund). On January 7, 2011, the ECF arrangement was extended by 9 months, through June 16, 2012 (see Press Release No. 11/3). The Executive Board subsequently approved an augmentation of financing under the ECF arrangement by SDR 9.54 million (about US$14.5 million or 60 percent of quota) on February 6, 2012. See Press Release No.12/38.

After the Executive Board's discussion on May 23, Ms. Nemat Shafik, Deputy Managing Director and Acting Chair, said:

"Since 2011, Djibouti has been hit hard by external challenges including the surge in commodity prices and the drought in the Horn of Africa, which have affected particularly the poorest households. As a consequence, higher imports, especially of food and fuel, have increased the current account deficit and external financing needs, and have put pressure on fiscal space through lower tax revenues and higher fuel subsidies. Nevertheless, the economy grew at a good pace in 2011, thanks to the recovery of transshipment activities and the transit trade to Ethiopia. Economic activity is expected to remain strong in 2012, buoyed by port activity, trade with Ethiopia, construction and foreign direct investment. However, growth remains concentrated in the port and the free trade zone, and unemployment and poverty remain key challenges.

"The program supported by the IMF's Extended Credit Facility, which began in 2008, is nearing its conclusion. Despite a mixed implementation record, the program has helped Djibouti maintain macroeconomic stability in a period that saw a transformation of the economy, when massive foreign direct investment expanded port activity, transit trade to Ethiopia soared, the banking system boomed, and the country played an increasingly important geopolitical role. The program has also helped Djibouti make progress toward economic reform, job creation, and poverty reduction. The competitiveness of the economy has strengthened through cost-reducing structural reform and an improved business climate, but much remains to be done in this area to support private sector development."

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[1] The Extended Credit Facility (ECF) has replaced the Poverty Reduction and Growth Facility (PRGF) as the Fund's main tool for medium-term financial support to low-income countries by providing a higher level of access to financing, more concessional terms, enhanced flexibility in program design features, and more focused streamlined conditionality. Financing under the ECF currently carries a zero interest rate, with a grace period of 5½ years, and a final maturity of 10 years (http://www.imf.org/external/np/exr/facts/ecf.htm). The Fund reviews the level of interest rates for all concessional facilities every two years.

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