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CONTAINS CONFIDENTIAL
INFORMATION

July 1, 1986

To: Members of the Executive Board

From: The Acting Secretary

Subject: Djibouti - Staff Report for the 1986 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1986 Article IV consultation with Djibouti which will be brought to the agenda for discussion on a date to be announced.

Mr. Rothman (ext. 8598) or Miss Calika (ext. 6948) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

DJIBOUTI

Staff Report for the 1986 Article IV Consultation

Prepared by the Staff Representatives for the 1986 Consultation with Djibouti

Approved by A.D. Ouattara and W.A. Beveridge

June 27, 1986

I. Introduction

The 1986 Article IV consultation discussions were held in Djibouti during the period April 16-May 1, 1986. The representatives of Djibouti included Mr. Luc Aden, Governor of the National Bank of Djibouti; Mr. Ibrahim Sultan, Minister of Finance and National Economy; Mr. Yousouff Ali Chirdou, Minister of Interior; Mr. Fahmy Al Haq, Minister of Industry; and senior officials of ministries and agencies concerned with economic and financial matters. The staff representatives were Messrs. Saul Rothman (head-AFR), Louis Dicks-Mireaux (AFR), Mark Ellyne (BUR), and Manuel Pinho (EP-AFR), with Ms. Ada de Korver (AFR) as secretary.

Djibouti has accepted the obligations of Article VIII, Sections 2, 3, and 4, of the Articles of Agreement. Summaries of Djibouti's relations with the Fund and the World Bank Group are provided in Attachments I and II, respectively. A brief review of statistical issues is contained in Attachment III, and the basic data table is provided in Attachment IV. Djibouti is eligible for access to the Structural Adjustment Facility (SAF).

II. Background and Recent Economic and Financial Developments

Djibouti's economy is heavily dependent upon the services sector, owing mainly to severely limited agricultural potential and a virtual absence of commercially exploitable mineral resources. Merchandise exports of domestic origin are insignificant, and aggregate output and foreign exchange earnings derive principally from the seaport of Djibouti, an international airport, a rail link to Ethiopia, a private banking system, and services to a large number of expatriate civilian and military personnel. The service sector (excluding public administration) accounts for about 40 percent of gross domestic product (GDP) at factor cost, while the contributions of manufacturing and agriculture (including livestock and fishing) are only 10 percent and 6 percent, respectively.

The commercial banks, all of which are foreign owned, do not lend to the public sector (i.e., the Central Government and public enterprises), and their considerable offshore business is facilitated by the absence of exchange and trade controls. The National Bank of Djibouti has limited policy instruments at its disposal, also does not lend to the public sector, and, moreover, provides no refinancing facilities for the commercial banks. Djibouti's public enterprise sector comprises 16 entities, mainly engaged in providing domestic public utility and foreign exchange-related transportation and communication services, and accounts for about one fourth of GDP. Public enterprise operations are not included in the Central Government's budget, and enterprise investment programs have been financed almost entirely by external loans and grants and internally generated funds.

Since 1949, the Djibouti franc has been linked to the U.S. dollar, with which it is freely convertible. Subsequent to a change in 1973, a fixed rate of US$1 = DF 177.721 has been maintained. The National Bank of Djibouti issues Djibouti francs for U.S. dollars, and the currency issue is required by law to be covered entirely by U.S. dollars.

During the period 1982-84 Djibouti experienced relatively weak economic activity and generally growing domestic and external imbalances. The growth in real GDP was only just over 1 percent per annum, attributable largely to a sharp appreciation of the exchange rate and a consequent reduction in the purchasing power of foreign personnel and in commercial activities with neighboring countries (Table 1). The nominal effective exchange rate, in line with movements of the U.S. dollar vis-à-vis other currencies, appreciated by about 45 percent (see Chart). 1/ Private plus public consumption remained close to 100 percent of GDP, which, combined with an increase in the investment ratio, resulted in a growing resource gap that reached 28 percent of GDP in 1984. Price pressures emanating from the domestic imbalances were mitigated by the sharp effective appreciation of the exchange rate and wage restraint. Government wage scales were unchanged, and private sector pay increases were generally modest. The consumer price index 2/ was essentially unchanged, while the GDP deflator rose by only a cumulative 2.4 percent. However, as discussed below, the demand/supply imbalances were maintained at the cost of a substantial fall in foreign exchange reserves and a sharp rise in external debt.

1/ The absence of reliable price statistics precludes the calculation of a real effective exchange rate.

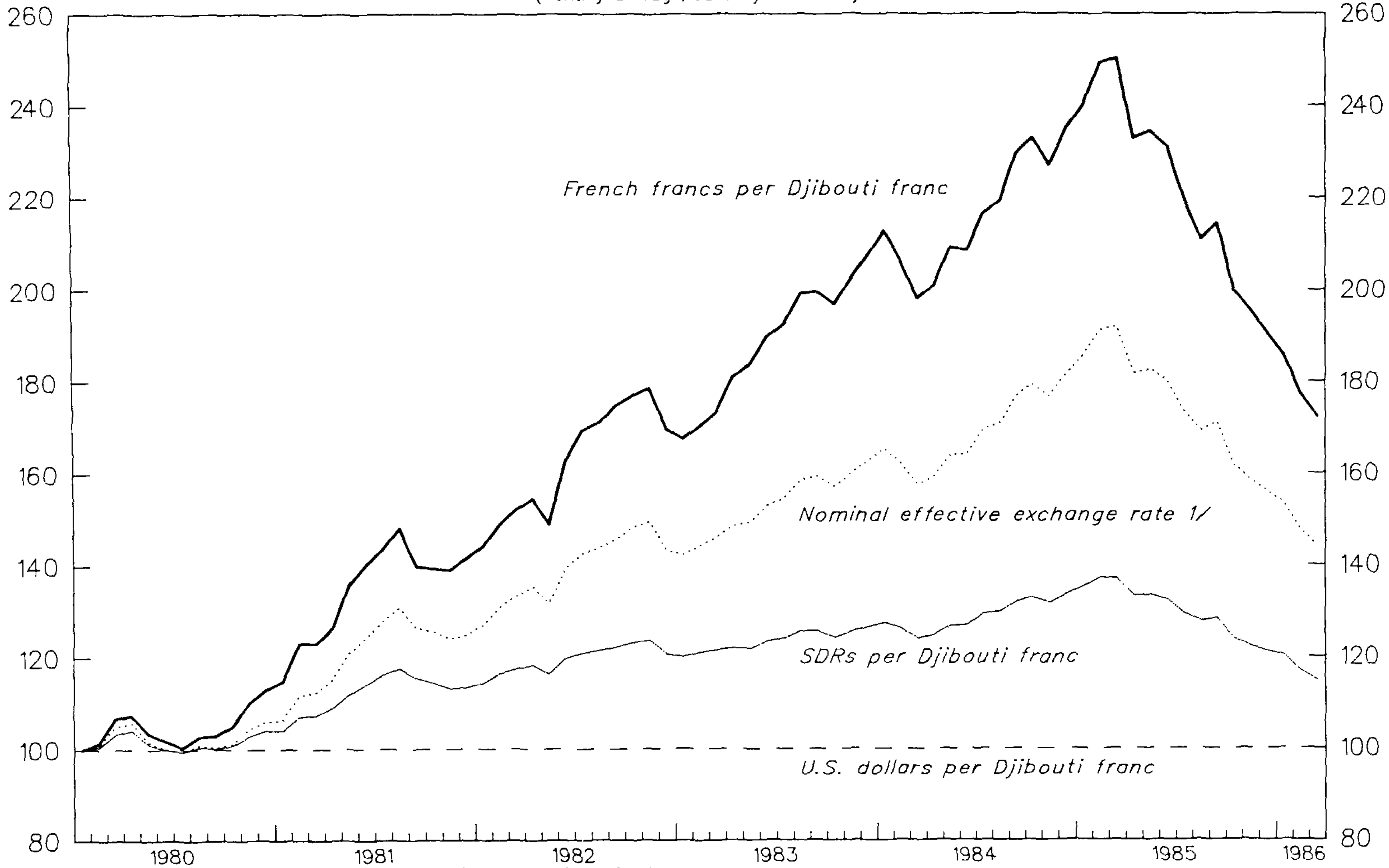
2/ This is the price index for expatriates living in Djibouti and, as such, has inherent deficiencies as a representative measure of consumer price levels and movements.

CHART

DJIBOUTI

EXCHANGE RATE DEVELOPMENTS, JANUARY 1980–MARCH 1986

(Monthly average; January 1980=100)



Sources: IMF, *International Financial Statistics*, and staff estimates.

1/ The weights were derived on the basis of the shares of Djibouti's major partner countries in foreign trade in 1980. The selected major partners were France, the United States, Japan, Belgium, Denmark, Germany, Italy, the Netherlands, the United Kingdom, Hong Kong, and Thailand. An increase in the index indicates an appreciation of the Djibouti franc.

Table 1. Djibouti: Selected Economic and Financial Indicators, 1981-86

	1981	1982	1983	1984	1985 Est.	1986 Proj.
			(In millions of Djibouti francs)			
Nominal GDP	56,818	59,383	59,997	60,234	60,354	60,655
			(Annual percentage changes)			
National income and prices						
GDP at current prices	6.2	4.5	1.0	0.4	0.2	0.5
GDP at constant prices	2.9	1.7	1.2	0.6	-0.2	-1.2
Consumer prices	5.7	-2.4	0.9	1.7	2.2	9.2
Central government finance						
Budget revenue	25.6	8.1	-4.3	2.8	6.2	-2.2
Grants	...	18.5	-24.3	30.5	-25.1	6.7
Current expenditure	12.1	41.1	0.7	-2.8	6.1	6.4
Capital expenditure	...	41.7	5.0	6.8	-1.4	-7.1
Total expenditure	...	42.4	1.7	-0.5	4.2	3.2
Money and credit						
Net foreign assets	10.3	-25.3	-16.9	-11.8	-0.5	...
Claims on Treasury (net)	-30.4	36.1	38.2	28.7	-2.0 1/	...
Claims on private sector	23.4	38.6	11.6	21.5	9.4	...
Money plus quasi-money	6.8	23.0	-13.8	7.9	5.1	...
External sector						
Exports, f.o.b. 2/	5.1	-15.3	-0.1	-6.9	-3.6	4.4
Imports, f.o.b.	2.8	0.8	-2.2	1.2	-0.3	0.1
			(In percent of GDP)			
Investment	20.5	26.1	25.9	28.3	26.0	22.3
Consumption	100.9	101.0	99.5	99.7	101.5	104.0
Resource gap	21.4	27.1	25.4	28.0	27.5	26.3
Central government tax revenue	27.2	27.7	27.3	28.1	29.4	30.7
Central government expenditure	31.8	42.9	43.2	42.8	44.5	45.7
Central government surplus (+)/ deficit (-) (before grants)	0.8	-9.5	-11.5	-10.4	-10.2	-12.2
Grants	3.5	5.0	3.7	4.9	3.6	4.0
Central government surplus (+)/ deficit (-) (after grants)	4.3	-4.5	-7.8	-5.5	-6.5	-8.4
External current account surplus (+)/deficit (-)	9.1	-5.0	-10.1	-17.5	-17.6	-17.4
Overall surplus (+)/deficit (-)	4.2	-10.8	-5.3	-3.1	-0.1	-0.8
Outstanding external debt (in millions of SDRs)	17.1	22.1	32.1	63.0	88.9	122.1
Debt service (in millions of SDRs)	2.7	2.9	4.0	3.4	3.8	6.1
Foreign exchange reserves (in weeks of imports)	14	13	7	6	5	...
Exchange rates						
Djibouti francs per SDR						
End of period	207	196	186	174	195	...
Period average	210	196	190	182	180	...
Djibouti francs per French franc						
Period average	32.7	27.0	23.3	20.3	19.8	...
Import-weighted nominal effective rate (January 1980 = 100) 3/; end of period	125.0	143.5	162.8	181.8	156.1	...

Sources: IMF, International Financial Statistics; data provided by the Djibouti authorities; and staff estimates and projections.

1/ Includes blocked account (Special Reserve Fund) at the National Bank of Djibouti.
2/ Virtually all exports are re-exports to civilian and military personnel in Djibouti and to neighboring countries.
3/ An increase in the index indicates an appreciation of the Djibouti franc.

The weakness in the overall economic situation was accompanied by a sharp deterioration in the fiscal position. Budget revenue grew only marginally (Table 2). On the other hand, despite generally tight control of current expenditure, central government spending in 1984 was 44 percent above the 1981 level, due largely to the incorporation in 1982 of all military expenditures into the budget (this "accounting" increase explains about 55 percent of the rise in government spending) and rising capital outlays. Previously, military outlays had been financed almost entirely through external grants outside the budget. In 1982, also, France terminated the provision of grants for specific purposes, replacing them with successively reduced annual levels (in French franc terms) of "block" grants. Overall, the Central Government's position (including grants) shifted from a surplus of 4.3 percent of GDP in 1981 to deficits averaging 6 percent of GDP. As a consequence and notwithstanding substantially higher net capital inflows, the Treasury's deposits declined sharply by DF 9.3 billion. Moreover, in 1984 there was an accumulation of about DF 2 billion (10 percent of 1985 budgetary revenue) in unpaid bills. 1/

Money plus quasi-money, though showing erratic movements, increased at an average annual rate of close to 5 percent over the three years 1982-84, as rapid growth in credit to the private sector and a rundown in treasury deposits exceeded a decline in net foreign assets (Table 3).

Regarding the balance of payments, through 1981 large trade deficits had been more than offset by transfers and net capital inflows, resulting in a substantial accumulation of foreign exchange reserves (Table 4). Subsequently, imports for domestic use rose with increased investment and the sharp appreciaton of the Djibouti franc, and exports and transfers declined. As a result, the current account shifted from a surplus of about 9 percent of GDP to a deficit, which, in 1984, reached the equivalent of 17 percent of GDP. Despite larger net capital inflows, overall deficits were incurred during 1982-84, financed by a substantial drawdown of foreign exchange reserves. By end-1984, official international reserves (excluding monetary cover) were only SDR 20 million, compared with SDR 42 million at end-1981.

The economic stagnation and growing imbalances which marked the period 1982-84 continued in 1985. Increased output in the transportation, energy, and agricultural sectors was more or less offset by a decline in construction, associated with the winding-down of several large projects and a reduced availability of bank credit, and in commercial activity. The effective depreciation of the Djibouti franc by 19 percent from March through December 1985 appears to have had

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1/ These are bills for which payment orders have not been issued or transmitted to the Treasury. They are mainly in respect of services received from French hospitals and the national electricity company, refunds due to taxpayers, and nondebt obligations to international organizations.

Table 2. Djibouti: Financial Operations of the Central Government, 1981-86

(In millions of Djibouti francs)

	1981	1982	1983	1984	1985 Est.	1986 Proj.
Total revenue	18,380	19,861	18,999	19,528	20,733	20,286
Tax revenue	(15,469)	(16,450)	(16,372)	(16,900)	(17,744)	(18,600)
Nontax revenue	(2,911)	(3,411)	(2,627)	(2,628)	(2,989)	(1,686)
Total expenditure	17,905	25,497	25,922	25,794	26,866	27,714
Current budgetary expenditure	13,757	19,618	19,751	19,205	20,371	21,683
Of which: wages and salaries	(6,364)	(10,842)	(11,533)	(11,939)	(12,574)	(13,250)
goods and services	(4,941)	(6,611)	(6,670)	(5,877)	(6,573)	(6,750)
Capital expenditure	4,148	5,879	6,171	6,589	6,495	6,031
Of which: extrabudgetary expenditure	(--)	(284)	(640)	(3,846)	(3,983)	(3,584)
Overall surplus (+)/deficit (-) (before grants)	475	-5,636	-6,923	-6,266	-6,133	-7,428
Grants	1,963	2,960	2,241	2,925	2,190	2,338
Overall surplus(+)/deficit (-) (after grants)	2,438	-2,676	-4,682	-3,341	-3,942	-5,090
Financing	-2,438	-2,676	-4,682	3,341	3,942	5,090
Foreign	33	187	451	1,944	2,332	3,179
Drawings	(90)	(229)	(531)	(2,177)	(2,486)	(3,584)
Amortization	(-57)	(-42)	(-80)	(-233)	(-154)	(-405)
Domestic	-3,188	4,510	3,007	1,509	1,402	991
Change in treasury deposits (increase -)	(-3,103)	(4,671)	(3,154)	(1,464)	(1,212)	(1,200)
Amortization	(-85)	(-161)	(-147)	(-115)	(-160)	(-209)
Nonbank financing	(--)	(--)	(--)	(160)	(350)	(--)
Other 1/	717	-2,021	1,224	-112	208 2/	--
Financing gap	--	--	--	--	--	920
Memorandum items:						
Reimbursement of external debt service 3/	--	--	--	--	1,138	--
Unpaid bills (end of period)	--	--	--	2,066	1,714	1,714
Change in unpaid bills	--	--	--	2,066	-352	--

Sources: Data provided by the Djibouti authorities; and staff estimates and projections.

1/ This is a residual item comprising unidentified financing and, more significantly, adjustments required to make financing data (12-month basis) conform to revenue and expenditure data (15-month basis).
2/ Includes decline in unpaid bills (DF 352 million).
3/ Reimbursement of principal and interest previously paid to the French Caisse Centrale de Coopération Economique, which was transferred to a Special Reserve Fund (i.e., blocked account at the National Bank of Djibouti).

Table 3. Djibouti: Monetary Survey, 1981-85 1/

(In millions of Djibouti francs; end of period)

	1981	1982	1983	1984	1985
Foreign assets (net)	25,425	18,984	15,784	13,930	13,866
Monetary authorities	15,224	15,262	11,204	11,087	10,965
Monetary cover 2/	(6,450)	(6,578)	(6,924)	(7,671)	(7,416)
Other foreign assets	(8,417)	(9,351)	(3,969)	(3,130)	(3,235)
Reserve position in Fund	(254)	(243)	(231)	(216)	(242)
SDR holdings	(103)	(90)	(80)	(70)	(72)
Commercial banks	10,201	3,722	4,580	2,843	2,901
Domestic credit	-700	8,694	13,820	19,348	21,428
Claims on Treasury (net)	(-12,924)	(-8,253)	(-5,099)	(-3,635)	(-3,709) 3/
Claims on private sector	(12,224)	(16,947)	(18,919)	(22,983)	(25,137)
Money and quasi-money	21,238	26,126	22,509	24,293	25,522
Currency outside banks	(5,922)	(5,908)	(6,440)	(6,598)	(6,686)
Deposits with commercial banks	(14,386)	(18,079)	(15,534)	(17,027)	(18,338)
Deposits with the Treasury	(930)	(2,139)	(535)	(668)	(498)
Other items (net)	3,487	1,552	7,095	8,985	9,772
Of which: commercial banks 4/	(3,148)	(1,339)	(6,893)	(9,157)	(9,186)

Source: Data provided by the Djibouti authorities.

1/ Monetary statistics reported by commercial banks do not distinguish between transactions with residents and nonresidents. Djibouti franc and foreign currency claims and liabilities are classified as domestic and foreign claims and liabilities, respectively.

2/ The monetary cover is equivalent to the sum of currency outside banks, currency inside banks, and currency held at the Treasury.

3/ Includes the blocked account (Special Reserve Fund) at the National Bank of Djibouti.

4/ Comprises largely interbank transactions and increases in banks' capital during 1983 and 1984.

Table 4. Djibouti: Balance of Payments, 1981-86

(In millions of SDRs)

	1981	1982	1983	1984	1985 Est.	1986 Proj.
Balance of trade	-62.8	-84.6	-83.5	-96.0	-99.5	-85.5
Exports, f.o.b. 1/	98.9	89.5	92.4	89.7	87.3	81.3
Imports, f.o.b.	-161.7	-174.1	-175.9	-185.6	-186.8	-166.7
Services (net)	30.9	27.9	21.4	18.1	18.1	17.0
Freight and insurance	-28.5	-30.7	-31.0	-32.8	-33.0	-29.4
Other transportation	9.3	11.3	11.7	13.8	17.2	14.5
Purchases by nonresidents 2/	32.8	31.6	29.8	27.2	28.2	28.0
Investment income	18.8	18.5	11.6	10.4	6.9	5.6
Interest	-0.8	-0.7	-1.1	-1.4	-2.2	-2.3
Other	-0.7	-2.0	0.4	1.0	0.9	0.6
Balance on goods and services	-31.9	-56.7	-62.0	-77.9	-81.4	-68.5
Unrequited transfers (net)	56.6	41.6	30.0	20.4	22.5	16.2
Official	56.8	41.6	30.1	20.5	22.6 3/	16.3
Private	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Current account	24.8	-15.1	-32.0	-57.5	-58.9	-52.2
Capital account	-3.6	-11.0	18.2	54.4	50.0	49.8
Public capital	-0.7	6.6	11.8	38.4	31.3	28.7
Drawings	(1.2)	(8.8)	(14.6)	(40.4)	(32.9)	(32.5)
Amortization	(-1.9)	(-2.2)	(-2.9)	(-2.0)	(-1.6)	(-3.8)
Private, including errors and omissions	-2.9	-17.6	6.5	16.0	18.7	21.1
Overall balance	21.2	-26.1	-13.8	-3.1	-8.9	-2.5
Financing	-21.2	26.1	13.8	3.1	8.9	2.5
Monetary authorities	-4.9	-4.3	18.9	-4.7	7.5	2.5
Commercial banks	-16.3	30.3	-5.1	7.8	1.5	0.0
Memorandum items:						
Gross official reserves						
In millions of SDRs	42.4	44.3	22.5	19.6	18.2	...
In weeks of imports	13.6	13.2	6.7	5.5	5.1	...
Djibouti francs per SDR (period average)	209.56	196.21	189.98	182.17	180.45	202.29

Sources: Data provided by the Djibouti authorities; and staff estimates and projections.

1/ Consists almost entirely of re-exports, since exports of domestic origin are insignificant.
2/ Sales of services to expatriate civilian and military personnel.
3/ Includes reimbursement of debt service payments (SDR 6.3 million) on debt canceled by France.

virtually no positive impact on the level of aggregate output and foreign exchange earnings. On the other hand, the depreciation pushed the rate of inflation, as measured by the consumer price index, to about 12 percent (end-1985 compared with end-1984).

In the area of public finance, despite relative restraint in expenditures and several tax measures over the course of 1984-85 (including mainly higher domestic consumption taxes; additional taxes on several luxury goods; increases in surtaxes on several consumer goods; and the introduction of taxes on certain importers and their imports), the central government deficit widened to 6.5 percent of GDP (5.5 percent in 1984), as grants declined. Also, as intended, the level of unpaid bills was reduced (by about DF 350 million). Thus, despite an increase in the net inflow of external loans, there was another significant fall in treasury deposits (DF 1.2 billion). 1/ With slack overall economic activity, and coincident with the National Bank of Djibouti's call for more restrained credit expansion, the growth in credit to the economy decelerated markedly from 21 percent in 1984 to 9 percent in 1985. Reflecting this, the growth in broad money also moderated (to 5 percent from 8 percent in 1984).

During 1985 Djibouti's external current account deficit was essentially unchanged, but net public capital inflows fell. Thus, a larger overall balance of payments deficit of SDR 9 million was recorded. Moreover, were it not for a reimbursement by France of previously paid debt service payments of SDR 6.3 million (included in official transfers), an overall deficit of SDR 15.2 million would have been incurred. 2/ The policy of monetary cover continued to come under pressure. By end-1985 the ratio of net foreign exchange reserves to money plus quasi-money had fallen to only 0.54, compared with 1.20 at end-1981 and 0.57 at end-1984.

Djibouti's external public and publicly guaranteed debt (largely concessional) has been rising sharply; as of end-1985, outstanding debt amounted to SDR 88.9 million, or 29 percent of GDP, compared with only SDR 17.1 million at end-1981. Debt service payments in 1985 were SDR 3.8 million.

1/ Excluding the amount transferred to the Special Reserve Fund. See footnote 1 on the following page.

2/ Djibouti's debt to the French Caisse Centrale de Coopération Economique (CCCE) as of end-1978 was canceled, and the principal and interest payments that had been paid on that debt through 1984 were reimbursed and transferred to a Special Reserve Fund (i.e., a blocked account of the Treasury at the National Bank of Djibouti).

III. Report on the Discussions

1. Prospects for 1986 and the medium term

In their discussions, the staff representatives were apprised that the overall prospects for the current year were not encouraging. In particular, the fiscal situation had reached what the Djibouti representatives termed "a crisis." There was no expectation of a pick-up in aggregate output, and, with the further sharp depreciation of the effective exchange rate by 8 percent from end-1985 through March 1986, an even higher rate of inflation was likely. Government revenues were projected to decline by 2 percent from their 1985 level, reflecting a fall in nonfiscal receipts, including, importantly, interest earned on treasury deposits. On the other hand, total expenditure was expected to rise by 3 percent, reflecting largely additional government employment and a rise in interest payments. The central government deficit would thus increase further to 8.4 percent of GDP. In addition, notwithstanding a spurt in drawings on external loans, the Treasury's deposits would be virtually depleted or a sizable financing gap would emerge, which could imply an increase in unpaid bills.

Regarding the external accounts, the trade deficit was expected to narrow, stemming mainly from a decline in investment and project-related imports and a lower level of other imports for domestic use associated with the reversal of the appreciation of the effective exchange rate. Nevertheless, taking into account projections for a stable level of net service receipts, a fall in net transfers, and an essentially unchanged net capital inflow, another, but smaller, overall balance of payments deficit (SDR 2.5 million) would be incurred.

For the medium term, and with the collaboration of the Djibouti representatives, the staff representatives elaborated a scenario for the external accounts through 1991 (Table 5). At the outset, it should be noted that there are considerable difficulties in making balance of payments estimates and projections associated with problems faced in the collection and compilation of statistics, as reflected in the relatively large residual category (private capital and errors and omissions). The Djibouti authorities thus intend to request shortly Fund technical assistance in this area.

For the period through 1991, on the assumption of no real increase in re-exports to expatriate personnel (about 90 percent of total exports) and in view of the presently limited potential for exports of domestic origin, the level of total exports was projected to increase by 4.5 percent per annum. The level of imports was projected to rise by about 1.3 percent per annum, reflecting a constant volume of imports for re-exports, a decline in project-related requirements, and, on the assumption of growth in real GDP of 2 percent per annum, an increase of 5 percent in the value of other imports. Despite a rise in interest

Table 5. Djibouti: Balance of Payments, Medium-Term Scenario, 1986-91

(In millions of SDRs)

	1986	1987	1988	1989	1990	1991
Balance of trade	85.5	-81.6	-77.7	-75.9	-75.4	-76.7
Exports, f.o.b.	81.3	87.3	90.6	94.0	97.6	101.3
Imports, f.o.b.	-166.7	-168.8	-168.3	-170.0	-173.0	-178.1
Services (net)	17.0	18.6	20.0	21.2	22.4	23.4
Freight and insurance	-29.4	-29.8	-29.7	-30.0	-30.5	-31.4
Other transport	14.5	14.8	15.1	15.4	15.7	16.0
Purchases by nonresidents	28.0	30.3	31.5	32.7	34.0	35.4
Interest	-2.3	-2.9	-3.3	-3.5	-3.5	-3.4
Other	6.2	6.3	6.4	6.5	6.7	6.8
Balance on goods and services	-68.5	-62.9	-57.7	-54.7	-53.0	-53.3
Unrequited transfers	16.2	15.5	14.8	14.2	13.7	13.2
Official	16.3	15.6	14.9	14.3	13.8	13.3
Private	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Current account	-52.2	-47.4	-42.9	-40.5	-39.3	-40.1
Capital account	49.8	38.1	28.9	21.2	15.3	12.9
Public capital	28.7	17.0	7.8	0.2	-5.8	-8.1
Drawings	(32.5)	(24.7)	(16.1)	(9.9)	(5.0)	(2.3)
Amortization	(-3.8)	(-7.7)	(-8.2)	(-9.7)	(-10.8)	(-10.5)
Private, including errors and omissions	21.1	21.1	21.1	21.1	21.1	21.1
Overall balance	-2.5	-9.3	-14.0	-19.2	-24.0	-27.2
Memorandum items:						
Debt service	6.1	10.6	11.6	13.2	14.3	13.9
Interest	(2.3)	(2.9)	(3.3)	(3.5)	(3.5)	(3.4)
Amortization	(3.8)	(7.7)	(8.2)	(9.7)	(10.8)	(10.5)

Sources: Data provided by the Djibouti authorities; and staff projections.

payments, net service revenues were still foreseen rising by about 7 percent per annum. Grants are scheduled to decline. On the assumption for illustrative purposes of no new external loans after early 1986, and in recognition of Djibouti's limited absorptive capacity, external loan disbursements for development projects would fall sharply (as would directly associated imports, estimated at about 80 percent of disbursements). At the same time, scheduled amortization payments are expected to almost triple. Thus, Djibouti would confront unsustainable overall balance of payments deficits, with foreign exchange reserves exhausted by 1988.

2. Policies

In the context of the external prospects noted above, policy discussions focused on current supply-side attempts to promote foreign exchange earnings/savings and on the need for a more appropriate demand management framework. Consistent with the emphasis accorded in the Summing Up at the conclusion of the 1985 Article IV consultation, particular attention was devoted to the required strengthening of financial policies.

a. Production, income, and price policies

The Djibouti representatives pointed to several areas in the services sector where capacity was being increased--capacity for which they hoped sufficient external demand would be forthcoming. A new container facility at the Port Autonome de Djibouti had just completed its first full year of operations, and, due to labor-cost savings, had already proven to be profitable. The facility was operating at only 25 percent of capacity, which offered considerable scope for additional service receipts without further net investment. The Office des Postes et Télécommunications (OPT) and the Société de Télécommunications Internationales de Djibouti (STID) had also just completed significant investment programs. Djibouti had recently been connected as a relay post on the Singapore-Middle East-Europe undersea cable, and a communications satellite receiver had just been installed. Aéroport Djibouti was continuing to undergo a modernization and expansion phase, which the Djibouti representatives hoped would make it the hub of the Red Sea-Gulf of Aden region. The outdated (circa 1917) Djibouti-Ethiopian railroad was also undergoing a renovation program. Financial assistance from France had already been spent on new rolling stock and other equipment, and rail replacement would be undertaken, financed in part by the European Development Fund.

In the agricultural sector, a new strategy was being implemented, which centered on the installation of families onto farms where they could operate either independently or as part of a cooperative. This approach attempted to reverse past efforts, which often had entailed relatively large, capital-intensive projects. The new strategy was designed to promote the diversification of agricultural products and integrate agriculture with animal farming; develop and better utilize scarce water resources; give more management responsibility and training to local producers; and improve the marketing network for output. Projects associated with the new strategy were being financed by the Islamic Bank for Development, the African Development Bank, and a joint Djibouti-Italian consortium. The Djibouti representatives, despite noting the severe natural resource constraints, expressed optimism about the agricultural sector's foreign exchange saving potential. They noted that over the past five years fruit and vegetable production had increased from minimal levels to the equivalent of 11 percent of imports.

In contrast to Djibouti's resource-constrained agricultural potential, the scope for fish production is very large. Under a fishery project begun in 1980 and completed in 1985, the goal of a 400-ton annual catch was achieved. A second phase had recently commenced with a stated goal of 800 tons for 1988; however, such a level is still far below the estimated annual potential of 4,000 tons. A major obstacle to increasing production is the relatively low level of domestic demand; fish is not a traditional food, and thus a change in tastes would be necessary. There are at present no significant exports of fish, but a large contract for exports to a country in the region is currently under discussion.

Regarding industrial development, the Djibouti representatives stated that the principal aim has been to promote medium-sized enterprises based on the processing of local resources. They noted a successful example of such an endeavor--a mainly state-owned mineral water factory--which was meeting 85 percent of domestic demand and operating profitably. Another, more recently established state-owned enterprise is a dairy, which reconstitutes imported powdered milk and which, it was hoped, would become profitable in the near future. Apart from these two factories, no further direct state intervention was planned. Policy was being directed toward promoting private sector development, through guidance on finding sources of technical assistance, feasibility studies, and financing. In this regard, a pasta factory and paper products plant had recently been established, and a tannery was in the advanced planning stage. The Djibouti representatives emphasized that Djibouti itself was too small a market to support wide-scale industrial development, but that it was ideally located to supply the Red Sea region and that future activities would be examined with this in mind. However, the main constraints to such development were the high import content (estimated at 60 percent of average industrial production costs) and the relatively low productivity of the Djibouti labor force.

As mentioned earlier, wage and salary levels in recent years have been stable. However, in view of the currently depreciating Djibouti franc, the staff representatives asked whether pressures for wage hikes might not emerge. The Djibouti representatives responded that given the very high rate of unemployment--estimated roughly at 40 percent--this was unlikely.

The Djibouti representatives stressed that there was relatively little state interference in commercial activity and direct regulation of prices. However, a system of fixed profit margins at the wholesale and retail levels existed for a small number of basic consumer goods. Regarding other goods, the staff representatives remarked that in view of the sharp appreciation of the Djibouti franc over several years prior to early 1985, price declines for imported products might well have been expected, but did not occur. Therefore, there appeared to be a significant degree of downward price rigidity. The Djibouti representatives replied that due mainly to the cartel nature of the limited number of importer-wholesalers, domestic prices were often higher than would be suggested by import costs.

b. Fiscal policies and public enterprises

In view of the prospects for 1986 of a further deterioration in the Central Government's financial operations and the fact that treasury deposits were already below what was considered the prudent working level, the Djibouti representatives said that remedial measures were ready to be adopted. Specifically, the situation would be reviewed toward mid-year, and it was possible that severe cuts in expenditure would take place. Such cuts could be implemented rapidly, prior to any formal approval of a supplementary budget. The staff representatives noted the seemingly stop-gap nature of the proposed cuts and emphasized the longer-term structural nature of the fiscal problem, namely a sustained level of expenditure well in excess of budgetary receipts plus grants. Also, although the recent tax measures and depreciation of the Djibouti franc may afford some fiscal benefits, tax revenues have already approached 30 percent of GDP (on a small taxable base). Tax revenues comprise mainly indirect taxes, with domestic consumption taxes alone accounting for more than one half of total tax receipts. Therefore, a prolonged period of severe expenditure restraint was suggested. The staff representatives offered that this restraint could be supported by a reorientation of current outlays, as administrative services and defense outlays account for some three fourths of current expenditure, and, despite unchanged wage and salary scales, the Government's wage bill exceeds 60 percent of total current outlays. The need for a restructuring of current expenditure appears even more compelling in light of the projected rise in interest payments on existing debt.

With respect to central government capital spending, the Djibouti representatives indicated that a considerable scaling back had already taken place in recent years; current projections for 1986 put investment outlays (budgetary plus extrabudgetary) at some 8 percent below the 1984 level. The staff representatives recognized the need for adequate investment levels, but cautioned that in view of the already increasing debt service burden projected on the basis of existing loans, close attention should be given to the ability of new investments to generate directly or indirectly adequate foreign exchange earnings and fiscal revenues. Also, there appeared to be a need to account more fully for the recurrent cost implications of new projects.

Regarding the public enterprise sector, although direct budgetary transfers and subsidies have been limited, substantial indirect subsidies exist in the form of enterprise arrears to the Government and to other public agencies, and by the Government's assumption of enterprise external debt service obligations. The staff representatives had discussions with officials of most of the public enterprises, and it was apparent that, in the aggregate, the enterprises were experiencing increasing financial difficulties, as suggested by the extensive nature and high level of arrears. For example, the airport had about DF 500 million of arrears; arrears of Air Djibouti exceeded DF 700 million; and OPT was owed about DF 350 million by other public enterprises. Moreover, officials of several enterprises feared that future external debt servicing would be difficult. The staff representatives were informed that the Djibouti authorities were well aware of the seriousness of the situation. In this connection, a review had recently been completed (with French technical assistance) of enterprise cost structures, tariff levels, and capital spending programs. However, the study was still being examined by the Djibouti authorities prior to its circulation and the implementation of any follow-up actions.

c. Monetary and credit policies

The Djibouti representatives stressed the recently more active role of the National Bank of Djibouti. They attributed the deceleration in credit growth in 1985 to letters sent by the National Bank to commercial banks requesting restraint. For 1986, credit expansion was expected to remain moderate. Also in 1986, the National Bank was expecting to undertake several initiatives, including the opening of accounts in its books for commercial banks, taking over the check clearing process, establishing a centrale des risques and a centrale des impayées, and improving monetary statistics. It was intended that these measures improve monetary control and banking supervision. The National Bank had no intention of providing a rediscount facility, because this would be equivalent to financing increases in the money supply without a counterpart U.S. dollar backing. However, as the National Bank planned also to centralize public enterprise foreign currency holdings onto its books and recognized that this would reduce the deposit base of the commercial banks, it intended to make placements at its discretion with the commercial banks. The Djibouti representatives emphasized that this would not result in uncovered money creation, as the National Bank would ensure that U.S. dollar backing for these placements existed.

With respect to interest rate policy, the staff representatives recalled that as of early 1985 interest rates on U.S. dollar deposits had exceeded by a wide margin rates on Djibouti franc deposits and asked whether the rates had subsequently been equalized. The Djibouti representatives replied that on several occasions the National Bank had issued instructions that rates on both types of deposits be equalized. During 1985 interest rates on U.S. dollar and Djibouti franc deposits had converged, but this was attributed to the decline in U.S. interest rates to the existing rates on Djibouti franc deposits. Nevertheless, the convergence was believed to have contributed to a decline in U.S. dollar-denominated time deposits and a rise in Djibouti franc-denominated time deposits.

In 1983 the Caisse de Développement began medium- and long-term lending (to the private sector) in response to the lack of loans of such maturities by the commercial banks. The Djibouti representatives indicated that by end-1985 the Caisse's portfolio had approached DF 500 million and the Caisse had started showing profits.

d. External policies

In discussing the medium-term balance of payments scenario, the Djibouti authorities agreed with the staff representatives' position that further external borrowing would not provide a permanent solution for the currently envisaged unsustainable overall deficits. Regarding the exchange rate, the Djibouti representatives observed that subsequent to the U.S. dollar's peaking in March 1985, the Djibouti franc had depreciated by 25 percent (in nominal effective terms) through March 1986, equivalent to almost one-half of the appreciation (54 percent) during the period end-1981 to March 1985. The Djibouti authorities reiterated their objective of maintaining the existing exchange arrangements (including the present U.S. dollar/Djibouti franc rate) and trade system. Therefore, they hoped that their supply-side strategy and the underpinnings provided by more rigorous financial policies could narrow the projected deficits and help them maintain the existing liberal exchange arrangements and trade system. It was recognized, however, that the underlying problem for Djibouti was its already rising stock of external debt and levels of debt service obligations relative to foreseeable increases in its foreign exchange earning capacity. Thus, the Djibouti authorities remarked that it may be necessary to turn again to the international community and, in this context, referred to the recent debt cancellation and reimbursement of debt service payments by France.

3. Possible use of SAF

The staff representatives fully informed the Djibouti authorities of the currently envisaged modalities of SAF-supported programs. While acknowledging that the Government of Djibouti did not fully agree with the World Bank on a number of issues discussed in the latest World Bank economic report, the Djibouti authorities did not want to rule out the possibility of approaching the Fund for an SAF-supported program and viewed the forthcoming Annual Meetings as an occasion for further discussions.

In the World Bank's view, current public sector investment activity places too much emphasis on infrastructure and includes several large projects which are not justified economically (e.g., the Djibouti-Tadjourah road and airport expansion). Also, the Bank suggests that the future overall level of public sector investment be contained within Djibouti's implementation capabilities and financing possibilities. With respect to the longer term, the Bank recommends that efforts to diversify the economy be intensified so as to move from a pure service economy to broader-based development, which would include labor-intensive activities in export processing and desert agriculture. In this perspective, the existing high cost/price structure of the economy (e.g., wages and salaries, housing, and utilities) might call for an adjustment in the exchange rate. This should not, however, be permitted to lead to a loss of confidence by the private sector in the economic stability of the country. The possibility of undertaking a study to provide the basis for a reasoned long-term development strategy financed under the World Bank's Special Project Preparation Facility for Sub-Saharan Africa (SPPF) is under discussion between the Government of Djibouti and the Bank. As shown in Attachment II, the World Bank is presently maintaining a relatively low profile in Djibouti.

IV. Staff Appraisal

The weak level of economic activity and growing domestic and external imbalances which marked the period 1982-84 have continued. In 1985 aggregate production was virtually stagnant, while, after several years of price stability, the depreciation of the Djibouti franc pushed up sharply the rate of inflation. In addition, despite efforts to boost revenues and contain expenditure growth, the central government deficit widened, and, were it not for a special reimbursement of debt service payments, a relatively large overall balance of payments deficit would have been incurred.

Prospects for 1986 are not encouraging. There are no indications of a pickup in real domestic activity; a further rise in inflation is expected; the central government financial position has reached a difficult stage; and another balance of payments deficit is projected. Moreover, for the medium term, it appears that, given the presently foreseen limited growth in foreign exchange earning potential and rising debt service obligations, an unsustainable external position could rapidly emerge.

The staff commends several recent policy reorientations of the Djibouti authorities which may well enhance prospects for the medium and longer terms. In this regard, industrial policy is being increasingly geared to external markets, with indirect government encouragement of private sector initiatives replacing direct intervention. Also, while clearly recognizing severe constraints, efforts to promote agricultural development have already shown positive results. There remains relatively little state interference in commercial activity and direct regulation of prices. In the financial area, it appears that the National Bank of Djibouti will play a more active role. Its actions to moderate credit expansion merit noting, and attempts are being made to strengthen bank supervision and to improve statistics collection. In addition, the intention to accord advances to commercial banks when the foreign exchange earnings of public enterprises are transferred to the National Bank appears appropriate. Moreover, the recently created Caisse de Développement seems to be off to a sound start in meeting the economy's need for medium- and long-term lending.

Nevertheless, against the background of the less-than-favorable external account prospects, there are several areas where an examination and strengthening of policies is warranted. The staff supports strongly the Djibouti authorities' objective of maintaining the existing liberal exchange arrangements and trade system. Nevertheless, as the present monetary cover policy is in jeopardy and as there is a need to expand the scope for domestic exports, an active exchange rate policy should be studied as an instrument for the longer term.

The staff is in full accord with the Djibouti authorities' recognition that further external borrowing would not provide a permanent solution for the viability of the external accounts. Therefore, in light of the recently sharp increase in Djibouti's external debt, there is a need for limiting further debt and, in this context, a requirement for a closer monitoring and control of new commitments.

Most immediately, a firmer stance of financial, especially budgetary, policies and an improvement in the operations of public enterprises are clearly required to help promote a viable external position. Although the recent tax measures and depreciation of the Djibouti franc may afford some fiscal benefits, there is need for rigorous and sustained discipline over the medium term. As tax revenues have already approached 30 percent of GDP on a narrow tax base, severe restraint in expenditure is called for, which could be facilitated by a reorientation of current outlays. Scope for this seems to exist given the presently large shares of administrative services and defense outlays and of the wage bill in total current expenditure. The scheduled rise in interest payments makes the need for such a restructuring more pressing.

With respect to capital spending of both the Government and the public enterprises, in view of the already increasing debt service burden projected on the basis of existing loans, particular regard should be given to the ability of new investments to generate directly or indirectly adequate foreign exchange earnings and fiscal revenues. The recurrent cost implications of new projects also merit close attention.

The financial situation of the public enterprise sector has become serious, as evidenced by the large and growing level of arrears and increasing doubts about the ability of some enterprises to meet future external debt servicing obligations. The Djibouti authorities should, therefore, give priority attention to the recently completed review of the public enterprise sector and begin immediately to implement follow-up actions relating to enterprise cost structures, tariff levels, and capital spending programs.

In the area of monetary policy, credit restraint should be maintained. Also, with a view to encouraging deposit holdings in domestic currency, and given the full convertibility of the Djibouti franc with the U.S. dollar, it is suggested that the maintenance of similar interest rates on domestic and foreign currency deposits be actively continued.

With the currently depreciating Djibouti franc and the higher rate of inflation, pressures for wage hikes could emerge. The authorities would need to encourage wage restraint, not only to stem pressures on demand and the balance of payments, but also to prevent an erosion of competitiveness for Djibouti's crucial service sector and possible labor-intensive processing activities in the future. During the period of the appreciation of the Djibouti franc, a certain degree of downward price rigidity in prices was observed. Thus, efforts of the Djibouti authorities to promote a competitive environment should be reinforced.

Lastly, the staff notes that the Djibouti authorities have agreed that future Article IV consultations be held on the standard 12-month cycle rather than the 18-month cycle presently in effect.

DJIBOUTI - Relations with the Fund

(As of May 31, 1986)

I. Membership Status

(a) Date of membership	December 29, 1978
(b) Status	Article VIII

A. Financial Relations

II. General Department

(a) Quota	SDR 8.0 million
(b) Total Fund holdings of Djibouti's currency	SDR 6.77 million (85 percent of quota)
(c) Reserve tranche position	SDR 1.24 million
(d) Fund credit	--
(e) Current operational budget (maximum use of currency)	--

III. Current Stand-by or Extended Arrangement and Special Facilities

(a) Current stand-by or extended arrangement	None
(b) Previous stand-by or extended arrangement	None
(c) Special facilities	None

IV. SDR Department

(a) Net cumulative allocation	SDR 1.18 million
(b) Holdings	SDR 0.36 million (30.6 percent of net cumulative allocation)
(c) Current designation plan	--

V. Administered Accounts

Trust Fund loan

(i) Disbursed	--
(ii) Outstanding	--

B. Nonfinancial Relations

VI. Overdue Obligations to the Fund — None

VII. Exchange Rate System

The Djibouti franc is pegged to the U.S. dollar, the intervention currency, at the rate of DF 177.721 = US$1.

DJIBOUTI - Relations with the Fund (concluded)

(As of May 31, 1986)

VIII. Last Article IV Consultation

Discussions were held by the staff in Djibouti during the period March 10-24, 1985. The staff report (SM/85/138, 5/14/85) was discussed by the Executive Board on June 17, 1985. Consultations with Djibouti are currently on the 18-month cycle.

IX. Technical Assistance

Central Banking Department technical assistance missions visited Djibouti during April 29-30, 1981, November 13-15, 1981, and June 11-13, 1984. Since October 1984, a CBD expert has been Operations Manager of the National Bank. The Bureau of Statistics has provided short-term technical assistance on statistics of financial institutions (January 11-25, 1981) and on balance of payments statistics (March 26-April 15, 1981). The Fiscal Affairs Department sent an advisor for three weeks, starting October 31, 1984, to provide technical advice on the general consistency of a new public accounting system.

Djibouti - Relations with the World Bank Group

Djibouti joined the Bank and IDA on October 2, 1980. The Bank Group assistance strategy is currently aimed at engaging in a macro dialogue with the Government, with a view to initiating thinking on long-term development possibilities, and at assisting the Government to develop production potential, including through human resources training.

An education project for US$5.0 million approved in January 1985 is the fifth Bank Group operation in the country, after the US$3.0 million credit for a technical assistance project approved in 1982, the US$6.4 million credit for a highway maintenance project approved in 1983, the US$6.0 million credit for a geothermal exploration project approved in May 1984, and the US$5.0 million credit for an urban development project approved in September 1984. None of these projects has yet been completed, and no audit reports are available. The technical assistance project, which will be terminated at end-June 1986, is co-financed with a parallel contribution of US$1.46 million from the UNDP and is designed to strengthen the country's economic management, to coordinate development efforts, and to help monitor the public sector investment program. The highway maintenance project consists of a three-year road improvement and maintenance program. The geothermal exploration project is co-financed with the Italian Government, the OPEC Fund, the African Development Bank, and the UNDP. The objective of the project is to prove the availability of commercial geothermal reserves and to provide technical assistance to the Institut Supērior d'Etudes et de Recherches Scientifiques et Techniques.

The urban development project is co-financed with USAID and the CCCE. The objectives of the project are to improve the living conditions of the urban poor in Djibouti and to strengthen the capacity of the key agencies involved in the urban sector. The education project aims at expanding and improving primary education in urban and rural areas, as well as strengthening the management of the education system through educational planning and evaluation.

The Bank participated in the Donors' Conference of November 1983 where the Government presented its investment program for the period 1984-88.

Djibouti: Relations with the World Bank Group (concluded)

Status of Bank Group Operations in Djibouti
IDA Credits (as of April 30, 1986) 1/

Year	Purpose	US$ million 2/ Loan	Undisbursed
1982	Technical assistance for planning and statistics	3.00	1.40
1983	Highway	6.55	1.85
1984	Geothermal exploration	6.56	5.93
1984	Urban development	5.64	4.50
1985	Education	5.86	5.25
	Total	27.61	18.93
	Of which has been repaid	(--)	

Source: World Bank.

1/ Djibouti has received no Bank loan.
2/ At present exchange rates.

Djibouti--Statistical Issues

There is no country page in IFS for Djibouti, and the statistical data base continues to be weak in practically all areas. The National Statistical Service, Direction Nationale de la Statistique (DINAS), finds itself understaffed in skilled manpower and generally unable to produce statistics according to international standards. The central bank, Banque Nationale de Djibouti (BND), moved into new premises in May 1986, where it will expand its role and improve its data collection mechanisms.

1. National accounts and population

DINAS prepares nominal GDP accounts by sector of origin, but does not prepare official estimates for the expenditure or income classifications. For international comparison purposes, DINAS reduces its GDP measures by some 60 percent to adjust for the large, affluent expatriate population; the artificially high import-related price level; and the relative lack of any barter or self-sufficient sector as is commonly found in developing economies.

The World Bank and the Djibouti authorities are now discussing the appropriateness of the DINAS GDP figures and population estimates. The Bank estimates Djibouti's population at 13 percent below the official figure.

2. Prices and merchandise trade

DINAS produces a consumer price index based on the consumption patterns of the expatriate population, as well as a variety of output indicators, which are published in the Annuaire Statistique de Djibouti and in the Bulletin Semestriel de Statistique. No data on merchandise trade are currently being reported to the Bureau of Statistics.

3. Government finance

Data on revenue, expenditure, and financing for the consolidated Central Government were published in the 1985 Government Financial Statistics Yearbook in respect of the years 1979 and 1980, but without data on government debt. The data for 1980 are less comprehensive than for 1979. Methodological and arithmetical problems prevented the publication of data reported for the years 1981 through 1984.

4. Monetary accounts

As a result of a technical assistance visit from the Bureau of Statistics in 1981, monetary data were reported to the Bureau through March 1983, but no data have been subsequently reported.

Since 1984, a Central Banking Department expert has been the Acting Operations Manager at the BND. He initiated a new reporting form in

1986, which is providing improved data, and believes that good quality balance sheets for the BND have now been established for end-1984 and end-1985. Monthly data is improving, but construction of a reasonable monthly series is unlikely before end-1986.

5. Balance of payments

There is no officially published balance of payments; both the Djibouti authorities and the recent Article IV consultation mission believed this to be the most pressing statistical requirement.

In 1981, a staff member of the Bureau of Statistics visited the National Bank on a fact-finding mission. His report recommended the establishment of an exchange record as a first step toward the compilation of the balance of payments. It also recommended a follow-up visit by a Fund staff member after the National Bank had recruited personnel for the balance of payments unit. The Governor of the National Bank has stated his intention to make a formal request for technical assistance in this area.

DINAS recently began to monitor merchandise trade flows more closely. Import data have improved, but export data remain unsatisfactory.

A fundamental problem for the authorities is the difficulty in distinguishing between transactions with residents and nonresidents living in Djibouti. Coverage of service payments is also rudimentary and incomplete.

DJIBOUTI - Basic Data

Area, population, and GDP per capita

Area	23,200 square kilometers
Population (1985)	430,000 1/
GDP per capita (1985)	US$299 2/

	1981	1982	1983	1984	1985 Est.	1986 Proj.
	(In millions of Djibouti francs)					
GDP at market prices	56,818	59,383	59,997	60,234	60,354	60,655
GDP at constant (1981) market prices	56,818	57,778	58,494	58,822	58,704	58,006
Consumer price index 3/ (Oct. 1978 = 100)	130.6	127.5	128.7	130.9	133.8	146.1
Use of resources 4/						
Gross domestic expenditure	69,003	75,490	75,232	77,093	76,979	76,618
Private consumption	(43,429)	(40,156)	(39,719)	(39,500)	(40,516)	(41,799)
Public consumption	(13,900)	(19,821)	(19,978)	(20,553)	(20,743)	(21,282)
Investment	(11,674)	(15,513)	(15,535)	(17,040)	(15,720)	(13,537)
Resource gap	-12,185	-16,107	-15,235	-16,859	-16,625	-15,963
Exports of goods and nonfactor services	28,676	25,449	25,505	24,263	24,333	25,068
Imports of goods and nonfactor services	40,861	41,556	40,740	41,122	40,958	41,031
Central government finance						
Total revenue	18,380	19,861	18,999	19,528	20,733	20,286
Tax revenue	(15,469)	(16,450)	(16,372)	(16,900)	(17,744)	(18,600)
Nontax revenue	(2,911)	(3,411)	(2,627)	(2,628)	(2,989)	(1,686)
Total expenditure	17,905	25,497	25,922	25,794	26,866	27,714
Current expenditure	(13,757)	(19,618)	(19,751)	(19,205)	(20,371)	(21,683)
Capital expenditure	(4,148)	(5,879)	(6,171)	(6,589)	(6,495)	(6,031)
Overall surplus/deficit (before grants)	475	-5,636	-6,923	-6,266	-6,133	-7,428
Grants	1,963	2,960	2,241	2,925	2,190	2,338
Overall surplus/deficit (after grants)	2,438	-2,676	-4,682	-3,341	-3,942	-5,090

1/ Official Djibouti estimate; includes refugees and nonresidents.
2/ As adjusted by the Djibouti authorities for international comparison purposes.
3/ Average annual basis.
4/ At current market prices.

DJIBOUTI - Basic Data (continued)

	1981	1982	1983	1984	1985 Est.	1986 Proj.
	(In millions of Djibouti francs)					
Money and credit 1/						
Foreign assets (net)	25,425	18,984	15,784	13,930	13,866	...
Domestic credit	-700	8,694	13,820	19,348	21,428	...
Claims on Government (net)	(-12,924)	(-8,253)	(-5,099)	(-3,635)	(-3,709) 2/	...
Claims on private sector	(12,224)	(16,947)	(18,919)	(22,983)	(25,137)	...
Money plus quasi-money	21,238	26,126	22,509	24,293	25,522	...
Balance of payments						
Trade balance	-13,151	-16,604	-15,858	-17,483	-17,958	-17,286
Exports, f.o.b.	(20,734)	(17,563)	(17,553)	(16,334)	(15,746)	(16,446)
Imports, f.o.b.	(-33,885)	(-34,167)	(-33,411)	(-33,817)	(-33,704)	(-33,732)
Services (net)	6,477	5,483	4,070	3,247	3,262	3,434
Unrequited transfers (net)	11,870	8,160	5,703	3,716	4,060	3,284
Current account balance	5,196	-2,961	-6,085	-10,520	-10,636	-10,568
Capital movements	-2,827	-3,480	2,885	8,666	10,572	10,068
Public	(-141)	(1,290)	(2,233)	(6,995)	(5,653)	(5,806)
Private (including errors and omissions)	(-2,686)	(-4,770)	(652)	(1,671)	(4,919)	(4,263)
Overall balance	2,369	-6,441	-3,200	-1,854	-64	-500
Reserves (end of period)	8,774	8,684	4,280	3,416	3,549	...
Outstanding external public debt (including public enterprises)						
Disbursed (end of period)	3,529	4,341	5,969	10,967	17,354	23,160
Debt service	560	572	752	634	678	1,227
Exchange rates						
Djibouti francs per SDR						
End of period	207	196	186	174	195	...
Period average	210	196	190	182	180	...
Djibouti francs per French franc (period average)	32.7	27.0	23.3	20.3	19.8	...
Import-weighted nominal effective rate (January 1980 = 100) 3/						
End of period	125.0	143.5	162.8	181.8	156.1	...

1/ Monetary statistics do not distinguish between transactions with residents and nonresidents.
2/ Includes the blocked account (Special Reserve Fund) at the National Bank of Djibouti.
3/ An increase in the index indicates an appreciation of the Djibouti franc.

DJIBOUTI - Basic Data (concluded)

IMF data

Date of membership	December 29, 1978
Quota	SDR 8.0 million
Intervention currency and the rate	U.S. dollar; US$1 = DH 177.721
SDR/Local currency equivalent	SDR 1 = DF 203.16 (May 31, 1986)

	May 31, 1986
	(In millions of SDRs)
Total outstanding purchases	--
Under tranche policies	(--)
Ordinary	--
Supplementary	--
Enlarged access	--
Compensatory financing	(--)
Oil facility	(--)
Total Fund currency holdings (in percent of quota)	84.56
Net cumulative SDR allocation	1.2
Holdings of SDRs	0.4
Trust Fund loans outstanding	--