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May 14, 1985

To: Members of the Executive Board
From: The Secretary
Subject: Djibouti - Staff Report for the 1985 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1985 Article IV consultation with Djibouti, which will be brought to the agenda for discussion on a date to be announced.

Mr. Kapur (ext. 8732) or Mr. E. Bell (ext. 7108) are 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 1985 Article IV Consultation

Prepared by the Staff Representatives for
the 1985 Consultation with Djibouti

Approved by G.E. Gondwe and S. Kanesa-Thanan

May 13, 1985

I. Introduction

The 1985 Article IV consultation discussions were held in Djibouti during the period March 10-24, 1985. The representatives of Djibouti included Mr. Ismael Guedi, Director of the Cabinet of the President; Mr. Luc Aden, Governor of the National Bank of Djibouti; Mr. Ibrahim Sultan, Minister of Finance and National Economy; Mr. Ahmed Liban, Minister of Agriculture; Mr. Moussa Bouraleh, Minister of Transport, Tourism, and Commerce; and senior officials of ministries and agencies concerned with economic and financial matters. The staff representatives were Messrs. Ishan Kapur (head-AFR), Joseph Kakoza (AFR), George Donely (STAT), and Eric Bell (EP-AFR), with Mrs. Catherine John (OMD) as secretary.

Djibouti has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement. A summary of Djibouti's relations with the Fund is provided in Attachment I, and with the World Bank Group in Attachment II. A brief review of statistical issues is contained in Attachment III.

II. Background and Recent Economic Developments

Djibouti's economy is heavily dependent upon the services sector since agricultural potential is limited, there are virtually no mineral reserves, and the small industrial sector is constrained by the lack of an adequate demand base. Merchandise exports of local origin are insignificant and foreign exchange earnings result principally from re-exports and the sale of services to neighboring countries as well as to a large number of expatriate civilian and military personnel. The bulk of domestic output in the services sector results from the activities of the seaport of Djibouti, an international airport, the rail link to Ethiopia, and the private banking system. The Djibouti franc has been linked to the U.S. dollar since 1949, with which it is freely convertible at a fixed exchange rate; the National Bank issues Djibouti francs for U.S. dollars and the currency issue is required by law to be entirely covered by U.S. dollars. The commercial banks operate

virtually free of any controls and do not lend to the Government or to the public sector. The banks, all of which are foreign-owned, conduct sizable offshore business which is facilitated by the absence of exchange and trade controls, excellent telecommunications facilities, and political stability. Substantial surpluses on services and capital inflows, in the form of official grants and loans, have enabled the economy to sustain large external trade deficits.

In the first few years following independence in June 1977 there was a protracted slump in the economy, aggravated by the outbreak of hostilities between Ethiopia and Somalia. During 1980-81, however, the economy grew at an annual rate of about 3 percent in real terms as private sector confidence was re-established and public capital expenditures increased substantially; in nominal terms, overall investment rose at an annual average rate of 40 percent. The nominal trade-weighted effective exchange rate remained virtually stable through early 1981, before appreciating by almost 18 percent during the course of the year (Chart 1). 1/ The inflation rate declined rapidly, from 12 percent in 1980 to below 6 percent in 1981. 2/ Fiscal performance of the Central Government was broadly satisfactory in the years 1980-81 as the budget registered surpluses (including grants) averaging DF 2.8 billion, equivalent annually to 4.6 percent of GDP (Table 1). 3/ Budgetary policy was characterized by substantial growth in revenues, through higher taxation of consumption, and high inflows of grant aid for projects as well as general budgetary assistance; despite considerable increases in expenditures, the Treasury was able to accumulate sizable domestic and foreign currency deposits.

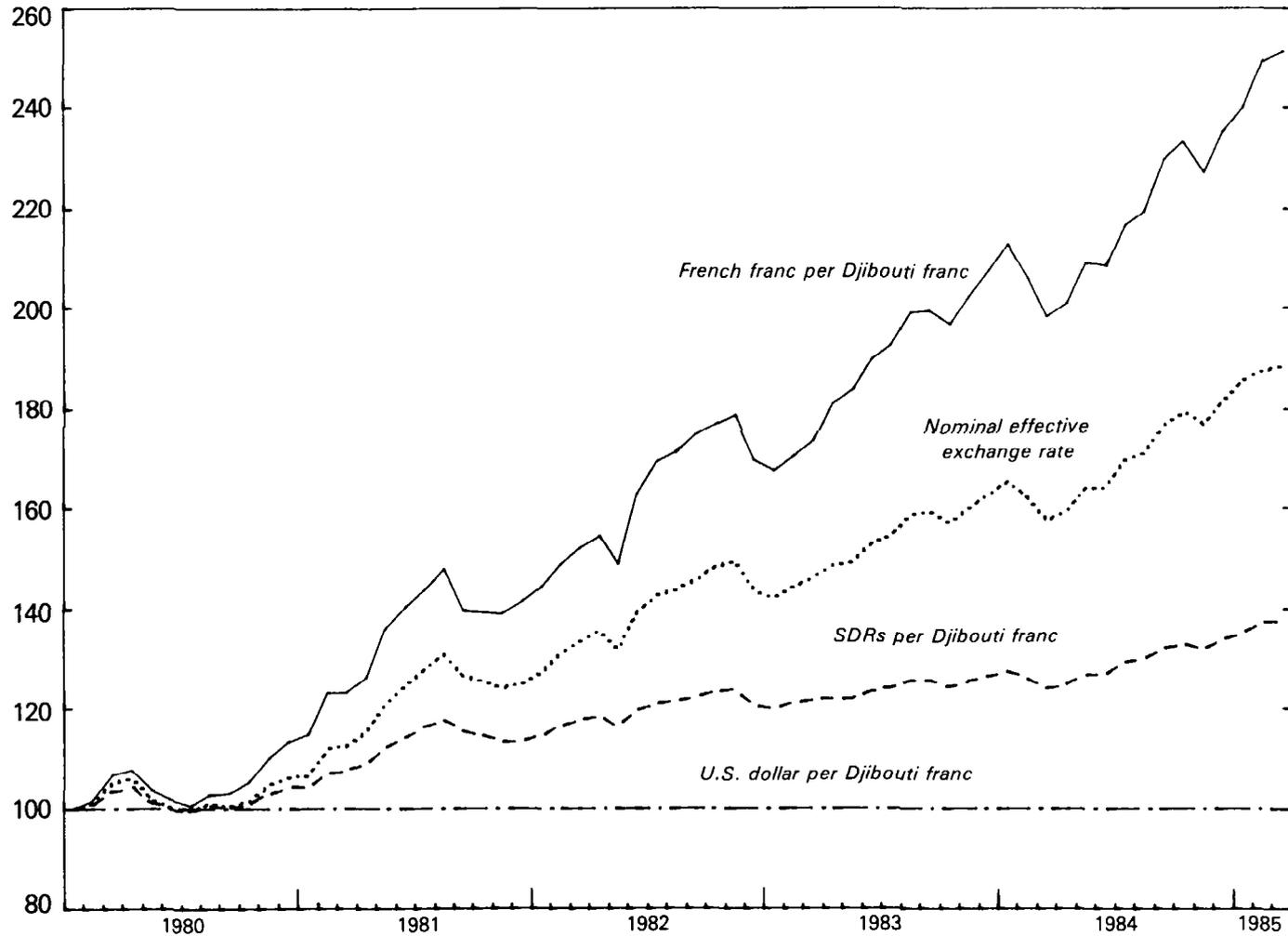
During the period 1982-84 the economy slowed down considerably with real GDP growth averaging 1.5 percent as investment virtually stagnated after 1982; the value added in the commerce and banking sectors suffered absolute declines as a consequence of the appreciation of the exchange rate and the resulting reduction in the purchasing power of foreign personnel and in commercial activities with neighboring countries. Over the same period, the nominal effective exchange rate appreciated sharply, in line with the movements of the U.S. dollar vis-à-vis other currencies, resulting in a 45 percent cumulative appreciation through the end of 1984. This coincided with a rapid deterioration in fiscal performance as the overall budget position (including grants) shifted from a surplus to a deficit equivalent to 8.8 percent of GDP, followed by 11.7 percent

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

2/ This inflation rate is measured by the price index for expatriates in Djibouti; there are serious statistical drawbacks to using it as a national inflation rate.

3/ The consolidated financial position of the Central Government and the social security agencies is shown in Appendix Table I. Since the operations of the social security agencies have consistently shown a moderate surplus, key fiscal developments have been determined by the central government budget.

CHART 1
 DJIBOUTI
 EXCHANGE RATE DEVELOPMENTS, JAN. 1980-MAR. 1985
 (Monthly average; Jan. 1980 = 100)



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

¹The 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, Ethiopia, Kenya, Belgium, Denmark, West Germany, Italy, the Netherlands, the United Kingdom, Hong Kong, Pakistan, Cyprus, and Bahrain. An increase in the index reflects an appreciation of the Djibouti franc.



Table 1. Djibouti: Selected Economic and Financial Indicators, 1981-85

	1981	1982	1983	1984	1985 ^{1/}
(In millions of Djibouti francs)					
Nominal GDP	56,818	59,383	60,571	61,116	61,666
(Annual percentage changes)					
National income and prices					
GDP at current prices	6.1	4.5	2.0	0.9	0.9
GDP at constant prices	2.9	1.6	1.5	0.8	0.8
Consumer prices	5.7	-2.4	0.9	1.7	...
Central government finance ^{2/}					
Budget revenue	25.6	8.1	-4.4	3.2	1.2
Grants	-10.7	18.5	-40.3	-18.3	-34.1
Current expenditure	16.3	42.5	0.5	-0.5	4.7
Capital expenditure	-25.6	46.8	-17.2	-28.2	-1.9
Total expenditure	4.6	44.2	-6.6	-10.4	2.8
Money and credit					
Net foreign assets	10.3	-25.3	-16.8	-8.3	...
Claims on private sector	23.4	38.6	11.6	28.4	...
Government deposits	17.3	-25.8	-47.7	-23.3	...
Money	6.8	23.0	-15.5	8.6	...
External sector					
Exports, f.o.b. ^{3/}	15.9	-9.5	-8.2	4.4	2.5
Imports, f.o.b.	-2.5	7.8	2.4	11.7	-0.4
(In percent of GDP)					
Investment	18.4	25.5	23.5	26.4	24.8
Consumption	97.9	96.2	98.6	97.4	93.4
Resource gap	16.3	21.7	22.1	23.8	18.2
Total budget deficit (before grants)	-7.9	-22.1	-19.5	-13.1	-13.9
Grants	12.5	13.9	7.8	6.3	4.1
Total budget deficit (after grants)	4.1	-8.8	-11.7	-6.8	-9.8
Total government deficit (including social security operations)	5.3	-7.9	-10.3	-5.9	-9.2
External current account surplus (+)/deficit (-) ^{4/}	8.6	-4.1	-10.2	-11.0	-10.0
Overall surplus/deficit ^{4/}	7.8	-8.6	-3.7	-0.5	-1.0
(In millions of SDRs)					
Outstanding external debt	16.8	37.1	58.3	86.1	...
Debt service ratio (percent of exports of goods and nonfactor services)	2.2	3.0	3.0	3.9	2.7

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

^{1/} Staff estimates.

^{2/} Excluding social security.

^{3/} Virtually all exports are re-exports to civilian and military personnel in Djibouti and to neighboring countries.

^{4/} Based on balance of payments data expressed in SDRs.

in 1983; the overall deficit was reduced to 6.8 percent of GDP in 1984. These deficits were financed by increased reliance on foreign financing and, more importantly, by a sharp drawdown of the Treasury's domestic and foreign currency deposits (Table 2).

The turnaround in fiscal performance during 1982-84 was the result of several factors. Total revenue growth slowed down considerably in 1982 and 1983 as a result of: declining revenue from corporation taxes due to slower economic growth and increased collection problems; revenue losses arising from tax concessions; the appreciation of the Djibouti franc, which reduced the yield from general consumption and import-based taxes and reduced the growth of incomes for the expatriate community in Djibouti; and, finally, declining receipts from investment income as a result of the rapid rundown of government deposits. In addition to the slowdown in revenue growth, foreign budgetary grants fell sharply, from the equivalent of 11.8 percent of GDP in 1981 to 6.3 percent in 1984, as a result of cutbacks by donors and the appreciation of the currency. While expenditures declined in absolute terms between 1982-84, largely as a result of the tight control on the growth of current expenditure, and repeated cuts in capital spending, the level of total expenditure nevertheless remained high at about 46 percent of GDP in 1984. On the expenditure side, a major factor was the incorporation of all military expenditures into the government budget beginning in 1982; these military expenditures amounted to DF 4.5 billion and had previously been paid directly through foreign grants outside the budget. In addition, despite the cuts in capital spending, the absolute level of such spending remained high although capital grants from foreign donors were declining.

During 1984 the Government adopted a somewhat cautious budgetary stance. It reduced total capital expenditures by about DF 3 billion (28 percent), while expenditure on goods and services during the third and fourth quarters was cut by 20 percent. The expenditure cuts combined with an increase in revenues helped to reduce the overall budget deficit to DF 4.2 billion in 1984 (6.8 percent of GDP) compared with DF 7.1 billion in 1983 (11.7 percent of GDP); this apparent improvement, however, was marred by the accumulation of DF 2 billion (3.3 percent of GDP) in nondebt payments arrears by government ministries and the Treasury. ^{1/} As a result of the large deficits incurred during the period 1982-84, the Treasury's regular cash reserves were rapidly depleted from a level of over DF 10 billion at the beginning of 1982 to a level of about DF 4.1 billion at the end of 1984.

The budget for 1985 was prepared against a background of continued appreciation of the Djibouti franc, of relatively stagnant revenues, and no prospects for substantially increased external budgetary assistance in the form of grants. To increase government revenues, tax rates were

^{1/} The payments arrears consist of outstanding bills to hospitals abroad (DF 500 million), Treasury arrears on tax reimbursements (DF 400 million), unpaid commercial bills (DF 600 million), overdue payments to the national electricity company and other sundry arrears (DF 500 million).

Table 2. Djibouti: Financial Operations of the Central Government, 1981-85

(In millions of Djibouti francs)

	1981	1982	1983	1984	1985	
				Prel.	Budget	Est. <u>1/</u>
Total revenue	18,380	19,861	18,999	19,608	20,685	19,835
Tax revenue	15,469	16,450	16,372	17,129	18,670	17,820
Nontax revenue	2,911	3,411	2,627	2,479	2,015	2,015
Current expenditures	13,899	19,804	19,908	19,799	20,318	20,735
Wages and salaries	(6,364)	(10,252)	(11,532)	(11,720)	(12,082)	(...)
Goods and services	(4,941)	(7,174)	(6,671)	(5,900)	(6,718)	(...)
Surplus/deficit (-)	<u>4,481</u>	<u>57</u>	<u>-909</u>	<u>-191</u>	<u>367</u>	<u>-900</u>
Capital expenditure	8,993	13,206	10,931	7,843	8,632	7,694
Of which: extrabudgetary expenditure	(4,846)	(7,611)	(5,400)	(5,100)	(4,994)	(4,994)
Total expenditure	22,892	33,010	30,839	27,642	28,950	28,429
Overall surplus/deficit (before grants)	<u>-4,512</u>	<u>-13,149</u>	<u>-11,840</u>	<u>-8,034</u>	<u>-8,265</u>	<u>-8,594</u>
Grants	6,689	7,926	4,738	3,869	2,813	2,550
Overall surplus/deficit (after grants)	<u>2,177</u>	<u>-5,223</u>	<u>-7,102</u>	<u>-4,165</u>	<u>-5,452</u>	<u>-6,044</u>
Financing	-2,177	5,223	7,102	4,165	5,452	6,044
Foreign loans	40	2,511	3,327	2,337	4,131	4,131
Drawings	(89)	(2,919)	(3,590)	(2,509)	(4,400)	(4,400)
Amortization	(-49)	(-408)	(-263)	(-172)	(-269)	(-269)
Change in Treasury deposits <u>2/</u>	-2,044	3,564	4,902	1,254	2,241	2,569
Amortization of domestic debt	-85	-161	-147	-117	-133	-133
Other <u>3/</u>	-88	-691	-980	691	-787	-523
<u>Memorandum item:</u>						
Arrears, end of period stock	2,000	--	1,000

Sources: Data provided by the Djibouti authorities; Comptes définitifs du Budget de l'Etat; and staff estimates.

1/ Staff estimates.

2/ This includes Treasury deposits of the Government, public enterprises, and agencies.

3/ This is a residual reflecting unidentified financing and, more significantly, adjustments required to make financing data (12-month basis) conform to revenue and expenditure data (15-month basis).

raised on, inter alia, business profits and selected imports, and various fees and charges were raised. These measures were projected to increase budget revenue by 5.5 percent (DF 1.1 billion) compared with the estimated outcome for 1984. On the expenditure side, the budget provided for a 3 percent increase in the wage bill over the actual 1984 level, while expenditure on goods and services was increased by about 14 percent. The overall capital outlays were budgeted to increase by 10 percent, partly as a result of the restitution of expenditures foregone during 1984; in the total, extrabudgetary expenditures, which consist entirely of capital outlays and are financed through foreign grants and loans, were budgeted to decline by about 2 percent. As a result total expenditure was budgeted to increase by about 4.7 percent for the year as a whole. The level of grants was estimated to decline further by 27 percent. The overall budget deficit (after grants) was projected to rise to DF 5.5 billion, or 8.8 percent of GDP.

An integral part of the Government's economic and social policies since independence has been the creation of public enterprises, particularly in areas where the provision of services by the private sector was unlikely to materialize. ^{1/} There are 15 autonomous and semiautonomous public enterprises in Djibouti, with total annual expenditure over the past two years averaging 28 percent of GDP and accounting for approximately 18 percent of annual gross capital formation. Although a significant number of these enterprises makes operating profits, the majority of them have persistently recorded overall deficits owing to substantial investment programs; furthermore, accounting practices in most cases do not allow for the depreciation of fixed capital nor fully for debt service. As a consequence of their overall deficits, which rose from DF 1 billion in 1982 (1.9 percent of GDP) to DF 4.5 billion (7.4 percent of GDP) in 1984, the enterprises are heavily indebted to the Central Government, to each other, and to external creditors.

Reflecting the evolution of the fiscal situation, as government deposits increased steadily through 1981 net foreign assets also went up; despite rapid rates of expansion of private sector credit averaging over 20 percent per annum, overall domestic credit expansion was negative as government deposits accumulated (Table 3). In 1982, net foreign assets declined sharply as the balance of payments position deteriorated. However, an increase in credit to the private sector of about 38 percent coupled with a rundown of government deposits resulted in a 23 percent increase in money. During 1983 and 1984, the trend continued as credit to the private sector, both residents and nonresidents, increased by 12 percent and 28 percent, respectively, although overall credit expansion was considerably higher due to the running down of government deposits; some of the credit expansion was reflected in private capital

^{1/} The major public enterprises are in the domain of transport (Djibouti Port, the international airport, the railway, and Air Djibouti), communications (domestic and international), utilities (electricity, water supply), tourism (hotel), and production of consumer goods (dairy, bottled water).

Table 3. Djibouti: Monetary Survey, 1980-84

(In millions of Djibouti francs; end of period)

	1980	1981	1982	1983	1984
Foreign assets (net)	23,057	25,425	18,984	15,802	14,486
Monetary authorities	15,576	15,224	15,262	11,222	11,093
Monetary cover	6,214	7,059	6,635	7,043	7,672
Other foreign assets	9,053	7,808	8,294	3,884	3,125
Reserve position in IMF	279	254	243	223	223
SDR holdings	30	103	90	72	73
Deposit money banks	7,481	10,201	3,722	4,580	3,393
Domestic credit	-1,889	-1,612	6,675	13,549	20,183
Claims on Treasury (net) <u>1/</u>	-11,792	-13,836	-10,272	-5,370	-4,116
Claims on private sector <u>2/</u>	9,903	12,224	16,947	18,919	24,298
Money	19,882	21,239	26,126	22,071	23,962
Currency outside banks	5,646	5,922	5,908	6,537	6,799
Deposits with commercial banks	14,236	15,317	20,218	15,534	17,163
Other items (net)	1,286	2,576	-467	7,280	10,707
Of which: deposit money banks <u>3/</u>	(--)	(--)	(--)	(6,867)	(10,409)

Sources: Data provided by the National Bank of Djibouti and the Treasury.

1/ This represents an increase in Treasury deposits until 1980 and a decline from 1981 onwards.

2/ Monetary statistics reported by commercial banks do not make any distinction between operations with residents and nonresidents. Therefore these claims include credit extended to residents of neighboring countries.

3/ This item consists of interbank transactions, increases in banks' capital during 1983 and 1984, and substantial bank profits over the last few years.

outflows. However, broad money contracted by almost 16 percent in 1983, followed by an increase of 9 percent in 1984 as the net foreign assets of the banking system declined by DF 3.2 billion and DF 1.3 billion, respectively.

Domestic lending rates in Djibouti francs have remained unchanged since 1981 and range between 13.5 percent and 15.5 percent; loans in foreign currencies have varying rates depending upon currency and market conditions. On the other hand, deposit rates on Djibouti franc deposits were not changed from 1977 until early 1985, and ranged between zero on demand deposits to 7.25 percent on time deposits resulting in a substantial margin between borrowing and lending rates on Djibouti francs. Furthermore, interest rate differentials on deposit rates between Djibouti francs and U.S. dollars have been considerable as the six-month LIBOR on U.S. dollar deposits moved from an average of 12 percent in 1979 to almost 17 percent in 1981 and 11 percent in 1984.

Fiscal and monetary developments have been reflected in the evolution of the balance of payments which had, through 1981, been characterized by large deficits on the balance of goods and services which were more than offset by surpluses on account of transfers and capital flows, so that the country accumulated substantial foreign exchange reserves (Table 4). This overall pattern began to change in 1982 as imports for domestic use rose as a result of increased investment and the sharp appreciation of the Djibouti franc vis-à-vis the European currencies, and inward transfers were insufficient to cover the deficit on goods and services. Consequently, the current account shifted from a surplus equivalent to 9 percent of GDP in 1981, to a deficit equivalent to 4 percent of GDP in 1982, 10 percent in 1983, and an estimated 11 percent in 1984. These deficits were financed through higher capital inflows and a substantial drawdown of foreign exchange reserves; net international reserves (excluding monetary cover), which had been US\$69 million at end-1982, declined to US\$49 million at end-1983 and further to about US\$38 million by end-1984; the monetary cover was equivalent to US\$43 million at the end of 1984.

As indicated earlier, the Djibouti franc has appreciated significantly against all currencies, except the U.S. dollar, since mid-1980. The nominal effective exchange rate appreciated by about 87 percent from mid-1980 through the first quarter of 1985. Against the French franc, which has a dominant weight in Djibouti's external transactions, the Djibouti franc appreciated by about 130 percent over the same period.

The Government of Djibouti prepared a public investment program covering the period 1984-88 for a Donors' Conference in November 1983. The sectoral priorities of the program are transport and telecommunications, industry, energy, and urban development. The program represents a total financing need of US\$463 million, of which only US\$29 million is to be financed from domestic resources. Although a total of US\$154 million was committed by donors at the conference, as of early 1985 actual loan agreements signed amounted to only US\$66 million. Further-

Table 4. Djibouti: Balance of Payments, 1981-85

(In millions of SDRs)

	1981	1982	1983	1984 Prel.	1985 1/ Est.
Balance of trade	-62.7	-84.7	-96.2	-113.4	-110.5
Exports, f.o.b. 2/	98.9	89.5	82.2	85.8	87.9
Imports, f.o.b.	-161.6	-174.2	-178.4	-199.2	-198.4
Services (net)	29.4	30.7	33.7	39.9	47.2
Freight and insurance	-28.6	-30.8	-31.5	-35.2	-35.1
Other transportation	10.4	11.9	18.0	22.8	26.6
Purchases by nonresidents 3/	32.8	31.6	30.1	30.1	33.2
Investment income	11.7	13.8	9.5	8.0	7.2
Other	3.1	4.2	7.6	14.2	15.3
Balance on goods and services	-33.3	-54.0	-62.5	-73.5	-63.3
Unrequited transfers (net)	56.7	41.6	30.0	36.7	27.2
Official	56.8	41.6	30.1	36.7	27.2
Private	-0.1	--	-0.1	--	--
Current account	23.4	-12.4	-32.5	-36.8	-36.1
Capital account	-12.1	-20.4	15.7	29.6	32.6
Public capital	-0.7	20.3	21.2	37.3	32.6
Drawings	(1.2)	(23.0)	(24.2)	(42.0)	(34.9)
Amortization	(-1.9)	(-2.7)	(-3.0)	(-4.7)	(-2.3)
Private, including errors and omissions	-11.4	-40.7	-5.5	-7.7	--
Valuation adjustment	9.9	6.7	4.9	5.5	--
Overall balance	21.2	-26.1	-11.9	-1.7	-3.5
Change in reserves					
(increase -)	-21.2	26.1	11.9	1.7	3.5
Monetary authorities	-4.9	-4.2	17.5	-3.4	...
Commercial banks	-16.3	30.3	-5.6	5.1	...

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

1/ Converted at DF 171.85 per SDR 1.

2/ Consists almost entirely of re-exports, since exports of domestic origin are insignificant.

3/ Sales of services to expatriate civilian and military personnel.

more, contrary to the mix that had been considered desirable, 86 percent of commitments were in the form of loans and only 14 percent were outright grants, which is expected to have adverse consequences on the country's debt structure.

Djibouti's external public and publicly guaranteed debt has been relatively small in the past since almost all public investments have been financed by grants and concessional loans; as of end-1984, disbursed and outstanding debt (after allowing for the cancellation of debt owed to France as of end-1978) is estimated by the staff at about SDR 86 million or 26 percent of 1984 GDP, with interest and amortization payments amounting to about SDR 6.3 million during the year, or 4 percent of exports of goods and nonfactor services. The terms and maturity structure of the debt are still highly favorable, although service payments on presently committed debt are projected to rise after 1986 as grace periods run out on loans contracted shortly after independence.

III. Report on the Discussions

The discussions focused on financial developments in recent years, particularly the evolution of the fiscal situation during 1984 and prospects for 1985, in the context of the appreciation of the exchange rate and the Government's development policies.

1. Economic growth and development policies

For several years the rate of growth of Djibouti's economy has been decelerating. Furthermore, staff estimates suggest that since 1980 per capita GDP growth has been negative and continues to decline. The level of unemployment, which was already high at independence, has been exacerbated by a high rate of natural population growth, an age structure of the population which is heavily biased toward younger-age groups, and an increasing influx of refugees. Against this background, the authorities stated that economic and financial policies were primarily directed towards attaining a satisfactory rate of growth, and a reduction in unemployment, while maintaining the financial stability that was crucial to Djibouti's highly open, service-based economy. The commercial and financial sectors, which dominate the services industry, have been unable to generate sustainable high rates of growth and have not earned enough foreign exchange to cover the country's expenditures on imports for domestic use. In addition, foreign exchange earnings from merchandise exports, which are virtually entirely re-exports, are highly sensitive to the financial situation of other countries in the region and the transfers of foreign governments for expenditures on civilian and military personnel in Djibouti.

During 1984 major efforts were made to strengthen and expand the existing services sector of the economy. On the transportation side, an international container facility was completed and put into operation at Djibouti Port; the restructuring of Air Djibouti was undertaken; and

a rehabilitation program was begun for the Djibouti-Ethiopia railway company. Substantial investments of DF 2 billion for telecommunications and DF 3.6 billion for the national electricity company, in 1984, are expected to lead to the coming on stream of additional capacity in the course of this year; as a major relay center on the Singapore-Europe undersea cable communications link, Djibouti is expected to have a highly sophisticated worldwide telecommunications network in the near future. In agriculture, development of cooperatives for which the Government has provided technical and financial support has led to increased production. Output has also been sharply increased in the fisheries sector through the provision of better equipment and storage facilities.

Overall, Djibouti's growth prospects over the medium term will depend primarily upon the extent to which the economy can exploit its regional advantage as a commercial and financial center. Nevertheless, since the desired minimum rate of growth, of at least 5 percent per annum, is unlikely to be generated from existing economic activities, the authorities intend to take advantage of Djibouti's special attributes by strengthening the services sector while upgrading the economy from entrepôt activity to labor-intensive processing industries for export. The authorities recognize that while efforts must be made to reduce the resource gap of the economy, Djibouti's development efforts will nevertheless be critically dependent upon the availability of concessional foreign financing and inflows of private capital. Finally, although the rise in domestic prices slowed considerably, declining from an average of almost 9 percent in 1980-81 to just over 1 percent in 1983-84, the reduction was principally due to the appreciation of the Djibouti franc vis-à-vis the currencies of trading partners, essentially the French franc. The authorities stated that monopolistic or oligopolistic trading practices that could be responsible for the downward rigidity in domestic prices needed to be actively discouraged. The staff agreed on the need for closer surveillance of the pricing system to encourage competition and prevent unduly high markups on imports.

2. Fiscal policies and public enterprises

a. Fiscal policies

Although the fiscal outcome for 1984 showed some improvement over the previous year, the authorities agreed that the fiscal situation was still difficult and that further efforts would need to be made during 1985. Furthermore, since the 1985 budget was prepared, several developments have modified the fiscal outlook and additional measures will need to be taken during the course of the year if the final outcome is to show an improvement over 1984.

Revenues are likely to fall substantially below the budget estimates, given the expected growth in the economy, the continued appreciation of the exchange rate, and problems with tax administration; staff estimates indicate that budget revenue will increase by about 1 percent, instead

of 5.5 percent as budgeted. On the expenditure side, the budget had no provision for the reduction of domestic and foreign nondebt arrears of which the authorities intend to pay off at least DF 1 billion during the course of the year. The authorities are planning offsetting reductions in certain categories of current expenditures, such as outlays on goods and services, but still total current expenditures are estimated to be almost 5 percent higher than the 1984 outcome and 2 percent higher than 1985 budget estimates. Under the circumstances, total capital expenditures are also likely to be reduced and may not exceed the 1984 level of DF 7.8 billion. On the assumption that the expenditure cuts mentioned above will be implemented, the staff also estimates that expenditure growth will be held to 2.9 percent at most instead of the 4.7 percent budgeted; and that the overall budget deficit (after the reduction in arrears) will amount to DF 6 billion, equivalent to almost 10 percent of GDP, compared with DF 4.2 billion or 6.8 percent of GDP in 1984 (Table 1 and Chart 2). The authorities agreed with the staff's estimates of government revenue for 1985, and with the conclusion that action would have to be taken to limit total expenditures to the level of available resources. They indicated that a supplementary budget law would be urgently enacted which would incorporate the reduction in payments arrears and adjustments in other elements of total expenditures, including cutbacks in capital outlays. The authorities further stressed that action would be taken to ensure a rapid return to fiscal balance, as this was the basis for the viability of the country's financial arrangements.

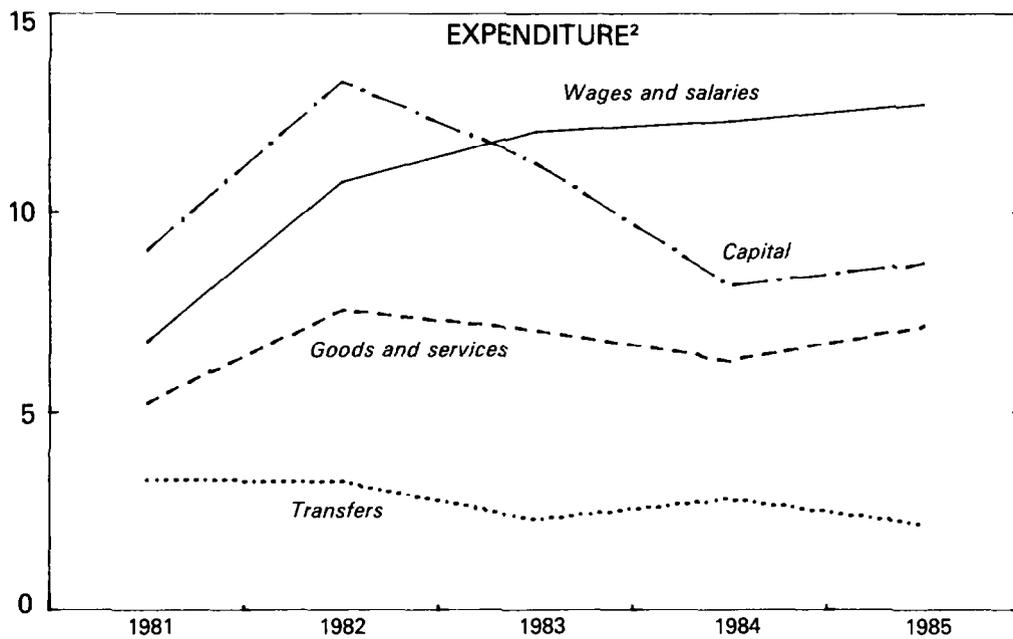
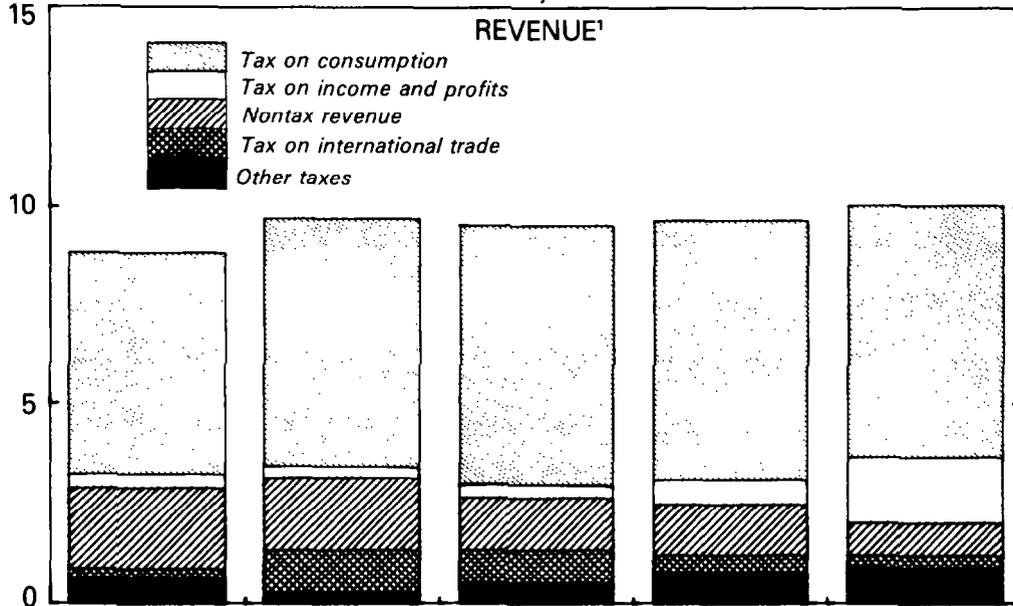
The financing of the 1985 deficit, after taking into account the foreign aid envisaged for the year, will necessitate a rundown of the Treasury's cash reserves by DF 2.6 billion; such reserves stood at DF 4.1 billion at the beginning of 1985, in addition to the exceptional cash reserve of DF 1.1 billion constituted in February following the cancellation of debt to France. ^{1/} In the event that the actual outcome for 1985 conforms to these projections, the Treasury's usable reserves at the beginning of 1986 would amount to about DF 1.5 billion, or just over two weeks of current budgetary expenditures which could create temporary, but severe, cash flow problems for the Treasury in view of the considerable seasonality in budgetary receipts.

On the medium-term evolution of the fiscal situation, the authorities noted that their basic objective continued to be for current expenditures to be entirely covered by current revenues, and for capital expenditures to be no more than the available foreign financing. In view of the fact that tax revenues have reached about 30 percent of GDP, the contribution of revenue increases to adjustment is going to be modest given the small taxable base. Therefore expenditures will need to be tightly controlled. In that context, the staff pointed out that an important characteristic of the pattern of budgetary expenditures is the high proportion of outlays for noneconomic services; general

^{1/} Djibouti's debt to France as of end-1978 was cancelled; the principal and interest that had been paid on that debt through 1984 were reimbursed by France and used to constitute the special cash reserve.

CHART 2
 DJIBOUTI
 CENTRAL GOVERNMENT FINANCES, 1981-85

(In billions of Djibouti francs)



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

¹Not including social security.

²Including social security.



administrative services, including defense and social services, accounted for 86 percent of current expenditures in 1984 with economic services receiving only about 5 percent. Although wage and salary scales have been unchanged since 1976, the overall wage bill has steadily increased over the past few years to 42 percent of total expenditures.

b. Public enterprises

The authorities stressed that the Government's policy has been to grant substantial autonomy to public enterprises and that direct budgetary transfers and subsidies had been limited to a few specific cases such as the electricity and water utilities, the airport, and the railway, and furthermore such transfers had been reduced over the past few years. Nevertheless, it was noted that indirect subsidies persist in the form of arrears to the Government and to other public agencies, and to the extent that external debt service payments have been assumed by the Government in several cases. The authorities also noted that there was a need to closely coordinate the capital investments of public enterprises in complementary sectors and, in view of the fact that external debt service payments of the public enterprises taken together are projected to rise sharply after 1985, to ensure that future borrowing is closely tied to the generation of additional receipts.

The authorities recognize the need for a thorough review of the parastatal sector, including the cost structure, tariff levels, and capital investment programs of individual enterprises. They stated that the Government had already decided to conduct such a review, followed by audits of individual enterprises, and had requested technical assistance from France to carry out the exercise during the course of 1985.

3. Monetary and external policies

The scope for following an independent monetary policy in Djibouti is limited owing to the nature of the exchange arrangements and the existing structure of the banking system. Money creation is circumscribed by the fact that central bank advances to the Government are not permitted and there are no refinancing or overdraft facilities at the central bank. Commercial bank operations, both deposits and loans, are conducted in several convertible currencies and no distinction is made between offshore and domestic operations. Credit developments are therefore difficult to control and heavily dependent upon regional economic activity.

During the past year, several steps have been taken to strengthen the role of the central bank and increase surveillance over the banking system's operations. Towards the second half of 1984 the Banque Nationale de Djibouti began to function as a typical central bank as the responsibility for fiduciary issue was transferred to it from the Treasury; the bank is currently responsible for managing certain foreign currency deposits of the Government, and during the course of 1985 responsibility for managing other deposits will also be transferred to it. The

authorities intend for the central bank to closely monitor the activities of the commercial banks in order to protect the banking system, as well as the country's exchange arrangements, from being jeopardized as a result of banking illiquidity or insolvency. Under a government decree issued in February 1985 strict rules have been laid down concerning the establishment, operations, capital ratios, and solvency guarantees for banks; specifically, banks are now required to hold sufficient foreign currency cover for their credit operations and have stand-by arrangements as guarantees with their parent bank. These measures were prompted by serious liquidity difficulties encountered by one bank during 1984.

In addition to institutional measures, the National Bank has taken significant steps in the area of monetary policy. In late 1984 and early 1985 instructions were issued to commercial banks to remunerate deposits in Djibouti francs at the same rate as U.S. dollar deposits, and banks were urged to reduce local currency credit to the private sector which was being transformed into foreign exchange; in the latter case, domestic currency assets were increasing rapidly while the net foreign asset position was declining or, in the case of some banks, had become negative. Behind the authorities' concerns is the fact that the ratio of private sector credit to broad money has increased rapidly from 58 percent in 1981 to 86 percent in 1983 and 101 percent in 1984. In the same context, while the commercial banks have urged the National Bank to consider the setting up of a rediscount facility for medium- and long-term credit, the authorities are being prudent in advancing in this direction since such refinancing would constitute money creation without full foreign exchange cover.

The Commercial Bankers' Association continues to determine the level of lending rates and credit policies. Interest rates on loans in Djibouti francs are very high, 15 percent in nominal terms, which results in high real interest rates given the low levels of inflation. The authorities are concerned that these rates discourage borrowing for productive purposes, other than construction or trade; furthermore, medium-term lending by the banks virtually does not exist given that the overwhelming proportion of Djibouti franc deposits are demand deposits. To deal with the problem, the authorities are encouraging an expansion in the lending operations of the Caisse de Développement which has successfully built up a loan portfolio of DF 250 million during 1984, its first year of existence.

Balance of payments estimates made by the staff for 1985 indicate that despite a decline in inward transfers the current account deficit will improve slightly over 1984, reaching 10 percent of GDP; while the trade deficit is expected to improve only marginally, net receipts from services are estimated to increase considerably. On the basis of the staff's assumptions regarding the fiscal situation, the overall balance of payments deficit for 1985 should be around SDR 3.5 million (1 percent of GDP) compared with SDR 1.7 million (0.5 percent of GDP) in 1984. In view of the structurally large trade deficit, the Djibouti authorities believe that external financial viability over the medium term depends

upon increasing net exports of services and sustained inflows of public and private capital. Imports for domestic use, which had increased substantially in 1984 due to certain large investment projects, should decline (in Djibouti franc terms) in 1985 and beyond as capital expenditures are contained and recent fiscal measures begin to have an impact on domestic demand. The authorities agreed with the staff that unless the fiscal situation improved, and inflows of concessional assistance increased, the balance of payments outlook for the next several years was unlikely to show significant improvement, particularly in view of increasing debt service payments. 1/

The Djibouti authorities believe that the confidence that exists in the Djibouti franc and the development of offshore banking operations have been critically dependent upon the nature of the monetary system, in particular the link to the U.S. dollar and total convertibility; at the same time, they also recognize that there have been some costs in following an exchange rate policy that has resulted in a significant appreciation of the effective exchange rate. Nevertheless, the authorities stressed that the appreciation of the exchange rate had been the key element behind the extremely low rates of inflation in the economy and had permitted the Government to maintain wages and salaries basically unchanged since 1976. Furthermore, they believe that given the absence of merchandise exports of domestic origin, and the virtually total dependence of the economy upon imports, the appreciation of the rate does not have the adverse consequences in Djibouti that it would in other economies. However, the authorities noted the staff's view that if the present level of appreciation was maintained or increased there would be a negative impact on Djibouti's competitive position for the sale of services and any future development of diversified exports. In view of this, and given their determination to maintain the present exchange system, the authorities felt that efforts must be made toward a rapid return to fiscal balance to underpin the exchange arrangements.

IV. Staff Appraisal

Djibouti's economy has certain particular characteristics that have to be taken into consideration in the formulation of economic and financial policies: there are virtually no merchandise exports of domestic origin, the economy is highly dependent upon the services sector including a sophisticated offshore banking system with access to international markets, the liberal monetary and exchange arrangements are based on a fixed exchange rate with the U.S. dollar and total convertibility backed by full currency cover. These characteristics are key elements of an economic system whose functioning was supported by prudent fiscal policies which generated cash surpluses and allowed the accumulation of sizable Treasury reserves. Substantial foreign financial assistance

1/ In view of the absence of reliable data on external transactions, and the unusually heavy dependence of Djibouti's balance of payments upon exogenous factors, the staff has not attempted to quantify a medium-term outlook.

permitted high rates of public investment. There was, at the same time, a relatively stable effective exchange rate in the four years through mid-1981. These attributes and developments served the country well during the immediate post-independence period, and through 1981, as real growth averaged an estimated 3 percent per annum.

In 1982 there was a significant turnaround in the economy. The beginning of expansionary fiscal policies coincided with the onset of a marked appreciation of the effective exchange rate, although the latter was externally induced as the dollar began to rise against most other currencies, especially the French franc. Over the three-year period 1982-84 the Djibouti franc appreciated by 67 percent against the French franc and by 45 percent in nominal effective terms. Despite the fact that this appreciation kept inflation at low levels, and thereby allowed the Government to maintain wages and salaries unchanged, a basic contradiction began to emerge between fiscal policies and exchange rate movements with important implications for the functioning of the financial system as a whole. Given the nature of the exchange and monetary arrangements, the appreciation of the currency called for counterbalancing policies in the form of a tighter fiscal position; this was even more important given that external financial assistance to the budget began to decline at about the same time.

As the fiscal position worsened, from a surplus equivalent to 4 percent of GDP in 1981 to a deficit of almost 12 percent in 1983, before improving slightly in 1984 to 7 percent of GDP although arrears accumulated, the effect on the economy became apparent: the current account on the balance of payments steadily deteriorated from a surplus in 1981 to a deficit estimated at 11 percent of GDP in 1984 as imports for domestic use increased, and the cash reserves of the Treasury dropped by more than half from DF 10 billion in early 1982 to DF 4 billion at the end of 1984; at the same time, real growth rates declined sharply.

The authorities correctly interpreted the signals emanating from the economy and, consequently, in 1984 they began to take measures toward fiscal adjustment; these were accompanied by other efforts to improve the financial and economic situation. Significant results were obtained in several areas including a reduction in the fiscal deficit, an improvement in the financial situation of a number of public enterprises, and increased agricultural production; in addition, certain policy initiatives were taken in other areas, such as monetary policy, which should begin to have an impact during the course of 1985. Nevertheless, the combined impact of these measures on the improvement in the fiscal situation has so far been limited. The budget deficit remains high and, in fact, may be larger in 1985 than in the previous year; arrears on current payments by the Treasury have reached DF 2 billion by the beginning of this year. The Treasury's cash position has become difficult and free reserves, over and above the monetary cover, are likely to decline to precarious levels over the coming months. Furthermore, the effective exchange rate has continued to appreciate since the beginning of this year.

Overall, the efforts made in 1984 are to be considered as only the beginning of a process of adjustment that will have to be reinforced and amplified in 1985 and beyond, if the present exchange arrangements are to be maintained and there is to be a permanent improvement in Djibouti's economic situation. Under the circumstances, there is an urgent need for further corrective measures. The key element of this process of adjustment will have to be reinforced fiscal restraint. The contribution of revenue increases to adjustment is going to be modest in view of the small taxable base and the fact that tax receipts have reached over 30 percent of GDP, although tighter enforcement of tax collection could yield some results. Therefore, expenditures will have to be brought under control, particularly with regard to the wage bill, outlays on goods and services, and transfers to public enterprises. Wages and salaries constitute 42 percent of government expenditures, and the proportion is considerably higher if nonwage benefits are added to the wage bill. Furthermore, given the fiscal situation, the staff believes that the authorities need to re-evaluate the structure of government current and capital expenditures which are heavily directed toward administrative and social outlays.

The financial position of several public enterprises needs to be improved to avoid pressures on the government budget; the staff strongly supports the authorities' decision to conduct a global study of the parastatal sector, followed by audits of specific enterprises, in the near future. The selection of investment projects, of the Government as well as of public enterprises, needs to be reconsidered in the context of their rapid contribution to income and employment, and carried out on the basis of adequate feasibility studies. On the monetary side, while a major step has been taken by aligning deposit rates on Djibouti francs with those on U.S. dollar deposits, private sector credit expansion also needs to be brought under control to prevent excessive capital outflows; this is particularly important in the context of Djibouti's convertible currency since private sector credit outstanding has now exceeded the stock of broad money.

Although there is no certainty that the present appreciation of the exchange rate will continue indefinitely, given the present exchange arrangements fiscal adjustment will have to be sufficiently large and be undertaken rapidly enough to offset at least partially the appreciation that has already taken place and slow the rundown in reserves. The required fiscal adjustment may not be feasible, particularly given the short period of time in which it must be completed, although the staff considers that the authorities are prepared to take the measures necessary to ameliorate the situation. While there is no doubt that there are significant advantages emanating from the present exchange arrangements, and that their continued maintenance is desirable, it presupposes an appropriate juxtaposition of fiscal policies and the level of the exchange rate. If domestic financial policies are unable to achieve this objective, alternative measures to support these policies should not be ruled out.

The staff notes that the authorities intend to have the next Article IV consultation after 12 months rather than the 18-month cycle presently in effect.

Djibouti - Relations with the Fund

(As of March 31, 1985)

I. Membership Status

- | | |
|------------------------|--------------------------------------|
| (a) Date of membership | December 29, 1978 |
| (b) Status | Article VIII, Sections 2, 3
and 4 |

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 0.39 million (33.2 percent
of net cumulative allocation) |
| (c) Current designation plan | -- |

Djibouti - Relations with the Fund (concluded)

(As of March 31, 1985)

V. Administered Accounts

Trust Fund loans
(i) Disbursed --
(ii) Outstanding --

VI. Overdue Obligations to the Fund --

B. Nonfinancial Relations

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.

VIII. Last Article IV Consultation

Discussions were held by the staff in Djibouti during the period October 16-30, 1983. The staff report (SM/84/7, 1/5/84; and Corr. 1, 1/12/84) was discussed by the Executive Board on February 10, 1984. Consultations with Djibouti are on the standard 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; a CBD expert was appointed Operations Manager of the National Bank in October 1984, for a period of one year. The Bureau of Statistics has provided short-term technical assistance on statistics of financial institutions during February 27-March 6, 1981; and balance of payments statistics March 26-April 15, 1981. By request of the Djibouti authorities the Fiscal Affairs Department sent an advisor for three weeks, starting October 31, 1984, to provide technical advice on the general consistency of the new public accounting system in Djibouti.

Djibouti - Relations with the World Bank Group

Djibouti joined the Bank and IDA on October 2, 1980. The Bank Group assistance strategy is aimed at helping to strengthen the country's economic management and development institutions, meet the basic needs of some of the poorest sections of the population, develop natural resources such as geothermal energy and improve 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, co-financed with a parallel contribution of US\$1.46 million from the UNDP, is designed to improve the Government's capabilities to formulate an appropriate development strategy, to coordinate development efforts and to engage in planning, project preparation, and monitoring. The project provides two long-term advisors to the Planning Directorate and one to the Statistics Directorate. 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. If and when developed, the expected reserves would substantially reduce the country's current total reliance on imported fuel to satisfy its energy needs. 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 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 January 31, 1985) 1/

<u>Year</u>	<u>Purpose</u>	<u>US\$ million amount</u>	
		<u>IDA</u>	<u>Undisbursed</u> 2/
1982	Technical assistance for planning and statistics	3.00	2.03
1983	Highway	6.40	5.23
1984	Geothermal exploration	6.00	6.00
1984	Urban development	5.00	5.00
1985	Education	<u>5.00</u>	<u>5.00</u>
	Total	<u>25.40</u>	<u>23.26</u>
	Of which has been repaid	--	--
	Total now held by IDA	<u>25.40</u>	<u> </u>
	Total undisbursed	<u>25.40</u>	<u>23.26</u>

1/ Djibouti has received no Bank loan.

2/ Prior to exchange adjustments.

Djibouti - Statistical Issues

There is no country page in IFS for Djibouti. The statistical data base is weak in practically all areas; however, the authorities are taking measures to correct the situation. The National Statistical Service, Direction Nationale de la Statistique (DINAS), has been re-vitalized and although the central bank, Banque Nationale de Djibouti (BND), is still in a transitional phase with a limited staff, it has accorded a high priority to the collection and improvement of statistics.

a. Real sector

In January 1985 the DINAS completed preparation of a consistent series of GDP estimates for the years 1979-84; up-to-date real sector data should be available on an annual basis from now on. Per capita GDP figures are adjusted downwards by the DINAS to exclude the impact on such data of the large, affluent expatriate population. Data on employment are not comprehensive since they are derived uniquely from enrollments at the social security agencies (CPS and SMI). The consumer price index is based on the consumption patterns of the expatriate population and does not include important items such as housing.

b. Government finance

Data on revenue, expenditure and financing for the consolidated Central Government have been published in the 1984 GFS Yearbook in respect of the years 1979 and 1980. No data have been received in response to the annual GFS questionnaire for subsequent years. Data on government revenue, current grants, current expenditures and budgeted capital outlays are available on a current basis from the Treasury and the Ministry of Finance. However, revenue and expenditure data are compiled on the basis of a 15-month cycle. Data on extrabudgetary capital expenditure and capital grants are not compiled by the Treasury, but can be obtained from the Planning Unit and the Ministry of Finance.

c. Monetary accounts

As a result of a technical assistance mission from the Bureau of Statistics in 1981, monetary accounts were developed and, with the help of reports received by cable, data on monetary authorities, deposit money banks, and the monetary survey have been updated through March 1983. The key problem with monetary data is that the banks make no distinction between residents and nonresidents. The central bank is prepared as of now to furnish data on the monetary accounts and international reserves on a regular basis. In order to avoid methodological or definitional problems, the BND has requested a technical assistance mission from the Bureau of Statistics on monetary statistics; such assistance is under consideration.

Djibouti - Statistical Issues (concluded)

d. Balance of payments

There is no official balance of payments published by the Djibouti authorities. Staff estimates are based on various sources including the balance sheets of public enterprises, government accounts, and the monetary accounts. Data on exports and imports are available only on an annual basis and with a considerable time lag. The central bank will not be in a position to compile a balance of payments statement until the return to Djibouti of their participant at the forthcoming course on balance of payments methodology at the IMF Institute; the Governor has requested a balance of payments technical assistance mission to Djibouti toward the end of 1985.

Table I. Djibouti: Consolidated Financial Operations of the Central Government and Social Security Agencies, 1981-85

(In millions of Djibouti francs)

	1981	1982	1983	1984		1985	
				Budget	Prel.	Budget	Est. <u>1/</u>
Total budgetary receipts	20,570	22,423	21,670	21,995	22,247	23,662	22,606
Budget revenue	18,380	19,861	18,999	19,322	19,608	20,685	19,835
Social security revenue	2,190	2,562	2,671	2,673	2,639	2,977	2,771
Total expenditure	24,424	34,819	32,638	32,131	29,737	31,095	30,860
Current expenditure <u>2/</u>	15,380	21,538	21,399	21,941	21,589	22,395	23,048
Budgetary	13,757	19,736	19,474	19,821	19,447	20,082	20,735
Social security	1,623	1,802	1,925	2,120	2,142	2,313	2,313
Capital expenditure	9,044	13,281	11,239	10,190	8,148	8,700	7,762
Budgetary	4,147	5,595	5,531	4,782	2,743	3,638	2,750
Social security	51	75	308	308	305	68	68
Extrabudgetary expenditure	4,846	7,611	5,400	5,100	5,100	4,994	4,994
Surplus/deficit before grants	-3,854	-12,396	-10,968	-10,136	-7,490	-7,433	-8,254
Grants	6,689	7,926	4,738	3,785	3,869	2,813	2,550
Overall surplus/deficit	2,835	-4,470	-6,230	-6,351	-3,621	-4,620	-5,704
Financing	-2,835	4,470	6,230	6,351	3,621	4,620	5,704
Foreign loans	40	2,511	3,327	1,908	2,337	4,131	4,131
Drawings	(89)	(2,919)	(3,590)	(2,275)	(2,509)	(4,400)	(4,400)
Amortization	(-49)	(-408)	(-263)	(-367)	(-172)	(-269)	(-269)
Treasury deposits <u>3/</u>	-2,044	3,564	4,902	4,880	1,254	2,241	2,569
Changes in social security deposits <u>4/</u> (CPS + SMI)	-516	-685	-138	-245	-192	-596	-390
Domestic debt amortization	-85	-161	-147	-192	-117	-133	-133
Other <u>5/</u>	-230	-759	-1,714	--	339	-1,023	-473

Sources: Data provided by the Djibouti authorities; and staff estimates. Social security agencies are: Caisse des Prestations Sociales (CPS) and Service Medical Interentreprises (SMI).

1/ Staff estimates.

2/ Current expenditure includes net lending.

3/ This item includes changes in Treasury deposits of the Government, public enterprises, and agencies.

4/ This reflects the surplus of receipts over expenditures for the social security agencies and not the actual position of these agencies' operations.

5/ This reflects unidentified financing and, more significantly, adjustments required to make the financing data (on a 12-month basis) to conform with expenditure and revenue data (15-month basis).

DJIBOUTI - Basic Data

Area, population, and GDP per capita

Area	23,200 square kilometers				
Population (1984)	380,000 (World Bank estimate)				
	42,000 refugees (UNHCR estimate)				
GDP per capita (1984)	US\$313 (adjusted downward by the DINAS for comparison purposes)				
	1981	1982	1983	1984	1985
				Est.	Est.
	(In millions of Djibouti francs)				
<u>GDP at market prices</u>	56,818	59,383	60,571	61,116	61,666
<u>GDP at constant (1981) prices</u>	56,818	57,727	58,593	59,062	59,534
<u>Consumer price index</u> (Oct. 1978 = 100)	130.6	127.5	128.7	130.9	...
<u>Use of resources 1/</u>					
Gross domestic expenditure	66,083	72,278	73,965	75,662	72,903
Private consumption	30,294	33,122	35,436	36,274	34,049
Public consumption	25,313	23,990	24,289	23,261	23,542
Investment	10,476	15,166	14,240	16,127	15,312
<u>Resource gap</u>	-9,265	-12,895	-13,394	-14,546	-11,237
Exports of goods and nonfactor services	30,600	27,302	26,481	28,157	28,885
Imports	39,865	40,197	39,875	42,703	40,122
<u>Central government finance</u>					
Total revenue	18,380	19,861	18,999	19,608	19,835
Tax revenue	15,469	16,450	16,372	17,129	17,820
Nontax revenue	2,911	3,411	2,627	2,479	2,015
Total expenditure	22,892	33,010	30,839	27,642	28,429
Current expenditure	13,899	19,804	19,908	19,799	20,735
Capital expenditure	8,993	13,206	10,931	7,843	7,694
Overall surplus/deficit (before grants)	-4,512	-13,149	-11,840	-8,034	-8,594
Grants	6,689	7,926	4,738	3,869	2,550
Overall surplus/deficit (after grants)	2,177	-5,223	-7,102	-4,165	-6,044
<u>Money and credit 2/</u>					
Foreign assets (net)	25,425	18,984	15,802	14,486	...
Monetary authorities	15,224	15,262	11,222	11,093	...
Deposit money banks	10,201	3,722	4,580	3,393	...
Domestic credit	-1,612	6,675	13,549	20,183	...
Claims on Government (net)	-13,836	-10,272	-5,370	-4,116	...
Claims on private sector	12,224	16,947	18,919	24,298	...
Money and quasi-money	21,239	26,126	22,071	23,962	...
<u>Balance of payments</u>					
Trade balance	-13,145	-16,609	-18,278	-20,661	-18,980
Exports, f.o.b.	20,734	17,563	15,615	15,626	15,110
Imports, f.o.b.	-33,879	-34,172	-33,893	-36,287	-34,090
Services (net)	6,172	6,022	6,410	7,264	8,100
Unrequited transfers (net)	11,870	8,160	5,703	6,689	4,680
Current account balance	4,897	-2,427	-6,165	-6,708	-6,200
Capital movements	-2,529	-4,014	2,982	5,392	5,600
Public	-141	3,987	4,021	6,789	5,600
Private (including errors and omissions)	-2,388	-8,001	-1,039	-1,397	--
Overall balance (deficit -)	2,368	-6,441	-3,183	-1,316	-600
Reserves (end of period)	25,425	18,984	15,802	14,486	--
<u>Outstanding external public debt</u> (including public enterprises)					
Disbursed (end of period)	3,518	7,506	11,526	18,315	23,916
Debt service	668	812	800	1,150	775
<u>Exchange rates:</u>					
Djibouti francs per SDR					
End of period	206.86	196.05	186.06	174.20	--
Annual average	209.56	196.21	189.98	182.16	--
Djibouti francs per French franc (period average)	32.7	27.0	23.3	20.3	17.6 4/
Import-weighted nominal effective rate (1980 = 100) 3/	122.3	144.0	156.0	175.4	188.3 5/

1/ At current market prices.

2/ Monetary statistics do not distinguish between transactions with residents and nonresidents.

3/ An increase in the index indicated an appreciation of the Djibouti franc.

4/ February.

5/ March.